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## Fed Statement Helps Rates Avoid More Dire Outcome

By some standards, the past 3 months **already** add up to a dire outcome for mortgage rates. This week's Fed announcement helped rates avoid a **more** dire outcome, but we're definitely not out of the woods yet.

To understand the "more dire outcome" in question, we need to revisit post-election rate movement. Fortunately, that's quick, even if it's **not** painless.

The combination of the **election** and the ensuing **changes** in the Fed's rate hike outlook pushed mortgage rates higher at one of the **fastest paces in history** from early November through the middle of December. From there, markets went on vacation with the rest of the world, giving rates some time to recover.

The vacation ended as trading activity (and rates) ramped back up in mid-January. Investors keyed-in on Fed Chair Yellen's speech, which served to confirm a shift in the Fed's thinking (specifically, they are indeed thinking about rates **moving higher** more quickly).

Heading into this week, rates stood ready to break higher from the consolidation pattern (a series of lower highs and higher lows) that took shape after December's highs. That made Wednesday's Fed announcement important.

Even though markets saw essentially no chance of a rate hike, investors were nonetheless looking for clues to **validate fears** about an increasingly hawkish Fed ("hawkish": more concerned with inflation, and thus more willing to hike rates).

Although the Fed made **quite a few small changes** to the policy statement, they left the forward guidance paragraphs (that's where the scariest stuff would be addressed) completely untouched.

With that, rates managed to **stay inside the lines**, both literally and figuratively. You can see the literal lines in the following chart of 10yr Treasury yields. The upper and lower (diagonal) lines mark the "consolidation pattern." 2.44% is included because that's been the midpoint of the consolidation. Spending the entire week above that midpoint means we're still very much 'in the woods.'

## 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

### 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	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2306	-0.0219
30 YR Treasury	4.4486	-0.0239

Pricing as of: 7/23 7:05AM 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%

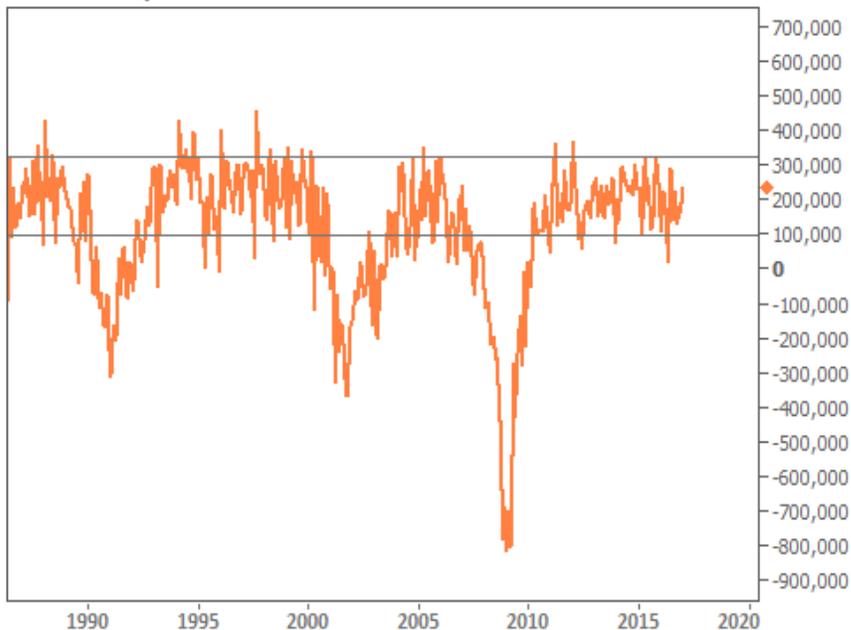
US 10yr Treasury Yield



In addition to the Fed, there were several important economic reports this week. **Chief among those** was Friday's nonfarm payrolls data (the big "jobs report"). Although payroll growth outpaced expectations, wage growth not only fell short, but was also revised lower for the previous month. Wage metrics are closely-watched by both markets and the Fed right now, with the expectation being that rising wages will stoke inflation and thus, faster rate hikes. The weak wage data helped rates hold their ground.

In addition to the wage growth explanation, one could also argue that job creation results just **haven't been that surprising** for several years now. We're in the midst of a classic expansion cycle (at least in terms of payroll growth). The following chart of Private Payrolls (a less volatile version of Nonfarm Payrolls) shows how these expansion cycles settle into ranges. Once we begin breaking out of that range, that'll be big news.

US Private Payrolls



In housing-specific data, Pending Home Sales improved by 1.6 percent in December, ending the year in fine shape despite remaining in a short term trend lower. If we throw out the arguable exuberance of the last housing boom, Pending Sales are actually leveling-off near historically healthy levels (the spikes on the chart in 2009/10 correspond with the homebuyer tax credits).



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Jan 30</b>				
8:30AM	Dec Personal consump real mm (%)	+0.3		0.1
8:30AM	Dec Personal income mm (%)	+0.3	0.4	0.0
10:00AM	Dec Pending homes index	109.0		107.3
10:00AM	Dec Pending sales change mm (%)	+1.6	1.0	-2.5
<b>Tuesday, Jan 31</b>				
9:00AM	Nov CaseShiller 20 mm SA (%)	+0.9	0.7	0.6
9:00AM	Nov CaseShiller 20 mm nsa (%)	+0.2	0.2	0.1
9:00AM	Nov CaseShiller 20 yy (%)	+5.3	5.1	5.1
9:45AM	Jan Chicago PMI	50.3	55.0	54.6
10:00AM	Jan Consumer confidence	111.8	113.0	113.7
<b>Wednesday, Feb 01</b>				
7:00AM	w/e MBA Purchase Index	229.6		243.2
7:00AM	w/e Mortgage Market Index	384.7		397.4
7:00AM	w/e Mortgage Refinance Index	1248.4		1265.6

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:15AM	Jan ADP National Employment (k)	246.0	165	153
10:00AM	Jan ISM Manufacturing PMI	56.0	55.0	54.5
10:00AM	Jan ISM Mfg Prices Paid	69.0	66.0	65.5
10:00AM	Dec Construction spending (%)	-0.2	0.2	0.9
2:00PM	N/A FOMC rate decision (%)	0.50-0.75	0.625	0.625
<b>Thursday, Feb 02</b>				
7:30AM	Jan Challenger layoffs (k)	45.934		33.627
8:30AM	Q4 Productivity Preliminary (%)	+1.3	1.0	3.1
8:30AM	Q4 Labor Costs Preliminary (%)	+1.7	1.9	0.7
8:30AM	w/e Initial Jobless Claims (k)	246	250	259
8:30AM	w/e Continued jobless claims (ml)	2.064	2.050	2.100
<b>Friday, Feb 03</b>				
8:30AM	Jan Non-farm payrolls (k)	+227	175	156
8:30AM	Jan Unemployment rate mm (%)	4.8	4.7	4.7
10:00AM	Jan ISM N-Mfg PMI	56.5	57.0	56.6
10:00AM	Dec Factory orders mm (%)	+1.3	1.0	-2.4
<b>Tuesday, Feb 07</b>				
8:30AM	Dec International trade mm \$ (bl)	-44.3	-45.0	-45.2
1:00PM	3-Yr Note Auction (bl)	24		
<b>Wednesday, Feb 08</b>				
7:00AM	w/e Mortgage Market Index	393.6		384.7
<b>Thursday, Feb 09</b>				
10:00AM	Dec Wholesale inventories mm (%)	+1.0	1.0	1.0
<b>Friday, Feb 10</b>				
8:30AM	Jan Import prices mm (%)	+0.4	0.2	0.4
8:30AM	Jan Export prices mm (%)	+0.1	0.1	0.3
10:00AM	Feb Consumer Sentiment Prelim	95.7	97.9	98.5
<b>Tuesday, Apr 11</b>				
1:00PM	10-yr Note Auction (bl)	20		
<b>Wednesday, Apr 12</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](mailto:TPayne@loandepot.com)

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