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Don't Believe The News on Mortgage Rates

As of Thursday, most major news outlets and even several important trade organizations ran headlines claiming mortgage rates were flat this week. But rates are **actually much lower** compared to last week. What's up with that?

The culprit is the weekly mortgage rate survey compiled by Freddie Mac which has been the mortgage world's go-to rate index for decades. There's **nothing wrong** with Freddie's data or the quotes it receives from loan originators. It's just stale.

The Freddie survey technically accepts responses from lenders on Monday through Wednesday, but in practice, Monday and Tuesday get almost all the weight. That can cause **obvious problems** when rates make big moves from Wednesday through Friday, which is exactly what happened this week.

The problem was compounded by the fact that Monday and Tuesday of last week saw the lowest rates. With that in mind, it is true that the rates from the beginning of this week weren't very different from those at the beginning of last week.

But when we look at more timely rate data, we see the average lender is offering rates that are **0.125% lower today** versus the end of last week. We also see that, at the time of the alarming rate headlines 2 weeks ago, actual rates had already turned the corner.

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

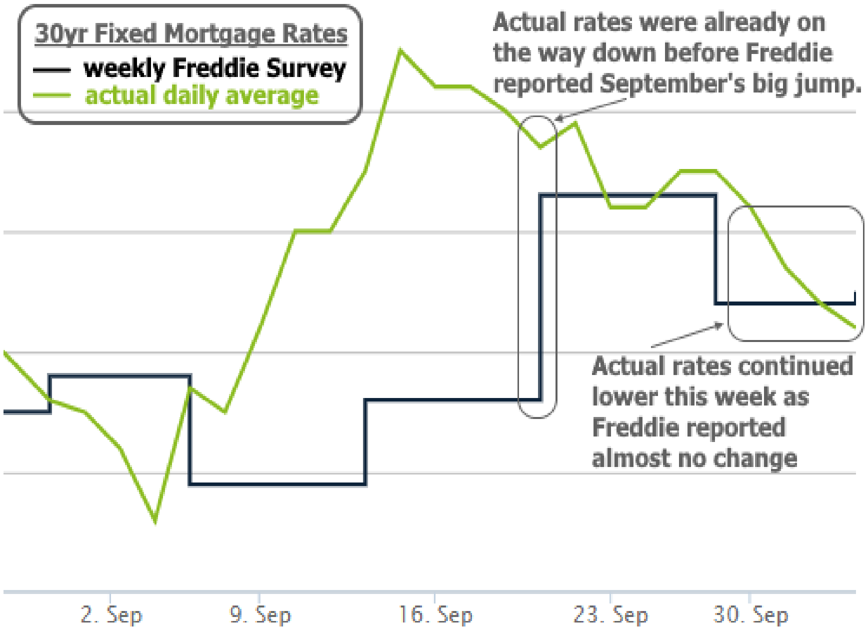
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2423	-0.0102
30 YR Treasury	4.4598	-0.0127

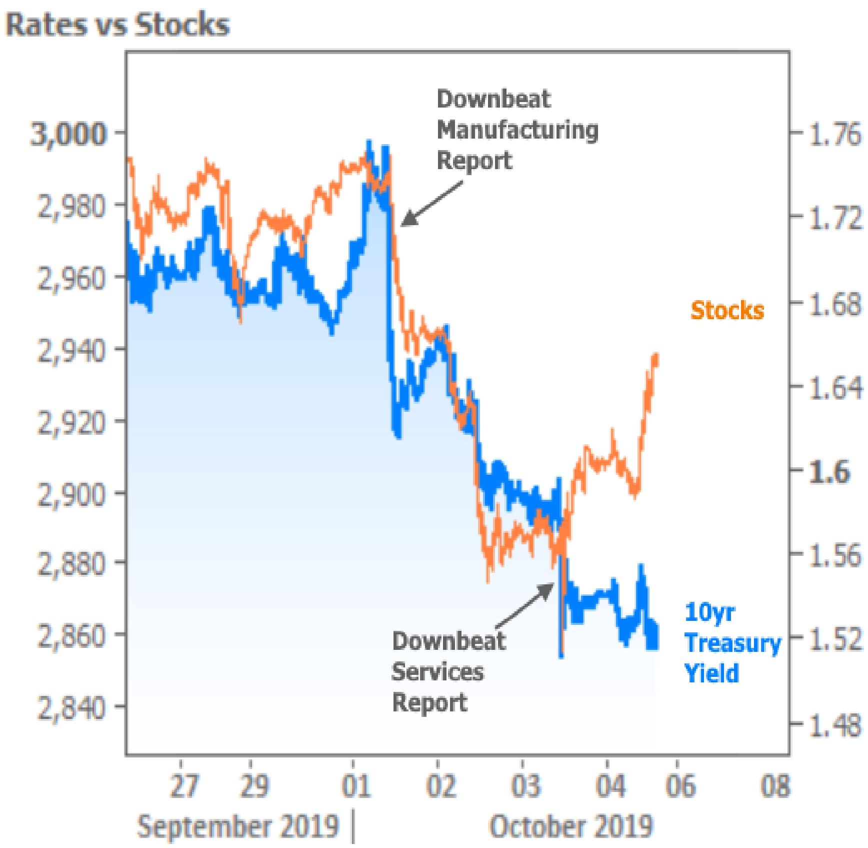
Pricing as of: 7/22 10:50PM EST

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%

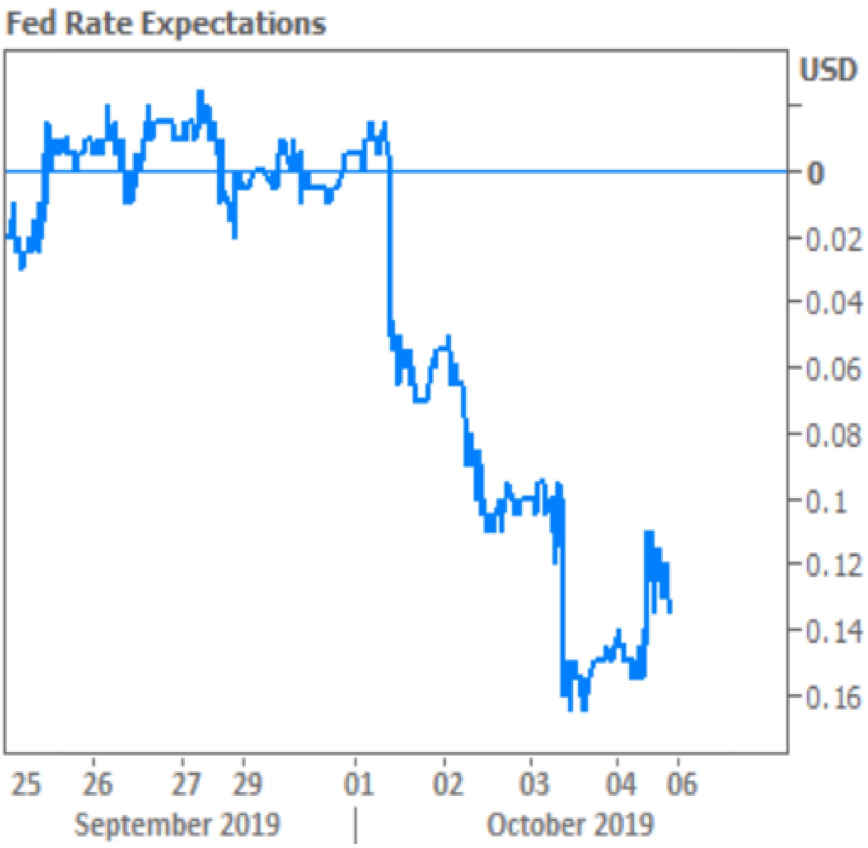


All of the above brings rates back within **striking distance of multi-year lows** and marks the 3rd straight week moving solidly lower. Most of this week's improvement came courtesy of two key economic reports that showed much larger than expected declines in the manufacturing and services sectors. Weak economic data generally helps rates move lower, all other things being equal. It also tends to hurt stocks, as can be seen in the chart of this week's market movement.



The connection with the economic reports is clear. When investors sell stocks and seek safe-havens, the bond market is one of the first places they look. Higher demand for bonds equates to lower rates, all other things being equal. But **why did stocks move up** at the end of the week even as bonds continued to hug the lows?

When the economic data is weak enough **and** when we know the Fed is actively considering its options for rate cuts in the coming months based on that data, the market sees higher odds of deeper rate cuts. And stocks love Fed rate cuts. The following chart of Fed rate cut expectations shows the market priced in roughly **one half of an additional rate cut** just this week! Notably, the sharp decline on October 3rd lines up with the stock market bounce.

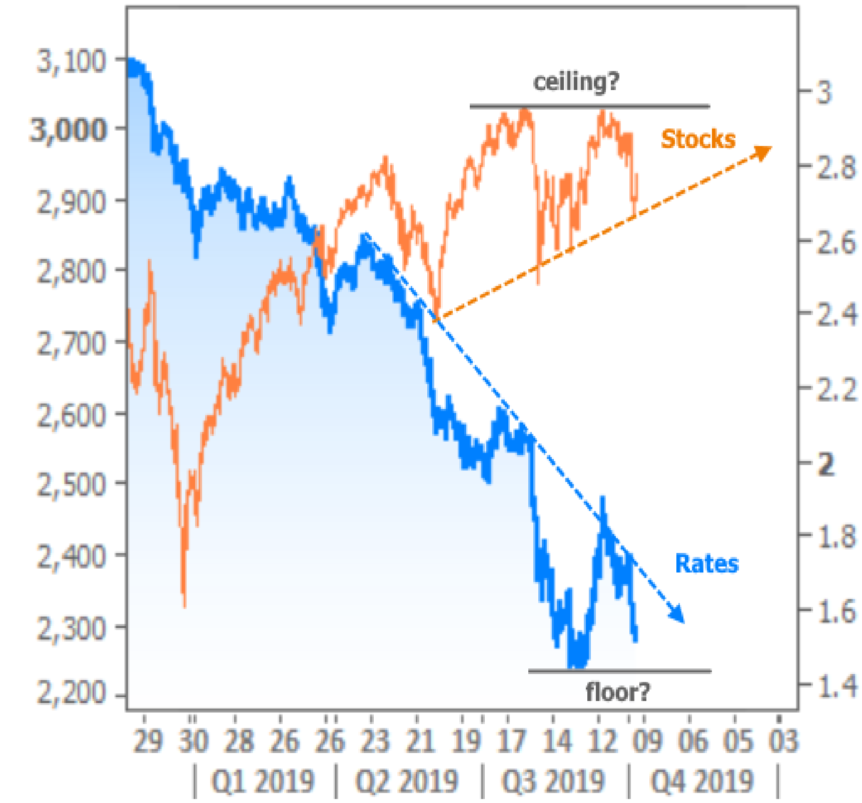


Fed rate expectations moved a bit **higher** on Friday after the big jobs report showed the **lowest unemployment rate in 50 years** and slightly stronger than expected job creation. (Fun fact: the job creation tally is based on businesses reporting their employee counts while the unemployment rate is based on a survey of households.)

The dichotomy of ultra weak and ultra strong data highlights the market's current quandary. Investors are actively considering the possibility of economic **contraction** versus a **second wind** for the longstanding expansion. Proponents of the latter argue that trade-related uncertainty has only taken a temporary toll on the data and, once it is resolved, the weaker parts of the economy can bounce back to stronger levels.

This indecision is apparent when we zoom the stock/bond chart out to a slightly wider view. Both sides of the market are **just off their best levels** in a long time. Bonds would benefit more if economic weakness continues. Stocks are positioning for a friendly Fed and the fact that hope remains alive for the economic expansion to continue. As such, economic data will remain closely watched in the coming weeks.

Rates vs Stocks



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Sep 30				
9:45AM	Sep Chicago PMI	47.1	50.2	50.4
Tuesday, Oct 01				
10:00AM	Sep ISM Manufacturing PMI	47.8	50.1	49.1
10:00AM	Aug Construction spending (%)	0.1	0.4	0.1
Wednesday, Oct 02				
7:00AM	w/e MBA Purchase Index	263.8		261.4
7:00AM	w/e Mortgage Refinance Index	2202.6		1928.0
8:15AM	Sep ADP National Employment (k)	135	140	195
Thursday, Oct 03				
8:30AM	w/e Jobless Claims (k)	219	215	215
10:00AM	Sep ISM N-Mfg PMI	52.6	55.0	56.4
10:00AM	Aug Factory orders mm (%)	-0.1	-0.2	1.4
Friday, Oct 04				
8:30AM	Sep Non-farm payrolls (k)	136	145	130

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Sep Unemployment rate mm (%)	3.5	3.7	3.7
8:30AM	Sep Average earnings mm (%)	0.0	0.3	0.4
Monday, Oct 07				
3:00PM	Aug Consumer credit (bl)	17.90	15.25	23.29
Tuesday, Oct 08				
8:30AM	Sep Core Producer Prices YY (%)	+2.0	2.3	2.3
1:00PM	3-Yr Note Auction (bl)	38		
Wednesday, Oct 09				
7:00AM	w/e MBA Purchase Index	252.2		263.8
7:00AM	w/e Mortgage Refinance Index	2418.1		2202.6
10:00AM	Aug Wholesale inventories mm (%)	0.2	0.4	0.4
1:00PM	10-yr Note Auction (bl)	24		
Thursday, Oct 10				
8:30AM	Sep Core CPI (Annual) (%)	2.4	2.4	2.4
8:30AM	w/e Jobless Claims (k)	210	214	219
1:00PM	30-Yr Bond Auction (bl)	16		
Friday, Oct 11				
8:30AM	Sep Import prices mm (%)	0.2	0.0	-0.5
8:30AM	Sep Export prices mm (%)	-0.2	0.0	-0.6
10:00AM	Oct Consumer Sentiment	96.0	92.0	93.2

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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