



## Mid Valley Financial

Mortgage Banker, Since 1985

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## Don't Be Fooled By Fake News on Rates and Housing

It was a complex week in the world of mortgage rates and housing markets. Complexity often creates inconsistent news coverage. At best, most of the coverage fell short. At worst, some of it was downright wrong. Let's clear things up!

Last week's newsletter covered the **surge** to the highest interest rates in roughly 7 years. To be sure, this rising rate environment deserves attention. As seen in the following chart, it just surpassed the trough-to-peak move seen in 2012-2013. But whereas many media outlets were putting out dire headlines about the 7-year highs **THIS** week, rates actually staged quite a healthy recovery.

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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	99.49	+0.10
MBS GNMA 5.5	99.91	+0.13
10 YR Treasury	4.2315	-0.0210
30 YR Treasury	4.4542	-0.0183

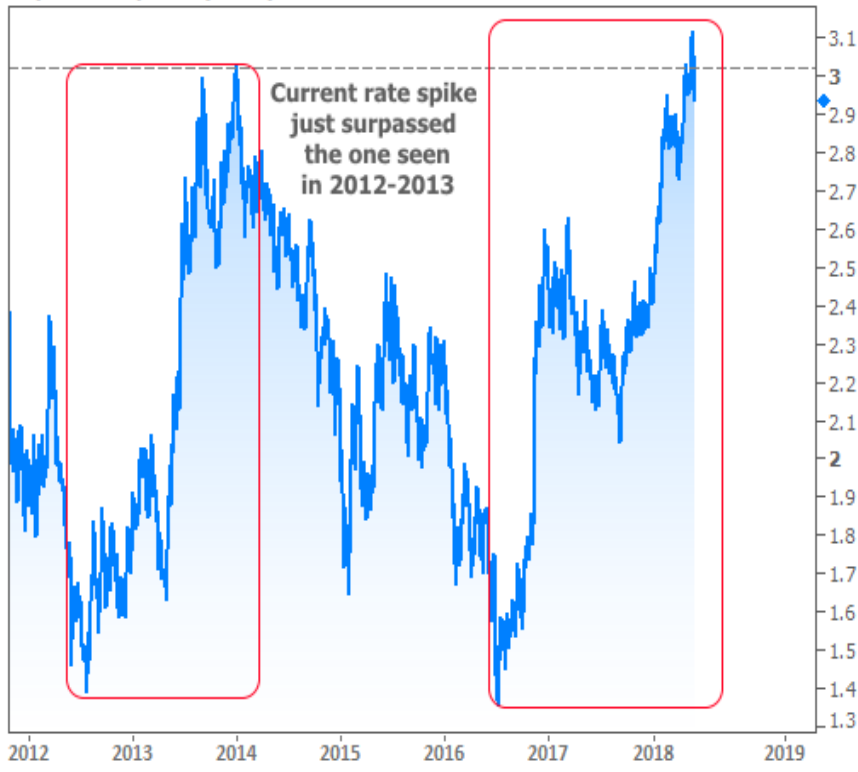
Pricing as of: 7/23 8:56AM EST

## Recent Housing Data

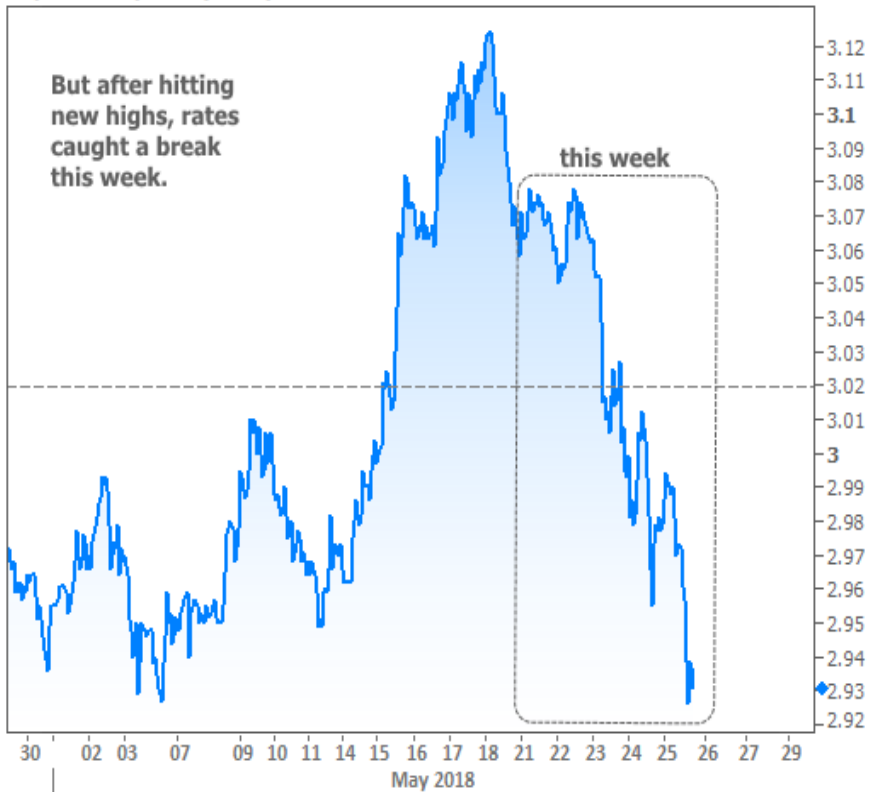
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

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10yr Treasury Yield (Rates)



10yr Treasury Yield (Rates)



What gives?! How could the chart above coexist with these headlines from the past 48 hours?

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Mortgage rates march to fresh 7-year high -Marketwatch

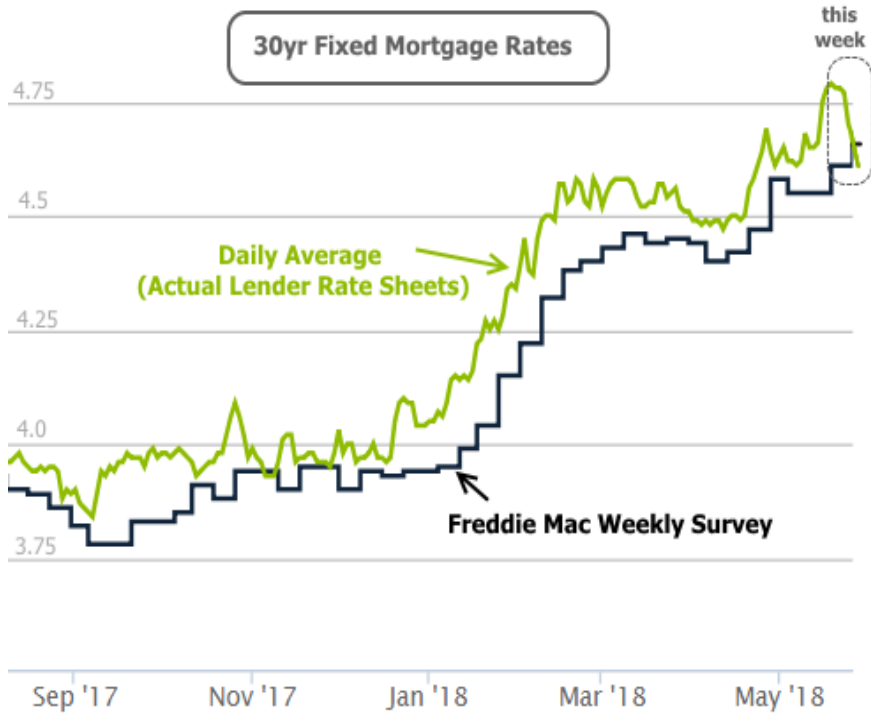
Mortgage rates are Skyrocketing -NASDAQ

30-year mortgage rates post 7-year high -Reuters

Mortgage rates have been rising at a pace not seen in almost 50 years - Washington Post

The answer is simple. A **vast majority** of mortgage rate news is based on Freddie Mac's weekly survey. Over time, Freddie's numbers do a fine job of tracking long-term rate trends, but they can completely miss the mark when it comes to short-term volatility.

The problem is that the weekly survey mostly captures Monday and Tuesday's rate quotes. Last week, that meant Freddie was capturing the **lowest** rates. This week, Monday and Tuesday saw the **highest** rates. In other words, it was the worst possible timing for Freddie's survey. Fortunately, we can easily examine day-to-day changes (green line below) to see reality.



We can now agree mortgage rates and Treasury yields moved lower this week, no matter what the average news story says, **but why?** Here too, things are bit more complex than normal. Whereas rates often move in response to an important economic report or a policy update from the Federal Reserve, this week was really all about Italian politics.

You read that correctly! As unrelated as it may seem, political risk in Italy **directly** translated to this week's rate rally. If we explore some of the details, it actually makes a fair amount of sense.

Europe is among the world's top 3 economies. Italy is the 3rd largest economy in the Euro area. Drama in Italy reverberates throughout the European economy. **More importantly**, if Italy were to exit the European Union (in similar fashion to Great Britain's "Brexit" in 2016), financial markets would have to account for a domino effect.

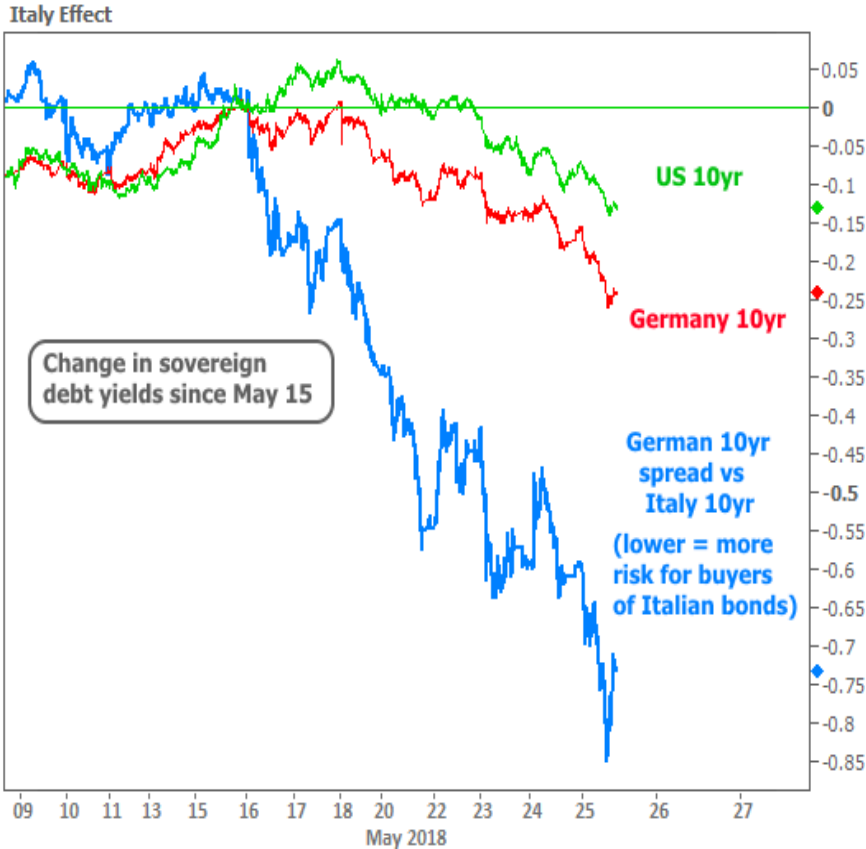
**Why does this matter** this week? It's actually mattered for a few months, ever since Italy's anti-establishment 5-Star Party staged an election upset. The EU wasn't immediately doomed, however, because 5-Star didn't win by enough to govern on its own. It needed to form a coalition with one of Italy's other political parties, and that didn't happen until just last week.

Rather than team up with a party that would promote a more moderate view, 5-Star joined with the only other party that wants Italy to leave the EU. Since then, financial markets have been **panicking** about an Italian version of Brexit.

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While we don't know exactly what that might look like, investors can agree it increases both economic uncertainty and Italy's credit risk. The **obvious trade** is to sell Italian bonds and buy safer haven assets (such as the bonds of big, stable economies like Germany and the U.S.).

Excess demand for bonds pushes rates lower. As such, U.S. and German rates **fell** this week as Italy's rates **skyrocketed**. The following chart shows the spread between Germany and Italy (which moves lower as Italy's rates rise). Simply put, the lower the blue line, the more investors are worrying about Italy.



Though esoteric, these **details are important** in considering near-term risks for mortgage rates. While we can't yet know if the new Italian government will actually push Italy out of the EU, we can at least observe that this week's rate recovery is predicated on a highly uncertain, highly volatile situation.

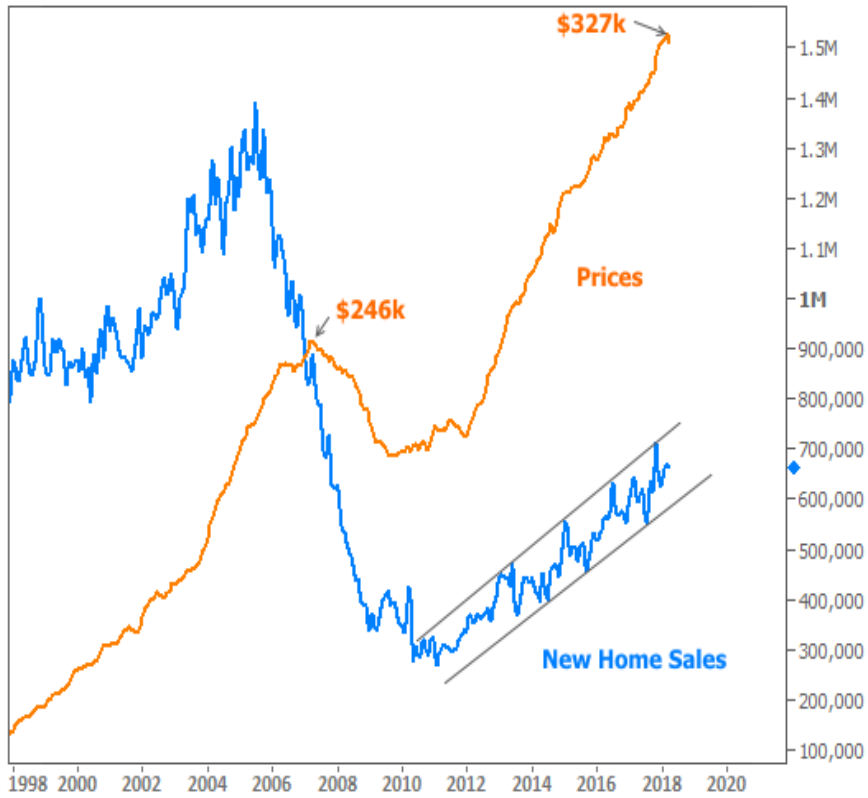
In other words, it's **not** as if we've seen a confirmed shift in economic data or Fed policy. Rates **could** continue lower from here, but that would require a fairly constant supply of European drama, all other things being equal. Moreover, the longer-term factors that have been pushing rates higher are still there ([this stuff](#)). As such, it makes sense to **work quickly to satisfy loan approval conditions** so you can be ready to lock.

## Housing-Related Data

This week's home sales data was less than stellar. News headlines were understandably gloomy, but they certainly don't capture the bigger picture, nor do they convey the subtleties that underlie the top-line sales figures. For instance, it's true that New Home Sales fell 1.5%, but **do you really care** if they continue to operate in the linear trend seen in the following chart?

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New Home Sales



Existing Home Sales were **more vulnerable** to criticism, with a 2.5% decline in April and a 1.4% decline vs April 2017. Whether or not that's a bad thing is open to debate. History shows numerous examples of year-over-year declines. That's only coincided with a major downturn in sales **one time** in more than 40 years.

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Existing Home Sales



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## 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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