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## Does Housing Care About The Shutdown?

As long as we're talking about government shutdowns that last a few weeks, past precedent is highly informative, but the longer the current shutdown continues, the more we'll be in **uncharted territory**. This is especially true for the housing market.

The **only** relevant comparison in the past 20+ years is with the government shutdown of 2013. Unfortunately, any interesting conclusions we might draw from that example are greatly limited by **2 key issues**.

The **first issue**, of course, is the length of time the shutdown lasted--specifically October 1st-16th. Moreover, government employees at the time were reasonably confident that the shutdown would be resolved fairly quickly. As such, they were less likely to allow paycheck uncertainty to affect home-buying decisions.

The **bigger issue** is that another event greatly overshadowed any potential impact from the shutdown. The "taper tantrum" (a period of rapidly rising rates following the Fed's decision to "taper" the bond buying that had been doing such a great job of keeping long-term rates low) was still in full swing.

We often minimize the extent to which rising rates can hamper home-buying demand. Indeed, it often makes good sense to do so! For instance, consider late 2016. Interest rates had risen sharply following the presidential election, yet existing home sales went on to hit their highest levels in more than a decade by the end of 2017.

Sometimes, however, rates matter. The more severe the rate spike, the more of a surprise it is, and the longer it lasts, the more it can impact real estate. Timing plays a part as well. In 2013's case, home sales had been rising at their fastest **organic pace** (meaning, there wasn't any artificial "help" from things like the credits in 2008-10) of the recovery--fast enough that the market may have been looking for an excuse to level-off for a few months. The taper tantrum offered that excuse, so the government shutdown was lost in the shuffle.

## 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
<b>Freddie Mac</b>			
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	4.2374	-0.0151
30 YR Treasury	4.4561	-0.0164

Pricing as of: 7/23 12:42AM 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%

Pending and existing home sales



In the current case, things are a bit different. This time around the government shutdown hit during a fairly decent **recovery** in interest rates. It will give us a much better chance to see which one matters more. The only catch is that housing sales numbers for the time frame of the shutdown won't be out until later this month, and the most meaningful numbers won't be out until February or March.

In the meantime, **this much can be known**: the shutdown will increasingly affect government employees. Even though they will receive back pay, the delay in that income will cause cash flow issues for many households. While that's a very big deal for those households and the associated real estate transactions, it's unlikely to have a major impact on home sales data.

There is also some uncertainty as to the approach lenders will be taking with respect to approving loans for government employees and verifying their income. Lenders understand these borrowers will eventually be getting paid, but they'll need game-plans in place in the (hopefully unlikely) event it takes months for that to happen. Those game-plans will vary by lender and **may change** as the shutdown persists. In a few days, this will be the longest shutdown ever, and the industry will be facing certain challenges for the first time.

## Financial Markets This Week

In financial markets this week, rates were able to find a ceiling as the stock rally stalled. Stocks and rates don't always move in unison, but they've often done so since the start of Q4 2018.

Stocks vs Bonds



There were **two key economic reports** this week with ISM Non-Manufacturing data coming in weaker than expected on Monday, but perhaps not as weak as investors were prepared for based on last week's ISM Manufacturing report. Rates moved higher as a result, but leveled off shortly thereafter. Friday's tame inflation data didn't compel rates to jump back up to recent highs.

Next week brings several important reports and housing-related updates, or rather, **it would have** if the government were open. While the Bureau of Labor Statistics is funded (giving us the jobs report and this week's inflation data), the Bureau of Economic Analysis is not. As such, next week's would-be headliner, Retail Sales, won't likely be seen. The same goes for the New Residential Construction numbers for December (due out next Wednesday). We will, however, be able to get a read on building sentiment in January via the NAHB Housing Market Index. This is one of the earliest possible glimpses of the shutdown's impact on housing from a data standpoint (unless, of course, you count the fact that the shutdown is preventing other data from even being released!).

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Jan 07</b>				
10:00AM	Dec ISM N-Mfg PMI	57.6	59.0	60.7
10:00AM	Dec ISM N-Mfg Bus Act	59.9	64.0	65.2
<b>Tuesday, Jan 08</b>				
1:00PM	3-Yr Note Auction (bl)	38		
<b>Wednesday, Jan 09</b>				
7:00AM	w/e MBA Purchase Index	255.2		219.0

Event Importance:

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

Date	Event	Actual	Forecast	Prior
7:00AM	w/e Mortgage Refinance Index	987.9		729.9
1:00PM	10-yr Note Auction (bl)	24		
2:00PM	FOMC Minutes			
<b>Thursday, Jan 10</b>				
8:30AM	w/e Jobless Claims (k)	216	220	231
1:00PM	30-Yr Bond Auction (bl)	16		
<b>Friday, Jan 11</b>				
8:30AM	Dec CPI mm, sa (%)	-0.1	-0.1	0.0
8:30AM	Dec Core CPI Year/Year (%)	2.2	2.2	2.2
<b>Tuesday, Jan 15</b>				
8:30AM	Dec Producer Prices (%)	-0.2	-0.1	0.1
8:30AM	Dec Core Producer Prices YY (%)	2.7	2.9	2.7
8:30AM	Jan NY Fed Manufacturing	3.9	10.75	10.90
<b>Wednesday, Jan 16</b>				
7:00AM	w/e MBA Purchase Index	278.5		255.2
7:00AM	w/e Mortgage Refinance Index	1172.4		987.9
10:00AM	Jan NAHB housing market indx	58	56	56
<b>Thursday, Jan 17</b>				
8:30AM	Jan Philly Fed Business Index	17.0	10.0	9.4
8:30AM	w/e Jobless Claims (k)	213	220	216
<b>Friday, Jan 18</b>				
9:15AM	Dec Industrial Production (%)	+0.3	0.2	0.6
9:15AM	Dec Capacity Utilization (%)	78.7	78.5	78.5
10:00AM	Jan Consumer Sentiment	90.7	97.0	98.3
10:00AM	Jan 1yr Inflation Outlook (%)	2.7		2.7
10:00AM	Jan 5yr Inflation Outlook (%)	2.6		2.5

## 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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