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Fed Hikes, But Mortgage Rates Fall. Here's Why

Last week's newsletter made the case that this week's Fed rate hike was "**pointless**" because bond markets (and mortgage rates) had already fully adjusted for it. Instead, it would be the Fed's economic projections (their forecasts for future rate hikes) that would make or break this week's rate movement. That's exactly what happened.

Bond markets are always doing their best to adjust **today's** rates to match **future** expectations, based on a number of variables. One of the most important variables is the Fed rate hike outlook. All other things being equal, if bond markets see the Fed hiking the Fed Funds Rate sooner or faster, **other** rates (like mortgages and 10yr Treasury yields) will rise. Back in late February, the Fed embarked on a PR campaign to convince bond markets of precisely that.

A series of comments from various Fed speakers caused a **rapid** increase in rate hike expectations for the March meeting. In turn, this pushed 10yr yields and mortgage rates quickly higher in the first week of March. By that point, this week's Fed rate hike was **fully** accounted for.

In the 2nd week of March, the ADP Employment report **crushed** forecasts, showing job growth that was 50% faster than expected. ADP is one of several advance indicators for the all-important Employment Situation (the big "jobs report"). Markets quickly adjusted for the possibility that the Employment Situation would be similarly stellar. They concluded the Fed's rate hike **outlook** would accelerate (remember, that's a key ingredient for present day rates).

As such, it was **no surprise** to see 10yr yields and mortgage rates continue higher while March's Fed rate hike expectations held steady (after all, March expectations were essentially maxed-out).

But the Fed **surprised** markets by releasing a fairly **tame** set of economic projections. In fact, for the end of 2017 and 2018, the median rate expectation among Fed members turned out to be exactly the same as the last set of projections (in December), and the 2019 outlook rose by a meager 0.125%. Rates reacted decisively.

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

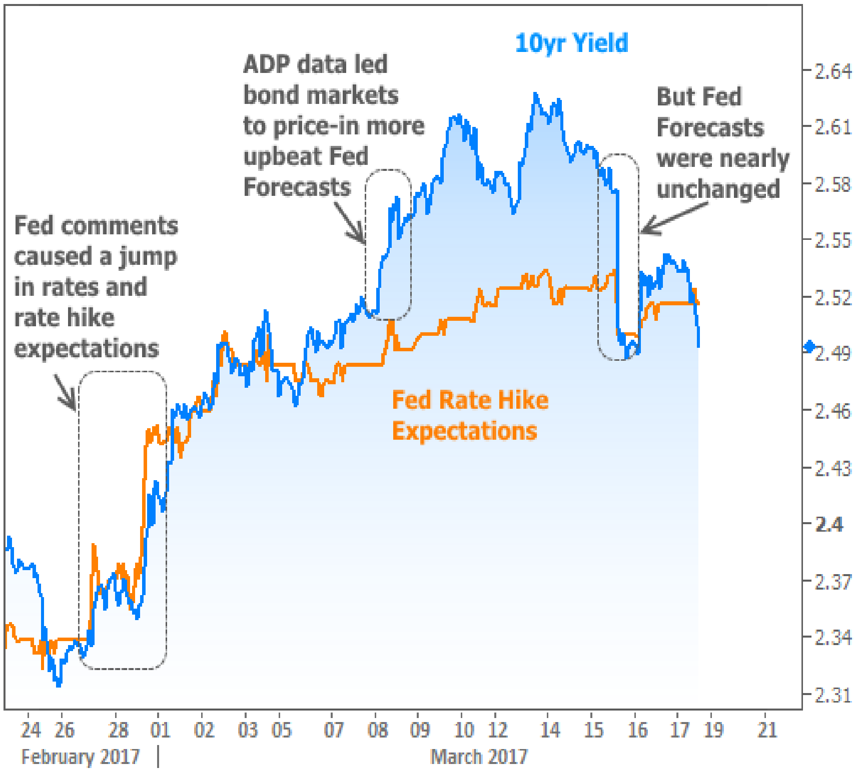
Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.4109	+0.0129
30 YR Treasury	4.5741	+0.0101

Pricing as of: 7/1 6:48AM EST

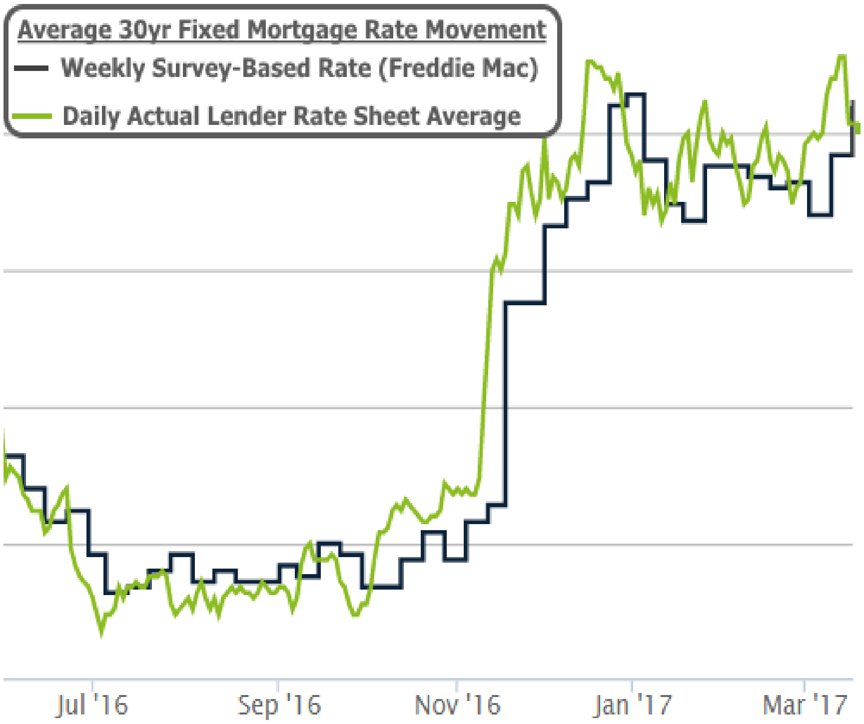
Recent Housing Data

		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%

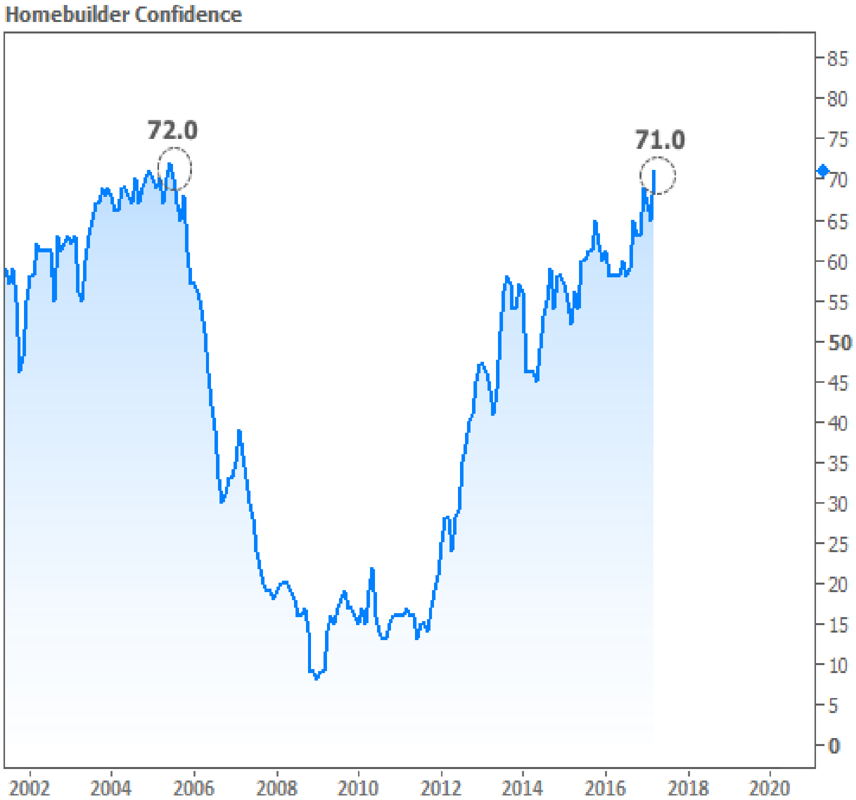


The bond market improvement translated to a **significant drop** in mortgage rates on Wednesday afternoon. Lenders were certainly defensive before that, and their collective sigh of relief was evident in the new rate sheets that came out late in the day and on Thursday morning.

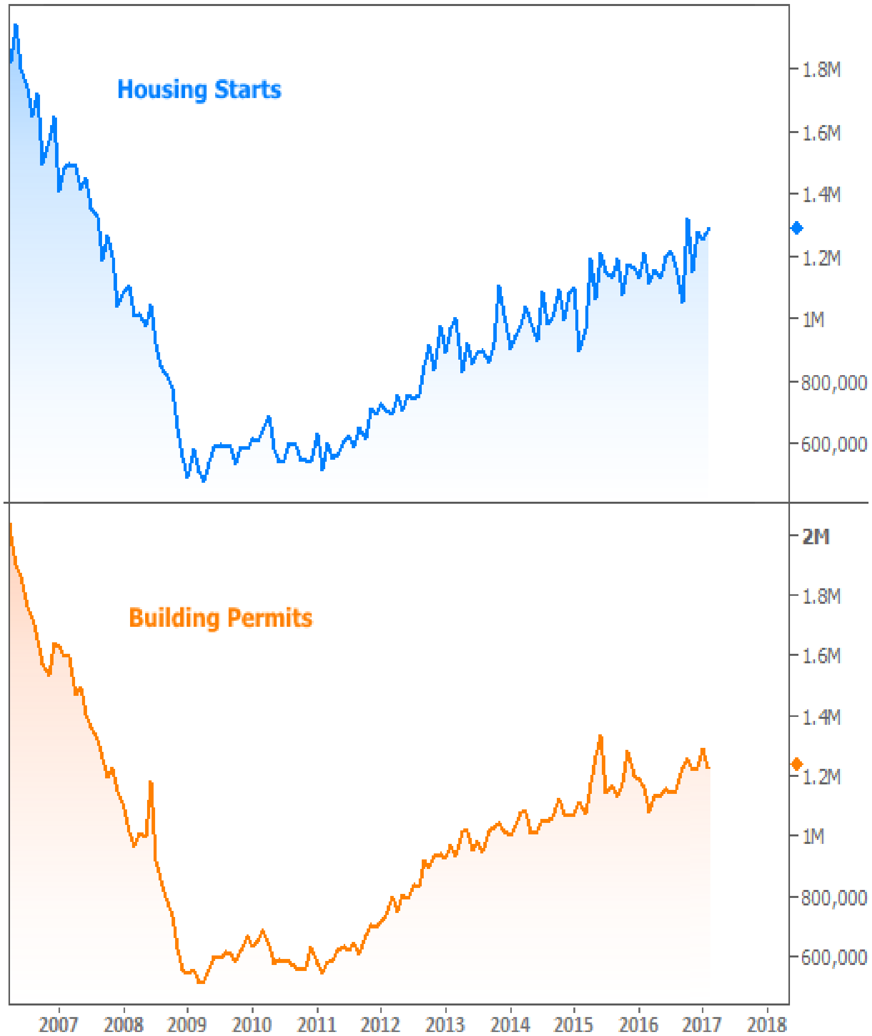
Some news articles from Thursday and Friday will suggest that rates are at 2017 highs. While that **was** true on Wednesday morning, it's **no longer** the case. Those articles are relying on weekly survey data from Freddie Mac which only captures rate movement between Monday and Wednesday morning. Actual lender rate sheets show rates at 2-week lows. Freddie's numbers should reflect this next Thursday, barring significant volatility early next week.

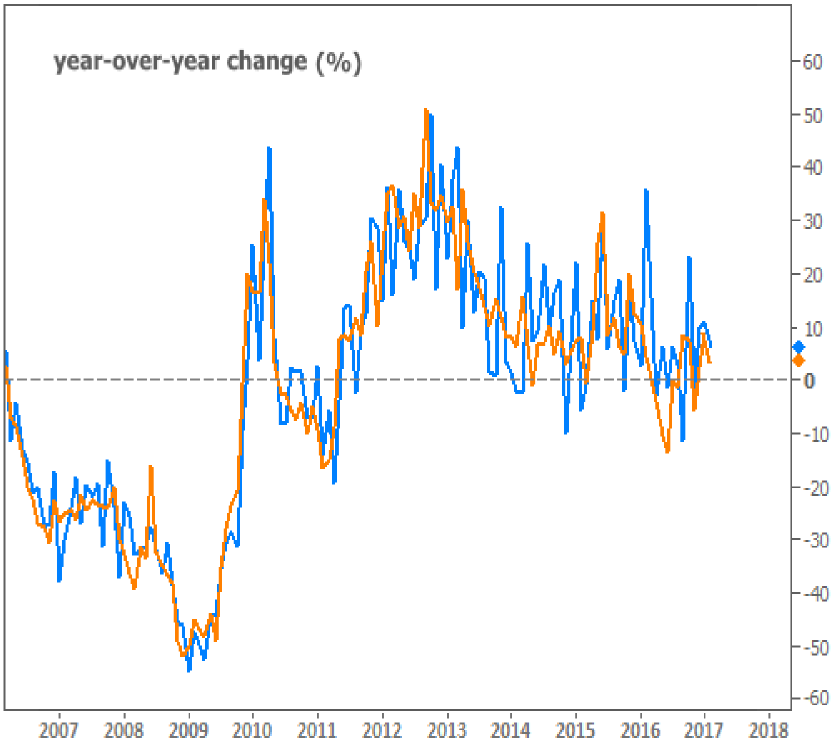


Beyond the world of rates, there was **more good news** for the housing market this week. Several housing-related economic reports were strong. The NAHB reported that homebuilder confidence reached the highest levels in **more than 12 years**--nearly matching the best mark from the housing boom.



Residential construction numbers were also strong, according to The Census Bureau. **Housing Starts** (the first phase of construction) and **Building Permits** didn't match the grandeur of the builder confidence numbers, but they maintained healthy trends nonetheless. The following chart shows the outright level of Permits and Starts followed by the year-over-year change (which is remaining in positive territory after dipping below in 2016).


Housing Starts
1.8M
1.6M
1.4M
1.2M
1M
800,000
600,000
Building Permits
2M
1.8M
1.6M
1.4M
1.2M
1M
800,000
600,000
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018


year-over-year change (%)
60
50
40
30
20
10
0
-10
-20
-30
-40
-50
-60
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018

Perhaps the **most important news of the week** for homeowners and prospective homebuyers is a series of credit scoring changes announced by the major credit bureaus. Civil judgments and tax liens will no longer appear on credit reports unless they were filed according to certain standards. Most judgments currently don't meet these standards and will therefore no longer appear on credit reports. This will make for immediate **credit score improvements**.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Mar 14				
8:30AM	Feb Producer Prices (%)	0.3	0.1	0.6
8:30AM	Feb Core Producer Prices YY (%)	1.5	1.5	1.2
Wednesday, Mar 15				
7:00AM	w/e Mortgage Market Index	418.1		405.7
7:00AM	w/e Mortgage Refinance Index	1413.3		1357.6
7:00AM	w/e MBA Purchase Index	240.3		235.0
8:30AM	Feb Retail sales mm (%)	0.1	0.1	0.4
8:30AM	Feb Core CPI Year/Year (%)	+2.2	2.2	2.3
8:30AM	Feb CPI mm, sa (%)	+0.1	0.0	0.6
2:00PM	N/A FOMC rate decision (%)	0.75-1.00	0.875	0.625
Thursday, Mar 16				
8:30AM	Feb Housing starts number mm (ml)	1.288	1.260	1.246
8:30AM	Feb Building permits: number (ml)	1.213	1.260	1.293
8:30AM	Mar Philly Fed Business Index	32.8	30.0	43.3
8:30AM	w/e Initial Jobless Claims (k)	241	240	243
Friday, Mar 17				
9:15AM	Feb Industrial Production (%)	0.0	0.2	-0.3
9:15AM	Feb Capacity Utilization (%)	75.4	75.5	75.3
10:00AM	Feb Leading index chg mm (%)	0.6	0.4	0.6
10:00AM	Mar Consumer Sentiment Prelim	97.6	97.0	95.7
Wednesday, Mar 22				
7:00AM	w/e Mortgage Market Index	406.8		418.1
9:00AM	Jan Monthly Home Price mm (%)	0.0		0.4
10:00AM	Feb Existing home sales (ml)	5.48	5.57	5.69
Thursday, Mar 23				
10:00AM	Feb New home sales-units mm (ml)	0.592	0.565	0.555
Friday, Mar 24				
8:30AM	Feb Durable goods (%)	+1.7	1.2	2.0

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Thursday, May 18				
1:00PM	10-yr TIPS Auction (bl)	11		

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.

Mike Baker