



## The Arizona Loan Baron

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## Highest Rates in Years Raise Questions About Housing in 2017

Just this week, Freddie Mac [referred to 2016](#) as the **best year for housing in a decade** before going on to say that 2017 is up in the air. With rates having risen rapidly to the highest levels in more than 2 years, "up in the air" is an understatement. In fact, forget housing... 2017 is up in the air across the board.

The apex of the financial crisis was the last time the political and economic climate of the country was so fraught with uncertainty. Love him or hate him, market movement suggests **high hopes** for Trump's fiscal policies. Whether or not those policies can possibly justify the growth and inflation suddenly predicted by financial markets will be the **biggest story** of the coming year.

If financial markets could actually be certain of a best-case scenario, rates would already be rising at the **fastest pace in history**. As it stands, the rate spike is merely "one of the fastest" in history. Reason being: the only certainty so far is that 2017's fiscal environment will generally be less friendly for bonds (read: higher rates) and more friendly for stocks. Investors have responded to that certainty as you'd expect them to:

## National Average Mortgage Rates



|  | Rate | Change | Points |
|--|------|--------|--------|
|--|------|--------|--------|

### Mortgage News Daily

|              |       |       |      |
|--------------|-------|-------|------|
| 30 Yr. Fixed | 7.09% | +0.07 | 0.00 |
| 15 Yr. Fixed | 6.56% | +0.03 | 0.00 |
| 30 Yr. FHA   | 6.62% | +0.07 | 0.00 |
| 30 Yr. Jumbo | 7.35% | +0.04 | 0.00 |
| 5/1 ARM      | 7.30% | +0.06 | 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: 5/17

## Market Data

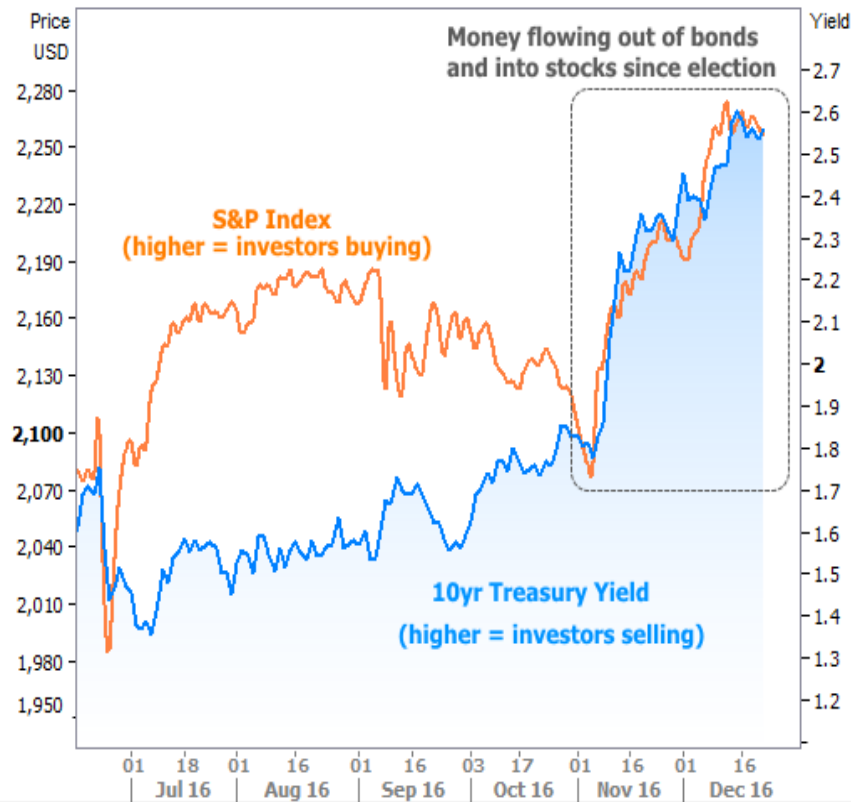
|                | Price / Yield | Change  |
|----------------|---------------|---------|
| MBS UMBS 6.0   | 100.33        | -0.07   |
| MBS GNMA 6.0   | 100.72        | -0.05   |
| 10 YR Treasury | 4.4482        | +0.0259 |
| 30 YR Treasury | 4.5869        | +0.0259 |

Pricing as of: 5/20 9:14AM EST

## Recent Housing Data

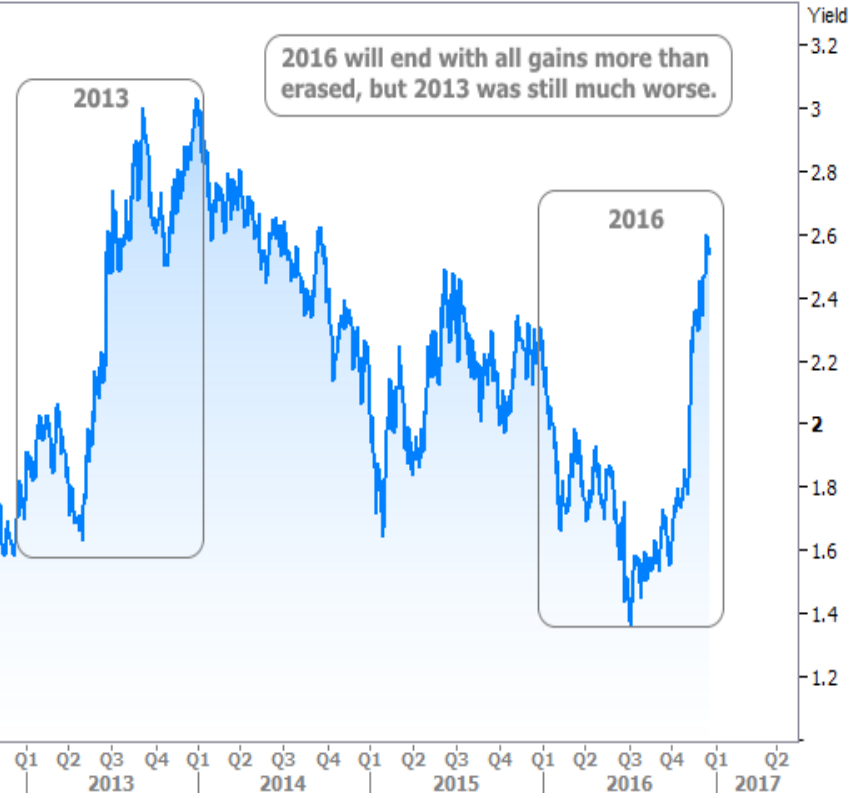
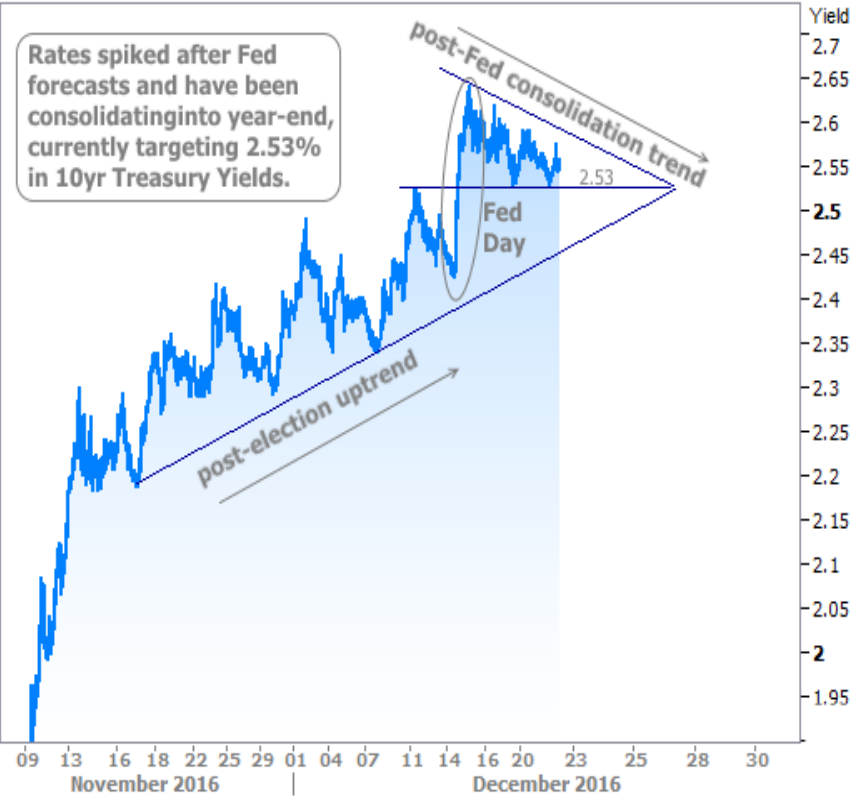
|                     |        | Value | Change  |
|---------------------|--------|-------|---------|
| Mortgage Apps       | May 15 | 198.1 | +0.51%  |
| Building Permits    | Mar    | 1.46M | -3.95%  |
| Housing Starts      | Mar    | 1.32M | -13.15% |
| New Home Sales      | Mar    | 693K  | +4.68%  |
| Pending Home Sales  | Feb    | 75.6  | +1.75%  |
| Existing Home Sales | Feb    | 3.97M | -0.75%  |
| Builder Confidence  | Mar    | 51    | +6.25%  |

## Stocks and Bonds Since The Election

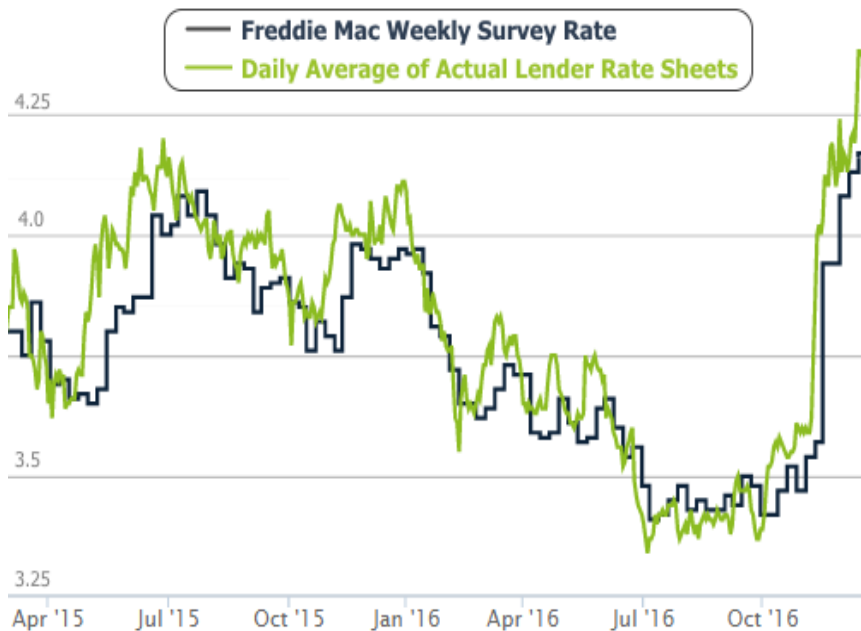


The quick, post-election reallocation between stocks and bonds now looks to have **run its course**. At the very least, it's calming down heading into the end of the year. The net effect for rates is similar to 2013, but with slightly lower outright levels. (NOTE: 10yr Treasury yields are the favored benchmark for longer-term rates like mortgages.)

10yr Treasury Yield



It will take a while for the effects of this rate spike to be widely understood. Case in point, just this week, the nation's most widely-cited source of mortgage rate movement (Freddie Mac's Primary Mortgage Market Survey) finally caught up to reality. This isn't a knock on Freddie--simply evidence that **it takes time** for big developments on the front lines to be reflected in higher-level data.



The scary thing is that Freddie's weekly rate survey is in an **EARLY indicator** compared to the housing data that will ultimately speak to the effects of rising rates. For example, this week's [Existing Home Sales](#) data--which covered November--was unfazed, rising to the highest levels in **nearly a decade**.

#### Existing Home Sales Highest Since Feb 2007



At the very least, it would be fair to expect some deterioration in housing based on 2013's example. By the time we consider that sales were only ever higher during **history's greatest housing bubble** (not to mention more esoteric considerations like the maturity of the economic cycle or waning central bank stimulus), we'd be well within our right to wonder if things will be even worse this time around.

It's **not all doom and gloom** though. Cases could be made that the current labor market leaves the average American in a better position to weather a storm of rising rates than they were in 2013. The point is that until we see how the higher-level data evolves in the coming months, uncertainty over the housing/mortgage market outlook will be a major theme in 2017.

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Recent Economic Data

| Date              | Event                             | Actual | Forecast | Prior  |
|-------------------|-----------------------------------|--------|----------|--------|
| Wednesday, Dec 21 |                                   |        |          |        |
| 7:00AM            | w/e Mortgage Market Index         | 407.3  |          | 397.5  |
| 7:00AM            | w/e Mortgage Refinance Index      | 1449.4 |          | 1407.0 |
| 7:00AM            | w/e MBA Purchase Index            | 232.9  |          | 226.7  |
| 10:00AM           | Nov Existing home sales (ml)      | 5.61   | 5.50     | 5.60   |
| Thursday, Dec 22  |                                   |        |          |        |
| 8:30AM            | Nov Nondefense ex-air (%)         | +0.9   | 0.3      | 0.2    |
| 8:30AM            | Nov Durable goods (%)             | -4.6   | -4.7     | 4.6    |
| 8:30AM            | Q3 GDP Final (%)                  | +3.5   | 3.3      | 3.2    |
| 8:30AM            | w/e Initial Jobless Claims (k)    | 275    | 265      | 254    |
| 8:30AM            | w/e Continued jobless claims (ml) | 2.036  | 2.035    | 2.018  |
| 9:00AM            | Oct Monthly Home Price yy (%)     | +6.2   |          | 6.1    |
| 10:00AM           | Nov Consumption, adjusted mm (%)  | +0.2   | 0.3      | 0.3    |
| 10:00AM           | Nov Personal income mm (%)        | 0.0    | 0.3      | 0.6    |
| 10:00AM           | Nov Core PCE price index yy (%)   | +1.6   |          | 1.7    |
| Friday, Dec 23    |                                   |        |          |        |
| 10:00AM           | Nov New home sales-units mm (ml)  | 0.592  | 0.575    | 0.563  |
| Tuesday, Dec 27   |                                   |        |          |        |
| 9:00AM            | Oct CaseShiller 20 mm SA (%)      | +0.6   | 0.5      | 0.4    |
| 10:00AM           | Dec Consumer confidence           | 113.7  | 109.0    | 107.1  |
| Wednesday, Dec 28 |                                   |        |          |        |
| 10:00AM           | Nov Pending homes index           | 107.3  |          | 110.0  |
| Friday, Dec 30    |                                   |        |          |        |
| 9:45AM            | Dec Chicago PMI                   | 54.6   | 57.0     | 57.6   |

Event Importance:

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

## The Arizona Loan Baron

The Arizona Loan Baron is at your service!

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 the opportunity to be your mortgage lending partner.

**The Arizona Loan Baron**

