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# Don't Be Fooled By Fake News on Rates and Housing

It was a complex week in the world of mortgage rates and housing markets. Complexity often creates inconsistent news coverage. At best, most of the coverage fell short. At worst, some of it was downright wrong. Let's clear things up!

Last week's newsletter covered the **surge** to the highest interest rates in roughly 7 years. To be sure, this rising rate environment deserves attention. As seen in the following chart, it just surpassed the trough-to-peak move seen in 2012-2013. But whereas many media outlets were putting out dire headlines about the 7-year highs **THIS** week, rates actually staged quite a healthy recovery.

## 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 | 4.2530 | +0.0005 |
| 30 YR Treasury | 4.4711 | -0.0014 |

Pricing as of: 7/23 3:00AM 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% |

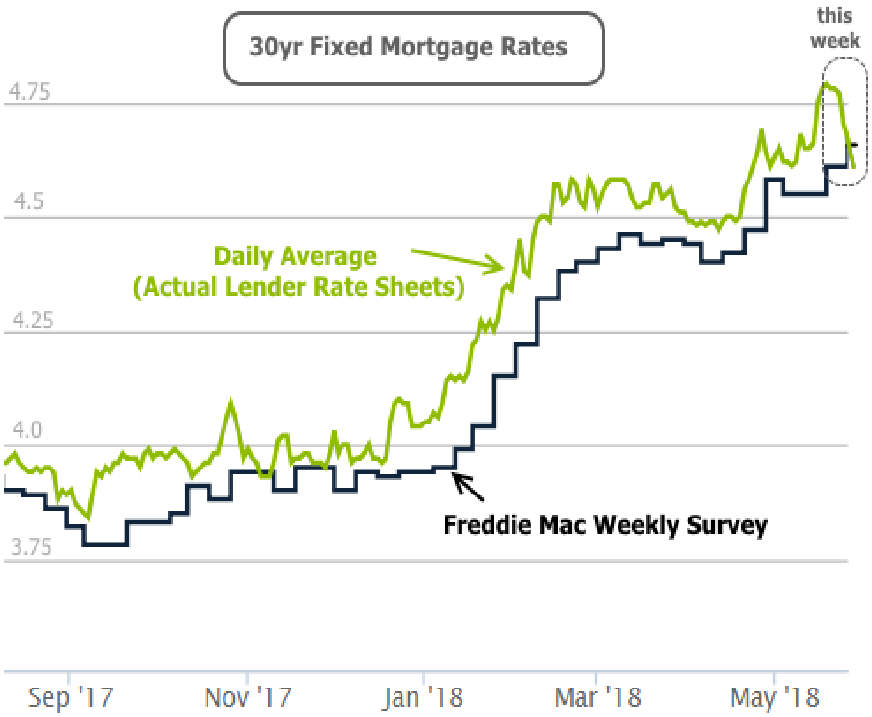


What gives?! How could the chart above coexist with these headlines from the past 48 hours?

*Mortgage rates march to fresh 7-year high* -**Marketwatch**
*Mortgage rates are Skyrocketing* -**NASDAQ**
*30-year mortgage rates post 7-year high* -**Reuters**
*Mortgage rates have been rising at a pace not seen in almost 50 years* - **Washington Post**

The answer is simple. A **vast majority** of mortgage rate news is based on Freddie Mac's weekly survey. Over time, Freddie's numbers do a fine job of tracking long-term rate trends, but they can completely miss the mark when it comes to short-term volatility.

The problem is that the weekly survey mostly captures Monday and Tuesday's rate quotes. Last week, that meant Freddie was capturing the **lowest** rates. This week, Monday and Tuesday saw the **highest** rates. In other words, it was the worst possible timing for Freddie's survey. Fortunately, we can easily examine day-to-day changes (green line below) to see reality.




We can now agree mortgage rates and Treasury yields moved lower this week, no matter what the average news story says, **but why?** Here too, things are bit more complex than normal. Whereas rates often move in response to an important economic report or a policy update from the Federal Reserve, this week was really all about Italian politics.

You read that correctly! As unrelated as it may seem, political risk in Italy **directly** translated to this week's rate rally. If we explore some of the details, it actually makes a fair amount of sense.

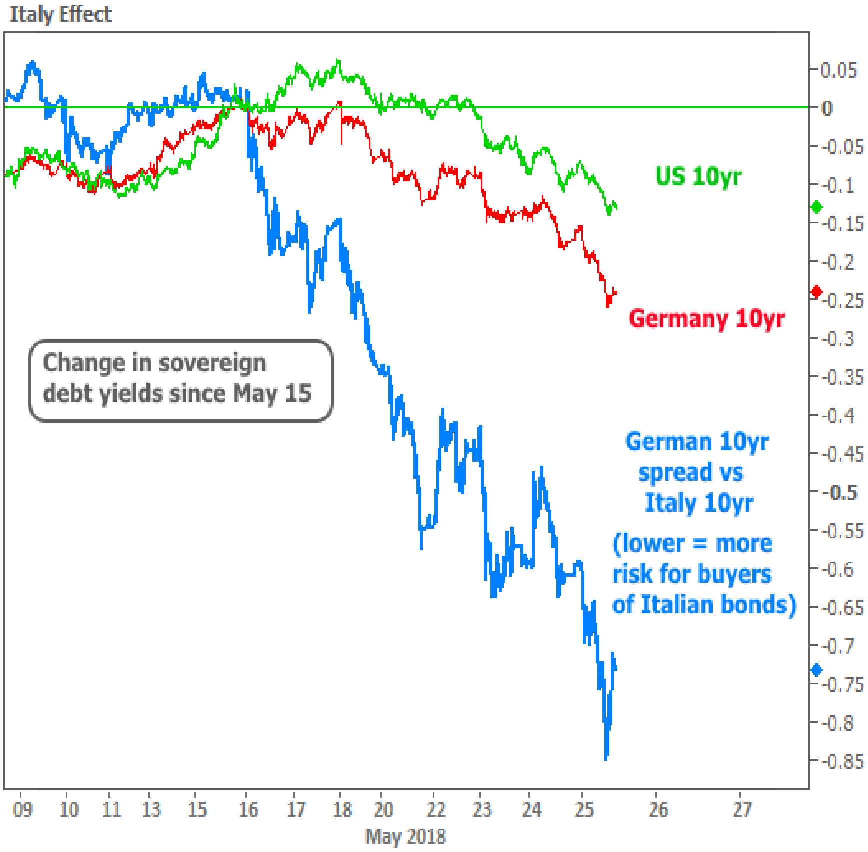
Europe is among the world's top 3 economies. Italy is the 3rd largest economy in the Euro area. Drama in Italy reverberates throughout the European economy. **More importantly**, if Italy were to exit the European Union (in similar fashion to Great Britain's "Brexit" in 2016), financial markets would have to account for a domino effect.

**Why does this matter** this week? It's actually mattered for a few months, ever since Italy's anti-establishment 5-Star Party staged an election upset. The EU wasn't immediately doomed, however, because 5-Star didn't win by enough to govern on its own. It needed to form a coalition with one of Italy's other political parties, and that didn't happen until just last week.

Rather than team up with a party that would promote a more moderate view, 5-Star joined with the only other party that wants Italy to leave the EU. Since then, financial markets have been **panicking** about an Italian version of Brexit.

While we don't know exactly what that might look like, investors can agree it increases both economic uncertainty and Italy's credit risk. The **obvious trade** is to sell Italian bonds and buy safer haven assets (such as the bonds of big, stable economies like Germany and the U.S.).

Excess demand for bonds pushes rates lower. As such, U.S. and German rates **fell** this week as Italy's rates **skyrocketed**. The following chart shows the spread between Germany and Italy (which moves lower as Italy's rates rise). Simply put, the lower the blue line, the more investors are worrying about Italy.

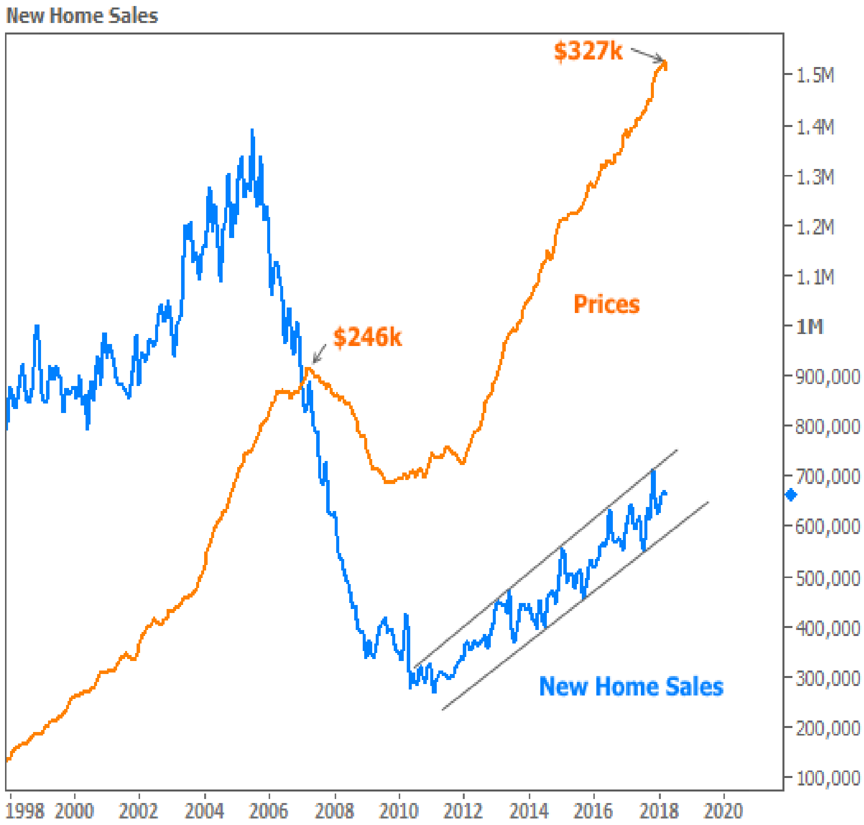



Though esoteric, these **details are important** in considering near-term risks for mortgage rates. While we can't yet know if the new Italian government will actually push Italy out of the EU, we can at least observe that this week's rate recovery is predicated on a highly uncertain, highly volatile situation.

In other words, it's **not** as if we've seen a confirmed shift in economic data or Fed policy. Rates **could** continue lower from here, but that would require a fairly constant supply of European drama, all other things being equal. Moreover, the longer-term factors that have been pushing rates higher are still there (this stuff). As such, it makes sense to **work quickly to satisfy loan approval conditions** so you can be ready to lock.

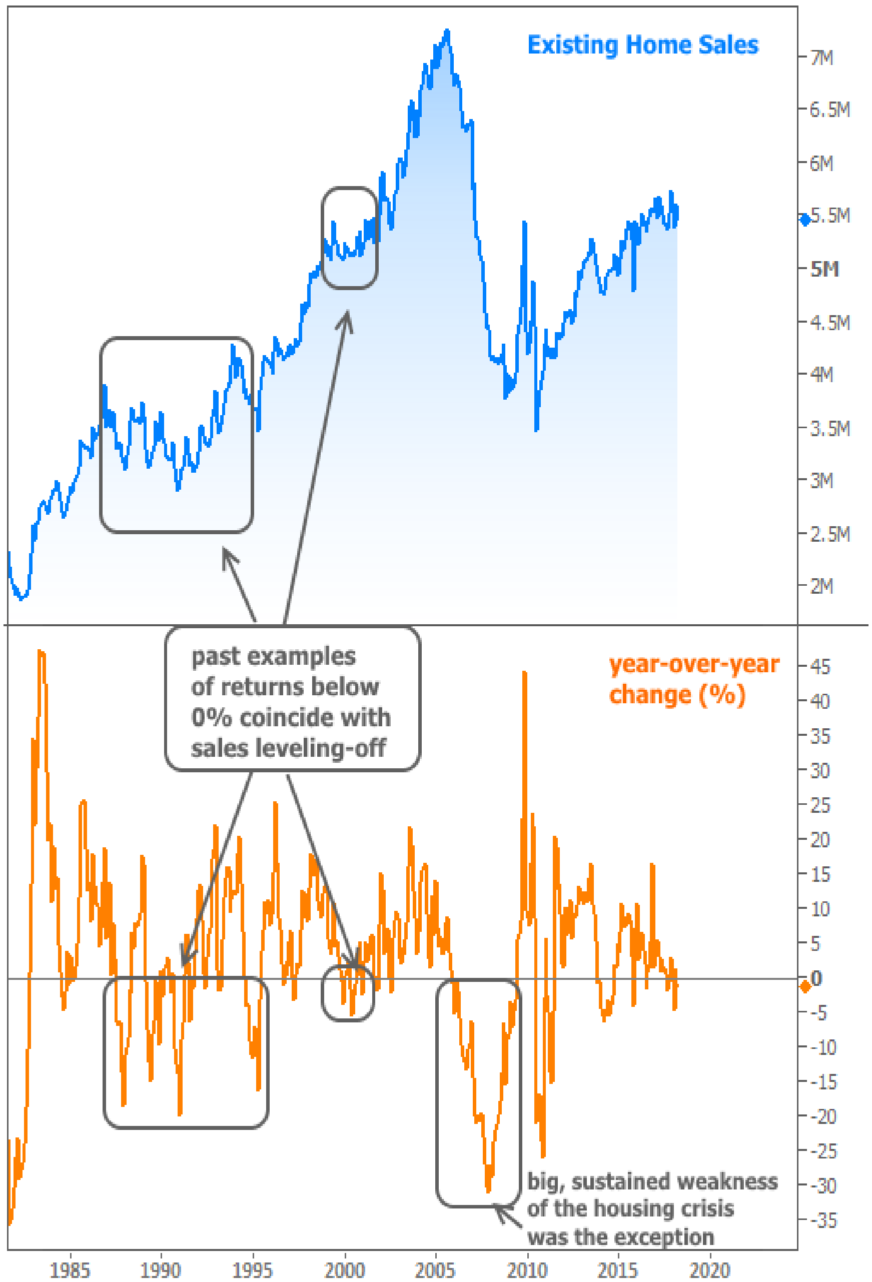
## Housing-Related Data

This week's home sales data was less than stellar. News headlines were understandably gloomy, but they certainly don't capture the bigger picture, nor do they convey the subtleties that underlie the top-line sales figures. For instance, it's true that New Home Sales fell 1.5%, but **do you really care** if they continue to operate in the linear trend seen in the following chart?




Existing Home Sales were **more vulnerable** to criticism, with a 2.5% decline in April and a 1.4% decline vs April 2017. Whether or not that's a bad thing is open to debate. History shows numerous examples of year-over-year declines. That's only coincided with a major downturn in sales **one time** in more than 40 years.

Existing Home Sales

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Wednesday, May 23** | | | | |
| 7:00AM | w/e Mortgage Refinance Index | 1018.1 | | 1057.1 |
| 7:00AM | w/e MBA Purchase Index | 247.4 | | 252.4 |
| 10:00AM | Apr New home sales chg mm (%) | -1.5 | -2.0 | 4.0 |
| 10:00AM | Apr New home sales-units mm (ml) | 0.662 | 0.679 | 0.694 |

## Event Importance:

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

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| 1:00PM | 5-Yr Note Auction (bl) | 36 | | |
| 2:00PM | FOMC Minutes | | | |
| **Thursday, May 24** | | | | |
| 8:30AM | w/e Jobless Claims (k) | 234 | 225 | 222 |
| 9:00AM | Mar Monthly Home Price mm (%) | 0.1 | | 0.6 |
| 9:00AM | Mar Monthly Home Price yy (%) | 6.7 | | 7.2 |
| 10:00AM | Apr Existing home sales (ml) | 5.46 | 5.57 | 5.60 |
| 10:00AM | Apr Exist. home sales % chg (%) | -2.5 | -0.2 | 1.1 |
| 1:00PM | 7-Yr Note Auction (bl) | 30 | | |
| **Friday, May 25** | | | | |
| 8:30AM | Apr Durable goods (%) | -1.7 | -1.4 | 2.6 |
| 8:30AM | Apr Nondefense ex-air (%) | 1.0 | 0.7 | -0.4 |
| 10:00AM | May U Mich Sentiment Final (ip) | 98.0 | 98.8 | 98.8 |
| **Monday, May 28** | | | | |
| 12:00AM | Memorial Day | | | |
| **Tuesday, May 29** | | | | |
| 10:00AM | May Consumer confidence | 128.0 | 128.0 | 128.7 |
| **Wednesday, May 30** | | | | |
| 8:15AM | May ADP National Employment (k) | 178 | 190 | 204 |
| 8:30AM | Q1 GDP Prelim (%) | 2.2 | 2.3 | 2.3 |
| **Thursday, May 31** | | | | |
| 8:30AM | Apr Personal Income (%) | 0.3 | 0.3 | 0.3 |
| 8:30AM | Apr Consumer Spending (Consumption) (%) | 0.6 | 0.400 | 0.4 |
| 8:30AM | Apr Core PCE (y/y) (%) | 1.8 | 1.800 | 1.9 |
| 8:30AM | w/e Jobless Claims (k) | 221 | 225 | 234 |
| 9:45AM | May Chicago PMI | 62.7 | 58.0 | 57.6 |
| 10:00AM | Apr Pending Sales Index | 106.4 | | 107.6 |
| **Friday, Jun 01** | | | | |
| 8:30AM | May Non-farm payrolls (k) | 223 | 188 | 164 |
| 8:30AM | May Unemployment rate mm (%) | 3.8 | 3.9 | 3.9 |
| 10:00AM | May ISM Manufacturing PMI | 58.7 | 58.1 | 57.3 |
| 10:00AM | May ISM Mfg Prices Paid | 79.5 | 78.2 | 79.3 |
| 10:00AM | Apr Construction spending (%) | 1.8 | 0.8 | -1.7 |

## 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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