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EQUAL HOUSING LENDER

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Are Rising Rates Already Taking a Toll on Home Price Appreciation?

The most notable development late last week was a **return to fresh 2015 highs for mortgage rates**. It wasn't that there was any new, clearly-defined motivation for such a thing. Rather, rates were already holding near their highest recent levels and economic events in Europe conspired to nudge global bond markets slightly higher in yield.

Greece continues to dominate headlines, and indeed Greece-related news was part of the nudge on Friday. That said, keep last week's thoughts in mind when thinking about air time versus market impact. Greece continues to account for nothing more than **a few brush strokes in a bigger picture**. Monday brought a good example of this as Greek yields (rates) skyrocketed over the weekend after bailout negotiations broke down.

The normal flow of events with respect to Greece's impact on domestic interest rates is that "bad news for Greece" causes Greek rates to rise, and it motivates investors to seek safer havens for their bond market holdings. US Treasuries are one of the few at the top of that "safe" list. Increased demand lowers Treasury rates, which in turn help mortgage-backed-securities (MBS) improve as well. The **net effect was slightly lower mortgage rates** on Monday.

We remained in good shape on **Tuesday**, but this was largely due to the quarter-end trading environment in bond markets. Many investors have trades that they have to make by the end of any given day/week/month/quarter/year. The longer the block of time that's closing out, the greater the effects can be from this compulsory trading. It's usually beneficial for rates and this month-end was no exception.

Unfortunately, that made it **easier for rates to bounce back** (higher) on **Wednesday**. Economic data at home and abroad joined in the effort to push rates back toward last week's highs. Thursday's weaker Employment Situation (the "jobs report") helped undo only some of Wednesday's damage, leaving rates in very similar territory compared to last week.*

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.71	+0.01
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4758	0.0000

Pricing as of: 11/16 7:22PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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Housing data continued its recently strong showing this week, with 9yr highs in Pending Home Sales leading the charge. The rest of the week's housing related data focused mostly on prices with both Case-Shiller and Black Knight noting ongoing improvements. The caveat on the home price data is that gains have been decelerating since February. In fact, Case-Shiller's seasonally adjusted 20 city index missed rose only 0.3 percent versus forecasts of +0.8 percent and a previous reading of 1.0 percent.

It's far too soon to say that **whether or not price appreciation has turned a corner**, but there are a few warning signs elsewhere in the data. Specifically in the home price data, the most recent peak in February brought the year-over-year levels of appreciation very close to those seen before the housing crisis. Additionally, and probably unsurprisingly, recent peaks have occurred right as rates have bottomed out (in early 2013 and early 2015). The hypothesis logically presents itself: if rates continue higher, purchasing power in the housing market will continue to erode.

This is **all the more relevant a concern** considering the ramp up in first-time homebuyers noted in last week's data (or in this week's decrease in investor/all-cash activity, depending on how you look at it). Either way, we can safely assume that rising rates will bring at least SOME pressure on prices. It's too soon to say whether that's enough to damage the ongoing trend of price improvement. Certainly though, we'll need the trend in wage growth to improve if we hope to weather any serious rise in rates, and Thursday's employment data was not encouraging in that regard.

Markets are **closed in observance of Independence Day** tomorrow, though many banks and mortgage companies will remain open. Lender rate sheets should mirror Thursday's.

Next week is slow in terms of scheduled data, but Greece's referendum over the weekend should offer some market volatility early. Generally speaking, we still haven't seen enough resilience against 2015's push higher in rates to bet against it, though June's case was slightly better than May's.

** Freddie Mac's weekly rate report, which is covered by all major media outlets as mortgage rate gospel, shows the highest rates of the year this week. **This is unfortunate**, because the highest rates were absolutely seen last Friday. Freddie's survey doesn't even cover Thursdays or Fridays, so if either day sees a big spike—as last Friday did—it's not reflected in Freddie's numbers. Now this Thursday is a similar story where the jobs report has rates moving back down. Bottom line, this week's rates have definitely been lower on average—especially on Tuesday and Thursday.*

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
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
9:45AM	Jun Chicago PMI	49.4	50.0	46.2
10:00AM	Jun Consumer confidence	101.4	97.3	95.4
Wednesday, Jul 01				
7:00AM	w/e Mortgage Refinance Index	1307.7		1379.9
7:00AM	w/e MBA Purchase Index	199.2		207.8
8:15AM	Jun ADP National Employment (k)	237.0	218	201

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
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	w/e Initial Jobless Claims (k)	281	275	271
8:30AM	Jun Unemployment rate mm (%)	5.3	5.4	5.5
8:30AM	Jun Non-farm payrolls (k)	+223	230	280
8:30AM	Jun Private Payrolls (k)	+223	225	262
9:45AM	Jun ISM-New York index	690.2		683.7
Friday, Jul 03				
12:00AM	Independence Day			
Monday, Jul 06				
10:00AM	Jun ISM N-Mfg PMI	56.0	56.2	55.7
Tuesday, Jul 07				
8:30AM	May International trade mm $ (bl)	-41.87	-42.6	-40.9
3:00PM	May Consumer credit (bl)		18.25	20.54
Wednesday, Jul 08				
1:00PM	10-yr Note Auction (bl)	21		
Thursday, Jul 09				
1:00PM	30-Yr Bond Auction (bl)	13		

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood

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