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## Home Sales Just Crushed Forecasts. Will Taxes Change The Tune?

The tax bill that has been at the center of discussion for the Housing Market was officially signed into law this week. In the days leading up to that, both New and Existing Home Sales **surged** to post-crisis records. Can the new tax policies coexist with a strong housing market?

In a word: **yes**. While there were some provisions in earlier drafts of the tax bill that would have made this question harder to answer, they didn't make the final cut. **Specifically:**

- Capital Gains on Sale of Primary Residence.** As long as you've lived in your primary residence for any 2 of the past 5 years, you can still exclude capital gains on the sale of that home, up to \$500,000 for joint filers (\$250k otherwise). As recently as last week, the bill would have changed that time requirement to 5 of the past 8 years--something that could have greatly inhibited housing turnover.
- Mortgage Interest Deduction.** In the initial draft of the bill, interest would have only been deductible on the first \$500k of your loan balance. That number rises to \$750k in the final bill (still lower than the 2017 limit of \$1m). Any "acquisition indebtedness" (debt that can be traced back to the purchase of the home) that existed or that was under contract to exist as of 12/15/2017 will continue to enjoy the \$1m limit. This applies to refinances as well, as long as the new loan is only refinancing acquisition indebtedness. To be clear, that means you cannot write off additional interest that results from a cash-out refinance. Interest on Home Equity Lines of Credit (HELOCs) is no longer deductible, even on existing HELOCs, except those used as purchase money (up to \$100k).
- State and Local Taxes.** An initial draft of the bill completely killed state and local tax (SALT) deductions, including those for property taxes. The final bill added \$10k back. This might seem like plenty, but in some states, like New Jersey, it's only slightly above average for property taxes alone! In states with a high combination of income and property tax, this \$10k limit could have some effect on homebuying decisions, but it would have to be considered against the much larger "standard deduction." Many taxpayers that had been itemizing deductions in these areas are now expected to opt for the standard deduction.

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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	4.4084	+0.0104
30 YR Treasury	4.5726	+0.0086

Pricing as of: 7/1 6:45AM EST

## Recent Housing Data

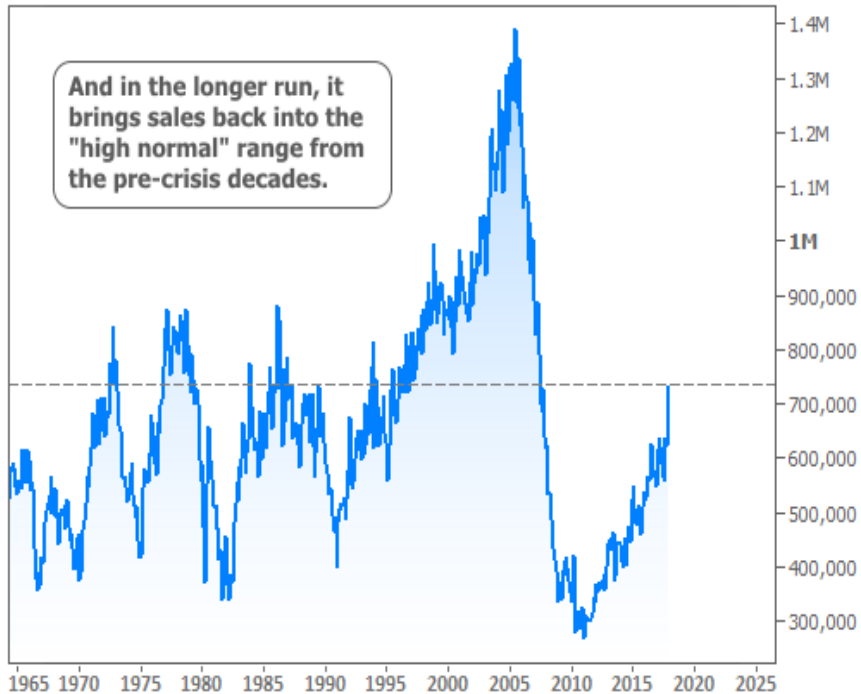
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

All in all, this is a storm that the housing market can weather. It's ability to do so was only reinforced by **EXCEPTIONALLY strong** sales figures this week. **New Home Sales** stood out as the biggest winner, rising a whopping 17.5 percent in November. This isn't merely good in the "post-crisis" context. It puts New Home Sales back in a "high average" historical range.

New Home Sales



New Home Sales



Existing Home Sales may not have surged quite as much as New Home Sales, but they too hit **post-crisis highs**. Moreover, they're in a much stronger spot in the context of the historical trend. The chart below shows plenty of room to weather any effects from new tax policy without exiting a healthy growth trend.

Existing Home Sales

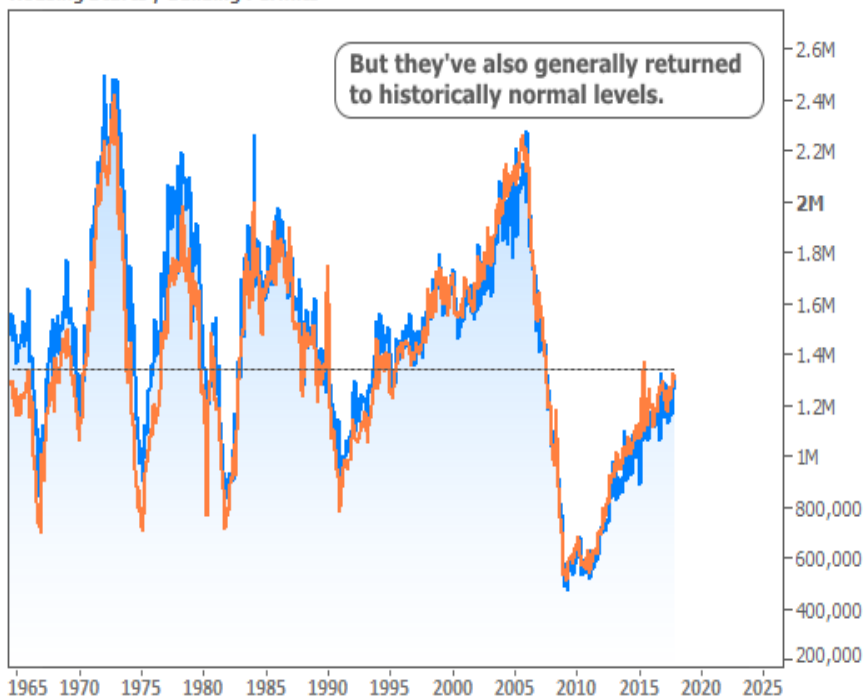


Construction metrics (Housing Starts and Building Permits) weren't quite as balmy as the sales data, but positive trends remained decisively intact.

Housing Starts / Building Permits



Housing Starts / Building Permits



With respectable construction activity and home sales booming, it's no surprise to see [builder confidence](#) also exploring a new post-crisis high. In fact, more than any of the week's other housing-related reports, the NAHB Housing Market Index did the most to return **near all-time highs**. This should be taken with a grain of salt, however, due to the nature of survey data, which tends to oscillate in a steadier range when compared to something like outright sales counts.

Builder Confidence (NAHB Housing Market Index)



Builder Confidence (NAHB Housing Market Index)

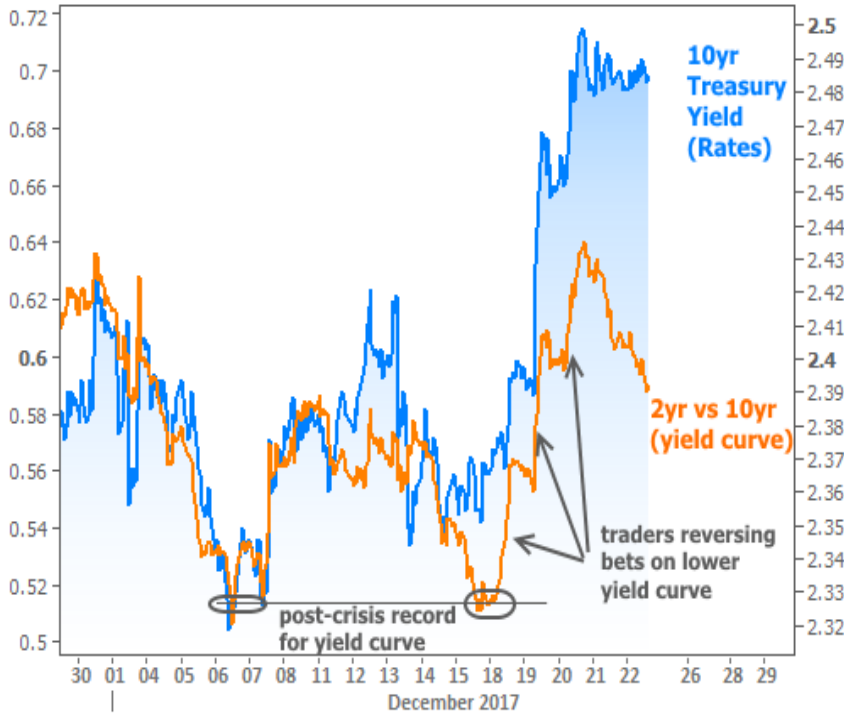


Other than the uncertainties surrounding the tax bill, the **only other cloud** on this week's horizon was a fairly abrupt increase in mortgage rates. This resulted from bond traders exiting the profitable trading positions from 2017 after the 2nd consecutive bounce in a key interest rate metric that measures the gap between longer-term and shorter-term rates. The so-called yield curve is something traders can take a position on, just like stocks.

Betting on a falling (or "tightening") yield curve was all the rage in 2017, and plenty of traders **continue** to expect tightening in 2018. But the 2nd bounce at the post-crisis record combined with the sparse trading conditions in the coming weeks led an **exodus** of traders who took some of those positions off the table for the remainder of 2017.

Removing a bet on a tightening curve often involves selling longer-term bonds, and bond-selling = higher rates. The net effect is mortgage rates that are **.125% higher** than last week in most cases. The 10yr Treasury yield (seen in the chart below) is a good proxy for minute-to-minute mortgage rate pressure.

10yr Treasury Yield ("Rates")



10yr Treasury Yield ("Rates")



Bond markets will be closed for Christmas on Monday, and again next Monday for New Years Day. The days between tend to be a dead zone for relevant goings-on in rates and housing markets.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Dec 18</b>				
10:00AM	Dec NAHB housing market indx	74	70	70
<b>Tuesday, Dec 19</b>				
8:30AM	Nov Building permits: number (ml)	1.298	1.273	1.316
8:30AM	Nov Build permits: change mm (%)	-1.4		7.4
8:30AM	Nov Housing starts number mm (ml)	1.297	1.250	1.290
8:30AM	Nov House starts mm: change (%)	+3.3		13.7
<b>Wednesday, Dec 20</b>				
7:00AM	w/e Mortgage Refinance Index	1240.5		1281.0
7:00AM	w/e MBA Purchase Index	234.3		247.9
7:00AM	w/e Mortgage Market Index	379.2		398.8
10:00AM	Nov Exist. home sales % chg (%)	5.6	0.9	2.0
10:00AM	Nov Existing home sales (ml)	5.81	5.52	5.48
<b>Thursday, Dec 21</b>				
8:30AM	Q3 GDP Final (%)	3.2	3.3	3.3
8:30AM	Dec Philly Fed Business Index	26.2	21.5	22.7
8:30AM	w/e Jobless Claims (k)	245	239	225
9:00AM	Oct Monthly Home Price yy (%)	6.6		6.3
10:00AM	Nov Leading index chg mm (%)	0.4	0.4	1.2
<b>Friday, Dec 22</b>				
8:30AM	Nov Consumer Spending (Consumption) (%)	0.6	0.5	0.3
8:30AM	Nov Core PCE (y/y) (%)	1.5	1.5	1.4
8:30AM	Nov Durable goods (%)	1.3	2.0	-0.8
10:00AM	Nov New home sales-units mm (ml)	0.733	0.654	0.685
10:00AM	Dec U Mich Sentiment Final (ip)	95.9	97.1	96.8
10:00AM	Nov New home sales chg mm (%)	17.5	-4.7	6.2
<b>Tuesday, Dec 26</b>				
9:00AM	Oct CaseShiller 20 yy (%)	6.4	6.3	6.2
10:00AM	Dec Consumer confidence		128.1	129.5
<b>Wednesday, Dec 27</b>				
10:00AM	Nov Pending Home Sales (%)	0.2	-0.4	3.5
1:00PM	5-Yr Note Auction (bl)		34	
<b>Thursday, Dec 28</b>				
8:30AM	w/e Jobless Claims (k)	245	240	245
9:45AM	Dec Chicago PMI	67.6	62.0	63.9

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
1:00PM	7-Yr Note Auction (bl)	28		

## 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**

