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LATE SUMMER 2009.

ALREADY!

As the summer winds down, we will start to see some changes in our interest rate climate. As most of you know, interest rates are determined by supply and demand for US Treasury Securities and Mortgage Backed Securities (MBS). In normal circumstances, as supply increases, the price usually decreases. If we apply this law to the interest rate market, we see that as the supply of Bonds (US Treasuries and MBS) increases, the price should decline, and when a bond price declines, the interest rate (yield) goes up to attract buyers. However, the Federal Reserve has been purchasing huge amounts of US Treasuries and MBS in order to keep interest rates artificially low and fuel the economy. Now, here is the tricky part: the FED is committed to purchasing MBS until the end of the year, and the Treasuries until the end of October. So, that will flood the market and theoretically cause the price of bonds to go down and hence interest rates to go up. Of course, no one knows how this will all play out, but if the economy improves and the job market stabilizes, inflation will return.

Another factor regarding HIGHER RATES: If the interest rate goes up just .75%, a buyer has a decrease in purchasing power of 10%. So... if they could afford \$1,000,000 before, they could now afford \$900,000. Over time these conditions seem to cancel each other out and the prices of homes comes down to reflect the loss in buying power so it is a 'net zero'. Having said that, now is the time to buy because sellers are negotiating and money is cheap. So, if you or anyone you know is looking to buy, have them call me or their agent!

Of course the same could be said for sellers in this market. Once the rates go up, the purchasing power of buyers will go down along with their desire to purchase if rates are rising... Fewer buyers with decreased purchasing power means a decline in home prices.... USUALLY. This has been such an unusual economic environment that nothing would surprise me.


BUT here is something that caught my eye: As we all know, homes are becoming more automated and the ability to control every aspect of your home from your computer is here. SMARTER TOILETS are here and currently being used in Japan. The new toilet seat can sense the user based on weight, and it will heat or cool the seat to their preference using in-line water flow. They can also measure weight, body fat, blood pressure and blood sugar levels and transmit the data to your computer... Kind of scary.

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Happy spending and saving,


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