



# Mortgage Monitor



Weekly

December 1, 2006

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Historical comparisons	1-Yr ARM	15-Yr fixed	30-Yr fixed	Fannie Mae coupon	Mortgage Applications (Y/Y%)
This week	5.46	5.87	6.14	5.57	Total -4.0%
Last week	5.49	5.91	6.18	5.70	Purchase -14.6%
Year ago	5.16	5.81	6.26	5.89	Refinance 17.9%

## 30-Year Rate Falls to 6.14%

**Recap:** The average 30-year fixed rate fell to 6.14% from 6.18%, the 15-year fixed rate fell to 5.87% from 5.91%, and the 1-year ARM fell to 5.46% from 5.49%.

**Week in review:** Mortgage rates slid again this week as housing, durable goods orders and consumer confidence all showed weakness. Continued sentiment of a slowing economy brought Treasury yields down on November 24. However, the sagging dollar limited declines in yields amid fears that foreign demand for U.S. Treasuries could decline. On November 27 yields dipped a little further amid anticipation of weak upcoming housing market data. Yields declined further on November 28 after reports showed existing home sales rose in October to a 6.24 million unit annual rate while prices fell 3.5% from a year ago, durable goods orders fell 8.3% in October, and consumer confidence fell to 102.9 in November. Yields were also pressured by the strong 2-year Treasury auction. However, Fed Chairman Ben Bernanke's comments that

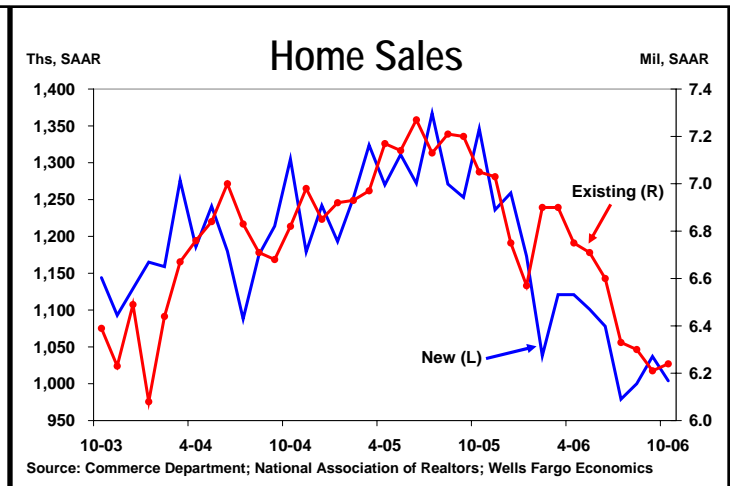
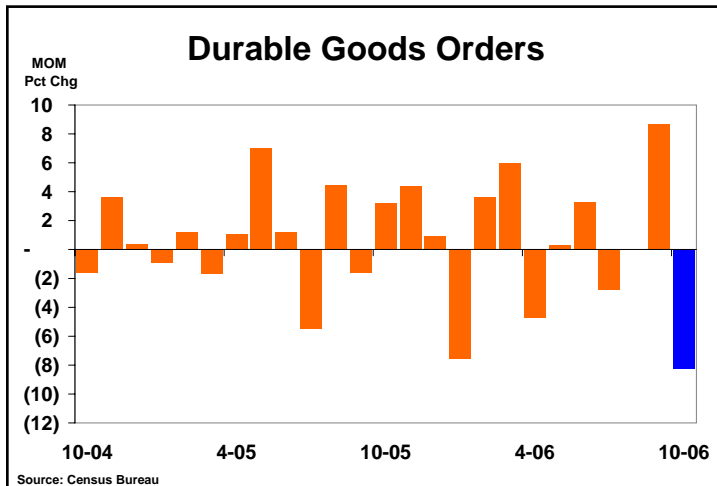
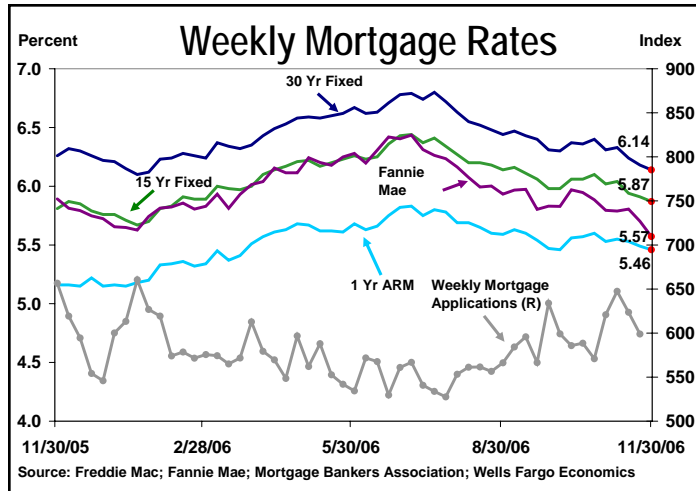
growth may accelerate next year and inflation remains a threat put a bit of a damper on the rally. On November 29, Q3 GDP growth was revised up to 2.2% from 1.6%, and the Fed's Beige Book showed moderate growth in most districts over the last couple months. These reports put upward pressure on yields, countering the downward pressure from the 3.2% drop in

October new home sales and the strong 5-year Treasury auction, and yields rose slightly for the day.

**Fed Funds Rate:** The Fed Funds rate currently stands at 5.25%. The next meeting is December 12, at which time we expect the Fed to keep the rate unchanged as more reports are showing signs of weakness. Fed Funds futures show traders expect a rate cut by mid-2007.

**Outlook:** Despite a further increase in core PCE inflation, Treasury yields dropped on November 30 as initial jobless claims surged and the Chicago PMI showed contraction. Now that manufacturing weakness has suddenly joined the housing market slump, we have revised our yield forecast down, and mortgage rates should remain near current levels in the near term.

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Financial Data	History					Month-to-Date	Current	Forecast (monthly)									
	2006.05	2006.06	2006.07	2006.08	2006.09			2006.10	2006.11	12/1/2006	2006.12	2007.01	2007.02	2007.03	2007.04	2007.05	2007.06
Federal Funds Rate	4.92	4.99	5.28	5.25	5.27	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Treasury-10 Year Notes (yield)	5.11	5.11	5.09	4.88	4.72	4.73	4.59	4.42	4.50	4.60	4.58	4.58	4.58	4.56	4.50	4.50	4.50
Prime Rate	7.92	8.02	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Mortgage-15 Year (yield)	6.20	6.28	6.40	6.23	6.11	6.03	5.99	5.87	5.86	5.96	5.94	5.94	5.94	5.92	5.86	5.86	5.86
Mortgage-Adjustable (yield)	5.64	5.68	5.80	5.67	5.58	5.53	5.53	5.46	5.37	5.47	5.45	5.45	5.45	5.43	5.37	5.37	5.37
Mortgage-30 Year (yield)	6.59	6.66	6.77	6.57	6.43	6.35	6.28	6.14	6.17	6.27	6.25	6.25	6.25	6.23	6.17	6.17	6.17

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