Tom Payne

Senior Loan Consultant, loanDepot
NMLS# 1017004 #174457 Licensed in all 50 States
2835 St. Rose Parkway, Suite 120 Henderson, NV 89052

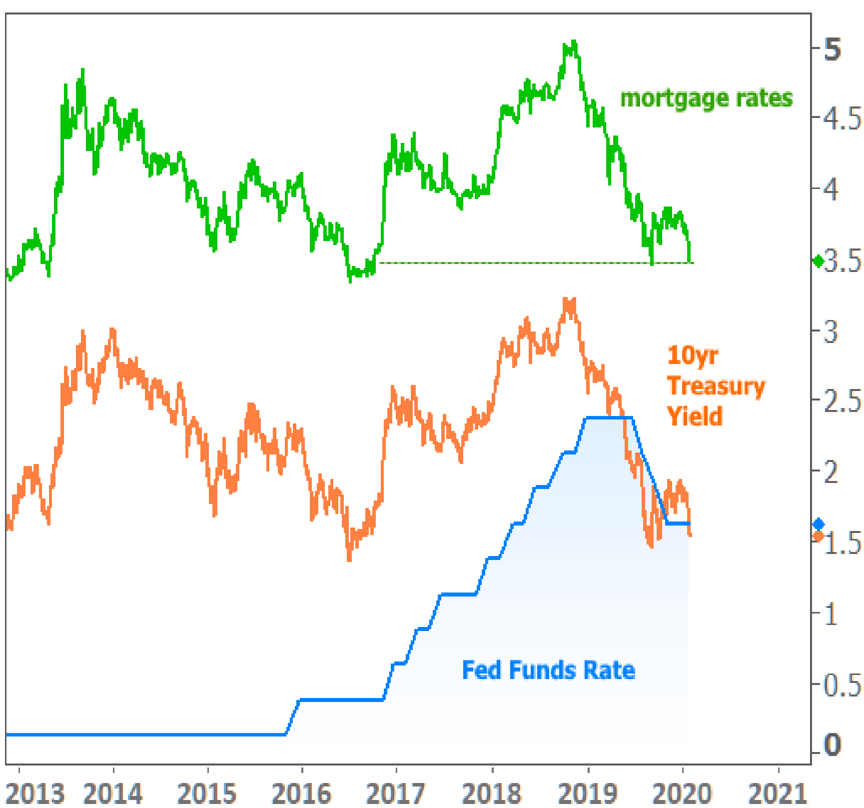
Office: 702-303-0243
Mobile: 702-303-0243
tompaynemortgage@gmail.com
View My Website

Lowest Mortgage Rates Since 2016

By Friday of last week, it was clear that the coronavirus outbreak was having a significant impact on markets with stocks and bond yields (aka interest rates) both moving lower. Those same themes intensified this week, ultimately paving the way for the lowest mortgage rates since 2016.

That may come as a **surprise** to those who believe the Fed controls mortgage rates. The Fed concluded one of its 8 annual meetings on Wednesday and released a policy announcement without changing rates. Moreover, they reiterated that rates weren't likely to change without a big shift in the economy or inflation.

It's true that the Fed Funds Rate is quite a bit higher than it was in 2016, and that it remained unchanged this week, but the Fed's rate only applies to overnight loans between big banks. Mortgage rates are based on bonds that last **a lot longer**, and investors expect different rates of return for longer lasting loans. The following chart shows the Fed Funds Rates along with 10yr Treasury Yields and the average 30yr fixed mortgage rate.



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	4.2418	**-0.0107**
30 YR Treasury	4.4598	**-0.0127**

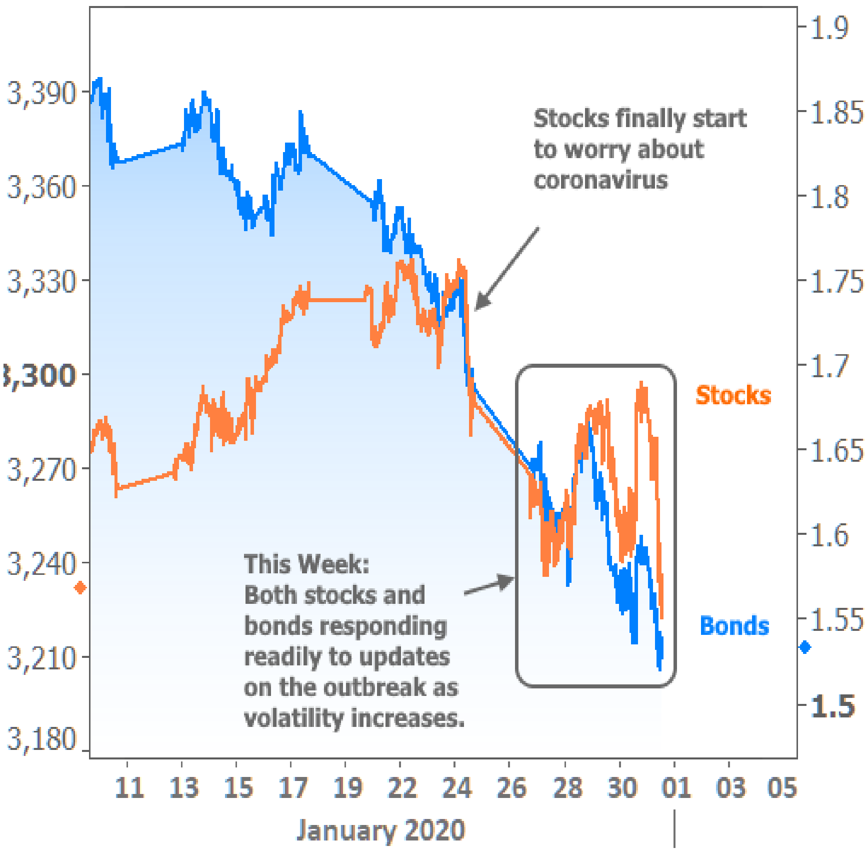
Pricing as of: 7/22 10:51PM EST

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%

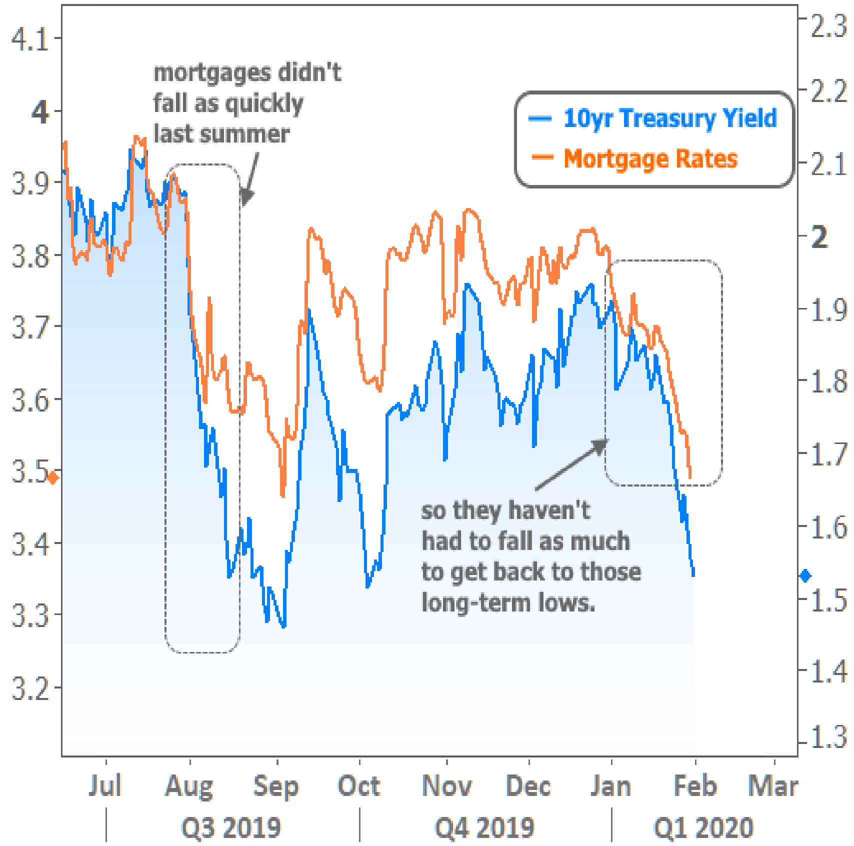
Longer-term rates fell significantly in 2019 for a variety of reasons. Global growth concerns, the US/China trade war, low inflation, and geopolitical tensions all played a part. After rates hit long-term lows in September, they held a narrow range into the new year. With the phase 1 US/China trade deal signed in mid-January and a US/Iran war averted, investors were **rightfully concerned** that the next big move in rates would be to the **upside**. But literally less than 24 hours after the major de-escalation of the US/Iran tensions, the new strain of coronavirus was announced in China.

Back then (Jan 9), coronavirus wasn't in the headlines much and it didn't seem like a huge deal to the market. Even so, the bond market was beginning to hedge its bets based on the last time something similar happened (i.e. SARS in 2002-2003). It wasn't until January 24th that **stocks finally started to panic** about coronavirus implications, moving quickly lower and bringing bond yields along for the ride. That move gave way to plenty of additional volatility this week.



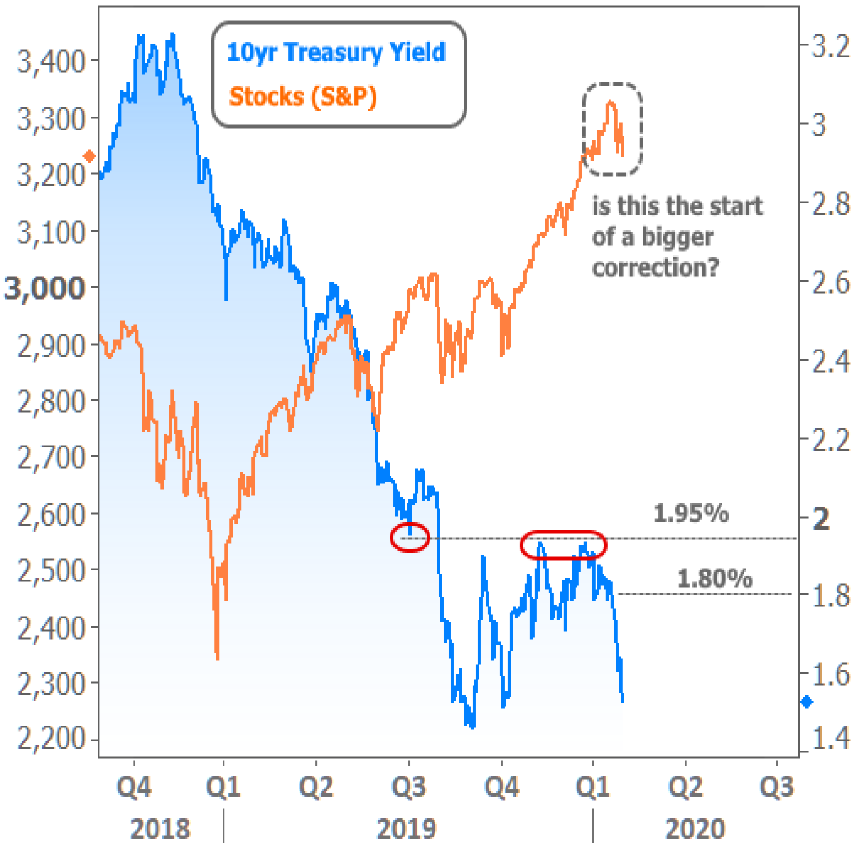
There is some confusion out there as to why a viral epidemic is such a big concern for financial markets. Simply put, it is already having a major effect on commerce and that could be true for several more weeks or even months. The broad notion of "commerce" is what turns the crank of the global economy. A slower economy is less capable of sustaining high stock prices and interest rates. Moreover, if investors are merely **uncertain** about the implications, they commonly move money into safe havens like US Treasuries. As demand for Treasuries increases, rates fall.

Mortgage rates are not directly tied to US Treasury yields, but they are **almost always** moving in the same direction. The average lender was already fairly close to the lowest levels since 2016 earlier this week. So even though mortgage rates haven't fallen nearly as fast as Treasury yields, they only ever needed to fall moderately to get back to long-term lows. The following chart overlays mortgages and 10yr Treasuries on a separate y-axis to better visualize relative performance over time.



With coronavirus being credited for so much of the drop in rates, it's more than fair to wonder if we'll see a **big bounce** when the disease is contained. To some extent, the economic damage has already been done, but bonds/rates are also certainly accounting for bad news yet to come. As such, if the containment of coronavirus happens sooner/better than expected, rates would likely face upward pressure. Even then, there would be bigger, more important questions.

Before coronavirus, rates were already resisting a move back up to the levels seen before the trade war flared-up in mid-2019. For reference, **1.95%** would be the best line in the sand as far as 10yr Treasury yields are concerned. Before coronavirus headlines began pushing rates lower more rapidly, 10yr yields were already down to **1.80%**. That gives us two important ceilings to watch in the event of rising rates.



If those ceilings are easily broken, it would suggest additional **upward** momentum in rates (above 1.95%). Conversely, if the economy begins to contract and stocks look like they might enter a correction, rates have a better chance of remaining in the current **lower** territory. Either way, broad economic momentum is at the heart of the question. With that in mind, next week brings several of the most important economic reports.

Subscribe to my newsletter online at: http://housingnewsletters.com/thomaspayne

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jan 27				
10:00AM	Dec New home sales chg mm (%)	-0.4	1.5	1.3
10:00AM	Dec New home sales-units mm (ml)	0.694	0.730	0.719
11:30AM	2-Yr Note Auction (bl)	40		
1:00PM	5-Yr Note Auction (bl)	41		
Tuesday, Jan 28				
8:30AM	Dec Durable goods (%)	2.4	0.4	-2.1
8:30AM	Dec Nondefense ex-air (%)	-0.9	0.0	0.2
9:00AM	Nov CaseShiller 20 yy (%)	+2.6	2.4	2.2
10:00AM	Jan Consumer confidence	131.6	128.0	126.5
Wednesday, Jan 29				
7:00AM	w/e MBA Purchase Index	313.7		297.8

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★ Very Important

Date	Event	Actual	Forecast	Prior
7:00AM	w/e Mortgage Refinance Index	2581.2		2401.5
10:00AM	Dec Pending Home Sales (%)	-4.9	0.5	1.2
10:00AM	Dec Pending Sales Index	103.2		108.5
2:00PM	N/A FOMC rate decision (%)	1.500 - 1.750	1.625	1.625
2:32PM	Powell Press Conference			
Thursday, Jan 30				
8:30AM	Q4 GDP Advance (%)	2.1	2.1	2.1
8:30AM	w/e Jobless Claims (k)	216	215	211
Friday, Jan 31				
8:30AM	Dec Core PCE Inflation (y/y) (%)	+1.6	1.6	1.6
9:45AM	Jan Chicago PMI	42.9	48.8	48.9
10:00AM	Jan Consumer Sentiment (ip)	99.8	99.1	99.1
Monday, Feb 03				
10:00AM	Jan ISM Manufacturing PMI	50.9	48.5	47.2
10:00AM	Dec Construction spending (%)	-0.2	0.5	0.6
Tuesday, Feb 04				
10:00AM	Dec Factory orders mm (%)	1.8	1.2	-0.7
Wednesday, Feb 05				
7:00AM	w/e MBA Purchase Index	283.8		313.7
7:00AM	w/e Mortgage Refinance Index	2975.7		2581.2
8:15AM	Jan ADP National Employment (k)	291	156	202
10:00AM	Jan ISM N-Mfg PMI	55.5	55.0	55.0
Thursday, Feb 06				
8:30AM	w/e Jobless Claims (k)	202	210	216
Friday, Feb 07				
8:30AM	Jan Non-farm payrolls (k)	225	160	145
8:30AM	Jan Unemployment rate mm (%)	3.6	3.5	3.5
10:00AM	Dec Wholesale inventories mm (%)	-0.2	-0.1	-0.1
3:00PM	Dec Consumer credit (bl)	22.06	15.00	12.51
Tuesday, Jan 25				
1:00PM	7-Yr Note Auction (bl)	55		

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

We are a direct nationwide lender.
EQUAL HOUSING LENDER

Tom Payne