MORTGAGE MARKET IN REVIEW

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HOMETOWN AMERICA INCORPORATED

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Market Comment

Mortgage bond prices finished the week lower which put upward pressure on rates. We started the week on a positive note Monday but traded negatively the remainder of the week. Inflation fears tied to comments from Fed officials about continued rate hikes pressured rates higher Wednesday. Solid data Friday morning resulted in additional increases in mortgage interest rates. Most of the data showed economic strength. Factory orders data rose 2% vs the expected 0.8% increase. Weekly jobless claims were 260K vs 263K. The heavyweight employment report shocked the financial markets. Unemployment came in at 3.5% vs 3.6%. Payrolls rose 528K vs 275K. Mortgage interest rates finished the week worse by approximately 1/2 to 5/8 of a discount point.

LOOKING AHEAD

Economic Indicator	Release Date & Time	Consensus Estimate	Analysis
Preliminary Q2 Productivity	Tuesday, Aug. 9, 8:30 am, et	Down 4.5%	Important. A measure of output per hour. Improvement may lead to lower mortgage rates.
Consumer Price Index	Wednesday, Aug. 10, 8:30 am, et	Up 0.3%, Core up 0.5%	Important. A measure of inflation at the consumer level. Weaker figures may lead to lower rates.
Weekly Jobless Claims	Thursday, Aug. 11, 8:30 am, et	262K	Important. An indication of employment. Higher claims may result in lower rates.
Producer Price Index	Thursday, Aug. 11, 8:30 am, et	Up 0.3%, Core up 0.5%	Important. An indication of inflationary pressures at the producer level. Weaker

			figures may lead to lower rates.
U of Michigan Consumer Sentiment	Friday, Aug. 12, 10:00 am, et	52.0	Important. An indication of consumers' willingness to spend. Weakness may lead to lower mortgage rates.

Fed Tools

According to the Federal Reserve Bank of New York, "The Federal Reserve sets U.S. monetary policy in accordance with its mandate from Congress: to promote maximum employment, stable prices, and moderate long-term interest rates in the U.S. economy.

The Federal Reserve achieves these goals by managing the level of short-term interest rates—specifically, by setting a target (or target range) for the federal funds rate, which is an overnight, unsecured, interbank borrowing rate. The level of short-term interest rates then influences the availability and cost of credit in the economy, and, ultimately, the economic decisions made by businesses and households.

The Federal Reserve has a variety of tools for implementing monetary policy. The Board of Governors of the Federal Reserve System (Board of Governors) is responsible for tools such as the discount rate, reserve requirements, and interest on reserves; and the Federal Open Market Committee (FOMC) is responsible for open market operations.

Since 1936, the FOMC has annually selected the New York Fed to execute transactions for the System Open Market Account (SOMA)—the largest asset on the Federal Reserve's balance sheet—and issued a directive to the New York Fed's Open Market Trading Desk (the Desk) to undertake open market operations. The Desk executes operations as authorized and directed by the FOMC to achieve specific objectives, such as the target federal funds rate or a size or composition for SOMA securities holdings. The New York Fed is authorized by the FOMC to buy and sell agency mortgage-backed securities (MBS) for the SOMA to the extent necessary to carry out the most recent FOMC directive."

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