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Mortgage Rate Volatility Back From Vacation

For the past several weeks, **mortgage rates** had been in consolidation mode. Each new day brought little, if any change to the previous day's rate sheets. The days with measurable changes tended to see rates moving slightly lower. Freddie Mac's widely-followed mortgage rate survey perfectly captured this "**steady to slightly lower**" rate movement this morning, showing that the average 30yr fixed rate moved down a gentle 0.02 percent.

Freddie Mac is right about the gentle decline in rates, but keep in mind, that data only covers rate movement through Wednesday (and it tends to line up best with Mon/Tue rate quotes). Unfortunately, Thursday brought some **very big changes**. In fact, it was the **single worst day** for mortgage rates since mid-2013.

Many lenders ended up **a full .125% higher** in rate or 1 point higher in cost. For those lenders it would take an additional $2500 in closing costs to keep yesterday's interest rate on a $250k loan.

The motivation for the rapid movement will be **a matter of great confusion** for most people, but I will now arm you to battle that confusion. The volatility was almost exclusively due to the policy announcement from the European Central Bank (ECB).

Rates in Europe have been drifting calmly lower since June, thus having minimal impact on US rates. But that drift lower is part of deep-seeded concerns about the European economy. As such, investors increasingly saw the ECB upping its stimulus efforts by the end of the year, either by cutting rates or increasing its bond buying program. Today was widely seen as the day the ECB would announce that stimulus. Although they did cut the deposit rate and extend bond buying plans, investors **were expecting much bigger changes**.

That might **sound like** insufficient drama to cause such a spike in rates, but keep in mind that the actions of the world's biggest central banks **do more than anything else** to move markets. This is especially true when markets feel blindsided by a particular decision. When market participants are unexpectedly forced to redefine what they thought they knew about the future of money, they tend to make big trades, and quickly! While European markets took a much bigger hit from the news, there was more than enough negativity left for US markets.

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	99.49	+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 8:58AM 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%

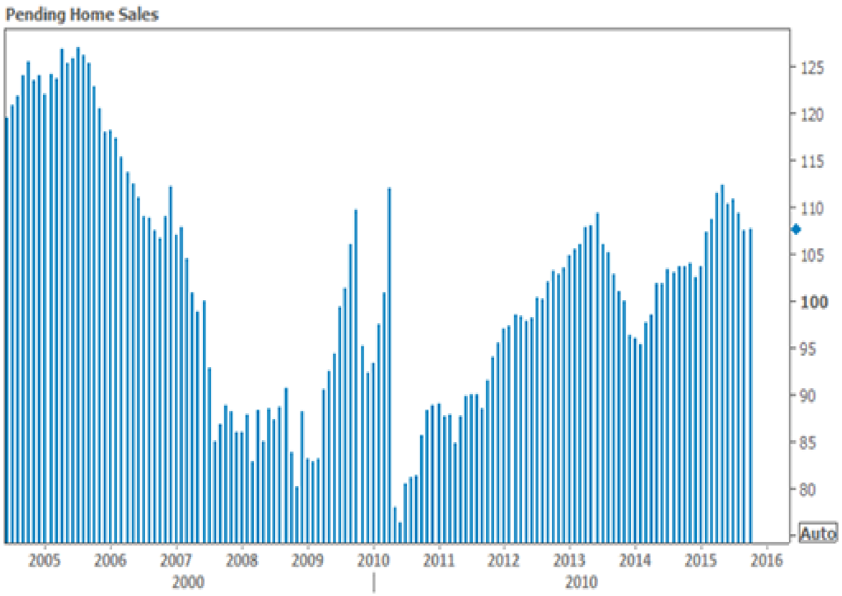
So **Europe is the x-factor** here, yet many people will be **focusing on Yellen**, because she testified before the Joint Economic Committee today. The best way to look at Yellen's testimony is to say that it didn't do anything to counteract the forces set in motion by the ECB. The Fed is still on track to hike and—if anything—is even more resolved to hike because the ECB news severely weakened the dollar. The Fed has expressed some reservation about an overly strong dollar being a pitfall associated with the rate hike. In other words, the ECB did the Fed a favor and dulled that particular consequence to some extent.

To top it all off, we're heading into **the most important** piece of economic data on Friday: the Employment Situation. If it's strong enough, it will essentially guarantee a rate hike at the December Fed meeting.

That fear undoubtedly greased the skids for today's **massive** market movement. Bottom line, this is just like the taper tantrum where investors are adjusting to the idea that central banks will be pumping that much less into the financial system.

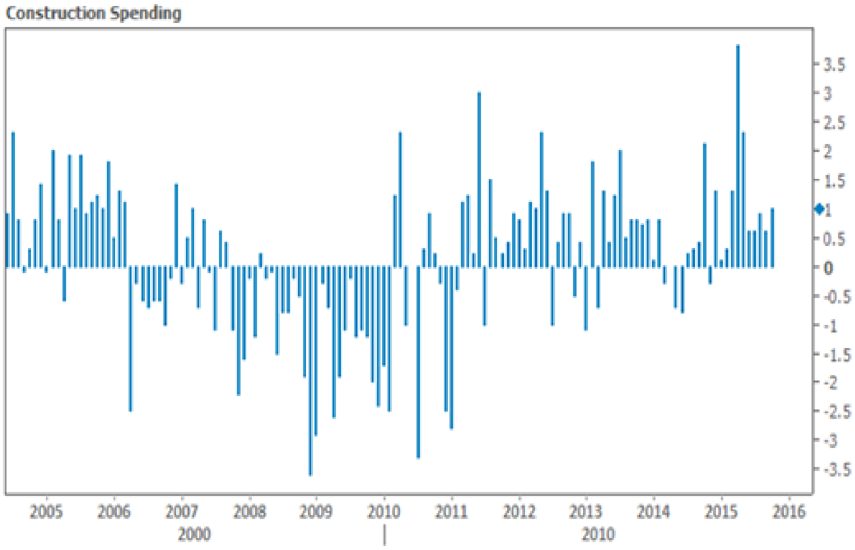
Housing-Specific News

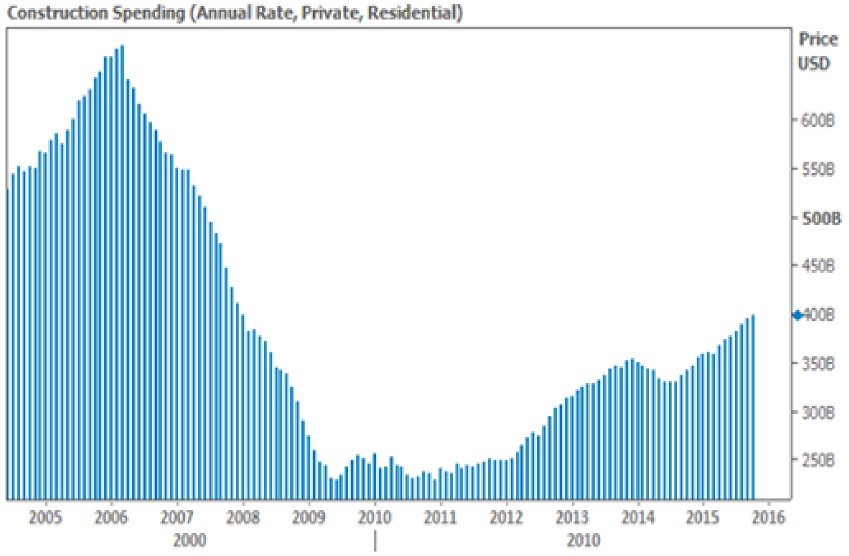
Pending Home Sales posted their **first gain in 3 months**. While that might sound like the last 3 months have been a bummer, they don't look so bad in the bigger picture.



CoreLogic noted that home price gains accelerated in October after lagging in September. Appreciation is **nearly 7 percent** on average with several markets near or above 10 percent.

Construction Spending came in higher than forecast, with a strong 1.0 percent month-over-month gain. The cumulative annual rate for **private residential construction** looks even better, as seen in the 2nd chart below.





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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Nov 30				
9:45AM	Nov Chicago PMI	48.7	49.5	56.2
10:00AM	Oct Pending homes index	107.7		106.8
Tuesday, Dec 01				
10:00AM	Nov ISM Mfg Prices Paid	35.5	40.0	39.0
10:00AM	Oct Construction spending (%)	+1.0	0.5	0.6
10:00AM	Nov ISM Manufacturing PMI	48.6	50.5	50.1
Wednesday, Dec 02				

Event Importance:

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

Date	Event	Actual	Forecast	Prior
7:00AM	w/e Mortgage Refinance Index	1516.9		1612.9
7:00AM	w/e MBA Purchase Index	228.1		211.7
8:15AM	Nov ADP National Employment (k)	217.0	190	182
9:45AM	Nov ISM-New York index	710.6		705.3
Thursday, Dec 03				
8:30AM	w/e Continued jobless claims (ml)	2.161	2.150	2.207
8:30AM	w/e Jobless claims 4-wk avg (k)	269.25		271.00
8:30AM	w/e Initial Jobless Claims (k)	269	270	260
8:33AM	Draghi Press Conference			
10:00AM	Nov ISM N-Mfg PMI	55.9	58.0	59.1
10:00AM	Oct Factory ex-transp mm (%)	+0.2		-0.6
10:00AM	Nov ISM N-Mfg Bus Act	58.2	60.2	63.0
Friday, Dec 04				
8:30AM	Nov Unemployment rate mm (%)	5.0	5.0	5.0
8:30AM	Nov Non-farm payrolls (k)	+211	189	271
8:30AM	Nov Private Payrolls (k)	+197	180	268
Monday, Dec 07				
3:00PM	Oct Consumer credit (bl)	+15.98	20.00	28.92
Thursday, Dec 10				
8:30AM	Nov Import prices mm (%)	-0.4	-0.7	-0.5
8:30AM	Nov Export prices mm (%)	-0.6	-0.3	-0.2
Friday, Dec 11				
8:30AM	Nov Retail sales mm (%)	+0.2	0.3	0.1
Wednesday, Jan 13				
1:00PM	10-yr Note Auction (bl)	21		
Thursday, Jan 14				
1:00PM	30-Yr Bond Auction (bl)	13		
Wednesday, Feb 10				
10:17AM	Yellen Congressional Testimony			

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form — whether the documents are readable and understandable — and content — whether they are fair to homebuyers.

-the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
-the right to terminate the contract
-the disclosure that compensation is negotiable
-the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
-that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
-that the commission is due only if there is a successful closing
-that buyers have an obligation — for no longer than 60 days, CFA recommends — to pay a broker who earlier showed them a home they purchased after the contract ended
-seller concessions paid directly to buyers
-dual agency not pre-approved by the contract
-an explanation of how a broker treats different buyer clients interested in the same property
-that buyers should not be required to first go through mediation or arbitration if they have a complaint

Contact me for more information. 702-303-0243 or TPayne@loandepot.com

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