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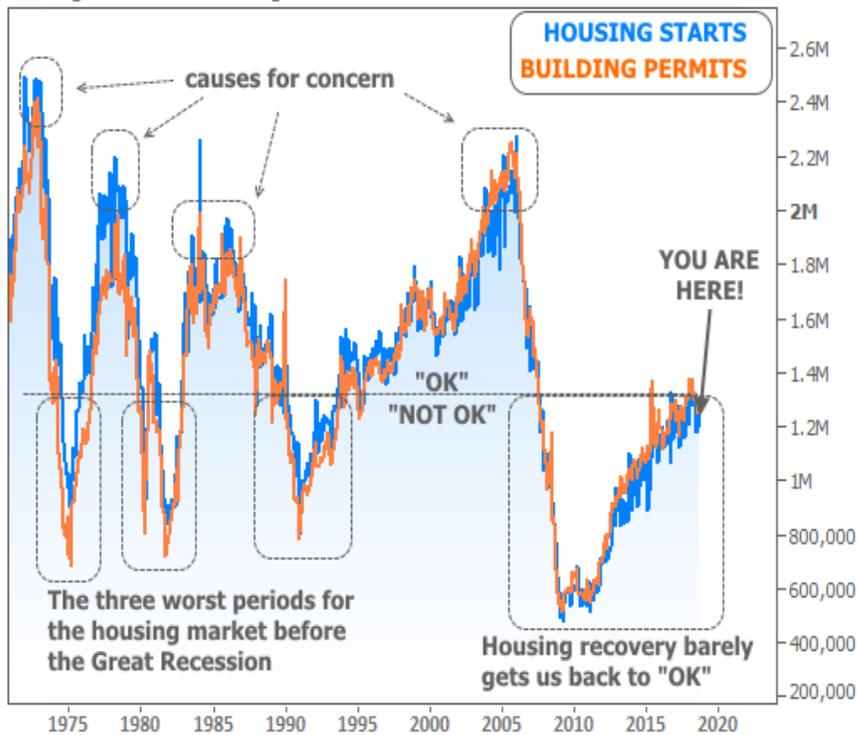
## A Few Great Reasons Not to Lose Hope in Housing and Rates

Times are tougher than they have been for the housing and mortgage markets. Rates are at 7 year highs, and home sales/prices are noticeably cooling. 2008's mortgage meltdown taught us to fear the worst at times like this, but there are some good reasons you probably shouldn't.

Yes, housing is cooling and prices are no longer rising at **unsustainable** levels. There's the first piece of good news, actually! It would have been a concern to see prices continue to rise at more than double the pace of incomes. That was one of the ingredients leading up to the meltdown.

**Another cause for concern** leading up to the meltdown was the fact that home construction numbers (as measured by "housing starts" or building permits) were surging past previous peaks. Those peaks can be seen in the following chart, as well as a line in the sand that separates the 3 worst periods for the housing market from everything else. Notably, our entire current housing recovery has taken place **BELOW** that line. The point is that housing may be cooling, but it was far from overheated.

**Building Permits and Housing Starts**



## 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	4.4049	+0.0069
30 YR Treasury	4.5659	+0.0019

Pricing as of: 7/1 4:55AM 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%

Another unsustainable trend in the housing market until just recently had been the **unprecedented inventory draw-down**. The following chart shows existing home sales, inventory levels (homes for sale), and the annual change in inventory.





The bottom of the chart makes 2012 look **alarming**, but consider that orange line is dependent on inventory levels from 12 months prior. The crisis left us with a mountain of inventory to work through. 2012 was merely on the lower side of normal levels in terms of units, but its rate of change was extreme relative to the mountain.

Existing Home Sales Inventory



2016-2017 was **more of a concern** because we were losing more and more inventory from levels that were already depressed. Even now, inventory remains low, but by moving back into positive territory, it's **paving the way for a more active housing market**, provided other factors fall into place.

**What are the other factors?** Cases could be made for several (wages, student loans, geographical mobility, foreign investment balance), but no one could debate the importance of interest rates.

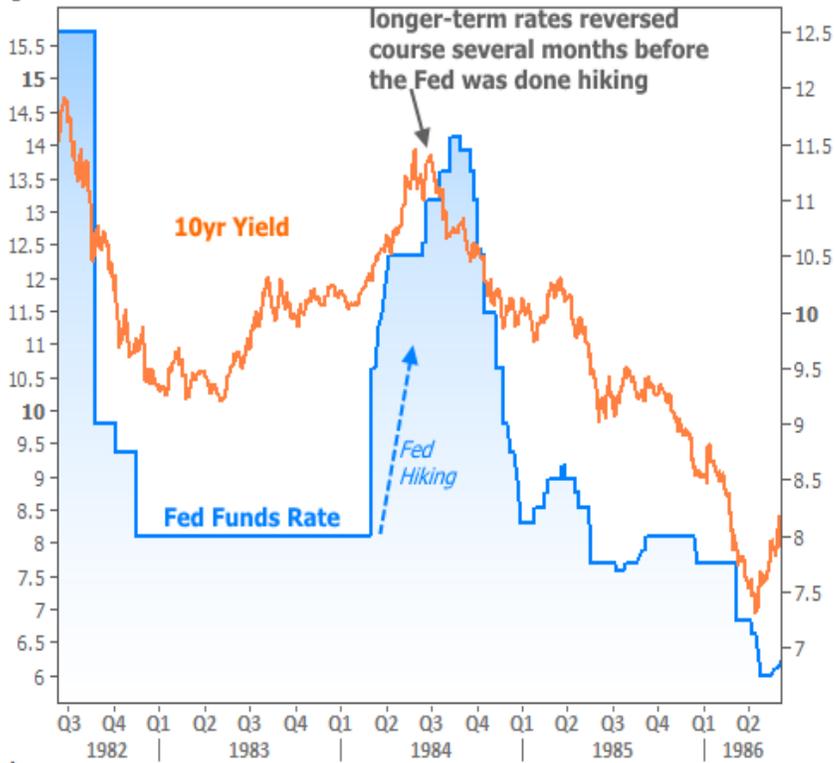
Rates won't make or break a strong housing market, but as we clearly saw in 2013 and again in 2018, they can certainly make a dent. The toughest times are those when rates are spiking and homebuyers are waiting for the top. After rates stabilize, we tend to see activity start to pick up. That means the higher rates go, the **closer we're getting to the starting line** for the next leg up in housing.

At present, daydreaming about a top in rates might seem fairly hopeless. Indeed, it could take months before it finally happens, but odds increase significantly in 2019. This has to do with the timing of the typical cycle in longer-term rates versus the Fed Funds Rate.

The Fed controls overnight rates. Mortgages share most of their DNA with longer-term rates like 10yr Treasury yields. The charts below show every past example of a distinct Fed rate **hike** cycle (like the one we're in now) followed by the subsequent rate **cut** cycle going back to the 80's.

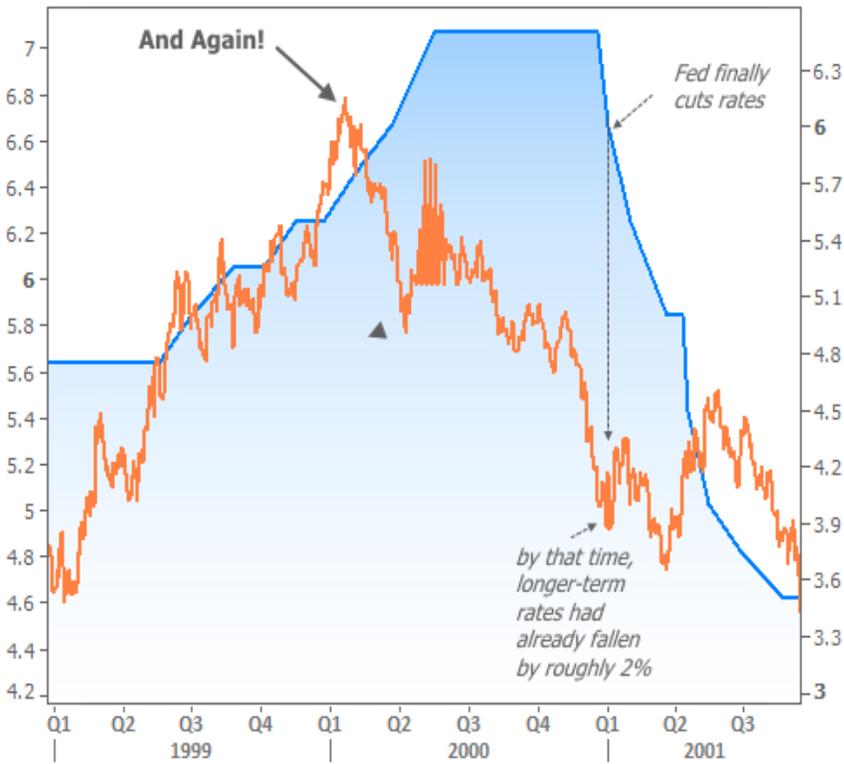
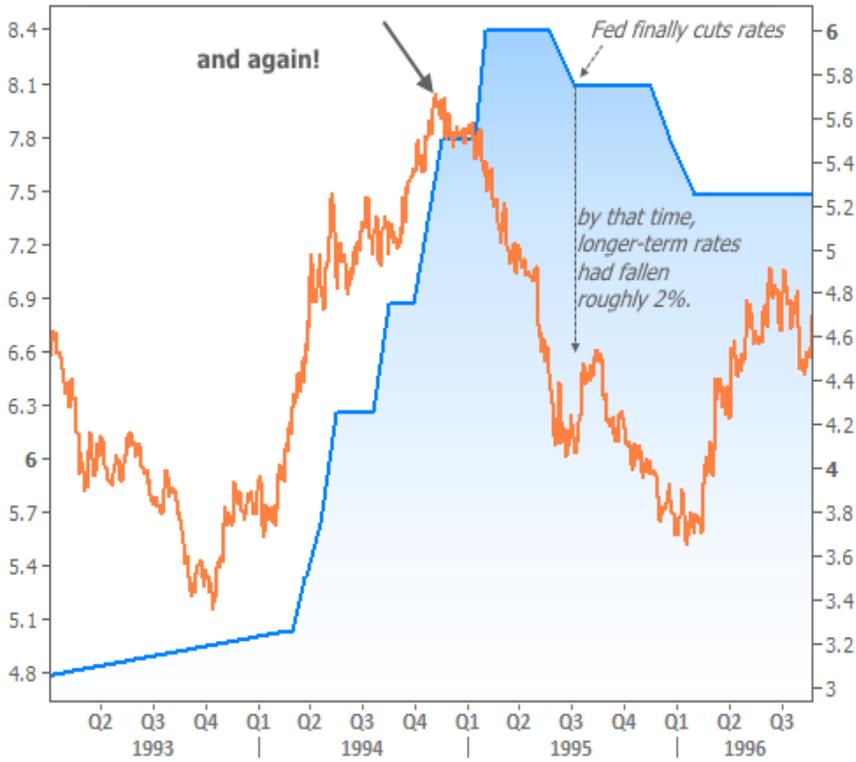
The blue line is the Fed Funds Rate (the Fed is beginning a rate **cut** cycle when the blue line moves **lower** for more than a few months). The orange line is the the 10yr Treasury yield (a stand-in for mortgage rates in this case).

longer term rates vs Fed



The y-axis is different in each chart, so some of the movement is bigger/smaller than it looks at first glance, but we're only interested in **how** and **WHEN** the orange line moves relative to the blue line. You'll definitely notice a theme...





So **what's the point of all this?** Simply put, the Fed will be the first to tell you that it will be close to the end of the current rate hike cycle by the middle of next year. Unless the economy and inflation are just screaming higher, that means we'll have already seen longer-term rates top out, just as they did in every single past example in the charts above.

Bottom line: I can't promise you that a big, friendly bounce in rates will happen at any specific time, but I can tell you it will eventually happen, and that we're getting close enough to talk about it.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Oct 15</b>				
8:30AM	Sep Retail Sales (%)	0.1	0.6	0.1
8:30AM	Oct NY Fed Manufacturing	21.10	19.00	19.00
10:00AM	Aug Business Inventories (%)	0.5	0.5	0.6
<b>Tuesday, Oct 16</b>				
9:15AM	Sep Capacity Utilization (%)	78.1	78.2	78.1
9:15AM	Sep Industrial Production (%)	0.3	0.2	0.4
10:00AM	Oct NAHB housing market indx	68	67	67
<b>Wednesday, Oct 17</b>				
8:30AM	Sep Building permits: number (ml)	1.241	1.278	1.249
8:30AM	Sep House starts mm: change (%)	-5.3		9.2
8:30AM	Sep Housing starts number mm (ml)	1.201	1.220	1.282
8:30AM	Sep Build permits: change mm (%)	-0.6		-4.1
<b>Thursday, Oct 18</b>				
8:30AM	Oct Philly Fed Business Index	22.2	20.0	22.9
10:00AM	Sep Leading index chg mm (%)	0.5	0.5	0.4
<b>Friday, Oct 19</b>				
10:00AM	Sep Exist. home sales % chg (%)	-3.4	-0.7	0.0
10:00AM	Sep Existing home sales (ml)	5.15	5.30	5.34

## 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.

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