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REAL ESTATE REPORT



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ECONOMIC COMMENTARY



Wow—This is Huge!

As we were publishing last week, the news was coming out about the Federal Government's takeover of Fannie Mae and Freddie Mac. By now we have had an initial reaction and can speculate about the future. First a little background. Fannie Mae and Freddie Mac, known as the agencies, were set up by the government as private corporations to purchase conventional loans that are now known as conforming mortgages. They are huge in the mortgage markets, touching over 50% of the mortgages originated in our nation. When the secondary market collapsed and defaults skyrocketed, the agencies did not run out of money. However, they lost the ability to raise money in reserve against losses. That is what happens when your stock goes from \$70 to \$2 per share.

The immediate reaction to government control? Lower rates! Rates are down sharply on mortgages. Now the secondary market has more confidence with the government backing the housing industry in a big way. If the agencies run out of money they can go to the Treasury for money. This has been a crisis of confidence, and the increased confidence can actually help us out of the housing crisis more quickly. If rates go lower then more people buy homes. Then housing prices stop going down, and there are fewer defaults, and the markets become more confident. This, in turn, causes rates to go down further and so on. In the long run—we will have to watch how a larger Federal budget deficit could cause long-term rates to rise. For now, buyers are advised to take advantage of lower rates and lower housing prices for a very unique buying opportunity because we can never predict how long these opportunities will last. Next week, more speculation about the future.

WEEKLY INTEREST RATE OVERVIEW



The Markets. Rates went down significantly in the wake of the government takeover of the agencies. Freddie Mac announced that for the week ending September 11, 30-year fixed rates averaged 5.93%, down sharply from 6.35% the week before. The average for 15-year fixed plunged to 5.54%. Adjustable reaction was more moderate with the average for one-year adjustables increasing slightly to 5.21% and five-year adjustables falling to 5.87%. A year ago 30-year fixed rates were at 6.31%. "Interest rates for 30-year fixed are down almost 0.6 percentage points over the past 4 weeks, which will help to spur home purchases and loan refinancing in coming weeks," said Frank Nothhaft, Freddie Mac vice president and chief economist. **"This means that the monthly principal and interest payment on a new \$200,000 loan is over \$76 lower than a month ago.** Lower rates have occurred at an opportune time, as the July pending sales data from the National Association of Realtors were off 3.2 percent from June. The Mortgage Bankers Association reported that refinance applications are up 18 percent over the past 3 weeks through September 5th, indicating that refinance activity has already begun to pick up."