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

Fed Helps Rates Recover; Housing Data Mixed

Financial market **volatility** is starting to increase in a noticeable way as we approach the middle of the year without a Fed rate hike in sight. Heading into 2016, the average Fed member saw 4 rate hikes this year. By the March meeting, the consensus had fallen to only 2 hikes due to persistently low inflation and concerns about the global economy.

The March Fed Announcement kicked off our most recent run toward lower rates. By early April, 30yr fixed rates were as low as they'd been in **nearly 3 years** and very close to the all-time lows seen in 2012.

Rising oil prices combined with a slightly more austere outlook from the European Central Bank (ECB) to put a floor under global interest rates. Last week saw rates move **higher, faster** than any other week in the past 6 months after ECB President Draghi confirmed he just wants to give current policy time to benefit the economy.

In other words, the ECB isn't in a rush to drop rates any further or to add even more money to its asset purchase programs. Financial **markets love free money**, so when one of the world's biggest central banks puts a limit on it, markets pout.

This week offered a chance for the US Federal Reserve (Fed) to follow suit with news that would make markets **even crankier**. Many viewed Wednesday's Announcement as an opportunity for the Fed to firmly telegraph a June rate hike, much like its October Announcement telegraphed a December rate hike. After all, time is running out if they're going to hike twice in 2016 with enough time and space to allow markets to sort through an expectedly volatile response.

Instead, the Fed **shied away completely** from alluding to June rate hike prospects. The statement also downgraded its view of the economy and inflation, although it dropped the verbiage expressing immediate concern about the global economy.

The **takeaway** for markets is that the cost of money (via the Fed Funds Rate, which is as close a measurement to the "cost of money" as we have in the US) will remain a bit lower for a bit longer. As such, we saw rates move lower almost as quickly as they rose last week.

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

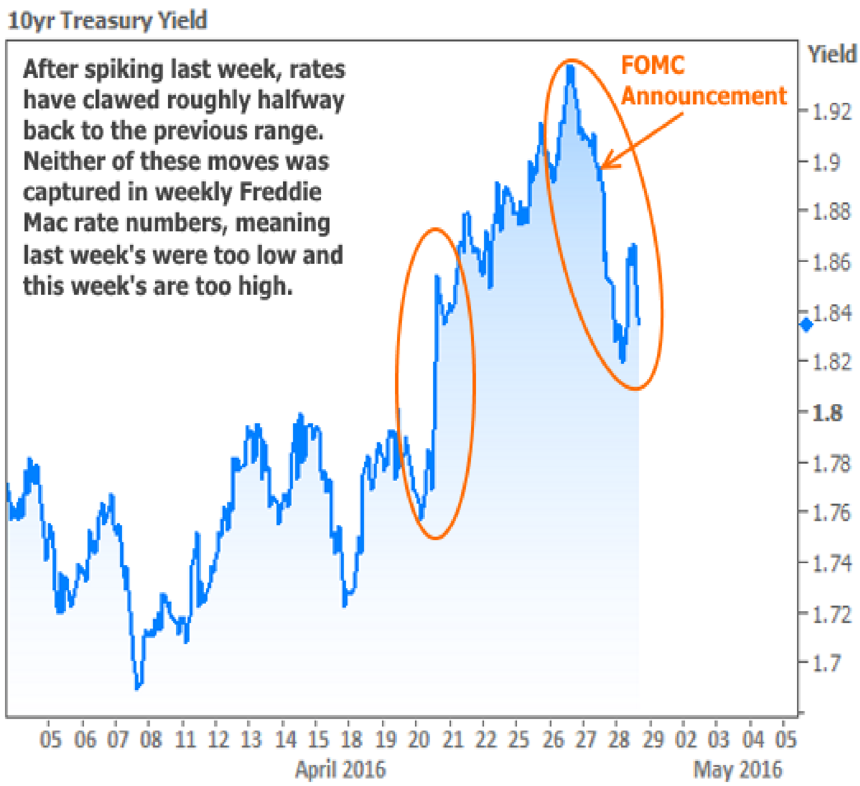
	Price / Yield	Change
MBS UMBS 5.5	99.51	+0.12
MBS GNMA 5.5	99.92	+0.15
10 YR Treasury	4.2296	-0.0229
30 YR Treasury	4.4547	-0.0178

Pricing as of: 7/23 8:51AM EST

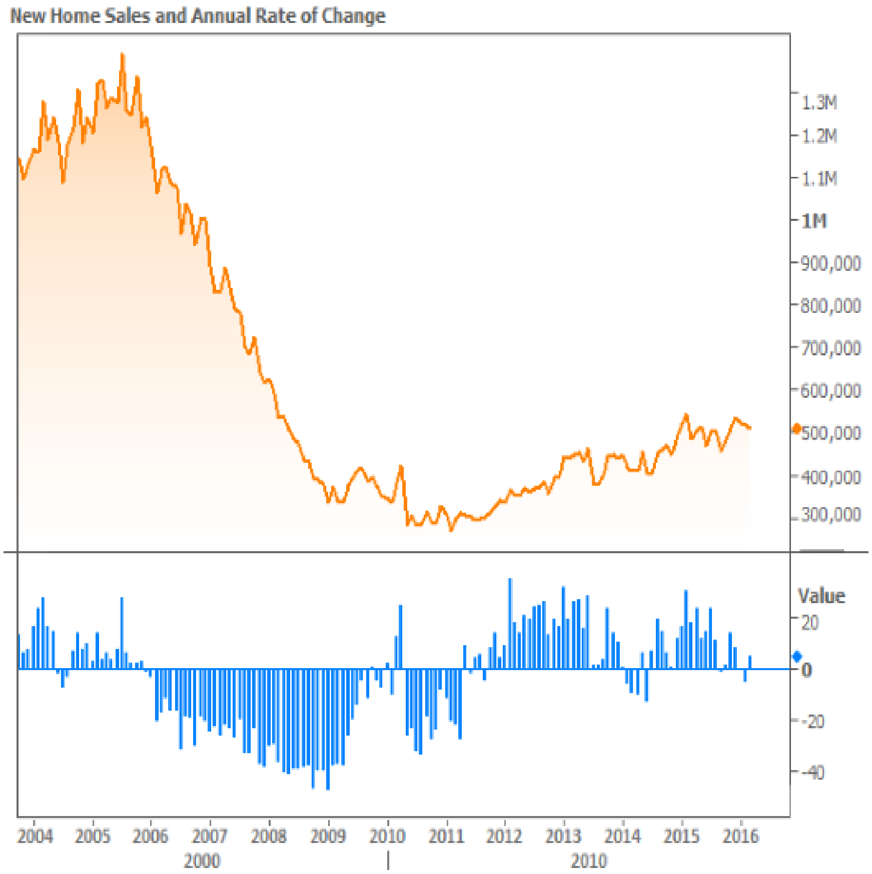
Recent Housing Data

		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 following chart of 10yr yields (a good proxy for mortgage rate movement) captures the day to day volatility missing from Freddie Mac's weekly rate report.

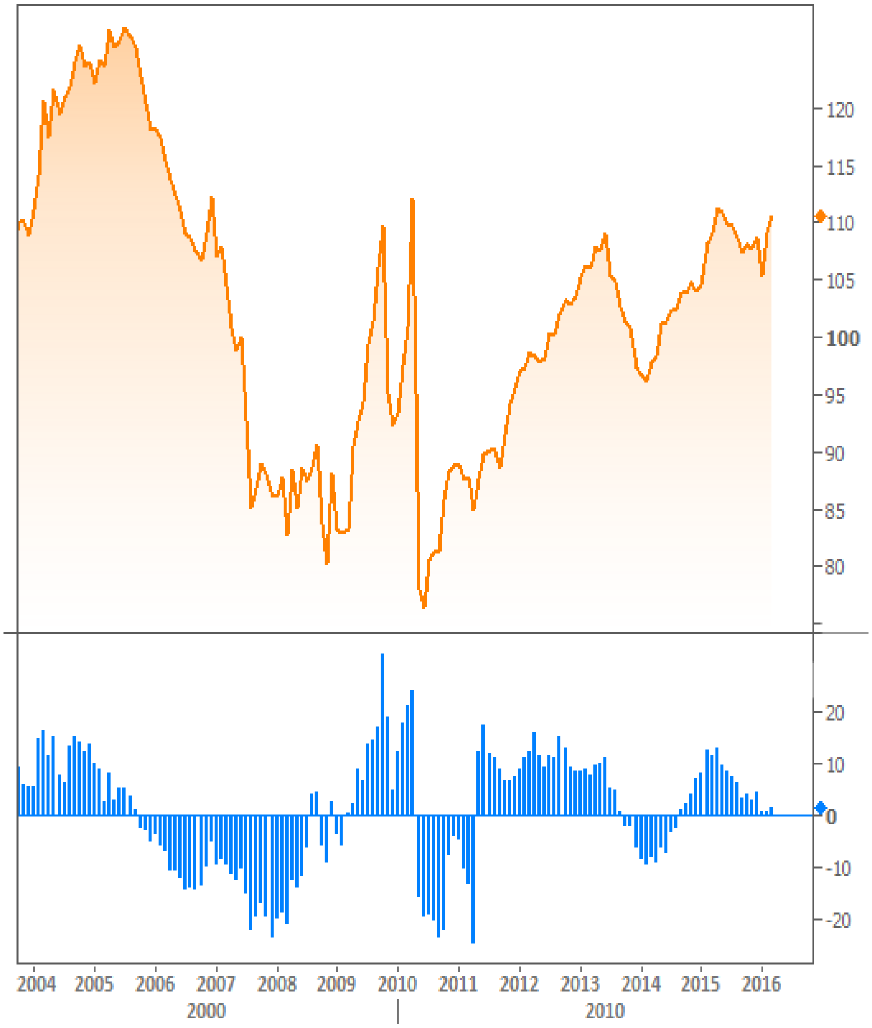


In **housing-specific news** and data **New Home Sales** **fell 1.5 percent** versus a median forecast calling for a 1.0 percent gain, but notably, moved back into positive territory year-over-year.



Pending Home Sales hit the highest levels in 10 months, but the NAR noted that "demand is starting to weaken in some areas, **particularly in the West**, where the median home price has risen an astonishing 38 percent in the past three years."

Pending Home Sales and Annual Rate of Change



Case-Shiller Home Prices continued running in the mid 5 percent range year-over-year, but the pace of gains is easing on a monthly basis. In a separate report, **Black Knight concurred** on the annual pace of home price appreciation, and further pointed out that prices are nearing their 2006 peak.

Although the rising prices mean fewer homeowners have to worry about being **underwater** in terms of home values, some will have to consider a more literal definition, thanks to global warming. An estimated $66-160 billion in real estate could be below sea level according to this **Freddie Mac report**.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Apr 25				
10:00AM	Mar New home sales-units mm (ml)	0.511	0.520	0.512
10:00AM	Mar New home sales chg mm (%)	-1.5	1.0	2.0
1:00PM	2-Yr Note Auction (bl)	26		
Tuesday, Apr 26				

Event Importance:

No Stars = Insignificant
Low
Moderate
Important
Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Mar Durable goods (%)	+0.8	1.8	-3.0
9:00AM	Feb CaseShiller 20 yy (%)	+5.4	5.5	5.7
1:00PM	5-Yr Note Auction (bl)	34		
Wednesday, Apr 27				
7:00AM	w/e Mortgage Market Index	505.4		526.8
2:00PM	N/A FOMC rate decision (%)	0.25-0.50	0.375	
Thursday, Apr 28				
8:30AM	w/e Initial Jobless Claims (k)	257	260	247
8:30AM	Q1 GDP Advance (%)	+0.5	0.7	1.4
Friday, Apr 29				
8:30AM	Mar PCE price index mm (%)	+0.1		-0.1
9:45AM	Apr Chicago PMI	50.4	53.0	53.6
10:00AM	Apr U Mich Sentiment Final (ip)	89.0	90.0	89.7
Monday, May 02				
10:00AM	Mar Construction spending (%)	+0.3	0.5	-0.5
10:00AM	Apr ISM Manufacturing PMI	50.8	51.4	51.8
Wednesday, May 04				
8:15AM	Apr ADP National Employment (k)	156.0	196	200
10:00AM	Apr ISM N-Mfg PMI	55.7	54.7	54.5
Friday, May 06				
8:30AM	Apr Non-farm payrolls (k)	+160	202	215
8:30AM	Apr Unemployment rate mm (%)	5.0	5.0	5.0

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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