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Finally a Glimmer of Hope For Mortgage Market Chaos

The last few newsletters paint an incredibly interesting and volatile picture for the mortgage market. Just as the industry was coming to terms with unprecedented market volatility due to coronavirus, the details of the CARES Act (the coronavirus rescue/stimulus/relief bill) presented their own set of challenges. For some lenders and borrowers, these challenges are an even bigger deal than the recent market movement.

What's the big deal with the rescue bill?

The biggest issue is that the CARES Act allows homeowners to skip payments for up to 360 days due to coronavirus-related hardship but does not allow mortgage servicers (the place you send your payment) to verify the hardship. In other words, anyone can request a forbearance, whether they need it or not. Unfortunately, too many homeowners exercise this option, it will cause a domino effect that cripples the mortgage industry.

Indeed, several types of loans are **already dead**--essentially overnight. Other sectors saw massive increases in rates and loan standards. This has nothing to do with lenders trying to make life harder for people who need help and everything to do with mortgage investors repricing the moral hazard introduced by the CARES Act.

What does that mean? Lenders can objectively forecast forbearance needs based on economic data, but only if forbearance is limited to those who truly need it. If forbearance is open to everyone, we have a problem. Lenders cannot perfectly predict how the homeowner's crisis mindset will increase forbearance uptake. That means mortgage investors were quickly forced to reconsider the value they assign to certain types of loans and borrowers. That might have been a relatively quick and less painful process if the CARES Act included a protection for mortgage servicers. As it stands, the bill effectively says anyone can skip a payment and mortgage servicers simply won't be paid or protected on those loans.

At the same time, servicers are on the hook for those payments. In many cases, they are scheduled to be passed through to a separate mortgage investor whether homeowners pay or not. Under normal circumstances and even under recessionary circumstances, servicers have enough of cushion to front that money while they take steps to collect. But the **unprecedented** glut of joblessness is creating a situation that no stress test could ever account for. It makes very little sense for mortgage investors to put their money in a

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	4.3902	-0.0078
30 YR Treasury	4.5578	-0.0062

Pricing as of: 7/1 12:49AM 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%

box that might not open up for 360 days--especially when the average investor wants fast access to cash and liquidity right now (loans in forbearance cannot be easily or profitably sold).

Again, no one in the mortgage industry is making a conscious decision to make things harder for consumers/homeowners. Mortgage investors are simply hesitant to buy until the uncertainties are sorted out. That hesitation translates directly to higher costs/rates for certain mortgage programs and the outright demise of others. The **situation was so bad** that it was even affecting rates for the best of the best conforming, conventional scenarios.

The powers that be are well aware of the issues. Treasury has formed a task force specifically to address them. **Fed Chair Powell** said he is watching mortgage servicers carefully as a key market. The Mortgage Bankers Association has consistently advocated for logical treatment with officials. And several senators penned an [urgent letter](#) to Treasury Secretary Mnuchin that mostly hit the nail on the head.

All of the above has created some hope for progress. After weeks of messy, inconsistent, counter-intuitive shifts in mortgage rates, we're **finally** starting to see things move in more measured steps and in more logical directions. This is primarily happening for mortgages with the fewest risk factors right now, but the sooner we gain clarity on the size of the forbearance tsunami and the efficacy of any official relief/backstop efforts for mortgage servicers/investors, the sooner consumers will see rates and availability return in other programs.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Apr 08				
7:00AM	w/e MBA Purchase Index	185.9		211.7
7:00AM	w/e Mortgage Refinance Index	3853.1		4781.1
Thursday, Apr 09				
8:30AM	Mar Core Producer Prices YY (%)	1.4	1.2	1.4
8:30AM	w/e Jobless Claims (k)	6606	4606	6648
10:00AM	Apr Consumer Sentiment	71.0	75.0	89.1
Friday, Apr 10				
8:30AM	Mar Core CPI (Annual) (%)	2.1	2.3	2.4
Tuesday, Apr 14				
8:30AM	Mar Import prices mm (%)	-2.3	-3.2	-0.5
Wednesday, Apr 15				
7:00AM	w/e Mortgage Refinance Index	4242.7		3853.1
7:00AM	w/e MBA Purchase Index	182.6		185.9
8:30AM	Mar Retail Sales (%)	-8.7	-8.0	-0.5
8:30AM	Apr NY Fed Manufacturing	-78.2	-35.00	-21.50
9:15AM	Mar Industrial Production (%)	-5.4	-4.0	0.6
10:00AM	Apr NAHB housing market indx	30	55	72
10:00AM	Feb Business Inventories (%)	-0.4	-0.4	-0.1
Thursday, Apr 16				
8:30AM	Mar House starts mm: change (%)	-22.3		-1.5

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Mar Build permits: change mm (%)	-6.8		-6.3
8:30AM	Mar Housing starts number mm (ml)	1.216	1.300	1.599
8:30AM	Mar Building permits: number (ml)	1.353	1.300	1.452
8:30AM	Apr Philly Fed Business Index	-56.6	-30.0	-12.7

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

