



**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](mailto:mike@rateshopkc.com)  
[View My Website](#)

## All-Time Low Mortgage Rates!

Before coronavirus, the average 30yr fixed mortgage rate was almost always 1.6% to 2.0% higher than 10yr Treasury yields. When bond volatility was extreme (especially when Treasury yields were dropping quickly), that gap could be wider, but it was never even close to current levels. Why might this be?

When an investor buys a US Treasury Note, there's effectively **no risk** that the government will fail to send a payment on time. Believe it or not, this is largely the case with most of the mortgage market as well--or at least it was the case before coronavirus.

Mortgage investors have a safety net that guarantees timely payment even if homeowners **aren't** making payments. The problem with coronavirus is that the amount of non-paying homeowners is higher than ever thought possible. It led mortgage investors to question the strength of existing safety nets.

Even though investors have no doubt they'll get paid **eventually**, there has been plenty of uncertainty surrounding the timeliness of the payments as well as other costs that might arise in this unprecedented environment.

When a mortgage investor is guarding against uncertainty, it makes rates **higher** than they otherwise would be. When they're guarding against an unprecedented amount of uncertainty, it makes rates **MUCH** higher than they otherwise would be.

That can be seen in the following chart of average 30yr fixed rates versus the 10yr Treasury yield. The orange line is simply the difference between the two. The higher it is, the higher mortgage rates are relative to Treasury yields. As the pace of new forbearances subsides, they've been closing the gap surprisingly well.

## 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

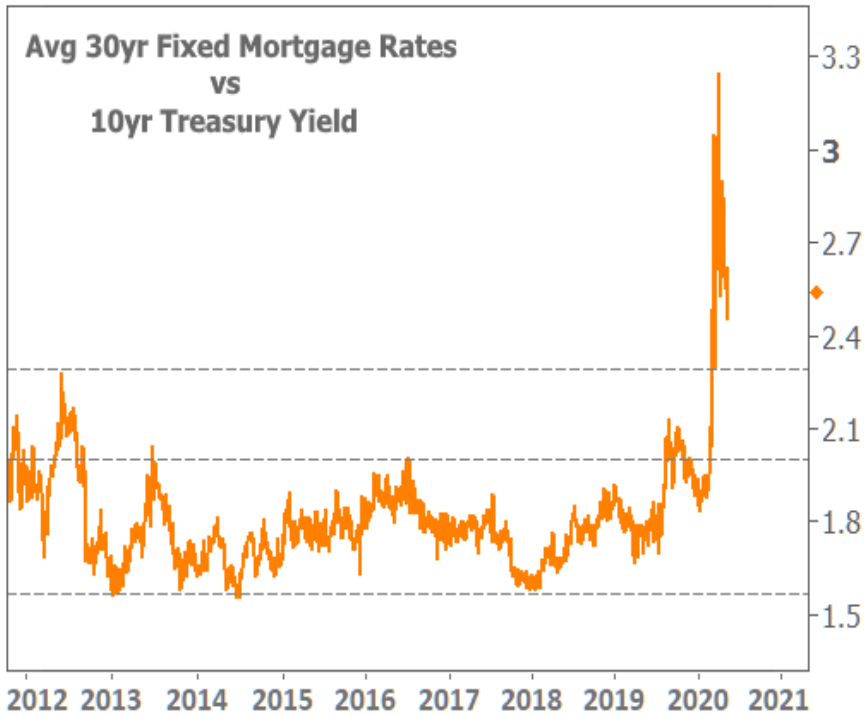
## Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3902	-0.0078
30 YR Treasury	4.5578	-0.0062

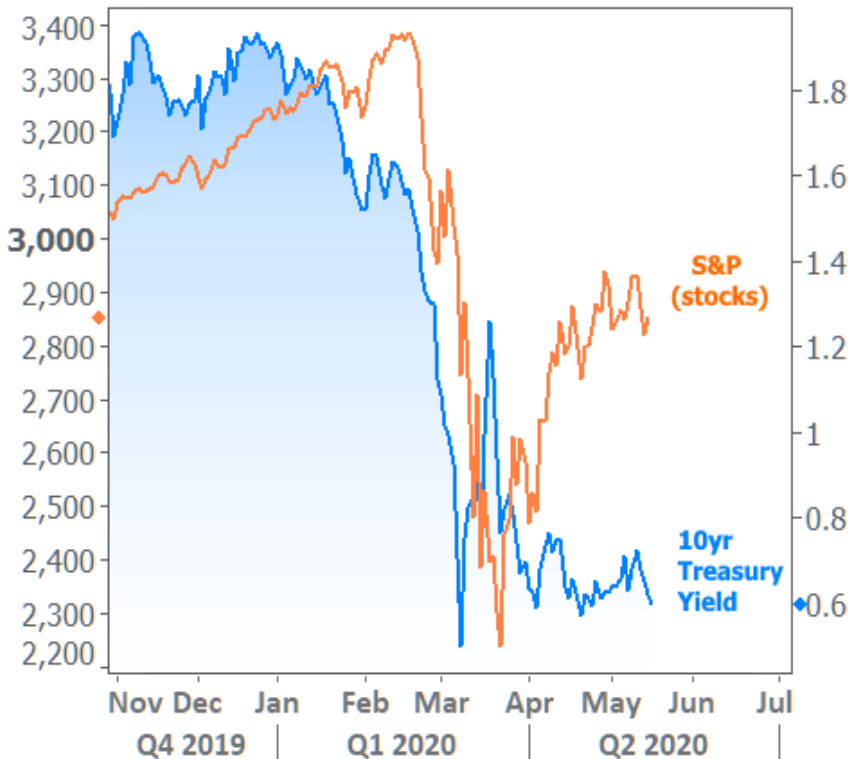
Pricing as of: 7/1 12:49AM EST

## Recent Housing Data

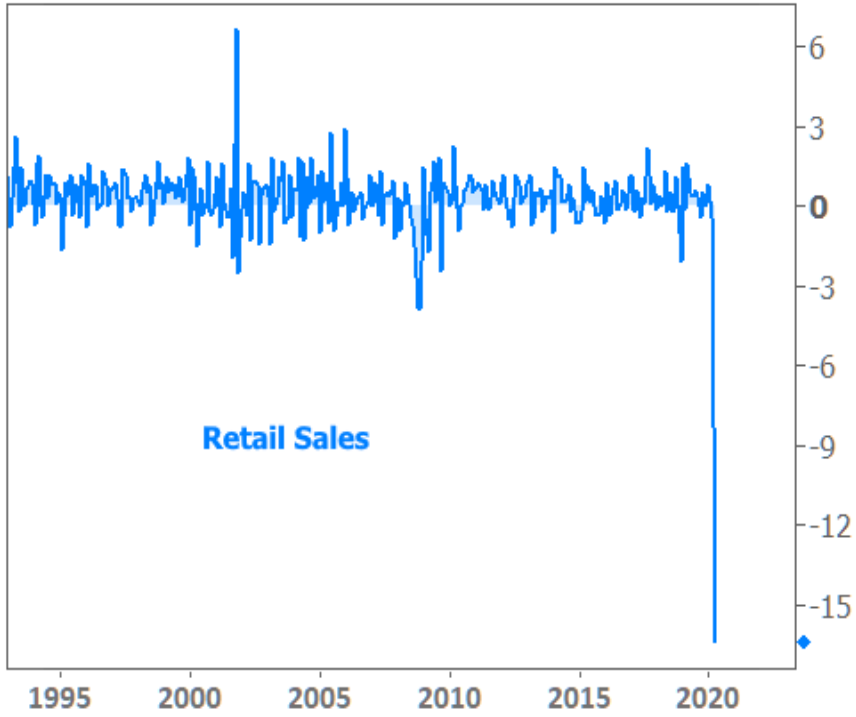
		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



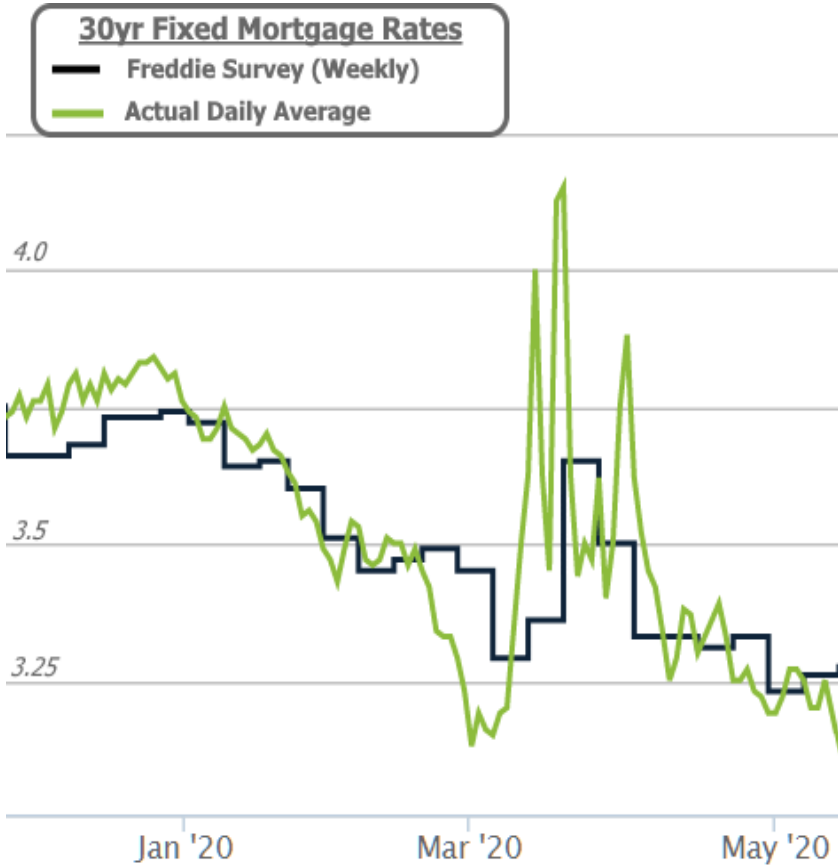
This **wouldn't** mean too much for the mortgage market if Treasuries happened to be following stock prices higher. Thankfully they're not.



Actually, the notion of being thankful for the current stance in Treasuries is a double-edged sword because it amounts to being **thankful for bad news**. If there's a reason that Treasury yields have been able to remain so resiliently low, it's the incredibly downbeat economic outlook. The latest evidence came in the form of Friday morning's Retail Sales report, which was easily the weakest on record.



Let's put these pieces together. We have super low, relatively flat Treasury yields. We also have mortgage rates that are finally starting to close their historical gap with Treasury yields. Together, this adds up to a nice drop in mortgage rates. As of Friday, the average conforming conventional 30yr fixed rate set a new all-time low.



This victory is tempered, for some, by the current reality of cautious mortgage investors. While they've begun to warm up to the most ideal loan scenarios, anything "off-the-beaten-path" isn't nearly as close to historical lows. This group includes risk factors like cash-out refinances, lower FICO scores, investment properties, and higher loan-to-value ratios. Combine more than a few of those factors and many lenders won't even do the loan, let alone offer a decent rate. This will change eventually, but it will take clarity on the reopening of the economy and plenty of **time**.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Tuesday, May 12</b>				
8:30AM	Apr Core CPI (Annual) (%)	1.4	1.7	2.1
<b>Wednesday, May 13</b>				
7:00AM	w/e MBA Purchase Index	243.3		220.0
7:00AM	w/e Mortgage Refinance Index	3709.3		3835.7
8:30AM	Apr Core Producer Prices YY (%)	0.6	0.9	1.4
<b>Thursday, May 14</b>				
8:30AM	w/e Jobless Claims (k)	2981	2425	3169
8:30AM	w/e Continued jobless claims (ml)	22.833	25.100	22.647
<b>Friday, May 15</b>				
8:30AM	Apr Retail Sales (%)	-16.4	-12.0	-8.7
8:30AM	May NY Fed Manufacturing	-48.50	-63.50	-78.20
9:15AM	Apr Industrial Production (%)	-11.2	-11.5	-5.4
10:00AM	May Consumer Sentiment	73.7	68.0	71.8
10:00AM	Mar Business Inventories (%)	-0.2	-0.2	-0.4
<b>Monday, May 18</b>				
10:00AM	May NAHB housing market indx	37	35	30
<b>Tuesday, May 19</b>				
8:30AM	Apr Build permits: change mm (%)	-20.8		-7.0
8:30AM	Apr Housing starts number mm (ml)	0.891	0.927	1.216
8:30AM	Apr Building permits: number (ml)	1.074	1.000	1.350
8:30AM	Apr House starts mm: change (%)	-30.2		-22.3
<b>Wednesday, May 20</b>				
7:00AM	w/e MBA Purchase Index	258.9		243.3
7:00AM	w/e Mortgage Refinance Index	3474.1		3709.3
<b>Thursday, May 21</b>				
8:30AM	May Philly Fed Business Index	-43.1	-41.5	-56.6
9:45AM	May PMI-Composite (source:Markit)	36.4		27.0
10:00AM	Apr Existing home sales (ml)	4.33	4.30	5.27
10:00AM	Apr Exist. home sales % chg (%)	-17.8	-18.9	-8.5

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Apr Leading index chg mm (%)	-4.4	-5.5	-6.7
<b>Wednesday, Jul 08</b>				
1:00PM	10-yr Note Auction (bl)	29		

## 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**

