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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

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.09	-0.08
MBS GNMA 6.0	100.23	-0.10
10 YR Treasury	4.4385	+0.0405
30 YR Treasury	4.5957	+0.0317

Pricing as of: 7/1 8:54AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
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%

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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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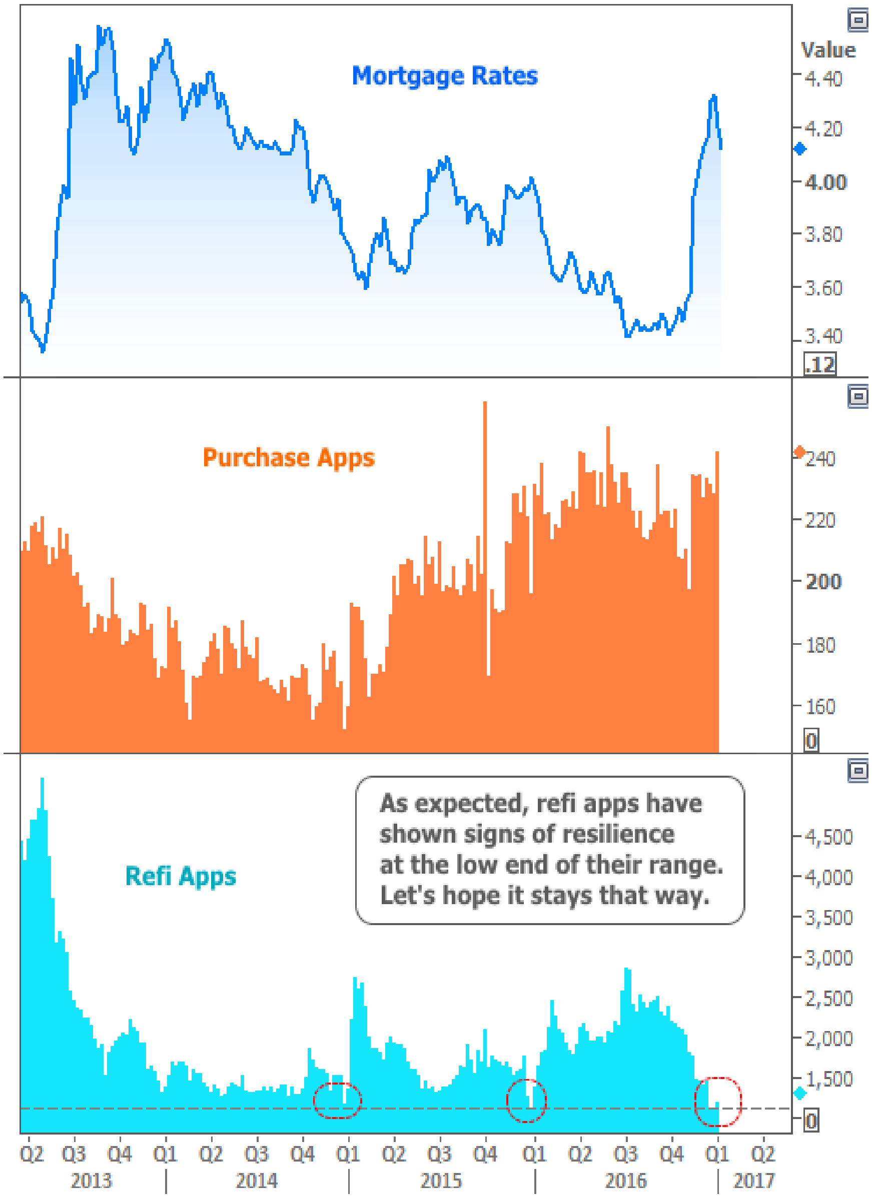

Bond markets are **closed on Monday for Martin Luther King Jr. Day**. As such, mortgage lenders will not be open. Next week also brings several speeches from Fed Chair Yellen. Market participants will be looking for more signs that the Fed has begun discussing an eventual end to its policy of reinvesting 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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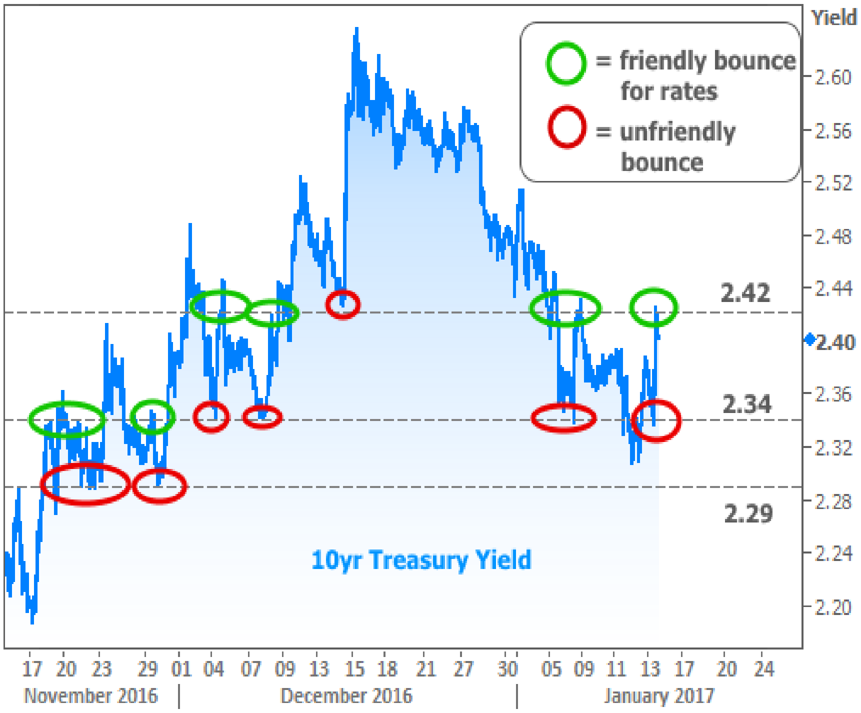

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jan 10				
10:00AM	Nov Wholesale inventories mm (%)	+1.0	0.9	0.9

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important

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Date	Event	Actual	Forecast	Prior
1:00PM	3-Yr Note Auction (bl)			
Wednesday, Jan 11				
7:00AM	w/e Mortgage Market Index	379.2		358.5
1:00PM	10-yr Note Auction (bl)			
Thursday, Jan 12				
8:30AM	Dec Import prices mm (%)	+0.4	0.7	-0.3
8:30AM	Dec Export prices mm (%)	+0.3	0.1	-0.1
8:30AM	w/e Initial Jobless Claims (k)	247	254	235
1:00PM	30-Yr Bond Auction (bl)			
Friday, Jan 13				
8:30AM	Dec Retail sales mm (%)	0.6	0.7	0.1
8:30AM	Dec Core Producer Prices YY (%)	+1.6	1.5	1.6
8:30AM	Dec Core Producer Prices MM (%)	+0.2	0.1	0.4
10:00AM	Nov Business inventories mm (%)	+0.7	0.5	-0.2
Monday, Jan 16				
12:00AM	Martin Luther King Day			
Tuesday, Jan 17				
8:30AM	Jan NY Fed manufacturing	+6.5	8.50	9.00
Wednesday, Jan 18				
7:00AM	w/e Mortgage Market Index	382.2		379.2
8:30AM	Dec Core CPI index, sa	249.93		249.36
8:30AM	Dec CPI mm, sa (%)	+0.3	0.3	0.2
9:15AM	Dec Industrial output mm (%)	+0.8	0.6	-0.4
9:15AM	Dec Capacity utilization mm (%)	75.5	75.4	75.0
10:00AM	Jan NAHB housing market indx	67	69	70
Thursday, Jan 19				
8:30AM	Dec Housing starts number mm (ml)	1.226	1.200	1.090
8:30AM	Jan Philly Fed Business Index	23.6	15.8	21.5
8:30AM	Dec Building permits: number (ml)	1.210	1.225	1.212

★★ Very Important

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Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is “your rates sound too good to be true”. Well they’re not, and here is why…

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It’s simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It’s just a lie that the big box mortgage companies have been telling you for years. Don’t believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

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