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A Message from Stephen Moye:

"This is great news!"

Low Rates, Slower Price Gains Point to Home Sales Bounce

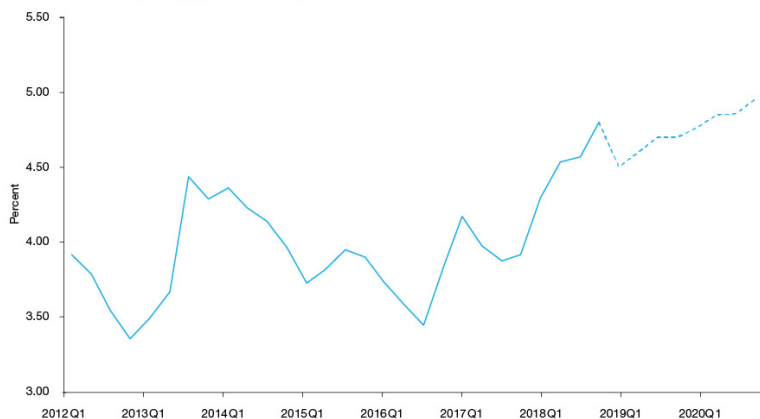
Freddie Mac's economists see **low interest rates continuing, at least through the end of next year**. The company's Economic and Strategic Research Group's February *Forecast*, released on Thursday, also sees more economic growth, albeit at a slower rate, and a bounce back in the housing market.

The 30-year fixed-rate mortgage (FRM) averaged 4.6 percent over 2018. After peaking last fall mortgage rates began to decline and by mid-February were at a 12-month low of 4.4 percent. Freddie Mac's economists expect the 30-year FRM to average 4.6 percent in 2019 before increasing to 4.9 percent in 2020.

Exhibit 1

Mortgage rates begin to moderate in 2019

Freddie Mac Primary Mortgage Market Survey®



Source: Freddie Mac Primary Mortgage Market Survey® (PMMS®)
Note: Dashed line indicates forecasted data.

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

Rates as of: 8/30

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%

Housing starts averaged a 1.26 million rate in 2018. The forecast is for total starts to increase over the next two years with both single-family and multifamily units gaining each year. Total starts will grow to 1.29 million units this year and 1.36 million units in 2020. This is still well below what is needed to meet long-term demand, and a lack of labor and other factors will continue to hamper construction.

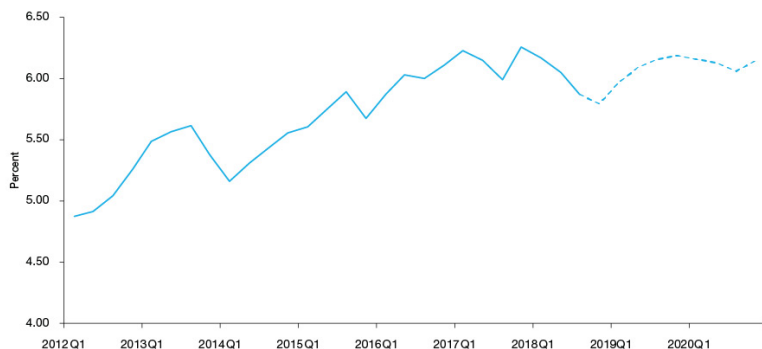
		Value	Change
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Those **lower mortgage rates should stoke lagging home sales**, estimated to finish 2018 at 5.97 million. The report predicts an increase in total sales to 6.10 million units this year and 6.12 million next year, with the growth coming from existing home sales. New home sales will remain at current levels.

Exhibit 2

Total home sales expected to regain momentum despite recent dip

Home sales (existing + new)



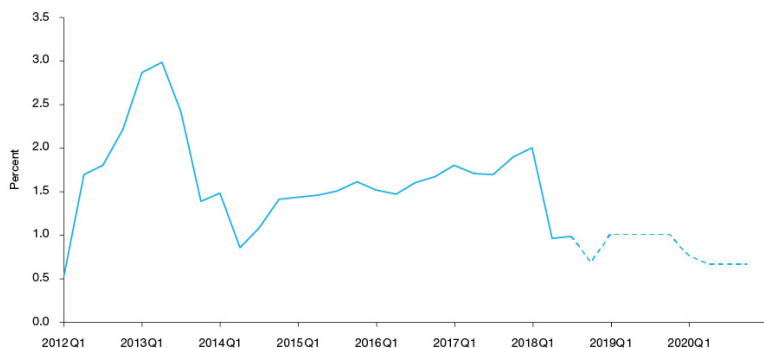
Source: U.S. Census Bureau, Freddie Mac January 2019 Economic and Housing Research Forecast
 Note: Dashed line indicates forecasted data.

In addition to lower rates the housing market will be helped by home prices; their **growth has finally begun to decelerate**. The growth rate of the Freddie Mac House Price Index fell slightly to 0.7 percent in the fourth quarter of 2018 and was 4.7 percent for the year. The forecast is for appreciation of 4.1 percent and 2.8 percent in 2019 and 2020, respectively. This moderation in house price growth along with an increase in household income will help bring house prices back in line with long-term fundamentals.

Exhibit 3

Home price appreciation in the U.S.

Quarterly percent change in Freddie Mac House Price Index



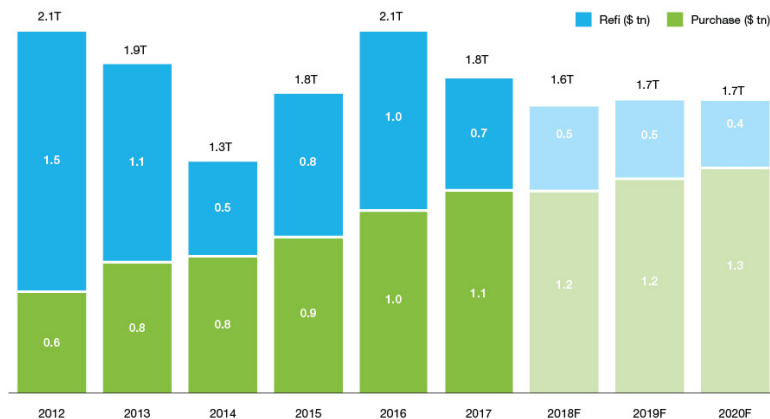
Source: Freddie Mac House Price Index, January 2019 Economic and Housing Research Forecast
 Note: Dashed line indicates forecasted data.

Mortgage originations are expected to increase 2.6 percent to \$1.69 trillion in 2019 and remain around that level in 2020. With mortgage rates sliding back to lower levels, Freddie Mac has revised its predictions for the refinance share of originations to 27 percent and 24 percent in 2019 and 2020, respectively.

Exhibit 4

Mortgage originations likely to increase in 2019

Annual single-family mortgage originations (\$ trillions)



Source: Freddie Mac January 2019 Economic and Housing Research Forecast
 Note: Totals may not add due to rounding. Includes only 1st liens.

The economists note that the U.S. labor market has continued to hold strong despite uncertainty in other areas of the economy. Job openings are still increasing faster than hiring. Moreover, the number of employees that quit at the end of 2018 has increased, which indicates confidence in the labor market. After reaching its highest level in a year and a half at 253,000 at the end of January, jobless claims eased to 239,000 in the second week of February, mainly due to the end of the partial government shutdown. The unemployment rate is expected to drop slightly to 3.6 percent in 2019 before returning to a more sustainable long-term rate of 3.9 percent in 2020.

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