THE S & J READER

Swanson & Johnston Lending Team

MORTGAGE TRUST, INC.

April 10, 2010
VOLUME 3 // ISSUE 8

FINANCIAL FACTS:

The US budget deficit in 2010 is projected to be $1.3 trillion which is the second largest since World War II (source: Congressional Budget Office).

The US National Debt is currently $12.8 trillion or $41,312 per citizen (source: usdebtclock.org).

US Gross Domestic Product is projected to be $14.8 trillion in 2010 or $106,205 per worker (source: forecasts.org).

The US population is estimated to be 309 million (source: US Census Bureau).

Data for the most recent year (2007) shows 143 million individual tax returns are filed per year (source: IRS).

HOW GOVERNMENT BORROWING CAN DRIVE MORTGAGE RATES

By Evan Swanson, CMPS

AFTER REMAINING RELATIVELY FLAT for the first 3.5 months of the year, mortgage rates jerked higher on March 24. In fact, it was the largest one-day increase in mortgage rates since June 2009. Not to worry—at the time of this writing, 30-year fixed-rate mortgages are still very low in the 5.125% range with an APR of 5.24%. However, most industry experts believe that the recent increase is a sign of what's to come.

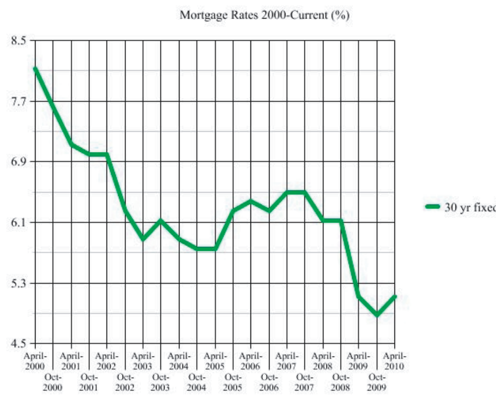
Typically, when the market experiences a dramatic one-day move like this we can point to one specific catalyst, such as a better-than-expected economic report that shifts market sentiment. But March 24 didn't necessarily have one event that would explain the change. When I went online that afternoon to figure it out I saw that the market reports were crediting the prospect of higher government borrowing as the main culprit for the increase in interest rates.

So how does government borrowing lead to higher mortgage rates? The answer has to do with an economic principle called the "crowding-out effect." It seems as though, on March 24, investors had a "collective enlightenment" that the US government's financial condition would not be improving any time soon. As a result, the sentiment on Wall Street is that the government is likely to run substantial deficits into the future. Those deficits will need to be financed by selling treasury notes and bonds.

When the government sells bonds, it must compete with private-sector borrowers (i.e. corporations and banks) in attracting investors to its bond offerings. Investors are interested in securing a safe investment with an attractive yield. Therefore, as the government sells more and more bonds, investors will demand higher and higher interest rates to compensate for the added risk.

Yet private sector borrowers, including sellers of mortgage-backed securities (MBS) that ultimately determine mortgage rates, still need to sell bonds to fund their own operations. In order to do this in an environment where the US Treasury is "crowding out" other players, they'll be forced to offer higher and higher interest rates as well.

Think of it like this: Imagine you just moved to a remote island with money to deposit in a bank where only two banks exist. Option A is with a local bank that is offering to pay you 4% if you deposit your funds with them. Option B is with a different local bank who is also offering a 4% deposit yield. Now imagine that a large global bank comes to the island with the intent of becoming the prominent bank there. In order to attract customers, the global bank begins to offer a yield of 5% so that depositors will switch. In response, the local banks decide to match the 5% rate to keep depositors happy. In this example the mega-bank came to the island and effectively "crowded out" the local banks. The result was that interest rates increased for all parties involved.



For a variety of reasons, it appears inevitable that the trajectory of mortgage rates is pointing higher. But let's not lose perspective. Mortgage rates are still very attractive on a historical scale. If you'd like us to conduct a no-obligation refinance review, please don't hesitate to contact us. Furthermore, if you know co-workers, friends, or family members who are curious about reviewing their situations, we would love for the opportunity to speak with them.

BACK TO CLASS...AGAIN *By Evan Swanson, CMPS*

I'LL NEVER FORGET A CONVERSATION I shared with my 92-year-old grandma (we call her "Gramme") in late 2008. At that time the subprime mortgage crisis was in full swing, Lehman Brothers had collapsed, and the writing was on the wall that the US economy was in for a rough ride.

As things got worse, commentators began to make comparisons to the Great Depression, and I couldn't help but wonder what our society would look like if the bottom truly fell out. It was at that time that I called Gramme and asked her if I could come by and ask her about her memories of the Great Depression and the years following.

Gramme grew up in South Dakota and was no stranger to tough times. She was born at the beginning of the Great Depression and her father lost the family farm in the Dust Bowl. Like many in her generation, her experiences during that time caused her to develop a sense of appreciation for what she had and a commitment to helping others that many feel are missing from society today.

During our talk, Gramme shared a lot of great stories, but I'll never forget the one take-away that will stick with me for the rest of my life. When I asked her if she had any concerns about our society today heading into a major recession, she said, "People just don't take care of each other like they used to."

Her comment prompted me to think about my commitments in life. I had to admit to myself that, although my wife and I make annual charitable contributions, I wasn't actively making a difference to improve the community in which we live. It was at that point that I made it a goal to give back to my community with my time.

I'm happy to report that I recently reached my goal when I began volunteering my time to teach a class about personal finance to seniors at Sunset High School.

I've long been frustrated by the fact that our public school system lacks a meaningful personal finance curriculum. My belief is that teaching kids about money BEFORE they reach an age when credit card companies can reach them will go a long way in preventing many of the fiscal challenges that households face.

I am currently teaching in Mrs. Taylo's Marketing 3 class. I have created four one-hour lessons that give the students an understanding of how money works, the basics of banking, investing (including the concept of delayed gratification), and credit. So far the lessons have been well received and the kids are doing great!

If you're curious to see the slides that I use in my class sessions, you can visit my blog, *www.evanswanson.com*, and click on the "presentations" category.

I'm very thankful that Mrs. Taylo has given me this opportunity, and my goal is to continue with this commitment into the future. I would welcome any thoughts, lesson ideas, or topics that you think I should cover in my time with these students. Thanks in advance for your support!

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