US Housing Market Weekly

May 19, 2016

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

Rates Panic After Fed Minutes, But Bigger Challenges Await

Several recent speeches from Fed officials have expressed some **bewilderment** over the discrepancies between market-based forecasts of the Federal Funds Rate and the Fed's own communications. In other words, markets were saying the Fed was all bark and no bite with respect to hiking rates.

The Fed took this week as an opportunity to **show its teeth**. This began on Tuesday with two speeches from Fed Presidents not known for fringy viewpoints. They both were clear in saying that the very next Fed meeting was a "live meeting" in terms of rate hike potential. Later that same day, the buzz on Wall Street was that the speeches were part of an effort to prepare markets for the following day's release of the Minutes from the last Fed meeting.

Markets often look to the Minutes for clarity on the Fed's stance when the actual announcement is ambiguous. In this case, that was the late April Announcement. **Investors were worried** the Fed would overtly signal a June rate hike. When they didn't, rates fell.

Not only have rates generally been falling since then, but traders have been betting on extremely small chances of a Fed hike in June--so small, apparently, that the Fed wanted to bring everyone back on the same page. With the June rate hike probability **now over 30%** compared to under 5% last week, you could certainly say they accomplished that goal.

It **wasn't complicated** either. In addition to the plain language in Tuesday's speeches, Wednesday's Minutes quite simply said that "many" at the Fed saw June as an appropriate time to hike.

The news hit a market that was **already** moving toward higher rates. In the following chart, it's easy to see the growing anxiety about the Fed's message as 2yr Treasury yields began rising much more quickly than 10yr yields (2yr Treasuries are a better proxy for Fed rate hike probability).

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

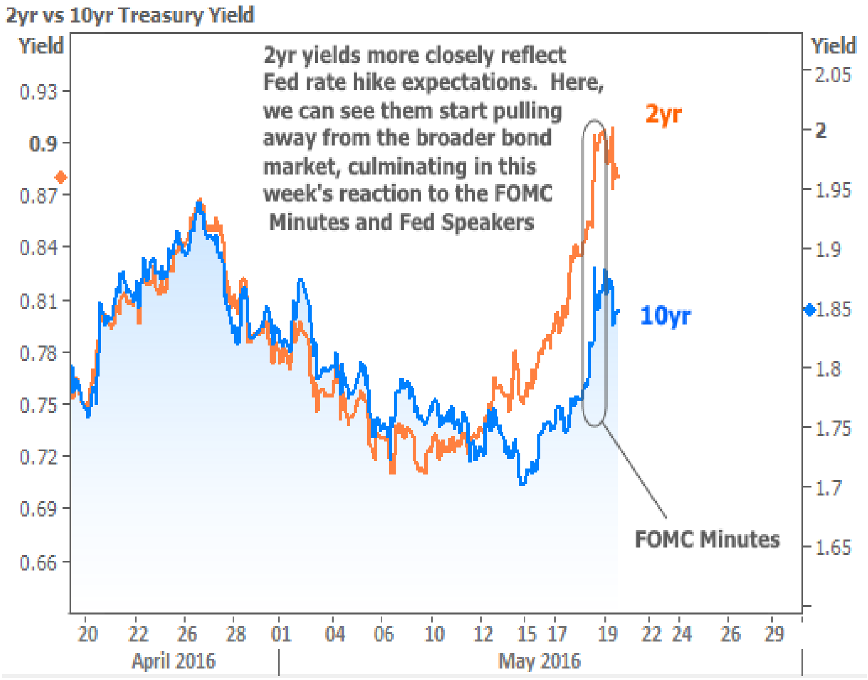
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.49	+0.10
MBS GNMA 5.5	99.90	+0.12
10 YR Treasury	4.2325	-0.0200
30 YR Treasury	4.4542	-0.0183

Pricing as of: 7/23 9:02AM 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%



Even with the losses seen in the first half of the week, Wednesday **still** managed to be the **worst day** for mortgage rate movement since early February. Unfortunately, this was NOT reflected in Freddie Mac's weekly rate survey (which receives most responses before the time that the Fed Minutes were released), but it certainly will be next week.

In 2016's frame of reference, rates have moved back to the top of their consolidation trend. That's just a fancy word for a **"narrowing range of rates."** When highs are getting lower and lows are getting higher, they'll eventually collide and force rates to pick a direction. There is usually some extra momentum behind that 'breakout' move.

But when this particular consolidation breaks down, it's only the beginning of a **much, MUCH bigger** version of the same trend--one with farther-reaching implications. The following chart is of 10yr Treasury yields, but they are a good proxy for mortgage rate momentum. Bottom line: the next break will set us up either to challenge all-time lows or to move significantly higher.

Housing-specific news ranged from uneventful to upbeat this week, with at least one of the reports allowing for a sigh of relief. March's Residential Construction numbers (aka "Housing Starts") were pretty bad--capping a 4 month slide to the weakest levels since last October. April's numbers (released this week) not only got the data back on track, but also revised March's Housing Starts into slightly better territory. All told, construction remains steady near post-meltdown highs.

Despite the improvement in construction numbers, the index that measures builder confidence in the new home market was unchanged in May for the fourth straight month according to the National Association of Home Builders (NAHB).

The financial side of the housing market had its own equivocal data with this week's mortgage application volume holding relatively steady yet again.

In the biggest of pictures, both Fannie Mae and Freddie Mac released economic outlooks that pegged housing as a bright spot in an otherwise stagnant economy.

Subscribe to my newsletter online at: http://housingnewsletters.com/thomaspayne

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, May 16				
10:00AM	May NAHB housing market indx	58	59	58
Tuesday, May 17				
8:30AM	Apr Housing starts number mm (ml)	1.172	1.127	1.089
8:30AM	Apr Core CPI mm, sa (%)	+0.2	0.2	0.1
8:30AM	Apr CPI mm, sa (%)	+0.4	0.3	0.1
8:30AM	Apr Building permits: number (ml)	1.116	1.130	1.076
9:15AM	Apr Industrial output mm (%)	+0.7	0.3	-0.6
9:15AM	Apr Capacity utilization mm (%)	75.4	75.0	74.8
Wednesday, May 18				
7:00AM	w/e Mortgage Market Index	482.6		490.5
Thursday, May 19				
8:30AM	May Philly Fed Business Index	-1.8	3.5	-1.6
8:30AM	w/e Initial Jobless Claims (k)	278	275	294
Friday, May 20				
10:00AM	Apr Existing home sales (ml)	5.45	5.40	5.33
Tuesday, May 24				
10:00AM	Apr New home sales-units mm (ml)	0.619	0.523	0.511
Wednesday, May 25				
1:00PM	5-Yr Note Auction (bl)	34		
Thursday, May 26				
8:30AM	Apr Durable goods (%)	+3.4	0.5	1.3
10:00AM	Apr Pending homes index	116.3		110.5
1:00PM	7-Yr Note Auction (bl)	28		
Friday, May 27				
8:30AM	Q1 GDP Prelim (%)	+0.8	0.9	0.5
10:00AM	May U Mich Sentiment Final (ip)	94.7	95.4	95.8
2:00PM	Memorial Day			
Wednesday, Apr 05				
2:00PM	FOMC Minutes			

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

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

We are a direct nationwide lender.
EQUAL HOUSING LENDER

Tom Payne