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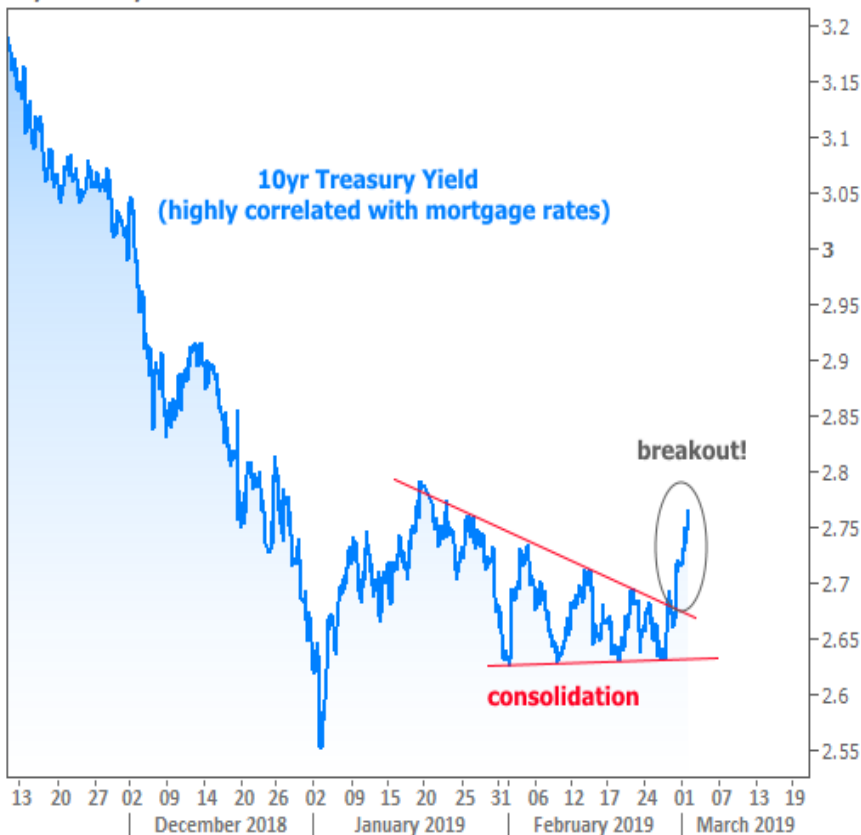
Rates Dropping Fast as Home Sales Bounce Back

The future is always uncertain when it comes to financial markets and interest rate movement, but there are times where a certain series of events seems more likely. For most of 2019, mid-March looked to be one of those times.

The year began with a **sharp move lower** in rates--sharp enough that it wasn't sustainable. Rates rushed to long-term lows on January 3rd and then bounced higher. Fortunately, they found a ceiling shortly thereafter. That ceiling ended up being the top of the sideways range we've been following ever since.

To be fair, it looked to be broken by the end of February based on the following chart from a [previous newsletter](#):

10yr Treasury Yield



But here's what I had to say about it at the time:

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 | 4.2374 | -0.0151 |
| 30 YR Treasury | 4.4561 | -0.0164 |

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

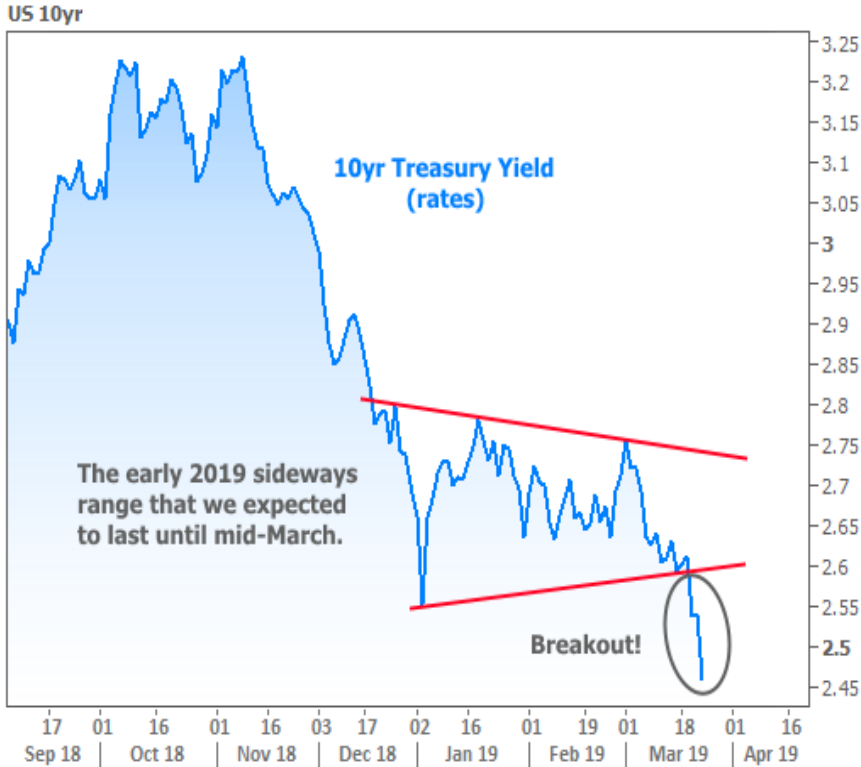
Recent Housing Data

| | 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% |

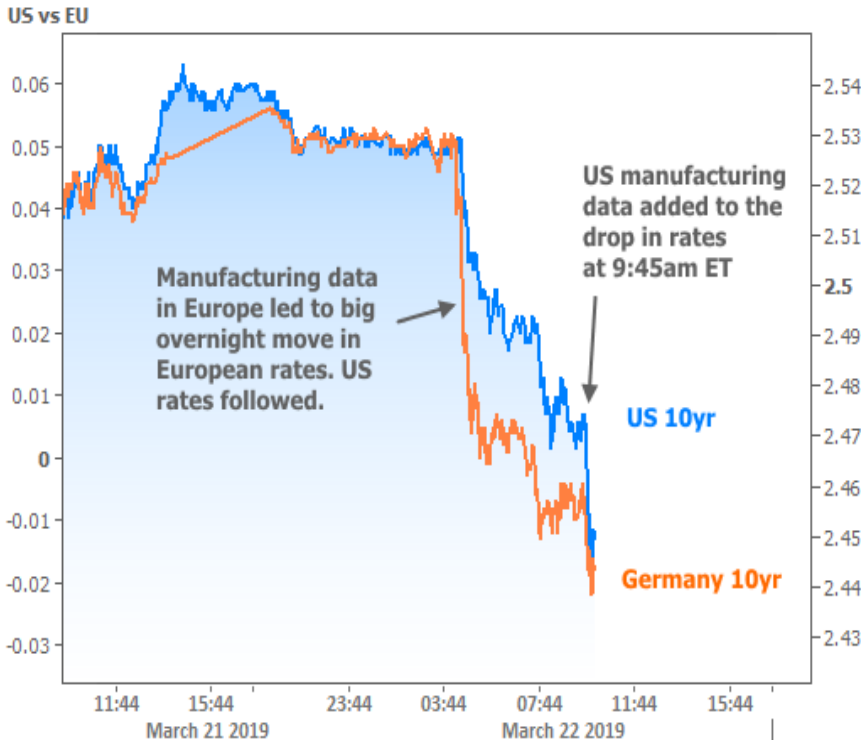
"Is this the end of the road for our nice run of low rates in 2019? It's far too soon to conclude such things. Most traders are looking for the market to make **bigger decisions in mid-March after the next Fed meeting**. Between now and then, rather than plan on rates skyrocketing, a better baseline would be to shift the goalposts to something more horizontal, as seen in the following chart."



Fast forward to this week and it was indeed the Fed Announcement that served as the catalyst for an **actual** breakout. This time around, it's going in our favor.



If you see the little hitch in the blue line in the "breakout" section above, that's as far as the Fed news was able to get us on Wednesday. **The rest of the move** happened Friday on a combination of weak European manufacturing data followed by similarly weak US data.



So is it the Fed or is it manufacturing data? And is it about the US or Europe?

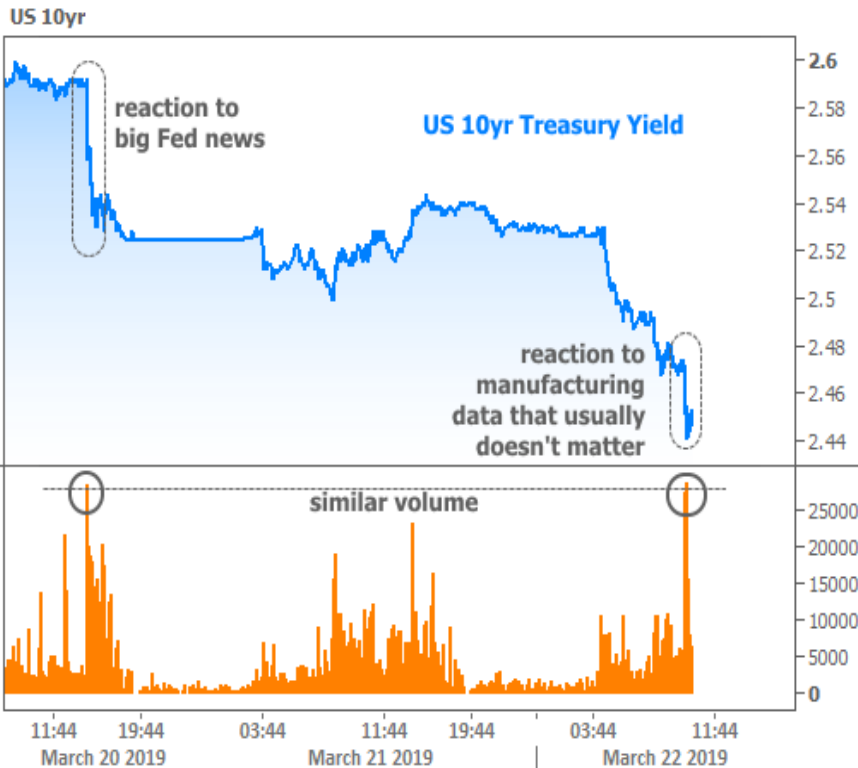
The answer is "yes." The Fed sets policies based on its interpretation of economic data and risks to financial stability. Those policies can have massive impacts on markets, but they're ultimately beholden to the underlying economic realities. When the economy is perceived to be at more risk, the Fed is more likely to enact policies that are friendly for rates.

This week, the Fed surprised markets by announcing that it would stop shrinking its balance sheet (if you really want to dig into the nuts and bolts, [here you go](#)). In plain language, this means the Fed is going to be buying way more bonds in just over a month, and when the Fed buys lots of bonds, it **helps rates move lower**.

The mere **expectation** of such a Fed shift was behind last week's drop in rates, but the actual policy change was **even more aggressive** than markets expected. It was so aggressive that one may wonder just what sorts of red flags the Fed is seeing. Sure, they've **SAID** they're concerned about a potential downturn in Europe with global consequences, but **where's the proof?!**

Then a day a half later, the Eurozone manufacturing data comes out at the lowest levels in years, and European bond yields fall into negative territory. Score one for Fed apprehension. Then the US manufacturing data (highlighted in the chart above) spoke to the "global consequences" just a few hours later.

Bottom line, the Fed's concern is good for rates, and it was vetted by weak EU data and then by similarly weak data in the US. How do we know the US manufacturing data mattered so much to the bond market? Because it produced a volume spike as big as Wednesday's Fed news (which is unheard of for this particular report):



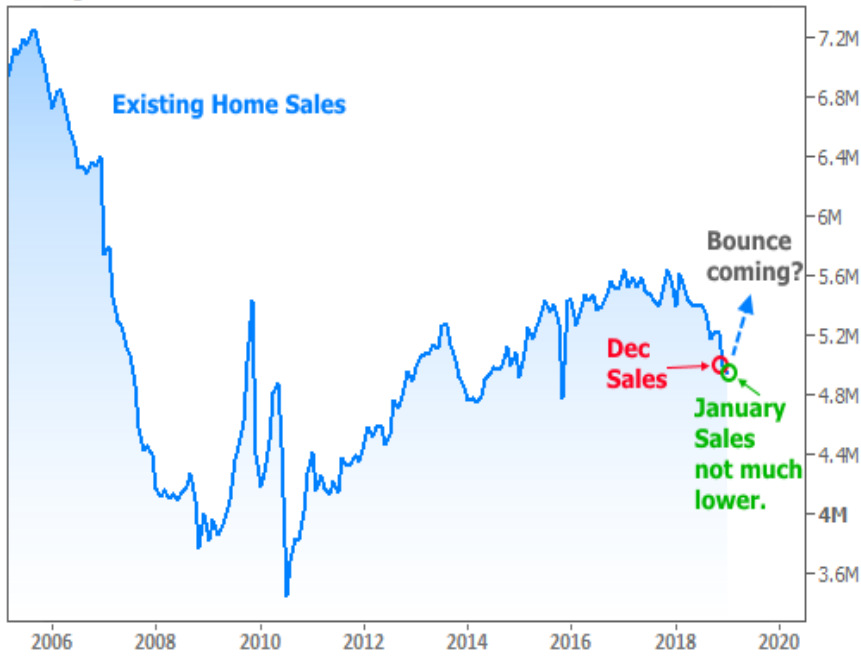
But **not all the economic data was bad** this week. In fact, if we had to choose one economic report to be much stronger, Existing Home Sales would be it! Several recent newsletters have held out the possibility (or even probability) that we'd see something like this in Existing Sales:

[Why 2019 Could Actually be Great For Housing and Mortgage Markets](#)

[Home Sales Bouncing Back](#)

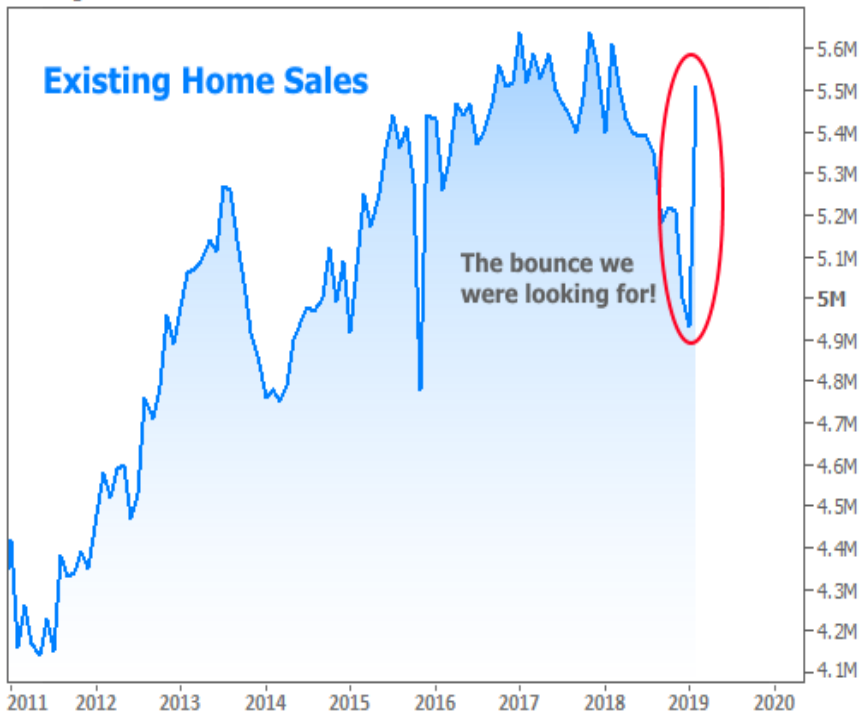
[Why The Housing Market Cares About The Fed](#) (which contained the following chart)

Existing Home Sales



And this is how Existing Sales data looks after this week's installment:

Existing Home Sales



Long story short, all the potential positive cues that looked like they **should** play out for home sales ended up having the expected impact. The fact that this week's data arrives when **mortgage rates are hitting new long-term lows** is just icing on the cake.

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Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|--------------------------|-----------------------------------|---------------|----------|--------|
| Monday, Mar 18 | | | | |
| 10:00AM | Mar NAHB housing market indx | 62 | 63 | 62 |
| Tuesday, Mar 19 | | | | |
| 10:00AM | Jan Factory orders mm (%) | 0.1 | 0.3 | 0.1 |
| Wednesday, Mar 20 | | | | |
| 7:00AM | w/e Mortgage Refinance Index | 1146.8 | | 1108.3 |
| 7:00AM | w/e MBA Purchase Index | 251.5 | | 250.8 |
| 2:00PM | N/A FOMC rate decision (%) | 2.250 - 2.500 | 2.375 | 2.375 |
| 2:37PM | Powell Press Conference | | | |
| Thursday, Mar 21 | | | | |
| 8:30AM | Mar Philly Fed Business Index | 13.7 | 4.5 | -4.1 |
| 8:30AM | w/e Jobless Claims (k) | 221 | 225 | 229 |
| 8:30AM | w/e Continued jobless claims (ml) | 1.750 | 1.772 | 1.776 |
| 10:00AM | Feb Leading index chg mm (%) | 0.2 | 0.1 | -0.1 |
| Friday, Mar 22 | | | | |
| 10:00AM | Feb Existing home sales (ml) | 5.51 | 5.10 | 4.94 |
| 10:00AM | Feb Exist. home sales % chg (%) | 11.8 | 2.2 | -1.2 |
| 10:00AM | Feb Factory orders mm (%) | 14 | | 0.1 |
| Tuesday, Mar 26 | | | | |
| 8:30AM | Feb Build permits: change mm (%) | -1.6 | | -0.7 |
| 8:30AM | Feb Housing starts number mm (ml) | 1.162 | 1.213 | 1.230 |
| 8:30AM | Feb House starts mm: change (%) | -8.7 | | 18.6 |
| 8:30AM | Feb Building permits: number (ml) | 1.296 | 1.300 | 1.317 |
| 9:00AM | Jan CaseShiller 20 yy (%) | 3.6 | 4.0 | 4.2 |
| 9:00AM | Jan Monthly Home Price mm (%) | 0.6 | | 0.3 |
| 10:00AM | Mar Consumer confidence | 124.1 | 132.0 | 131.4 |
| Wednesday, Mar 27 | | | | |
| 1:00PM | 5-Yr Note Auction (bl) | | 41 | |
| Thursday, Mar 28 | | | | |
| 8:30AM | Q4 GDP Final (%) | 2.2 | 2.4 | 2.6 |
| 8:30AM | w/e Jobless Claims (k) | 211 | 217 | 221 |
| 8:30AM | w/e Continued jobless claims (ml) | 1.756 | 1.750 | 1.750 |
| 10:00AM | Feb Pending Home Sales (%) | -1.0 | 0.7 | 4.6 |
| 10:00AM | Feb Pending Sales Index | 101.9 | | 103.2 |
| 1:00PM | 7-Yr Note Auction (bl) | 32 | | |
| Friday, Mar 29 | | | | |
| 8:30AM | Jan Core PCE Inflation (y/y) (%) | 1.8 | 1.9 | 1.9 |

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

| Date | Event | Actual | Forecast | Prior |
|---------|----------------------------------|--------|----------|-------|
| 9:45AM | Mar Chicago PMI | 58.7 | 61.0 | 64.7 |
| 10:00AM | Mar Consumer Sentiment (ip) | 98.4 | 97.8 | 97.8 |
| 10:00AM | Feb New home sales chg mm (%) | 4.9 | 1.3 | -6.9 |
| 10:00AM | Feb New home sales-units mm (ml) | 0.667 | 0.620 | 0.607 |

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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