

THE FEDERAL SAVINGS BANK



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## Opposing Arguments in Housing Data and Markets

Over the past few weeks, downbeat, cautionary housing market data has been increasingly prevalent. During that time, rates had generally moved lower. But those trends shifted this week--in some cases, abruptly.

Let's look at rates first. The most recent move lower began after the March 15th Fed Announcement. The Fed hiked rates, but the outlook for future rate hikes **didn't** accelerate as much as investors expected. Investors had "priced-in" the accelerated outlook by trading rates **higher** ahead of the Fed, and were thus able to trade rates **lower** when the Fed's stance became clear.

In other words, the Fed's overall message was slightly more **accommodative** than markets thought it would be. Stocks like an accommodative Fed just as much as bonds (aka "rates"), so it was no surprise to see stocks gain some ground at the same time that rates were falling.

In the following week, it was the failure of the **healthcare bill** that drove both stocks and rates lower. Markets put an exclamation point on that move on Monday morning. Until then, investors weren't sure if there would be some update on the healthcare bill. When the weekend passed without such an update, stocks and rates had a bit farther to fall.

But just a few hours into the domestic trading session, updates from members of the House began hitting the wires. Then, Speaker Ryan held a press conference saying lawmakers **remained committed** to passing healthcare legislation and to "getting it right."

As far as financial markets were concerned, this was better than the absence of information over the weekend. To whatever extent fiscal reforms look viable, the **higher rates and stock prices** that followed the election are relatively more justified. Thus the first "opposing argument" to last week's lower rates/stocks was heard. Markets reacted accordingly although stocks recaptured more lost ground than rates.

## National Average Mortgage Rates



|  | Rate | Change | Points |
|--|------|--------|--------|
|--|------|--------|--------|

### Mortgage News Daily

|              |       |              |      |
|--------------|-------|--------------|------|
| 30 Yr. Fixed | 6.43% | <b>+0.02</b> | 0.00 |
| 15 Yr. Fixed | 5.95% | <b>0.00</b>  | 0.00 |
| 30 Yr. FHA   | 5.82% | <b>+0.02</b> | 0.00 |
| 30 Yr. Jumbo | 6.62% | <b>0.00</b>  | 0.00 |
| 5/1 ARM      | 6.28% | <b>-0.01</b> | 0.00 |

### Freddie Mac

|              |       |              |      |
|--------------|-------|--------------|------|
| 30 Yr. Fixed | 6.35% | <b>-0.51</b> | 0.00 |
| 15 Yr. Fixed | 5.51% | <b>-0.65</b> | 0.00 |

Rates as of: 8/30

## Market Data

|                | Price / Yield | Change         |
|----------------|---------------|----------------|
| MBS UMBS 5.0   | 99.37         | <b>+0.02</b>   |
| MBS GNMA 5.0   | 99.93         | <b>+0.02</b>   |
| 10 YR Treasury | 3.9068        | <b>+0.0029</b> |
| 30 YR Treasury | 4.1960        | <b>+0.0028</b> |

Pricing as of: 9/1 7:34PM EST

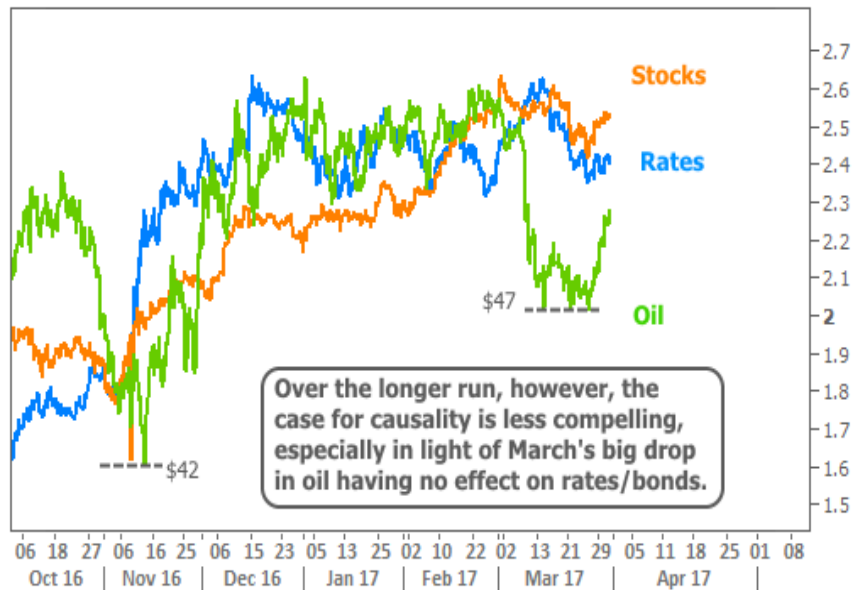
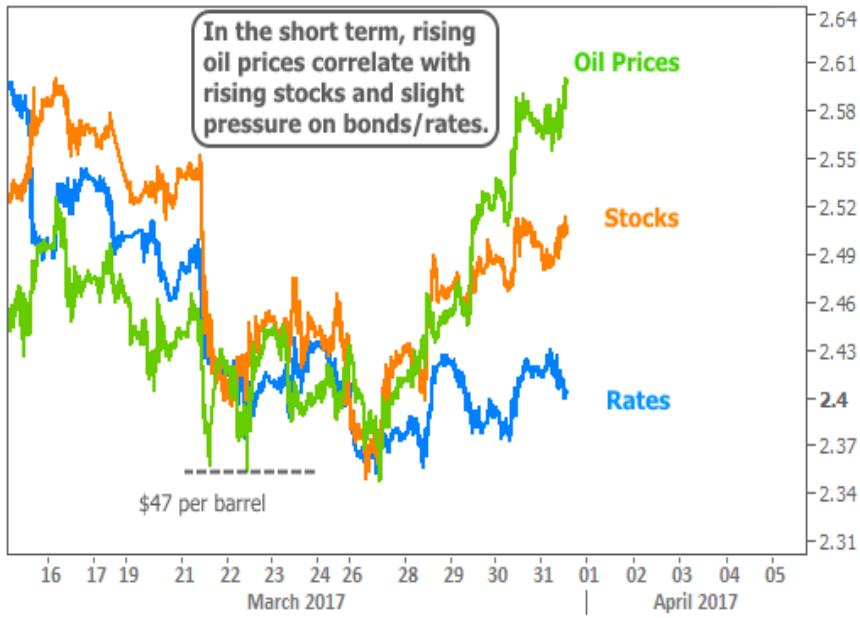
## Recent Housing Data

|                     |        | Value | Change  |
|---------------------|--------|-------|---------|
| Mortgage Apps       | Aug 28 | 226.9 | +0.49%  |
| Building Permits    | Mar    | 1.46M | -3.95%  |
| Housing Starts      | Mar    | 1.32M | -13.15% |
| New Home Sales      | Mar    | 693K  | +4.68%  |
| Pending Home Sales  | Feb    | 75.6  | +1.75%  |
| Existing Home Sales | Feb    | 3.97M | -0.75%  |
| Builder Confidence  | Mar    | 51    | +6.25%  |

## Stocks and Bonds



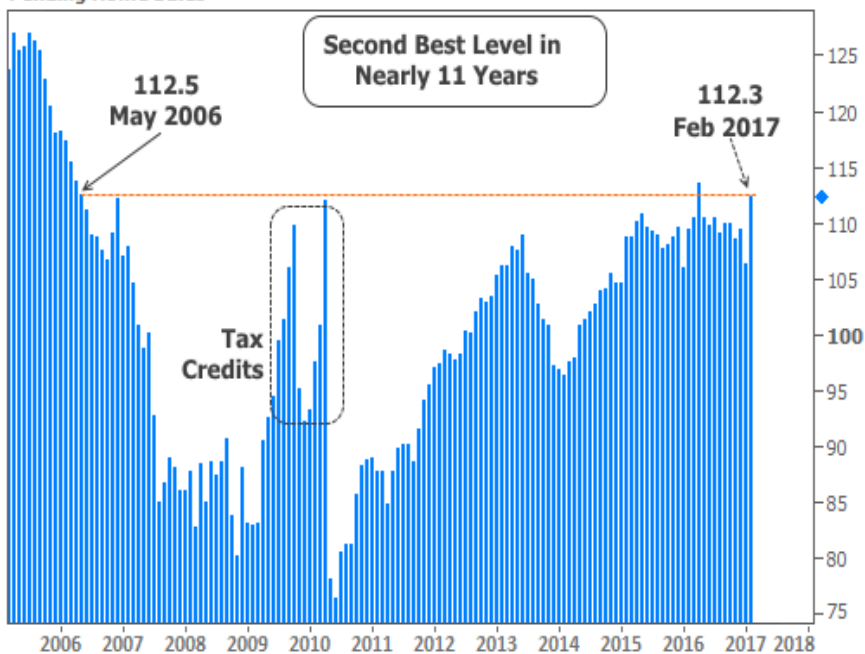
In addition to the healthcare updates, financial media has given a fair amount of attention to a **rebound in oil prices**. While this does indeed correlate fairly well with movement in stocks and bonds over the short term, there's no question that all three indicators are more than willing to go their separate ways over longer timeframes.



In terms of housing-related data, this week's "opposing arguments" came in the form of strong sales numbers and price gains. Whereas several HPIs (home price indices) have noticeably begun to decelerate, this week's [Case Shiller data](#) (for the month of January) showed the **strongest price gains** in more than 2 years.

One of the most important home sales metrics was similarly upbeat. In fact, the National Association of Realtors' [Pending Home Sales Index](#) soared to its second highest level in **nearly 11 years**. February hit an index level of 112.3. Apart from last April's 113.6, you'd have to go all the way back to May 2006 to find anything higher. As always, when looking at charts of home sales data, keep in mind that the homebuyer tax credits distorted the true level of demand in 2009-10.

Pending Home Sales



Next week brings several **important** economic reports, including the Employment Situation (the big "jobs report") on Friday. But the focal point for volatility may end up being Wednesday's release of the Minutes from the last Fed meeting. This will be the **first time** that markets get to see the Fed's recently-announced "fan charts." These charts are part of the Fed's forecasts (which are responsible for the move toward lower rates starting March 15th) and will provide a more detailed picture of the Fed's expectations.

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Recent Economic Data

| Date                     | Event                           | Actual | Forecast | Prior  |
|--------------------------|---------------------------------|--------|----------|--------|
| <b>Monday, Mar 27</b>    |                                 |        |          |        |
| 1:00PM                   | 2-Yr Note Auction (bl)          | 26     |          |        |
| <b>Tuesday, Mar 28</b>   |                                 |        |          |        |
| 9:00AM                   | Jan CaseShiller 20 mm SA (%)    | +0.9   | 0.7      | 0.9    |
| 10:00AM                  | Mar Consumer confidence         | 125.6  | 114.0    | 114.8  |
| 1:00PM                   | 5-Yr Note Auction (bl)          | 34     |          |        |
| <b>Wednesday, Mar 29</b> |                                 |        |          |        |
| 7:00AM                   | w/e Mortgage Market Index       | 403.6  |          | 406.8  |
| 7:00AM                   | w/e MBA Purchase Index          | 238.1  |          | 235.3  |
| 7:00AM                   | w/e Mortgage Refinance Index    | 1327.1 |          | 1366.1 |
| 10:00AM                  | Feb Pending homes index         | 112.3  |          | 106.4  |
| 10:00AM                  | Feb Pending sales change mm (%) | +5.5   | 2.4      | -2.8   |
| <b>Thursday, Mar 30</b>  |                                 |        |          |        |
| 8:30AM                   | Q4 GDP Final (%)                | +2.1   | 2.0      | 1.9    |
| 8:30AM                   | w/e Initial Jobless Claims (k)  | 258    | 250      | 261    |

Event Importance:

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

| Date                     | Event                             | Actual | Forecast | Prior |
|--------------------------|-----------------------------------|--------|----------|-------|
| 8:30AM                   | w/e Continued jobless claims (ml) | 2.052  | 2.020    | 1.990 |
| <b>Friday, Mar 31</b>    |                                   |        |          |       |
| 8:30AM                   | Feb Personal income mm (%)        | +0.4   | 0.4      | 0.4   |
| 8:30AM                   | Feb Consumption, adjusted mm (%)  | +0.1   | 0.2      | 0.2   |
| 8:30AM                   | Feb Core PCE price index yy (%)   | +1.8   |          | 1.7   |
| 9:45AM                   | Mar Chicago PMI                   | 57.7   | 56.9     | 57.4  |
| 10:00AM                  | Mar U Mich Sentiment Final (ip)   | 96.9   | 97.6     | 97.6  |
| <b>Monday, Apr 03</b>    |                                   |        |          |       |
| 10:00AM                  | Mar ISM Manufacturing PMI         | 57.2   | 57.0     | 57.7  |
| <b>Tuesday, Apr 04</b>   |                                   |        |          |       |
| 9:45AM                   | Mar ISM-New York index            | 735.1  |          | 731.9 |
| 10:00AM                  | Feb Factory orders mm (%)         | +1.0   | 1.0      | 1.2   |
| <b>Wednesday, Apr 05</b> |                                   |        |          |       |
| 8:15AM                   | Mar ADP National Employment (k)   | 263.0  | 187      | 298   |
| 10:00AM                  | Mar ISM N-Mfg PMI                 | 55.2   | 57.0     | 57.6  |
| <b>Friday, Apr 07</b>    |                                   |        |          |       |
| 8:30AM                   | Mar Non-farm payrolls (k)         | +98    | 180      | 235   |
| 8:30AM                   | Mar Private Payrolls (k)          | +89    | 175      | 227   |
| 8:30AM                   | Mar Unemployment rate mm (%)      | 4.5    | 4.7      | 4.7   |
| 10:00AM                  | Feb Wholesale inventories mm (%)  | +0.4   | 0.4      | 0.4   |
| 3:00PM                   | Feb Consumer credit (bl)          | +15.21 | 13.90    | 8.79  |
| <b>Wednesday, Mar 27</b> |                                   |        |          |       |
| 1:00PM                   | 7-Yr Note Auction (bl)            | 41     |          |       |

## Responsive service, experienced expertise

I've dedicated my 22 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 