

Schniepps' Real Estate and Mortgage News

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National Housing Market Update

by Mark Schniepp

The major correction in real estate is more major in California than in the rest of the country. However that was expected since the loftiest of prices and sales gains during 2004 and 2005 occurred here. Elsewhere, existing home sales are not falling as much and the new home market shows some signs of stabilizing.

Nationwide existing home sales fell again for the 6th straight month in September, and selling values lost another 2.2 percent. Housing affordability is constraining the demand for housing, a situation that will continue through the next six to 12 months. House prices will remain high, and interest rates, while not rising much more, are also higher than a year ago. This increase has reduced the pool of potential buyers. Moreover, creative financing is a less effective means by which home buyers can surmount the affordability barrier.

However, the new home market appears to be firming some in August and September, with sales improving and inventories beginning to decline. New home sales rose 5.3 percent in September (versus August) or 1.1 percent compared to September a year ago.

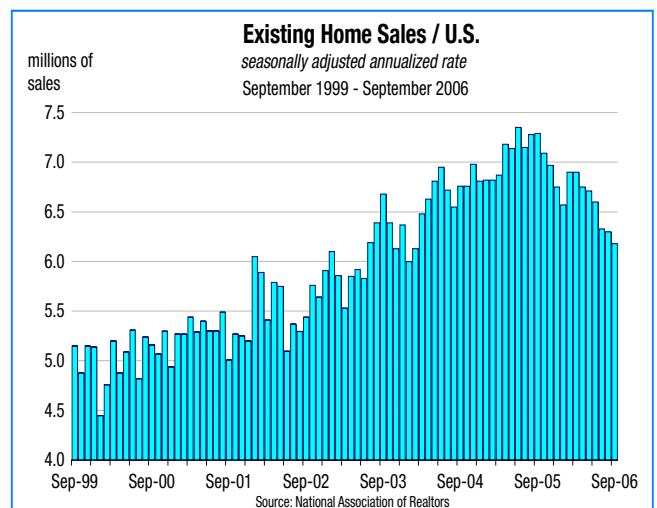
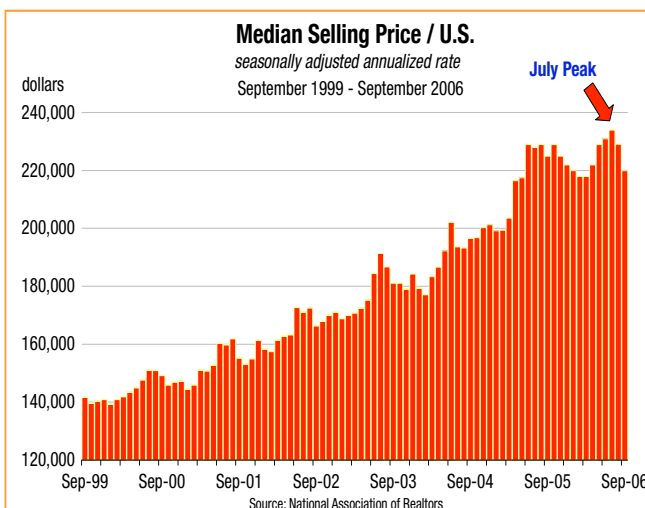
Whether this improvement is sustainable is still uncertain. Furthermore, some of the lift to sales is undoubtedly coming from the discounting of prices by builders, as evident in declining selling values.

The median house price for new homes stands at a seasonally adjusted \$221,615 in September. This reading is down a disturbing 6% from the peak July median selling price, but just off 2% from one year ago.

Now, all of these weakening indicators for the new home market are causing home builders to "retrench." New housing pro-

duction is down throughout the nation. The slowing is certainly helping to improve the inventory problem, but it's also impacting the greater national economy and this could translate into weaker labor markets next year.

Though third quarter GDP growth was only 1.6 percent (lower than expectations), economists have not revised their national economic outlook for 2007: We still see a slowdown of overall growth, due to the weakness in housing, but no recession.



What's in Your Mortgage?

by Susan Schniepp

If you have a fixed rate mortgage, you probably have your monthly payment amount memorized. But, do you know what interest rate you are paying? If you have a variable rate mortgage, do you know your margin or payment cap? If you have a hybrid, do you know when the fixed term ends? Do you have a pre-payment penalty?

Monitoring your mortgage can be as important as monitoring other financial instruments including stocks and bonds, savings accounts, and retirement plans. Start by reviewing your statements. Was your last payment accurately recorded? Is the interest rate comparable with what lenders are currently charging? Check it in the same way you review your credit card statement before paying the balance due.

Historically, we only think about making a change when we are aware that interest rates are declining (or rising if you have a variable rate.) However, it also makes sense to review your mortgage when you are anticipating significant life changes that will affect your ability to make payments. For example, if one parent is planning to stay home with a newborn or

toddler child until kindergarten, it might make sense to also change the mortgage. Perhaps an interest only loan for the next five or seven years would make that decision easier to finance.

On the other hand, if you just got a job promotion, perhaps you'd like to build equity in your home faster, by refinancing into a 15 year loan.

How do you know if a change would make good financial sense? There are a number of relatively easy calculations that can be done to determine how much you will save. For example, if you have an option arm and are paying a real interest rate of 7.2% on \$400,000, you could reduce your monthly interest by almost \$400 per month, by switching to a 5 year fixed. Assuming the cost of the new loan was \$2500, the loan would pay for itself in about 6 months.

If you have questions about your loan, or would like help reviewing statements or documents, please don't hesitate to call.



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