US Housing Market Weekly

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How The Healthcare Bill Affects Rates and Markets

Seemingly overnight, the bill to replace the Affordable Care Act is all anyone can talk about in financial markets. How did we get here and **what does it mean for rates** going forward?

To understand this week's market movement, we need to revisit the most recent major theme: Fed rate hikes.

At the end of February, the Fed set about to convince investors that a March rate hike was much more likely than prevailing expectations suggested. They were **tremendously successful**. In less than a week, the probability of a March rate hike rose from below 40% to over 90%.

The Fed's message was so compelling that investors **not only** priced-in a March hike, but also figured the Fed's rate hike outlook would accelerate. Strong employment data the following week helped validate that assumption, and rates moved higher still.

When the Fed's rate hike outlook turned out to be relatively tame, rates moved **quickly lower,** but the move was short-lived. With the Fed reaction having run its course, stocks and bonds flattened out as investors wondered where to find the next source of inspiration. In short, markets were open to suggestion.

That brings us to the **healthcare bill**. Although Trump alluded to the healthcare bill being a prerequisite for tax reform in late February, financial markets didn't do much with that information until this week.

Like many contentious political issues, there has been plenty of "back and forth." In the eyes of investors, passage of a healthcare bill would be a **symbolic victory** that increases the odds of **other** fiscal policy goals making it through Congress.

More than anything, **this is about tax reform**. Roadblocks for the healthcare bill not only delay tax reform efforts (per Trump), but they also cast doubt on the administration's ability to get the necessary buy-in from Congress.

Given that tax reform was a key motivation for post-election market volatility, there's **a lot at stake** here. To whatever extent tax reform looks tougher to accomplish, post-election market trends can be questioned. In other words, did stocks and bonds need to rise as much as they did if there's a risk that tax reform is delayed, or defeated?

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

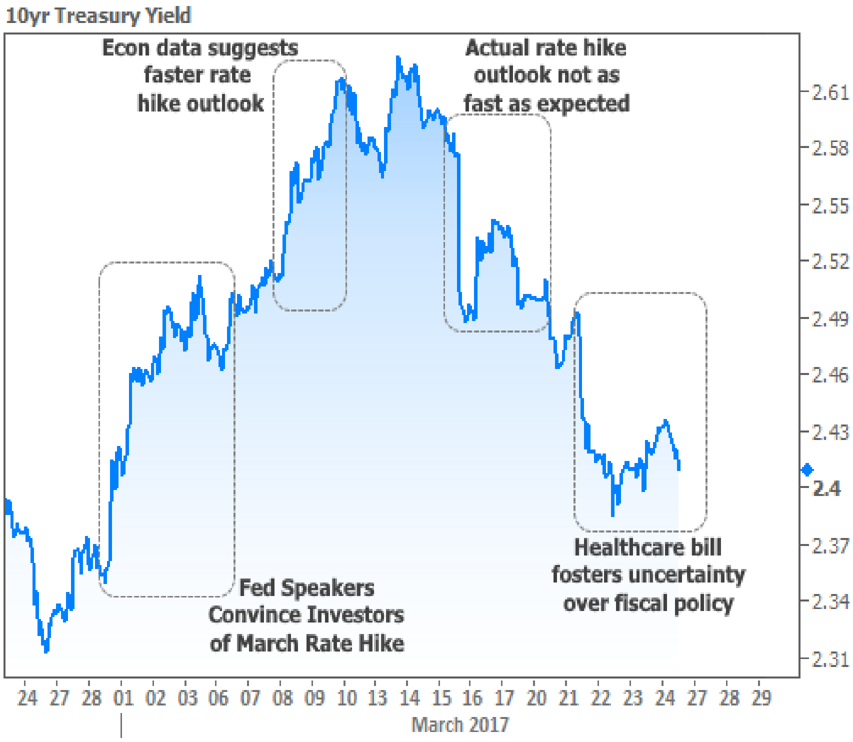
Pricing as of: 7/1 6:48AM EST

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%

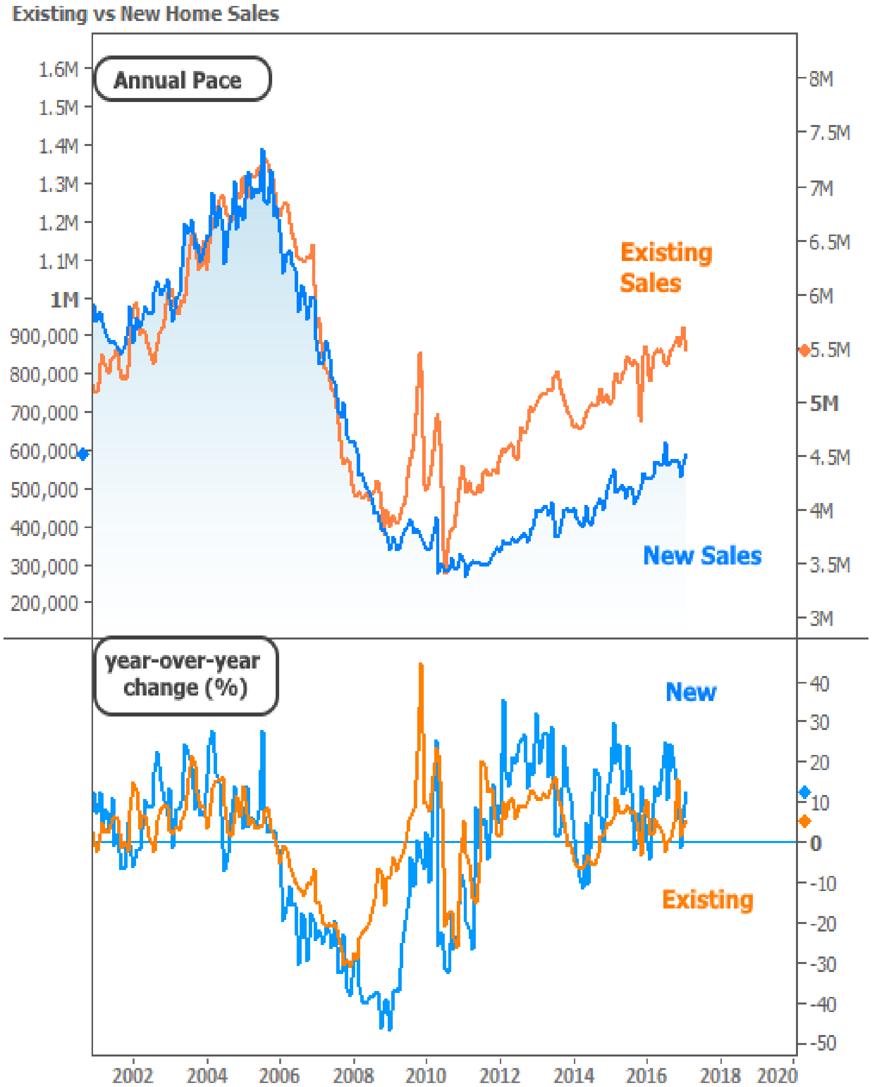
Investors asked themselves that question all week. Every new sound byte and headline pertaining to the healthcare bill elicited a reaction in stocks and bonds. This was especially noticeable on Tuesday after the revelation that differing views among Republicans meant the bill wouldn't have enough votes to pass as written. Rates dropped precipitously and stocks experienced their biggest losses since the election.

All of the above can be seen in a chart of 10yr Treasury yields--the most ubiquitous benchmark for momentum in longer-term rates like mortgages.



Heading into the weekend, **a vote is expected** at 3:30pm EDT. If it happens, that leaves only 90 minutes of time for markets to react this week (NYSE closes at 4pm, but futures continue until 5pm). Even though there would likely be a big move in stocks and bonds during those 90 minutes, the **true** market reaction would play out on Monday morning.

In **housing-specific** news, this week's data was mixed. Existing Home Sales **fell short** of expectations, but the National Association of Realtors points out that this was due to a **stifling** lack of inventory. New Home Sales **beat** expectations but continue lagging Existing Sales in terms of making it back to pre-crisis levels. Both are holding just inside positive territory in terms of year-over-year change (%).



Where inventory is taking a toll on sales, the late-2016 interest rate spike took a toll on **mortgage production profits** according the the Mortgage Bankers Association (MBA). Rising rates mean fewer applications and more fallout. When the rise is abrupt, the cost of guaranteeing rate availability increases as well, further eating into profits. Total production costs increased from $6969 in Q3 to $7562 in Q4. Net Profit fell from $1773 to $575.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Mar 22				
7:00AM	w/e Mortgage Market Index	406.8		418.1
7:00AM	w/e MBA Purchase Index	235.3		240.3
7:00AM	w/e Mortgage Refinance Index	1366.1		1413.3
9:00AM	Jan Monthly Home Price yy (%)	+5.7		6.2
9:00AM	Jan Monthly Home Price mm (%)	0.0		0.4

Event Importance:

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

Date	Event	Actual	Forecast	Prior
10:00AM	Feb Existing home sales (ml)	5.48	5.57	5.69
10:00AM	Feb Exist. home sales % chg (%)	-3.7	-2.0	3.3
Thursday, Mar 23				
8:30AM	w/e Initial Jobless Claims (k)	261	248	241
8:30AM	w/e Continued jobless claims (ml)	1.990	2.020	2.030
10:00AM	Feb New home sales-units mm (ml)	0.592	0.565	0.555
10:00AM	Feb New home sales chg mm (%)	+6.1	0.7	3.7
Friday, Mar 24				
8:30AM	Feb Durable goods (%)	+1.7	1.2	2.0
8:30AM	Feb Nondefense ex-air (%)	-0.1	0.6	-0.1
Monday, Mar 27				
1:00PM	2-Yr Note Auction (bl)	26		
Tuesday, Mar 28				
9:00AM	Jan CaseShiller 20 mm nsa (%)	+0.2		0.3
10:00AM	Mar Consumer confidence	125.6	114.0	114.8
1:00PM	5-Yr Note Auction (bl)	34		
Wednesday, Mar 29				
7:00AM	w/e Mortgage Market Index	403.6		406.8
10:00AM	Feb Pending sales change mm (%)	+5.5	2.4	-2.8
10:00AM	Feb Pending homes index	112.3		106.4
Thursday, Mar 30				
8:30AM	Q4 GDP Final (%)	+2.1	2.0	1.9
Friday, Mar 31				
8:30AM	Feb Personal income mm (%)	+0.4	0.4	0.4
8:30AM	Feb Consumption, adjusted mm (%)	+0.1	0.2	0.2
8:30AM	Feb PCE price index mm (%)	+0.1		0.4
8:30AM	Feb Core PCE price index yy (%)	+1.8		1.7
9:45AM	Mar Chicago PMI	57.7	56.9	57.4
10:00AM	Mar U Mich Sentiment Final (ip)	96.9	97.6	97.6
Wednesday, Mar 27				
1:00PM	7-Yr Note Auction (bl)	41		

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