US Housing Market Weekly

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Rates Catch a Break. Will it Last? What's The Impact on Housing?

The biggest story for the mortgage and housing market so far in 2021 has been the big **spike** in mortgage rates. It has been more abrupt and covered more ground than all but the worst historical examples. That said, it was **always** going to happen when the covid outlook improved.

For something that was "always going to happen," the rate spike still managed to catch many people off guard. The **biggest reason** for that was the disconnect between mortgage rates and the bonds that typically dictate mortgage rate movement.

There are actually two types of bonds that affect mortgage rates: Treasuries in a general sense, and mortgage-backed bonds specifically. To make a long story short, the pandemic resulted in an **unprecedented breakdown** in the normal correlations between bonds and rates.

The simplest way to think about the breakdown is that lenders simply couldn't keep up with demand and higher rates helped to slow things down. This also bolstered profit margins heading into an uncertain era of profitability due to mortgage relief programs in the CARES Act.

In visual terms, this created a **huge blowout** whereby mortgage rates remained **MUCH** higher than the bond market suggested. We warned on multiple occasions that this was temporary (especially **HERE in December**), and that if the reconnection with the bond market coincided with additional bond losses, it would be a fairly nasty double whammy for mortgage rates. Unfortunately, that's exactly how things have played out.

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

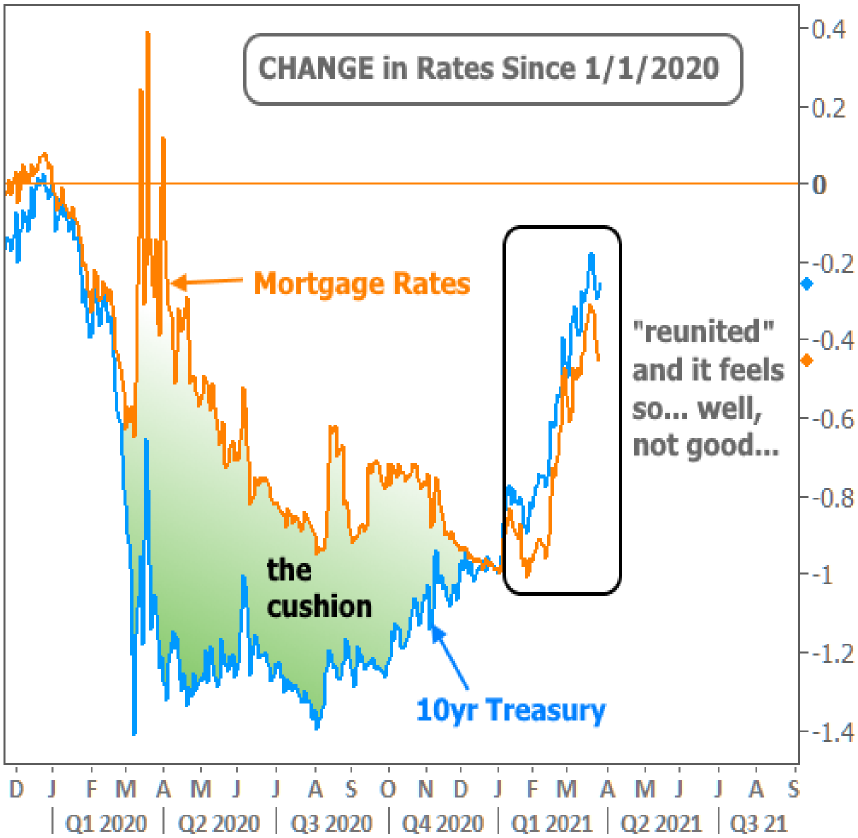
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	**-0.01**
MBS GNMA 5.5	99.78	**+0.00**
10 YR Treasury	4.2423	**-0.0102**
30 YR Treasury	4.4603	**-0.0122**

Pricing as of: 7/22 10:59PM EST

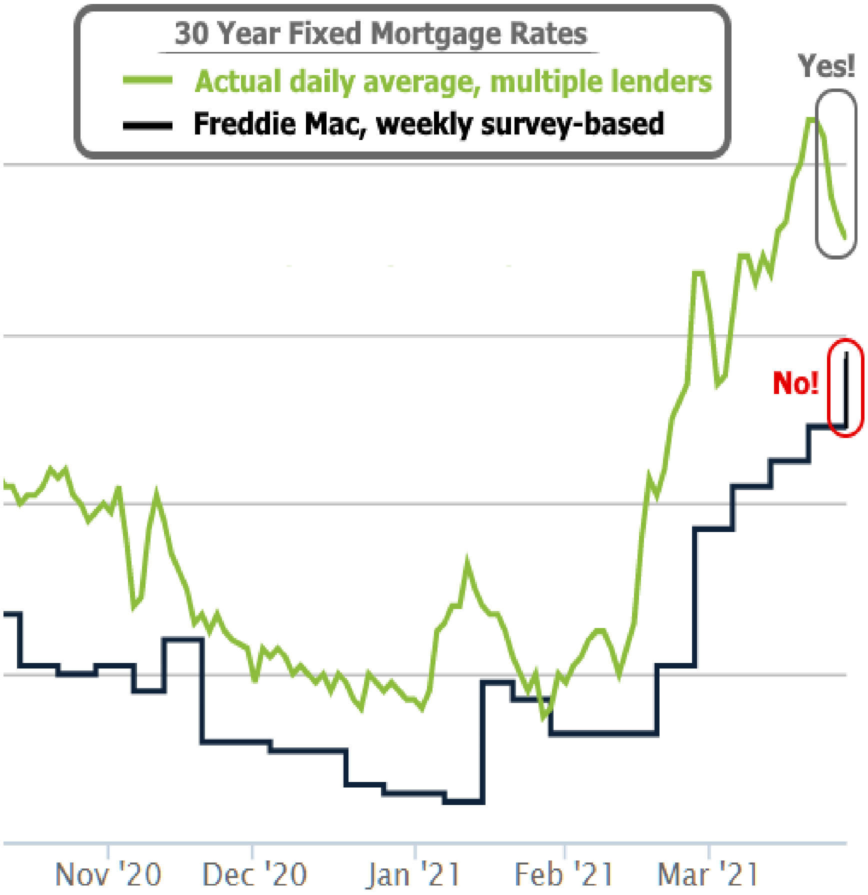
Recent Housing Data

		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%

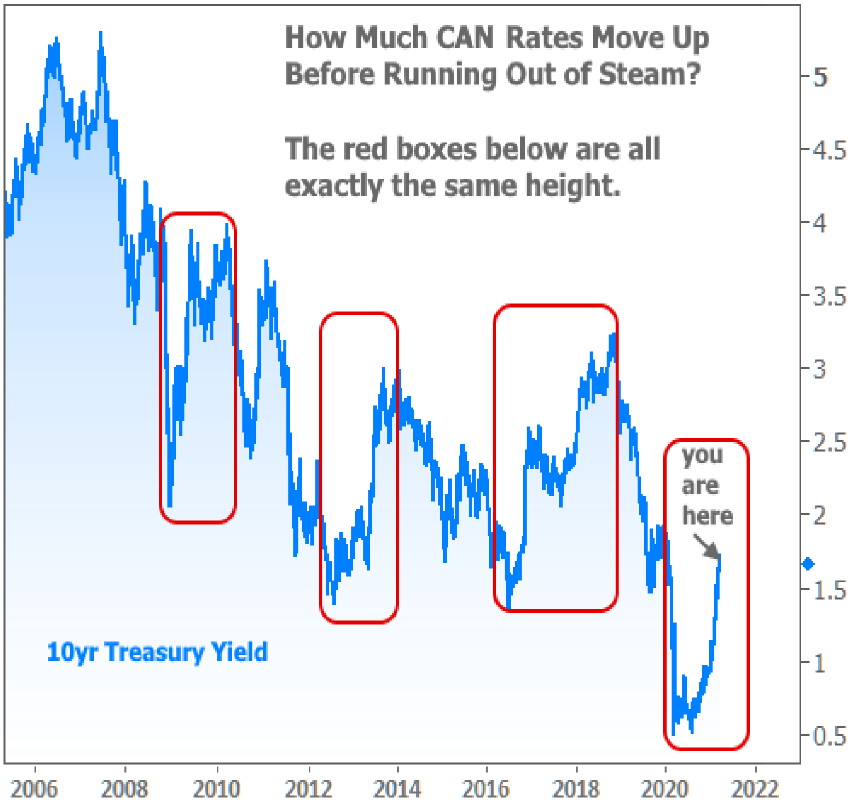


Considering the size and scope of the rate spike, public awareness has been slow to set in. That's actually the norm. One big issue on that front is the over-reliance on rate benchmarks like Freddie Mac's weekly survey, which unfortunately **lags well behind** reality when things are moving quickly. A vast majority of large media outlets use that survey data to report on mortgage rate movement for the week.

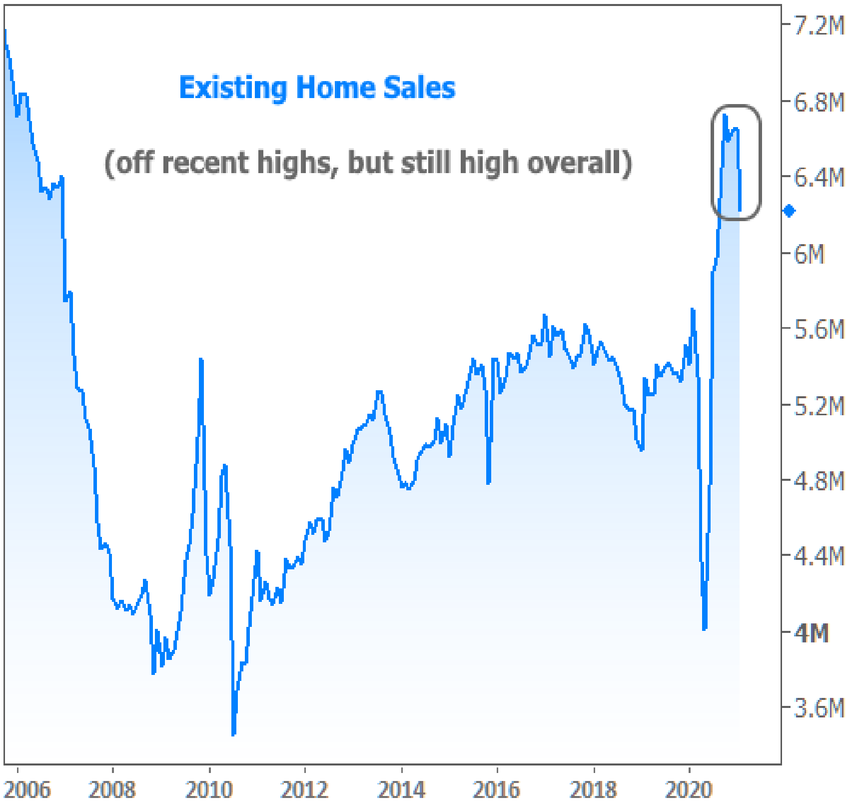
Up until last week, the survey based data was vastly under-representing the true pace of rising rates. Things are a bit different this week. We actually had a moderate **recovery** in rates on the first 4 days of the week while Freddie's survey data continued getting caught up with the persistent move higher.

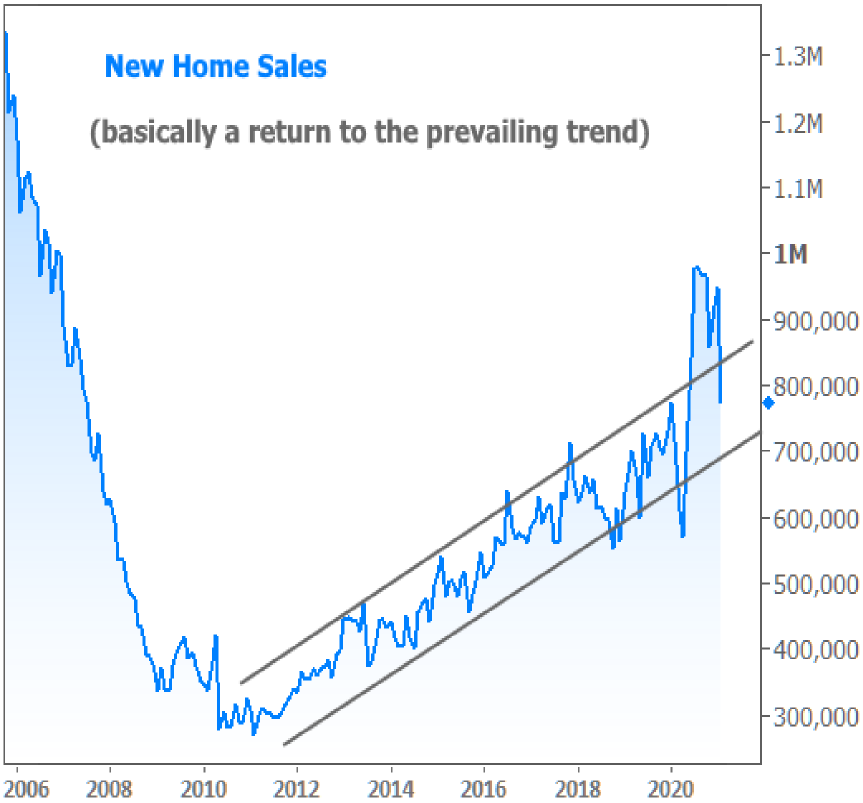


Be careful about assuming that this is some sort of "top" for rates. While that's a possibility, it's equally possible we're just leveling off before rates decide where to go next. History provides some good context as to how much ground can be covered in these rising rate environments.



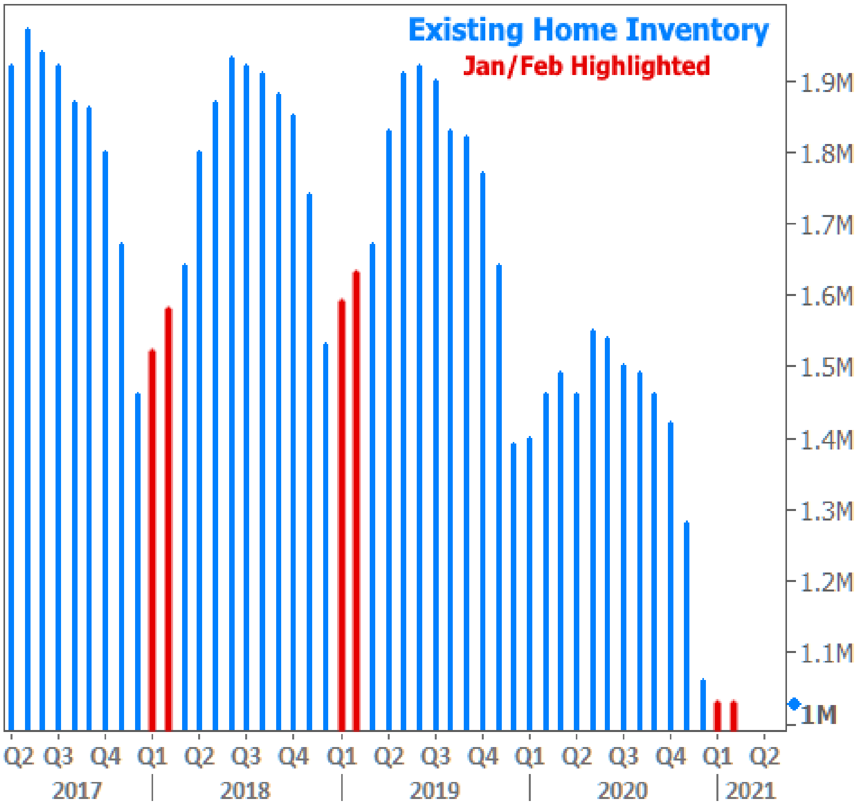
It's **more than fair** to wonder what sort of impact the rate spike is having on the housing market, but the answer is much more complex than the question. For instance, we **could** look at the housing data that came out this week and conclude that activity has cooled off thanks to higher rates.





While past examples suggest rates have some impact on the purchase market, it's almost never this abrupt, and it's never enough to cause a reversal in prevailing real estate trends--not by itself anyway.

In the current environment, **inventory** is just as much of an issue as anything--and probably a bigger issue than rates when it comes to explaining the recent slide in sales figures. **Case in point:** consider the complete absence of inventory building in January and February--something that happens with extreme reliability over the years.



In the week ahead, markets will continue to focus on covid-related statistics where solid domestic progress has been offset, somewhat, by a resurgence in Europe. Some traders are also waiting to see if Spring Break leads to a domestic resurgence.

It is also "month/quarter-end" and that can create **huge trading needs** for big money managers. Some analysts have suggested these money managers will be big buyers of bonds (which could help rates move lower) while others are more focused on Japan's fiscal year end (Japan is a big buyer and, more recently, a big seller of US Treasuries--something that has added upward pressure on interest rates in March).

Either way, the coming week and month promise to settle bets as to whether or not rates will take a break from recent drama or continue setting new longer-term highs. Granted, when long term highs are still in the "low 3's," it's hard to be too upset, but everything's relative when rates are nearly half a point higher than they were several weeks ago.

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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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