Tom Payne

Senior Loan Consultant, loanDepot
NMLS# 1017004 #174457 Licensed in all 50 States
2835 St. Rose Parkway, Suite 120 Henderson, NV 89052

Office: 702-303-0243
Mobile: 702-303-0243
tompaynemortgage@gmail.com
View My Website

Why Are Rates Suddenly at 4-Month Highs?

After the abrupt rise in May and June, mortgage rates have enjoyed an extended period of low volatility and consistent improvement. In fact, by October 27th, the average lender was quoting their best rates in 6 months. Why then, did they **wind up at 4-month highs** less than 2 weeks later?

As I've mentioned over the past 2 weeks, the Fed Announcement on October 28th was the **primary catalyst** for the recent rate spike. It caused a rapid shift in the calm, positive trend. It continues to be a potential game-changer for the mortgage rate environment heading into the end of the year.

Even when the Fed doesn't have the spotlight, Fed-related considerations are still moving markets. Last Friday's jobs report is a **great example**. The Employment Situation (frequently referred to as the jobs report, NFP, or nonfarm payrolls) is the most important piece of economic data in the US. It is fully capable of influencing interest rates on its own.

In Friday's **case, the jobs report was doubly important because it was the last refuge** of those who didn't think the Fed was likely to hike its policy rate in December. The logic is simple: stronger job creation = higher likelihood of a Fed hike.

Over the past few weeks, several Fed speakers had been **reminding markets** that it would only take job creation in the 100-150k range to reinforce the rate hike timeline. Some sceptics concluded that the Fed had early access to the data and was trying to prepare markets for a low number.

When payroll creation came out at 271k, **all manner of critics were silenced**. Odds of a December rate hike moved quickly higher, as did most domestic interest rates. This is why rates made an additional, abrupt move to 4-month highs last Friday after they looked to be leveling-off just a day before.

Trading levels began holding their ground on Tuesday. This is a pretty quick bounce, and it could signal some measure of **exhaustion** in the market's effort to push rates higher (that's a good thing). Even then, lenders have been reluctant to pass along the market gains in the form of lower mortgage rates. This reluctance **could continue** to be a problem with a likely Fed rate hike now just over a month away.

In industry-specific news, the Mortgage Bankers Association notes that the rise in rates has yet to translate to a **big drop in mortgage applications**. Given the tendency for the MBA's app survey to lag late-week rate movement, it wouldn't be a surprise to see things slow down next week in terms of refi

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	99.45	**+0.06**
MBS GNMA 5.5	99.83	**+0.05**
10 YR Treasury	4.2335	**-0.0190**
30 YR Treasury	4.4584	**-0.0141**

Pricing as of: 7/23 10:58AM 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%

numbers.

Fannie on the other hand, notes that the rising rate environment is **already having an impact** on its **Home Purchase Sentiment Index**. A majority of those surveyed expect rates to rise over the next year. While consumer surveys have little to do with where rates actually go, if more consumers fear higher rates in the future, it can paradoxically serve to bolster purchase demand in the short term.

On a final note, as we discussed 2 weeks ago, Freddie Mac's **weekly mortgage rate survey** was likely to reflect the recent rise in rates. As it turns out, the survey now shows the **sharpest two week increase** of the year, rising by 22 basis points from 3.76 to 3.98.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Nov 10				
8:30AM	Oct Import prices mm (%)	-0.5	-0.1	-0.1
8:30AM	Oct Export prices mm (%)	-0.2	-0.2	-0.7
Wednesday, Nov 11				
12:00AM	Veterans Day			
7:00AM	w/e MBA Purchase Index	190.1		190.0
7:00AM	w/e Mortgage Refinance Index	1656.2		1692.9
Thursday, Nov 12				
8:30AM	w/e Continued jobless claims (ml)	2.174	2.170	2.163
8:30AM	w/e Jobless claims 4-wk avg (k)	267.75		262.75
8:30AM	w/e Initial Jobless Claims (k)	276	272	276
Friday, Nov 13				
8:30AM	Oct Retail sales mm (%)	+0.1	0.3	0.1
Monday, Nov 16				
8:30AM	Nov NY Fed manufacturing	-10.74	-6.20	-11.36
Tuesday, Nov 17				
8:30AM	Oct CPI mm, sa (%)	+0.2	0.2	-0.2
8:30AM	Oct Core CPI mm, sa (%)	+0.2	0.2	0.2
8:30AM	Oct Core CPI index, sa	243.70		243.21
10:00AM	Nov NAHB housing market indx	62	64	64
4:00PM	Sep Foreign buying, T-bonds (bl)	+17.4		-35.0
Wednesday, Nov 18				
8:30AM	Oct Building permits: number (ml)	1.150	1.150	1.105
8:30AM	Oct Build permits: change mm (%)	+4.1		-4.8
8:30AM	Oct Housing starts number mm (ml)	1.060	1.160	1.206
Thursday, Nov 19				
8:30AM	Nov Philly Fed Business Index	1.9	-1.0	-4.5

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Wednesday, Jan 13				
1:00PM	10-yr Note Auction (bl)	21		
Thursday, Jan 14				
1:00PM	30-Yr Bond Auction (bl)	13		

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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