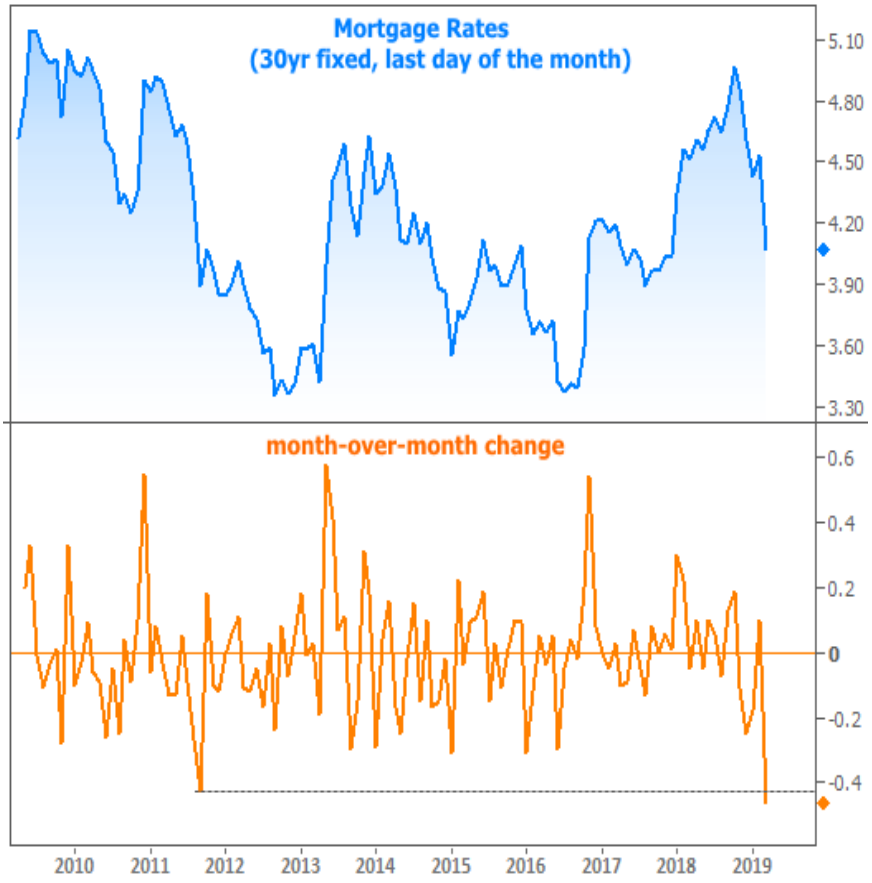
THE FEDERAL SAVINGS BANK
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Member FDIC

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Best Month in a Decade For Mortgage Rates!

Since February 28th, the average mortgage rate quote for the average lender dropped by roughly half a percentage point. That makes March 2019 the **best month for rates** since the Fed first announced quantitative easing (the bond buying program that targeted mortgage rates) in late 2008.



It's no small coincidence that Fed bond buying was responsible for the big move in 2008 (and 2011 for that matter). I've not been shy about pointing out that last week's Fed decision was functionally equivalent to announcing **another bond buying program**. Such programs are rising tides that lift all boats. Case in point: stocks and rates improved simultaneously (seen as the orange and blue lines moving apart on the following chart) when the Fed first hinted at the change on January 30th. Last week brought more of the same although the benefits were mostly reserved for rates.

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	98.72	+0.02
10 YR Treasury	5.1286	-0.0056
30 YR Treasury	5.4758	0.0000

Pricing as of: 11/16 7:40PM EST

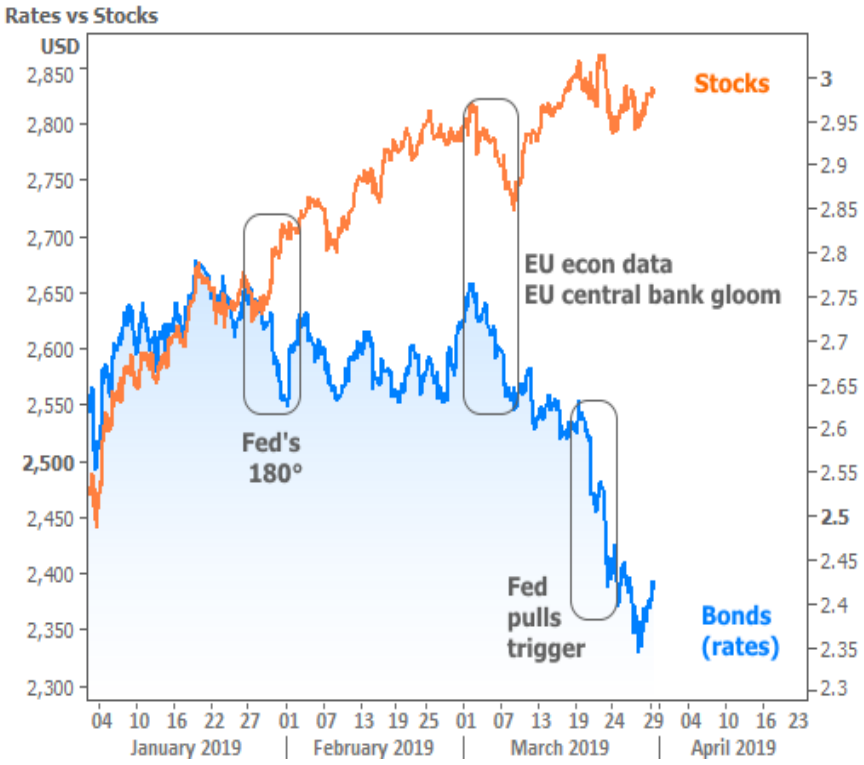
Recent Housing Data

		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%

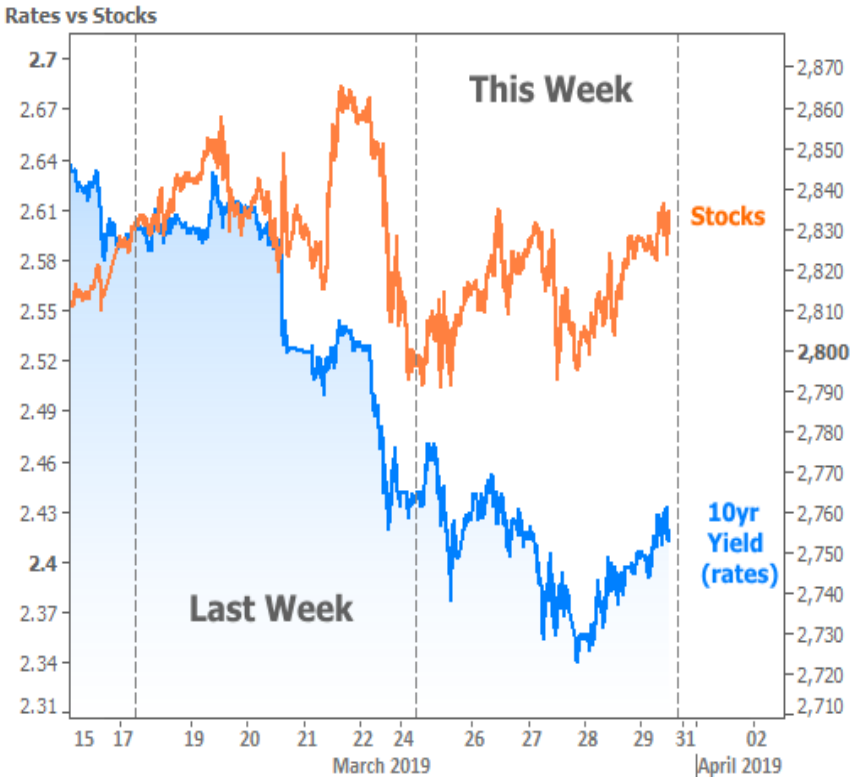
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But that was last week's news, and indeed, most of the bond market movement responsible for the drop in rates occurred last week. Since then, things have evened out a bit for both stocks and bonds.



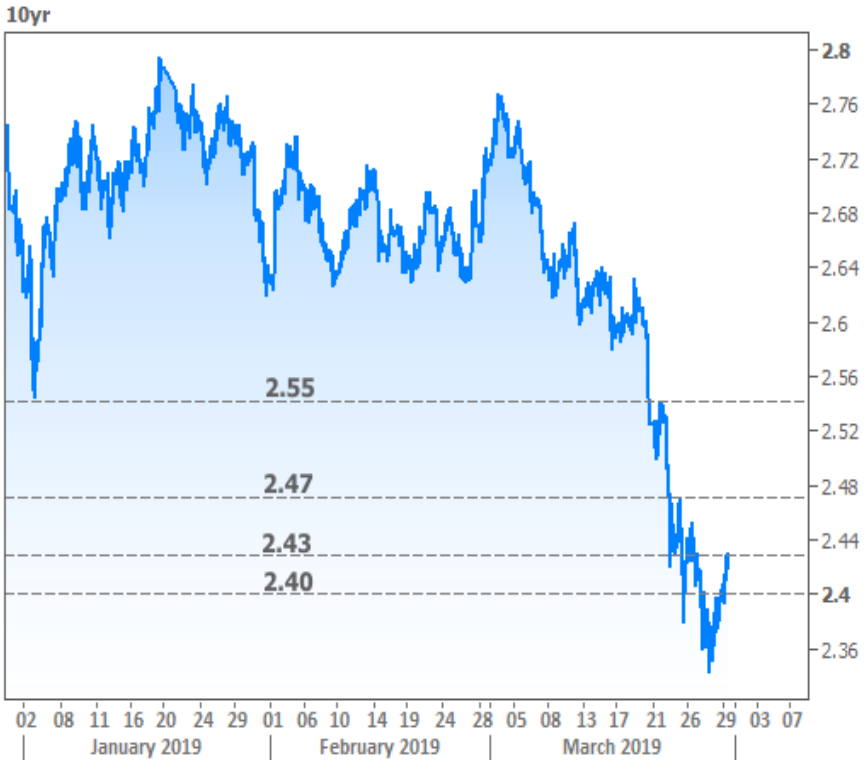
The Fed news has largely been priced-in and markets are turning their attention to other indicators. Economic data will be increasingly important as it will ultimately decide if the Fed is **justified** in its friendly policy shift. Reason being: the Fed cited growth concerns last week, and economic data is all about measuring growth!

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As markets wait to see what upcoming economic reports suggest, there are **several important ceilings** and inflection points we can watch in rates. It's easier to do this with 10yr Treasury yields, even if our main concern is mortgage rates. In 10yr terms, rates have convincingly broken below 2.55% and 2.47%. They're now fighting to break under 2.40%.

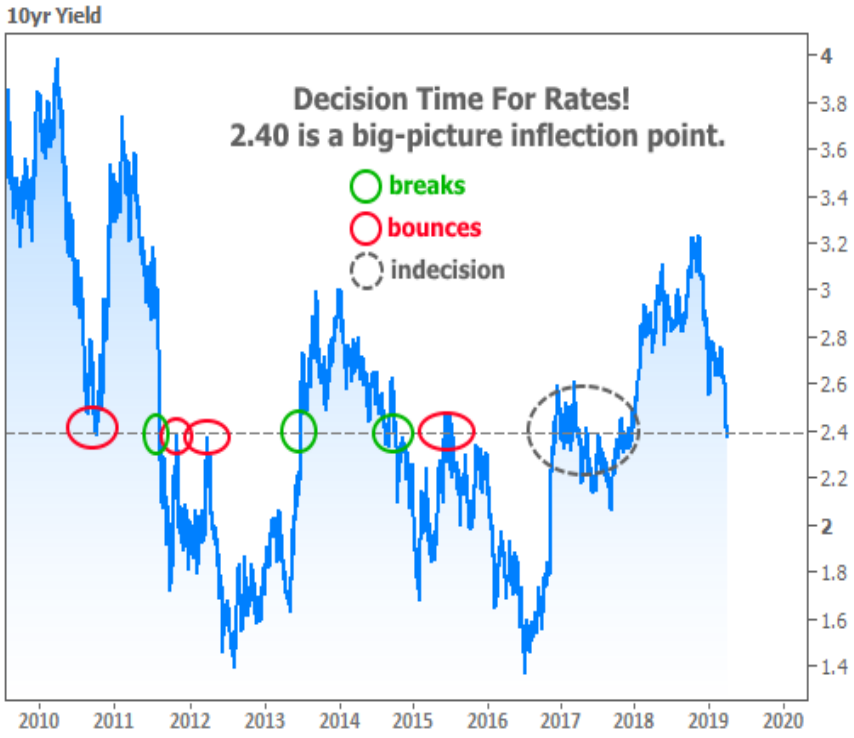


Why should we care if 10yr yields can stay near or under 2.40%? It could turn out to be nothing this time around, but past precedent suggests 2.40% as an important inflection point (meaning rates have **almost always bounced** there, or moved through forcefully). The only time they came close to lingering was in 2017, but even then, there was more of the same "inflection point behavior" on a smaller scale.

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More simply put, assuming the precedent holds, if rates can break below 2.40%, they **should keep moving lower** (as they did in 2011 and 2014). If they bounce, it's not the end of the world. A bounce could actually make the subsequent move more sustainable as long as they stay under 2.55%.

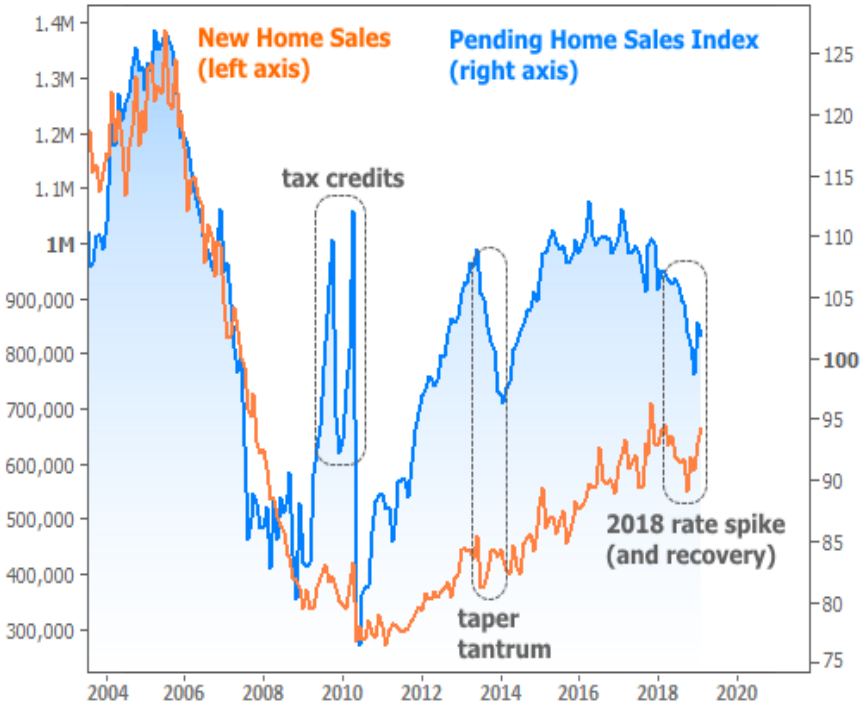
Why should we care if rates move lower? Do we even need to ask? Rates are certainly not the only factor driving home sales and prices, but they are a huge factor. Any time homebuying is made significantly more affordable (either by lower prices, lower rates, or even tax credits), the market responds.

Pending and New Home Sales both reported this week, and both continued to show **resilience** after the 2018 slump. A big rate spike was a key ingredient in that slump, and the big drop in rates is helping reverse the home sales trends (as we discussed 6 weeks ago).

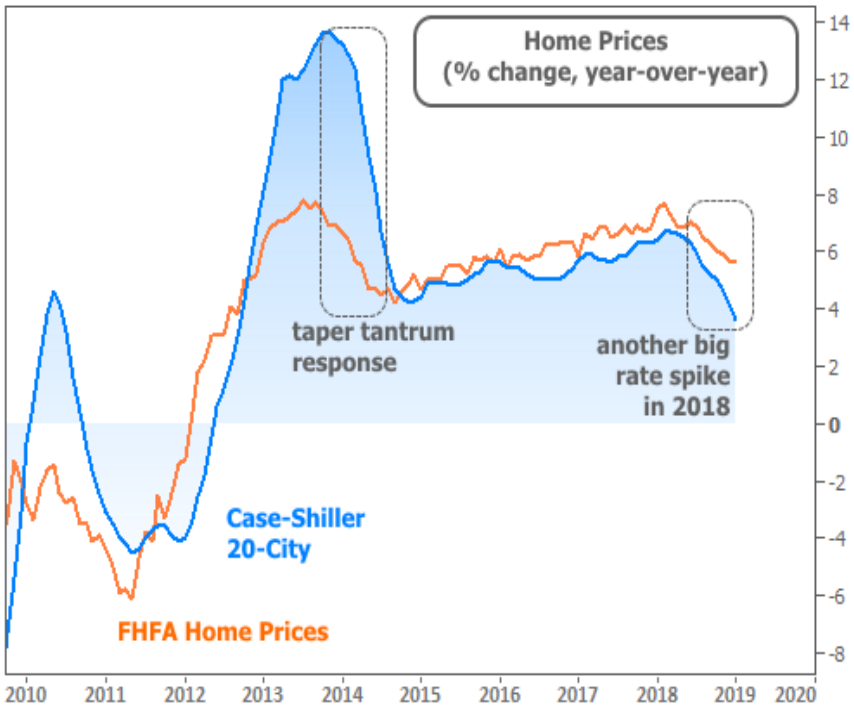
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Elsewhere in the housing data sphere, home price reports, which run a month behind the sales reports, are giving **mixed signals**. Case-Shiller data indicates slower price growth in January while FHFA's price index increased 0.6% compared to December's 0.3% gain. This **isn't** necessarily troubling because prices tend to be slower to respond to changes in interest rates. In any event, both indices continue to operate safely in positive territory.

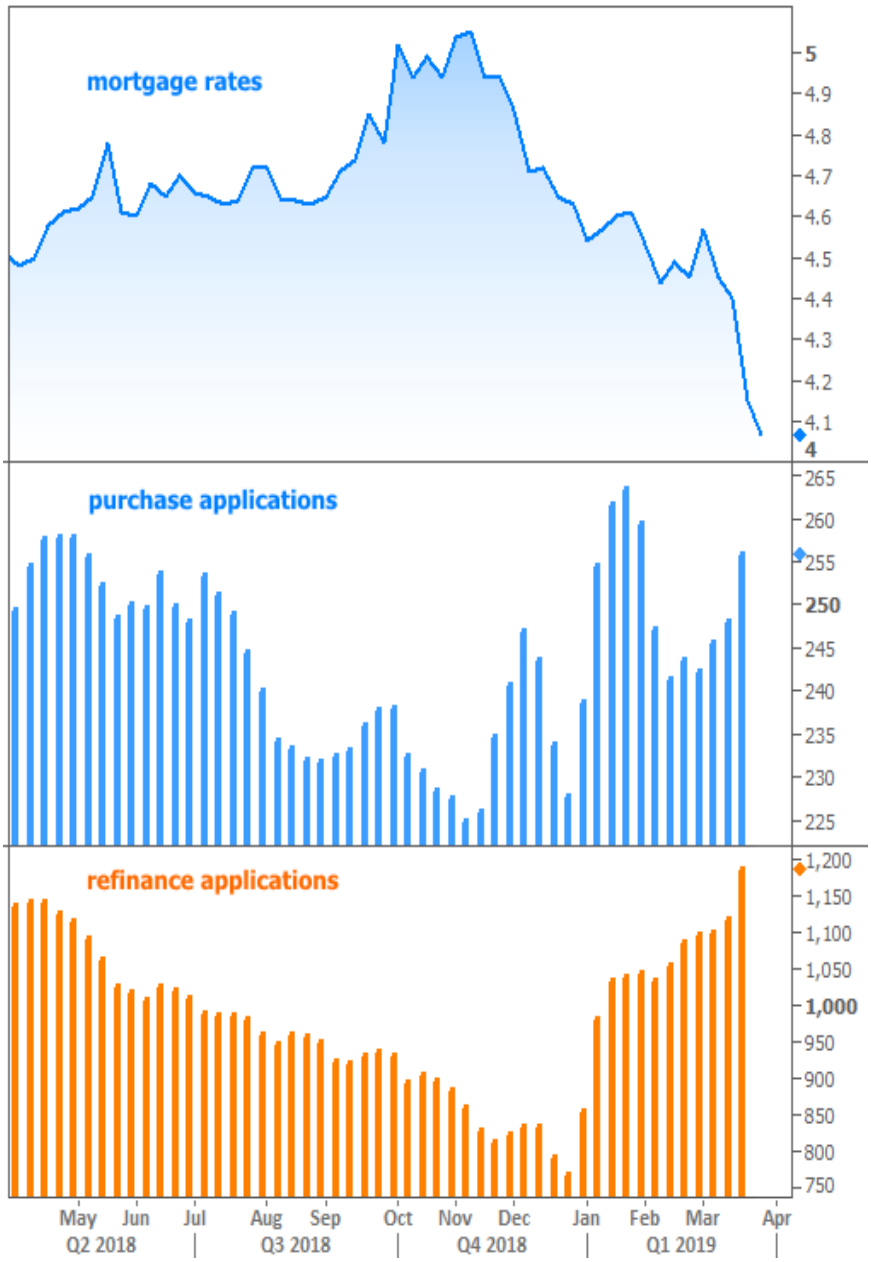


On the other end of the spectrum with respect to lag time, mortgage applications (both purchase and refi) immediately **surged** as rates hit new long-term lows.

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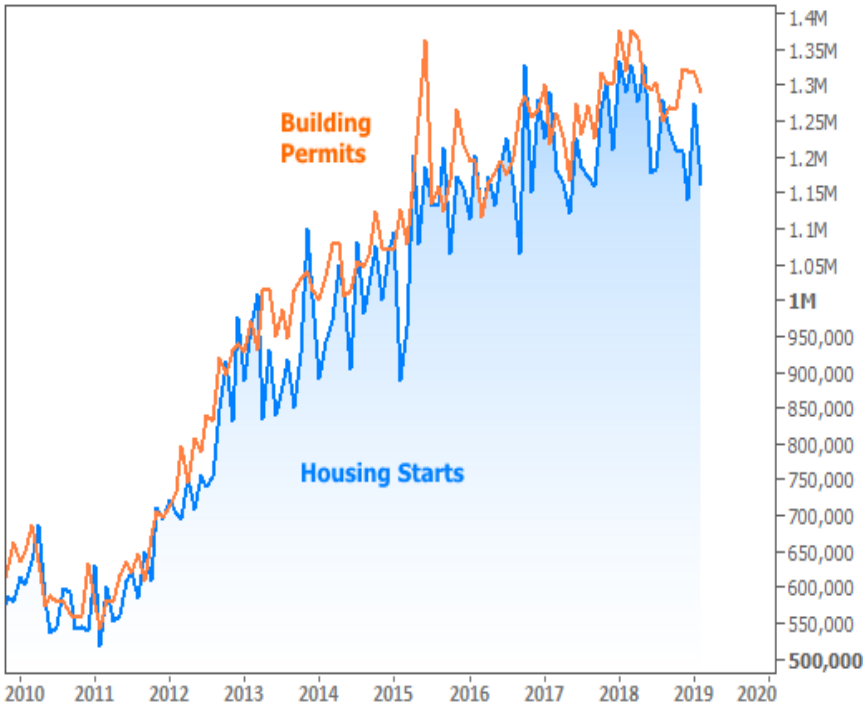


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Last and least (at least among these peers), New Residential Construction contracted a bit in February. The move was more pronounced in terms of housing starts (the first phase of construction), which are typically **more volatile** compared to the mere filing of building permits. This data series isn't of tremendous interest because it's been much steadier than the sales-related reports.



If financial markets are going to make big decisions based on economic data, next week could be interesting. 4 out of 5 days have significant reports with Retail Sales and ISM Manufacturing leading things off on Monday. ADP Employment and ISM Manufacturing make Wednesday a candidate for volatility as well, but **Friday trumps all** with the mighty jobs report. The payroll count (part of the jobs report) will be especially interesting following last month's shockingly low 20k. The current consensus is for 170k.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Mar 26				
8:30AM	Feb Build permits: change mm (%)	-1.6		-0.7
8:30AM	Feb Housing starts number mm (ml)	1.162	1.213	1.230
8:30AM	Feb House starts mm: change (%)	-8.7		18.6
8:30AM	Feb Building permits: number (ml)	1.296	1.300	1.317
9:00AM	Jan CaseShiller 20 yy (%)	3.6	4.0	4.2
9:00AM	Jan Monthly Home Price yy (%)	5.6		5.6
10:00AM	Mar Consumer confidence	124.1	132.0	131.4
Wednesday, Mar 27				
7:00AM	w/e MBA Purchase Index	267.5		251.5
7:00AM	w/e Mortgage Refinance Index	1289.5		1146.8

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Thursday, Mar 28				
8:30AM	Q4 GDP Final (%)	2.2	2.4	2.6
8:30AM	w/e Jobless Claims (k)	211	217	221
10:00AM	Feb Pending Home Sales (%)	-1.0	0.7	4.6
10:00AM	Feb Pending Sales Index	101.9		103.2
Friday, Mar 29				
8:30AM	Jan Core PCE Inflation (y/y) (%)	1.8	1.9	1.9
9:45AM	Mar Chicago PMI	58.7	61.0	64.7
10:00AM	Mar Consumer Sentiment (ip)	98.4	97.8	97.8
10:00AM	Feb New home sales-units mm (ml)	0.667	0.620	0.607
10:00AM	Feb New home sales chg mm (%)	4.9	1.3	-6.9
Monday, Apr 01				
8:30AM	Feb Retail Sales (%)	-0.2	0.3	0.2
10:00AM	Mar ISM Manufacturing PMI	55.3	54.5	54.2
10:00AM	Jan Business Inventories (%)	+0.8	0.5	0.6
10:00AM	Feb Construction spending (%)	1.0	-0.2	1.3
Tuesday, Apr 02				
8:30AM	Feb Durable goods (%)	-1.6	-1.8	0.3
8:30AM	Feb Nondefense ex-air (%)	-0.1	0.0	0.8
Wednesday, Apr 03				
7:00AM	w/e MBA Purchase Index	276.6		267.5
7:00AM	w/e Mortgage Refinance Index	1786		1289.5
8:15AM	Mar ADP National Employment (k)	129.0	170	183
10:00AM	Mar ISM N-Mfg PMI	56.1	58.0	59.7
Thursday, Apr 04				
8:30AM	w/e Jobless Claims (k)	202	210	211
Friday, Apr 05				
8:30AM	Mar Average earnings mm (%)	+0.1	0.3	0.4
8:30AM	Mar Unemployment rate mm (%)	3.8	3.8	3.8
8:30AM	Mar Non-farm payrolls (k)	+196	180	20

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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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