



**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](mailto:tompaynemortgage@gmail.com)  
[View My Website](#)

## Fed Hikes. Rates Fall. Have We Hit a Ceiling?

As expected, the Fed **raised** rates this week. Mortgage rates and 10yr Treasury yields (which aren't directly tied to the Fed Funds Rate) actually moved **lower** for the rest of the week. How did that happen and what might it mean for the bigger picture?

**Remember**, the market is all about "pricing-in" whatever it thinks it knows about the future. If the Fed is 99% likely to hike rates, the market effects of a Fed rate hike are **already 99% in place** ahead of time. That's how things happened this week. As such, other parts of the Fed's announcement were able to have their own effects.

At every other meeting, the Fed releases updated forecasts on key economic metrics. Investors are always most interested in the updated **rate hike forecast**, frequently referred to as "the dots" (because it's presented on a dot plot).

If more of the dots are moving higher, it means the Fed sees rate hikes happening **sooner** or more often. The following chart combines the previous dot plot from March with this week's changes.

### 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	4.2491	-0.0034
30 YR Treasury	4.4682	-0.0043

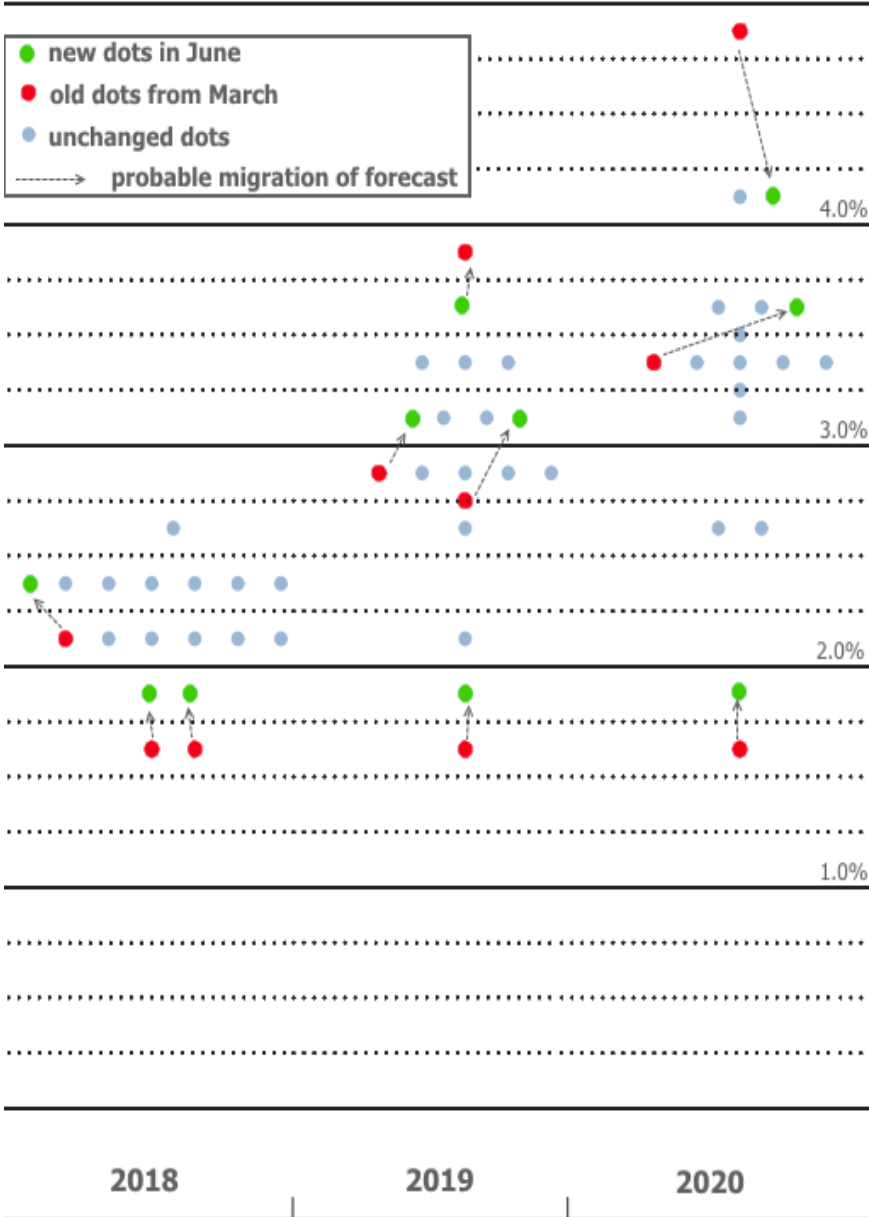
Pricing as of: 7/23 2:46AM EST

### 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%

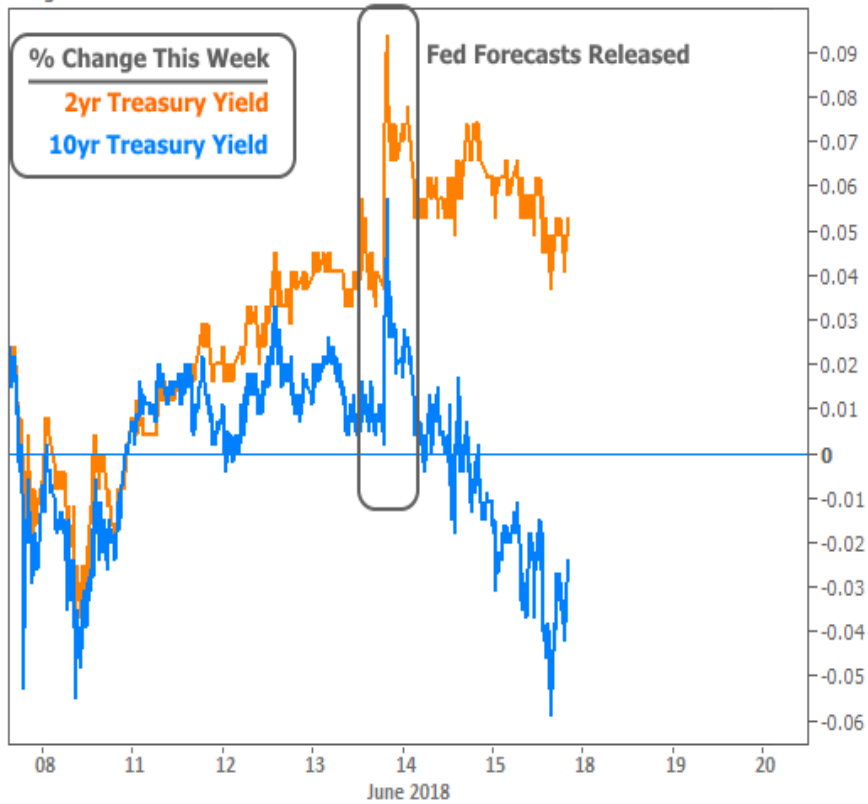
### The Dots!

Where Fed members see the Fed's rate by the end of the indicated year



The chart tells us the Fed's rate hike outlook accelerated by just a bit. Markets reacted with an immediate move higher in rate. Keep in mind though, that because the Fed's rate dictates **overnight** rates, it has **less** of an impact on longer-term rates like 10yr Treasury yields and mortgage rates. In fact, as the next chart shows, longer-term rates actually managed to improve by the end of the week while shorter-term rates remained higher.

Longer vs Shorter-Term Rates

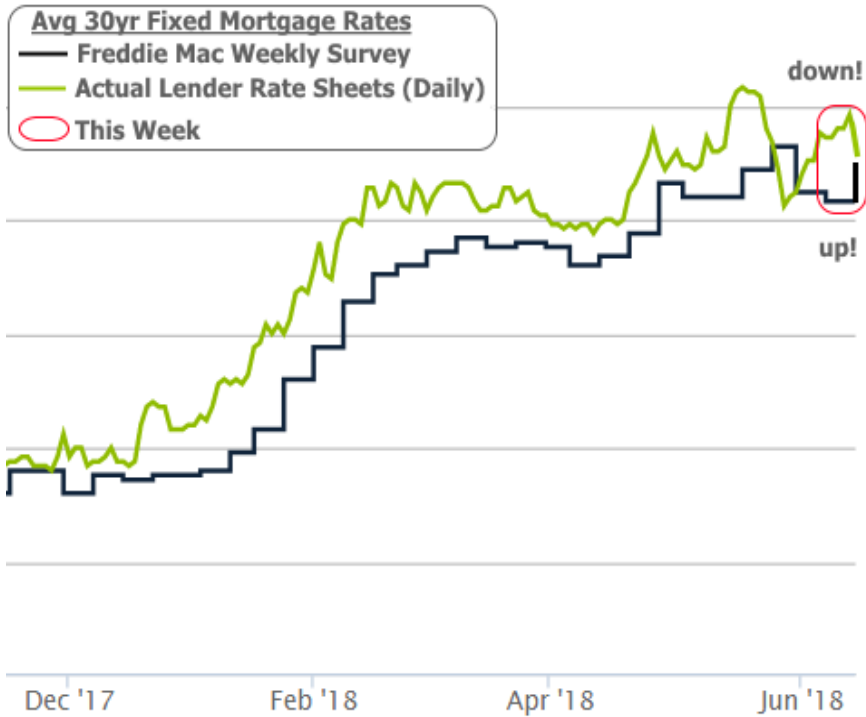


The improvement in longer-term rates began with Fed Chair Powell saying that rates are getting closer to a "neutral" level. A few of his other comments were in the same vein, but all in all, his press conference was well-balanced. The correction in rates seen above has **more to do** with the fact that markets were positioned somewhat defensively heading into the this week's big ticket events.

Rounding out those events, and also helping to lower traders' defenses, was Thursday morning's policy announcement from the **European Central Bank (ECB)**. Just like Fed bond buying is/was a big deal for rates (remember the taper tantrum?) so too is the fate of the European bond buying program. We knew they would be discussing their own tapering decision soon, because the program expires in September.

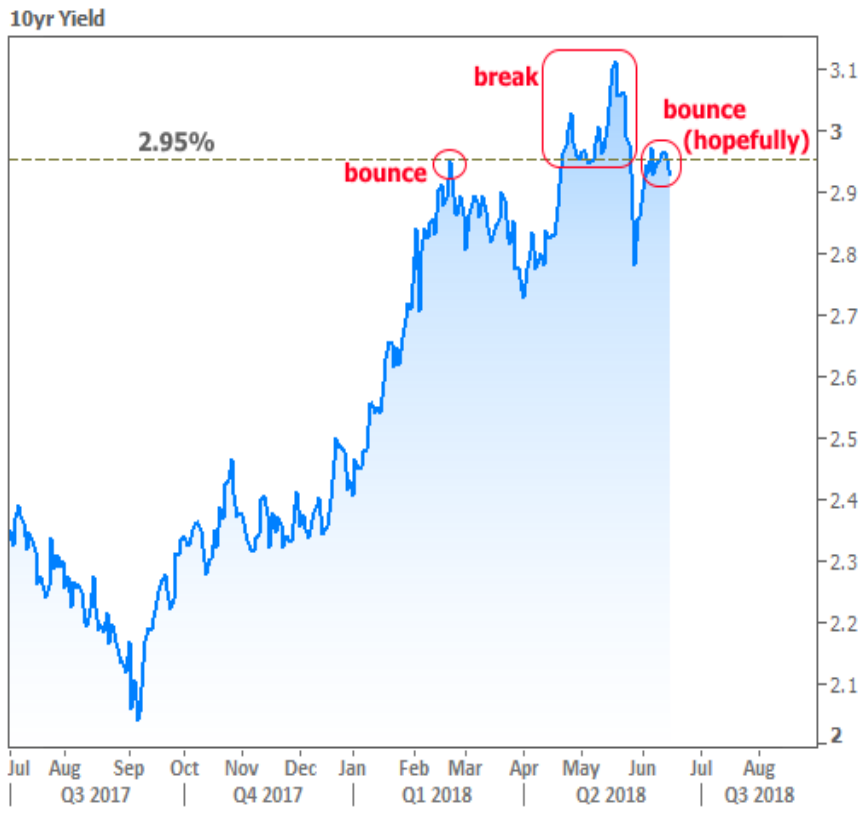
Rather than offer clues and make us wait several months, the ECB **surprised markets** by announcing their tapering plans in full. They offset the potential ill effects of that surprise by pledging to keep rates low through next summer--a bit longer than markets expected. This helped rates continue to improve through Friday morning.

Despite the obvious improvement in bond markets, many major media outlets published stories saying that rates **rose** this week. This discrepancy is common due to over-reliance on Freddie Mac's weekly rate survey, which only really captures rate movement from early in any given week. Because most of the improvement happened in the 2nd half of the week, much of the news is **at odds with reality**. The average lender made it back to last week's levels.



Making it through this week's big central bank announcements without rates rising means we have a **chance to see a ceiling** begin to take shape in the bigger picture. Even if the current potential ceiling doesn't end up looking like 2014's, optimists are hoping for at least some relief.

When it comes to keeping tabs on the battle for rate ceiling, **2.95% is a good level to watch** in 10yr Treasury yields. To whatever extent rates are moving higher from there, we're generally losing the battle for a bigger picture bounce. To whatever extent we're moving lower, hope remains.



Next week's economic reports **aren't** big market movers, but many of them **are housing-related**. "Holding steady" is the name of the game as far as forecasters are concerned. Builder sentiment is expected to remain unchanged near recent highs on Monday. New Construction (Permits/Starts) is seen staying around an annual pace of 1.3 million on Tuesday. Then on Wednesday, the consensus is for a modest 1.5% improvement in Existing Home Sales after last month's 2.5% decline.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Jun 11</b>				
11:30AM	3-Yr Note Auction (bl)		32	
<b>Tuesday, Jun 12</b>				
8:30AM	May CPI mm, sa (%)	0.2	0.2	0.2
8:30AM	May Core CPI Year/Year (%)	2.2	2.2	2.1
<b>Wednesday, Jun 13</b>				
7:00AM	w/e Mortgage Refinance Index	992.2		1007.3
7:00AM	w/e MBA Purchase Index	249.0		252.8
8:30AM	May Producer Prices (%)	0.5	0.3	0.1
8:30AM	May Core Producer Prices YY (%)	2.4	2.3	2.3
2:00PM	N/A FOMC rate decision (%)	1.750 - 2.000	1.875	1.625
2:30PM	Fed Chair Powell Press Conference			
<b>Thursday, Jun 14</b>				
8:30AM	May Retail Sales (%)	0.8	0.4	0.3
8:30AM	May Import prices mm (%)	0.6	0.5	0.3
8:30AM	May Export prices mm (%)	0.6	0.3	0.6
8:30AM	w/e Jobless Claims (k)	218	223	222
<b>Friday, Jun 15</b>				
8:30AM	Jun NY Fed Manufacturing	25.00	19.00	20.10
9:15AM	May Industrial Production (%)	-0.1	0.2	0.7
9:15AM	May Capacity Utilization (%)	77.9	78.1	78.0
10:00AM	Jun 1yr Inflation Outlook (%)	2.9		2.8
10:00AM	Jun 5yr Inflation Outlook (%)	2.6		2.5
10:00AM	Jun Consumer Sentiment	99.3	98.5	98.0
<b>Monday, Jun 18</b>				
10:00AM	Jun NAHB housing market indx	68	70	70
<b>Tuesday, Jun 19</b>				
8:30AM	May Build permits: change mm (%)	-4.6		-0.9
8:30AM	May House starts mm: change (%)	5.0		-3.7
<b>Wednesday, Jun 20</b>				
7:00AM	w/e MBA Purchase Index	259.6		249.0
7:00AM	w/e Mortgage Refinance Index	1052.3		992.2
10:00AM	May Existing home sales (ml)	5.43	5.52	5.46
10:00AM	May Exist. home sales % chg (%)	-0.4	1.5	-2.5

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
<b>Thursday, Jun 21</b>				
8:30AM	Jun Philly Fed Business Index	19.9	29.0	34.4
8:30AM	w/e Jobless Claims (k)	218	220	218
9:00AM	Apr Monthly Home Price mm (%)	0.1		0.1
9:00AM	Apr Monthly Home Price yy (%)	6.4		6.7
10:00AM	May Leading index chg mm (%)	0.2	0.4	0.4
<b>Wednesday, Jul 11</b>				
1:00PM	10-yr Note Auction (bl)	22		
<b>Thursday, Jul 12</b>				
1:00PM	30-Yr Bond Auction (bl)	14		

## 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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