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 Are Actually Much Higher This Week. Here's Why

After spending more than a month holding fairly steady near 8-month lows, rates are moving **quickly higher** this week. Not only are the underlying reasons somewhat opaque but there are multiple media outlets reporting the "lowest mortgage rates of the year." What's really going on here?

The discrepancy between actual mortgage rate movement and certain news stories is easy to explain (as seen in a past newsletter), so let's start there. At issue is the fact that Freddie Mac's weekly rate survey is a longstanding industry benchmark for mortgage rates. It's **heavily** relied-upon by analysts working in the secondary mortgage market as well as journalists who simply use it as their one source for a weekly mortgage rate update.

Because the report is released at 10am on Thursday morning, we tend to see a glut of news stories offering similar conclusions about mortgage rate movement. This seemingly unified message only **adds to the confusion**. After all, if all these big news organizations are telling us that rates are at the lowest levels of the year, it must be true, right?

WRONG!

Freddie's data is **GREAT** for **long-term** analysis of **general** mortgage rate trends but it does a GREAT **DISSERVICE** to prospective borrowers keeping an eye on **day-to-day** changes.

The reason is strikingly **simple:** rates can move every day, but Freddie's survey only covers the first 3 days of any given week. Moreover, most of the responses tend to come in on Monday and Tuesday.

In other words, Freddie's survey is best described as "Monday/Tuesday rates vs last Monday/Tuesday's rates." This creates **obvious problems** if rates are making bigger moves in the second half of any given week--especially if they moved in the opposite direction during the first half of the week.

Here's how all of the above played out this time around. Mortgage rates were indeed in line with the year's **lowest** levels on Monday (only June 14th was any better as far as individual days are concerned). But the next 3 days all saw rates move convincingly **higher**. Freddie's survey responses--being weighted toward the start of the week--simply didn't capture the magnitude of the rate spike (it will be reflected in next week's numbers unless we get a friendly bounce between now and then).

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	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2369	-0.0156
30 YR Treasury	4.4575	-0.0150

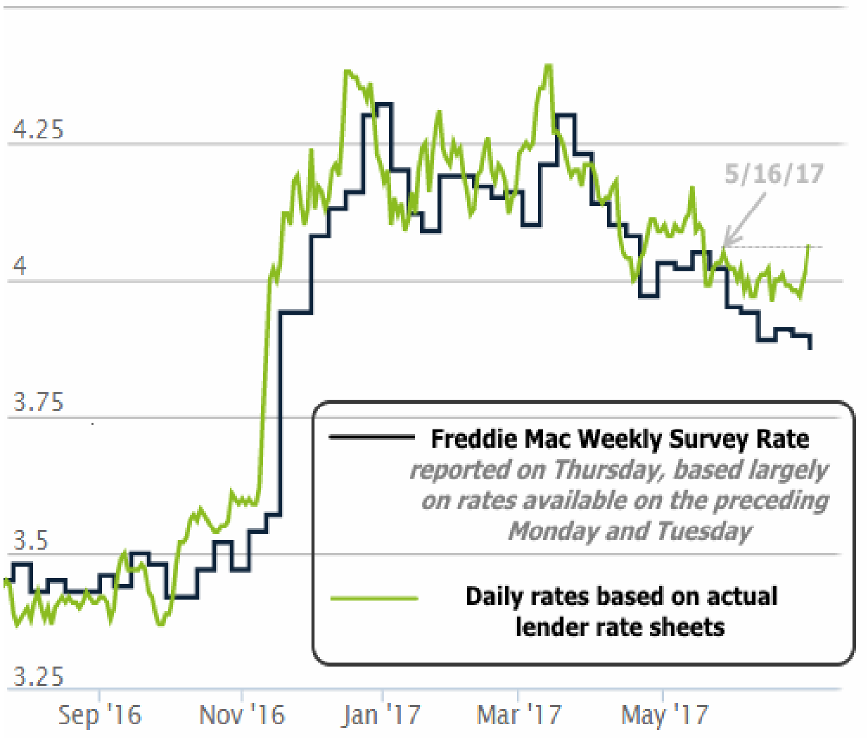
Pricing as of: 7/23 4:52AM EST

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 bottom line is that rates are definitely **not** at 2017's lowest levels. In fact, in terms of day-over-day changes in **actual** lender rate sheets (remember, **humans** respond to surveys, and they might not all be cross-checking actual rate sheets before firing off their responses to Freddie), rates are as high as they've been since May 16th.

A **major caveat** is that the recent range of mortgage rates has been exceptionally narrow by historical standards. It's also been holding fairly close to the lowest levels in 8 months. Still, the amount of movement over the past few days adds up to hundreds, even thousands of dollars for some borrowers' loan quotes. That could be quite the surprise if they've just heard about the "lowest rates of the year" on the evening news.



What's Moving Markets?

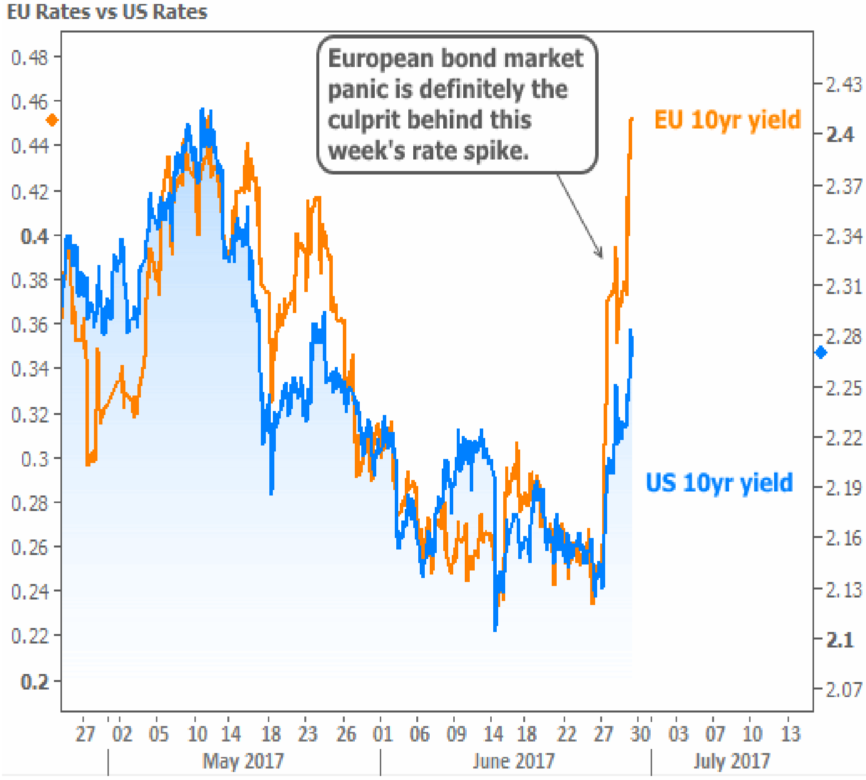
Now that we know **WHAT** mortgage rates have actually been doing, let's talk about **WHY**. If you remember the so-called "taper tantrum" in 2013 (the market reaction to the Fed signalling its intent to buy fewer bonds), then you're halfway there.

This time around, the focus is on the European Central Bank (ECB), whose bond buying puts it in the same league as the Fed in terms of impact on financial markets. Whereas the Fed has long since stopped expanding its balance sheet (they may even begin shrinking it later this year), the ECB continues **adding more bonds** to its balance sheet every month.

Given the huge impact of the taper tantrum in the US, investors are **on guard** for any indication of tapering in the EU. ECB President Mario Draghi gave just such an indication in a series of comments earlier this week. He spoke of deflation being replaced by reflation, above-trend growth, and the need to gradually adjust bond-buying parameters.

ECB Officials would subsequently **try** to explain that Draghi was aiming for comments that balanced positive developments with the ongoing need for substantial bond buying. But the takeaway for market participants was that the ECB is moving closer and closer to **tapering**.

Why should rates in the US care about what's going on with the European Central Bank? To make a long story short, global bond markets (which drive interest rates) are interconnected and interdependent to a certain degree. US rates might not respond to European rates in lock-step, but they definitely respond. As such, it's no surprise to see European benchmark rates **surging** and US rates following with a more measured version of the same move.



Is this the **end of low rates** forever? Not by a long-shot. First of all, we're only a few **days** into a move that took several **months** to play out in the US. We can't yet know if European rates are embarking on a similar journey.

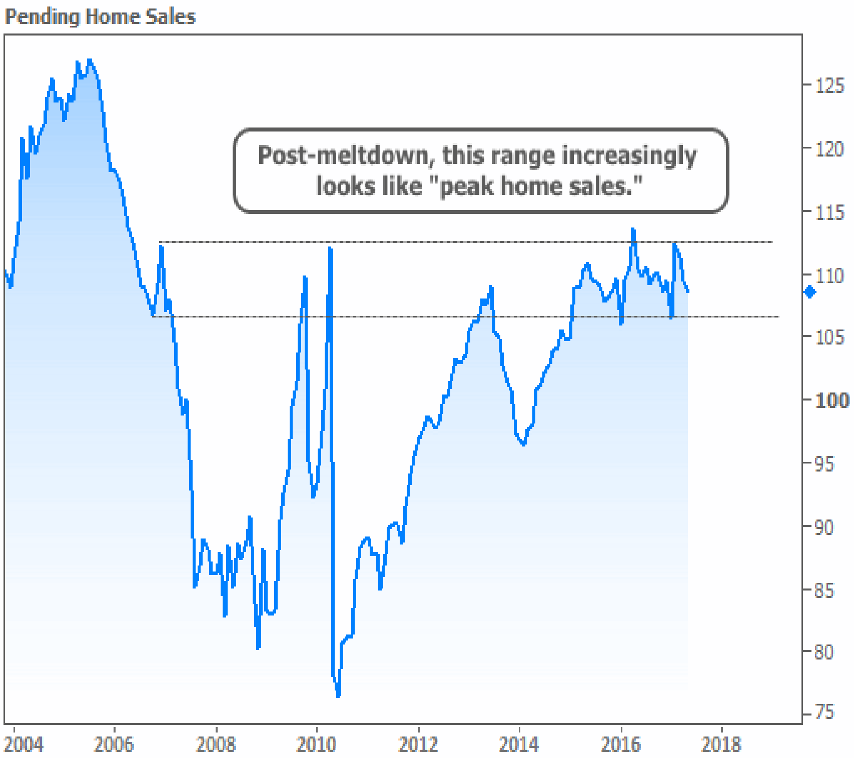
Even if that happens, it's good to keep in mind that rates **generally** move higher when central banks are actually in a bond-buying cycle. True, that sounds terribly counterintuitive (after all, if the Fed/ECB are buying bonds, rates should be going down), but the following chart with QE time-frames in the US doesn't lie.

Don't read too much into this chart because it could be competently argued several ways. The point of posting it is to offer **perspective**. What might seem like a surefire reason for rates to move higher could merely be the catalyst for a **temporary** correction in the bigger picture. After all, most economists and analysts thought low rates were a thing of the past by the end of 2010 and 2013. The subsequent years were the best 2 years of the recovery.

Housing-Specific News

There were several interesting developments in housing this week. 2 weeks after comments on a potential "housing emergency" due to tight inventory, The National Association of Realtors (NAR) now says the perception of a **seller's market** could provide motivation for owners to list their homes, thus relieving some of the inventory pressure.

As for the month of May, there was no such relief in sight. The NAR blamed **lopsided supply** and demand for the lowest Pending Home Sales levels since January. Despite the justification, it's worth noting that this index hasn't been able to get back above its current range since the meltdown.



Both Black Knight and Case-Shiller released their monthly home price indices. Both set record highs at the national level, and both reports agree that the national numbers are being dragged higher by several **outstanding regional markets**. Of the two, the Case-Shiller report did more to provide a counterpoint to the positivity, citing some signs of deceleration.

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

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 26				
8:30AM	May Durable goods (%)	-1.1	-0.6	-0.8

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important

Date	Event	Actual	Forecast	Prior
1:00PM	2-Yr Note Auction (bl)	26		
Tuesday, Jun 27				
9:00AM	Apr CaseShiller 20 mm SA (%)	+0.3	0.4	0.9
10:00AM	Jun Consumer confidence	118.9	116.0	117.9
1:00PM	5-Yr Note Auction (bl)	34		
Wednesday, Jun 28				
7:00AM	w/e Mortgage Market Index	417.4		445.2
7:00AM	w/e MBA Purchase Index	241.7		252.1
7:00AM	w/e Mortgage Refinance Index	1396.2		1526.8
10:00AM	May Pending sales change mm (%)	-0.8	0.8	-1.3
10:00AM	May Pending homes index	108.5		109.8
1:00PM	7-Yr Note Auction (bl)	28		
Thursday, Jun 29				
8:30AM	Q1 GDP Final (%)	+1.4	1.2	1.2
8:30AM	w/e Initial Jobless Claims (k)	244	242	241
Friday, Jun 30				
8:30AM	May Consumption, adjusted mm (%)	+0.1	0.1	0.4
8:30AM	May Personal income mm (%)	+0.4	0.3	0.4
8:30AM	May Core PCE price index yy (%)	+1.4		1.5
9:45AM	Jun Chicago PMI	65.7	58.0	59.4
10:00AM	Jun U Mich Sentiment Final (ip)	95.1	94.5	94.5
Monday, Jul 03				
10:00AM	Jun ISM Manufacturing PMI	57.8	55.2	54.9
10:00AM	May Construction spending (%)	0.0	0.3	-1.4
Wednesday, Jul 05				
9:45AM	Jun ISM-New York index	739.1		736.4
10:00AM	May Factory orders mm (%)	-0.8	-0.5	-0.2
Thursday, Jul 06				
8:15AM	Jun ADP National Employment (k)	+158	185	253
10:00AM	Jun ISM N-Mfg PMI	57.4	56.5	56.9
Friday, Jul 07				
8:30AM	Jun Non-farm payrolls (k)	+222	179	138
8:30AM	Jun Unemployment rate mm (%)	4.4	4.3	4.3

★★ 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