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The Real Reason Mortgage Rates Are Near 3-Year Lows

It's beginning to look a lot like 2012. That was a scary time for global financial markets, and that fear resulted in a golden age for mortgage rates. Not only was the Fed still actively engaged in 'Operation Twist' (whereby it sold shorter-duration Treasuries and bought longer-duration notes and bonds in an effort to bring long-term interest rates lower), but Europe was in the second stage of its potential credit crisis.

Europe's first major stage of that crisis surrounded Greece, and it caused enough panic to get Europe's benchmark 10yr rate **just under 2 percent**—roughly in line with US Treasuries at the time. The second stage was more serious, as investors worried that Spain and Italy would fall like dominoes after Greece's eventual default.

When the Spain/Italy panic was at its climax in July 2012, 10yr EU benchmarks were all the way down to 1.16 percent. This dragged US Treasuries and mortgage rates lower as well, **but mortgages had a hard time keeping up** with sovereign debt during the global flight-to-safety (i.e. investors seeking safe havens to park money while volatility passes).

With the Fed announcing the mortgage-specific QE3 program in September 2012, mortgage rates enjoyed their longest uninterrupted stretch of **near-record-low levels** ever.

Fast Forward to Present Day: It's not as blatantly obvious in the US, but the global economy is still very much in the weeds. As of this week, European rates are back at their all-time lows for the second time since the European credit crisis.

National Average Mortgage Rates



| | Rate | Change | Points |
|---------------------|-------|--------|--------|
| Mortgage News Daily | | | |
| 30 Yr. Fixed | 7.10% | +0.01 | 0.00 |
| 15 Yr. Fixed | 6.57% | +0.01 | 0.00 |
| 30 Yr. FHA | 6.64% | +0.02 | 0.00 |
| 30 Yr. Jumbo | 7.35% | 0.00 | 0.00 |
| 5/1 ARM | 7.30% | 0.00 | 0.00 |

Freddie Mac

| | | | |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 7.02% | -0.42 | 0.00 |
| 15 Yr. Fixed | 6.28% | -0.48 | 0.00 |

Rates as of: 5/20

Market Data

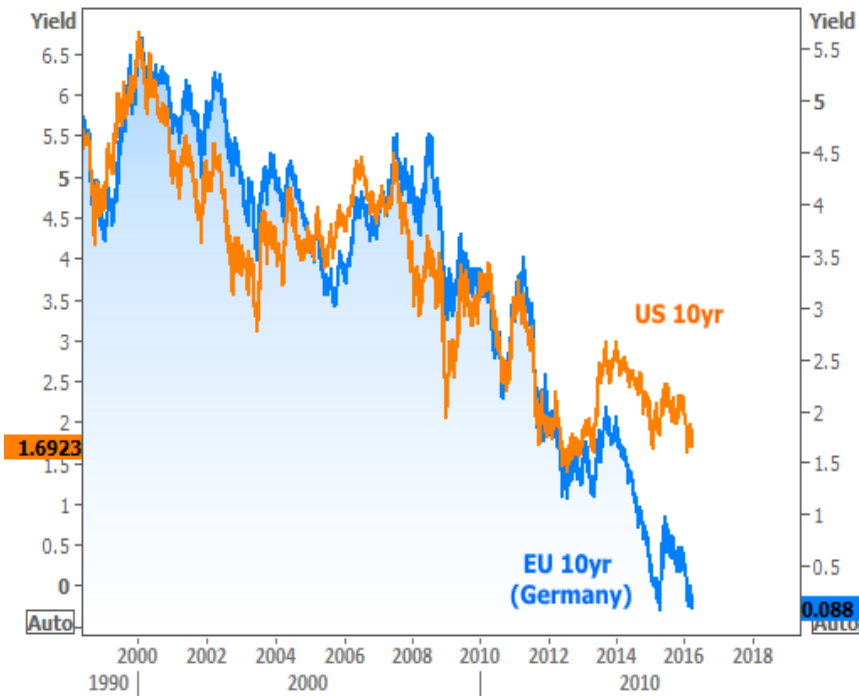
| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 6.0 | 100.39 | -0.01 |
| MBS GNMA 6.0 | 100.73 | -0.04 |
| 10 YR Treasury | 4.4428 | +0.0205 |
| 30 YR Treasury | 4.5797 | +0.0187 |

Pricing as of: 5/20 12:40PM EST

Recent Housing Data

| | | Value | Change |
|---------------------|--------|-------|---------|
| Mortgage Apps | May 15 | 198.1 | +0.51% |
| 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% |

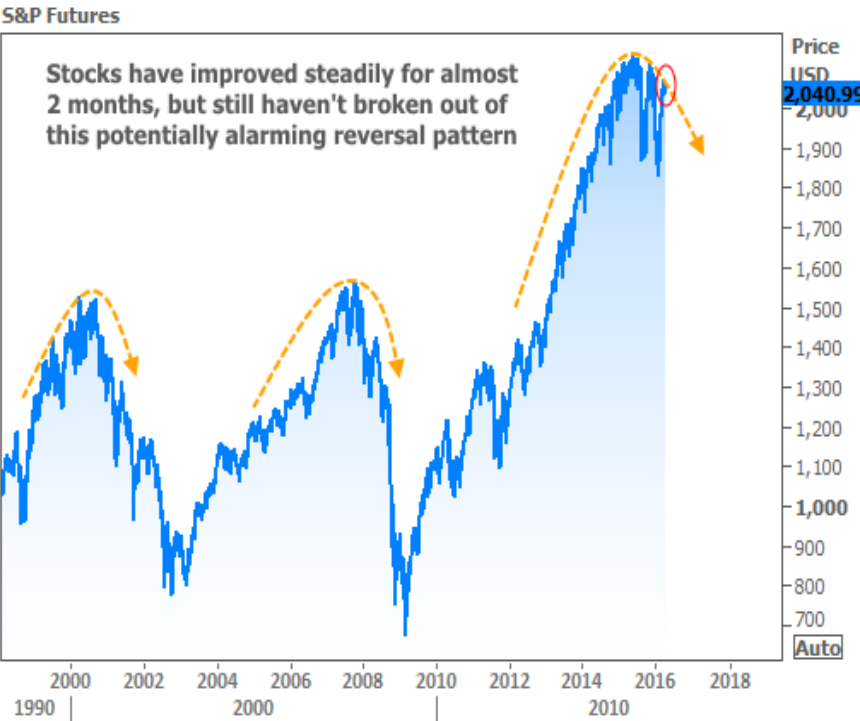
US vs EU Bond Market



US bond markets have been forced to divide their attention among Europe, volatile oil prices, and a **potentially serious turning point for stocks**. Bonds pick and choose who to listen to depending on who's making the most noise at the time, but when they start singing the same tune, bonds can't help but listen.

That's essentially what this week was all about. The meeting minutes, both from the Fed and the European Central Bank, confirm that policy-makers are quite **concerned about the global economy**—concerned enough to keep rates exceptionally low and to consider other forms of accommodation until economic momentum is successfully off the ground.

The Fed specifically noted that it's stuck **between a rock and a hard place** in that it doesn't have much room to provide new accommodation in the event of a downturn. Additionally, oil prices can't seem to break back above \$40 and stocks can't seem to break out of the ominous parabolic ceiling seen in the chart below.



This is a lot to consider in terms of big-picture market shifts. Bond markets don't really need to know the endgame. They only need to know they will benefit if current trends continue. And **that's exactly why** we find 10yr yields back in the 1.6's and mortgage rates back in line with 3-year lows.

Housing-Specific News

Global economic gloom and doom **isn't crippling the housing market** in the US. In fact, [Freddie Mac](#) noted that it sees 2016 as being the best year for housing in a decade.

But at least in terms of **home price gains**, [Black Knight](#) reminds us that 2016 will continue to be better for some than others, depending on geography.

Corelogic's [home price data](#) for February echoes that conclusion, with **only three states** posting double digit gains.

Subscribe to my newsletter online at: <http://housingnewsletters.com/kevinlitwicki>

Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|-------------------|------------------------------------|--------|----------|--------|
| Tuesday, Apr 05 | | | | |
| 8:30AM | Feb International trade mm \$ (bl) | -47.06 | -46.2 | -45.7 |
| 10:00AM | Mar ISM N-Mfg PMI | 54.5 | 54.0 | 53.4 |
| 10:00AM | Mar ISM N-Mfg Bus Act | 59.8 | 57.4 | 57.8 |
| Wednesday, Apr 06 | | | | |
| 7:00AM | w/e MBA Purchase Index | | | 228.6 |
| 7:00AM | w/e Mortgage Refinance Index | | | 1784.7 |
| Thursday, Apr 07 | | | | |

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

| Date | Event | Actual | Forecast | Prior |
|-------------------|-----------------------------------|--------|----------|-------|
| 8:30AM | w/e Continued jobless claims (ml) | | | 2.173 |
| 8:30AM | w/e Initial Jobless Claims (k) | | | 276 |
| Tuesday, Apr 12 | | | | |
| 8:30AM | Mar Export prices mm (%) | 0.0 | -0.2 | -0.4 |
| 8:30AM | Mar Import prices mm (%) | +0.2 | 1.0 | -0.3 |
| Wednesday, Apr 13 | | | | |
| 8:30AM | Mar Retail sales mm (%) | | | -0.1 |
| 1:00PM | 10-yr Note Auction (bl) | 20 | | |
| Thursday, Apr 14 | | | | |
| 8:30AM | Mar Core CPI mm, sa (%) | +0.1 | 0.2 | 0.3 |
| 1:00PM | 30-Yr Bond Auction (bl) | 12 | | |
| Friday, Apr 15 | | | | |
| 8:30AM | Apr NY Fed manufacturing | +9.56 | 2.21 | 0.62 |
| Wednesday, Apr 05 | | | | |
| 2:00PM | FOMC Minutes | | | |

All Your Mortgage Needs, Professionally Delivered with a Personal Touch

Whether you're a first-time homebuyer hoping to navigate the process of buying a home so that it is a fun and anxiety-free process or a homeowner looking for refinance options that deliver more freedom and flexibility, I can help you analyze your current situation and find money saving options. With expertise in all areas of mortgage and financing, my hope is that once I become your mortgage partner, I'll stay your mortgage partner. With clients from A to Z, files never leave my hands or my desk. From start to finish, every step of the way, my goal is to keep the lines of communication open, provide complete and attentive service, and ensure the most seamless and satisfactory process possible.

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