

Kirkland Financial Center

Real Estate Finance - Investment - Insurance - Annuities



Hit your
RATE
don't
PROCRASTINATE

The Fed declared that they anticipate "economic conditions are likely to warrant exceptionally low levels of the Federal Funds Rate for some time" and that "inflation pressures will remain subdued in coming quarters".

The Federal Reserve further stated that it continues to plan to purchase large quantities of Mortgage Backed Securities to provide support to the mortgage and housing markets, and "it stands ready to expand the quantity of such purchases and the duration of the purchase program as conditions warrant".

A huge mistake is for the public (who are paying attention) is to interpret these comments as "this means rates will continue to drop and remain there into the Summer"... thereby creating market-missing procrastination. We have seen this strategy to be very costly to borrowers.

Clients fall in love with the thought of a 4% brag-note... completely missing the opportunity window

Many of have been thinking (and setting rate-watch targets with us) "I am waiting and holding for 4.5%"... but here's an

important reason we may not get there; Yes, the Fed has been buying Mortgage Bonds, but if you look at what they are purchasing, they are buying a lot of FNMA 30-yr 5.5% and 5.0% Bonds, (check it out to see the Fed purchases: <http://www.newyorkfed.org/markets/mbs/index.html>) which won't have much of a positive effect on present rates.

Why would the Fed be buying these "out of the money" Bonds? ITS STRATEGY!!! 5.5% Bonds actually represent outstanding mortgages with rates of 6 - 6.50%, which are precisely the loans being refinanced today (immediately reliquidating the Fed's "investments.")

This is likely a big reason why the Fed said they could continue this purchasing program beyond June, if necessary. So the Fed buying higher rate coupons will not necessarily get rates to 4.5%, but it should put a ceiling on how high rates can go during the near term.

A significant Achille's heel for some borrowers is also

greed... even when it makes financial sense to refinance grab the low-hanging rate & run, and save a significant discount immediately, the greed factor kicks in as clients fall in love with the thought of a 4% brag-note... leading to a likelihood of completely missing the opportunity window.

I saw the same thing happen in 2003, when 30 FRMs briefly dipped into a 4.9% (no points) realm. It woke people up... but instead of taking the 5.25% - 5.5% that was then available, they decided to "wait for the second bite at the apple"... and we can all remember what happened next; In one week interest rates skyrocketed up to 150 basis points, and have only gradually retraced to their downward trend since then.

I believe the longterm downward trend in interest rates we've been in since the late 1970's has exhausted, and officially met its end. We are not only at an all-time (not just "lifetime") low for institutional 30 year money... these lows are ARTIFICIALLY attained (or more importantly, occurred on the ANTICIPATION of the artificial government participation... the bugles, NOT the cannons!)

Remember the trader's mantra "buy on the bugles, SELL (exit) on the cannons"... which means "take advantage of the anticipation and rumors of actual actions... and GET OUT when the actual action is occurring... because the markets will never be as excited about something after it has occurred as it will be when it is anticipating it.

ALL of the 4%-ish 30 FRM mortgage locks were grabbed BEFORE the Fed actually began their buys. Don't let yourself get fooled into the hope that the market will actually improve as the government "performs the act."

I still stand that rates won't climb above the 7%s in most of our lifetimes going forward.... and we *MAY* remain in the 5% s (maybe low 6% at spikes) through the coming decade.... but I think the odds of getting additional locking time in the mid-4% or lower are very very slim.



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Rate Q&A

Some reader's questions on the article you just read.

Q: *Someone just mentioned to me, that at a sales meeting this week, the "financial expert" was talking about interest rates "going through the roof" in the 2010-2011 timeframe.*

A: Short-term rates are affected by central banker policies which are inevitably politically influenced (and I dunno about you, but the *ONLY* thing I find predictable about government is that it will continue to attempt to grow, expand, bloat and encroach like a cancer... regardless of right or left.)

Long term rates are affected by the global demand for long-term bonds... and this is affected by SO MANY factors it cannot ever be laid strictly at the feet of monetary policy (after all, different country's policies can exacerbate demands of one country's bonds for another's despite BOTH deprecating their currencies, albeit unequally.) Bonds are considered a "safe haven" for monetary defense from a long list of alternative investment classes (from stocks to real estate to business to war budgets, and much more.)

IN SHORT trying to divine where the markets will go strictly by projecting fundamentals is futile. Fundamentals are interesting (in an entertaining way) for justifying why markets do what they do IN ARREARS... but determining future probabilities is best done with technical analysis.

Q: *So you are essentially saying that now is a good time to buy AND a good time to sell, if you're in the market for either??!! Thanks for your outlook. I always appreciate your thoughts, as you have cleared up a lot of confusion for me on mortgage info!!*

A: Well... sure! (Depending, of course, on what it is you're considering buying and what it is you are considering selling ;~)

Currently its likely a best time to "buy" a new mortgage.
Similarly, it is/was a best time to be selling a mortgage-backed security (bond.)

Q: *We are remodeling and "plan" to finish by the end of the summer. Do you think the rates will be below 5% then or in the low fives?*

A: My hunch is you'll still have mid-to-low 5% available... and who knows, we could still see bottom-bounces in the high 4% yet... I just wouldn't carve anything so close as to COUNT on it.



Client of the Month

Abhi Handa & Monika Bhatia

The Latest

We have a new processor! Cesilia joined us in January and has learned quickly under Michelle's tutelage. She's gone from 0 to processor faster than anybody in No Bull history! Check out her photo at www.KirklandFinancialCenter.com/team.asp

What They Say

We were taken from a very stressful situation, to being completely comfortable. We were so happy to have had this done. As well, we were treated respectfully and promptly, no matter how "small" our questions were.

I highly recommend No Bull Mortgage for all of these reasons. Thank you very much!

--Bruce & Christine

WE LOVE TO HEAR FROM YOU!