



The Arizona Loan Baron

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A Message from The Arizona Loan Baron:

"After the recent run-up, bond markets are rallying and mortgage rates are dropping! Here's why..."

The Week Ahead: The Italy Paradox

Let's use US politics and Congress to help us understand Italian politics. Imagine that Libertarians and Independents actually won enough seats to compete with our 2 main parties. Imagine there are a few other parties as well (also occasionally competitive). If the US were Italy, our **most critical elections** would be those of Congresspeople. Congress would vote for President instead of the public, and the governing cabinet would be chosen by the Congressional party that got enough votes. If the top party didn't hold a majority of the seats, they could form a coalition with any other party and then proceed to govern the country as they saw fit.

At least they **COULD** govern if the president approved of their selection for Prime Minister and other key positions. In Italy's case this weekend, the President did not approve.

At first glance, this **should be terrible** for bonds. After all, Italy's Eurosceptic 5-star party had formed a coalition with another anti-Euro party (The League) in an attempt to "form a government" (essentially, when a majority party or coalition gets its lawmakers confirmed by the president). The threat of the proliferation of anti-Euro sentiment in Italy and a potential Brexit-style EU departure had been driving strong bond buying in Germany and the US (just as Brexit did), and massive weakness in Italian bonds.

So if Italy's president blocked this new government, why is it suddenly grounds for an **even bigger rally**?

Truly, you'd be well within your rights to expect bond yields to be **higher** after such news, but after a slightly closer inspection, this will all make great sense.

The existing Eurosceptic coalition (the one that just got blocked from forming a government) had already submitted its official legislative game plan. Many feared this would include some bullet point that suggested a push to exit the EU. **It didn't.** Although investors continued to fear an eventual Brexit-like situation, it at least wasn't in the immediate cards.

MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

Pricing as of: 7/3 5:59PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/3

Here's the paradox: by blocking the coalition's government, the President is forcing Italy to hold snap elections. This election will now unavoidably be a **referendum** on Italy's EU membership. Citizens who want Italy to exit the EU will vote for a coalition party. An even bigger risk is that the coalition fields ONE party (they can do that) that wins a majority of parliamentary seats, thus essentially guaranteeing an EU exit.

Bottom line, although the president blocked the anti-Euro party from forming a government, he is simultaneously forcing Italian citizens to choose whether or not to remain in the EU. This vote won't happen for months, but the anticipation and risk is worth something to safe haven bond markets. That's why we rallied so much overnight. Tune into the first update on [MBS Live](#) for some thoughts on why much of the rally has already reversed, and whether or not this is an amazing lock opportunity.

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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.

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