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WEEKLY MORTGAGE RATE REPORT (Fax Weekly Report)

FOR THE WEEK OF 10-09-05
Annual subscription \$250 (1-800-844-4648)



Mortgage Rates Hit Two-Month Highs Week in review 10/3/05 - 10/7/05

Comments by a host of Fed bank presidents, a weak report on September manufacturing conditions and the Employment Report for last month provided bond traders with multiple reasons to sell, and sell they did. The price of U.S. Treasury securities tumbled and their yields, which move in the opposite direction of prices, rose to two-month highs. Fed officials were unanimous in stating that the Fed would continue to raise short-term interest rates in order to contain inflation, and the manufacturing report revealed a huge increase in prices paid – another sign of inflation. Job losses proved to be milder than forecast, putting additional pressure on Treasuries. Rising yields, which lenders use as a guide to set rates, forced mortgage rates up to their highest levels since early August.

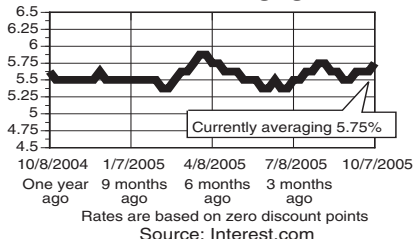
Job losses in September totaled 35,000 – far less than estimates that ranged from 120,000 to 200,000 losses. This led many to conclude that in spite of the recent hurricanes the nation's economy is strong. Jobs added in August were revised upward by 42,000 to 211,000. This better-than-expected report re-enforced the notion that the Fed will

stick with its credit-tightening program. The unemployment rate, however, rose to 5.1 percent, but it is determined by a separate survey.

The Institute of Supply Management's (ISM) index on manufacturing conditions – the other market mover – climbed to 59.4 from 53.6 the previous month. But it was the jump in prices paid – to 78 versus 62.5 – that got the attention of bond traders, as it was the biggest one-month increase in 15 years. Two days later the ISM index on non-manufacturing conditions, i.e., the service sector, recorded a sharp decline. The index plunged to 53.3 from 65, but like the manufacturing index, the prices-paid category rose more than expected.

Rising mortgage rates left applications nearly flat for the week ended to Sept. 30, according to the Mortgage Bankers Association. Purchase applications fell 1.9 percent, while refis crept up 0.1 percent. The rate on the 30-year-fixed mortgage (based on zero discount points) climbed near 5.75 percent, while the 15-year fixed-rate is well above 5.25 percent. The introductory rate on the volatile one-year ARM is somewhat below 4 percent.

30-Year Fixed Mortgage Rate



KEY INTEREST RATES

U.S. Treasury Yields	9/30/05	10/7/05
2 year T-note	4.17%	4.19%
5 year T-note	4.19%	4.23%
10 year T-note	4.33%	4.36%
30 year T-Bond	4.57%	4.59%
Discount Rate (wk. end 9/30)	4.75%	
Fed Funds Rate (wk. end 9/30)	3.77%	
Prime rate (wk. end 9/30)	6.75%	

ARM INDEXES

Natl. Avg. Contract Mtg. Rate (Aug.)	5.81%
12 mo. avg. (1-yr. TCM) (Sep.)	3.17%
3 mo. LIBOR (FNMA for Sep.)	4.06%
6 mo. LIBOR (FNMA for Sep.)	4.22%
National COFI (Jul.)	2.54%
11th District COFI (Aug.)	2.87%
6 month CD (wk. end 9/30)	4.17%
1 Year TCM (wk. end 9/30)	3.97%
2 Year TCM (wk. end 9/30)	4.11%
3 Year TCM (wk. end 9/30)	4.11%
5 Year TCM (wk. end 9/30)	4.13%
7 Year TCM (wk. end 9/30)	4.20%
10 Year TCM (wk. end 9/30)	4.30%
20 Year TCM (wk. end 9/30)	4.59%

Required Yields for Delivery

	Freddie Mac (10/7/05)			
	10 day	30 day	60 day	90 day
30 year	5.82%	5.84%	5.88%	5.91%
15 year	5.33%	5.35%	5.38%	5.40%
	Fannie Mae (10/7/05)			
	10 day	30 day	60 day	90 day
30 year	5.92%	5.94%	5.97%	6.01%
15 year	5.45%	5.47%	5.49%	5.52%

HOUSING SNAPSHOT

	Month	Total	Change
Construction Spending	Aug.	\$1.108 tril.	+0.4%
Housing Starts	Aug.	2.02 mil.	-1.3%
Building Permits	Aug.	2.12 mil.	-2.3%
Existing Home Sales	Aug.	7.29 mil.	+2.0%
New Home Sales	Aug.	1.24 mil.	-9.9%

MORTGAGE APPLICATION INDEXES (MBA)

	Wk. ended Sept. 30, 2005	Change
Number of purchase applications	Down	-1.9%
Number of refinance applications	Up	+0.1%

Mortgage Rates Might Level Off Week in preview 10/10/05 - 10/14/05

There are a number of influential reports on tap, but they won't be released until the end of the week, which leaves traders to reflect on the Employment Report, rate hikes and inflation concerns. When the reports do come out, attention will focus on Retail Sales and the Consumer Price Index for September, which looks for inflation at the retail level. Until these reports are made public, however, there appears to be little impetus for mortgage rates to make substantial moves in one direction or the other.

The minutes of the September 20 meeting of Fed will be out Tuesday and could impact the markets, but reports begin pouring in on Thursday, with another five due on Friday.

Thursday features first-time unemployment claims for the week ended Oct. 7, and the U.S. International Trade balance for August.

Also out on that day will be U.S. Import/Export price indexes for September. Although the trade deficit can impact the markets, the price indexes usually do not.

Friday, however, is a different story. It begins with the influential Consumer Price Index for September that checks for signs of inflation at the retail level. This report could move the markets if inflation is found to be stronger or weaker than expected. Also on tap is the very important retail sales report for September, which tracks consumer spending and might reflect the impact of the hurricanes.

Industrial Production takes the pulse of output at mines, utilities and factories, while the University of Michigan's preliminary Consumer Sentiment survey relates the state of mind of the consumer. Business Inventories will be the least important.

EVENTS THAT COULD IMPACT MORTGAGE RATES THIS WEEK

Date	Time	Event	Forecast
Oct. 10		The Treasury Markets are closed in observance of Columbus Day	
	1:00 pm	Treasury conducts weekly auction of 3 & 6 month T-bills	
	2:00 pm	Treasury Statement (monthly budget) (Sept.)	\$40.0 bil.
Oct. 11	8:00 am	ICSC/UBS report on chain store sales (Wk. end 10/7)	
	8:00 am	Redbook report on retail sales (Wk. end 10/7)	
	2:00 pm	FOMC minutes of the Sept. 20 meeting are released	
Oct. 12		No economic indicators are scheduled for release	
Oct. 13	8:30 am	Weekly Unemployment Claims (Wk. end 10/7)	350,000
	8:30 am	U.S. Import (ex. oil)/ Export (ex. ag.) Price Indexes (Sept.)	
	8:30 am	U.S. Internat. Trade in Goods & Services (deficit) (Aug.)	-\$59.0 bil.
Oct. 14	8:30 am	Consumer Price Index/core rate (Sept.)	+1.0%/ +0.2%
	8:30 am	Advance Retail Sales/ ex-auto (Sept.)	+0.5%/ +1.0%
	8:30 am	Business Inventories/ Sales (Aug.)	+0.1%
	9:15 am	Industrial Production & Capacity Utilization (Sept.)	-0.4%/ 79.9%
	9:45 am	Univ. of Mich. Sentiment Survey (Oct.prelim.)	81.0

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Formerly the Fax Weekly Report

Keeping you abreast of the ever-changing mortgage market

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TRACKING THE ECONOMY -- OCTOBER 2005

DATE	TIME	EVENT	PERIOD	SOURCE	OUTCOME	PREVIOUS
Sept. 26	10:00 am	Existing Home Sales	Aug.	Natl. Assn. of Realtors®	+2.0% @ 7.29 mil.	-2.6% @ 7.16 mi
	1:00 pm	Treasury conducts weekly auction of 3 & 6 month	T-bill			
Sept. 27	8:00 am	ICSC/UBS report on chain store sales	Wk. end Sept. 23		NA	NA
	8:00 am	Redbook report on retail sales	Wk. end Sept. 23		NA	NA
	10:00 am	Consumer Confidence Report	Sept.	Conference Board	86.6	105.6
	10:00 am	New Home Sales	Aug.	Commerce Dept.	-9.9% @ 1.24 mil.	+6.5% @ 1.37 mil. (rev.)
Sept. 28	8:30 am	Durable Goods Orders (adv.)/ ex. trans.	Aug.	Commerce Dept.	+3.3%/ +4.2%	-4.9%/ -3.2%
Sept. 29	8:30 am	Weekly Unemployment Claims	Wk. end Sept. 23	Dept. of Labor	356,000	435,000 (rev.)
	8:30 am	Gross Domestic Product (final)	2nd Qtr.	Commerce Dept.	3.3%	3.3%
	8:30 am	GDP Chain Deflator (final)	2nd Qtr.	Commerce Dept.	2.4%	2.4%
	8:30 am	Corporate Profits (rev.)	2nd Qtr.	Commerce Dept.	19.72%	26.95%
Sept. 30	8:30 am	Personal Incomes and Outlays	Aug.		+0.5%/ +0.1%	+0.3%/ +1.0%
	9:45 am	Univ. of Mich. Sentiment Survey (final)	Sept.	Univ. of Michigan	76.9	76.9
	10:00 am	Chicago Purchasing Managers Institute releases index of Sept Business Conditions	Sept.		60.5	49.2
Oct. 3	10:00 am	ISM releases index of Sept. Mfg. Conditions			59.4	53.6
	10:00 am	New Construction	Aug.	Commerce Dept.	+0.4%	unch.
	1:00 pm	Treasury conducts weekly auction of 3 & 6 month	T-bill			
Oct. 4	8:00 am	ICSC/UBS report on chain store sales	Wk. end Sept.30		NA	NA
	8:00 am	Redbook report on retail sales	Wk. end Sept.30		NA	NA
	10:00 am	Factory Orders	Aug.	Commerce Dept.	+2.5%	-2.5% (rev.)
Oct. 5	10:00 am	Institute of Supply Management releases index of	Sept. Non-Mfg. Conditions		53.3	65
Oct. 6	8:30 am	Weekly Unemployment Claims	Wk. end Sept.30	Dept. of Labor	390,000	356,000
Oct. 7	8:30 am	The Employment Report	Sept.	Dept. of Labor	-35,000 @ 5.1%	169,000 @ 4.9%
	8:30 am	Hourly wage earnings	Sept.	Dept. of Labor	+0.2% @ \$16.18	+0.1% @ \$16.16
	10:00 am	Wholesale trade/Inventories and Sales	Sept.	Commerce Dept.	+0.5%	-0.1% (inv.)
	3:00 pm	Consumer Credit	Aug.	Federal Reserve		+\$4.4 bil.
Oct. 10	1:00 pm	Treasury conducts weekly auction of 3 & 6 month	T-bills			
	2:00 pm	Treasury Statement (monthly budget)	Sept.	Treasury Dept.		-\$50.0 bil.
Oct. 11	8:00 am	ICSC/UBS report on chain store sales	Wk. end Oct. 7			NA
	8:00 am	Redbook report on retail sales	Wk. end Oct. 7			NA
	2:00 pm	FOMC minutes of the Sept. 20 meeting are released				
Oct. 12		No economic indicators are scheduled for release				
	8:30 am	Productivity & Costs (rev.)	3rd Qtr.	Commerce Dept.		+1.8%/+2.5%
Oct. 13	8:30 am	Weekly Unemployment Claims	Wk. end Oct. 7	Dept. of Labor		390,000
	8:30 am	U.S. Import (ex. oil)/ Export (ex. ag.) Price Indexes	Sept.	Commerce Dept.		+1.3%/ 0.0%
	8:30 am	U.S. Internat. Trade in Goods & Services (deficit)	Aug.	Commerce Dept.		\$57.9 bil.
Oct. 14	8:30 am	Consumer Price Index/core rate	Sept.	Dept. of Labor		+0.5%/ +0.1%
	8:30 am	Advance Retail Sales/ ex-auto	Sept.	Commerce Dept.		-2.1%/ +1.0%
	8:30 am	Business Inventories/ Sales	Aug.	Commerce Dept.		-0.5%/ +1.1%
	9:15 am	Industrial Production & Capacity Utilization	Sept.	Federal Reserve		+0.1%/ 79.8%
	9:45 am	Univ. of Mich. Sentiment Survey (prelim.)	Oct.	Univ. of Michigan		76.9
Oct. 17	8:30 am	NY Empire State Index of Oct. Manufacturing Conditions				17
	1:00 pm	Treasury conducts weekly auction of 3 & 6 month	T-bills			
Oct. 18	8:00 am	ICSC/UBS report on chain store sales	Wk. end Oct. 14			
	8:00 am	Redbook report on retail sales	Wk. end Oct. 14			
	8:30 am	Producer Price Index/core rate	Sept.	Dept. of Labor		+0.6%/ 0/0%
Oct. 19	8:30 am	Housing Starts	Sept.	Commerce Dept.		-1.3% @ 2.01 mil.
	8:30 am	Building Permits	Sept.	Commerce Dept.		-2.3% @ 2.12 mil.
	noon	Federal Open Market Committee releases Beige Book				
Oct. 20	8:30 am	Weekly Unemployment Claims	Wk. end Oct. 14	Dept. of Labor		
	10:00 am	Index of Leading Indicators	Sept.	Conference Board		-0.2%
	noon	Philadelphia Fed Report on Oct. manufacturing conditions		Federal Reserve		2.2
Oct. 21		No economic indicators are scheduled for release				
Oct. 24	1:00 pm	Treasury conducts weekly auction of 3 & 6 month	T-bill			
Oct. 25	8:00 am	ICSC/UBS report on chain store sales	Wk. end Oct. 21			
	8:00 am	Redbook report on retail sales	Wk. end Oct. 21			
	10:00 am	Existing Home Sales	Sept.	Natl. Assn. of Realtors®		+2.0% @ 7.29 mil.
	10:00 am	Consumer Confidence Report	Oct.	Conference Board		86.6
Oct. 26		No economic indicators are scheduled for release				
Oct. 27	8:30 am	Weekly Unemployment Claims	Wk. end Oct. 21	Dept. of Labor		
	8:30 am	Durable Goods Orders (adv.)/ ex. trans.	Sept.	Commerce Dept.		+3.3/ +4.2%
	10:00 am	New Home Sales	Sept.	Commerce Dept.		-9.9% @ 1.24 mil.
Oct. 28	8:30 am	Gross Domestic Product (adv.)	3rd Qtr.	Commerce Dept.		+3.3%
	8:30 am	GDP Chain Deflator (adv.)	3rd Qtr.	Commerce Dept.		+2.4%
	8:30 am	Employment Cost Index				
	9:45 am	Univ. of Mich. Sentiment Survey (final)	Oct.	Univ. of Michigan		
Oct. 31	8:30 am	Personal Incomes and Outlays	Sept.			
	1:00 pm	Treasury conducts weekly auction of 3 & 6 month	T-bill			
Nov. 1	8:00 am	ICSC/UBS report on chain store sales	Wk. end Oct. 28			
	8:00 am	Redbook report on retail sales	Wk. end Oct. 28			
	10:00 am	ISM releases index of August Mfg. Conditions				
	10:00 am	New Construction	Sept.	Commerce Dept.		
Nov. 2		No economic indicators are scheduled for release.				
Nov. 3	8:30 am	Weekly Unemployment Claims	Wk. end Oct. 28	Dept. of Labor		
	10:00 am	ISM releases index of August Mfg. Conditions				
	10:00 am	Factory Orders	Sept.	Commerce Dept.		
	8:30 am	Productivity & Costs	3rd Qtr.			
Nov. 4	8:30 am	The Employment Report	Oct.	Dept. of Labor		
	8:30 am	Hourly wage earnings	Oct.	Dept. of Labor		

Note: In some instances, these dates are merely approximations. Release times are Eastern Daylight Time



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INDUSTRY NEWS

Fundamentals, Not Bubbles, Explain Recent Growth of Housing Prices

NEW YORK, Sept. 19 /PRNewswire/ -- With memories of large stock market declines still fresh, many pundits and even some economists observing the large increases in housing prices over the past five years have been quick to declare a bubble. But a new study recently released belies this conventional wisdom and finds that most cities in the United States show little evidence of a housing bubble as of the end of 2004.

In a study covering 46 single-family housing markets from 1980 to 2004, Charles Himmelberg, Christopher Mayer (Columbia Business School), and Todd Sinai (Wharton School of the University of Pennsylvania) confront misperceptions about the underlying drivers behind the decade-old real estate boom. The researchers find that recent growth rates of house prices do not reflect a bubble -- and, in fact, are largely explained by basic economic fundamentals such as low interest rates, strong income growth among high-income Americans, and unusually low housing prices in the mid-1990s.

The study, "Assessing High Housing Prices: Bubbles, Fundamentals and Misperceptions," finds no evidence that buyers are bidding up the price of houses based on unrealistic expectations of future price increases. The study shows that conventional metrics for assessing the housing market such as price-to-rent ratios or price-to-income ratios ignore the effects of lower real, long-term interest rates, and thus fail to accurately reflect the state of housing costs. To the eyes of analysts employing such measures, housing markets can appear "exuberant," even when houses are in fact reasonably and fairly priced.

Amongst the common misperceptions that the study aims to dispel are:

Misperception #1: The rising price of housing necessarily means that ownership is becoming more expensive

The price of a house is not the same as the annual cost of owning a house. The study calculates the actual cost of owning a house relative to rents and incomes, and finds that these ratios were well within historical norms at the end of 2004. Previously, during the mid-1990s, housing prices were actually somewhat undervalued, and at least part of the increase in house prices over the past 10 years reflects a return of these valuation ratios to long-run historical norms.

Misperception #2: High house price growth implies a bubble

When the real cost of long-term borrowing is low, as it is today, the study shows that changes in long-term interest rates have a disproportionately large effect on house prices. Thus, given the decline in real, long-term interest rates since 2000, it is not surprising that house prices have risen as much as they have. However, the other side of the coin is that the housing market may be especially vulnerable to unexpected future rises in real, long-term interest rates or negative shocks to local economies.

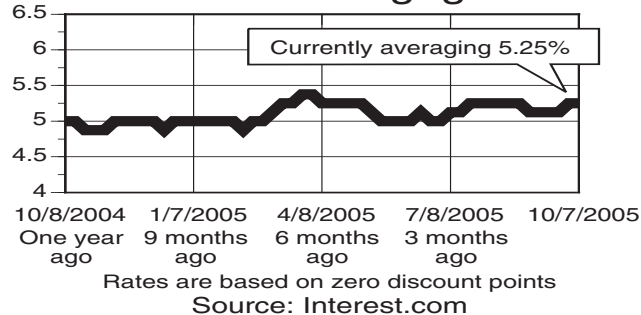
Misperception #3: The cities with the highest price increases (or the highest price-to-rent ratios) are the most overvalued

In some local housing markets such as San Francisco, Los Angeles, San Diego, New York, and Boston, house price growth has exceeded the national average rate of appreciation for at least 60 years. In cities with higher long-term rates of price appreciation, the annual cost of owning is lower, hence house prices should be higher (relative to rents or incomes). At the same time, house prices in high-priced cities are more sensitive to real, long-term interest rates because interest expense is a higher fraction of annual ownership costs.

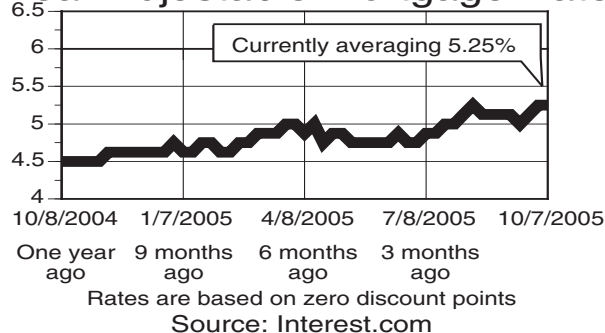
In sum, the study concludes that the current U.S. housing values are consistent with strong economic fundamentals. The reduction in ownership costs caused by lower real, long-term interest rates, in particular, has largely offset the rise in housing prices. However, the study also cautions that when real, long-term interest rates are already low, further changes in rates can have a disproportionately large impact on the housing market. An unexpected rise in real interest rates or a negative shock to household incomes could cause house prices to decline. But this fact does not mean that today's

MORTGAGE MARKET MONITOR

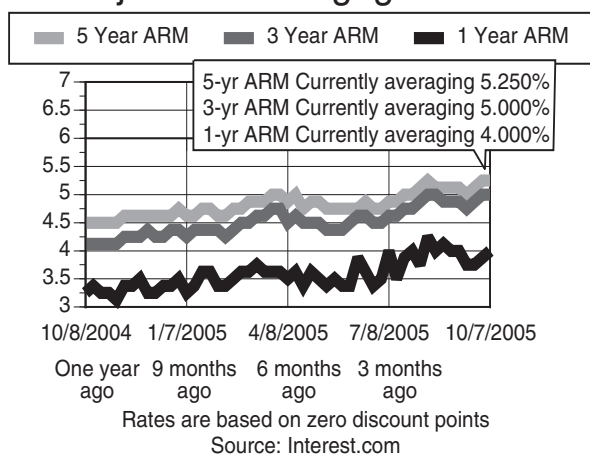
15-Year Fixed Mortgage Rate



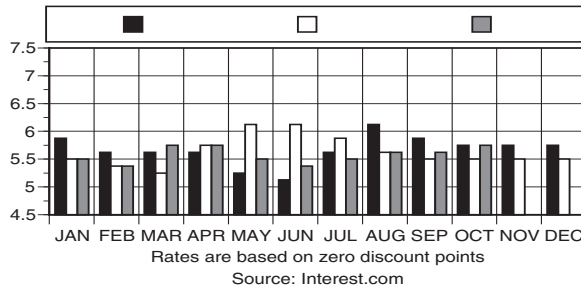
5-Year Adjustable Mortgage Rate



Adjustable Mortgage Rates



30 YEAR FIXED MORTGAGE RATE



houses are systematically mispriced.

Assessing High House Prices: Bubbles, Fundamentals and Misperceptions.*

Charles Himmelberg, Senior Economist, Federal Reserve Bank of New York; Christopher Mayer, Paul Milstein Professor of Real Estate, Columbia Business School; Todd Sinai, Associate Professor of Real Estate, Wharton School.

* The views expressed in this paper are solely those of the authors and are not necessarily reflective of views at the Federal Reserve Bank of New York or the Federal Reserve System.

