THE FEDERAL SAVINGS BANK
Co. NMLS# 411500
Member FDIC

Ted Rood
Branch Manager, Gen Way Home Mortgage
NMLS #543290
O Fallon, Missouri 63368

Office: 3147400004
Mobile: 314-740-0004
ted_rood@yahoo.com

Housing Data Already Reflecting Rate Spike? This Time Might Be Different

The timing of 2016's massive spike in interest rates sets us up to see a **big shift** in the tone of housing and mortgage-related data in 2017. There is already a wide variety of opinions on the matter--most of them fairly dire. How warranted are they?

When something in financial markets (including housing and mortgages) has been "good" for a long time, it's natural to wonder when that might change. Even before rates spiked at the end of 2016, several major reports on home prices and sales suggested things **might be leveling-off**. The rate spike only validates the concern.

In other words, if we were already wondering if prices, sales, and mortgage applications might be taking a turn for the worse, doesn't the rate spike essentially **seal the deal?**

Yes, no, and maybe.

Here's what we know for sure. Rising rates have **already** taken a noticeable toll on mortgage applications. While there was no new MBA application data this week, we've already seen enough evidence of the correlation. Beyond that, refi applications are always the first thing to fall when rates move higher.

At the end of November, Freddie Mac said that mortgage activity would be **"crushed"** by rising rates. Freddie's economists cited the 2013 taper tantrum as precedent for said crushing.

Freddie failed to account for the fact that refi applications were almost twice as high before the taper tantrum than they were before the election. In other words, we **don't have as far to fall** before getting to the bottom of the long-term range. Yes, applications will be just as scarce at current rates, but much of the shift may have already happened.

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	98.69	-0.01
10 YR Treasury	5.1255	-0.0087
30 YR Treasury	5.4758	0.0000

Pricing as of: 11/16 7:29PM EST

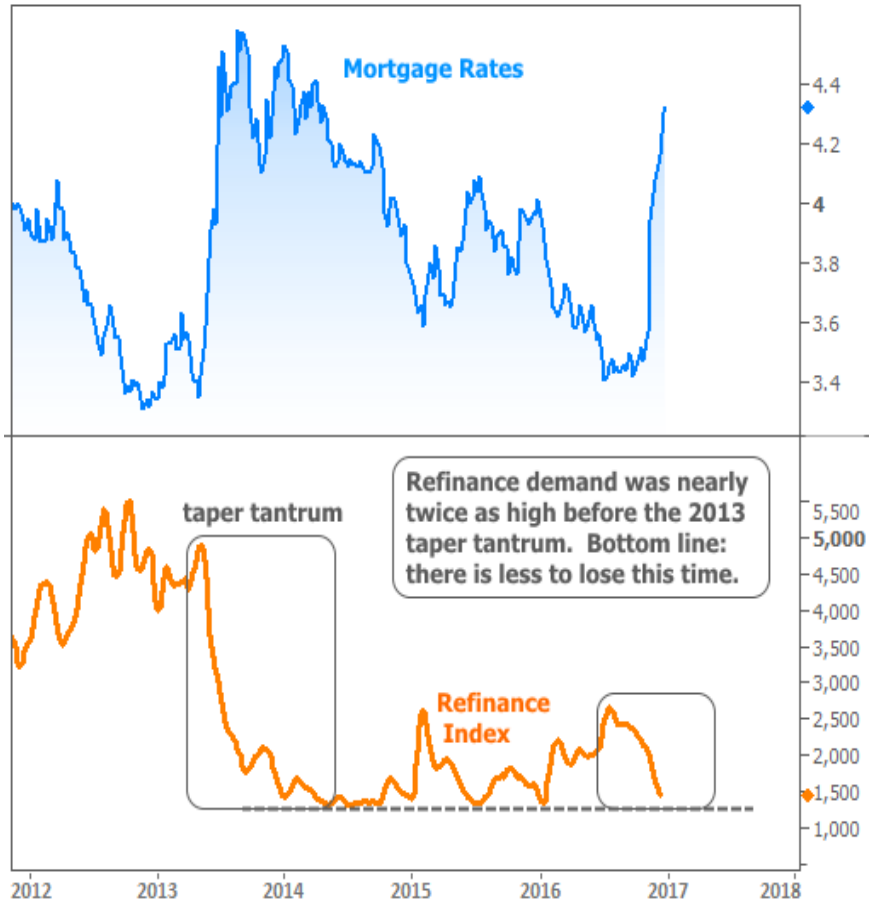
Recent Housing Data

		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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Less obvious and less immediate (and more contentious among pundits!) is the **effect on home sales**. Different reports speak to different aspects of home sales. Some are more timely than others. For instance, last week's Existing Home Sales report covered closed transactions in November. These **wouldn't** have been affected by the rate spike.

While it's true that rates have a far smaller impact on purchases compared to refis, there's **definitely** an effect. This time is no different, and this week's Pending Home Sales data from the National Association of Realtors already claims the "brisk upswing in mortgage rates" has "dispirited some would-be buyers."

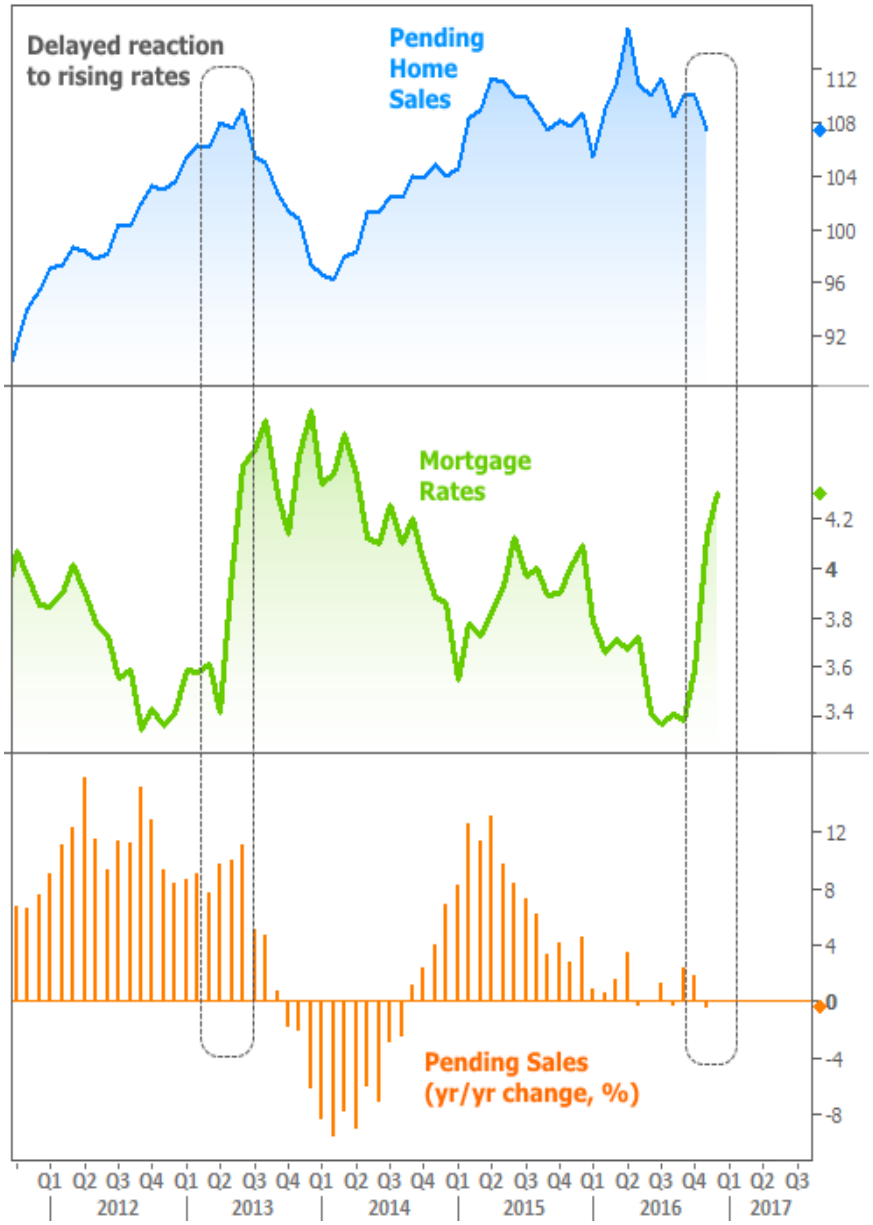
The Pending Sales report is **much more timely** than Existing Sales, because it covers contract signings as opposed to closings. If any major report would show the effects of the rate spike, it's this one.

To be sure, **further declines in sales** are coming, but it remains to be seen if those declines are as sharp as they were in 2013. We enter the current rate spike with sales **already** stagnating (notice the flat year-over-year change in the chart below) and a well-established home price recovery. Contrast that to early 2013 when sales expanding quickly and prices were just showing signs of lift-off.

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You might be noticing a theme here. Both in terms of refi applications and home sales, things were humming along at a much nicer pace before the taper tantrum. Coupled with fear that home prices wouldn't make a fuller recovery, we had more to lose. A **sharper correction made sense**. Because of this, 2017 is more of a wild card than a guaranteed "crushing" for mortgage activity.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Dec 27				
10:00AM	Dec Consumer confidence	113.7	109.0	107.1
1:00PM	2-Yr Note Auction (bl)			

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important

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⭐⭐ Very Important

Date	Event	Actual	Forecast	Prior
Wednesday, Dec 28				
10:00AM	Nov Pending homes index	107.3		110.0
1:00PM	5-Yr Note Auction (bl)			
Thursday, Dec 29				
8:30AM	w/e Initial Jobless Claims (k)	265	265	275
1:00PM	7-Yr Note Auction (bl)			
Friday, Dec 30				
9:45AM	Dec Chicago PMI	54.6	57.0	57.6
Tuesday, Jan 03				
10:00AM	Nov Construction spending (%)	+0.9	0.6	0.5
10:00AM	Dec ISM Manufacturing PMI	54.7	53.6	53.2
Wednesday, Jan 04				
7:00AM	w/e Mortgage Market Index	358.5		358.0
8:15AM	Dec ADP National Employment (k)		170	216
9:45AM	Dec ISM-New York index	727.4		720.5
Thursday, Jan 05				
10:00AM	Dec ISM N-Mfg PMI	57.2	56.6	57.2
Friday, Jan 06				
8:30AM	Dec Non-farm payrolls (k)	+156	178	178
8:30AM	Dec Unemployment rate mm (%)	4.7	4.7	4.6

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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