



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](#)

Rates Catch a Break. Will it Last? What's The Impact on Housing?

The biggest story for the mortgage and housing market so far in 2021 has been the big **spike** in mortgage rates. It has been more abrupt and covered more ground than all but the worst historical examples. That said, it was **always** going to happen when the covid outlook improved.

For something that was "always going to happen," the rate spike still managed to catch many people off guard. The **biggest reason** for that was the disconnect between mortgage rates and the bonds that typically dictate mortgage rate movement.

There are actually two types of bonds that affect mortgage rates: Treasuries in a general sense, and mortgage-backed bonds specifically. To make a long story short, the pandemic resulted in an **unprecedented breakdown** in the normal correlations between bonds and rates.

The simplest way to think about the breakdown is that lenders simply couldn't keep up with demand and higher rates helped to slow things down. This also bolstered profit margins heading into an uncertain era of profitability due to mortgage relief programs in the CARES Act.

In visual terms, this created a **huge blowout** whereby mortgage rates remained **MUCH** higher than the bond market suggested. We warned on multiple occasions that this was temporary (especially **HERE in December**), and that if the reconnection with the bond market coincided with additional bond losses, it would be a fairly nasty double whammy for mortgage rates. Unfortunately, that's exactly how things have played out.

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

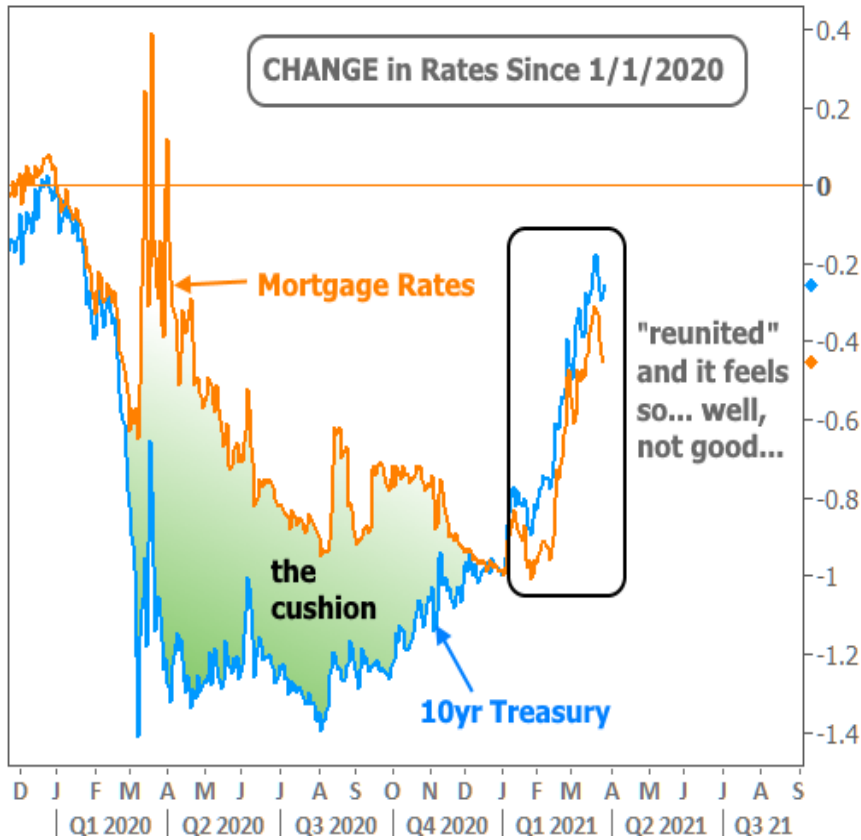
Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3931	-0.0049
30 YR Treasury	4.5597	-0.0043

Pricing as of: 6/30 10:43PM EST

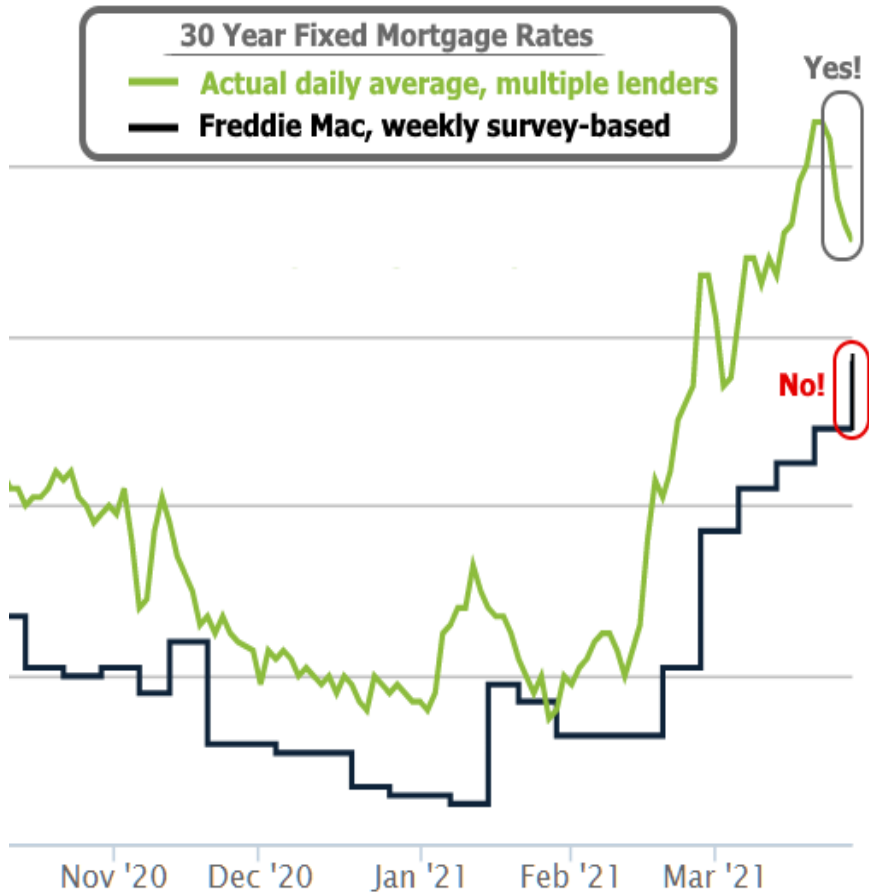
Recent Housing Data

		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%

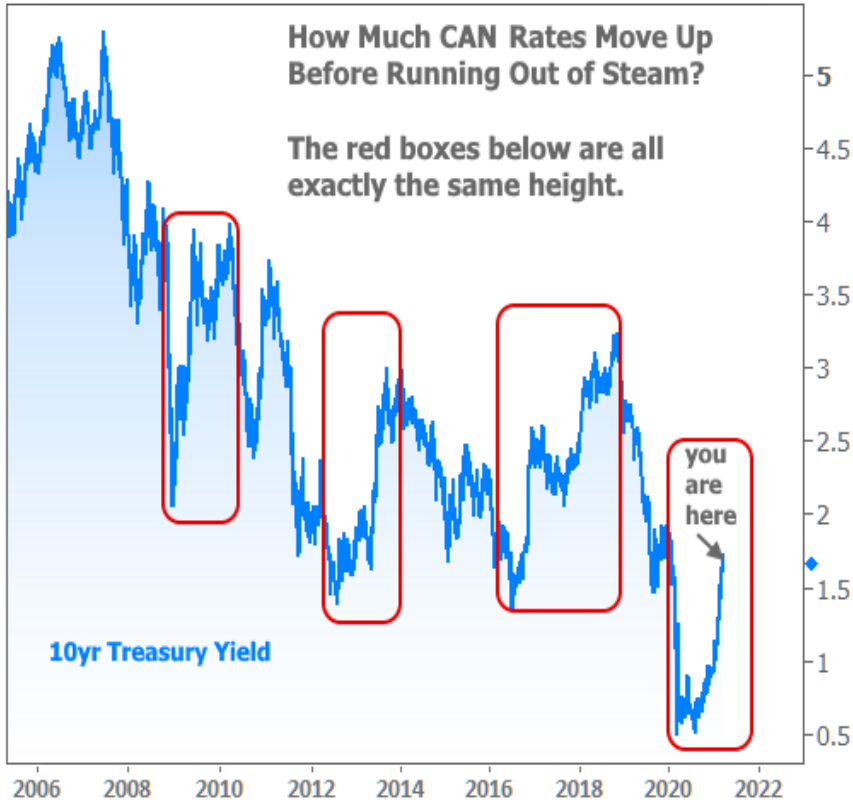


Considering the size and scope of the rate spike, public awareness has been slow to set in. That's actually the norm. One big issue on that front is the over-reliance on rate benchmarks like Freddie Mac's weekly survey, which unfortunately **lags well behind** reality when things are moving quickly. A vast majority of large media outlets use that survey data to report on mortgage rate movement for the week.

Up until last week, the survey based data was vastly under-representing the true pace of rising rates. Things are a bit different this week. We actually had a moderate **recovery** in rates on the first 4 days of the week while Freddie's survey data continued getting caught up with the persistent move higher.

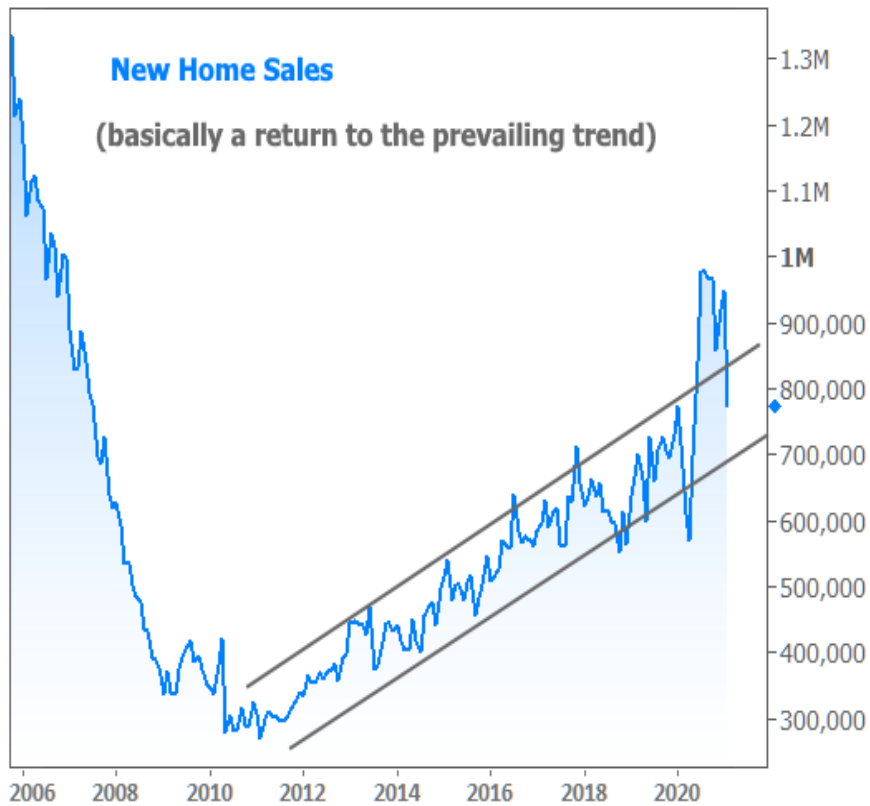


Be careful about assuming that this is some sort of "top" for rates. While that's a possibility, it's equally possible we're just leveling off before rates decide where to go next. History provides some good context as to how much ground can be covered in these rising rate environments.



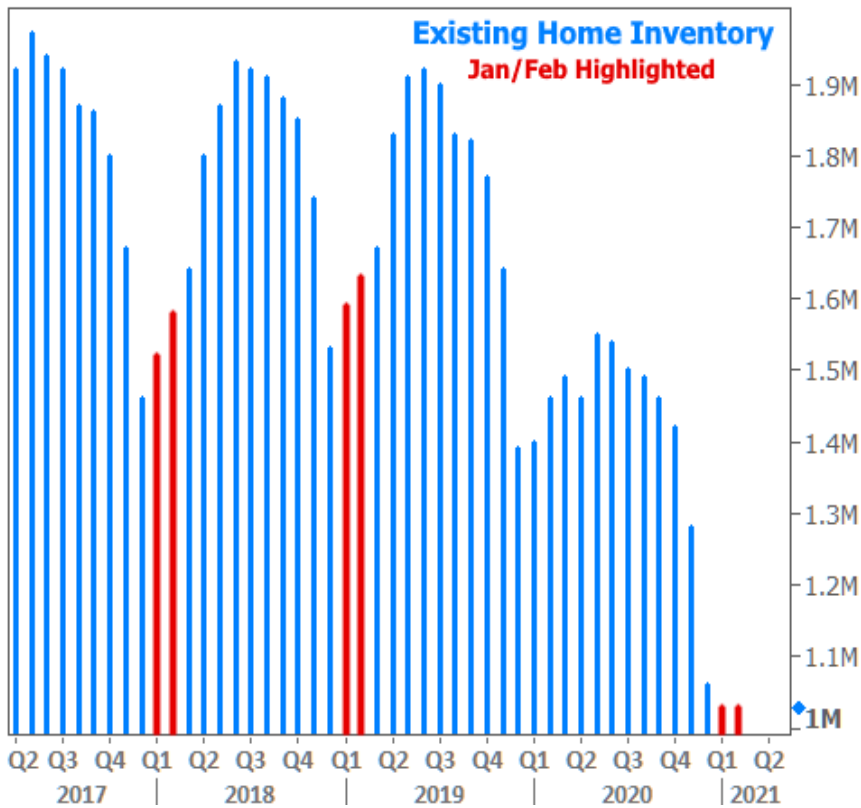
It's **more than fair** to wonder what sort of impact the rate spike is having on the housing market, but the answer is much more complex than the question. For instance, we **could** look at the housing data that came out this week and conclude that activity has cooled off thanks to higher rates.





While past examples suggest rates have some impact on the purchase market, it's almost never this abrupt, and it's never enough to cause a reversal in prevailing real estate trends--not by itself anyway.

In the current environment, **inventory** is just as much of an issue as anything--and probably a bigger issue than rates when it comes to explaining the recent slide in sales figures. **Case in point:** consider the complete absence of inventory building in January and February--something that happens with extreme reliability over the years.



In the week ahead, markets will continue to focus on covid-related statistics where solid domestic progress has been offset, somewhat, by a resurgence in Europe. Some traders are also waiting to see if Spring Break leads to a domestic resurgence.

It is also "month/quarter-end" and that can create **huge trading needs** for big money managers. Some analysts have suggested these money managers will be big buyers of bonds (which could help rates move lower) while others are more focused on Japan's fiscal year end (Japan is a big buyer and, more recently, a big seller of US Treasuries--something that has added upward pressure on interest rates in March).

Either way, the coming week and month promise to settle bets as to whether or not rates will take a break from recent drama or continue setting new longer-term highs. Granted, when long term highs are still in the "low 3's," it's hard to be too upset, but everything's relative when rates are nearly half a point higher than they were several weeks ago.

Subscribe to my newsletter online at: <http://housingnewsletters.com/rateshopkc>

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Mar 22				
10:00AM	Feb Existing home sales (ml)	6.22	6.50	6.69
10:00AM	Feb Exist. home sales % chg (%)	-6.6	-3.0	0.6
Tuesday, Mar 23				
10:00AM	Feb New Home Sales (%) (%)	-18.2	-6.5	4.3
10:00AM	Feb New Home Sales (ml)	0.775	0.875	0.923
Wednesday, Mar 24				

Event Importance:

- No Stars = Insignificant
- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important

Date	Event	Actual	Forecast	Prior
7:00AM	w/e MBA Purchase Index	301.9		294.3
7:00AM	w/e MBA Refi Index	3325.3		3504.9
8:30AM	Feb Durable goods (%)	-1.1	0.8	3.4
8:30AM	Feb Core CapEx (%)	-0.8	0.5	0.4
9:45AM	Mar PMI-Composite (source:Markit)	59.1		59.5
1:00PM	5-Yr Note Auction (bl)	61		
Thursday, Mar 25				
8:30AM	Q4 GDP Final (%)	4.3	4.1	4.1
8:30AM	w/e Continued Claims (ml)	3.870	3.800	4.124
8:30AM	w/e Jobless Claims (k)	684	680	770
1:00PM	7-Yr Note Auction (bl)	62		
Friday, Mar 26				
9:30AM	Feb Core PCE Inflation (y/y) (%)	1.4	1.5	1.5
10:00AM	Mar Sentiment: 5y Inflation (%)	2.7		2.7
10:00AM	Mar Sentiment: 1y Inflation (%)	3.1		3.1
10:00AM	Mar Consumer Sentiment (ip)	84.9	83.6	83.0
Tuesday, Mar 30				
9:00AM	Jan CaseShiller 20 yy (%)	11.1	11.0	10.1
9:00AM	Jan CaseShiller 20 mm SA (%)	1.2	1.2	1.3
9:00AM	Jan Monthly Home Price mm (%)	1.0		1.1
10:00AM	Mar Consumer confidence	109.7	96.9	91.3
Wednesday, Mar 31				
7:00AM	w/e MBA Purchase Index	297.3		301.9
7:00AM	w/e MBA Refi Index	3242.1		3325.3
8:15AM	Mar ADP National Employment (k)	517	550	117
9:45AM	Mar Chicago PMI	66.3	60.7	59.5
10:00AM	Feb Pending Sales Index	110.3		122.8
10:00AM	Feb Pending Home Sales (%)	-10.6	-2.9	-2.8
Thursday, Apr 01				
10:00AM	Mar ISM Manufacturing PMI	64.7	61.3	60.8
10:00AM	Feb Construction spending (%)	-0.8	-1.0	1.7
Friday, Apr 02				
8:30AM	Mar Non-farm payrolls (k)	916	647	379
8:30AM	Mar Unemployment rate mm (%)	6.0	6.0	6.2

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

