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Big Week: Mortgage Insurance Cut, Carson Hearing, and Rate Volatility

It was a big week for mortgage markets and an active week for rate movement. Most of it was good. Some of it was ominous. And one development was downright confusing.

Biggest news first: The Department of Housing and Urban Development (HUD), announced a cut to the monthly **mortgage insurance premiums** on FHA loans. Most prospective buyers will see this as a 25 basis point reduction, which would save them roughly $40 on a $200k loan, but the cut varies by loan amount, loan term, and loan-to-value (LTV) ratios.

Annual MIP			
Base Loan Amt.	**LTV**	**Previous MIP**	**New MIP**
Term > 15 Years			
≤ $625,500	≤ 95.00%	80 bps	55bps
≤ $625,500	> 95.00%	85 bps	60bps
> $625,500	≤ 95.00%	100 bps	55bps
> $625,500	> 95.00%	105 bps	60bps
Term ≤ 15 Years			
≤ $625,500	≤ 90.00%	45 bps	25 bps
≤ $625,500	> 90.00%	70 bps	50 bps
> $625,500	≤ 78.00%	45 bps	25 bps
> $625,500	78.01% - 90.00%	70 bps	25 bps
> $625,500	> 90.00%	95 bps	50 bps
Streamline, Simple Refinance of previous Mortgage endorsed on or before May 31, 2009			
Term > 15 Years			
Base Loan Amt.	**LTV**	**Previous MIP**	**New MIP**
All Loan Amounts	≤ 90.00%	55 bps	55 bps
All Loan Amounts	> 90.00%	55 bps	55 bps
Term ≤ 15 Years			
Base Loan Amt.	**LTV**	**Previous MIP**	**New MIP**
All Loan Amounts	≤ 90.00%	55 bps	25 bps
All Loan Amounts	> 90.00%	55 bps	25 bps

To put that in **practical terms**, that would have the same effect on monthly payment as interest rates falling 0.375% instantly. This offsets more than half of the rise in rates seen since the election. While it might not sound like a big

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.45%	-0.01	0.00
15YR Fixed	6.99%	+0.01	0.00
30YR FHA	7.05%	+0.01	0.00
30YR Jumbo	7.50%	0.00	0.00
7/6 SOFR	7.00%	-0.07	0.00
30YR VA	7.07%	+0.01	0.00

Rates as of: 11/19

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.34	+0.24
10 YR Treasury	4.9858	-0.0578
30 YR Treasury	5.3665	-0.0397

Pricing as of: 11/20 9:28AM 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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deal to some, it is a very welcome development overall.

Don't get too attached to it though! There's already speculation that incoming HUD Secretary Ben Carson might reverse the decision. When asked about it at this week's confirmation hearing, Dr. Carson said he was "surprised to see something of this nature done on the way out the door."

He went on to say that the overall effect on FHA's balance sheet was profound, and that he'd be work with the fha administrator and other financial experts to "really examine that policy." Some analysis has suggested he's likely to leave it intact. Others felt Carson's tone suggested a **reversal** was a legitimate possibility. Either way, until and unless that happens, the new premiums go into effect for new mortgages with a closing date of January 27th, 2017 or later.

In addition to addressing the MIP cut, Carson also discussed the need to minimize taxpayer exposure in the mortgage market and his hope that the government could get out of the 30-year fixed lending business. These statements are in **stark contrast** to some of his opening remarks in which he lamented a lack of affordability and pointed out the importance of giving people an "opportunity to climb the economic and social ladder."

Why contrast? Simply put, because reversing the MIP cut and reducing the government footprint in the mortgage market are **both** things that will **DECREASE** affordability and hinder homeownership opportunities. I'm not saying government involvement in the mortgage market is necessarily good or bad. It is simply a choice that has inherent tradeoffs.

Experts agree that a fully private mortgage market--while posing effectively no risk to taxpayers--would result in **significantly higher rates**. Carson says that "banks are loath to participate" in certain FHA programs, but the government presence is one of the only reasons banks are willing to participate in the first place. After all, FHA mortgage-backed-securities (MBS) were a shining beacon of stability relative to Fannie/Freddie MBS during the mortgage meltdown--not to mention the fact that MBS with true government guarantees have almost always commanded higher prices among investors.

It's easy to appeal taxpayers on an ideological level by saying you want to reduce their liability for the mistakes of others. Certainly, that sounds good to any taxpayer! The decision becomes **less clear** by the time you remind taxpayers that the trade-off is higher rates for everyone.

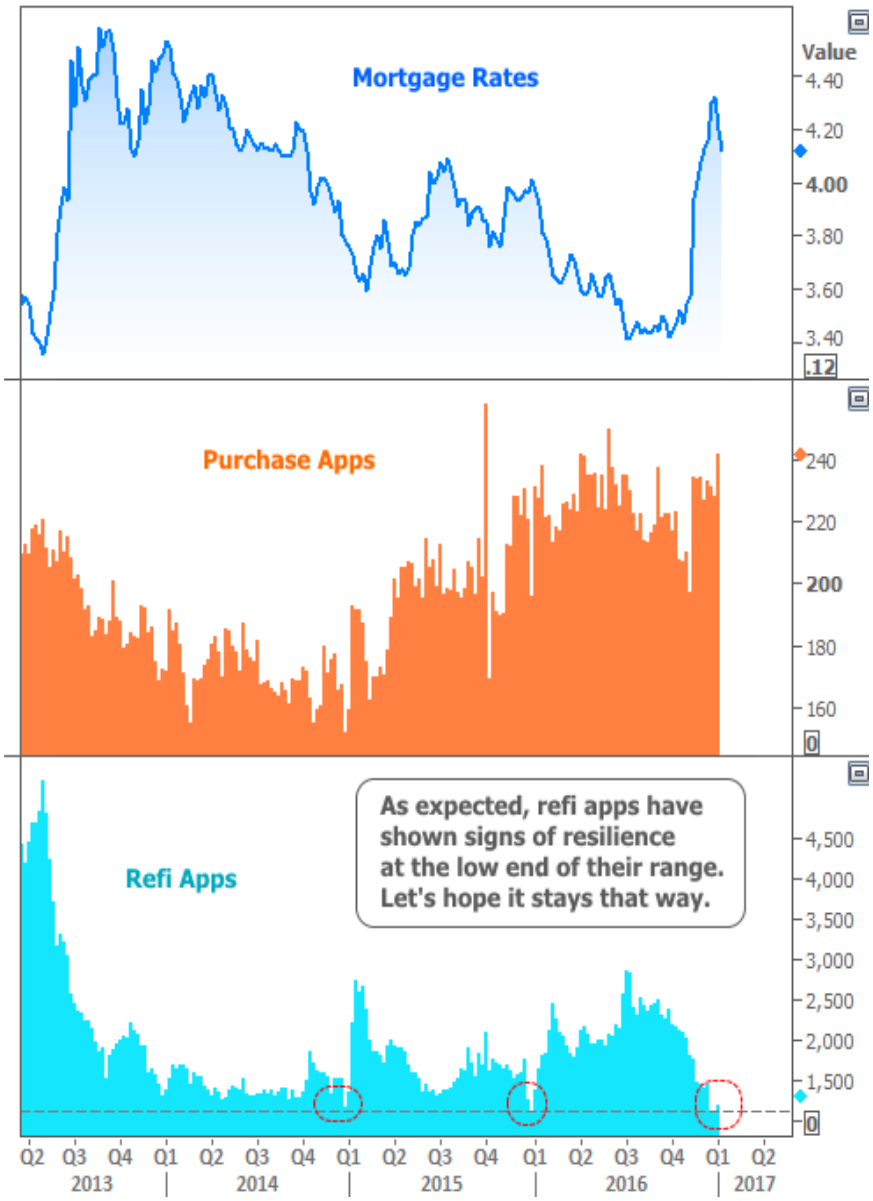
Whichever side of this argument suits you, just remember that **it's one or the other**. Reducing the role of government, reversing the MIP cut... both would mean rates move higher and homeownership becomes more difficult for the folks Carson wants to help climb the ladder.

Mixed signals and uncertainty are apparent elsewhere in the mortgage and housing markets. Some reports are showing the **ill effects** of the recent rise in rates while others suggest rates have **improved**. In this case, there is room for both points of view. In the slightly bigger picture, rates have indeed soured homebuyer sentiment. In the nearer term, rates have recovered some of their losses and refinance applications may be stabilizing.

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Bond markets are **closed on Monday for Martin Luther King Jr. Day**. As such, mortgage lenders will not be open. Next week also brings several speeches from Fed Chair Yellen. Market participants will be looking for more signs that the Fed has begun discussing an eventual end to its policy of reinvesting the proceeds from its bond portfolio (something that came up in another Fed member's speech this week).

The Fed's reinvestment policy is worth **a lot** to the world of mortgage rates, and to interest rates in general. While we can trust that the Fed isn't interested in making a rash move that would cripple the economy, the fact that it's even being discussed has some investors on edge.

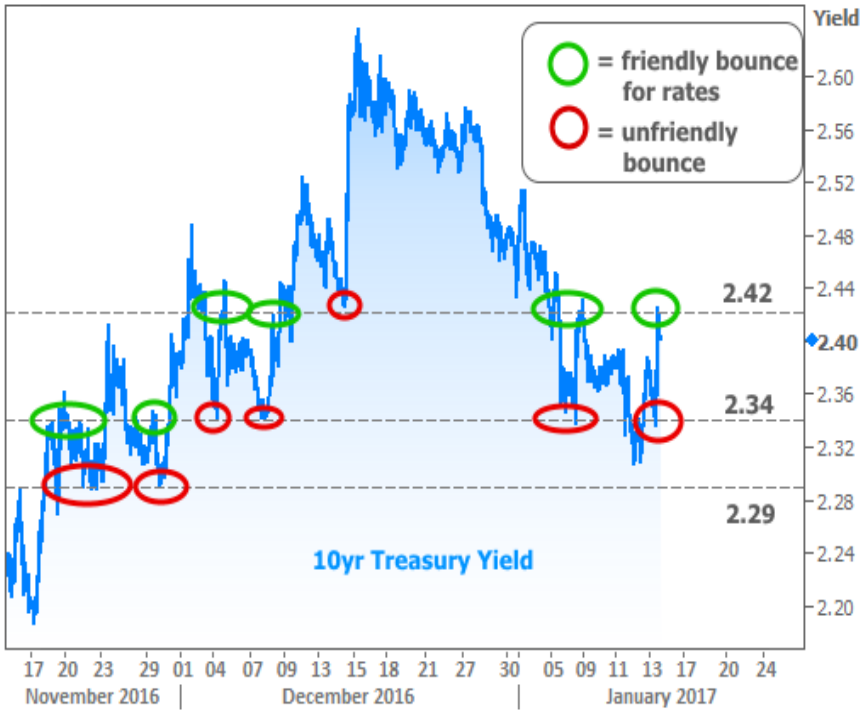
The **most immediate decision** for rates will be whether to move higher or lower from the recently narrow range that was established this week. This week's key levels have more than an average amount of long-term significance. The chart below discusses them in terms of 10yr Treasury yields (the best benchmark for momentum in long-term rates, like mortgages).

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