US Housing Market Weekly

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Fed Rate Hike Next Week. Do We Care?

The cadence of financial market movement has grown increasingly similar to that seen on the week leading up to the September Fed meeting. **Why might that be?**

At the time, there was widespread consensus about the Fed hiking its policy rate in the following week's meeting. While the **Fed ultimately abstained**, we would later learn that it was only because they were spooked by sharp global market movements driven by unexpected overseas developments.

Specifically—and to paraphrase a variety of more equivocal snippets from Fed speeches –the Fed was **freaked out** by China's surprise decision to devalue its currency combined with collapsing stock prices and deteriorating global economic data. All of the above meant that a September rate hike stood the chance of being the most epically ill-timed policy decision in modern economic history.

Whether or not the fears were justified, China ended up finding a footing, as did global economic data. Granted, the global economy isn't firing on all cylinders, but neither is it in a state that justifies zero interest rates.

The Fed spent the last several months making sure **markets are fully prepared** for a rate hike in the December meeting. They've done a great job too. The consensus for a hike has never been higher, as measured by Fed Funds Futures (where traders bet on the probability of various Fed Funds Rate levels) or by surveys (where more than 90% of economists see a rate hike next week).

Long story short, it would be an utter and complete shock to most market participants if the Fed didn't hike next week. But what does the hike mean for mortgage rates? Incidentally, that conclusion is also the same as it was in September.

Back then, I pointed out that US Treasuries are like the **spokesperson for interest rates** in the US. The mortgage-backed-securities (MBS) that drive mortgage rates tend to operate within a certain distance of the comparable Treasury security. Considering that the current crop of mortgages is expected to last nearly 10 years, we're primarily interested in the fate of 10yr Treasuries.

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	99.51	**+0.12**
MBS GNMA 5.5	99.93	**+0.15**
10 YR Treasury	4.2286	**-0.0239**
30 YR Treasury	4.4538	**-0.0187**

Pricing as of: 7/23 8:48AM 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%

The Fed Funds Rate, on the other hand, is an OVERNIGHT lending rate. It has **infinitely more** in common with the shortest term Treasuries. The shorter and longer term rates can have a widely varied relationship with each other. There are even times where short term rates will move higher than long term rates, but the important point is this: a hike in the Fed Funds Rate has the biggest implications for those short term rates, and potentially very little implication for longer term rates like mortgages.

Not only that, but the level of consensus in the marketplace for a Fed hike means that the entire interest rate spectrum has **already done a lot to "price-in"** higher short term rates. This is one reason we see 2yr Treasury yields at the highest level in more than 5 years while 10yr yields and mortgage rates are still in the lower half of their range over the same time frame.

Bottom line, a Fed rate hike **does not equate to a mortgage rate hike**. True, you could easily say mortgage rates have moved higher because of the expectations, but as far as the reaction to next week's events, it's still anyone's game. Be careful though. The justification for hope does NOT connote the absence of risk. While almost everyone agrees on the rate hike, there is plenty of uncertainty about how investors will be trading after it happens. That could make for a decent amount of volatility in mortgage rates heading into the end of the year.

Housing-Specific Highlights From The Past Week

In an always-interesting quarterly recap, the MBA noted that mortgage production profits declined from Q2 to Q3, but remained substantially higher than Q3 2014. Total Production Expenses increased to an eye-watering $7,080 per loan!

The week's "**drama quota**" was easily filled by a relatively sensational story from the New York Times. It drew upon plenty of objective data regarding the efforts of the MBA and others to reform the secondary mortgage market, but alleged that the efforts amounted to an assault on smaller originators and suggested the revolving door between Washington and the mortgage industry constitutes a conflict of interest.

While Fannie Mae's headline Home Purchase Sentiment Index remained in relatively strong territory this week, the key takeaway was found in the internal data where we see fewer sellers who consider this a **"good time to sell."**

The always robust monthly Mortgage Market Monitor is out this week. Black Knight points out that the recently-expanded high LTV offerings from Fannie and Freddie have done little to detract from FHA market share in the low-down-payment market segment. The chart breaking down credit scores tells an interesting story. It's surprising to see FHA/VA still accounting for 20% of high LTV originations for high credit score borrowers.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Dec 07				
3:00PM	Oct Consumer credit (bl)	+15.98	20.00	28.92
Wednesday, Dec 09				
7:00AM	w/e Mortgage Refinance Index	1570.1		1516.9
7:00AM	w/e Mortgage Market Index	424.1		418.9
Thursday, Dec 10				
8:30AM	w/e Continued jobless claims (ml)	2.243	2.203	2.161
8:30AM	w/e Initial Jobless Claims (k)	282	275	269
8:30AM	Nov Export prices mm (%)	-0.6	-0.3	-0.2
8:30AM	Nov Import prices mm (%)	-0.4	-0.7	-0.5
Friday, Dec 11				
8:30AM	Nov Retail sales mm (%)	+0.2	0.3	0.1
Tuesday, Dec 15				
8:30AM	Dec NY Fed manufacturing	-4.59	-6.00	-10.74
8:30AM	Nov CPI mm, sa (%)	0.0	0.0	0.2
8:30AM	Nov Core CPI mm, sa (%)	+0.2	0.2	0.2
8:30AM	Nov Core CPI index, sa	244.14		243.70
10:00AM	Dec NAHB housing market indx	61	63	62
4:00PM	Oct Foreign buying, T-bonds (bl)	-55.2		17.4
4:00PM	Oct Net L-T flows,exswaps (bl)	-16.6		33.6
Wednesday, Dec 16				
8:30AM	Nov Building permits: number (ml)	1.289	1.150	1.161
8:30AM	Nov Build permits: change mm (%)	+11.0		5.1
8:30AM	Nov Housing starts number mm (ml)	1.173	1.135	1.060
2:00PM	N/A FOMC rate decision (%)	0.25-0.50	0.375	0.125
Thursday, Dec 17				
8:30AM	Dec Philly Fed Business Index	-5.9	1.5	1.9
Wednesday, Jan 13				
1:00PM	10-yr Note Auction (bl)	21		
Thursday, Jan 14				
1:00PM	30-Yr Bond Auction (bl)	13		

Event Importance:

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

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

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