Steve Chizmadia
Mortgage Advisor - MLO-244902, Home Loans With Steve
NMLS ID: 1845124- CA BRE: 01524985 -
141 Providence Road Charlotte, NC 28207

Office: (760) 715-9688
Mobile: (760) 715-9688
steve@homeloanswithsteve.com
View My Website

Strongest Housing Data in Years Collides With Rising Rates

Mortgage rates opened higher this week after weekend developments in Europe. That's a complicated topic, to be sure, and we discuss it in greater detail with the "deep thoughts" below. The gist of that analysis is that Greece isn't quite as responsible for every little move in US interest rates as it might seem. There are some **bigger-picture considerations** that should have us all feeling more defensive about the general upward momentum in rates, and skeptical about the apparent recoveries.

The prospect of stubbornly higher rates comes at an interesting time in terms of developments in **housing data**. For instance, Monday's Existing Home Sales data was at its **best levels since 2009!** And don't forget that 2009's levels were only made possible by the temporary home buyer tax credit meant to kick-start moribund post-meltdown housing demand. Without the tax credit, we'd be looking at the best Existing Home Sales levels since 2006. The next day, New Home Sales put in a similar performance, rising a whopping 19.5% vs the same time last year.

It's too soon to know how much rising rates might dampen the momentum in housing demand, but it's **a fair concern**, to be sure. The toll has clearly already been taken in terms of refinance demand. Earlier in 2015, the lowest rates in 2 years resulted in only a tepid increase in MBA's refi index. At the same time, purchase demand began improving as well, but the most recent MBA numbers **beg the question**: is the rising rate environment putting an end to those gains? Indeed, it looks like any further increases in rates will reinforce the "topping out" process that looks like it might be starting in MBA's purchase index. You can see both charts and the full story here.

To take this line of thinking even further, what if this confluence of strong housing data and rising rates is **actually a good thing?** Blasphemy, I know, but there's more talk of a housing bubble now than at any other time since the Financial Crisis. Watch Video

But for every voice shouting bubble, there's an equal and opposite voice: Builders say no bubble

Bubble or no, there are certainly **some parts** of the market that are **hotter than others**. Many would argue they're a bit too hot and that a temporary rise in rates would help restore a healthier pace of growth and perhaps spread that growth to areas that are more affordable.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
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%

Whether or not a rise in rates can be temporary remains to be seen. **Next week will be very big**, both in terms of potential European developments and economic data in the US. It's a lot to cram into a week that will be shortened by a market closure on Friday in observance of the Independence Day Holiday. Holiday weeks like these can be some of the most volatile in terms of mortgage rates.

Deep Thoughts on Greece and its Connection to US Mortgage markets

Any discussion about US housing and mortgage markets would be incomplete without discussing trends in mortgage rates. More than anything else, **mortgage rates are driven by** changes in the price of mortgage-backed-securities (MBS). These bonds are essentially what huge groups of similar mortgages turn into when they're combined and chopped up into more manageable pieces to trade in financial markets.

Because of modern underwriting guidelines and moreover, due to guarantee mechanisms like the GSEs, HUD, and various private mortgage insurance companies, there is essentially no risk that investors won't receive their principal and interest. This leaves MBS to **trade a very similar pattern** to US Treasuries, which are the core of the domestic bond market and a key player in broader global bond markets. In fact, it's impossible to have a proper conversation about mortgage rate movement without talking about broader bond markets. And at present, it's also impossible to talk broader bond markets without talking about Greece.

Greece, the country in Europe?

Yes, that Greece. Depending on the extent to which you've been tuned in to financial news over the past few years, you've likely already seen seemingly dramatic Greece-related headlines. What's up with that? **Why does everyone care so much?**

The answer is complicated and ever-evolving, but the basic ingredients are easy enough to understand. The **drama centers on** Greece's inability to pay its bills. Some say this is Greece's fault. Others blame the Eurozone's inherent challenges, but that blame doesn't matter. What matters is that Greece is part of the Eurozone-the group of countries that use the Euro as their sole currency. One of the biggest reasons markets care is that if Greece defaults on its debt, it has an immediate impact on the value of its currency—the SAME one that every other Eurozone country uses!

There are **other systemic risks** as well, even in how the rest of the Eurozone handles this situation in terms of the **precedent** it sets for other countries. The underlying concern is that no one can truly rule out the possibility that the mishandling of this situation could lead to **unraveling** of the entire Eurozone. It probably won't happen, but the fact that it COULD is what's scary, and it's been having a real impact on financial markets.

The biggest **beneficiaries** have been the countries whose sovereign debt is risk-free and easily traded. Germany dominates Europe in this regard, and US Treasuries fill that role for the rest of the world. This role has afforded the US (and consequently, mortgage rates, because of the tight connection between MBS and Treasuries) much lower rates than we otherwise might have seen over the past few years (Greece was an issue **as early as 2010!**).

But what many market participants and news outlets are **failing to fully appreciate** is the fact that 2015 is not the same as 2010-2012 when it comes to the systemic risks posed by Greece to the rest of the world. The problem is that rates have been **stubbornly higher** for other reasons, and any market-watchers hoping that Greek turmoil will somehow "save" our recent low rate environment may be in for a shock. Rates have been far more concerned with trading the long-term, big-picture trend.

Part of the reason the 'taper tantrum' hurt as much as it did in 2013 was that it made 2012 look like it **might be THE all-time low for interest rates** in the US. April 2015 quickly took on the same sort of mystique for European rates. That's the epicenter of the big move higher since then. The facts that the Fed is talking about a rate hike, and that Greece is talking about a debt deal, are merely in the right place at the right time to share some of the blame.

In an environment where market participants are wondering if the recent lows in rates are the lowest we'll see for a long time, it makes no sense to swim against the current. In other words, when rates periodically move lower, that doesn't mean it's time to float loans and plan on further improvement. Rather, it's that much more advisable to lock rates on those days because recoveries have consistently been limited since April. That **COULD** change at some point, but it will take a lot of improvement for us to even be able to consider it. Until then, all participants in the US mortgage market should be in a defensive stance by default when it comes to rates.

Subscribe to my newsletter online at: http://mortgagenewsletter.net/homeloansbysteve

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