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ALERT: MBS At Lows; Reprice Risk is Minimal, But Not Nonexistent

Mortgage market liquidity dried up after the Fed's 10:40-11:00am buying operation and prices have moved lower as a result. Treasury yields and stock prices have also been advancing during that time, so there could be a modicum of 'risk-on' motivation as well.

Granted, that correlation hasn't been very relevant to MBS recently, but as I said earlier this morning, our ability to outperform will eventually hit a wall. That means MBS can only stay flat for so long while Treasury yields move higher. I'm NOT saying you've officially witnessed a changing of the guard there--simply that we shouldn't be surprised to see the MBS shield of invincibility start to wear off every now and then on any given day.

If the last paragraph didn't make great sense, don't worry about it. It's not a major theme right now--just a possibility to entertain when it comes to having realistic expectations about MBS resilience.

What's important at the moment is that 2.5 coupons were briefly down 6 ticks (19 bps) from some lenders' rate sheet print times. Had those losses persisted (or if they come back), a few lenders could consider that to be enough of a threat for negative reprices. It has typically taken quite a bit more drama for such things, recently, however.

Reprice risk is still better predicted based on trends in individual lenders' rate sheet offerings. A consistent trend of weakness is one risk. Or a huge shift toward much stronger rate sheet offerings is also a risk, but for different reasons.



MBS & Treasury Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 6.0 | 100.39 | +0.19 |
| MBS GNMA 6.0 | 100.53 | +0.14 |
| 10 YR Treasury | 4.3602 | -0.0724 |
| 30 YR Treasury | 4.5297 | -0.0761 |

Pricing as of: 7/3 5:59PM EST

Average Mortgage Rates

| | Rate | Change | Points |
|--|------|--------|--------|
|--|------|--------|--------|

Mortgage News Daily

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 7.08% | -0.05 | 0.00 |
| 15 Yr. Fixed | 6.45% | -0.02 | 0.00 |
| 30 Yr. FHA | 6.55% | -0.05 | 0.00 |
| 30 Yr. Jumbo | 7.25% | -0.04 | 0.00 |
| 5/1 ARM | 7.07% | -0.03 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 6.95% | +0.09 | 0.00 |
| 15 Yr. Fixed | 6.25% | +0.09 | 0.00 |

Mortgage Bankers Assoc.

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 7.03% | +0.09 | 0.62 |
| 15 Yr. Fixed | 6.56% | +0.09 | 0.54 |
| 30 Yr. FHA | 6.90% | +0.11 | 0.95 |
| 30 Yr. Jumbo | 7.11% | -0.01 | 0.50 |
| 5/1 ARM | 6.38% | +0.11 | 0.54 |

Rates as of: 7/3

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