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The Fed Did NOT Cut Mortgage Rates, But Trump Tried!

On the morning after this week's Fed rate cut, mortgage rates were roughly unchanged versus the previous morning. This will come as a **surprise** to scores of consumers who mistakenly believe the Fed's 0.25% rate cut equates to a 0.25% drop in ALL rates.

The Fed **only** sets its **own** "Fed Funds Rate" which governs overnight lending between big banks. The only direct effect on the mortgage market would be a 0.25% drop in many Home Equity Lines of Credit (HELOCs), which are based on the Fed's rate. The vast majority of mortgages, however, are determined by **other** parts of the financial market.

In fact, mortgages actually "turn into" securities that are traded in financial markets as a part of the process that makes them safer and easier for investors to buy (securitization). Those securities trade just like other securities, for the most part (e.g. stocks, bonds, etc.), and it's the price movement of **those** securities that most directly dictates mortgage rates. **Shockingly** enough, these are known as Mortgage-Backed Securities (MBS).

Unlike the Fed Funds Rate, which can only change once every 6 weeks, longer-term rate-bearing securities (like MBS and US Treasuries) can change **every minute** of every business day. They've been doing just that for months as market anticipation for the Fed rate cut has increased. Simply put, the Fed rate cut has long since had its impact on mortgage rates. After all, if a security can move in real time, and if the market was 100% sure the Fed was going to cut at least 0.25%, traders would have been foolish NOT to get in position.

This isn't a unique occurrence. Rates ALWAYS get in position for Fed rate cuts/hikes like this week's because the Fed is sure to telegraph its intention when it's making the first big change in a long time (this was the first rate cut since 2008!). In late 2015, when the Fed hiked rates for the first time since 2006, it was the same story, but in the opposite direction.

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	4.2369	-0.0156
30 YR Treasury	4.4547	-0.0178

Pricing as of: 7/23 12:50AM EST

Recent Housing Data

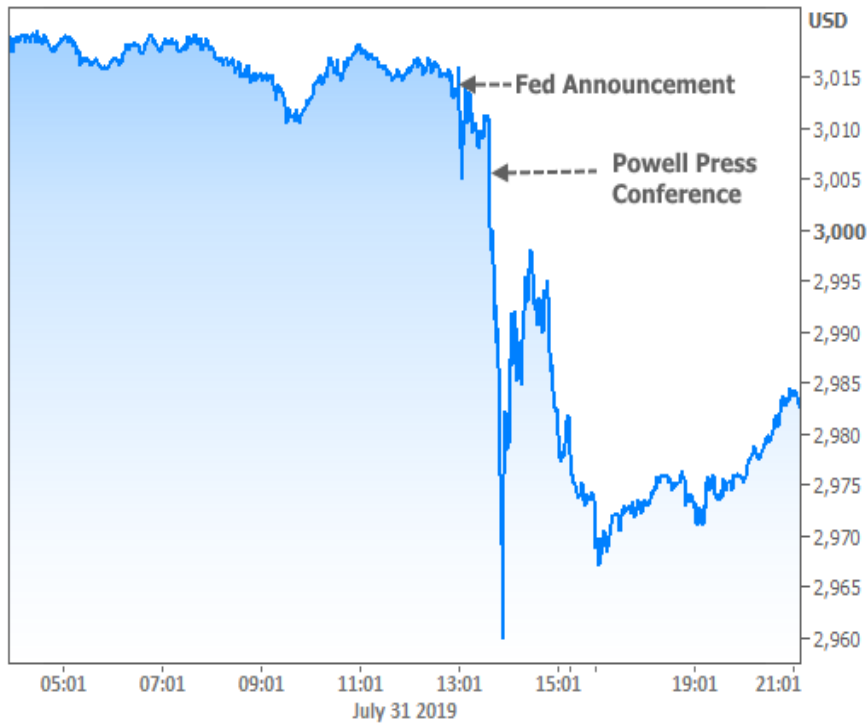
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

Rates Move Before Fed



To emphasize the point in even simpler terms, consider that stocks **LOST** ground after the Fed announcement, even though Fed rate cuts are considered to be a good thing for stocks. Like mortgage rates, stocks already had plenty of time to **PRICE-IN** the Fed's move. That left Wednesday for them to react to other information from the Fed. Specifically, they were a bit disappointed that Powell didn't do more to offer assurances about additional cuts. That's why we saw the lion's share of market movement after Powell's press conference at 2:30pm ET as opposed to the rate announcement at 2pm ET.

S&P Futures

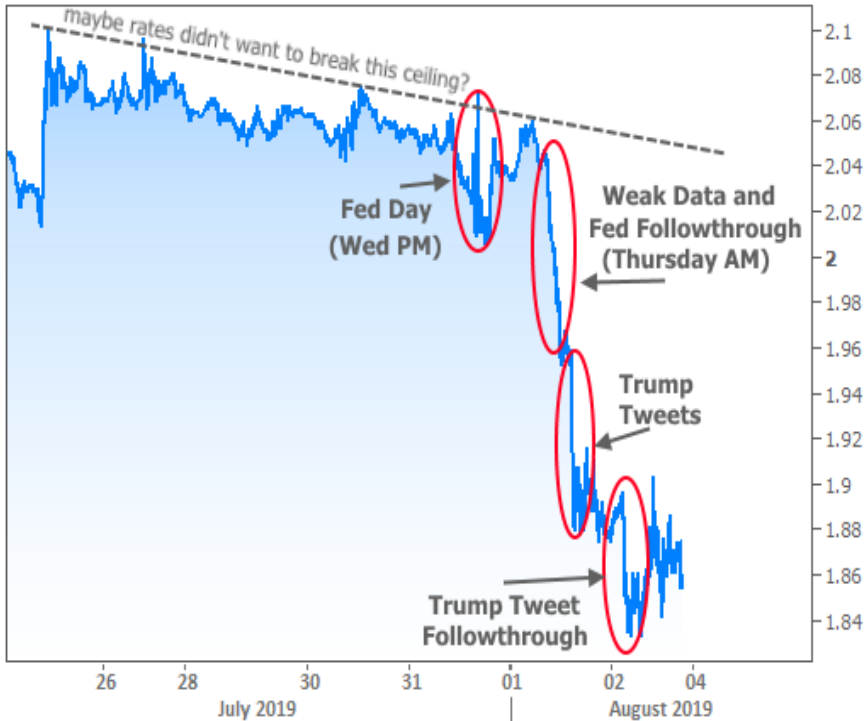


That means, all other things being equal, if the Fed were to say "we're done cutting for now and will keep rates at these levels for the next 6 months," you'd see an **immediate and rather large** move **higher** in rates. In other words, markets were already counting on another 1-2 Fed rate cuts simply to sustain the low rates that are **already** here. By the end of the week, however, speculators were betting on another 2-3 cuts! What's up with that?

3 words: Trump Tariff Tweets.

As we've seen on numerous occasions in 2019, when Trump unexpectedly announces new tariffs on China (or Mexico) via Twitter, markets react in a major way. Timing was a factor this week as the tweets followed a Manufacturing report that was gloomy enough **without** another batch of tariffs to worry about. Trading positions are also more susceptible to surprises on the day after a Fed day. Regardless, every escalation of trade war rhetoric increases the odds that the Fed will need to cut rates deeper to promote continued economic expansion.

10yr Treasury Yield



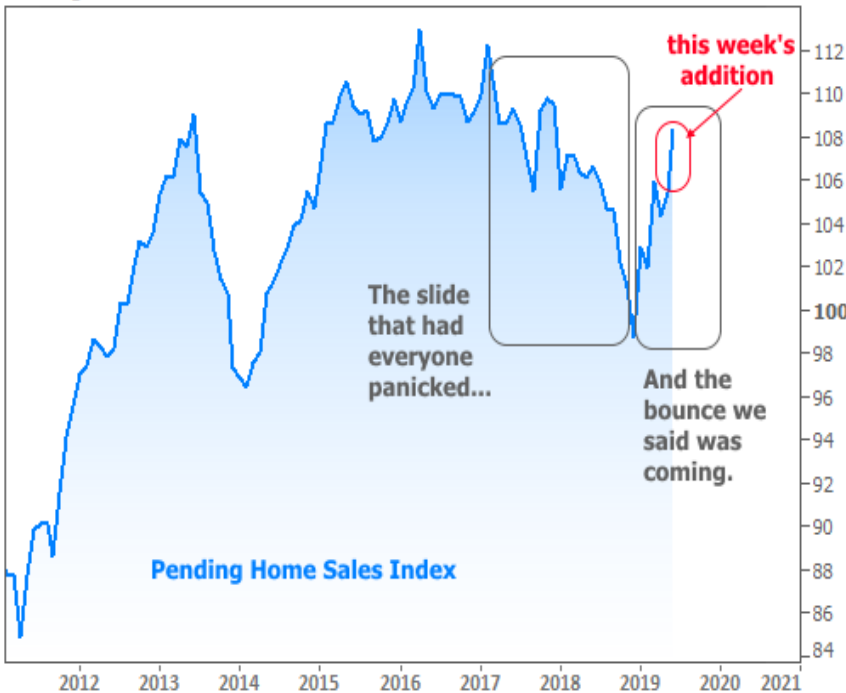
If that looks like a fairly significant drop in rates, **it is!** The following chart does a better job conveying the size. Each "candlestick" represents a week of trading in 10yr Treasury yields (the benchmark for longer-term rates, such as mortgages). Orange candlesticks mean rates moved higher; blue = lower. For the record, **you'd have to go back to 2012** to see a week where rates fell farther!

10yr Treasury Yield



Low rates don't singlehandedly prop up the housing market, but they definitely help. That was part of the rationale in last week's newsletter which pushed back on recent news headlines calling the **health of the housing market** into question (revisit it [HERE](#) if you like). Now this week, we have the most recent Pending Home Sales report, which is an advance indicator of Existing Home Sales--by far the biggest component of the housing market. I'll let the chart do most of the talking. Let's just say, if you're a regular reader of my newsletters, this is exactly how this summer was supposed to go.

Pending Home Sales



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jul 30				
8:30AM	Jun Core PCE Inflation (y/y) (%)	+1.6	1.7	1.6
9:00AM	May CaseShiller 20 yy (%)	2.4	2.4	2.5
10:00AM	Jun Pending Sales Index	108.3		105.4
10:00AM	Jul Consumer confidence	135.7	125.0	121.5
10:00AM	Jun Pending Home Sales (%)	+2.8	0.5	1.1
Wednesday, Jul 31				
7:00AM	w/e MBA Purchase Index	253.0		260.8
7:00AM	w/e Mortgage Refinance Index	1791.2		1789.8
8:15AM	Jul ADP National Employment (k)	156	150	102
9:45AM	Jul Chicago PMI	44.4	50.6	49.7
2:00PM	N/A FOMC rate decision (%)	2.000 - 2.250	2.125	2.375
2:31PM	Powell Press Conference			
Thursday, Aug 01				
8:30AM	w/e Jobless Claims (k)	215	214	207
10:00AM	Jul ISM Manufacturing PMI	51.2	52.0	51.7
10:00AM	Jun Construction spending (%)	-1.3	0.3	-0.8
Friday, Aug 02				
8:30AM	Jul Non-farm payrolls (k)	164	164	224
8:30AM	Jul Unemployment rate mm (%)	3.7	3.7	3.7
10:00AM	Jul Consumer Sentiment (ip)	98.4	98.5	98.4
10:00AM	Jul Consumer Inflation Expectations (1yr) (%)	2.6		2.6
10:00AM	Jul Consumer Inflation Expectations (5yr) (%)	2.5		2.6
10:00AM	Jun Factory orders mm (%)	0.6	0.8	-0.7
Monday, Aug 05				
10:00AM	Jul ISM N-Mfg PMI	53.7	55.5	55.1
Tuesday, Aug 06				
1:00PM	3-Yr Note Auction (bl)	38		
Wednesday, Aug 07				
7:00AM	w/e Mortgage Refinance Index	2003.0		1791.2
7:00AM	w/e MBA Purchase Index	247.9		253.0
Thursday, Aug 08				
8:30AM	w/e Jobless Claims (k)	209	215	217
10:00AM	Jun Wholesale inventories mm (%)	0.0	0.2	0.2
Friday, Aug 09				

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
8:30AM	Jul Core Producer Prices YY (%)	2.1	2.4	2.3
Wednesday, Oct 09				
1:00PM	10-yr Note Auction (bl)	24		
Thursday, Oct 10				
1:00PM	30-Yr Bond Auction (bl)	16		

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

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