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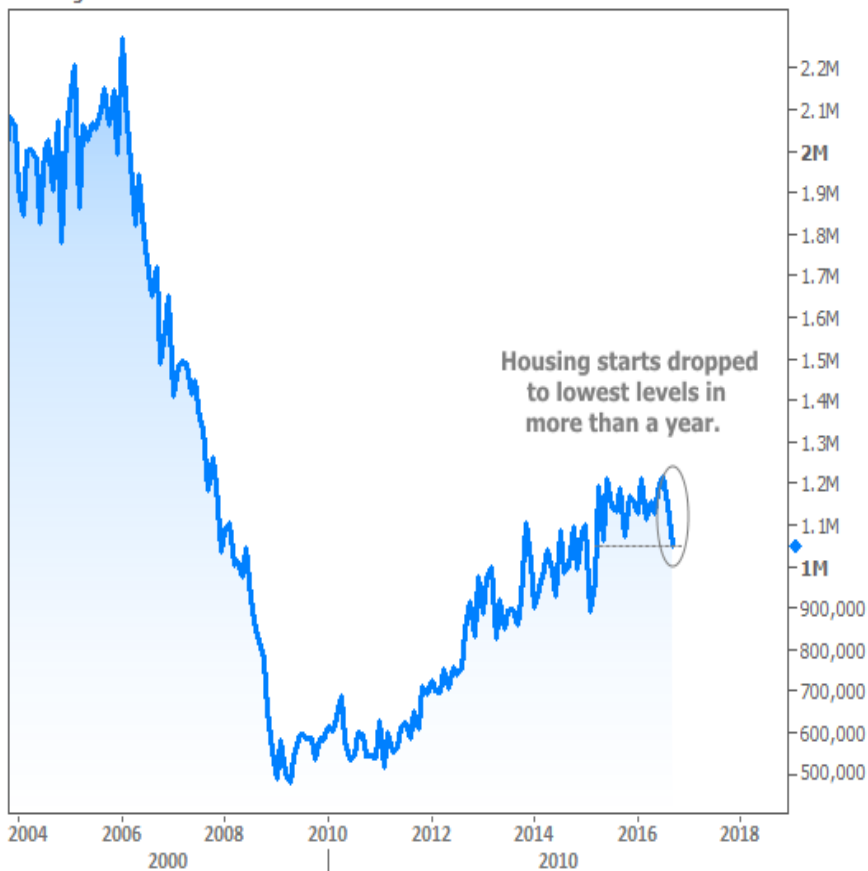
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## Housing and Rates in Trouble? It Depends

This week, a [report from Fannie Mae](#) suggests the housing market is **losing momentum** due to declines in single family construction spending and the prospect of higher interest rates in the future. Whether or not this should be troubling is a matter of perspective.

It is true that certain construction metrics have been **lagging**. In a [separate report](#) this week, housing starts fell sharply to their lowest levels in more than a year.

### Housing Starts



In and of itself, this drop in Housing Starts **could be** troubling, but by the time we look at the week's other data, the situation doesn't seem so dire.

Right off the bat, it's **important to remember** that any monthly economic data is inherently volatile. One rogue month of weakness in Housing Starts (down 9.0%) doesn't speak to a shift in the bigger picture. A stronger case could be made if the other housing-related data was similarly weak, but if anything,

## National Average Mortgage Rates



|                            | Rate  | Change | Points |
|----------------------------|-------|--------|--------|
| <b>Mortgage News Daily</b> |       |        |        |
| 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 |

Rates as of: 8/30

## Market Data

|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 5.0   | 99.37         | +0.02   |
| MBS GNMA 5.0   | 99.93         | +0.02   |
| 10 YR Treasury | 3.9068        | +0.0029 |
| 30 YR Treasury | 4.1960        | +0.0028 |

Pricing as of: 9/1 7:34PM EST

## Recent Housing Data

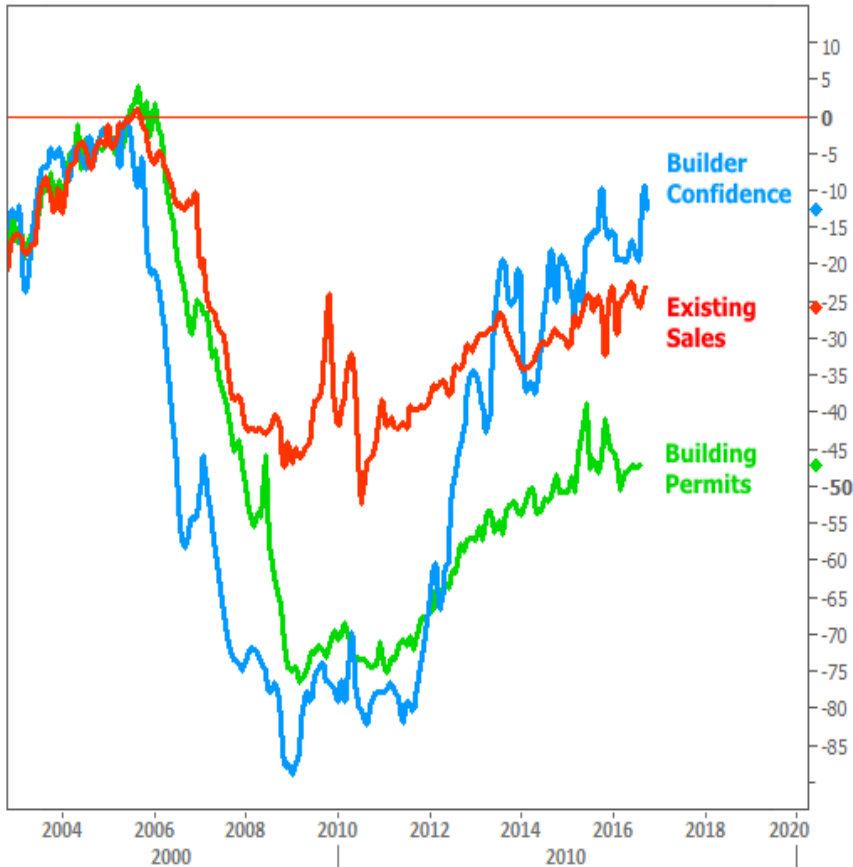
|                     |        | Value | Change  |
|---------------------|--------|-------|---------|
| Mortgage Apps       | Aug 28 | 226.9 | +0.49%  |
| Building Permits    | Mar    | 1.46M | -3.95%  |
| Housing Starts      | Mar    | 1.32M | -13.15% |
| New Home Sales      | Mar    | 693K  | +4.68%  |
| Pending Home Sales  | Feb    | 75.6  | +1.75%  |
| Existing Home Sales | Feb    | 3.97M | -0.75%  |
| Builder Confidence  | Mar    | 51    | +6.25%  |

this week's data argues the opposite.

In the same report as Housing Starts, Building Permits told a completely **different story**, rising 6.3% from last month and 8.5% from last year. **Builder Confidence** fell, but remained at the 2nd highest level of the year.

Existing home sales were **unabashedly strong**, not to mention first-time buyer participation at a 4-year high, and a 5.6% annual improvement in prices. The following chart shows how several of these metrics have evolved (in terms of percent change) from "peak housing data" in June 2005.

Percent Change From June 2005



Clearly, the housing market is **not "in trouble"** at the moment. Waning momentum, on the other hand, is a possibility we have to consider.

The waning momentum thesis relies, in part, on the **expectation of higher rates**. Fannie, and others, are worried that rates could now be at greater risk of a long-term uptrend as global central banks begin unwinding their easy money policies.

This fear is quite valid. Indeed, rates are only as low as they are due to global central bank monetary policy. Naturally, if the European Central Bank (ECB) announced its intention to taper asset purchases as the Fed did in 2013, a similar **taper tantrum** could be the result.

Markets have been **concerned enough** about another taper tantrum that rates have been moving steadily higher in anticipation. Whether or not they're "high" on an outright basis, is a matter of perspective. After all, they've only been this low for this long one other time in history. (The following chart uses 10yr Treasury yields as proxy for movement in longer-term rates like mortgages.)

US 10yr Treasury



US 10yr Treasury



The preceding chart is **bittersweet**. It's great that rates have been so low, but it also serves as a reminder of just how quickly they can move higher. Keep in mind that almost no one expected mortgage rates in the 3% range again the 2013 taper tantrum, yet here we are.

If the ECB does indeed cause a similar tantrum things **could get scary** in the same way they were scary in 2013. But at that point, the global economy would need to be firing on most of its cylinders in order to keep rates heading higher. Otherwise, there's no reason to believe the life-expectancy of a new taper tantrum would be better than the old one.

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## Recent Economic Data

| Date                     | Event                             | Actual | Forecast | Prior |
|--------------------------|-----------------------------------|--------|----------|-------|
| <b>Monday, Oct 17</b>    |                                   |        |          |       |
| 8:30AM                   | Oct NY Fed manufacturing          | -6.8   | 1.00     | -1.99 |
| 9:15AM                   | Sep Industrial output mm (%)      | +0.1   | 0.1      | -0.4  |
| <b>Tuesday, Oct 18</b>   |                                   |        |          |       |
| 8:30AM                   | Sep CPI mm, sa (%)                | +0.3   | 0.3      | 0.2   |
| 8:30AM                   | Sep Core CPI mm, sa (%)           | +0.1   | 0.2      | 0.3   |
| <b>Wednesday, Oct 19</b> |                                   |        |          |       |
| 7:00AM                   | w/e Mortgage Market Index         | 512.9  |          | 509.6 |
| 8:30AM                   | Sep Building permits: number (ml) | 1.225  | 1.165    | 1.152 |
| 8:30AM                   | Sep Housing starts number mm (ml) | 1.047  | 1.175    | 1.142 |
| <b>Thursday, Oct 20</b>  |                                   |        |          |       |
| 8:30AM                   | Oct Philly Fed Business Index     | 9.7    | 5.3      | 12.8  |
| 10:00AM                  | Sep Existing home sales (ml)      | 5.47   | 5.35     | 5.33  |
| <b>Tuesday, Oct 25</b>   |                                   |        |          |       |
| 9:00AM                   | Aug CaseShiller 20 yy (%)         | +5.1   | 5.0      | 5.0   |
| 10:00AM                  | Oct Consumer confidence           | 98.6   | 101.0    | 104.1 |
| 1:00PM                   | 2-Yr Note Auction (bl)            | 26     |          |       |
| <b>Wednesday, Oct 26</b> |                                   |        |          |       |
| 10:00AM                  | Sep New home sales-units mm (ml)  | 0.593  | 0.600    | 0.609 |
| 1:00PM                   | 5-Yr Note Auction (bl)            | 34     |          |       |
| <b>Thursday, Oct 27</b>  |                                   |        |          |       |
| 8:30AM                   | Sep Durable goods (%)             | -0.1   | 0.1      | 0.1   |
| 10:00AM                  | Sep Pending homes index           | 110.0  |          | 108.5 |
| 1:00PM                   | 7-Yr Note Auction (bl)            | 28     |          |       |
| <b>Friday, Oct 28</b>    |                                   |        |          |       |
| 8:30AM                   | Q3 Employment costs (%)           | +0.6   | 0.6      | 0.6   |
| 8:30AM                   | Q3 GDP Advance (%)                | +2.9   | 2.5      | 1.4   |
| 10:00AM                  | Oct U Mich Sentiment Final (ip)   | 87.2   | 88.1     | 87.9  |
| <b>Tuesday, Mar 21</b>   |                                   |        |          |       |

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

| Date    | Event                     | Actual | Forecast | Prior |
|---------|---------------------------|--------|----------|-------|
| 11:30AM | 26-Week Bill Auction (bl) | 55     |          |       |

## Service oriented, responsive, competitive rates and an in depth knowledge of todays mortgage market

After completing my degree in finance at the University of Connecticut, I started in the mortgage business right out of college in 2004. With 15+ years of experience and a primary objective of thoroughly explaining all available loan options to my clients with what is typically the largest investment in their lives, I strive to always make myself available. I constantly educate myself with respect to the mortgage industry and underwriting guidelines for FHA, VA, conventional and jumbo financing. I deliver on the expectations discussed up front and provide the service level my clients deserve from day one. I will remain in touch throughout the process and continue to follow up with you after closing. My goal is to wow you and turn you into clients for life. I want you to be so impressed that throughout and after the process you share my information with your friends, family, neighbors and co-workers who may value from my services.

**Steve Chizmadia**

