



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
[View My Website](#)

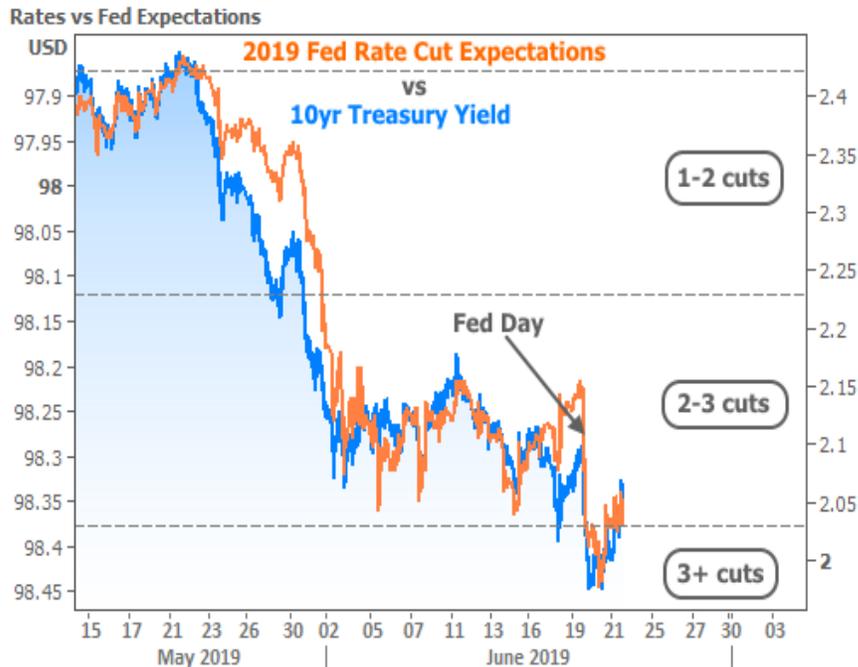
Fed Confirms Market's Hopes, But There's a Catch

This week's policy announcement from the Federal Reserve (aka "The Fed") was hotly anticipated. In the past month and a half, traders have rapidly upped their bets on **multiple** Fed rate **cuts** in 2019 as trade tensions flared. Softer economic data only added fuel to the fire.

In other words, markets think they see a reason for a **big shift in Fed policy** and this was the Fed's first official policy announcement since the most recent bout of drama began.

Why is the Fed's take so important? Simply put, Fed policy is a critical component underlying global market movement. It's not that the Fed can dictate long-term market trends, but they can definitely accelerate or delay existing trends, and create a ton of volatility in the process.

This is more true in the interest rate world than anywhere else. In fact, Market expectations for Fed rate changes tend to trace day to day movements in actual interest rates. This can be seen in the following chart of 10yr Treasury Yields and Fed Funds Futures (where speculators bet on changes in the Fed Funds Rate).



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	4.2374	-0.0151
30 YR Treasury	4.4561	-0.0164

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

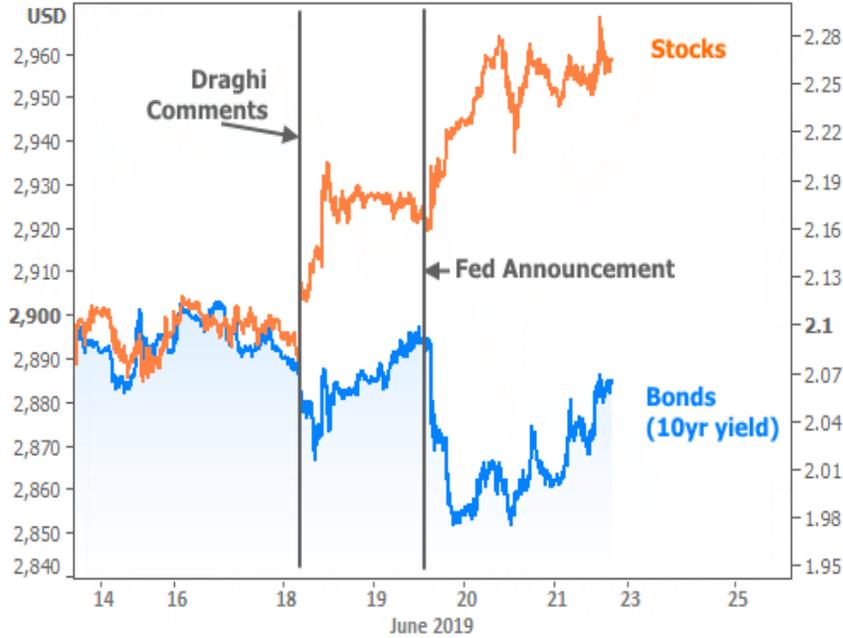
Recent Housing Data

		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%

The chart shows rates falling on Fed day only to bounce back to pre-Fed levels by the end of the week. This tells us **the Fed did a pretty good job** of confirming rate cut suspicions **without** sending markets into a panic.

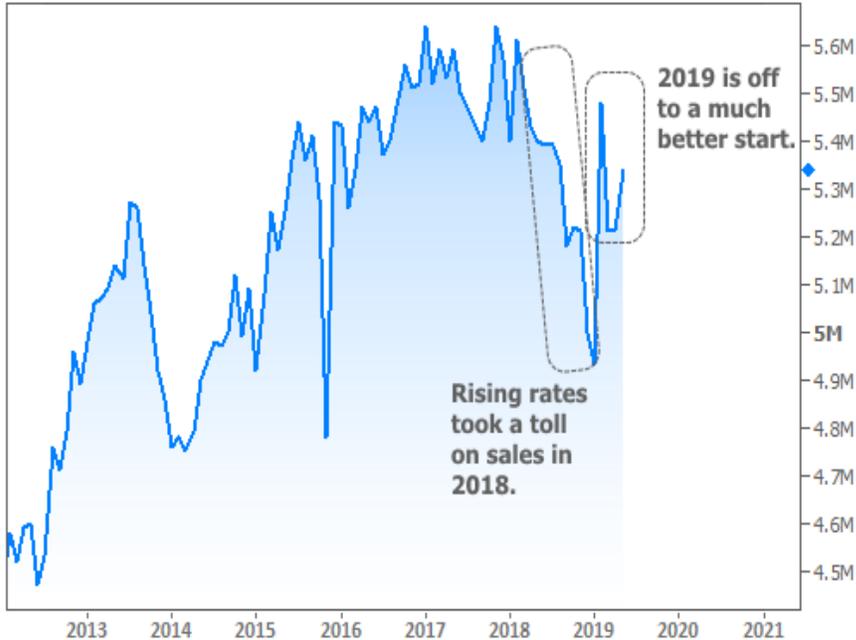
This is true for stocks as well as bonds. Both sides of the market enjoy the promise of easier monetary policy from central banks in the event any economic weakness takes root. The European Central Bank (ECB) proved that concept **a day before the Fed** as ECB President Draghi said that additional stimulus and rate cuts were likely. In both cases, the market reaction is obvious.

Rates vs Stocks

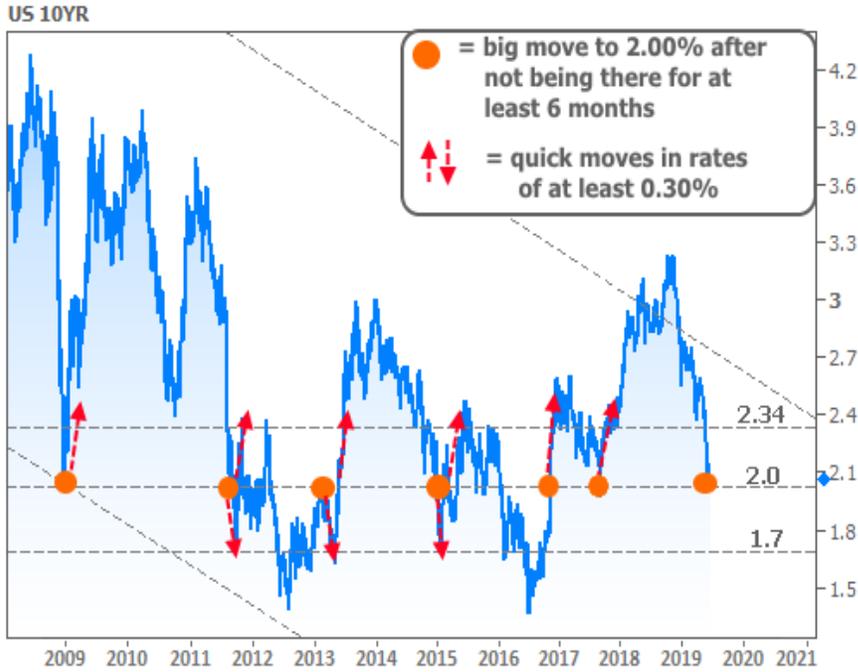


The **housing market** also has an obvious appreciation for lower rates, but with a **far slower reaction time**. While we can see the broader decline in rates having a positive impact on home sales so far in 2019, we can only speculate as to additional gains that may follow if the average 30yr fixed rate continues to operate below 4%.

Existing Home Sales



So what's "the catch" mentioned in the title? If there's one key takeaway from this week's Fed announcement and the broader decline in rates in 2019, it's that **we should expect additional volatility ahead**. In the past, when 10yr Treasury yields (the best benchmark for momentum in longer-term rates like mortgages) make big moves down to 2.0%, we tend to see the next .30% follow quite quickly (often in both directions).



Bottom line: by confirming the market's hopes for potential rate cuts, the Fed is also confirming a high stakes game. The major economic reports in the first week of July will be especially important as they'll have a chance to justify or cast doubt on the massive shift in rate cut expectations. Volatility would only be compounded by the fact that markets are closed on Thursday for Independence Day. There's no way to know ahead of time which way rates would move, only that they could move quickly.

Until then, enjoy the fact that rates are now back inside the decades-long bull market that was apparently defeated in 2018 (same diagonal lines from the chart above):

US 10YR



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 17				
10:00AM	Jun NAHB housing market indx	64	67	66
Tuesday, Jun 18				
8:30AM	May Building permits: number (ml)	1.294	1.296	1.290
8:30AM	May Housing starts number mm (ml)	1.269	1.239	1.235
8:30AM	May Build permits: change mm (%)	0.3		0.2
8:30AM	May House starts mm: change (%)	-0.9		5.7
Wednesday, Jun 19				
7:00AM	w/e MBA Purchase Index	268.6		278.4
7:00AM	w/e Mortgage Refinance Index	1888.8		1956.5
2:00PM	N/A FOMC rate decision (%)	2.250 - 2.500	2.375	2.375
2:31PM	Powell Press Conference			
Thursday, Jun 20				
8:30AM	Jun Philly Fed Business Index	0.3	11.0	16.6
8:30AM	w/e Jobless Claims (k)	216	218	222
10:00AM	May Leading index chg mm (%)	0.0	0.1	-0.1
Friday, Jun 21				
10:00AM	May Existing home sales (ml)	5.34	5.25	5.19
10:00AM	May Exist. home sales % chg (%)	2.5	1.2	-0.4

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
Tuesday, Jun 25				
9:00AM	Apr CaseShiller 20 yy (%)	2.5	2.6	2.7
9:00AM	Apr Monthly Home Price yy (%)	5.2		4.9
10:00AM	May New home sales-units mm (ml)	0.626	0.680	0.673
10:00AM	May New home sales chg mm (%)	-7.8	1.9	-6.9
10:00AM	Jun Consumer confidence	121.5	131.1	134.1
1:00PM	2-Yr Note Auction (bl)	40		
Wednesday, Jun 26				
7:00AM	w/e Mortgage Refinance Index	1949.5		1888.8
7:00AM	w/e MBA Purchase Index	266.3		268.6
8:30AM	May Durable goods (%)	-1.3	-0.1	-2.1
8:30AM	May Nondefense ex-air (%)	0.4	0.1	-1.0
1:00PM	5-Yr Note Auction (bl)	41		
Thursday, Jun 27				
8:30AM	Q1 GDP Final (%)	3.1	3.1	3.1
8:30AM	w/e Jobless Claims (k)	227	220	216
10:00AM	May Pending Sales Index	105.4		104.3
10:00AM	May Pending Home Sales (%)	1.1	1.0	-1.5
1:00PM	7-Yr Note Auction (bl)	32		
Friday, Jun 28				
8:30AM	May Core PCE Inflation (y/y) (%)	1.6	1.6	1.6
9:45AM	Jun Chicago PMI	49.7	53.1	54.2
10:00AM	Jun Consumer Inflation Expectations (1yr) (%)	2.7		2.6
10:00AM	Jun Consumer Sentiment (ip)	98.2	98.0	97.9
10:00AM	Jun Consumer Inflation Expectations (5yr) (%)	2.3		2.2

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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