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Are Rates Finally Ready to Start Holding Their Ground?

Global financial markets continue to be **transfixed by drama in Europe**, though it is now showing signs of subsiding. That's good and bad for mortgage markets in the US.

The drama in question centers on **Greece**. That's a fact that's hard to miss if you see any financial news, but what's really going on and how is it affecting you?

The **only reason** the world is concerned about Greece is that it's a member of the Eurozone—the group of 19 countries that use the Euro currency. Thus, their actions affect all other members of the Eurozone. A previous newsletter discussed this dynamic in much greater detail, but here's the gist of all the Greek drama:

The worse things are for Greece in terms of receiving bailout money and paying its debt, **the better it is for interest rates** in the US. As such, when Greece took steps to secure more bailout funding this week, the implication for rates has been negative. But the damage was far lighter than we might have expected.

There are **several reasons** for this. First of all, for Greece, it's not as simply as "Bailout or no Bailout." Yes, they're on track to get the money they need to stay in the Eurozone, but the terms won't be finalized and fully approved for at least a month. Thing won't be easy for Greece going forward either—a fact that has critics suggesting a Eurozone exit will remain a looming threat that's merely been pacified for now. These caveats definitely help lighten the impact on mortgage rates.

Even more important that caveats regarding Greece is the fact that there are so many other sources of motivation for market movement! The **media world has a habit of hyperfocusing** on the highest drama of the day. Greece fits that bill more than anything else recently, but it's not necessarily the most important consideration for rates markets.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.32%	-0.02	0.00
15YR Fixed	6.87%	-0.02	0.00
30YR FHA	6.95%	-0.01	0.00
30YR Jumbo	7.42%	-0.03	0.00
7/6 SOFR	6.70%	-0.13	0.00
30YR VA	6.97%	**0.00**	0.00

Rates as of: 11/24

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.94	+0.35
10 YR Treasury	4.8580	-0.0687
30 YR Treasury	5.2639	-0.0575

Pricing as of: 11/25 2:33AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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Case in point, rates clearly benefited from a deterioration in economic data this week. In particular, Retail Sales were much weaker than expected. This is one of the more important economic reports in the US each month. If it suggests consumers aren't spending, the implication is that growth and inflation won't justify the Fed's rate hike stance. Even though the Fed Funds Rate doesn't directly affect mortgage rates, an economy that justifies a Fed rate hike also typically justifies rising longer term rates (like mortgages). In any event, they tend to move in tandem, and rate hike expectations have definitely been well correlated with mortgage rates.

The Fed is cognizant of the situation. Fed speakers have increasingly mentioned the fact that a rate hike is dependent on data. They've also taken note of events overseas with several Fed governors mentioning that they don't want to add unnecessary market volatility to an already fragile situation in Europe. Their conclusion though, wasn't so much to hold off on hiking, but rather to make sure it's well-telegraphed. To that end, most of the Fed hasn't been shy about saying they still expect the **first rate hike in 2015**.

The great thing is that markets have already been operating under that assumption! That means that any reconsideration on the part of the Fed—any further deterioration in the economic data—will only lead to improvements in rates. At this point, it would take accelerating improvement in economic data to get the rate environment back on track with the pace of increases seen in the first half of 2015. In other words, **rates look like they're ready to start holding their ground** here. Whether that means they rise less quickly, or actually push back lower, it's too soon to say, but either way, it's an improvement in the outlook.

The improvement **couldn't come at a better time** as housing-related metrics are just gaining traction. So much of the housing recovery has been hampered by a lack of income growth combined with tight guidelines. Income hasn't been picking up enough, so the market has been reliant on low rates to keep affordability intact for as many potential homeowners as possible.

Guidelines are doing their part, even if the changes come slow, and even if lender implementation has been slower. But they are happening. For instance, Freddie Mac just announced a slew of updates to underwriting guidelines that **will help many borrowers who might have had trouble qualifying** before. For what it's worth, these are "make-sense" adjustments that should have happened a long time ago—nothing at all like the proliferation of reckless lending seen in the run-up to the housing collapse.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jul 14				
8:30AM	Jun Retail sales mm (%)	-0.3	0.2	1.2
8:30AM	Jun Import prices mm (%)	-0.1	0.1	1.3
Wednesday, Jul 15				
7:00AM	w/e Mortgage Refinance Index	1392.4		1342.9
7:00AM	w/e MBA Purchase Index	196.4		212.4
8:30AM	Jul NY Fed manufacturing	+3.86	3.00	-1.98
10:00AM	Yellen's Congressional Testimony			
Thursday, Jul 16				
8:30AM	w/e Initial Jobless Claims (k)	281	280	297
10:00AM	Jul NAHB housing market indx	60	60	59

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

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Date	Event	Actual	Forecast	Prior
Friday, Jul 17				
8:30AM	Jun Building permits: number (ml)	1.343	1.150	1.250
8:30AM	Jun Housing starts number mm (ml)	1.174	1.110	1.036
8:30AM	Jun Core CPI mm, sa (%)	+0.2	0.2	0.1
Wednesday, Jul 22				
10:00AM	Jun Existing home sales (ml)	5.49	5.40	5.35
Friday, Jul 24				
10:00AM	Jun New home sales-units mm (ml)	0.482	0.546	0.546
Thursday, Nov 19				
1:00PM	10-yr TIPS Auction (bl)	13		

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I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me to be your mortgage lending partner.

Timothy Baron 

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