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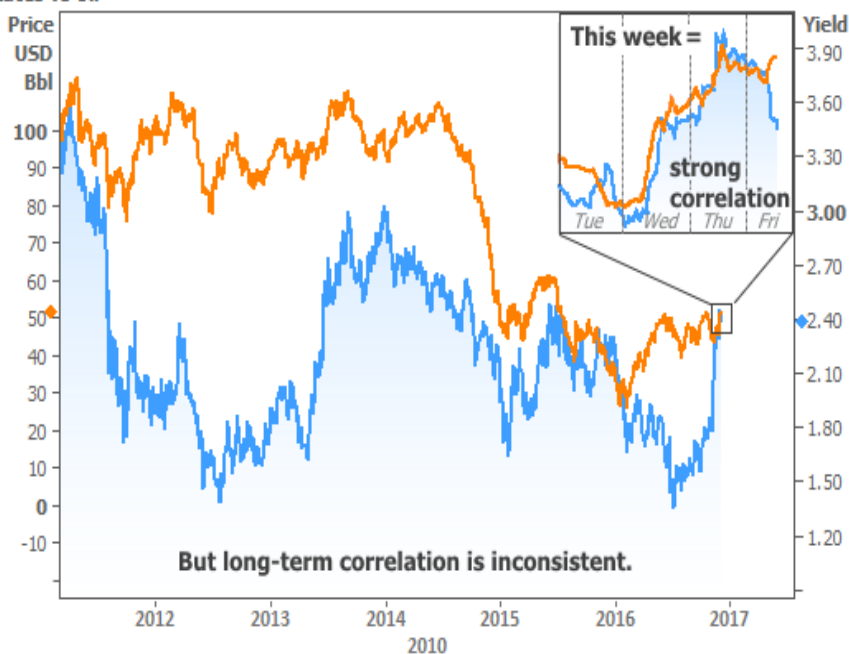
What's Really Keeping The Mortgage Market up at Night?

Interest rates **surged** to **2-year highs** this week, apparently in response to Wednesday's news that OPEC countries struck a deal to limit oil production. True, if OPEC is willing to do what it takes to push fuel prices higher, it only adds to the inflationary fears already pushing rates higher. But even as OPEC dominated this week's headlines, there are more important things keeping housing and mortgage markets up at night.

Financial markets are understandably very interested in the stuff that fuels the movement of goods around the world. The **massive drop in oil prices** at the end of 2014 saw the healthy interest grow into an obsession, with far too many market movements being forced to fit the oil price narrative. It's a seductive thesis, especially for interest rates, given oil's inflation implications.

Oil prices do indeed have **strong correlations** with interest rate movements. This week was a good example of that, as we'll see in the following chart. But the chart also shows that this week's correlation is a small drop in a much bigger bucket.

Rates vs Oil



National Average Mortgage Rates



| | Rate | Change | Points |
|----------------------------|-------|--------|--------|
| Mortgage News Daily | | | |
| 30 Yr. Fixed | 6.86% | -0.05 | 0.00 |
| 15 Yr. Fixed | 6.31% | -0.02 | 0.00 |
| 30 Yr. FHA | 6.32% | -0.06 | 0.00 |
| 30 Yr. Jumbo | 7.04% | -0.03 | 0.00 |
| 5/1 ARM | 6.53% | -0.02 | 0.00 |
| Freddie Mac | | | |
| 30 Yr. Fixed | 6.78% | -0.08 | 0.00 |
| 15 Yr. Fixed | 6.07% | -0.09 | 0.00 |

Rates as of: 7/26

Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.5 | 99.68 | +0.27 |
| MBS GNMA 5.5 | 99.98 | +0.13 |
| 10 YR Treasury | 4.1958 | -0.0474 |
| 30 YR Treasury | 4.4523 | -0.0305 |

Pricing as of: 7/26 5:59PM EST

Recent Housing Data

| | Value | Change |
|---------------------|--------------|---------|
| Mortgage Apps | Jul 10 206.1 | -0.19% |
| 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% |

Rates are obviously taking cues from **much** more than oil prices. Even within the confines of this week, it would be a **mistake** to chalk all of the rate volatility up to OPEC. Thursday's news regarding the European Central Bank (ECB) is actually responsible for the second half of this week's rate spike.

The ECB previously said it would address the topic of its asset purchases (a key driver of generally low rates around the world) at next week's scheduled announcement. Markets are worried that some form of "**tapering**" is in the cards. When major central banks taper asset purchases, rates move abruptly higher (as they did during the mid-2013 'taper tantrum'). ECB tapering fears are already responsible for much of the push toward higher rates in 2016.

This week's news was essentially an off-the-record exclusive from an ECB official. It spelled out the various options that the ECB is considering for next week's announcement, and all of them allude to tapering in one form or another. Granted, this isn't too much of a surprise for financial markets at this point, but the **confirmation** of an imminent announcement was enough to add to this week's momentum, thus resulting in the highest rates in more than 2 years.

Beyond oil and the ECB, **housing and mortgage markets** still have a lot on their minds. Tremendous uncertainty remains over the changes that might be made under the Trump administration--both general and specific. Just this week, one of the first public comments from Trump's designated Treasury Secretary, Steven Mnuchin, focused on the need to **end the Fannie and Freddie Conservatorship**.

Away from the hypothetical effects brought on by policy changes, **actual change is afoot!** Just over a week after Fannie and Freddie raised conforming loan limits for 2017, **FHA is out** with a similar announcement.

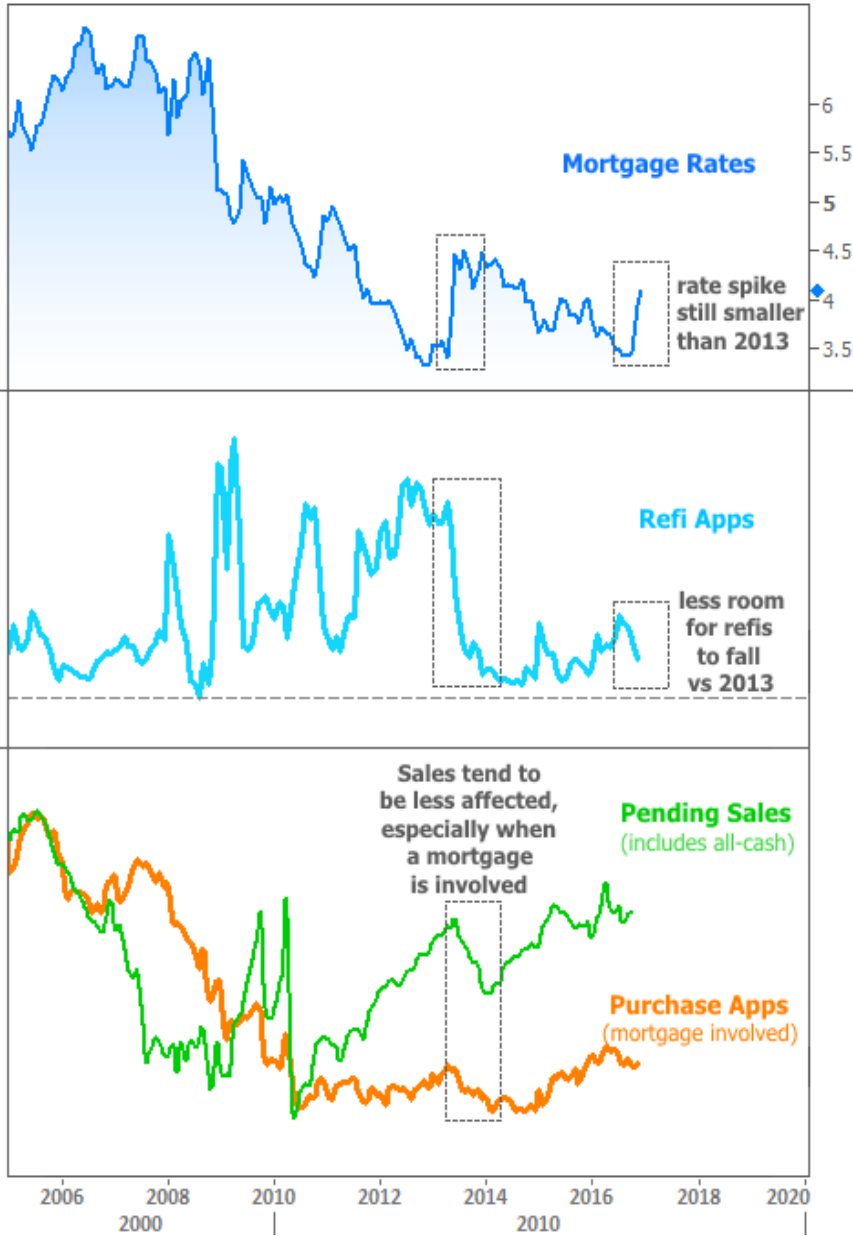
Unsurprisingly, the surge in rates continues doing damage to **refi** applications, as the Mortgage Bankers Association **reported** this week. The news was offset to some extent by a stable reading in **purchase** applications as well as **Pending Home Sales**.

Perhaps the **most sensational** housing-specific news of the week came from Freddie Mac. Actually, it was mostly an issue of wording. In its **Housing and Economic Outlook**, Freddie's economists said that "**mortgage originations will get crushed**" by rising rates. Bold words, to be sure, but are they justified?

First of all, there's **no way to know** exactly how the path of interest rates will unfold in the coming year. Rates **could** continue higher and, of course, that would continue to have a negative effect on mortgage originations.

But **here's an important caveat** to the "crushed" comments: history is definitely **not** on Freddie's side when it comes to "mortgage originations" overall. At best, one could argue that "refi originations" will decline, but even then, the environment is **not as susceptible to crushing** as 2013's. In 2013 we were in the throes of a full-fledged refi boom when the taper tantrum sent rates skyrocketing higher.

This time around, rates **never** got low enough to spark massive refi demand--especially those originated during the all-time low rates of late 2012 through early 2013. The following chart makes this obvious and also highlights the even more muted effects on **purchases**.



Bottom line: Yes, things are scary, especially if rates rise more than they did in 2013, but **not nearly scary enough** to conclude that originations will be "crushed" just yet.

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Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|--------------------------|---------------------------|--------|----------|-------|
| Tuesday, Nov 29 | | | | |
| 8:30AM | Q3 GDP Prelim (%) | +3.2 | 3.0 | 2.9 |
| 9:00AM | Sep CaseShiller 20 yy (%) | +5.1 | 5.2 | 5.1 |
| 10:00AM | Nov Consumer confidence | 107.1 | 101.2 | 98.6 |
| Wednesday, Nov 30 | | | | |

Event Importance:

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

| Date | Event | Actual | Forecast | Prior |
|--------------------------|----------------------------------|--------|----------|-------|
| 8:15AM | Nov ADP National Employment (k) | 216.0 | 165 | 147 |
| 8:30AM | Oct Personal income mm (%) | +0.6 | 0.4 | 0.3 |
| 8:30AM | Oct Personal consump real mm (%) | +0.1 | | 0.3 |
| 9:45AM | Nov Chicago PMI | 57.6 | 52.0 | 50.6 |
| 10:00AM | Oct Pending homes index | 110.0 | | 110.0 |
| Thursday, Dec 01 | | | | |
| 10:00AM | Nov ISM Manufacturing PMI | 53.2 | 52.2 | 51.9 |
| 10:00AM | Oct Construction spending (%) | +0.5 | 0.5 | -0.4 |
| Friday, Dec 02 | | | | |
| 8:30AM | Nov Non-farm payrolls (k) | +178 | 175 | 161 |
| 8:30AM | Nov Unemployment rate mm (%) | 4.6 | 4.9 | 4.9 |
| Monday, Dec 05 | | | | |
| 10:00AM | Nov ISM N-Mfg PMI | 57.2 | 55.4 | 54.8 |
| Tuesday, Dec 06 | | | | |
| 8:30AM | Q3 Productivity Revised (%) | +3.1 | 3.3 | 3.1 |
| 8:30AM | Q3 Labor Costs Revised (%) | +0.7 | 0.3 | 0.3 |
| 10:00AM | Oct Factory orders mm (%) | +2.7 | 2.6 | 0.3 |
| Wednesday, Dec 07 | | | | |
| 7:00AM | w/e Mortgage Market Index | 414.1 | | 417.2 |
| Friday, Dec 09 | | | | |
| 10:00AM | Oct Wholesale inventories mm (%) | -0.4 | -0.4 | -0.4 |
| 10:00AM | Dec Consumer Sentiment Prelim | 98.0 | 94.5 | 93.8 |

Because Integrity Matters™

Jeffrey has spent the last three decades perfecting an Honest, Open and Transparent (HOT™) loan and closing process that is laser-focused on enhancing the consumer mortgage experience. By combining old-school, trustworthy customer service with real-time, mobile-friendly technology, he has successfully built thousands of loyal, raving fans.

Jeffrey Chalmers

