

December 19, 2008  
VOLUME 3 // ISSUE 5

## FINANCIAL FACTS:

As of Friday December 12th, the total market capitalization of the S&P 500 was \$7.7 trillion, a loss of \$3.2 trillion from 100 days earlier. By comparison, the US government spent \$3.0 trillion for the entire 2008 fiscal year.

100 days ago, the price of a barrel of Oil was \$106.23. As of December 12th, a barrel of Oil was \$46.28...a 56% decrease. In that same time frame the average cost of a gallon of gas fell 54%.

## MORTGAGE RATES DROPPING TO 4.5%?... BORROWERS CAN THANK "TALF" *By Aaron Johnston*

On Thursday, December 4, the United States Treasury announced that it would like to create a program to subsidize mortgage rates down to 4.5%, a plan to revitalize the U.S. housing market. The announcement has caused quite a stir among homeowners.

For those who hadn't yet heard that mortgage rates dipped the Tuesday before Thanksgiving, the announcement acted as a catalyst for people to check in with their lenders. For those who had already begun the process of submitting an application to refinance, the announcement caused confusion on whether or not to lock in an interest rate.

The objective of this article is to set the record straight on why mortgage rates have recently dipped and why locking in is never a bad idea when it comes to refinancing.

### **First of all, let's address the U.S. Treasury's announcement that it'd like to see mortgage rates at 4.5%.**

It's important to understand that the U.S. Treasury does not set mortgage rates. Instead, mortgage rates are derived from the open market for mortgage-backed bonds (MBSs).

The U.S. Treasury can encourage banks to lower their rates, but if the market doesn't go along, it isn't going to happen. Fortunately for them, mortgage rates have moved lower as a result of the Federal Government's Term Asset Backed Loan Facility (TALF) initiative.

Under TALF the Federal Government is stepping into the open market and purchasing up to \$600 billion of MBSs. The additional demand for these securities has driven their prices higher and pushed yields lower. As a result mortgage rates have dipped substantially.

Although the US Treasury is getting much of the credit for lower mortgage rates the fact is that their announcement simply had good timing.

Here are a few other points regarding the US Treasury's announcement:

1. At this point, their plan remains in discussion phase only. It remains to be seen if they will continue pursuing such a plan given that mortgage rates have already fallen close to their target.
2. At this point, the lower interest rates under their plan would only be made available to those who are buying a home, not to those who are refinancing. However, thanks to TALF low mortgage rates are available to home buyers and homeowners.

### **Now, let's address why locking in a rate when refinancing is never a bad idea.**

Let's put the current level of interest rates in historical perspective:

1. Rates are extremely low, reaching levels we haven't seen for 40 years.
2. The mortgage interest rate environment has been extremely volatile the past few months as lenders are changing their rates on average every 3 hours and 35 minutes.
3. The value of your home plays a vital role in qualifying for a refinance. With values declining over the past year it may help your ability to qualify if you act sooner than later.

Furthermore, if you do lock in your rate and rates continue to trend lower during the processing of your loan, we often can renegotiate the terms with our investor to improve your rate. However, if you don't lock and rates increase, there is nothing we can do.

We will continue to pro actively monitor our past clients' current loans to determine if refinancing would make financial sense. If you'd like to review your mortgage with us, please give us a call or send us an email.

## MY SIX-MONTH SABBATICAL. *By Evan Swanson, CMPS*

**F**or those who haven't heard the story before, it's worth retelling:

After graduating from Linfield College, I set out to travel the world for a few months. I started in Seoul, South Korea, and gradually made my way to China. From China, I rode the Trans-Mongolian railway from Beijing to Moscow via Mongolia and Siberia. From Moscow, I traveled west through Eastern Europe into Poland, Austria, Italy, and into Southern France.

It was in a small town called La Ciotat that I went to stay with a college friend who was living there teaching English. It was that weekend that changed my life forever.

It just so happened that my friend's college roommate was staying with her on the weekend that I arrived. Over \$5 bottles of Bordeaux wine and fresh seafood, I had met my future wife. And the rest is history....

So what is the point of this story? The point is to illustrate that embedded in my wife

and me is a desire to travel and experience new places.

On that note, I've announced that my wife and I are taking a six-month sabbatical beginning on December 28, 2008, returning June 24, 2009. Over the course of the next six months, my wife and I will spend time in Italy, Spain, Portugal, Sweden, but the bulk of our time will be in New Zealand.

Our plan to take an extended trip has been in the works for a couple of years, and we are very excited to finally realize the experience.

That said, I have taken steps in the office to ensure that in my absence the professionalism, expertise, and proactive service that you've come to expect from the Swanson & Johnston Lending Team will persist.

Aaron and I have worked closely over the past four years so that he would be ready to assume the responsibility of my desk

during this time. I am very confident that he will do a great job. In fact, he and I have joked that, upon my return, I may find that the loyalties of my valued past clients and professional partners have shifted to him because of the extraordinary care he will have displayed while I am abroad.

So don't be surprised to hear from Aaron over the course of the next few months. If you have questions about your mortgage, potentially refinancing, or buying a new home, do not hesitate to contact him. Furthermore, I would encourage you to refer your colleagues, friends, and family directly to Aaron while I'm away. His contact information can be found on this newsletter.

If you care to follow my adventures, I will be posting updates on my blog at [www.evanswanson.com](http://www.evanswanson.com).

**Thank you for your support!**

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