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All-Time Low Mortgage Rates!

Before coronavirus, the average 30yr fixed mortgage rate was almost always 1.6% to 2.0% higher than 10yr Treasury yields. When bond volatility was extreme (especially when Treasury yields were dropping quickly), that gap could be wider, but it was never even close to current levels. Why might this be?

When an investor buys a US Treasury Note, there's effectively **no risk** that the government will fail to send a payment on time. Believe it or not, this is largely the case with most of the mortgage market as well--or at least it was the case before coronavirus.

Mortgage investors have a safety net that guarantees timely payment even if homeowners **aren't** making payments. The problem with coronavirus is that the amount of non-paying homeowners is higher than ever thought possible. It led mortgage investors to question the strength of existing safety nets.

Even though investors have no doubt they'll get paid **eventually**, there has been plenty of uncertainty surrounding the timeliness of the payments as well as other costs that might arise in this unprecedented environment.

When a mortgage investor is guarding against uncertainty, it makes rates **higher** than they otherwise would be. When they're guarding against an unprecedented amount of uncertainty, it makes rates **MUCH** higher than they otherwise would be.

That can be seen in the following chart of average 30yr fixed rates versus the 10yr Treasury yield. The orange line is simply the difference between the two. The higher it is, the higher mortgage rates are relative to Treasury yields. As the pace of new forbearances subsides, they've been closing the gap surprisingly well.

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.56	+0.46
10 YR Treasury	4.9328	-0.1108
30 YR Treasury	5.3162	-0.0900

Pricing as of: 11/20 4:10PM EST

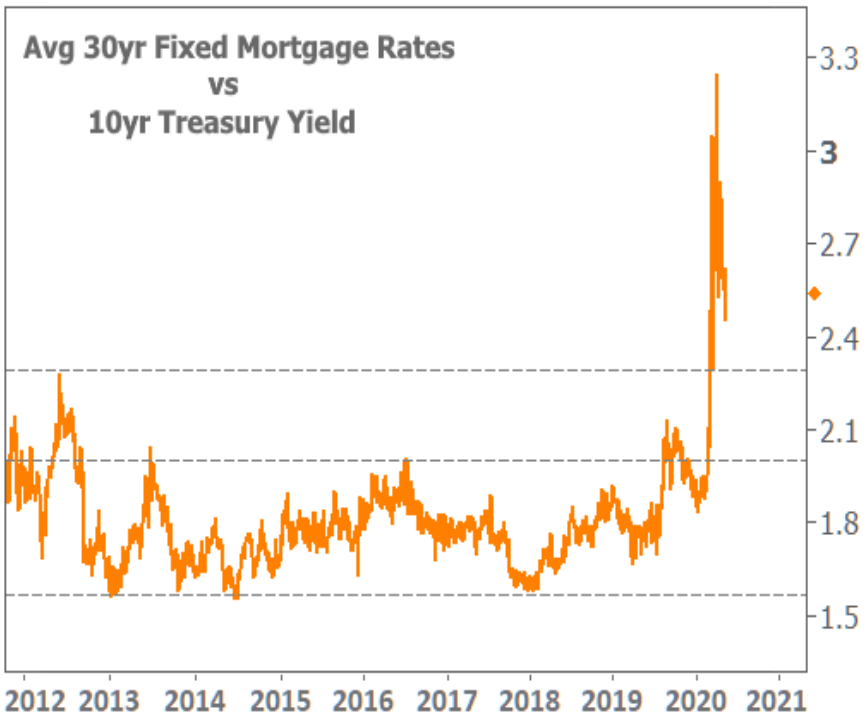
Recent Housing Data

		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%

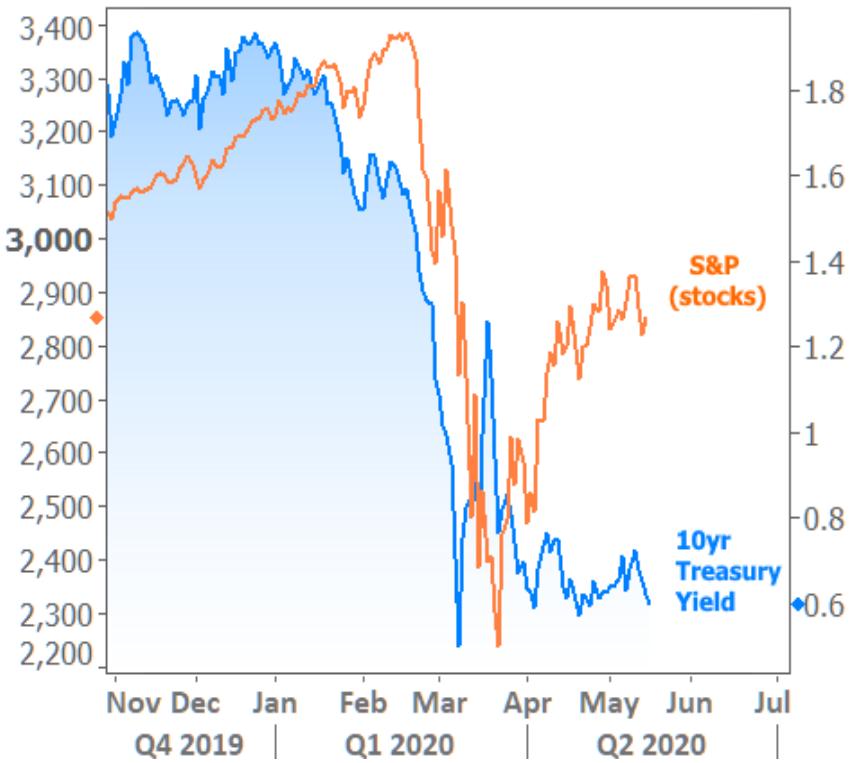
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This **wouldn't** mean too much for the mortgage market if Treasuries happened to be following stock prices higher. Thankfully they're not.

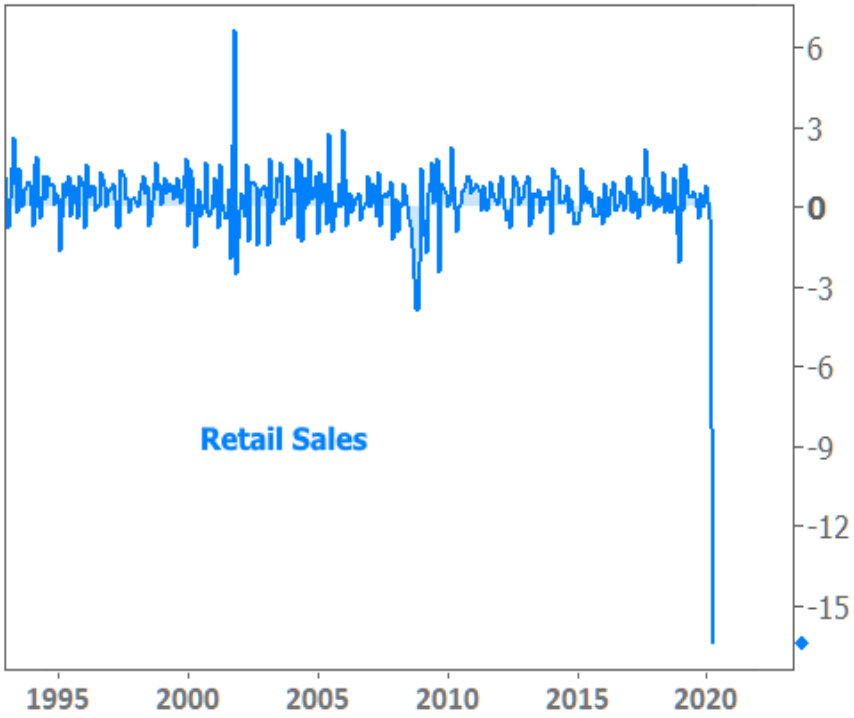


Actually, the notion of being thankful for the current stance in Treasuries is a double-edged sword because it amounts to being **thankful for bad news**. If there's a reason that Treasury yields have been able to remain so resiliently low, it's the incredibly downbeat economic outlook. The latest evidence came in the form of Friday morning's Retail Sales report, which was easily the weakest on record.

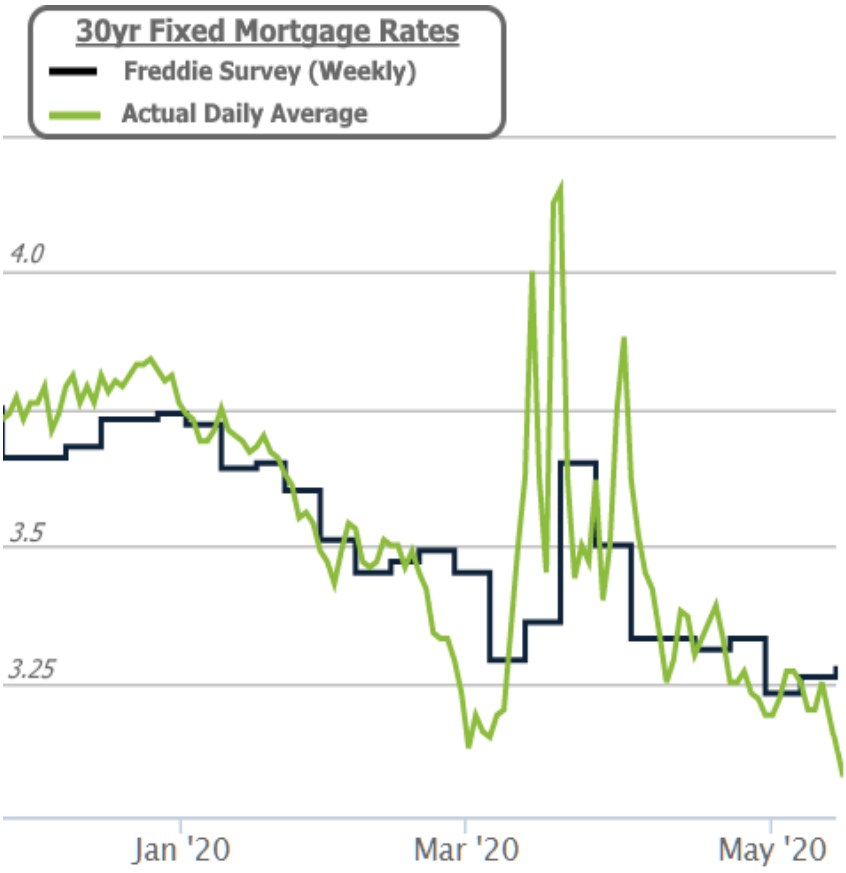
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Let's put these pieces together. We have super low, relatively flat Treasury yields. We also have mortgage rates that are finally starting to close their historical gap with Treasury yields. Together, this adds up to a nice drop in mortgage rates. As of Friday, the average conforming conventional 30yr fixed rate set a new all-time low.



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This victory is tempered, for some, by the current reality of cautious mortgage investors. While they've begun to warm up to the most ideal loan scenarios, anything "off-the-beaten-path" isn't nearly as close to historical lows. This group includes risk factors like cash-out refinances, lower FICO scores, investment properties, and higher loan-to-value ratios. Combine more than a few of those factors and many lenders won't even do the loan, let alone offer a decent rate. This will change eventually, but it will take clarity on the reopening of the economy and plenty of **time.**

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, May 12				
8:30AM	Apr Core CPI (Annual) (%)	1.4	1.7	2.1
Wednesday, May 13				
7:00AM	w/e MBA Purchase Index	243.3		220.0
7:00AM	w/e Mortgage Refinance Index	3709.3		3835.7
8:30AM	Apr Core Producer Prices YY (%)	0.6	0.9	1.4
Thursday, May 14				
8:30AM	w/e Jobless Claims (k)	2981	2425	3169
8:30AM	w/e Continued jobless claims (ml)	22.833	25.100	22.647
Friday, May 15				
8:30AM	Apr Retail Sales (%)	-16.4	-12.0	-8.7
8:30AM	May NY Fed Manufacturing	-48.50	-63.50	-78.20
9:15AM	Apr Industrial Production (%)	-11.2	-11.5	-5.4
10:00AM	May Consumer Sentiment	73.7	68.0	71.8
10:00AM	Mar Business Inventories (%)	-0.2	-0.2	-0.4
Monday, May 18				
10:00AM	May NAHB housing market indx	37	35	30
Tuesday, May 19				
8:30AM	Apr Build permits: change mm (%)	-20.8		-7.0
8:30AM	Apr Housing starts number mm (ml)	0.891	0.927	1.216
8:30AM	Apr Building permits: number (ml)	1.074	1.000	1.350
8:30AM	Apr House starts mm: change (%)	-30.2		-22.3
Wednesday, May 20				
7:00AM	w/e MBA Purchase Index	258.9		243.3
7:00AM	w/e Mortgage Refinance Index	3474.1		3709.3
Thursday, May 21				
8:30AM	May Philly Fed Business Index	-43.1	-41.5	-56.6
9:45AM	May PMI-Composite (source:Markit)	36.4		27.0
10:00AM	Apr Existing home sales (ml)	4.33	4.30	5.27
10:00AM	Apr Exist. home sales % chg (%)	-17.8	-18.9	-8.5

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
10:00AM	Apr Leading index chg mm (%)	-4.4	-5.5	-6.7
Wednesday, Jul 08				
1:00PM	10-yr Note Auction (bl)	29		

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