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## Why Rates Keep Breaking 2017 Lows

After the presidential election last November, a clear narrative took root in financial markets. A Trump presidency was supposed to result in faster policy tightening at the Fed, more growth, more inflation, and higher rates. With each new move to 2017's **lowest** rates, that narrative continues to unravel. This week provided a great example.

Rates began the week surging to new 2017 lows as news broke that North Korea tested what it claimed was a hydrogen bomb. Additionally, South Korea warned that another test launch was possible in the coming weeks, and Trump pledged to make "**sophisticated military equipment**" available for purchase by allies in the region.

In other words, it was just another weekend with looming risk of global nuclear conflict. While that's nothing new these days (sadly), it's still scary every time. Financial markets tend to process that fear by moving out of stocks and into safe-haven assets like bonds, cash, and gold. Excess investor demand for bonds results in **lower rates**.

Later in the week, rates **continued** lower as the European Central Bank released a very timid policy statement as well as a downwardly revised inflation forecast. Whether at home or abroad, the longer it takes for big central banks to unwind their bond-buying programs (bond-buying helps rates) and for inflation to pick up (inflation hurts rates), the easier it becomes for rates to stay low (or move even lower).

## National Average Mortgage Rates



	Rate	Change	Points
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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

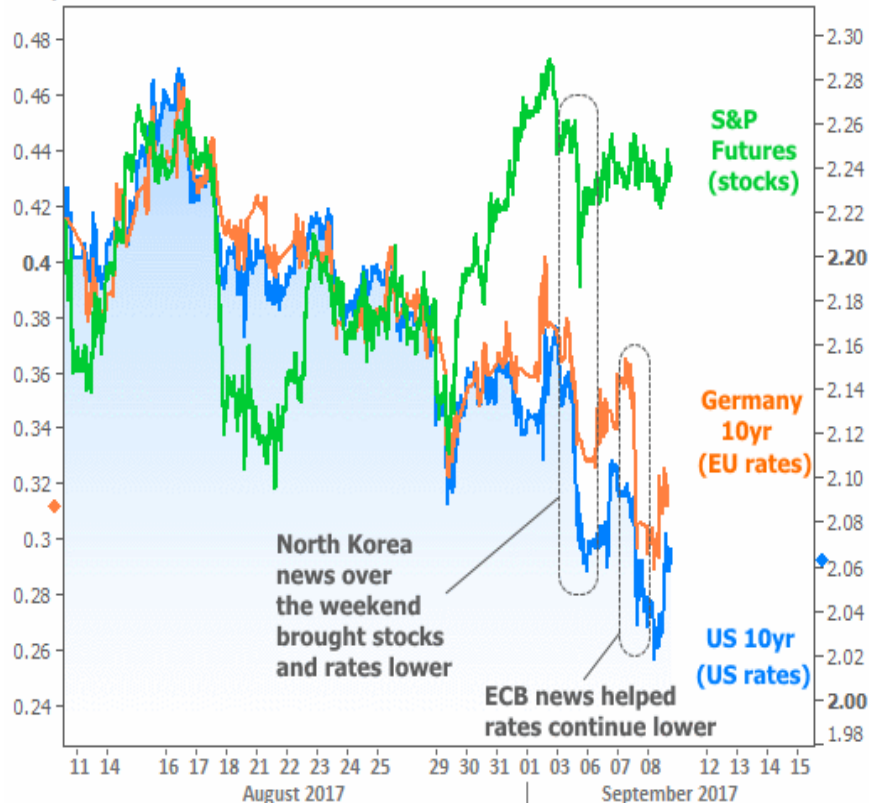
	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2369	-0.0156
30 YR Treasury	4.4575	-0.0150

Pricing as of: 7/23 4:56AM 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%

European Effect on Bonds



What makes this week's push to lower rates interesting is the fact that 2017's Trump-related narrative actually saw some support. Trump reached across the aisle and **struck a deal** with congressional democrats that funded disaster relief and temporarily raised the debt ceiling through the end of the year.

While this successful example of bipartisan policymaking clearly did **some** damage to bond markets (i.e. rates went a bit higher on Wednesday), its effects were ultimately steamrolled by the week's dominant events. In other words, investors don't suddenly see **new** inflation risks and growth potential due to this week's legislative efforts.

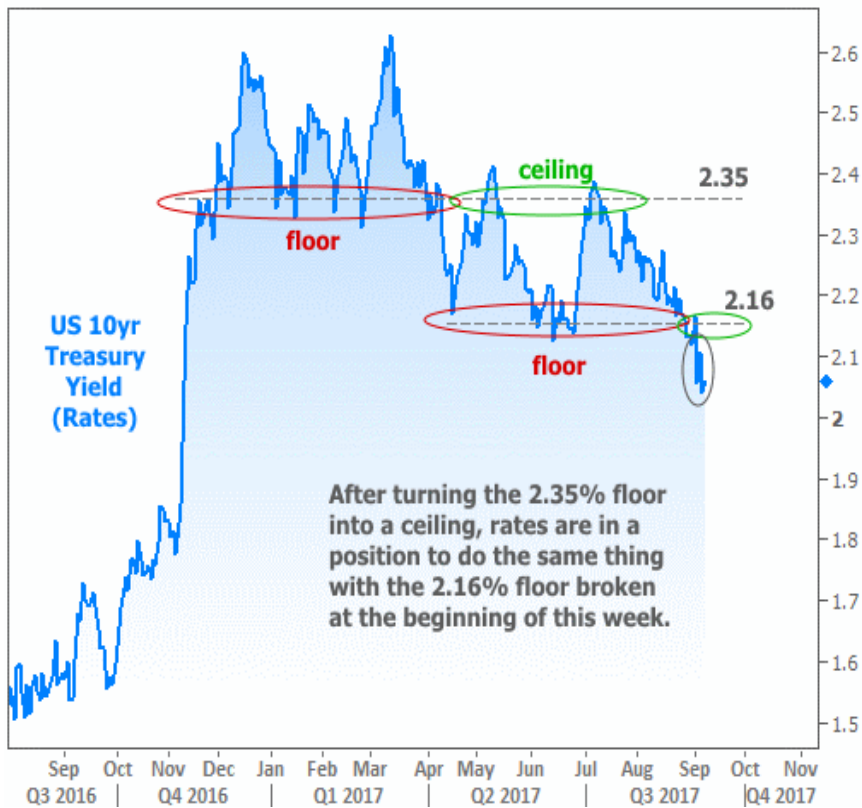
In fact, some of the biggest, savviest investors haven't been too concerned about such things for many months. Before Trump was elected, rates had generally been falling the better part of 3 years. Volatility was decreasing and it **wasn't** clear what it would take for things to change.

The Trump victory **provided a solution** for one of two reasons. For those who believed that new policies could stimulate growth and inflation, there were good reasons to push rates rapidly higher at the end of 2016. Those who **didn't** necessarily see fiscal policy miracles in store were **still** thrilled to have justification to get bond markets moving again. They saw great buying opportunities in the future based on the inflation/growth narrative.

As fiscal policy progress continues proving elusive, and as inflation has moved frustratingly lower, that pessimistic group of investors has been ringing the cash register by buying the bonds that the average investor **couldn't wait** to sell.

If we look at this process in terms of 10yr Treasury yields (the best benchmark for momentum in long-term rates like mortgages), we can see where some investors stepped in to buy bonds when yields hit 2.5-2.6. There was relative equilibrium around 2.35%, with sellers able to keep yields from falling much lower in the 1st quarter.

## US Rates



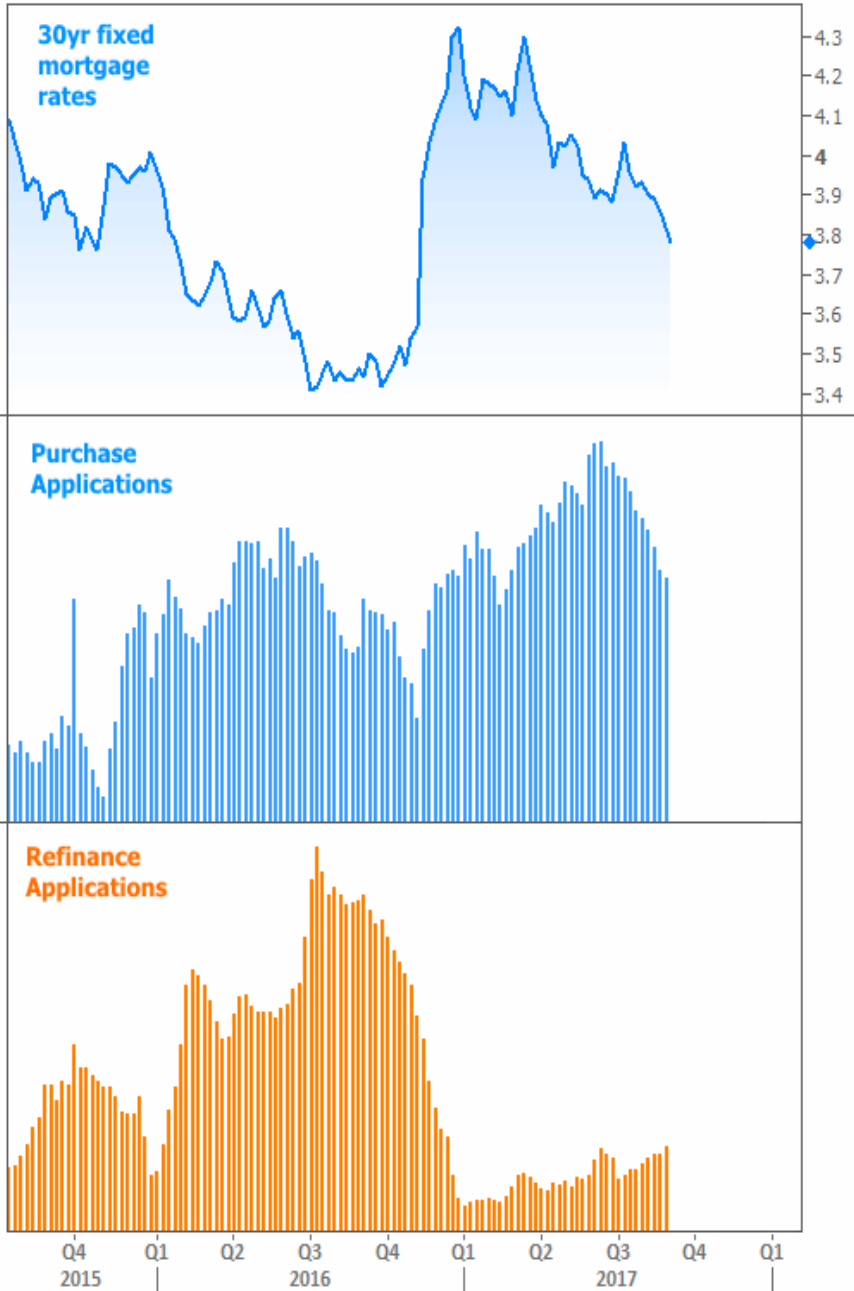
Things changed in April, with rising geopolitical tensions, fiscal policy missteps, and a more timid Federal Reserve. What **had been** a "floor" around 2.35% now became a ceiling, and the game between buyers and sellers resumed.

This time around, the floor was closer to 2.12%. While it didn't see bounces as frequently, the big bounce in late June was a **watershed moment** for global bond markets. That's when investors picked up their first major signal that the European Central Bank (ECB) might be close to winding down its bond-buying plan.

2.12% quickly became a distant memory. Whether or not the ECB was serious, investors figured those rates were **too low** until they could get clarification. As mentioned above, that clarification came this week and was joined by the North Korea headlines. The combination of the two events was enough to break the 2.12% floor.

Now the question becomes whether this **floor** will be able to act as a **ceiling**. It's too soon to say--especially with the Fed's hotly-anticipated policy announcement coming up in just under 2 weeks. At the very least, 2017 has proven to be much more of a friend than an enemy for fans of low rates.

That friendliness is apparent in the mortgage market. Now that the seasonal slide in home purchase activity has set in (compounded by non--seasonal weakness due to inventory constraints), **refinances** are picking up the slack in mortgage applications. If rates continue lower, loans originated in the first quarter will increasingly be "in the money" when it comes to a refinancing.



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**Recent Economic Data**

Date	Event	Actual	Forecast	Prior
<b>Tuesday, Sep 05</b>				
9:45AM	Aug ISM-New York index	748.8		745.5
10:00AM	Jul Factory orders mm (%)	-3.3	-3.3	3.0
<b>Wednesday, Sep 06</b>				
7:00AM	w/e MBA Purchase Index	227.3		224.1
7:00AM	w/e Mortgage Refinance Index	1502.6		1430.3

**Event Importance:**

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

Date	Event	Actual	Forecast	Prior
8:30AM	Jul International trade mm \$ (bl)	-43.7	-44.6	-43.6
10:00AM	Aug ISM N-Mfg PMI	55.3	55.4	53.9
<b>Thursday, Sep 07</b>				
8:30AM	Q2 Labor Costs Revised (%)	+0.2	0.3	0.6
8:30AM	Q2 Productivity Revised (%)	+1.5	1.3	0.9
8:30AM	w/e Jobless Claims (k)	298	300	236
<b>Friday, Sep 08</b>				
10:00AM	Jul Wholesale inventories mm (%)	+0.6		0.4
10:00AM	Jul Wholesale sales mm (%)	-0.1	0.4	0.7
<b>Monday, Sep 11</b>				
1:00PM	3-Yr Note Auction (bl)	24		
<b>Wednesday, Sep 13</b>				
7:00AM	w/e Mortgage Market Index	462.1		420.5
8:30AM	Aug Producer Prices (%)	0.2	0.3	-0.1
8:30AM	Aug Core Producer Prices YY (%)	2	2.1	1.8
<b>Thursday, Sep 14</b>				
8:30AM	Aug CPI mm, sa (%)	+0.4	0.3	0.1
8:30AM	Aug Core CPI Year/Year (%)	+1.7	1.6	1.7
<b>Friday, Sep 15</b>				
8:30AM	Aug Retail Sales (%)	-0.2	0.1	0.6
9:15AM	Aug Industrial Production (%)	-0.9	0.1	0.2
10:00AM	Jul Business Inventories (%)	0.2	0.2	0.5
10:00AM	Sep Consumer Sentiment	95.3	95.1	96.8
<b>Wednesday, Oct 11</b>				
1:00PM	10-yr Note Auction (bl)	20		
<b>Thursday, Oct 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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