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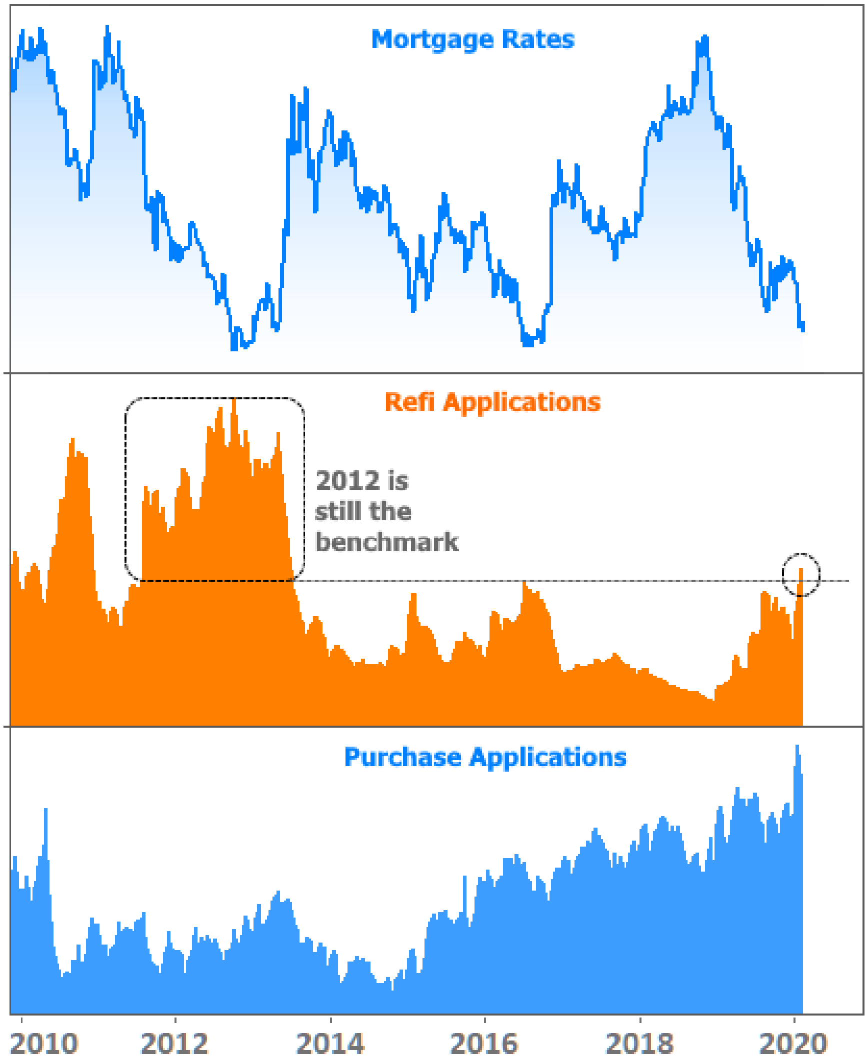
2020 Refi Boom Surpasses 2016's And It's Still Growing

Another week ending with the **lowest** rates in more than 3 years will mean another week with the **highest** levels of refinance demand in more than 3 years. In fact, refi demand is now as high as it's been since 2013, even though rates haven't yet moved below 2016's lows.



As the chart shows, rates are nearly as low as they were during the last 2 refi booms, but the 2012-2013 version was **much bigger**. What's up with that?

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	4.3961	-0.0019
30 YR Treasury	4.5659	+0.0019

Pricing as of: 7/1 2:47AM 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%

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The answer has to do with the demographics of refi demand. There are **only two ways** to get a loan that is subsequently refinanced: purchasing a new home with a new mortgage or refinancing into a new mortgage. By 2012, rates had been falling steadily since 2007. In fact, one could argue that rates had been falling steadily since 1981.

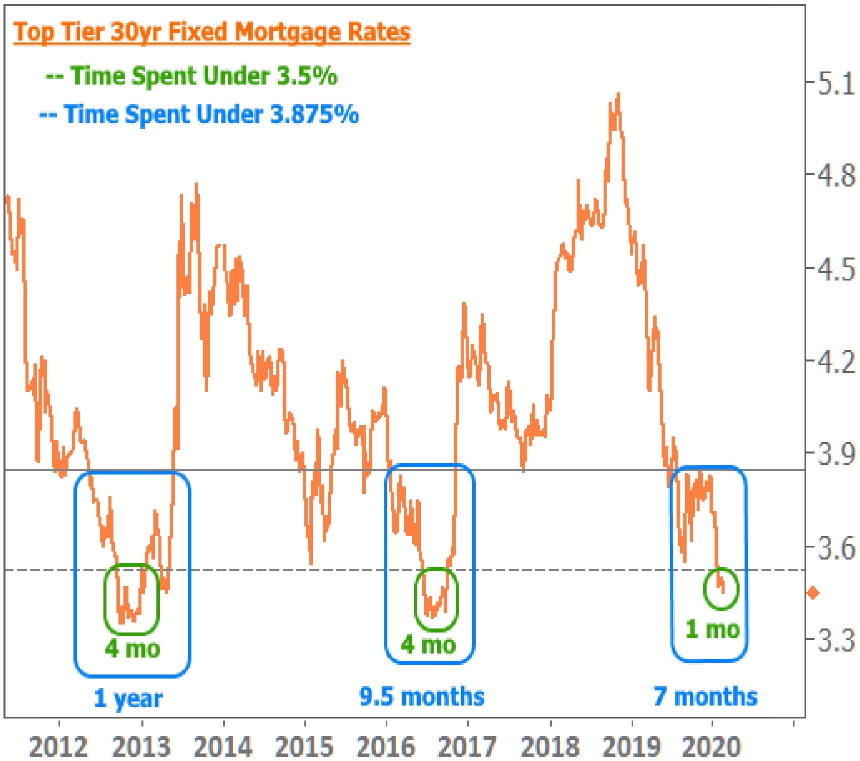
That means that all the people who bought homes as the housing market began to recover and all those who'd refinanced during the previous periods of low rates in 2008 and 2010 were **"in the money"** on a refi. Contrast that to 2020 where there really hasn't been much refi activity since the 2016 boom. In other words, the 2020 boom **relies upon the purchase market** in 2017-2018 as a source of fuel. Fortunately, that purchase market was the strongest in more than a decade.

2017-2018 also saw the highest rates in nearly a decade. In fact, anyone who got a mortgage during those two years would **save a significant amount of money** right now on an equivalent scenario (i.e. same credit score, equity, loan amount, etc). As such, it's no surprise to see refi demand surging. The special confluence of factors in 2012 means we're not likely to see something like that again unless mortgage rates manage to push well into new all-time lows at some point in the future.

That said, unless rates shoot higher very soon and very quickly, the current refi boom **likely isn't done** booming. There's a certain element of awareness involved in refi booms. Friends talk among themselves. Mortgage originators work on getting the word out. Ultimately the ultra-low rates become a fixture in the news. Once everyone has had time to discover the opportunity and react to it, the boom will start winding down.

So how long will that take?

There's no set formula here, but we can observe past precedent and conclude that our current stint at long-term low rates **is not** yet at risk of overstaying its welcome. If we think of average top tier mortgage rates under 3.875% as promoting solid refi demand and rates under 3.5% kicking that demand into higher gear, 2020 still has several months to go before catching up to past refi booms in either metric.



It's important to note, however, there's no rule about the current refi boom lasting as long as past examples. Any major jump in rates could derail the dream. For those thinking about refinancing, it makes sense to **have a game plan in place** and to keep an eye on market movement.

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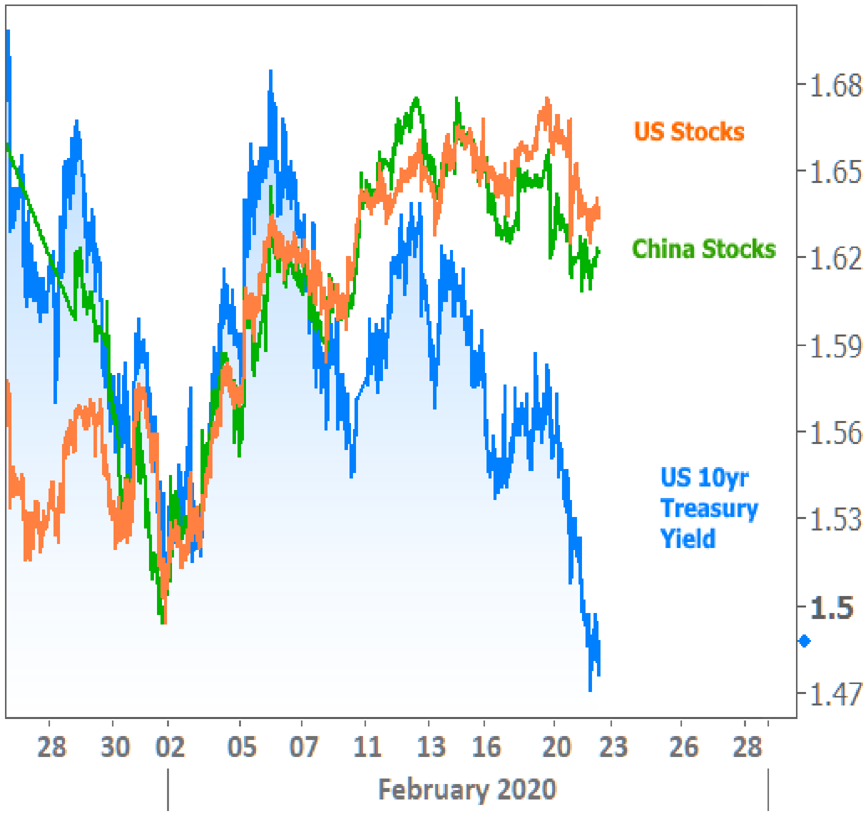
It's also important to note that market movement in stocks can vary quite a bit from the movement in bonds/rates. Using the 10yr Treasury yield as a benchmark for longer-term rates like mortgages, we see quite a disparity in recent weeks.



The bond market specializes in making bets about **future** economic realities even as the stock market reflects shorter-term performance of the biggest companies. "Shorter-term" in this context means a heavy weight given to present day stats and an outlook that extends not more than a year or two into the future for the average investor (in many cases not more than a day or two into the future!).

Bonds, on the other hand, have an outlook that lines up precisely with their stated duration. For example, the 10yr Treasury note is accounting for everything it can reasonably foresee up to 10 years from now. Sure, there is also more weight given to shorter-term concerns, but even then, Treasuries tend to look farther out than stocks. They also tend to benefit from the hedging of economic bets even as stocks remain on solid footing. In other words, traders buy bonds to guard against uncertainty. Excess demand for bonds pushes rates lower.

The hedging of bets is an **especially good idea** heading into a weekend where there is still plenty of uncertainty surrounding the global **coronavirus** outbreaks (plural, because there are two of them now). The past few days have seen a bit of a surge in disconcerting headlines. It's still not going to be the end of humanity, but it will definitely have an economic impact. Treasuries (aka "rates") do more than stocks to account for those impacts ahead of time, and a weekend's worth of bad coronavirus news is a big enough risk to hedge bets aggressively. Combine that with coronavirus being cited as the key reason for exceptionally weak economic data on Friday morning, and it makes good enough sense to be ending the week with the lowest mortgage rates in years.

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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.

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