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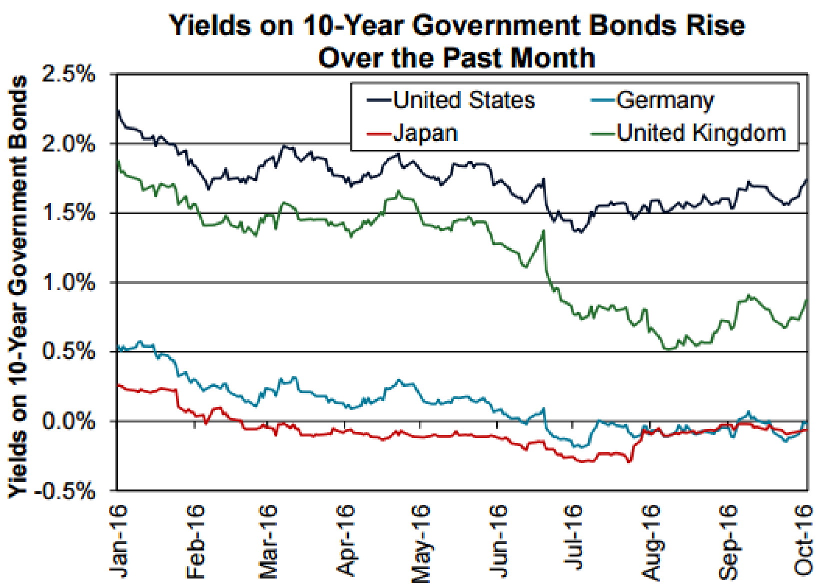
Housing Losing Momentum -Fannie Mae

Fannie Mae says it expect economic growth **will improve** on its anemic performance in the first half of 2016 in the second half of the year, rising to 2.4 percent from 1.1 percent. This estimate in the company's October *Economic Developments Commentary* is a slightly slower pace of growth than its economic and strategic research team had predicted earlier. Their full year forecast remains at 1.8 percent.

Treasury yields have moved higher recently along with long-term sovereign yields in other developed markets as investors perceive the global central banks such as the European Central Bank and the Bank of Japan are **tapering** their quantitative easing programs. Financial markets also remain convinced that the Federal Reserve will increase the target rate this year, something supported by the Fed Funds futures which put the odds at 65 percent. Because a lot of data including two jobs reports are due before the next Federal Open Market Committee meeting however, Fannie Mae is continuing to predict there will be no rate hike this year.



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
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.02%	-0.05	0.65
15 Yr. Fixed	6.60%	-0.15	0.55
30 Yr. FHA	6.87%	0.00	0.92
30 Yr. Jumbo	7.18%	-0.03	0.54
5/1 ARM	6.45%	+0.08	0.81

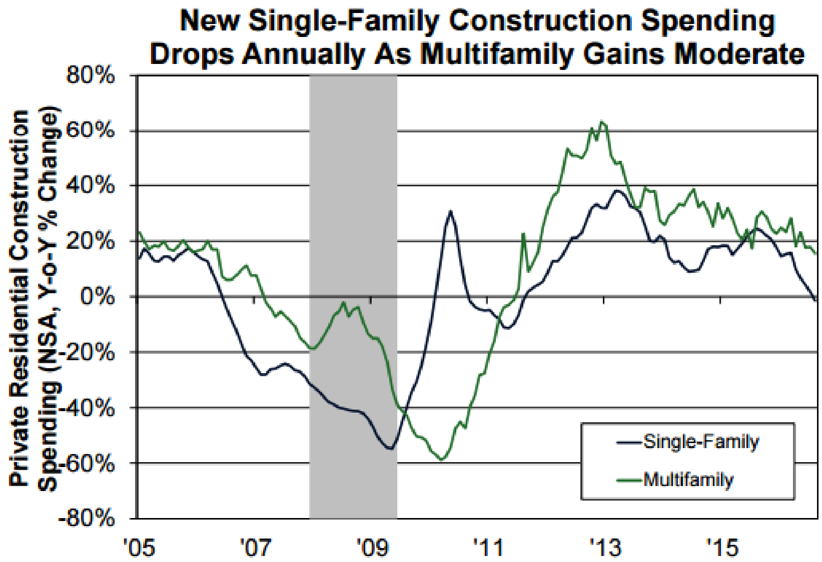
Rates as of: 6/28

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%

		Value	Change
Builder Confidence	Mar	51	+6.25%

Fannie Mae calls private residential construction "**lackluster**," driven by the ongoing decline in new single-family construction spending which was down in August for the sixth consecutive month and fell below year-earlier figures for the first time in five years. Spending on multi-family construction is still growing but the annual increase has moderated to the weakest pace since October 2011.

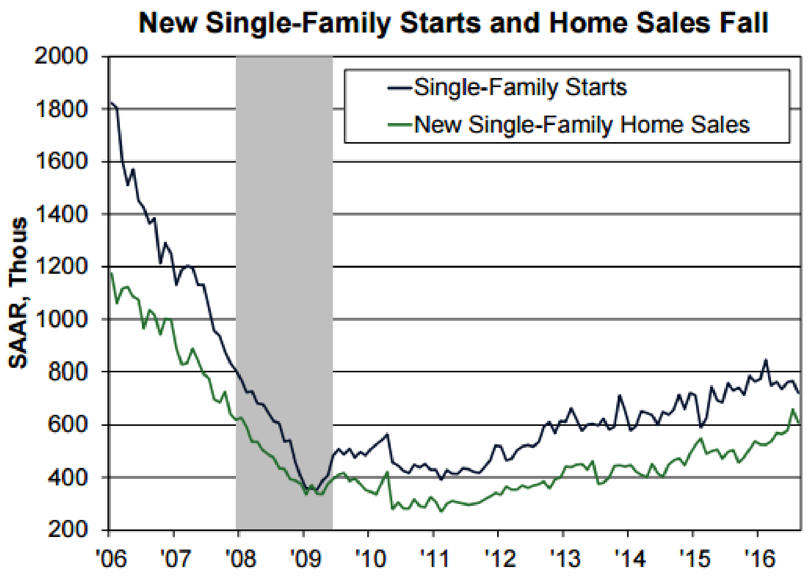


The decrease in residential spending is the result of flat **single-family** housing starts and a decline in the average cost per single family starts which began late last year. The economists say they had predicted last month that residential investment had fallen in the third quarter but the August construction spending report issued since then suggests that the drop was steeper than expected.

Homeownership demand does seem to have **picked up** last year. American Community Survey data shows that owner household growth in 2015 exceeded rental household growth for the first time since the 2007-2009 recession started. The same survey showed the homeownership rate for households under age 35 which had "declined substantially and relentlessly" over the previous eight years finally stabilized.

In recent months housing activity has clearly **lost momentum**. Existing home sales fell in August for the second consecutive month, reaching the lowest level since February and pending home sales dropped in August for the third time in four months to the lowest level since January.

While new home sales were fell in August they were down off of the best month in the recovery in July. Single family housing starts were also **down significantly**. Fannie Mae says the recovery in single-family homebuilding has been very gradual, partly because of land and labor constraints.



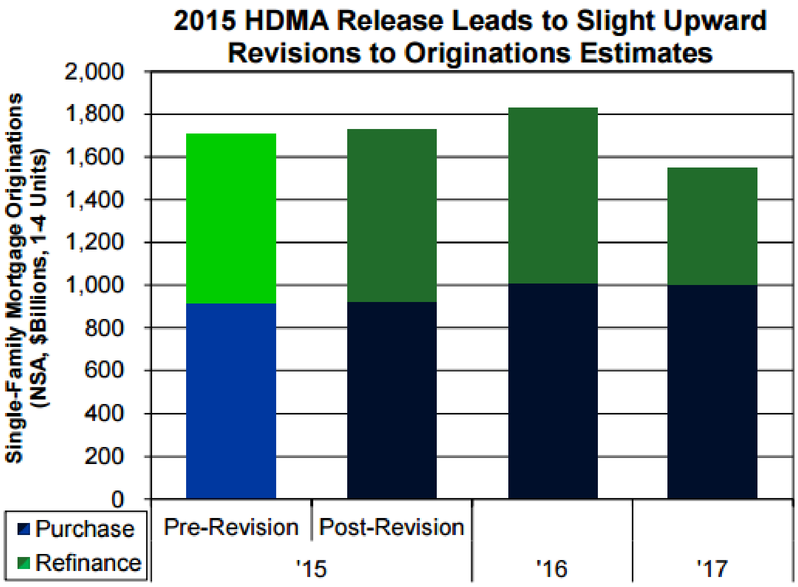
There is a **positive note** for young homebuyers, as builders seem to be focusing more on the entry-level market. The typical size of a new single family home, which rose sharply at the end of the recession, stabilized in 2014 and 2015 and the median size has now begun to shrink. "As builders adjust their production in response to rising demand for entry-level homes, typical new home size is likely to trend lower going forward, which should help to sustain the fledgling recovery in homeownership."

Purchase mortgage applications declined in August for the second consecutive month indicating continued weakness in existing home sales in the near term but they did rebound in September even as refinancing applications dropped for the second consecutive month in September after a surge in July.

The **inventory** of existing homes for sale remains extremely lean, down 10.1 percent in August from a year earlier, the largest annual drop since 2013. The lack of homes for sale is partly attributable to the fact that homeowners are remaining in their homes longer. CoreLogic says the median years a homeowner has owned his home rose from five years in 2007 to 10 years in 2015.

Mobility rates have also been declining, indicting a lower rate of housing turnover and consequently home sales. "This will be challenging for the housing and mortgage market, especially in a rising mortgage rate environment where lenders have to rely more on purchase mortgage originations," the economists say. "Tight supply and rapid price gains in the lower tiers of the home sales market are increasingly hampering first-time home buyer affordability and endangering the budding recovery in young-adult home buying demand.

Fannie's economists have **not** changed their mortgage rate forecast as they don't think the recent rise in long-term interest rates are sustainable. They are also essentially holding to their September forecast of a 3.6 percent increase in total home sales this year, but the total includes weaker existing home and stronger new home sales.



Each October Fannie Mae updates its estimates one-to-four-unit property mortgage originations for the prior year as a result of benchmarking to new Home Mortgage Disclosure Act (HMDA) data. They have revised slightly higher their estimated purchase and refinance originations for 2015 by $6 billion and $13 billion respectively for an originations total of $1.73 trillion. The refinance share rose 1 percentage prior from its prior estimate to 47 percent. The estimate of 2016 originations has increased by $30 billion to $1.83 trillion, an increase of about 6.0 percent. Refinancing accounts for most of the upgrade. Total originations are expected to decline by about 15 percent in 2017 due to a decline in refinancing.

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