MY MIND ON MORTGAGES
NEWSLETTER

Content by Evan Swanson, CFP® *December 28th, 2010 VOLUME 1/ ISSUE 1*

FINANCIAL FACTS:

1 ... Researchers found that the only 1 component of consumption that is positively related to happiness is leisure. The consumption of durables, charity, personal care items, food, healthcare, vehicles, and housing are not significantly associated with happiness. *(Source: Journal of Financial Planning)*

***53.3** ... according to research 53.3 is the age at which financial decision-making results in the fewest mistakes. *(Source: Center for Retirement Research)*

***6** ... the percentage of Americans who say they are saving more because of the economic crisis; 30 percent report having no savings. *(Source: National Foundation for Credit Counseling)*

***$119** ... the average daily amount spent by upper income consumers- those earning $90,000 or more- in June 2010. *(Source: Gallup)*

QE2 PUSHES MORTGAGE RATES HIGHER

By *Evan Swanson, CFP®*

In all my years of monitoring the financial markets, there are very few days that have been met with as much anticipation as November 3, 2010. That was the day that the Federal Reserve's Open Market Committee (aka "the Fed") announced details of its second round of quantitative easing, commonly referred to as "QE2."

In its previous monetary policy statement on September 21, 2010, the Fed had alluded that it was ready to engage in a second round of quantitative easing but did not explicitly commit to a specific amount or timeline for action.

Following the vague announcement on September 21, interest rates dipped to all-time lows on speculation that the Fed would be aggressive and swift. The rates reversed and rose higher in the following weeks as the markets came to expect a much more tepid plan.

In case you're wondering, quantitative easing is one of the monetary policy tools that the Fed uses to push interest rates lower. It accomplishes this by increasing the money supply through the purchase of U.S. Treasury securities. The substantial demand that the Fed can create drives prices for U.S. Treasuries higher, which inversely pushes yields lower.

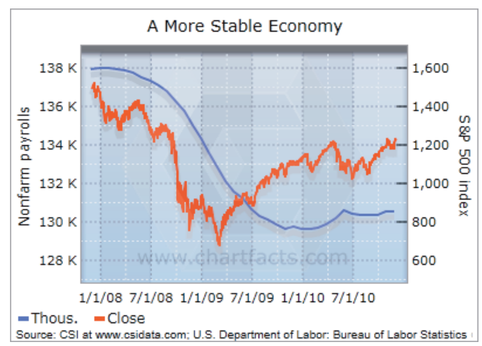
If you'll recall November 2008 when the Fed announced its first round of quantitative easing, mortgage rates dipped by .50% in only a few weeks. But mortgage rates have increased by .50% in the few weeks following the Fed's November 3, 2010 announcement of the details of QE2. So why did rates decrease following the first round of quantitative easing but increase this time around?

First, the Fed's stated objectives are different today. Back in 2008, its primary objective was to stimulate the economy by reducing the cost of borrowing for consumers and businesses. Currently, the Fed's stated goal is to curb the risks of deflation; in other words, to increase inflationary pressure in the economy. Inflation is the primary driver of mortgage rates, so any increase to inflationary expectations will immediately be followed by an increase to long-term interest rates.

Second, the economy is in a much different position in the economic cycle today than it was in November 2008. Back then, the economy was still contracting rapidly and a general sense of doom loomed over the markets. Just how bad would things get?

Today, although the economy is still a long way from being characterized as "healthy," there is a sense of stability that didn't exist then. In fact, during the third week of November, reports showed that 15 of out 20 economic data points were either in line with or better than analysts' expectations. More importantly, private sector job growth has stabilized and is even growing slowly, which is very important for a sustained recovery.

The stock market reflects this change in economic activity. Back in November 2008, the S&P 500 index was trading just below 900, and today it is closer to 1,200 (a 33% increase).



WHAT'S NEXT FOR RATES?

Unfortunately, I believe we've seen the last of the all-time low mortgage rates, but I don't expect mortgage rates to rise drastically as we head into 2011. For example, I think 30-year fixed rates will be available under 5.00% (5.13% APR) for most of 2011.

The Fed has made it clear through its words and actions that it wishes to increase inflationary expectations, and thus far it's been successful. As a result, mortgage rates are modestly higher. As the economic recovery gains more and more traction, expect mortgage rates to continue to tick higher.

Do you know anyone who has been asleep at the wheel for the past couple years regarding mortgage refinancing? Although rates are not currently at all-time lows, they are still low on a historical scale, and refinancing still makes a lot of sense for many households. Please don't be shy in encouraging friends and family this holiday season to contact me for a no-obligation refinance review!

EVAN PASSES CFP® EXAM AND EARNS HIS DESIGNATION

By Evan Swanson, CFP®

I'm very happy and relieved to report that I passed my Certified Financial Planner™ exam this summer and earned my designation as of October.

In case you're not familiar with the CFP® designation, it is granted by the Certified Financial Planner Board of Standards, Inc. to individuals who have met a rigorous set of experience and ethical requirements, completed 300 hours of financial planning coursework, and passed a difficult two-day exam (the national pass rate was 53%) covering the following areas:

- *The financial planning process*
- *Risk management*
- *Investments*
- *Tax planning and management*
- *Retirement and employee benefits*
- *Estate planning*

As I wrote in a newsletter about one year ago, "My main objective in working toward this designation is to gain a better understanding of the various topics involved in comprehensive financial planning so that I can provide better advice to my clients."

So what's next now that I'm a designated CFP®? I have no intentions of leaving my mortgage business. The past 8½ years have been wonderful, and I want to continue to push the limits of professionalism and expertise in my industry.

However, I do plan to take some time in the first quarter of 2011 to think about how to incorporate financial planning into my mortgage practice. This is where your input would really help.

Are you in a position where financial planning services would be of value? If so, in what areas of your financial life are you looking for help?

- *Cash-flow management?*
- *Insurance/ risk management?*
- *Investment planning?*
- *Retirement/ college savings?*
- *Estate planning?*
- *Tax planning?*

Please send me an email or give me a call with your feedback on the topics above or others you're interested in. Based on your responses, I'll build a menu of financial planning services that I can offer either in conjunction with my mortgage planning or on an ala carte basis. I greatly appreciate your input! I look forward to keeping you updated on how my business evolves next year.

MORTGAGE TRUST, INC.

EVAN SWANSON, CFP®
NMLS 120856
9755 SW Barnes Rd., Suite 590
Portland, OR 97225
Phone 503-282-5626 | Fax 503-296-9950
Email evan@mortgage-trust.com

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