



Mid Valley Financial

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Revisiting Stellar Home Sales and Tax Bill's Effect on Housing

There were several interesting developments with relevance to the housing market last week. Rather than let important information fall by the wayside amid the holiday season, this week's newsletter will largely be a reprint of last week's. Interest rate discussion is updated to reflect this week's changes, as is the calendar of economic reports and the list of additional news stories. In order to see the economic calendar or news links in the previous newsletter, you can [view it directly](#).

The tax bill that has been at the center of discussion for the Housing Market was officially signed into law last week. In the days leading up to that, both New and Existing Home Sales **surged** to post-crisis records. Can the new tax policies coexist with a strong housing market?

In a word: **yes**. While there were some provisions in earlier drafts of the tax bill that would have made this question harder to answer, they didn't make the final cut. **Specifically:**

- Capital Gains on Sale of Primary Residence.** As long as you've lived in your primary residence for any 2 of the past 5 years, you can still exclude capital gains on the sale of that home, up to \$500,000 for joint filers (\$250k otherwise). As recently as last week, the bill would have changed that time requirement to 5 of the past 8 years--something that could have greatly inhibited housing turnover.
- Mortgage Interest Deduction.** In the initial draft of the bill, interest would have only been deductible on the first \$500k of your loan balance. That number rises to \$750k in the final bill (still lower than the 2017 limit of \$1m). Any "acquisition indebtedness" (debt that can be traced back to the purchase of the home) that existed or that was under contract to exist as of 12/15/2017 will continue to enjoy the \$1m limit. This applies to refinances as well, as long as the new loan is only refinancing acquisition indebtedness. To be clear, that means you cannot write off additional interest that results from a cash-out refinance. Interest on Home Equity Lines of Credit (HELOCs) is no longer deductible, even on existing HELOCs, except those used as purchase money (up to \$100k).
- State and Local Taxes.** An initial draft of the bill completely killed state and local tax (SALT) deductions, including those for property taxes.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00

Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.50	+0.11
MBS GNMA 5.5	99.91	+0.14
10 YR Treasury	4.2325	-0.0200
30 YR Treasury	4.4542	-0.0183

Pricing as of: 7/23 9:01AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
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%

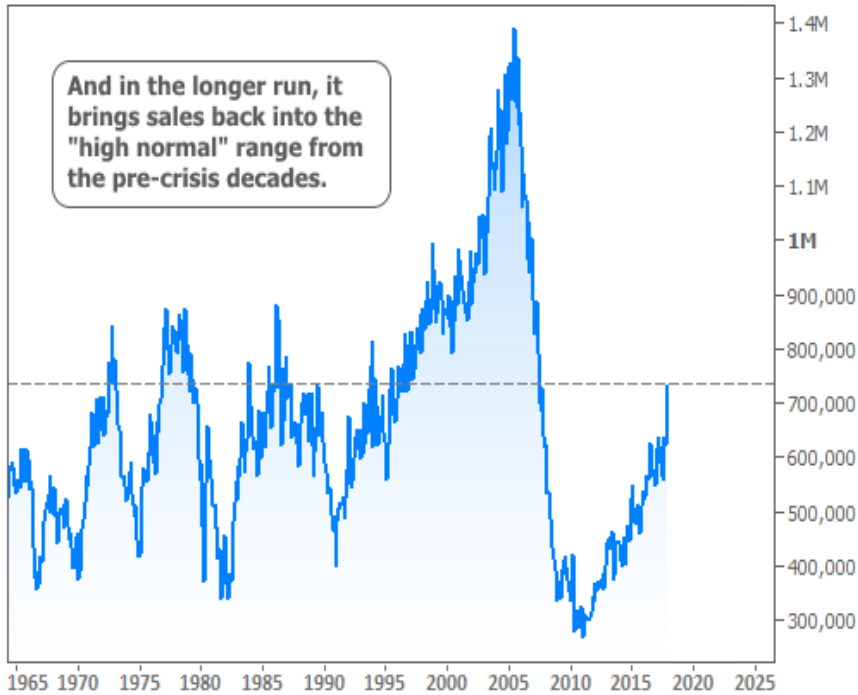
The final bill added \$10k back. This might seem like plenty, but in some states, like New Jersey, it's only slightly above average for property taxes alone! In states with a high combination of income and property tax, this \$10k limit could have some effect on homebuying decisions, but it would have to be considered against the much larger "standard deduction." Many taxpayers that had been itemizing deductions in these areas are now expected to opt for the standard deduction.

All in all, this is a storm that the housing market **can** weather. It's ability to do so was only reinforced by **EXCEPTIONALLY strong** sales figures this week. [New Home Sales](#) stood out as the biggest winner, rising a whopping 17.5 percent in November. This isn't merely good in the "post-crisis" context. It puts New Home Sales back in a "high average" historical range.

New Home Sales



New Home Sales



Existing Home Sales may not have surged quite as much as New Home Sales, but they too hit **post-crisis highs**. Moreover, they're in a much stronger spot in the context of the historical trend. The chart below shows plenty of room to weather any effects from new tax policy without exiting a healthy growth trend.

Existing Home Sales

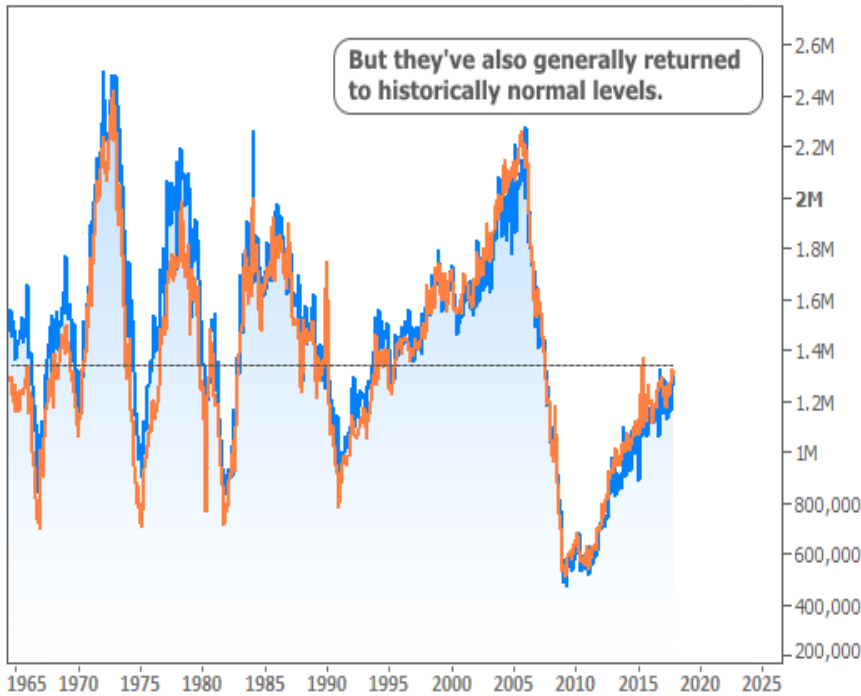


Construction metrics (Housing Starts and Building Permits) weren't quite as balmy as the sales data, but positive trends remained decisively intact.

Housing Starts / Building Permits



Housing Starts / Building Permits



With respectable construction activity and home sales booming, it's no surprise to see [builder confidence](#) also exploring a new post-crisis high. In fact, more than any of the week's other housing-related reports, the NAHB Housing Market Index did the most to return **near all-time highs**. This should be taken with a grain of salt, however, due to the nature of survey data, which tends to oscillate in a steadier range when compared to something like outright sales counts.

Builder Confidence (NAHB Housing Market Index)



Builder Confidence (NAHB Housing Market Index)

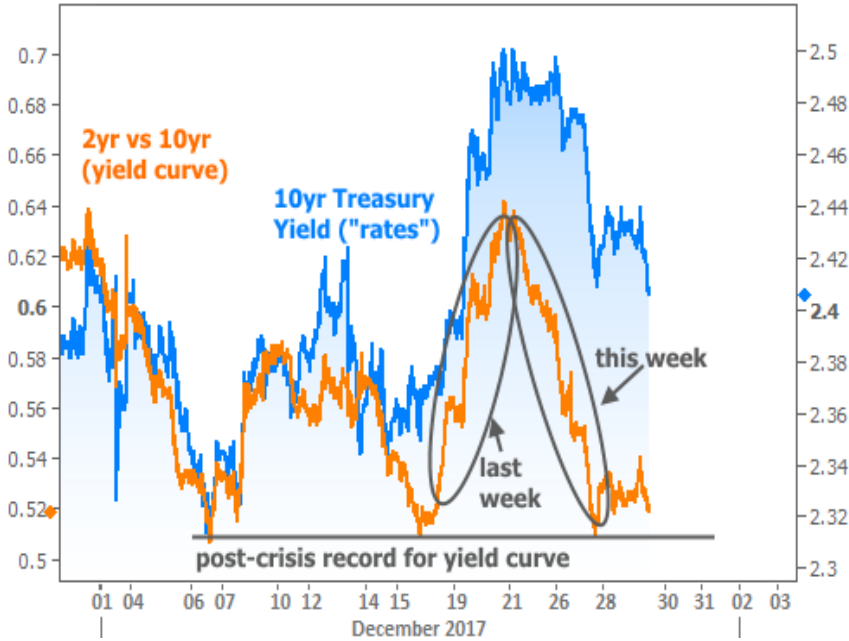


Other than the uncertainties surrounding the tax bill, the **only other cloud** on last week's horizon was a fairly abrupt increase in mortgage rates. This resulted from the uncommonly light trading environment that exists at the end of December (and NOT from the tax bill).

The yield curve (the spread between longer and shorter-term rates, such as 10yr and 2yr Treasury yields) has been a key consideration for traders in 2017. Last week's rate spike was immediately preceded by a bounce at a **post-crisis record low** for the 2yr vs 10yr yield curve.

"Uncommonly light trading environments" **work both ways**, thankfully, simply because they amplify the effects of imbalances (rates move more than they otherwise would). This week, the imbalance was in our favor. The yield curve returned to those long-term lows and rates followed. As such, we're set to begin January with rates well-within their range from Q3-2017.

Rates vs Yield Curve



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Dec 26				
9:00AM	Oct CaseShiller 20 yy (%)	6.4	6.3	6.2
9:00AM	Oct CaseShiller 20 mm nsa (%)	0.2	0.4	0.4
Wednesday, Dec 27				
10:00AM	Nov Pending Home Sales (%)	0.2	-0.4	3.5
10:00AM	Nov Pending Sales Index	109.5		109.3
10:00AM	Dec Consumer confidence	122.1	128.0	129.5
Thursday, Dec 28				
8:30AM	w/e Jobless Claims (k)	245	240	245
9:45AM	Dec Chicago PMI	67.6	62.0	63.9
Wednesday, Jan 03				
10:00AM	Dec ISM Manufacturing PMI	59.7	58.1	58.2
Thursday, Jan 04				
8:15AM	Dec ADP National Employment (k)			190
8:30AM	w/e Jobless Claims (k)	250	248	245

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Friday, Jan 05				
8:30AM	Dec Non-farm payrolls (k)	148	190	228
8:30AM	Dec Unemployment rate mm (%)	4.1	4.1	4.1
10:00AM	Dec ISM N-Mfg PMI	55.9	57.6	57.4
10:00AM	Nov Factory orders mm (%)	1.3	1.1	-0.1

Who is Mid Valley Financial?

Mid Valley Financial, located in Fresno, CA, is the Central Valley's premier destination for a wide range of residential and commercial real estate loans. Our commitment to excellence has made us a trusted partner for property buyers and investors seeking tailored financial solutions.

Why Choose Us:

With a track record spanning back to our inception in 1985, we have established ourselves as a reliable and innovative lender. We proudly serve properties exclusively within California, having funded loans in all 58 counties of the state. Our deep-rooted experience enables us to navigate complex loan scenarios with expertise and efficiency.

Our Approach:

At Mid Valley Financial, we prioritize your financial goals. Whether you're a first-time homebuyer, envisioning your dream property, refinancing an existing mortgage, or looking to tap into your property's equity, our seasoned loan officers offer a wealth of knowledge and over 300 years of collective experience. We ensure that your funds are prepared when you need them, providing a smooth and swift loan process.

Unlocking Possibilities:

As one of California's leading direct lenders, we've streamlined the loan process, minimizing obstacles that often deter borrowers. Many of our clients receive approvals within an hour, showcasing our dedication to quick and hassle-free solutions.

Your Journey with Us:

Contact the MVF team today and let us put your journey to property ownership on cruise control. Our mission is to empower borrowers while fostering enduring and meaningful relationships. With highly competitive rates, a commitment to transparency, and a dedication to your financial success, Mid Valley Financial is your partner in realizing your real estate aspirations.

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