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The Real Story Behind Rates at 3-Year Lows

It has been a very slow week in terms of economic data and market movement, thus leaving us plenty of time to focus on the notion of "the **lowest mortgage rates** in three years!"

Rarely do mortgage rates make the evening news, but **exceptions** will be made for Thursday considering the widely-cited Freddie Mac Primary Mortgage Market Survey hit its lowest level since May 2013 this week. But are rates really at 3-year lows?

Yes and no...

Freddie's survey is good for what it is: a synthesis of email replies from loan officers around the country who are asked what rates they are quoting. The **only catch** is that replies are only accepted on the first three days of the week and the majority of them arrive on the first 2 days. As such, Freddie's weekly rate survey is really the Monday/Tuesday average.

As you may have seen throughout the years, a lot can happen from Wednesday afternoon through Friday. This is made all the more true by the fact that Fed Announcements, European Central Bank Announcements, and the important Nonfarm Payrolls numbers always fall within that window. It makes for a lot of potential rate movement that is **not captured** by the Freddie numbers.

It's only on those 'uncaptured' days that we've seen rates any lower than they were this week. The following chart shows those individual days as well as the time period that serves as the benchmark for the lowest rates in history.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.34%	+0.01	0.00
15YR Fixed	6.89%	0.00	0.00
30YR FHA	6.96%	+0.01	0.00
30YR Jumbo	7.45%	+0.01	0.00
7/6 SOFR	6.83%	+0.02	0.00
30YR VA	6.97%	0.00	0.00

Rates as of: 11/23

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.78	+0.22
10 YR Treasury	4.8884	-0.0578
30 YR Treasury	5.2758	-0.0326

Pricing as of: 11/24 11:59AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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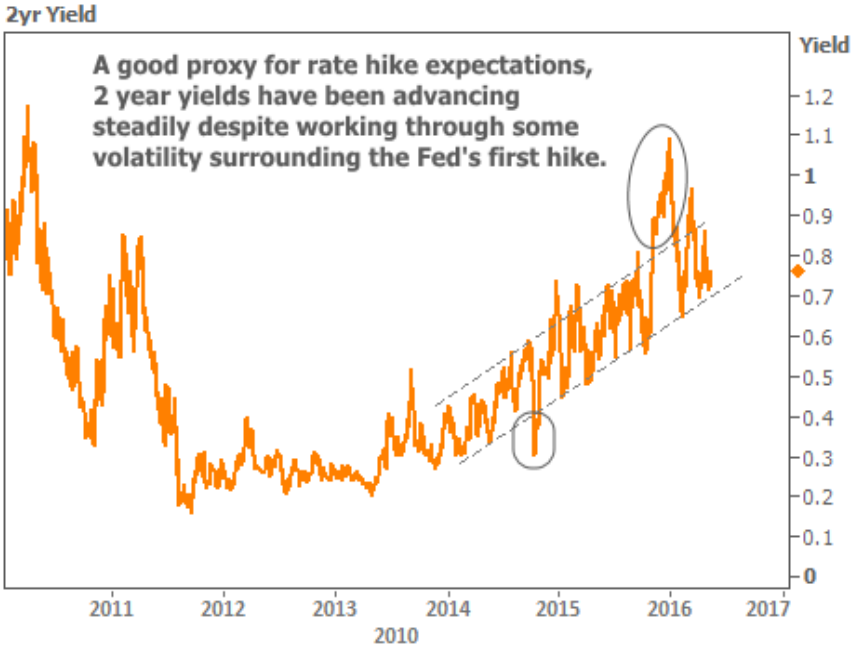
As the chart shows, we've been flirting with the upper limits of that 'golden era' range for most of the year. The difference between this week being "3-year lows" is fairly **negligible** versus several other recent weeks. A better achievement would be to break back into the lower portion of the golden era range. In order for that to happen, something will need to change, both in the economy and in the outlook for Fed rate hikes.

I've said before that the Fed Funds Rate **does not** directly affect mortgage rates. While that's definitely true, it's also true that mortgage rates haven't ever moved consistently lower if Fed rates have been moving higher. The big question is whether or not the Fed will continue to push rates higher.

The following chart shows 2yr Treasury yields, which tend to move **higher** as Fed rate hike expectations **increase**. Notice that all-time low mortgage rates coincide with the same time frame that 2yr yields were most depressed.



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Mortgage rates have been able to make it back to current levels because the pace of Fed rate hikes has been slower than expected, but it's important to note that expectations continue suggesting gradually higher rates. **Bottom line:** as long as 2yr yields continue inside these parallel lines, mortgage rates will have a hard time making it back to their golden age.

Housing-Related News

CoreLogic noted a surge in foreclosures in March with the caveat being that annual numbers continue to fall. In a separate article, CoreLogic pointed out the increased prevalence of "flipping" in the current housing market, but characterized it as modest when compared to levels seen in the run up to the housing crisis.

Fannie Mae released its Home Purchase Sentiment Index, which showed a **huge increase** in the number of consumers who think it's a good time to sell a house.

Fannie also reported on **TRID** (the new mortgage disclosure rules that went into effect last October) fallout, saying that it has been a disproportionately higher burden on smaller lenders.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, May 10				
1:00PM	3-Yr Note Auction (bl)	24		
Wednesday, May 11				
12:00AM	Roll Date - Fannie Mae 30YR, Freddie Mac 30YR			
7:00AM	w/e Mortgage Market Index	490.5		488.4
Thursday, May 12				
8:30AM	Apr Import prices mm (%)	0.3	0.5	0.2
8:30AM	Apr Export prices mm (%)	0.5	0.1	0.0
8:30AM	w/e Initial Jobless Claims (k)	294	275	274
Friday, May 13				
8:30AM	Apr Retail sales mm (%)	1.3	0.8	-0.4
Monday, May 16				
8:30AM	May NY Fed manufacturing	-9.02	6.50	9.56
10:00AM	May NAHB housing market indx	58	59	58
Tuesday, May 17				
8:30AM	Apr Housing starts number mm (ml)	1.172	1.127	1.089
8:30AM	Apr Building permits: number (ml)	1.116	1.130	1.076
8:30AM	Apr CPI mm, sa (%)	+0.4	0.3	0.1
8:30AM	Apr Core CPI mm, sa (%)	+0.2	0.2	0.1
9:15AM	Apr Industrial output mm (%)	+0.7	0.3	-0.6
9:15AM	Apr Capacity utilization mm (%)	75.4	75.0	74.8
Thursday, May 19				

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
8:30AM	May Philly Fed Business Index	-1.8	3.5	-1.6
Friday, May 20				
10:00AM	Apr Existing home sales (ml)	5.45	5.40	5.33
Tuesday, Jul 12				
1:00PM	10-yr Note Auction (bl)	20		
Wednesday, Jul 13				
1:00PM	30-Yr Bond Auction (bl)	12		

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