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## The Day Ahead: Fed Buying UMBS 2.0 Coupons This Week

Bonds lost ground last week, overall, with 10yr yields rising the better part of 10bps. MBS lost ground as well, but not UMBS 2.0 coupons. These are the up-and-comers. Now this week, the Fed has added them to their list for daily purchase operations. What will this mean for bonds and rates?

First off, this news hit on Friday afternoon, thus giving markets a chance to trade it **last week**. In fact, there doesn't appear to be any remaining adjustment in that regard as 2.0s are starting the day on equal footing with 2.5s in terms of day-over-day change. In a broader sense, the Fed's addition of 2.0s is mostly a reflection of what the MBS market needs to sell and where it needs help with liquidity.

In other words, the Fed **isn't saying** to itself "we should buy 2.0s in order to push mortgage rates lower," although they're OK with it if that happens to be a theme they're helping to reinforce. Rather, they're saying "let's keep buying the MBS coupons that MBS originators are producing. This will support liquidity in the mortgage market, and liquidity will help the market trade where it would otherwise be trading during times of stability and confidence."

The net effect is complicated to assess. At first, I'm inclined to say "it doesn't matter," but that would be a bit too dismissive. **Instead**, I'd say "this is as it should be, and as we should expect." While I **wouldn't** say the Fed's decision is making rates lower, I **would** say that rates would be higher if they didn't make the shift.

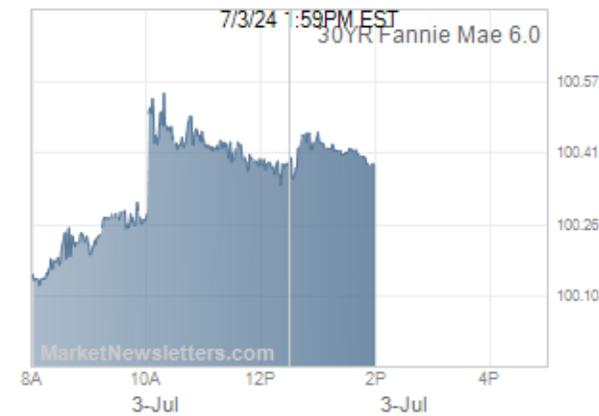
In terms of calendar events, the rest of the week is relatively light. CPI inflation data is on tap tomorrow, but then we're waiting until Thursday and Friday to get the two other relevant reports in the form of Jobless Claims and Retail Sales. Treasury will be auctioning **3, 10, and 30yr bonds** on the first 3 days of the week, so the 1pm time frame could see additional volatility as a result. In the bigger picture, this could give us a better sense of how the market is prepared to cope with the surge in Treasury supply (gov needs more cash to pay for stimulus and revenue shortfall).

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## MBS & Treasury Market Data

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

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



## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	7.08%	<b>-0.05</b>	0.00
15 Yr. Fixed	6.45%	<b>-0.02</b>	0.00
30 Yr. FHA	6.55%	<b>-0.05</b>	0.00
30 Yr. Jumbo	7.25%	<b>-0.04</b>	0.00
5/1 ARM	7.07%	<b>-0.03</b>	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.86%	<b>-0.01</b>	0.00
15 Yr. Fixed	6.16%	<b>+0.03</b>	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	7.03%	<b>+0.09</b>	0.62
15 Yr. Fixed	6.56%	<b>+0.09</b>	0.54
30 Yr. FHA	6.90%	<b>+0.11</b>	0.95
30 Yr. Jumbo	7.11%	<b>-0.01</b>	0.50
5/1 ARM	6.38%	<b>+0.11</b>	0.54

Rates as of: 7/3

## Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

**Rich E. Blanchard**

