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

The Rate Also Rises

Years from now when scientists examine mortgage rates in July 2020, they'd be forgiven for coming to the conclusion that rates only ever move lower. As we've learned in the first week of August, rates also rise.

To be fair, there were a few days in July where more than a few lenders moved slightly higher in rate, but it really wasn't until this week that we arguably saw a shift in the broader trend--or at least warning signs about a potential shift.

What does that mean, exactly?

It might not mean much at all, depending on where we go from here. Over longer time horizons, it's entirely possible that rates return to recent record lows. This week's upward movement serves as more of a warning about complacency and about being ready to lock if you happen to have a loan in process.

In that regard, August is no different than any other month. Lenders all have certain requirements that must be met--certain documentation that must be submitted--before they'll lock your loan. It's always a good idea to clear those hurdles ASAP as it leaves you in the most flexible position. If scary things are happening in the rate market, you can lock ASAP! If rates are moving calmly lower, you're ready to react whenever that changes and can rest easy in the meantime.

So is this one of those scary times?

As of right now, things aren't too scary. Rates have certainly moved up a bit from recent lows (despite what you may have seen elsewhere), but they remain exceptionally low in the bigger picture. The decision to roll the dice on rates coming back down is a matter of personal preference, but I wouldn't take it lightly.

We can get a sense of momentum in the broader bond market by looking at 10yr Treasury yields. These don't directly dictate rates, but if there's a decisive shift in 10yr Treasuries, mortgage rates will likely be moving in the same direction.

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	4.3892	-0.0088
30 YR Treasury	4.5568	-0.0072

Pricing as of: 6/30 10:50PM 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%

In thinking about the link between coronavirus and rates, it's easy to conclude that rates will stay low or move lower. A lot of people have made similarly easy conclusions about market movement in the past only to find out that the market doesn't always behave logically.

To be clear, I'm NOT saying rates are destined to continue higher from here. Instead, the takeaway from this week is that rates CAN move higher even when it looks like such a move isn't in the playbook. Moreover, we should increasingly be on the lookout for corrections when rates have been doing one thing in a very consistent way for weeks on end. This is one of the key reasons for last week's discussion on whether or not you should wait for lower rates.

What are the key factors likely to drive that momentum (or the potential reversal)?

Past precedent teaches us that rates consistently respond to the economy. With Friday's big jobs report--traditionally the most important economic data to the bond market--coming in stronger than expected, it's tempting to blame it for the upward pressure on rates.

In the current environment, however, traders are far more interested in stimulus negotiations and next week's Treasury auctions (where the US government sells Treasury notes/bonds to investors). Both of these speak to the SUPPLY of bonds in the market. Simply put, we need a lot of them to pay for stimulus and the ongoing revenue shortfall (due to things like tax cuts and significantly lower economic activity).

Like anything, higher supply means lower prices, and when it comes to bonds, lower prices mean higher rates. Of course this is one of those "all other things being equal" kind of points. Traders already knew about stimulus and supply. Even so, it's not uncommon to see the bond market get a bit nervous as it waits for clarity. After next week's record-sized Treasury auctions and additional stimulus negotiations, we'll have a much better sense of the effects on supply as well as the market's willingness to buy it!

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Recent Economic Data

Event Importance:

Date	Event	Actual	Forecast	Prior
Monday, Aug 03				
10:00AM	Jun Construction spending (%)	-0.7	1.0	-2.1
10:00AM	Jul ISM Manufacturing PMI	54.2	53.6	52.6
Tuesday, Aug 04				
10:00AM	Jun Factory orders mm (%)	6.2	5.0	8.0
Wednesday, Aug 05				
7:00AM	w/e MBA Purchase Index	300.7		306.1
7:00AM	w/e Mortgage Refinance Index	3688.1		3955.9
8:15AM	Jul ADP National Employment (k)	167	1500	2369
10:00AM	Jul ISM N-Mfg PMI	58.1	55.0	57.1
Thursday, Aug 06				
8:30AM	w/e Jobless Claims (k)	1186	1415	1435
Friday, Aug 07				
8:30AM	Jul Non-farm payrolls (k)	1763	1600	4800
8:30AM	Jul Unemployment rate mm (%)	10.2	10.5	11.1
3:00PM	Jun Consumer credit (bl)	8.95	10.00	-18.28
Tuesday, Aug 11				
8:30AM	Jul Core Producer Prices YY (%)	0.3	0.0	0.1
1:00PM	3-Yr Note Auction (bl)	48		
Wednesday, Aug 12				
7:00AM	w/e Mortgage Refinance Index	4025.0		3688.1
7:00AM	w/e MBA Purchase Index	306.6		300.7
8:30AM	Jul Core CPI (Annual) (%)	1.6	1.1	1.2
Friday, Aug 14				
8:30AM	Jul Retail Sales (%)	1.2	1.9	7.5
9:15AM	Jul Industrial Production (%)	3.0	3.0	5.4
10:00AM	Aug Consumer Sentiment	72.8	72.0	72.5
Wednesday, Oct 07				
1:00PM	10-yr Note Auction (bl)	35		
Thursday, Oct 08				
1:00PM	30-Yr Bond Auction (bl)	23		

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