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Mortgage Market Still Waiting For Help

While some aspects of the housing/mortgage market have stabilized over the past few weeks, we're **still waiting** for some important guidance about the path ahead.

The last few newsletters are worth revisiting, but **here's a recap:**

- Lockdowns = unprecedented joblessness and unprecedented potential for missed mortgage payments.
- Mortgage servicers still have to pay mortgage investors. If they run out of money, Agencies (Fannie/Freddie/FHA/VA) foot the bill. If the forbearance load is big enough, several servicers could go out of business and agencies could run out of money.
- The relief bill guarantees forbearances for those who need them but doesn't guarantee funds will remain available for servicers/agencies.
- Mortgage investors expect the situation to be addressed, but until then, many have jacked up rates or completely pulled out of programs with more forbearance-related exposure.
- Even if the government says it has the mortgage industry's back, that would only take care of the biggest concern. Investors will still be cautious until they have a better sense of longer-term impacts.

Until then, expect to see the following problems persist:

Higher Mortgage Rates (Relatively).
Yes, mortgage rates are still historically low, but based on the trading levels seen in US Treasuries and mortgage bonds, they're much higher than they would normally be.

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

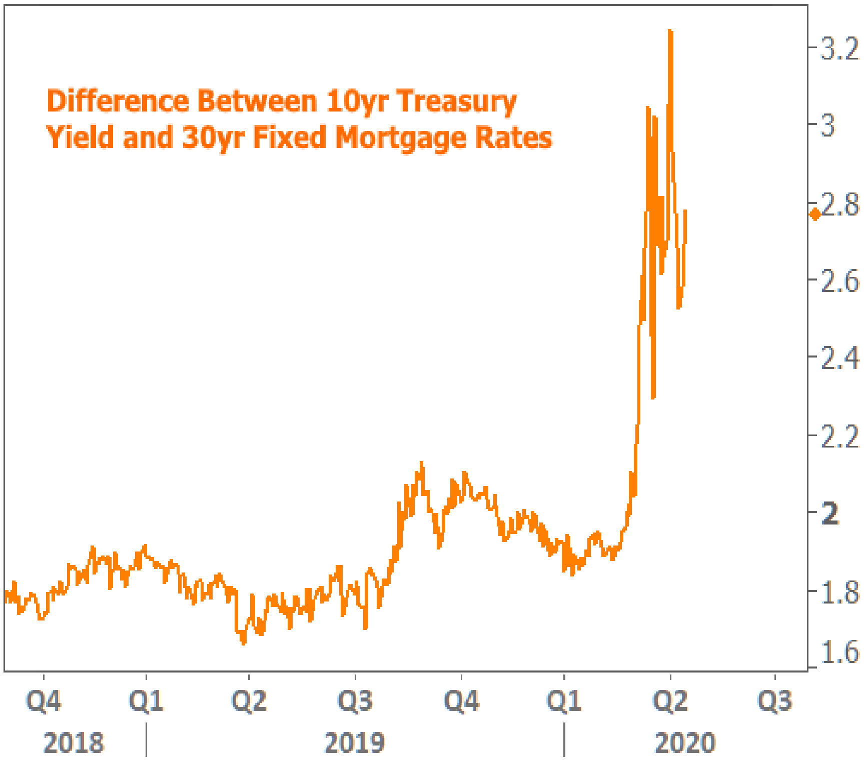
Market Data

	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	4.4608	-0.0117

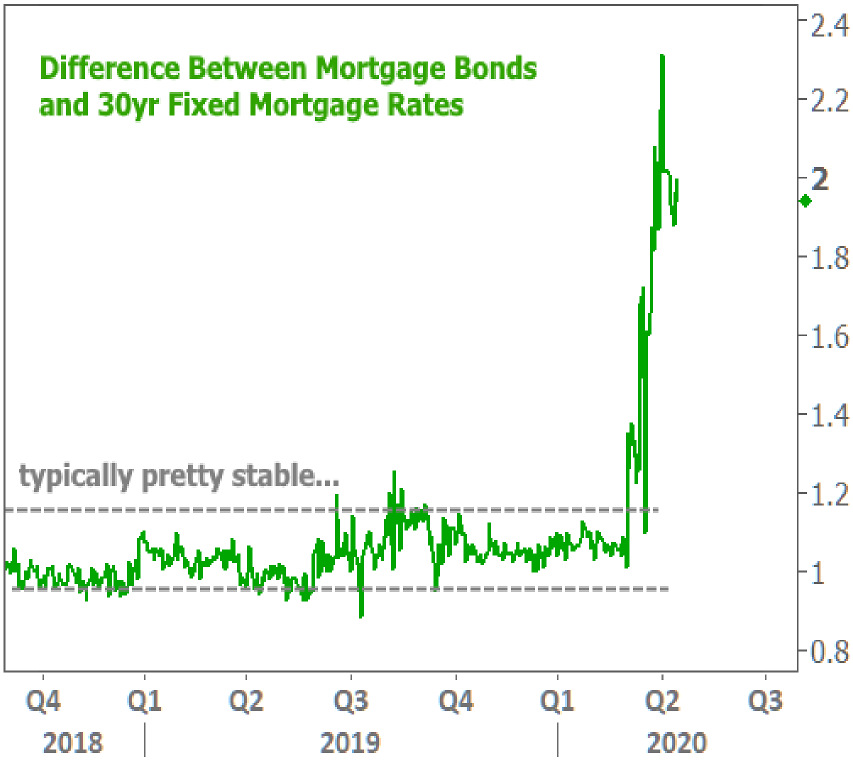
Pricing as of: 7/22 10:56PM EST

Recent Housing Data

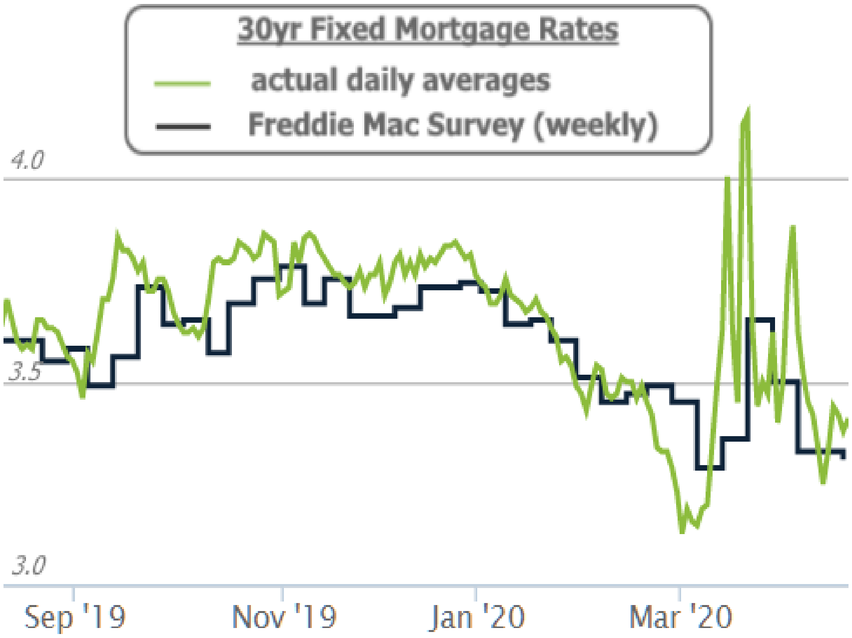
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



It's one thing to see rates diverge from Treasuries. That definitely happens. The divergence between mortgage rates and mortgage bonds is even more telling. Nothing like this has ever happened--not even remotely close.



Higher Rate Volatility.
While volatility has died down significantly from 3 weeks ago, it's still much higher than normal. That means the rate you see in the morning could be very different in the afternoon. The differences can be even bigger from one day to the next. The true level of volatility isn't well-captured by most of the traditional sources. Granted, things have died down quite a bit, but the following chart gives you an idea of how under-reported the volatility can be.



The Return of Points.
Upfront "discount points" charged on a mortgage were more prevalent in the past but rarely made economic sense in recent years. Now they're the only option for many scenarios.

In the past, loans with significant risk-based cost adjustments (for things like low FICO, high loan-to-value, investment properties, cash-out, etc) would be quoted a higher rate because investors were willing to pay proportionately more for any given increase in the note rate. The higher price paid by investors would soak up those risk-based adjustments and the borrower wouldn't have to bring any extra money to the table.

But that's no longer the case. Investors aren't paying up for higher rates like they used to No amount of extra interest is worth the extra upfront expense in their view. But the risk adjustments still have to be paid. So it falls to the borrower as an upfront cost. In other words, expect to see quotes with discount points for loans with several additional risk factors.

Speculation and Misinformation.
Tensions are running high everywhere. The mortgage industry is no exception. Not everyone is taking the time to vet sources or ask an expert before sharing info. For instance, one individual mortgage lender made some significant changes to its credit requirements last week. By Monday morning there were news stories and social media posts claiming (erroneously) the changes were industry-wide.

A Strange Mix of Fear and Hope.
The following chart tells two stories. On one hand, it shows the sharpest decline in new home construction in more than 30 years. On the other hand, it shows that construction merely returned to what were seen as high, stable levels less than a year ago.

Yes, like many economic reports, this one may get worse before it gets better, but that brings up an important point about "hope." Rather than agonize over a progressively worse recession that happens for reasons that are only well understood in hindsight, **we all know why this is happening** and no one would be surprised to see the economic data get even weaker before it gets better. That's why the stock market barely budges when staggeringly bad numbers are released these days. The drama is well understood.

The upside is that we've never been in a position where the entire planet is simultaneously planning on things getting better based on simple, widely available, easily understood facts. Whether it's due to an eventual vaccine, better testing/control/quarantine measures, or successful strategies for gradually reopening the economy, the recovery equation is simple. More people returning to work + less people getting sick = a rapidly improving economic picture.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Apr 15				
7:00AM	w/e Mortgage Refinance Index	4242.7		3853.1
7:00AM	w/e MBA Purchase Index	182.6		185.9
8:30AM	Mar Retail Sales (%)	-8.7	-8.0	-0.5
8:30AM	Apr NY Fed Manufacturing	-78.2	-35.00	-21.50
9:15AM	Mar Industrial Production (%)	-5.4	-4.0	0.6
10:00AM	Apr NAHB housing market indx	30	55	72
Thursday, Apr 16				

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	Mar House starts mm: change (%)	-22.3		-1.5
8:30AM	Mar Housing starts number mm (ml)	1.216	1.300	1.599
8:30AM	Apr Philly Fed Business Index	-56.6	-30.0	-12.7
8:30AM	w/e Jobless Claims (k)	5245	4000	6606
8:30AM	w/e Continued jobless claims (ml)	11.976	13.500	7.455
Friday, Apr 17				
10:00AM	Mar Leading index chg mm (%)	-6.7	-7.0	0.1
Tuesday, Apr 21				
10:00AM	Mar Existing home sales (ml)	5.27	5.30	5.77
10:00AM	Mar Exist. home sales % chg (%)	-8.5	-8.1	6.5
Wednesday, Apr 22				
7:00AM	w/e MBA Purchase Index	186.4		182.6
7:00AM	w/e Mortgage Refinance Index	4206.7		4242.7
9:00AM	Feb Monthly Home Price yy (%)	5.7		5.2
Thursday, Apr 23				
9:45AM	Apr PMI-Services (Markit)	27.0	31.5	39.8
9:45AM	Apr PMI-Manufacturing (Markit)	36.9	38.0	48.5
9:45AM	Apr PMI-Composite (source:Markit)	27.4		40.9
10:00AM	Mar New home sales chg mm (%)	-15.4	-15.0	-4.4
10:00AM	Mar New home sales-units mm (ml)	0.627	0.645	0.765
Friday, Apr 24				
8:30AM	Mar Durable goods (%)	-14.4	-11.9	1.2
10:00AM	Apr Consumer Sentiment (ip)	71.8	68.0	71.0

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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