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Rates at 2-Month Highs; Big Changes For Investor/2nd Home Loans

Mortgage rates ended the week at the **highest** levels in roughly 2 months as investors moved to the sidelines ahead of next week's Fed announcement.

In other words, investors sold bonds (among other things) and in the bond market, selling pressure means lower prices and higher rates, all other things being equal.

Despite the poor finish, things **started** out well enough. The Consumer Price Index (CPI), a key inflation report, came out lower than expected on Tuesday. With inflation being an important consideration for the bond market at the moment, the reaction was obvious. Unfortunately, it was also short-lived.

If we add S&P futures to the chart above, we can see that stocks were also generally moving to the sidelines (i.e. **more sellers** than buyers).

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

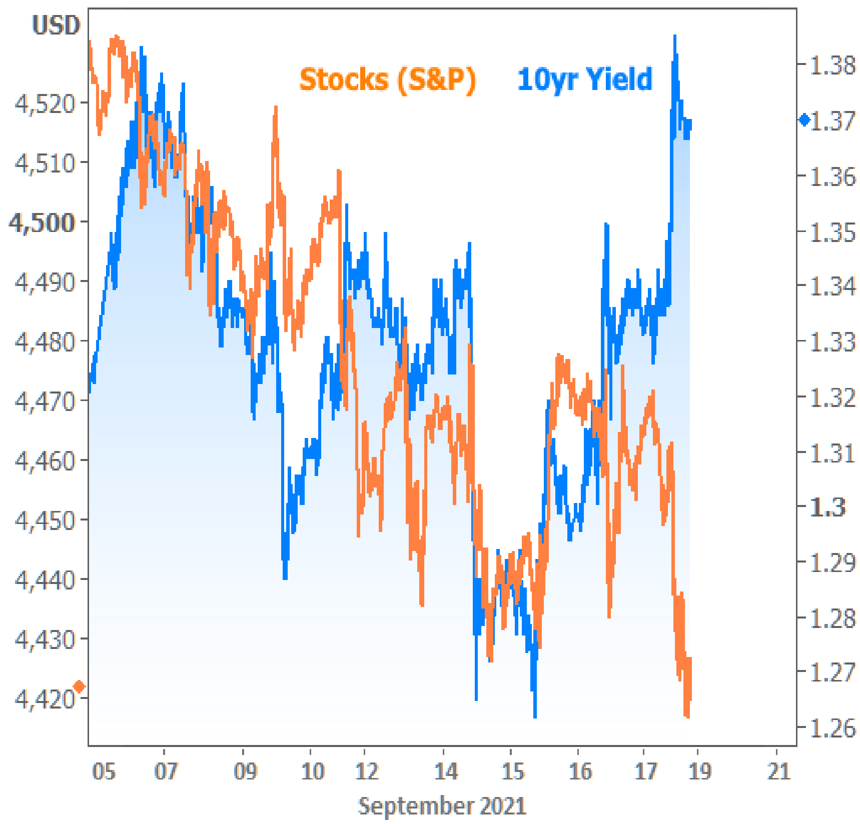
Market Data

	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%



While there is never one singular motivation for stocks and bonds, they definitely share a concern for Fed policy. With next week bringing an **important** policy announcement from the Fed, it would make sense to see investors circling the wagons in preparation.

With a specific eye on the bond market, this preparation has arguably been going on for some time. The result is the consolidation pattern seen in the following chart. The green line simply marks the calendar date of next week's Fed announcement.

In the chart above, the inception of the pattern is **no coincidence**. It began after the strong jobs report in early August. The labor market is a key consideration for the Fed, and some Fed members were on record saying it would only take one more report like the one in early August to justify a shift toward tighter policy (i.e. not good for rates).

The next report arrived on September 3rd and once again, rates pushed up to the near-term **ceiling** marked by 10yr Treasury yields in the 1.37-1.38 range. Now at the end of this week, we're back at the same ceiling levels.

Bonds haven't been eager to break that ceiling because the conditions that warrant more austerity from the Fed **haven't been met yet**. Chair Powell has said on many occasions that the labor market has more progress to make before the Fed will begin to taper its rate-friendly bond purchases.

In addition, the Fed would like to see how covid and the economy are interacting after the start of the new school year, and it's **just a bit too soon** to draw any sweeping conclusions.

The longer-term chart conveys the sense of limbo for rates (10yr Treasury yields are widely used as a benchmark for other rates like mortgages). They're neither in the ultra-low zone associated with the first year of the pandemic, nor are they back into the pre-covid range. That said, they're **likely to pick a side** in the coming weeks--perhaps as early as next week.

In other news this week, the FHFA and Treasury made a **big announcement** that affects certain mortgage scenarios. This goes back to earlier changes that we discussed in previous newsletters **HERE** and **HERE**. The biggest impacts were seen in loans for investment properties and 2nd homes.

To make a **long story** short, the regulatory changes (which forced many lenders to raise rates significantly for those loans) have been rescinded for at least a year. The implication is that those lenders can begin lowering the cost for those loans. The timing and magnitude of that process will vary depending on the lender. Either way, please be sure to note that this does not impact a vast majority of mortgages tied to owner-occupied properties.

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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.

Mike Baker