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## Strong Jobs Data Complicates Rate Outlook

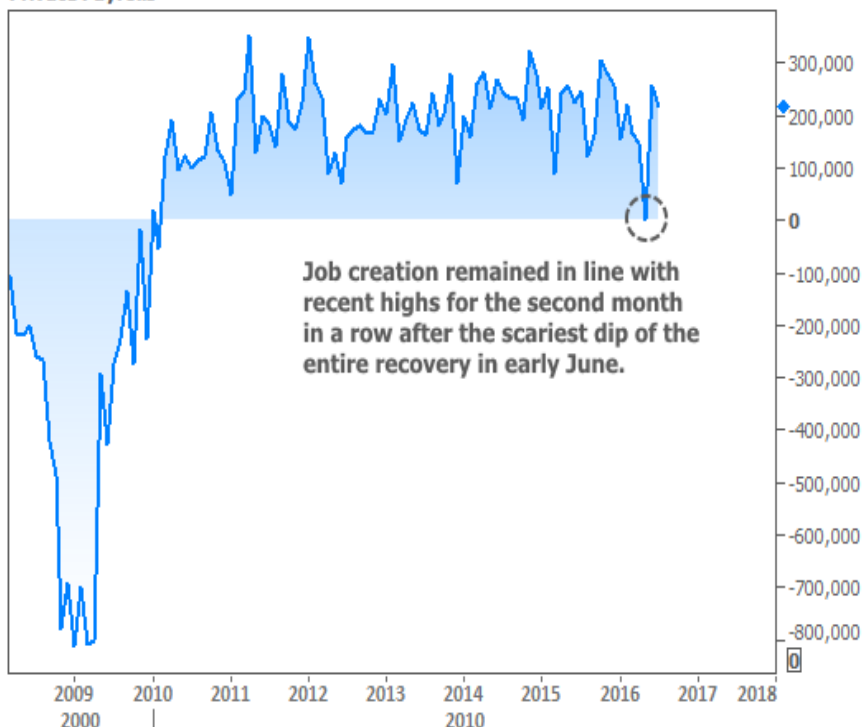
The month of July saw rates bounce up from **all-time lows** immediately following a strong jobs report. Rates managed to hold sideways during the 2nd half of July as investors waited for announcements from central banks, among other things.

Whether we're talking about the mighty Federal Reserve, the Bank of Japan, or the Bank of England, central banks around the world have a **major effect** on financial markets. Interest rates weathered the storm of central bank announcements quite well, avoiding a break above those 'sideways' levels from July.

But the policy statement from the Federal Reserve **left the door open** for economic data to influence the rate hike outlook over the next few months. In other words, if certain key pieces of data came out stronger than expected, the Fed would be increasingly likely to hike rates.

That's exactly what happened with this week's jobs report. It was an **important victory** for labor markets because it confirmed a bounce back from the scariest slide in job creation of the entire recovery (seen in the June 3rd jobs report).

Private Payrolls



## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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
<b>Freddie Mac</b>			
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	99.50	+0.11
MBS GNMA 5.5	99.92	+0.15
10 YR Treasury	4.2281	-0.0244
30 YR Treasury	4.4528	-0.0197

Pricing as of: 7/23 8:50AM 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%

Unfortunately, the bigger the victory, the **greater the effect** on the Fed rate hike outlook. Although the Fed Funds Rate doesn't directly control mortgage rates, when expectations increase for a Fed rate hike, longer-term rates (like mortgages and 10yr Treasury yields) tend to increase as well. That's what happened in early July and that's what's happening again at the end of this week.

Following Friday's jobs report, the probabilities for a Fed rate hike in September **doubled**, albeit only from 9 to 18 percent. The December likelihood leapt 10 percentage points to just under 40 percent. Treasuries and mortgage rates increased quickly, leaving us to wonder if this is just the beginning of a more serious push back against July's all-time lows.

The following chart shows how rates were initially coaxed out of 2016's consolidative trend by the weak jobs report in June, as well as Brexit. From there, you can see how the strong jobs data in early July began the push back against the lows.

Rate Momentum Heading Into August



Now that we have a 2nd consecutive jobs report coming in so strong, the question is: will the **upward momentum in rates** be that much stronger? In considering that possibility, it will be useful to keep an eye on the low 1.6% range in 10yr Treasury yields, as that has been an important ceiling recently. When rates continually bounce against such ceilings, it's the market's way of letting us know it would be important if the ceiling ends up being broken.

### Housing-Specific Data

Black Knight discussed the "**Brexit Effect**" on refinance demand. It should be fairly clear from this week's charts that Brexit juiced rates, resulting in a logical spike in refi demand. No major news there, if you've been reading my newsletters.

Slightly more newsworthy is the ongoing cooling in home price appreciation reported by CoreLogic. This **doesn't** mean prices are falling--simply that they're rising at a slower pace. This trend of deceleration is more than 6 months old now.

In a similar vein, CoreLogic also reported on rental price trends. This has been a more bulletproof sector than home prices in terms of upward trends, but now CoreLogic is **calling the peak** in rent price appreciation.

Surprising some analysts, [Freddie Mac](#) announced **bigger-than-expected profits**, unequivocally avoiding the need for any taxpayer assistance. As always, keep in mind that even if Freddie did require a draw from Treasury that it has already more than paid back the amount it borrowed from taxpayers. It is only in a position to need a draw because the government takes all the excess profit from the GSEs under the conservatorship agreement.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Aug 01</b>				
10:00AM	Jul ISM Manufacturing PMI	52.6	53.0	53.2
10:00AM	Jun Construction spending (%)	-0.6	0.5	-0.8
<b>Tuesday, Aug 02</b>				
8:30AM	Jun Personal consump real mm (%)	+0.3		0.3
8:30AM	Jun Consumption, adjusted mm (%)	+0.4	0.3	0.4
9:45AM	Jul ISM-New York index	721.1		715.8
<b>Wednesday, Aug 03</b>				
7:00AM	w/e Mortgage Market Index	526.8		545.8
8:15AM	Jul ADP National Employment (k)	179.0	170	172
10:00AM	Jul ISM N-Mfg PMI	55.5	56.0	56.5
10:00AM	Jul ISM N-Mfg Bus Act	59.3	59.5	59.5
<b>Thursday, Aug 04</b>				
8:30AM	w/e Initial Jobless Claims (k)	269	265	266
10:00AM	Jun Factory orders mm (%)	-1.5	-1.8	-1.0
<b>Friday, Aug 05</b>				
8:30AM	Jul Non-farm payrolls (k)	+255	180	287
8:30AM	Jul Private Payrolls (k)	+217	170	265
8:30AM	Jul Unemployment rate mm (%)	4.9	4.8	4.9
8:30AM	Jun International trade mm \$ (bl)	-44.51	-43.1	-41.1
<b>Tuesday, Aug 09</b>				
10:00AM	Jun Wholesale inventories mm (%)	+0.3	0.0	0.0
1:00PM	3-Yr Note Auction (bl)	24		
<b>Wednesday, Aug 10</b>				
12:00AM	Roll Date - Fannie Mae 30YR, Freddie Mac 30YR			
7:00AM	w/e Mortgage Market Index	564.0		526.8
<b>Thursday, Aug 11</b>				
8:30AM	Jul Import prices mm (%)	+0.1	-0.3	0.2
8:30AM	Jul Export prices mm (%)	+0.2	0.0	0.8
<b>Friday, Aug 12</b>				
8:30AM	Jul Retail sales mm (%)	0.0	0.4	0.6

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Jun Business inventories mm (%)	+0.2	0.1	0.2
<b>Wednesday, Oct 12</b>				
1:00PM	10-yr Note Auction (bl)	20		
<b>Thursday, Oct 13</b>				
1:00PM	30-Yr Bond Auction (bl)	12		

## 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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