



Mike Baker

Head Interest Rate Shopper, The Rate Shop
 Individual NMLS: 259076 Company NMLS: 2554765 State
 23211 W 45th St Shawnee, KS 66226

Office: 913-213-3335
 Mobile: 913-213-3335
mike@rateshopkc.com
[View My Website](#)

Home Sales Blast Off But Rates Take Wildest Ride

The [last newsletter](#) discussed how the Senate's tax bill had moved through committee and possibly toward a full vote this week. Tax reform is a big deal for markets, so it was no surprise to see stocks and bonds (which underlie mortgage rates) hold steady on Monday as they waited for updates.

This left the week's early spotlight on [New Home Sales](#), which increased at the fastest pace in a **decade!** The news was well-received considering the previous report was strong enough to raise doubts about the overall trend (New Home Sales data is historically more volatile than other home sales data).

Revisions to the last report turned out to be minimal. Moreover, the new report trounced expectations for a 6 percent decline, instead **rising** by 6.2 percent. While this doesn't bring us back to the previous peaks (some would argue those weren't healthy anyway), there's no question that the trajectory looks great.

National Average Mortgage Rates



	Rate	Change	Points
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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	4.4089	+0.0109
30 YR Treasury	4.5731	+0.0091

Pricing as of: 7/1 6:46AM 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%

New Home Sales



New Home Sales



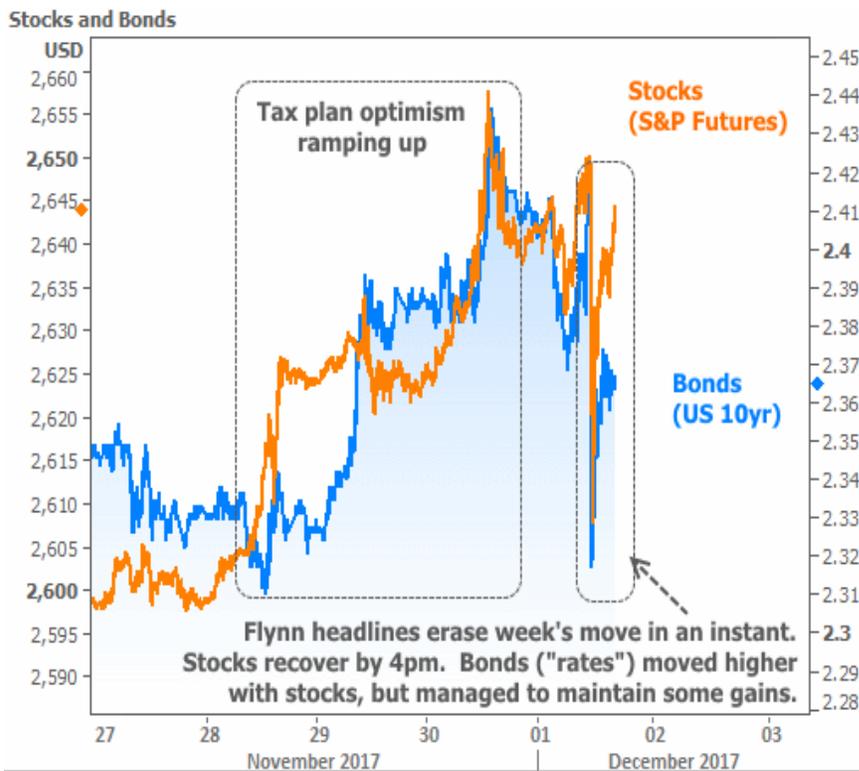
As the week progressed, markets **stole the show** from economic data as they reacted to political headlines. Most of the headlines regarding tax reform were within the realm of expectations. We knew the Senate would be trying to tweak the bill in order to gain enough support from GOP holdouts to get the 51 requisite votes. They were ultimately successful.

Stocks and rates rose throughout the week as the tax bill's chances of survival improved. Some mainstream media outlets reported LOWER mortgage rates, but they **should be ignored**. The stories in question are based on stale survey data that hadn't yet caught up to the mid-week volatility. Mortgage rates actually hit 1-month highs on Thursday.

This particular move higher was **bad news** for fans of low rates, because it suggested an important shift in the recent trend. The trend in question consisted of an increasingly narrow range leading into this week. When such ranges are broken, there tends to be extra momentum in the direction of the break. It would have taken a massively important and unexpected development to counteract the negative implications.

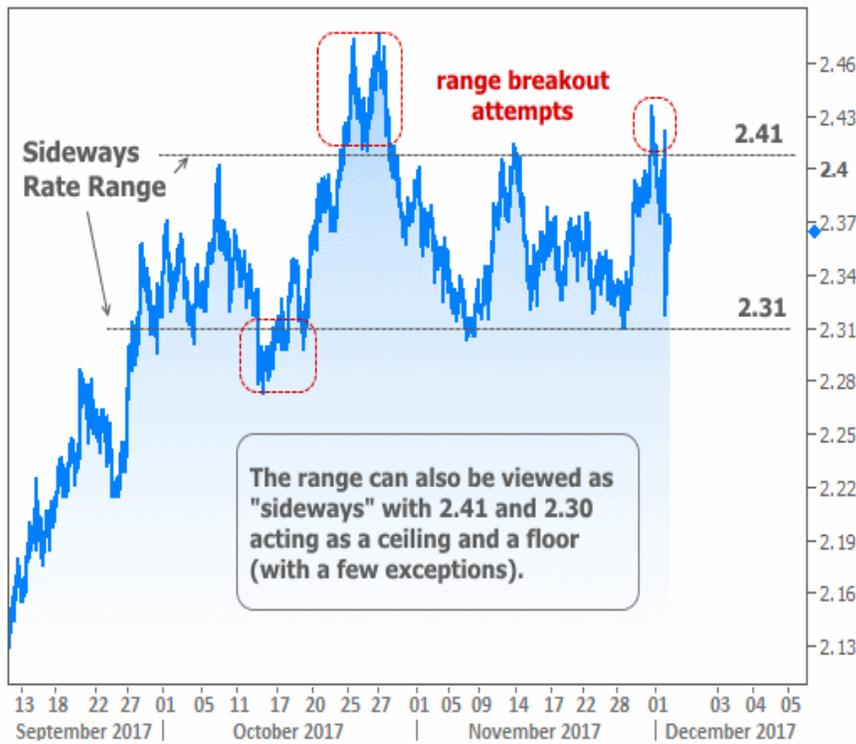
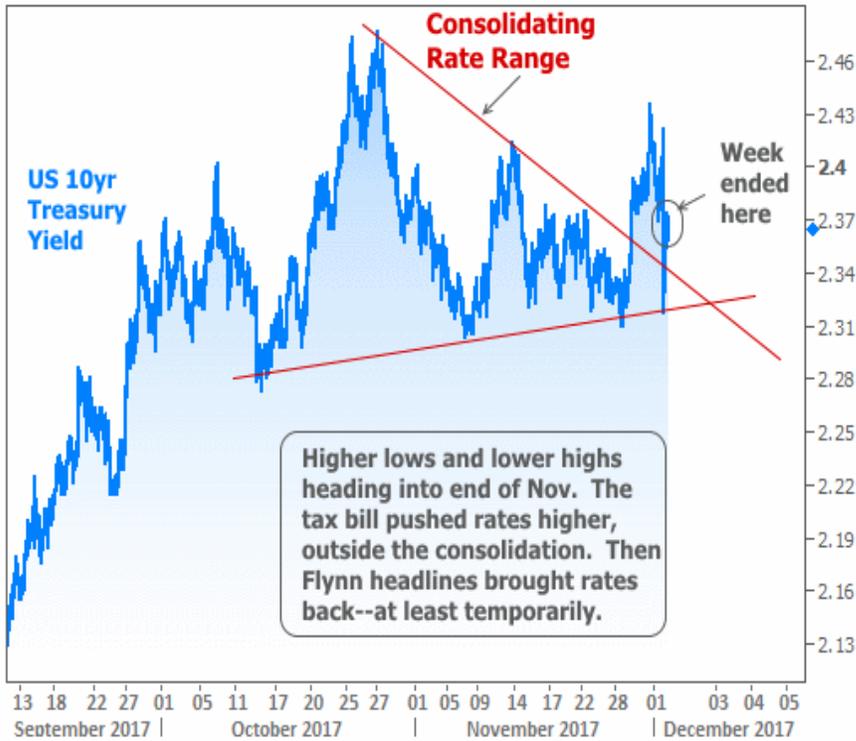
As luck would have it, that's exactly what happened on Friday! Federal prosecutors reported that former National Security Advisor Flynn **pleaded guilty** to perjury regarding his communications with Russia. More importantly, Flynn struck a plea deal for reduced charges.

Markets were left to imagine the plea was likely in exchange for information that could incriminate other members of the administration. If Trump ends up on that list, it'll make today **look like a picnic**. The simple possibility of such an event was enough for stocks to instantly erase the week's gains and for rising rates to catch a break.



The decline in bond yields brought rates back into that "narrower range" as seen in the following chart, but only for a few hours. With more clarity on the Flynn news (i.e. no specific mention of Trump), stocks and rates eased back toward the morning's levels. Rates remained in better shape on the day, but still on the wrong side of the red lines.

Bonds ("rates")



While the chart above presents rates in terms of 10yr Treasury yields, the implications are the same for mortgage rates. If Treasuries manage to stay below the 2.41% ceiling, **mortgage rates will be happy** to continue operating near current levels. But if Treasuries break much higher, conforming mortgage rates could quickly move back to October's highs.

Whereas conforming mortgage rates may be in a bit of trouble, there's unequivocally good news for conforming mortgage loan limits. FHFA, which oversees Fannie and Freddie, [announced a loan limit increase](#) to \$453,100 from the current \$424,100. Limits are even higher in certain high-cost areas and for multi-unit dwellings.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Nov 27				
10:00AM	Oct New home sales-units mm (ml)	0.685	0.625	0.667
10:00AM	Oct New home sales chg mm (%)	+6.2	-6.0	18.9
1:00PM	5-Yr Note Auction (bl)		34	
Tuesday, Nov 28				
9:00AM	Sep CaseShiller 20 mm SA (%)	0.5	0.4	0.5
10:00AM	Nov Consumer confidence	129.5	124.0	125.9
1:00PM	7-Yr Note Auction (bl)	28		
Wednesday, Nov 29				
7:00AM	w/e Mortgage Refinance Index	1205.1		1306.1
7:00AM	w/e MBA Purchase Index	244.7		240.4
8:30AM	Q3 GDP Prelim (%)	3.3	3.2	3.0
10:00AM	Oct Pending Home Sales (%)	3.5	1.0	0.0
Thursday, Nov 30				
8:30AM	Oct Core PCE (y/y) (%)	+1.4		1.3
8:30AM	Oct Personal Income (%)	+0.4	0.3	0.4
8:30AM	Oct Consumer Spending (Consumption) (%)	+0.3	0.3	1.0
8:30AM	w/e Jobless Claims (k)	238	240	239
9:45AM	Nov Chicago PMI	63.9	63.0	66.2
Friday, Dec 01				
10:00AM	Nov ISM Manufacturing PMI	58.2	58.4	58.7
Monday, Dec 04				
10:00AM	Sep Factory orders mm (%)		1.3	1.2
Tuesday, Dec 05				
10:00AM	Nov ISM N-Mfg PMI	57.4	59.0	60.1
Wednesday, Dec 06				
8:15AM	Nov ADP National Employment (k)	190	185	235
Thursday, Dec 07				
8:30AM	w/e Jobless Claims (k)	236	240	238
Friday, Dec 08				
8:30AM	Nov Non-farm payrolls (k)	228	200	261
10:00AM	Dec Consumer Sentiment	96.8	99.0	98.5

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

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

