Mortgage Market Guide℠

Home Loan Rate DRIVERS

Stay on Top of Mortgage Market Changes

Vantage PRODUCTION

Table of Contents

Web: www.VantageProduction.com
Office: Riverview Plaza, 10 Rt. 35, Red Bank, NJ 07701
Ph: **(800) 963-1900**
E-mail: **sales@VantageProduction.com**

Simplify the Market. Deliver the Best Advice.

Are you up to the task?

Locking in a good home loan rate weighs heavily on the minds of most homebuyers, and it should. It's a big investment.

Clients count on you to stay on top of the market to help them lock in the best rates. You both know that every fraction of a percent can save tens of thousands of dollars over the life of a loan.

But sometimes the avalanche of information you need in order to understand market movements and how they affect rates can be overwhelming. You've got to watch bonds ... economic reports ... announcements from the Fed ... current events ... regulatory changes. At times it seems the list of factors that influence markets — especially the Bond markets — goes on and on and on. The reality is that while there are many factors that influence home loan rates, some key factors are pretty significant. And these are the ones to watch.

The avalanche of information you need in order to understand market movements and how they affect rates can be overwhelming.

That's where this e-book comes in. After reading ***Home Loan Rate Drivers***, you'll be able to anticipate and explain rate movements confidently to clients, prospects and referral partners.

This e-book provides a helpful overview of the key influencing factors and how they specifically affect home loan rates. You'll also read about how to stay on top of these factors to stay ahead of volatile market conditions. Finally, you'll reinforce your position as the trusted market expert when you simplify the market and deliver the best advice.

Enjoy!

1 Keep Your Eye on MBS

The real driver of home loan rates

Keep Your Eye on MBS

The real driver of home loan rates

Mortgage Backed Securities (MBS) are a type of Bond that provides a short-term safe haven for investments in a volatile market. Because they are less risky than Stocks, billions of investment dollars flow into them during unstable economic times. Once economic risk decreases, investors tend to invest dollars back into riskier assets, such as Stocks and commodities, where they can see a greater return on investment.

How do Bonds relate to home loan rates? Simply put: when Bond prices rise, home loan rates decline and vice versa.

What is a Mortgage Backed Security?

A Mortgage Backed Security (MBS) is secured by a mortgage or a collection of mortgages. When investors purchase a Mortgage Backed Security, they are essentially lending money to a homebuyer through a business. An MBS, for example, provides a way for smaller lenders to offer more mortgages by serving as a middleman between the homebuyer and investment markets.

Where to Look and What to Look For

To stay on top of rate movements, lenders usually track the Bond coupon that is directly below where home loan rates are currently. If rates are around 3.625% or maybe a touch higher, the 3% coupon is the benchmark to watch. If home loan rates are 4%, track the 3.5% and so on.

Rate movements can be tracked in two ways: by tracking basis points throughout the day on a Bond chart or by watching trends displayed in Japanese Candlesticks.

Bond Charts

A Bond chart features the previous day's performance of a particular coupon, as well as regular tracking of basis points throughout a given day.

FIXED RATE MORTGAGE-BACKED SECURITIES

Thu, Apr 9 14:28 EST

Security	Last Sale	Day Change	9:30AM EST	10:00AM EST	10:30AM EST	11:00AM EST	11:30AM EST	12:00PM EST
FNMA 30-Year 3.0%	$102.31	-13bp	-22bp	-19bp	-16bp	-16bp	-12bp	-12bp
FNMA 30-Year 3.5%	$105.03	-13bp	-19bp	-19bp	-16bp	-19bp	-19bp	-19bp
FNMA 30-Year 4.0%	$106.78	-13bp	-12bp	-12bp	-9bp	-9bp	-9bp	-9bp
FNMA 30-Year 4.5%	$108.94	-6bp	3bp	3bp	3bp	-3bp	-3bp	-3bp
GNMA 30-Year 3.0%	$103.00	-16bp	-12bp	-22bp	-19bp	-19bp	-19bp	-19bp
GNMA 30-Year 3.5%	$105.47	-15bp	-19bp	-19bp	-19bp	-19bp	-22bp	-22bp
FNMA 15-Year 3.0%	$104.78	-10bp	-9bp	-12bp	-9bp	-9bp	-12bp	-12bp
US 2-Year T-Note	$99.88	-3bp	-6bp	-6bp	-6bp	-6bp	-6bp	-6bp
US 10-Year T-Note	$100.34	-60bp	-53bp	-44bp	-41bp	-34bp	-34bp	-34bp

Japanese Candlesticks

Japanese Candlesticks also show performance of a security in greater detail. Candlestick charts display daily trading ranges, pricing changes, resistance and support levels, as well as trends — all of which point to rate movements.

The chart below explains the key indicators within Japanese Candlesticks, how to read them and what they mean.

Red Candle
The closing price of the security is lower than the opening price.
Home loan rates=higher

VS

Green Candle
The closing price of the security is higher than the opening price.
Home loan rates=lower

Small Candle
A tight trading range for that day.

VS

Large Candle
A wide trading range for that day.

Resistance Levels R1 R2
The Ceiling: A chart point or range that caps an increase in the level of a stock or index over a period of time.

VS

Support Levels S1 S2
The Floor: The price level which, historically, a security has had difficulty falling below. Buyers tend to buy a security when price levels hit Support, or the Floor.

Moving Average
A simple, or arithmetic, moving average that is calculated by adding the closing price of the security for a number of time periods, and then dividing this total by the number of time periods.

C+C
C·X

The Basics of Basis Points

A basis point, or bp, is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 0.01% (0.0001) and is used to denote the percentage change in a financial instrument.

If the price of the Bond moves up 16-20bp it could push home loan rates a bit lower. On the flip side, if Bonds decline by 16-20bp, it could mean slightly higher rates.

Thresholds are important on the upside or downside to gauge whether you are in a re-price for the worse or in better territory. Basis point thresholds give you a heads up as to where interest rates may be moving in the short term or on a particular day.

2 The Big 3 Must-watch Economic Indicators

The Big 3 Must-watch Economic Indicators

While Mortgage Back Securities are the real driver of home loan rates, the ebbs and flows of the economy have a direct impact on whether or not investors move money to Bonds in the short term. Below is a high-level overview of the big economic indicators — gross domestic product, inflation, and unemployment — as well as how they correlate with rates.

1. Gross Domestic Product (GDP) Report

GDP is the widest measure of the state of the economy. It is the aggregated monetary value of all goods and services. When GDP rises, demand for money rises and interest rates go up. *Watch for it: 8:30 a.m. ET on the last day of each quarter.*

2. Inflation

Two reports track the rise in the cost of goods and services over time. Inflation is a Bond's worst enemy as it erodes the purchasing power of a Bond's future cash flows. Typically, as inflation increases, Bond prices tend to decline, while in turn, home loan rates usually rise.

Core Personal Consumption Expenditures (PCE), the Fed's preferred index, measures the prices paid by consumers for goods and services excluding the volatility of food and energy. *Watch for it: 8:30 a.m. ET around the first or last business day of the month.*

Core Consumer Price Index (CPI) measures the change in prices over time for goods and services excluding the volatility of food and energy. *Watch for it: 8:30 a.m. ET around the middle of each month.*

3. Unemployment - Non-farm Payroll Report

Unemployment represents the total number of U.S. paid workers. If more jobs are created than expected, investments tend to shift from Bonds to Stocks, pushing interest rates higher. Non-farm payrolls are excluded because seasonality can skew the results without a significant economic impact. *Watch for it: 8:30 a.m. ET on the first Friday of each month.*

3 Mark Your Calendars!

Data that can make investors jumpy

Mark Your Calendars!

Data that can make investors jumpy

In addition to the Big 3 Must-watch Economic Indicators above, the monthly economic calendar is full of recurring reports that might make investors jumpy. Some of the biggest influencers that potentially have a high impact on rates are:

Chicago PMI (And Other Regional Manufacturing Data)

The Chicago PMI (officially known as the Business Barometer) is a monthly composite index based on opinion surveys of more than 200 Chicago purchasing managers regarding the manufacturing industry. The index is a composite of seven similarly constructed indexes including: new orders, production, supplier delivery times, backlogs, inventories, prices paid and employment. New orders and orders backlog indices indicate future production activity. It signals factory-sector expansion when it is above 50 and contraction when below 50. The index is seasonally adjusted. Because the Chicago PMI is released the day before the ISM (see below), it is watched in order to predict the more important ISM report, which is in itself a good leading indicator of overall economic activity. It frequently moves markets.

Scheduled release at 9:00 a.m. (CT) on the last day of the month, the day before the full ISM report.

Note: there are numerous manufacturing data points from each heavily regarded regions across the nation, such as the Philly Fed, Empire Manufacturing, and Chicago PMI.

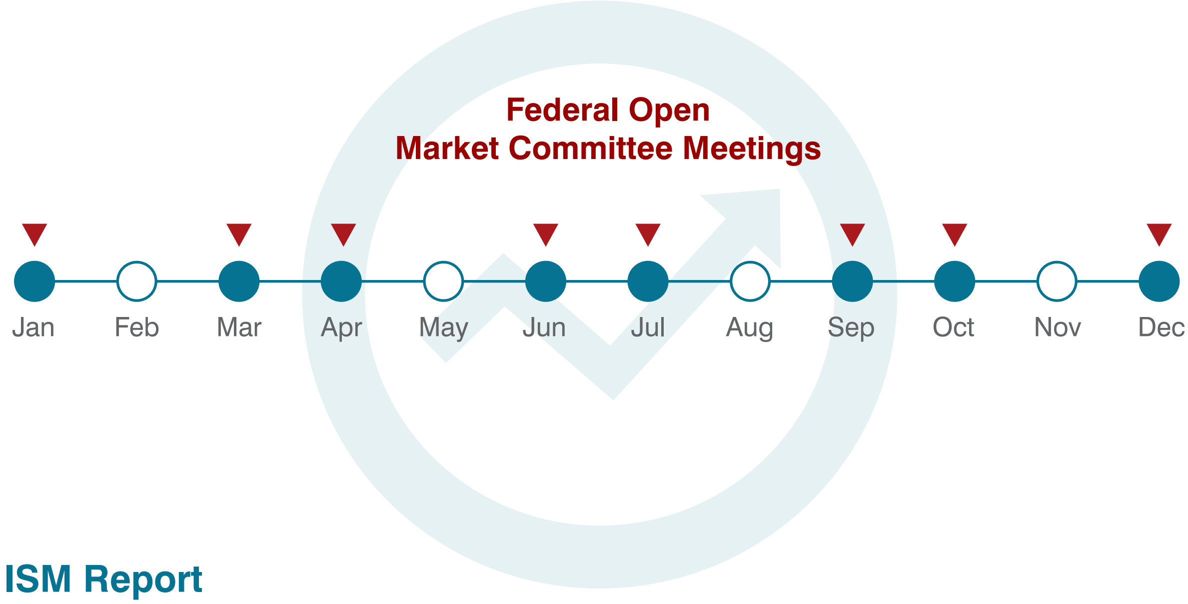
Retail Sales Report

The Retail Sales Report is a measure of the total receipts of retail stores from samples representing all sizes and kinds of business in retail trade throughout the nation. It is the most timely indicator of broad consumer spending patterns and is adjusted for normal seasonal variation, holidays and trading-day differences. Retail sales is the first picture of consumer spending for a given month.

Scheduled for release at 8:30 a.m. (ET) around the 13th of the month.

FOMC Meeting and Meeting Minutes

The Federal Open Market Committee (FOMC) is a twelve-member committee made up of the seven members of the Board of Governors and five Federal Reserve Bank presidents. It meets eight times per year to determine the near-term direction of monetary policy. Most importantly, the Fed determines interest rate policy at FOMC meetings. Market participants speculate about the possibility of an interest rate change at these meetings, and if the outcome is different from expectations, the impact on the markets can be dramatic and far-reaching. Committee meetings are usually held in January, March, April, June, July, September, October and December.



ISM Report

The Institute for Supply Management (ISM) releases a monthly composite index of national manufacturing conditions, constructed from data on new orders, production, supplier delivery times, backlogs, inventories, prices, employment, export orders and import orders. It is divided into manufacturing and non-manufacturing sub-indices. Financial markets are extremely sensitive to unexpected changes in this index. ISM is perceived as a good indicator of inflationary pressures. Since the manufacturing sector is a major source of cyclical variability in the economy, this report has a big influence on the markets. The Federal Reserve keeps a close watch on this report in determining the direction of interest rates when inflation signals appear. As a result, the Bond market is highly sensitive to this report. Turning points in the composite index suggest either a slowing or acceleration in the nation's economic activity.

ISM Manufacturing scheduled for release at 10:00 a.m. (ET) on the first business day of the month and ISM Services on the third business day of the month by the Institute for Supply Management for release at 10:00 a.m. (ET).

Unemployment Rate

The Unemployment Rate is a percentage of employable people actively seeking work, out of the total number of employable people; determined in a monthly survey by the Bureau of Labor Statistics. While the Unemployment Rate might look good, numbers can be skewed by the Labor Force Participation Rate (LFPR). The LFPR is the percentage of working-age persons in an economy who are employed or who are unemployed but looking for a job.

Economic Calendar

Download All Events to Outlook Calendar   Instructions for Downloading to Outlook

All times listed in the table below are Eastern.

Economic Calendar for April 13 - April 24

Economic Calendar for April 13 - April 24 ▼

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact	Add
Tue. Apr. 14	08:30	Retail Sales	Mar	1.0%	0.9%	-0.5%	HIGH	Add
Tue. Apr. 14	08:30	Retail Sales ex-auto	Mar	0.7%	0.4%	0.0%	HIGH	Add
Tue. Apr. 14	08:30	Producer Price Index (PPI)	Mar	0.2%	0.2%	-0.5%	Moderate	Add
Tue. Apr. 14	08:30	Core Producer Price Index (PPI)	Mar	0.1%	0.2%	-0.5%	Moderate	Add
Wed. Apr. 15	08:30	Empire State Index	Apr	7.3		6.9	Moderate	Add
Wed. Apr. 15	10:00	Housing Market Index	Apr	55		53	Moderate	Add
Wed. Apr. 15	14:00	Beige Book	Apr	NA		NA	Moderate	Add
Thu. Apr. 16	08:30	Jobless Claims (Initial)	4/11	280K		281K	Moderate	Add
Thu. Apr. 16	08:30	Housing Starts	Mar	1045K		897K	Moderate	Add
Thu. Apr. 16	08:30	Building Permits	Mar	1081K		1092K	Moderate	Add
Thu. Apr. 16	10:00	Philadelphia Fed Index	Apr	7.2		5.0	HIGH	Add
Fri. Apr. 17	08:30	Consumer Price Index (CPI)	Mar	0.3%		0.2%	HIGH	Add
Fri. Apr. 17	08:30	Core Consumer Price Index (CPI)	Mar	0.1%		0.2%	HIGH	Add
Fri. Apr. 17	10:00	Consumer Sentiment Index (UoM)	Apr	94.0		93.0	Moderate	Add

4 Geopolitical Events

How the world's stage can hit home

Geopolitical Events

How the world's stage can hit home

Whenever a geopolitical event occurs — and you'll know because it makes news headlines — tensions rise globally. Within hours, investors look for less risky avenues to invest dollars. Most likely, dollars are going to flow into the safe haven of the Bond markets — like Mortgage Backed Securities.

While it's hard to grasp the billions of dollars that move from Stocks to Bonds during geopolitical events, the move is quick and not likely to repeat soon.

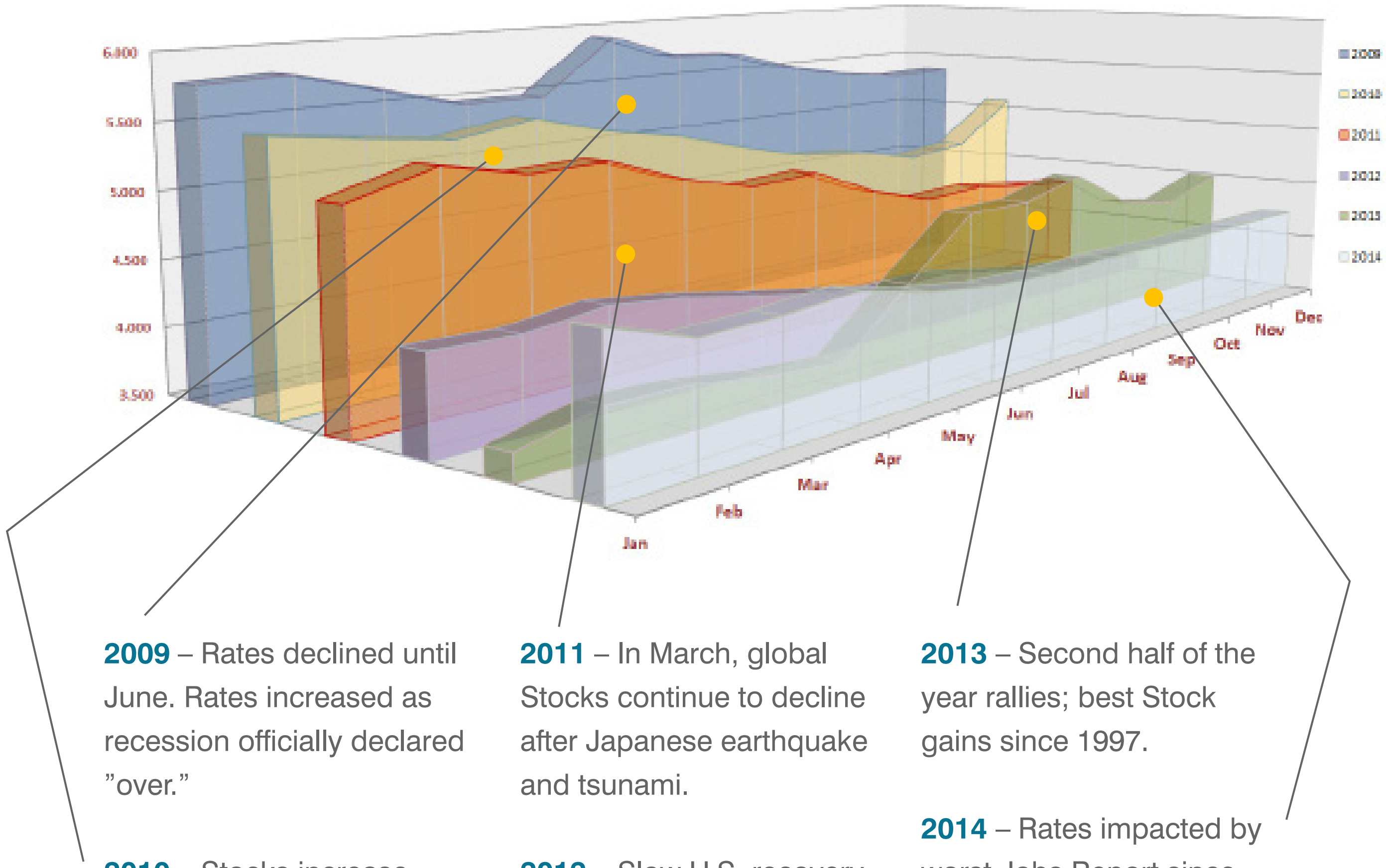
The short-term shift from Stocks to Bonds during geopolitical events is swift and provides a short-term lock opportunity that homebuyers can leverage.

This shift from Stocks to Bonds also provides a short-term lock opportunity that homebuyers can leverage.

The chart on the following page provides an overview of how geopolitical events — coupled with economic indicators — affected interest rates over a 5-year period.

Correlation Between Geopolitical Events and Rates

FHFA 30 year national averages
5 year glance



2009 – Rates declined until June. Rates increased as recession officially declared "over."

2010 – Stocks increase. Rates go up. Late March, investors flock to Bonds as Portugal's debt is downgraded, and Eurozone woes take front seat.

2011 – In March, global Stocks continue to decline after Japanese earthquake and tsunami.

2012 – Slow U.S. recovery coupled with Eurozone debt woes kept mortgage rates at historic lows.

2013 – Second half of the year rallies; best Stock gains since 1997.

2014 – Rates impacted by worst Jobs Report since 2011, currency troubles in Argentina, South Africa and Turkey, a slew of companies missing forecasted earnings, Malaysian passenger jet shot down, deepening tensions between U.S. and Ukraine, Israeli-Palestinian conflict in Gaza, and more.

5

The Bottom Line

When Bond prices rise,
home loan rates improve

The Bottom Line:

When Bond prices rise, home loan rates improve

Much like homebuyers looking to lock in the best rate for the life of their loan, investors seek out the best places to invest their assets.

Long-term economic indicators, timely economic reports and short-term geopolitical events all can lead to uncertainty. When there's uncertainty, investors get nervous. When they get nervous, they shift dollars from Stocks to Bonds, which are less of a risk. Mortgage Backed Securities are a type of Bond. The bottom line is: when Bond prices rise, home loan rates improve.

Forecast Rate Movement With Fiscal Literacy

It's simple math, but not really

When it comes to forecasting home loan rates, you can't predict exactly where they will land. However, you can identify a consistency and repetition in movements by watching what happens with the Big 3 indicators, geopolitical events and Mortgage Backed Securities.

The chart below provides a snapshot of general rate trend tips to recognize.

Rate Trend Tips

Consumer Spending Up ↑	= Interest Rates Increase ↑	
Consumer Spending Down ↓	= Interest Rates Decrease ↓	
Unemployment Up ↑	= Interest Rates Decrease ↓	
Unemployment Down ↓	= Interest Rates Increase ↑	
Geopolitical Events	= Interest Rates Decrease ↓	(Short Term)

Web: www.VantageProduction.com
Office: Riverview Plaza, 10 Rt. 35, Red Bank, NJ 07701
Ph: (800) 963-1900
E-mail: sales@VantageProduction.com

6

Another Way to Look at Rates

Plotting the mortgage yield curve

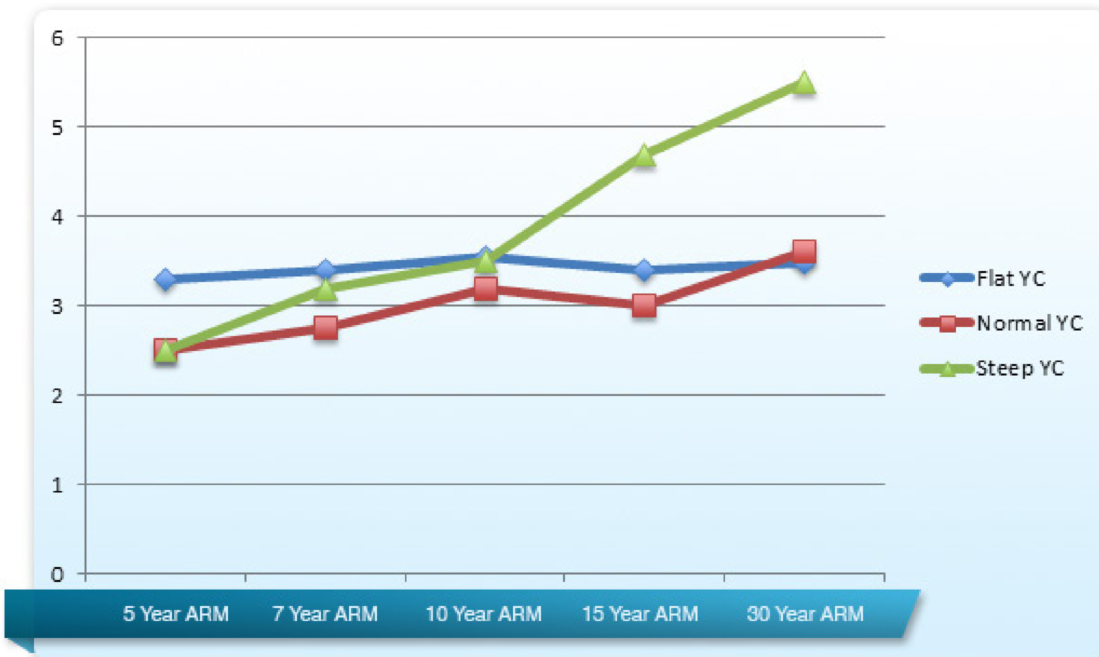
Another Way to Look at Rates

Plotting the mortgage yield curve

A mortgage yield curve is a graphic depiction of interest rates and how they compare across loan terms.

Plotting interest rates on a line chart, can help you better advise your clients. How? By understanding the direction of the yield curve — and whether it is flat, normal or steep — you can easily explain whether or not interest rates will have a minimal, average or significant impact on their financing decision.

The chart below illustrates how a flat, normal and steep yield curve might look (rates are for illustration purposes only).



Flat Yield Curve

As the name suggests, with a flat yield curve differences between rates are minimal; they are nearly equal. While this situation is rare, borrowers would benefit from the exact same interest rate regardless of the loan term.

Normal Yield Curve

A normal yield curve would show a slight increase across rates but nothing particularly rattling. A normal yield curve exists when an economic environment is not subjected to various Fed actions to either stimulate or slow growth. In this situation, borrowers could expect a modest rate increase across terms, but the interest rate should have less bearing on their loan decision.

Steep Yield Curve

A steep yield curve would exist in a volatile market where increased pressures to stimulate or slow growth are present. A borrower could expect to pay more for extending the term of the loan; however, one could argue that if the Fed is trying to stimulate the economy by lowering short-term rates that long-term rates would follow suit eventually. This would open up a refinance opportunity down the road.

Being the Mortgage Market Expert Has Never Been Easier With Mortgage Market Guide

Simplify the market. Deliver the best lock or float advice. And, close more loans with Mortgage Market Guide.

With Mortgage Market Guide, you'll:

- **Know what's happening in the market now** with live Bond quotes, daily market updates and guidance, instant rate alerts, daily market news and more — so you can always give your clients and referral partners the best lock or float advice.
- **Know what to expect in the future**, so you can confidently build your business plan with forecasting, forward-looking insight and analysis.
- **Easily show your expertise** with daily scripts and post-ready content for Twitter, Facebook and LinkedIn.
- **Stay in the know — even on the go!** With the desktop dashboard you'll never want to close and anytime, anywhere access from your mobile device.

Visit us on the web at www.VantageProduction.com and see what Mortgage Market Guide can do for you. Or, talk with a Mortgage Market Guide specialist today at

(800) 963-1900

Try it for Free