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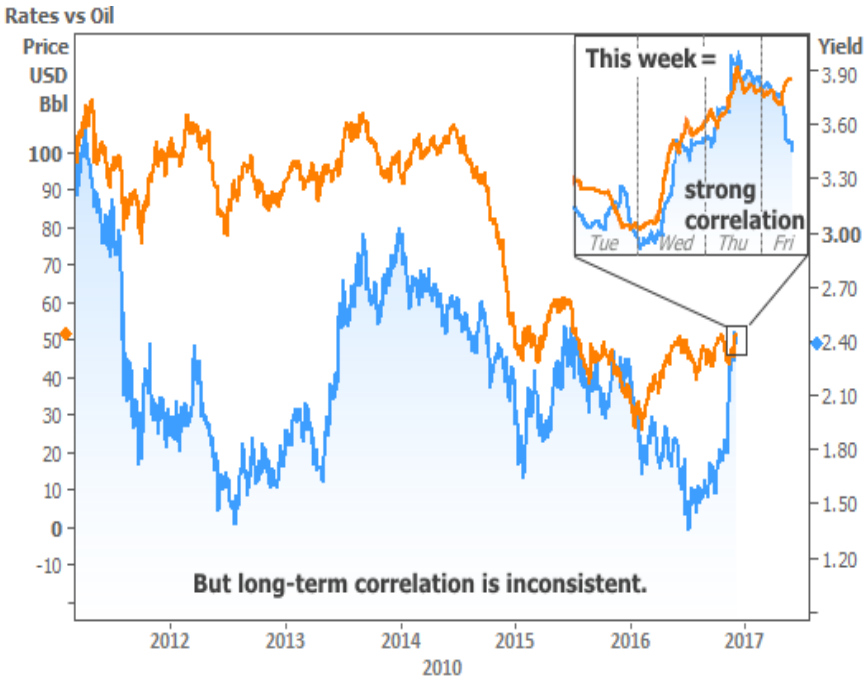
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What's Really Keeping The Mortgage Market up at Night?

Interest rates **surged** to **2-year highs** this week, apparently in response to Wednesday's news that OPEC countries struck a deal to limit oil production. True, if OPEC is willing to do what it takes to push fuel prices higher, it only adds to the inflationary fears already pushing rates higher. But even as OPEC dominated this week's headlines, there are more important things keeping housing and mortgage markets up at night.

Financial markets are understandably very interested in the stuff that fuels the movement of goods around the world. The **massive drop in oil prices** at the end of 2014 saw the healthy interest grow into an obsession, with far too many market movements being forced to fit the oil price narrative. It's a seductive thesis, especially for interest rates, given oil's inflation implications.

Oil prices do indeed have **strong correlations** with interest rate movements. This week was a good example of that, as we'll see in the following chart. But the chart also shows that this week's correlation is a small drop in a much bigger bucket.



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	98.70	0.00
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4752	-0.0006

Pricing as of: 11/16 7:30PM 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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Rates are obviously taking cues from **much** more than oil prices. Even within the confines of this week, it would be a **mistake** to chalk all of the rate volatility up to OPEC. Thursday's news regarding the European Central Bank (ECB) is actually responsible for the second half of this week's rate spike.

The ECB previously said it would address the topic of its asset purchases (a key driver of generally low rates around the world) at next week's scheduled announcement. Markets are worried that some form of "**tapering**" is in the cards. When major central banks taper asset purchases, rates move abruptly higher (as they did during the mid-2013 'taper tantrum'). ECB tapering fears are already responsible for much of the push toward higher rates in 2016.

This week's news was essentially an off-the-record exclusive from an ECB official. It spelled out the various options that the ECB is considering for next week's announcement, and all of them allude to tapering in one form or another. Granted, this isn't too much of a surprise for financial markets at this point, but the **confirmation** of an imminent announcement was enough to add to this week's momentum, thus resulting in the highest rates in more than 2 years.

Beyond oil and the ECB, **housing and mortgage markets** still have a lot on their minds. Tremendous uncertainty remains over the changes that might be made under the Trump administration--both general and specific. Just this week, one of the first public comments from Trump's designated Treasury Secretary, Steven Mnuchin, focused on the need to end the Fannie and Freddie Conservatorship.

Away from the hypothetical effects brought on by policy changes, **actual change is afoot!** Just over a week after Fannie and Freddie raised conforming loan limits for 2017, FHA is out with a similar announcement.

Unsurprisingly, the surge in rates continues doing damage to **refi** applications, as the Mortgage Bankers Association reported this week. The news was offset to some extent by a stable reading in **purchase** applications as well as Pending Home Sales.

Perhaps the **most sensational** housing-specific news of the week came from Freddie Mac. Actually, it was mostly an issue of wording. In its Housing and Economic Outlook, Freddie's economists said that **"mortgage originations will get crushed"** by rising rates. Bold words, to be sure, but are they justified?

First of all, there's **no way to know** exactly how the path of interest rates will unfold in the coming year. Rates **could** continue higher and, of course, that would continue to have a negative effect on mortgage originations.

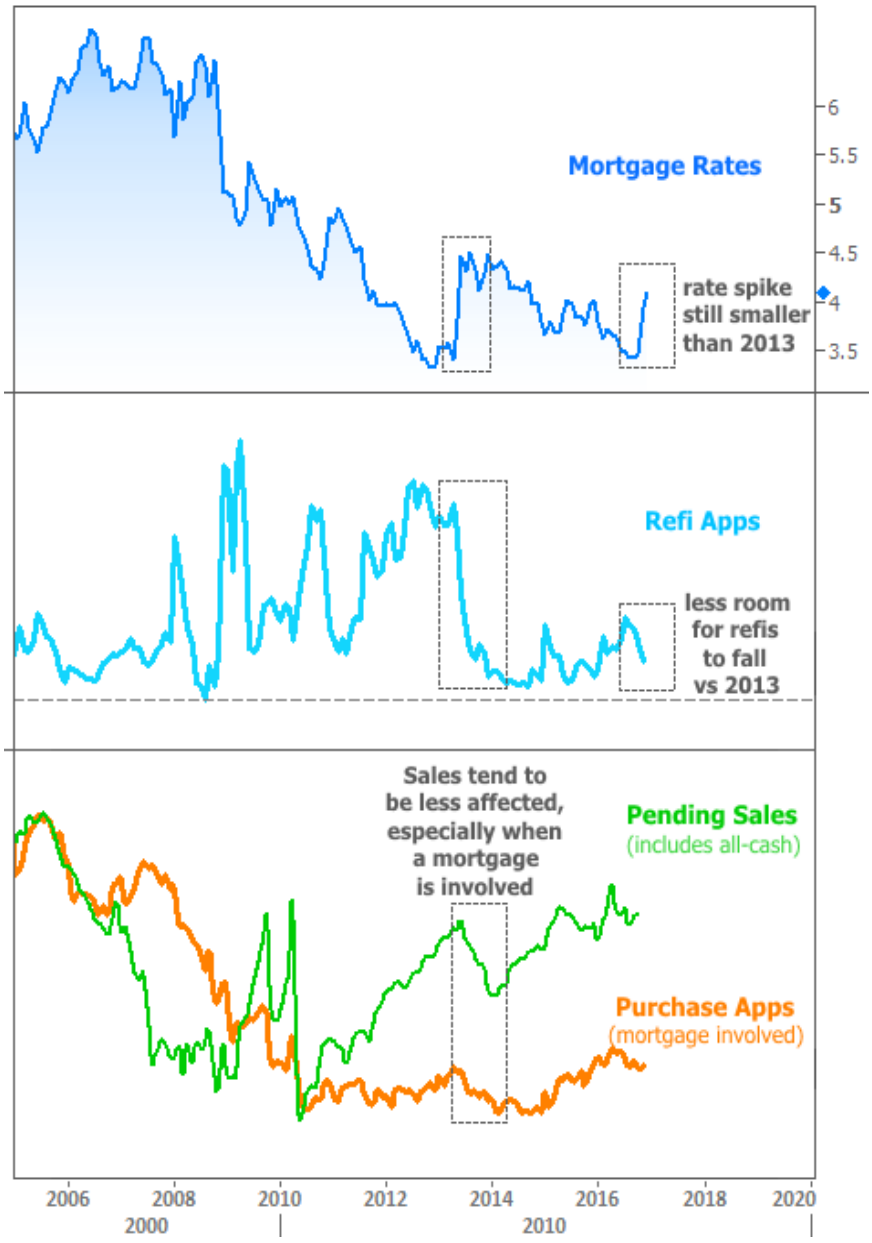
But **here's an important caveat** to the "crushed" comments: history is definitely **not** on Freddie's side when it comes to "mortgage originations" overall. At best, one could argue that "refi originations" will decline, but even then, the environment is **not as susceptible to crushing** as 2013's. In 2013 we were in the throes of a full-fledged refi boom when the taper tantrum sent rates skyrocketing higher.

This time around, rates **never** got low enough to spark massive refi demand--especially those originated during the all-time low rates of late 2012 through early 2013. The following chart makes this obvious and also highlights the even more muted effects on **purchases**.

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Bottom line: Yes, things are scary, especially if rates rise more than they did in 2013, but **not nearly scary enough** to conclude that originations will be "crushed" just yet.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Nov 29				
8:30AM	Q3 GDP Prelim (%)	+3.2	3.0	2.9
9:00AM	Sep CaseShiller 20 yy (%)	+5.1	5.2	5.1
10:00AM	Nov Consumer confidence	107.1	101.2	98.6
Wednesday, Nov 30				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:15AM	Nov ADP National Employment (k)	216.0	165	147
8:30AM	Oct Personal income mm (%)	+0.6	0.4	0.3
8:30AM	Oct Personal consump real mm (%)	+0.1		0.3
9:45AM	Nov Chicago PMI	57.6	52.0	50.6
10:00AM	Oct Pending homes index	110.0		110.0
Thursday, Dec 01				
10:00AM	Nov ISM Manufacturing PMI	53.2	52.2	51.9
10:00AM	Oct Construction spending (%)	+0.5	0.5	-0.4
Friday, Dec 02				
8:30AM	Nov Non-farm payrolls (k)	+178	175	161
8:30AM	Nov Unemployment rate mm (%)	4.6	4.9	4.9
Monday, Dec 05				
10:00AM	Nov ISM N-Mfg PMI	57.2	55.4	54.8
Tuesday, Dec 06				
8:30AM	Q3 Productivity Revised (%)	+3.1	3.3	3.1
8:30AM	Q3 Labor Costs Revised (%)	+0.7	0.3	0.3
10:00AM	Oct Factory orders mm (%)	+2.7	2.6	0.3
Wednesday, Dec 07				
7:00AM	w/e Mortgage Market Index	414.1		417.2
Friday, Dec 09				
10:00AM	Oct Wholesale inventories mm (%)	-0.4	-0.4	-0.4
10:00AM	Dec Consumer Sentiment Prelim	98.0	94.5	93.8

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.

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