

Jeff Statz
Branch Manager, Summit Mortgage Corp.
NMLS: 36442
Madison, WI

Office: (608) 301-5112
jeff@statz.us
View My Website

Strongest Housing Data in Years Collides With Rising Rates

Mortgage rates opened higher this week after weekend developments in Europe. That's a complicated topic, to be sure, and we discuss it in greater detail with the "deep thoughts" below. The gist of that analysis is that Greece isn't quite as responsible for every little move in US interest rates as it might seem. There are some **bigger-picture considerations** that should have us all feeling more defensive about the general upward momentum in rates, and skeptical about the apparent recoveries.

The prospect of stubbornly higher rates comes at an interesting time in terms of developments in **housing data**. For instance, Monday's Existing Home Sales data was at its **best levels since 2009!** And don't forget that 2009's levels were only made possible by the temporary home buyer tax credit meant to kick-start moribund post-meltdown housing demand. Without the tax credit, we'd be looking at the best Existing Home Sales levels since 2006. The next day, New Home Sales put in a similar performance, rising a whopping 19.5% vs the same time last year.

It's too soon to know how much rising rates might dampen the momentum in housing demand, but it's **a fair concern**, to be sure. The toll has clearly already been taken in terms of refinance demand. Earlier in 2015, the lowest rates in 2 years resulted in only a tepid increase in MBA's refi index. At the same time, purchase demand began improving as well, but the most recent MBA numbers **beg the question**: is the rising rate environment putting an end to those gains? Indeed, it looks like any further increases in rates will reinforce the "topping out" process that looks like it might be starting in MBA's purchase index. You can see both charts and the full story here.

To take this line of thinking even further, what if this confluence of strong housing data and rising rates is **actually a good thing?** Blasphemy, I know, but there's more talk of a housing bubble now than at any other time since the Financial Crisis. Watch Video

But for every voice shouting bubble, there's an equal and opposite voice: Builders say no bubble

Bubble or no, there are certainly **some parts** of the market that are **hotter than others**. Many would argue they're a bit too hot and that a temporary rise in rates would help restore a healthier pace of growth and perhaps spread that growth to areas that are more affordable.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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Whether or not a rise in rates can be temporary remains to be seen. **Next week will be very big**, both in terms of potential European developments and economic data in the US. It's a lot to cram into a week that will be shortened by a market closure on Friday in observance of the Independence Day Holiday. Holiday weeks like these can be some of the most volatile in terms of mortgage rates.

Deep Thoughts on Greece and its Connection to US Mortgage markets

Any discussion about US housing and mortgage markets would be incomplete without discussing trends in mortgage rates. More than anything else, **mortgage rates are driven by** changes in the price of mortgage-backed-securities (MBS). These bonds are essentially what huge groups of similar mortgages turn into when they're combined and chopped up into more manageable pieces to trade in financial markets.

Because of modern underwriting guidelines and moreover, due to guarantee mechanisms like the GSEs, HUD, and various private mortgage insurance companies, there is essentially no risk that investors won't receive their principal and interest. This leaves MBS to **trade a very similar pattern** to US Treasuries, which are the core of the domestic bond market and a key player in broader global bond markets. In fact, it's impossible to have a proper conversation about mortgage rate movement without talking about broader bond markets. And at present, it's also impossible to talk broader bond markets without talking about Greece.

Greece, the country in Europe?

Yes, that Greece. Depending on the extent to which you've been tuned in to financial news over the past few years, you've likely already seen seemingly dramatic Greece-related headlines. What's up with that? **Why does everyone care so much?**

The answer is complicated and ever-evolving, but the basic ingredients are easy enough to understand. The **drama centers on** Greece's inability to pay its bills. Some say this is Greece's fault. Others blame the Eurozone's inherent challenges, but that blame doesn't matter. What matters is that Greece is part of the Eurozone-the group of countries that use the Euro as their sole currency. One of the biggest reasons markets care is that if Greece defaults on its debt, it has an immediate impact on the value of its currency—the SAME one that every other Eurozone country uses!

There are **other systemic risks** as well, even in how the rest of the Eurozone handles this situation in terms of the **precedent** it sets for other countries. The underlying concern is that no one can truly rule out the possibility that the mishandling of this situation could lead to **unraveling** of the entire Eurozone. It probably won't happen, but the fact that it COULD is what's scary, and it's been having a real impact on financial markets.

The biggest **beneficiaries** have been the countries whose sovereign debt is risk-free and easily traded. Germany dominates Europe in this regard, and US Treasuries fill that role for the rest of the world. This role has afforded the US (and consequently, mortgage rates, because of the tight connection between MBS and Treasuries) much lower rates than we otherwise might have seen over the past few years (Greece was an issue **as early as 2010!**).

But what many market participants and news outlets are **failing to fully appreciate** is the fact that 2015 is not the same as 2010-2012 when it comes to the systemic risks posed by Greece to the rest of the world. The problem is that rates have been **stubbornly higher** for other reasons, and any market-watchers hoping that Greek turmoil will somehow "save" our recent low rate environment may be in for a shock. Rates have been far more concerned with trading the long-term, big-picture trend.

Part of the reason the 'taper tantrum' hurt as much as it did in 2013 was that it made 2012 look like it **might be THE all-time low for interest rates** in the US. April 2015 quickly took on the same sort of mystique for European rates. That's the epicenter of the big move higher since then. The facts that the Fed is talking about a rate hike, and that Greece is talking about a debt deal, are merely in the right place at the right time to share some of the blame.

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In an environment where market participants are wondering if the recent lows in rates are the lowest we'll see for a long time, it makes no sense to swim against the current. In other words, when rates periodically move lower, that doesn't mean it's time to float loans and plan on further improvement. Rather, it's that much more advisable to lock rates on those days because recoveries have consistently been limited since April. That **COULD** change at some point, but it will take a lot of improvement for us to even be able to consider it. Until then, all participants in the US mortgage market should be in a defensive stance by default when it comes to rates.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 22				
10:00AM	May Existing home sales (ml)	5.35	5.25	5.04
Tuesday, Jun 23				
8:30AM	May Durable goods (%)	-1.8	-0.6	-1.0
9:00AM	Apr Monthly Home Price mm (%)	0.3		0.3
10:00AM	May New home sales-units mm (ml)	0.546	0.525	0.517
Wednesday, Jun 24				
7:00AM	w/e Mortgage Refinance Index	1379.9		1354.9
7:00AM	w/e MBA Purchase Index	207.8		205.4
Thursday, Jun 25				
8:30AM	w/e Initial Jobless Claims (k)	271	270	267
8:30AM	May Core PCE price index mm (%)	+0.1	0.1	0.1
8:30AM	May PCE price index mm (%)	+0.3		0.0
Friday, Jun 26				
10:00AM	Jun U Mich Sentiment Final (ip)	96.1	94.6	94.6
Monday, Jun 29				
10:00AM	May Pending homes index	112.6		112.4
Tuesday, Jun 30				
9:00AM	Apr CaseShiller 20 mm SA (%)	+0.3	0.8	1.0
10:00AM	Jun Consumer confidence	101.4	97.3	95.4
Wednesday, Jul 01				
8:15AM	Jun ADP National Employment (k)	237.0	218	201
10:00AM	May Construction spending (%)	+0.8	0.5	2.2
10:00AM	Jun ISM Manufacturing PMI	53.5	53.1	52.8
Thursday, Jul 02				
8:30AM	Jun Unemployment rate mm (%)	5.3	5.4	5.5
8:30AM	Jun Non-farm payrolls (k)	+223	230	280
9:45AM	Jun ISM-New York index	690.2		683.7

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

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Date	Event	Actual	Forecast	Prior
Friday, Jul 03				
12:00AM	Independence Day			

Lending Done Right

Call or drop me a line, anytime

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