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Are We On Our Way Back to All-Time Low Rates?

Despite recent strength in Stocks and oil, mortgage rates have surged back to **3-year lows**. Up until last week, we were at some risk of talking about rates moving in the other direction.

Fed rate hike expectations were causing the most pressure. Through a combination of several Fed speeches and the Fed's meeting minutes released on May 18th, it certainly seemed the Fed was **campaigning for a rate hike** in June or July. In fact, 2 Fed speakers said as much the following week and said markets were now more in line with the Fed's thinking after a fairly abrupt move toward higher rates.

But rates **didn't stay on the same page** as the Fed for long. This happened for 2 reasons. First, Fed speakers increasingly mentioned the possibility of the UK voting to leave the EU as a major potential shock to the financial system. Because that vote takes place a week AFTER the next Fed Announcement, the Fed said they might hesitate to hike rates.

The second reason--last week's dismal jobs report--drove the nail into June's rate hike coffin. Now financial markets have to confirm that report was an anomaly **before** they can even begin to consider a rate hike in July. As such, interest rates have taken this opportunity to move back to the lower end of 2016's range.

In the following chart, you can see the market's response to the Fed's mid-May rhetoric in the form of the spike in 2yr Treasury yields. Meanwhile, 10yr Treasury yields (which are **more correlated with mortgage rates**) didn't freak out quite as much and thus remained in a better position to return to recent lows after last week's jobs report.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

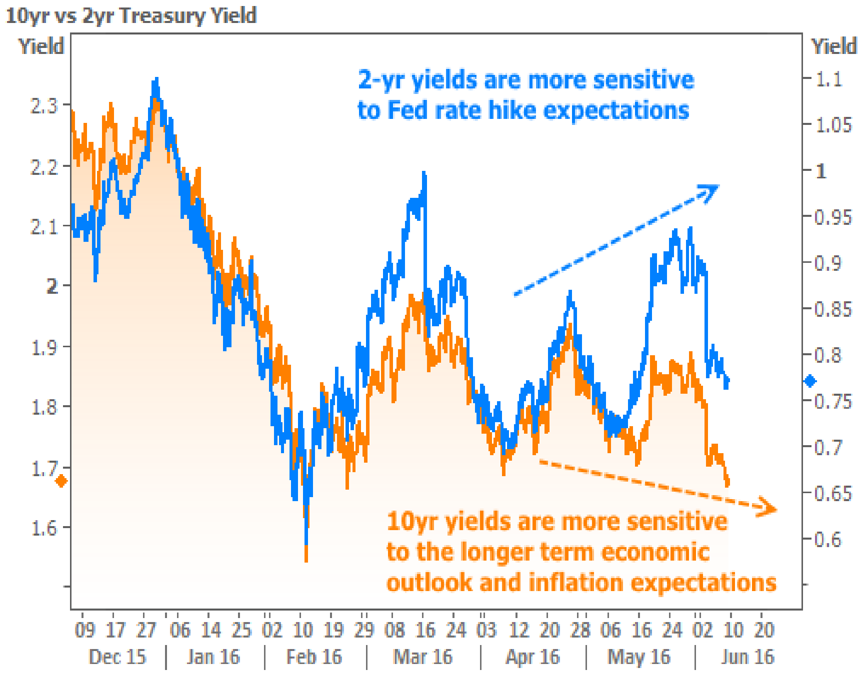
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.50	+0.11
MBS GNMA 5.5	99.91	+0.14
10 YR Treasury	4.2325	-0.0200
30 YR Treasury	4.4542	-0.0183

Pricing as of: 7/23 9:01AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
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%



This notion of longer term interest rates (like 10yr yields and mortgage rates) **marching to their own beat** is an important one, because they've been tuning out other music as well. At the beginning of the year, stocks and oil prices were highly correlated with the drop in interest rates. But now, rates have managed to remain low even though stocks and oil are clearly bouncing. One of the best ways to understand why this might be happening is in the context of so-called "global growth concerns."

The European Union is the world's largest economy and its central bank is still actively in crisis-management mode. That means sub-zero overnight rates and ongoing asset purchases. Japan--with the world's 3rd largest central bank--is also actively buying assets and depressing overnight rates.

10yr German bond yields are a good proxy for both the "growth concerns" and the central bank stimulus effect. They hit **all-time lows** this week, just a stone's through above 0%.

The **bottom line** is that the burden of proof is on the economy and inflation when it comes to making a case for higher rates. Certainly, the Fed would **like** to be able to raise rates, but hurdles keep coming up. If this continues, it won't be long before we see new all-time low mortgage rates--a fact that's interesting to consider in light of one piece of analysis this week.

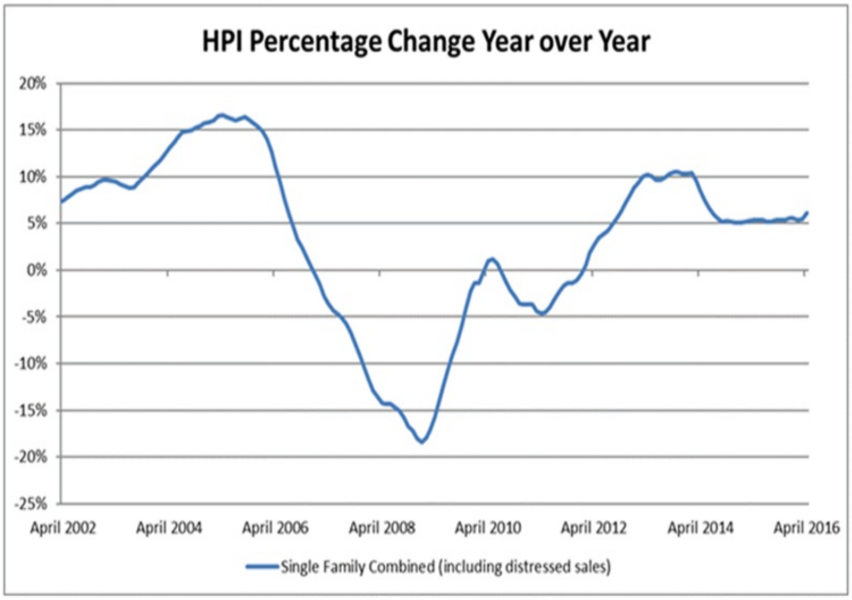
CoreLogic's Chief Economist asked the same question that's been asked time and again over the past 30 years. 'Is refinancing dead?'

To be fair, there is always less refi demand than there otherwise would be when rates level-off at long-term lows, but there is an important piece of information in the data that could make the conclusion **very different**. The "low rate" cohort in this analysis has mortgage rates of 3.5-4.5%. The author concludes there's limited incentive for folks in that cohort to refi at current levels.

This is too wide a range for one grouping in this analysis. Reason being: a homeowner with a 4.25-4.5% rate could find a lot of value in a 3.5-3.625% refinance with no lender closing costs today. There is a large contingent of homeowners in the **4.125%-4.25% range** who haven't quite seen enough of a drop to refinance. If rates happen to move any lower, it would quickly begin making good sense for those homeowners to take a look at lowering their rate.

In other housing-related news, CoreLogic also noted the ongoing bull run in home prices, with the annual rate of appreciation **staying above 6%.**

National Home Price Change



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jun 07				
8:30AM	Q1 Productivity Revised (%)	-0.6	-0.6	-1.0
8:30AM	Q1 Labor Costs Revised (%)	+4.5	4.0	4.1
1:00PM	3-Yr Note Auction (bl)	24		
Wednesday, Jun 08				
7:00AM	w/e Mortgage Market Index	520.4		476.1
Thursday, Jun 09				
8:30AM	w/e Initial Jobless Claims (k)	264	269	267
10:00AM	Apr Wholesale inventories mm (%)	+0.6	0.1	0.1
Friday, Jun 10				
12:00AM	Roll Date - Fannie Mae 30YR, Freddie Mac 30YR			
Tuesday, Jun 14				
8:30AM	May Import prices mm (%)	+1.4	0.7	0.3
8:30AM	May Retail sales mm (%)	+0.5	0.3	1.3
8:30AM	May Export prices mm (%)	+1.1	0.3	0.5
10:00AM	Apr Business inventories mm (%)	+0.1	0.2	0.4
Wednesday, Jun 15				
12:00AM	Roll Date - Fannie Mae 15YR, Ginnie Mae 15YR, Freddie Mac 15YR			
8:30AM	Jun NY Fed manufacturing	+6.01	-4.00	-9.02

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

Date	Event	Actual	Forecast	Prior
2:00PM	N/A FOMC rate decision (%)	0.25-0.50	0.375	0.375
Thursday, Jun 16				
8:30AM	Jun Philly Fed Business Index	4.7	0.0	-1.8
8:30AM	May CPI mm, sa (%)	+0.2	0.3	0.4
8:30AM	May Core CPI mm, sa (%)	+0.2	0.2	0.2
10:00AM	Jun NAHB housing market indx	60	59	58
Friday, Jun 17				
8:30AM	May Housing starts number mm (ml)	1.164	1.150	1.172
8:30AM	May Building permits: number (ml)	1.138	1.150	1.130
Tuesday, Jul 12				
1:00PM	10-yr Note Auction (bl)	20		
Wednesday, Jul 13				
1:00PM	30-Yr Bond Auction (bl)	12		

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form — whether the documents are readable and understandable — and content — whether they are fair to homebuyers.

-the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
-the right to terminate the contract
-the disclosure that compensation is negotiable
-the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
-that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
-that the commission is due only if there is a successful closing
-that buyers have an obligation — for no longer than 60 days, CFA recommends — to pay a broker who earlier showed them a home they purchased after the contract ended
-seller concessions paid directly to buyers
-dual agency not pre-approved by the contract
-an explanation of how a broker treats different buyer clients interested in the same property
-that buyers should not be required to first go through mediation or arbitration if they have a complaint

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