US Housing Market Weekly

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All-Time Low Mortgage Rates!

Before coronavirus, the average 30yr fixed mortgage rate was almost always 1.6% to 2.0% higher than 10yr Treasury yields. When bond volatility was extreme (especially when Treasury yields were dropping quickly), that gap could be wider, but it was never even close to current levels. Why might this be?

When an investor buys a US Treasury Note, there's effectively **no risk** that the government will fail to send a payment on time. Believe it or not, this is largely the case with most of the mortgage market as well--or at least it was the case before coronavirus.

Mortgage investors have a safety net that guarantees timely payment even if homeowners **aren't** making payments. The problem with coronavirus is that the amount of non-paying homeowners is higher than ever thought possible. It led mortgage investors to question the strength of existing safety nets.

Even though investors have no doubt they'll get paid **eventually**, there has been plenty of uncertainty surrounding the timeliness of the payments as well as other costs that might arise in this unprecedented environment.

When a mortgage investor is guarding against uncertainty, it makes rates **higher** than they otherwise would be. When they're guarding against an unprecedented amount of uncertainty, it makes rates **MUCH** higher than they otherwise would be.

That can be seen in the following chart of average 30yr fixed rates versus the 10yr Treasury yield. The orange line is simply the difference between the two. The higher it is, the higher mortgage rates are relative to Treasury yields. As the pace of new forbearances subsides, they've been closing the gap surprisingly well.

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

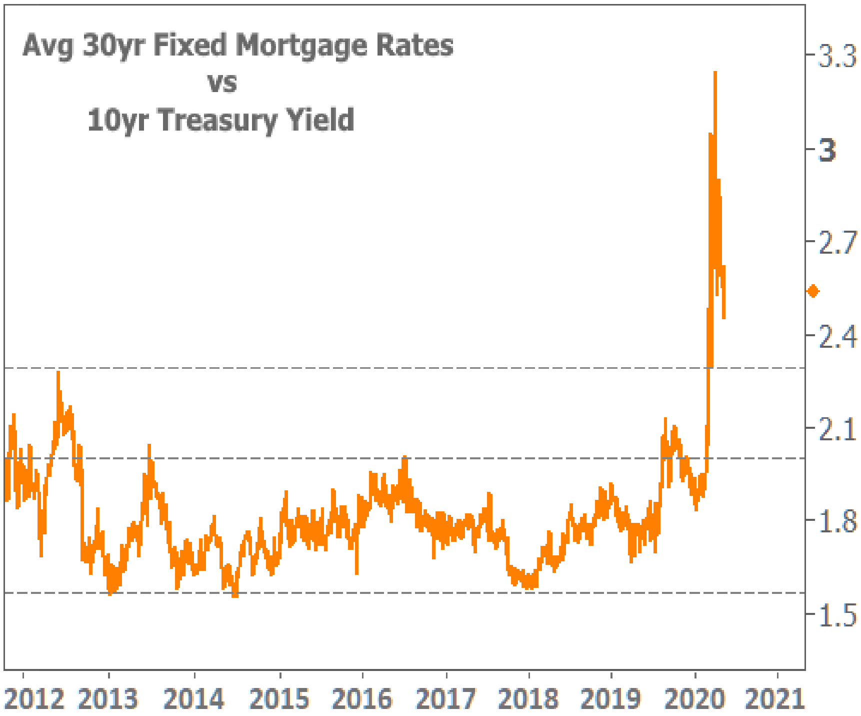
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2272	-0.0107
30 YR Treasury	4.4598	-0.0127

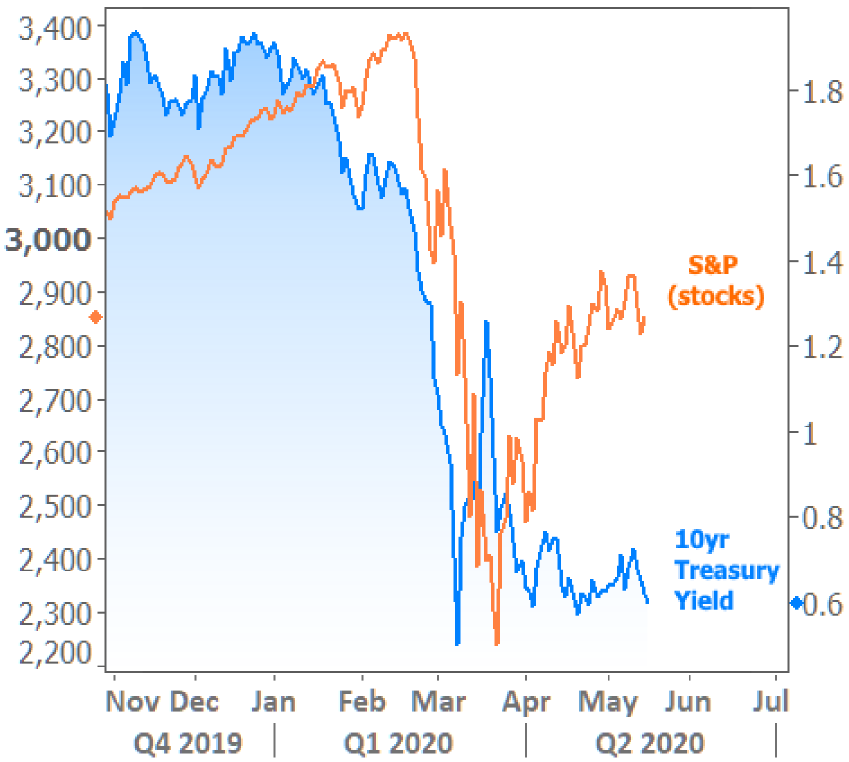
Pricing as of: 7/22 10:50PM EST

Recent Housing Data

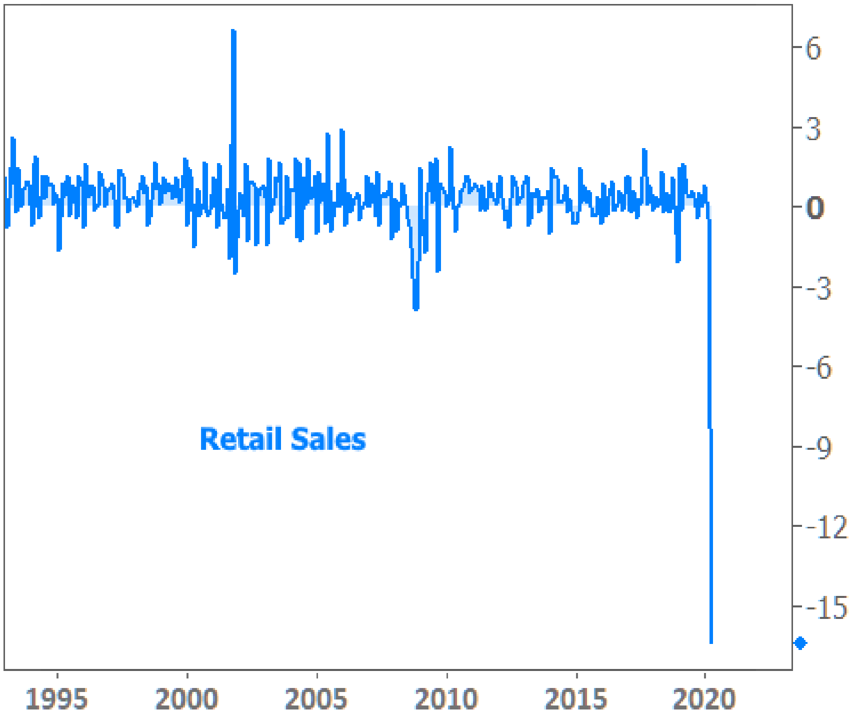
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



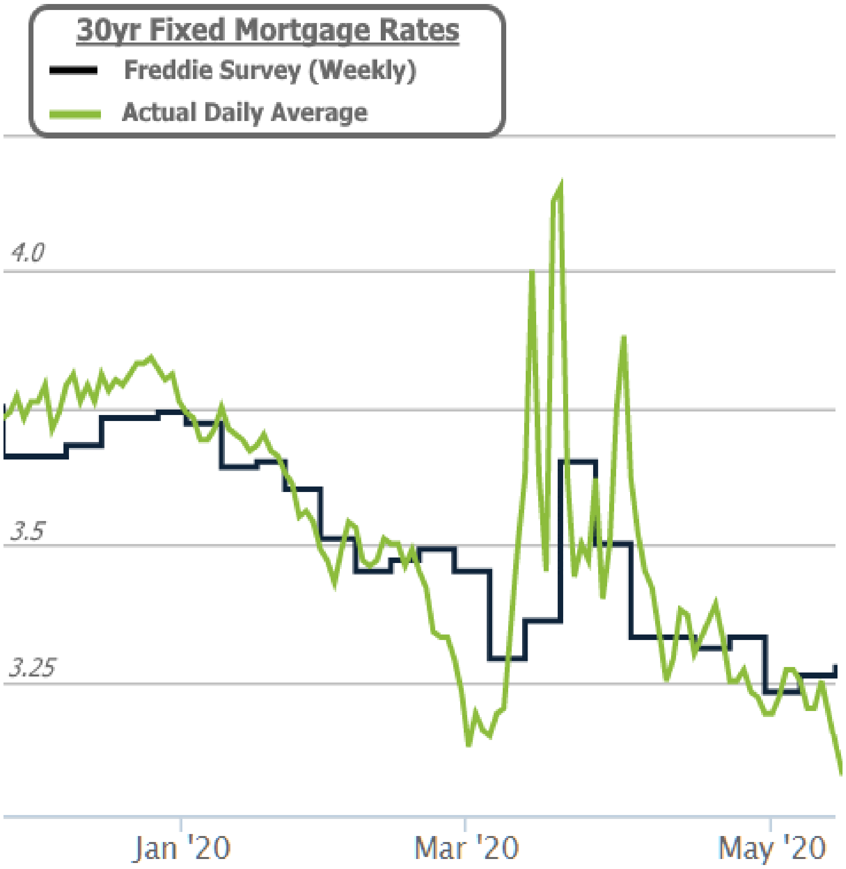
This **wouldn't** mean too much for the mortgage market if Treasuries happened to be following stock prices higher. Thankfully they're not.



Actually, the notion of being thankful for the current stance in Treasuries is a double-edged sword because it amounts to being **thankful for bad news**. If there's a reason that Treasury yields have been able to remain so resiliently low, it's the incredibly downbeat economic outlook. The latest evidence came in the form of Friday morning's Retail Sales report, which was easily the weakest on record.



Let's put these pieces together. We have super low, relatively flat Treasury yields. We also have mortgage rates that are finally starting to close their historical gap with Treasury yields. Together, this adds up to a nice drop in mortgage rates. As of Friday, the average conforming conventional 30yr fixed rate set a new all-time low.



This victory is tempered, for some, by the current reality of cautious mortgage investors. While they've begun to warm up to the most ideal loan scenarios, anything "off-the-beaten-path" isn't nearly as close to historical lows. This group includes risk factors like cash-out refinances, lower FICO scores, investment properties, and higher loan-to-value ratios. Combine more than a few of those factors and many lenders won't even do the loan, let alone offer a decent rate. This will change eventually, but it will take clarity on the reopening of the economy and plenty of **time.**

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, May 12				
8:30AM	Apr Core CPI (Annual) (%)	1.4	1.7	2.1
Wednesday, May 13				
7:00AM	w/e MBA Purchase Index	243.3		220.0
7:00AM	w/e Mortgage Refinance Index	3709.3		3835.7
8:30AM	Apr Core Producer Prices YY (%)	0.6	0.9	1.4
Thursday, May 14				
8:30AM	w/e Jobless Claims (k)	2981	2425	3169
8:30AM	w/e Continued jobless claims (ml)	22.833	25.100	22.647
Friday, May 15				
8:30AM	Apr Retail Sales (%)	-16.4	-12.0	-8.7
8:30AM	May NY Fed Manufacturing	-48.50	-63.50	-78.20
9:15AM	Apr Industrial Production (%)	-11.2	-11.5	-5.4
10:00AM	May Consumer Sentiment	73.7	68.0	71.8
10:00AM	Mar Business Inventories (%)	-0.2	-0.2	-0.4
Monday, May 18				
10:00AM	May NAHB housing market indx	37	35	30
Tuesday, May 19				
8:30AM	Apr Build permits: change mm (%)	-20.8		-7.0
8:30AM	Apr Housing starts number mm (ml)	0.891	0.927	1.216
8:30AM	Apr Building permits: number (ml)	1.074	1.000	1.350
8:30AM	Apr House starts mm: change (%)	-30.2		-22.3
Wednesday, May 20				
7:00AM	w/e MBA Purchase Index	258.9		243.3
7:00AM	w/e Mortgage Refinance Index	3474.1		3709.3
Thursday, May 21				
8:30AM	May Philly Fed Business Index	-43.1	-41.5	-56.6
9:45AM	May PMI-Composite (source:Markit)	36.4		27.0
10:00AM	Apr Existing home sales (ml)	4.33	4.30	5.27
10:00AM	Apr Exist. home sales % chg (%)	-17.8	-18.9	-8.5

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Apr Leading index chg mm (%)	-4.4	-5.5	-6.7
Wednesday, Jul 08				
1:00PM	10-yr Note Auction (bl)	29		

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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