



Mid Valley Financial

Mortgage Banker, Since 1985
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Housing Starting Strong in 2020

Things are looking up for the housing market at the start of the new year. Granted, some of the following data pertains to the last few months of 2019, but it nonetheless speaks to a friendly shift that is arguably already well underway.

Fannie Mae's Home Purchase Sentiment Index offers a broad measure of housing market strength, and it was updated for the month of December this week to show an **8.2 percent improvement** over December 2018.

There are **several factors** feeding into that number--all based on questions Fannie is asking consumers each month. The biggest shift in this month's survey was among those who expect **home prices** to rise over the next 12 months with the percentage moving up a whopping 6 points from 44 to 50.

Consumers **aren't** home price experts, of course, but a consumer who expects prices to rise is logically more willing to pay higher prices. This is one reason economists are always interested in consumer inflation expectations.

Other parts of the survey complement the conclusion about higher prices. **Job security** is arguably an important precursor to making mortgage payments and according to Fannie Mae, it improved by 2 percent. Additionally, more than 25% of respondents continued to characterize their income as "significantly higher" than it was a year ago.

And then there's **mortgage rates!** First thing's first: the average consumer is significantly more pessimistic on rates than reality suggests they should be. For instance, even as rates began to decline in 2019, more than 50% of respondents expected rates to rise and less than 10% expected them to fall. Fast forward to the present day and 2019 ended up being one of the best years for mortgage rates we've ever seen.

All that to say that we're far more interested in how the existing percentages **change** as opposed to their **outright** levels. With that in mind, consumers have increasingly been expecting rates to **rise** again ever since the sharp surge lower in August 2019.

That's **actually a good thing** for the housing market because the sentiment is **not** filtering through to other metrics that would speak to a discouraged homebuyer. Additionally, if rates manage to defy those expectations (again), it should only reinforce the generally optimistic attitudes that are already in place when it comes to home prices and buying/selling demand.

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	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2491	-0.0034
30 YR Treasury	4.4673	-0.0052

Pricing as of: 7/23 2:48AM 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%

So what is going to happen with rates anyway?!

As always, financial markets have already accounted for the **entirety** of what can be known about the present and future direction of rates. Any insight available for our discussion is also already available to fuel the trading strategies of the people responsible for interest rate movement.

In other words, rates could go **up, down or sideways!** And the factors influencing those moves can change on a dime--a fact that was firmly reinforced over the past two weeks of geopolitical tensions between the US and Iran.

Specifically, Tuesday night was **intense**. Bonds surged to the best levels (i.e. lowest rates) in more than a month, and were close to the best levels in nearly 3 months after Iran attacked several air bases in Iraq. According to Twitter and more than a few news anchors "that meant war!" Had that sentiment been accurate, rates would have fallen precipitously.

Why is that?

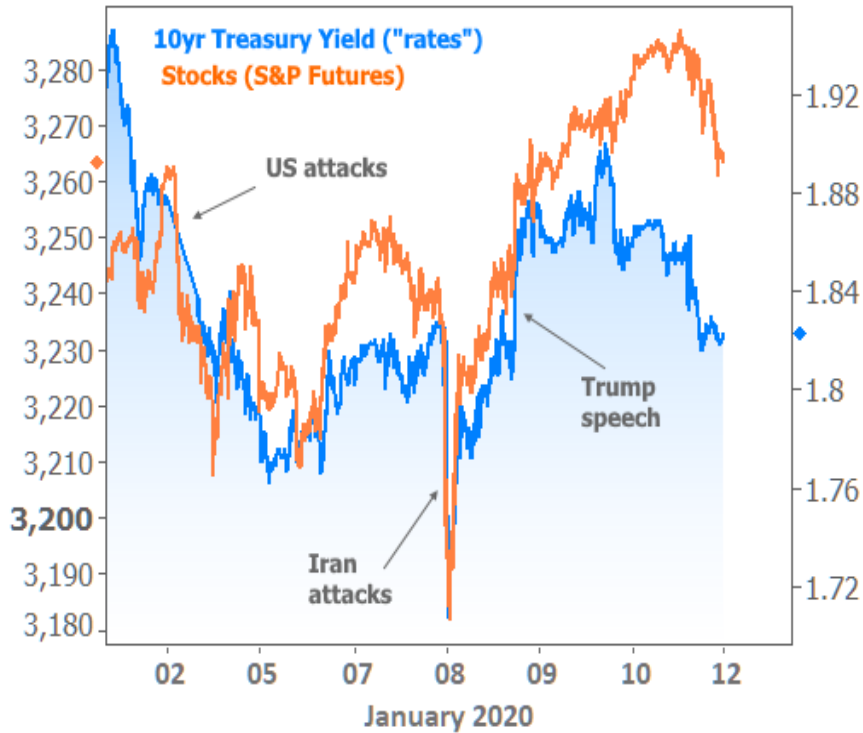
Mortgage rates are tied to mortgage-backed-securities which are **highly dependent** on the movement of US Treasuries for general directional cues. Treasuries are an exceptionally liquid and virtually risk-free place for investors to park money during times of heightened uncertainty or economic pessimism. Geopolitical flare ups cause demand for Treasuries to spike, sending prices higher and yields lower. It's that yield component of Treasuries that correlates with mortgage rates.

As it stands, there was no war, although Treasuries began to move in that direction before they had all the facts. As it became more and more likely that war would be avoided, Treasury yields moved back up toward previous levels, ultimately starting the day very close to where they left off on Tuesday afternoon.

But if rates fall in response to these sorts of risks, and if we came close to starting a war with Iran, how could that not be worth **at least some** small shred of improvement?!

Valid question, but an **easy answer**: rates had actually already reacted to the US/Iran flare-up at the end of last week after a US drone strike killed a top Iranian general. Markets had been waiting to see what the repercussion would be.

The Iranian attacks on Tuesday provided an answer. Yes, those attacks **temporarily** helped the bond market by increasing the risk of war, but by the time it became clear war was off the table, rates didn't have any reason to be pricing-in the uncertainty of the Iranian response any longer. The following chart shows this timeline, including the Trump speech that confirmed "no war" on Wednesday morning.



Zooming out from all the near-term volatility, we find that rates continue to operate in a narrower and narrower range. The "consolidation pattern" seen in the next chart has been intact for months. When these sorts of patterns finally end, it's common to see stronger momentum in one direction or the other.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jan 07				
10:00AM	Dec ISM N-Mfg PMI	55.0	54.5	53.9
10:00AM	Nov Factory orders mm (%)	-0.7	-0.8	0.3
1:00PM	3-Yr Note Auction (bl)	38		
Wednesday, Jan 08				
7:01AM	w/e Mortgage Refinance Index	1713.7		1375.0
8:15AM	Dec ADP National Employment (k)	202	160	67
1:00PM	10-yr Note Auction (bl)	24		
Thursday, Jan 09				
8:30AM	w/e Jobless Claims (k)	214	220	222
1:00PM	30-Yr Bond Auction (bl)	16		
Friday, Jan 10				
8:30AM	Dec Non-farm payrolls (k)	145	164	266
8:30AM	Dec Unemployment rate mm (%)	3.5	3.5	3.5
10:00AM	Nov Wholesale inventories mm (%)	-0.1	0.1	0.0
Tuesday, Jan 14				
8:30AM	Dec Core CPI (Annual) (%)	+2.3	2.3	2.3
Wednesday, Jan 15				
7:00AM	w/e Mortgage Refinance Index	2444.7		1713.7
7:00AM	w/e MBA Purchase Index	303.9		263.2
8:30AM	Dec Core Producer Prices YY (%)	1.1	1.3	1.3
8:30AM	Jan NY Fed Manufacturing	4.80	3.55	3.50
Thursday, Jan 16				
8:30AM	Dec Retail Sales (%)	+0.3	0.3	0.2
8:30AM	Jan Philly Fed Business Index	17.0	3.8	0.3
8:30AM	Dec Import prices mm (%)	+0.3	0.3	0.2
8:30AM	w/e Jobless Claims (k)	204	212	214
10:00AM	Jan NAHB housing market indx	75	75	76
10:00AM	Nov Business Inventories (%)	-0.2	-0.1	0.2
Friday, Jan 17				
8:30AM	Dec Build permits: change mm (%)	-3.9		0.9
8:30AM	Dec Housing starts number mm (ml)	1.608	1.375	1.365
8:30AM	Dec Building permits: number (ml)	1.416	1.468	1.474
8:30AM	Dec House starts mm: change (%)	16.9		3.2
9:15AM	Dec Industrial Production (%)	-0.3	-0.2	1.1
10:00AM	Jan Consumer Sentiment	99.1	99.3	99.3

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

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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