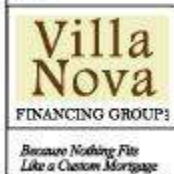


MORTGAGE MARKET IN REVIEW



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Market Comment

Mortgage bond prices rose last week pushing mortgage interest rates lower. Tame inflation readings and lower than expected US economic growth figures helped mortgage interest rates remain very favorable. The employment cost index came in as expected while the gross domestic product data showed a smaller than expected increase. The Treasury auctions generally went well and trading in stocks remained choppy.

Rates fell by about 3/8 to 1/2 of a discount point for the week.

The most important data this week will be the employment report Friday. PCE inflation data and ADP employment may also move the markets.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Construction Spending	Monday, Aug. 2, 10:00 am, et	Down 1.0%	Low importance. An indication of economic strength. A significant decrease may lead to lower rates.
ISM Index	Monday, Aug. 2, 10:00 am, et	53.5	Important. A measure of manufacturer sentiment. A large decline may lead to lower mortgage rates.
Personal Income and Outlays	Tuesday, Aug. 3, 8:30 am, et	Income up 0.2%, Outlays up 0.1%	Important. A measure of consumers' ability to spend. Weakness may lead to lower mortgage rates.
PCE Core	Tuesday, Aug. 3, 8:30 am, et	Up 0.1%	Important. An indication of inflation. A lower figure may lead to lower rates.
Factory Orders	Tuesday, Aug. 3, 10:00 am, et	Up 0.8%	Important. A measure of manufacturing sector strength. Weakness may lead to lower rates.
ADP Employment	Wednesday, Aug. 4, 8:30 am, et	Up 30k	Important. An indication of employment. Weakness in payrolls may bring lower

			rates.
Employment	Friday, Aug. 6, 8:30 am, et	Unemp. @ 9.6%, Payrolls -116k	Very important. An increase in unemployment or a large decrease in payrolls may bring lower rates.
Consumer Credit	Friday, Aug. 6, 3:00 pm, et	Down \$3b	Low importance. A significantly large increase may lead to lower mortgage interest rates.

Core PCE

The US Department of Commerce's Bureau of Economic Analysis releases the core PCE price index. The report provides the average increase in costs for personal consumption expenditures excluding food and energy. As of July 2009 the figure now includes food services in the figure.

The report is significant in that the Fed uses the PCE in determining inflation as opposed to the prior use of the consumer price index. The reports vary in that the CPI uses a predetermined pricing of a basket of goods and services for several years while the PCE data uses pricing of expenditures the changes from quarter to quarter. An important difference is also the fact that PCE includes the price of spending for and on behalf of households. This includes health care spending paid for a household by a business. The CPI only reflects out of pocket expenses paid directly by consumers.

While inflation fears remain subdued as of late there are concerns that inflation could eventually emerge. Taking advantage of rates at these historically low levels makes sense with so much uncertainty in the US economy.

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