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November 3, 2015

ECONOMIC COMMENTARY

Real Estate Producing Real Jobs

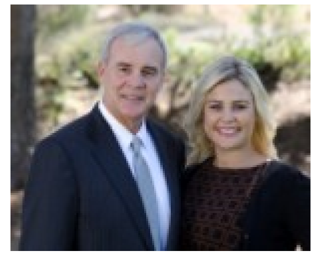
This is the week that the October employment report is out. As our unemployment rate has fallen with millions of jobs being created each year, many have complained about the level of the jobs being created. Too many of these openings are for lower paid and part-time workers. We think the slow recovery of the real estate market has had something to do with that. The real estate industry is not only a great job creator, but also a creator of higher paying jobs, from construction workers to bankers and lawyers.

Judging by the strength of the real estate market this year, it is possible we will see the growth of better jobs soon. And based upon a recent report that was released by the Mortgage Bankers Association, things are only going to get better in the real estate market in the future. *Nearly 16 million new households are expected in the U.S. housing market by 2024, which Mortgage Bankers Association economists said should lead to much greater demand for both renter- and owner-occupied housing. MBA Vice President of Research and Economics Lynn Fisher added, "With an average of 1.6 million additional households per year, housing market growth over the next decade could be among the strongest the U.S. has ever seen."*

If we are right, then real estate could bring us to the final stages of our recovery and make it complete. We may not see a reflection of this theory in this week's jobs report, but it does explain why the Federal Reserve Board keeps holding off on raising rates while still telling us to be prepared because a rate hike is coming. Builders are already talking about a shortage of skilled laborers. To put these numbers in perspective, it took our country almost 250 years to grow to 125 million households. Now we will see 16 million added in ten years. And that does not even include the housing stock which will have to be replaced because of age.

WEEKLY INTEREST RATE OVERVIEW

The Markets. Rates on home loans eased down again in the past week, however, these numbers did not reflect the reaction to the Fed's statement late Wednesday. Freddie Mac announced that for the week ending October 29, 30-year fixed rates fell to 3.76% from 3.79% the week before. The average for 15-year loans was unchanged at 2.98%. Adjustables were mixed, with the average for one-year adjustables falling to 2.54% and five-year adjustables remaining at 2.89%. A year ago, 30-year fixed rates were at 3.98%, close, but still higher than today's levels. Attributed to Sean Becketti, chief economist, Freddie Mac -- "Treasury yields oscillated without a clear direction heading into the October FOMC meeting, as investors were confident there would be no rate increase. While the FOMC left



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Katie, my daughter, and I are dedicated to helping our clients achieve the American dream of homeownership. Our unwavering commitment is to provide trusted service while working to help each client achieve their short and long term mortgage goals. With 35 years of combined mortgage experience, we are committed to putting the needs of our valued clients first and foremost.

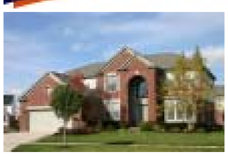
"Know Howe for your next loan"

rates unchanged at this meeting, they kept a December rate hike as an option causing Treasuries to sell off in the latter part of the day, after our survey closed. Recent housing reports have done little to add or detract from the possibility of a December rate increase. Existing home sales were strong, contrasting with disappointing new home sales." *Rates indicated do not include fees and points and are provided for evidence of trends only. They should not be used for comparison purposes.*

Current Indices For Adjustable Rate Mortgages
Updated October 30, 2015

	Daily Value	*Monthly Value*
	Oct. 29	*September*
6-month Treasury Security	*0.21%*	*0.18%*
1-year Treasury Security	*0.33%*	*0.37%*
3-year Treasury Security	*1.05%*	*1.01%*
5-year Treasury Security	*1.53%*	*1.49%*
10-year Treasury Security	*2.19%*	*2.17%*
12-month LIBOR		*0.847% (Sept)*
12-month MTA		*0.243% (Sept)*
11th District Cost of Funds		*0.639% (Aug)*
Prime Rate		*3.25%*

REAL ESTATE NEWS



Nearly 16 million new households are expected in the U.S. housing market by 2024, which Mortgage Bankers Association economists said should lead to much greater demand for both renter- and owner-occupied housing. MBA Vice President of Research and Economics Lynn Fisher indicated at the MBA Annual Convention and Expo, "With an average of 1.6 million additional households per year, housing market growth over the next decade could be among the strongest the U.S. has ever seen. Just the sheer change in the number of people are driving the creation of new household formation." Recently, the MBA released a research paper, *Housing Demand: Demographics and the Numbers Behind the Coming Multi-Million Increase in Households*, showing the housing demand surge will be driven by Hispanics, Baby Boomers, Asian-Americans and Millennials. The report said household growth will include 5.5-5.7 million more Hispanic households in 2024 than in 2014; 3.4-5.0 million more non-Hispanic White households; 1.8-1.9 million more Asian households; 2.4 million more African-American households; and 730,000-890,000 more "other" households, including Asian-Americans. Growth will be driven by Baby Boomers, with 12.3-12.9 million more households age 60 and over in 2024 than there are today. Millennials will also be a key component of growth raising the ranks of households age 18 to 44 by 4.1-5.1 million. *Source: Mortgage Bankers Association*

Many Americans are gearing up to purchase a home in the coming years. According to a recent BMO Harris Bank 2015 Homebuyers Report, 52 percent of Americans say they are likely to buy a home in the next five years. Additionally, those surveyed indicated that they are willing to pay an average of $296,000 for a home and will average a 21 percent down payment. The report also found that among those who intend to buy, 78 percent plan to get preapproved before seriously searching for a home. Meanwhile, 75 percent of current home owners set a budget before looking for a home and 16 percent usually spend less while 13 percent go over budget. "Getting preapproved helps buyers understand their budget as they start their home search. That means estimating monthly housing payments and how much you can borrow," said Alex Dousmanis-Curtis, group head, U.S. Retail and Business Banking, BMO Harris Bank. BMO also reported that 74 percent of those looking to buy a new home will consult a real estate agent, while 59 percent said they will visit online real estate websites, and 37 percent will seek recommendations from friends and family. According to the report, 63 percent of American homeowners spent under six months looking for a new home before they made a purchase. In addition, 8 percent bought their home without conducting an active real estate search or even planning to buy because a specific property caught their attention. *Source: MReport*

Fannie Mae's Home Purchase Sentiment Index (HPSI) increased to 83.8 in September, as consumer confidence in the home buying and selling market bounced back from a recent dip, suggesting continued gradual improvement in housing activity. Fannie Mae analyst Katie Penote taps in to the perspective of Fannie chief economist Doug Duncan in commentary on an index that shows strength after a period of summer doldrums. Penote writes that sky-rocketing rents may play a role in home buying sentiment: “The HPSI returned near its record high this month, driven primarily by improvement in attitudes about selling a home and strengthening home prices,” said Doug Duncan, Senior Vice President and Chief Economist at Fannie Mae. “With consumers’ expectations for rental price increases continuing to outpace their expectations for home price growth, many consumers may view homeownership as a more attractive option. This should have positive implications for the housing market, which remains well below historical norms in relation to housing starts. *Source: Builder Magazine*