



Stephen Moyer

Sales Manager/Senior Loan Officer NMLS:
268619/CA-DBO268619, New American Funding Corporation. NMLS: 6606, Equal Housing Lender
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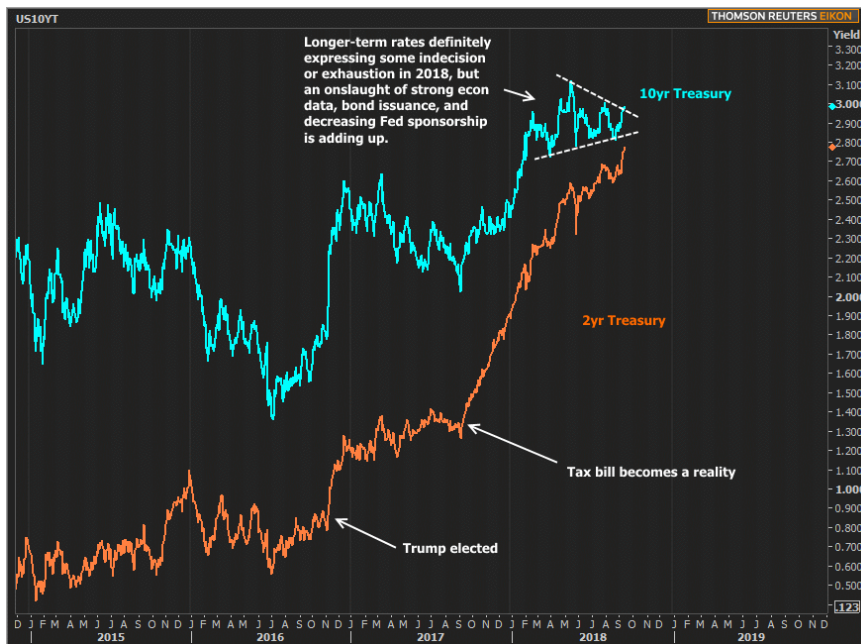
Under the California Residential Mortgage Lending Act
CA-DBO268619 Corp. NMLS: 67180 Equal Housing Lender
1615 Murray Canyon Road #1050 San Diego, CA 92108

Office: 619-309-1678
Mobile: 619-895-8128
Fax: (619) 793-1026
stephen.moyer@nafinc.com
[View My Website](#)

The Day Ahead: How Did We End Up In This Mess?

The question posed in the title is just a bit too big for us to cover in this humble "day ahead" post, but we can touch on a few key points. I just thought it was a good time to revisit it, given that 10yr yields are beginning the day once-again approaching the 3% barrier--something they've only done a few times since hitting all-time lows.

Following rate movement on a daily basis lends itself to overanalysis. In the biggest of pictures, the rate reality we're seeing today is largely the byproduct of plans set in motion a year ago. Specifically, the tax bill that materialized last September did more than anything else to precipitate the slow-motion train wreck that we've lived through as stakeholders in an industry that's highly dependent on rates. This is easily seen in today's chart.



2yr yields have taken it on the chin for 2 reasons. First, the government said it would borrow more short-term than long-term debt in order to pay for the tax bill. Higher supply of US Treasuries pushes rates higher. Second, 2's are more closely connected to Fed policy and the Fed is in the thick of a classic hiking cycle.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/17 7:34PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85

It's tempting to blame the Fed for much of the current upward pressure in rates, but they're simply reacting to the data and economic events. Tax bills and stimulus measures increase the risk of strong growth and inflation. As long as we keep getting strong econ data, the Fed will continue to be justified in hiking its policy rate.

	Rate	Change	Points
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

As the chart suggests, after an initial reaction to all of the above, 10yr yields have tried to level off in 2018. The zone in which they've leveled-off represents traders' best guess as to where all of the known inputs would leave rates. Simply put, the data and events from the second half of the year have suggested a bit of an upward adjustment to that zone, and that's why we're pushing the upper boundary of the consolidation range presently. One little miss in Retail Sales won't be enough to turn the tide.

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