



**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](mailto:tompaynemortgage@gmail.com)  
[View My Website](#)

## Mixed Signals About Housing and Economic Recovery

Coronavirus made for record-shattering movement in financial markets and economic data. With lockdowns ending, investors are eager to see improvements. Instead, they're finding plenty of mixed signals.

One of the **most basic** examples would be the relationship between stocks and bonds. Investors tend to buy stocks when the outlook is positive and buy bonds when the outlook is negative.

It was no surprise to see stocks fall abruptly as the pandemic's impact became clear in March. At the same time, bond yields (which move lower when investors are buying) were **plummeting**. In other words, stocks and bonds were trading **logically**.

**Things got weird** by mid-March. Yields inexplicably skyrocketed. The Fed stepped in with emergency bond buying, but markets were in full panic mode. At that point, both stocks and bonds were **losing** ground together (i.e. blue line moving higher and orange line moving lower on the following chart).

This was a big enough concern for the Fed that they **drastically ramped up** bond buying that same week and announced **massive stimulus** a few days later. Those two moves by the Fed reversed the weakness in **both** sides of the market. Since then, stocks have moved higher while bond yields have been able to remain mostly flat.

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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

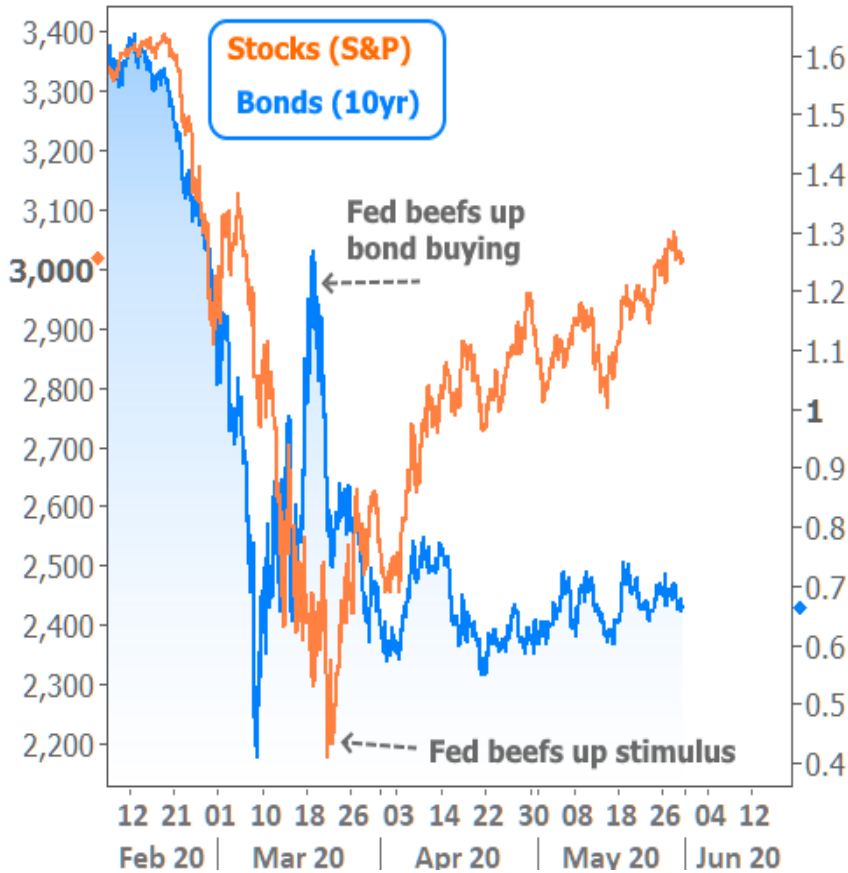
## Market Data

	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	4.4610	-0.0115

Pricing as of: 7/22 10:55PM 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 apparent mixed signal from stocks and bonds is actually the easiest to resolve in light of Fed intervention. Other parts of the bond market proved to be more puzzling.

Treasuries are the bonds issued by the US government when it needs/wants to borrow money. When other entities want to borrow money, they can issue bonds too. For those of us in the mortgage/housing market, the **most important example** of this would be the mortgage-backed bonds that serve as the foundation for mortgage rates.

In not so many words, they give investors a way to decide how profitable it is to lend money for the purpose of financing homes. Because of this, they are directly and strongly correlated with mortgage rate movement--at least they were until coronavirus.

For reasons [we've discussed](#) ad nauseum, mortgage rates diverged from mortgage bonds by **unimaginable** levels in March and April. As things have calmed down in the mortgage market, the gap has been closing, but we're still historically very far from normal. The following chart shows actual movement in mortgage rates compared to the movement implied by mortgage bonds.

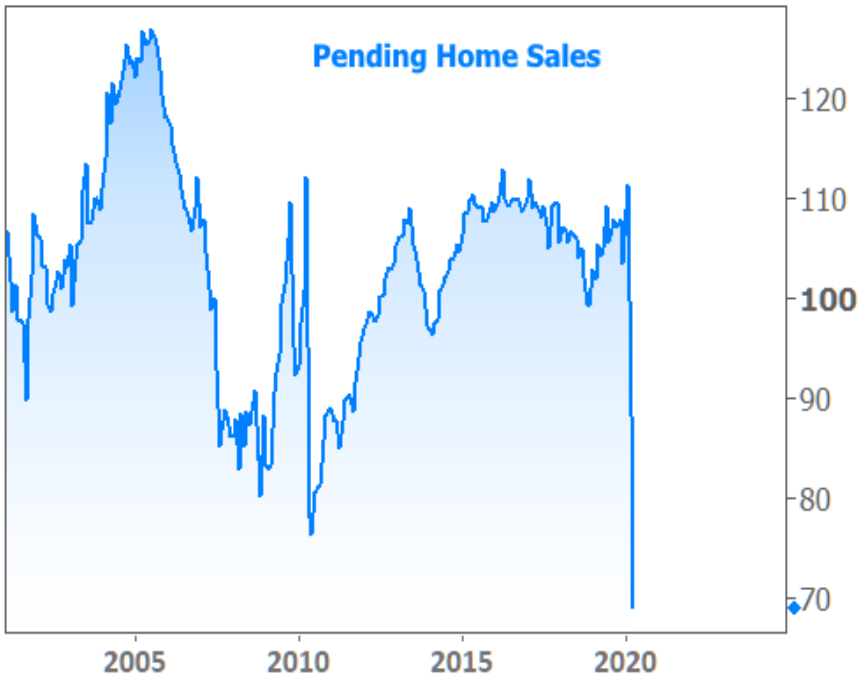


Does this chart mean that mortgage rates are **destined to fall into the 2% range**? Not exactly. For that to happen, mortgage bonds would need to remain at current levels--a feat likely dependent on a weaker economy than most of us would like to see. If the economy improves at a strong pace, that orange line should rise to meet the blue line. In that scenario, the blue line might not move very much lower.

Additionally, coronavirus has created considerations for the mortgage market that could result in a semi-permanent gap between the two. That means the orange line could begin to push the blue line higher **even before** they run into each other. Something like this, perhaps:



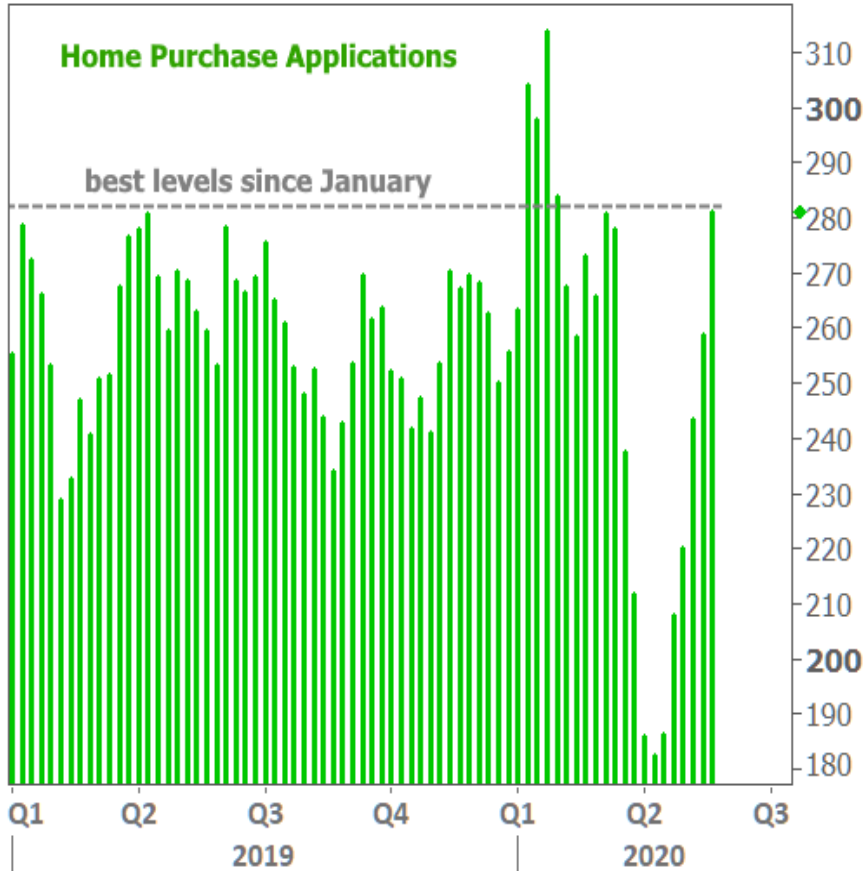
Even if rates **don't** move significantly lower, they've been plenty low enough to fuel a refi boom and provide assistance to a recovery in home sales numbers (as we discussed last week). Now this week, newly-released Pending Home Sales numbers are saying "not so fast" to the idea that the worst is over for the housing market.



This definitely isn't an upbeat chart for the housing market, but it's not entirely unexpected. Economists figured April's pending sales would decline by 15%, and the official tally ended up being 21.8%. We also know there's a lag involved in the reporting of home sales data, and that lag means the data for this report was gathered at the worst possible time.

**Translation:** this isn't a housing market in freefall, but rather, one that's preparing to find bottom.

More timely data confirms that claim. In fact, according to the Mortgage Bankers Association, applications for home purchases were at their highest levels since January last week. Incidentally, those January levels were the **ONLY** time purchase apps have been higher since before the financial crisis.

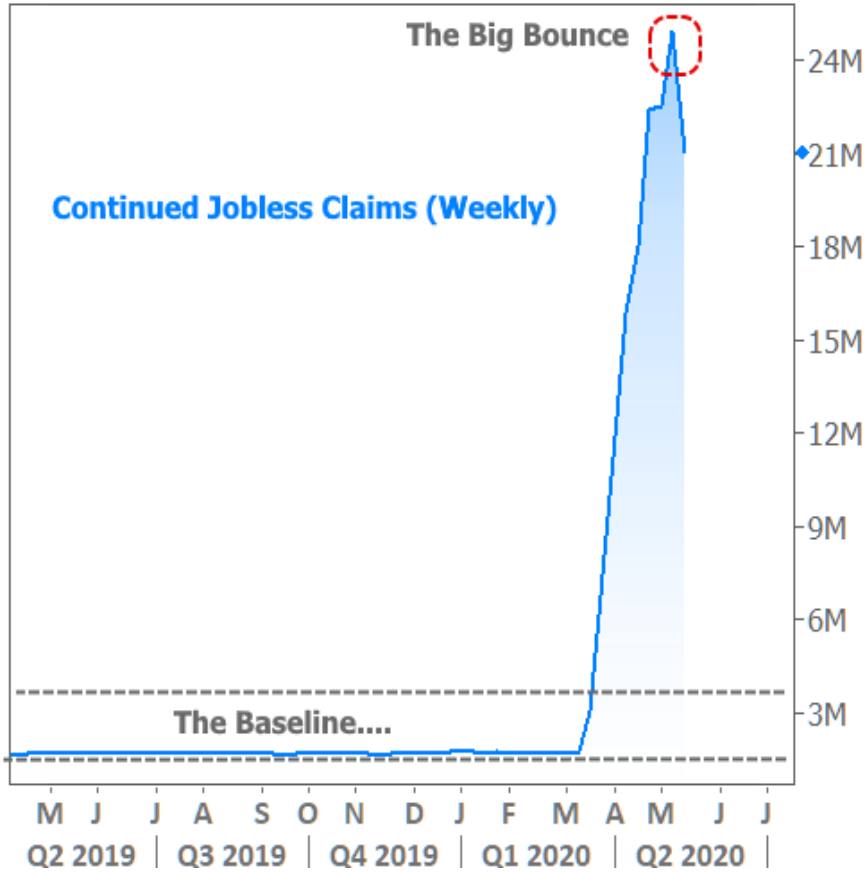


Before you get too terribly excited about this chart, it's worth mentioning that Pending Home Sales data includes **cash** buyers and those who are financing outside of typical mortgage channels. The purchase application data only counts those applying for mortgages.

There are several past examples where Pending Sales have diverged greatly from purchase application data. Because of that, the **jury is still out**--to some extent--on the strength and certainty of a housing market bounce.

We do have **one very big thing going for us**: the market was healthy, happy, and improving up until coronavirus. As opposed to 2009-2011 when a throng of buyers remained unsure about the housing market, this time around, the throng of buyers is simply on hold because they have to be, and they'll be glad to jump back in the market as soon as they can.

Of course, much of this depends on the ability of the economy to **restore jobs** to the millions who remain out of work. This week's Jobless Claims data provided the first glimmer of hope there as the number of workers filing for ongoing unemployment claims dropped by nearly 4 million. That could certainly be the big bounce, but we knew that was coming. So much of what happens next for the economy depends on how well and how quickly we return to the baseline.



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

Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Tuesday, May 26</b>				
9:00AM	Mar CaseShiller 20 yy (%)	+3.9	3.4	3.5
9:00AM	Mar Monthly Home Price yy (%)	5.9		5.7
10:00AM	May Consumer confidence	86.6	87.5	86.9
10:00AM	Apr New home sales-units mm (ml)	0.623	0.480	0.627
10:00AM	Apr New home sales chg mm (%)	0.6	-21.9	-15.4
1:00PM	2-Yr Note Auction (bl)	44		
<b>Wednesday, May 27</b>				
7:00AM	w/e MBA Purchase Index	281.2		258.9
7:00AM	w/e Mortgage Refinance Index	3466.2		3474.1
1:00PM	5-Yr Note Auction (bl)	45		
<b>Thursday, May 28</b>				
8:30AM	Q1 GDP Prelim (%)	-5.0	-4.8	-4.8
8:30AM	Apr Durable goods (%)	-17.2	-19.0	-14.7

Event Importance:

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

Date	Event	Actual	Forecast	Prior
8:30AM	w/e Jobless Claims (k)	2123	1800	2438
8:30AM	w/e Continued jobless claims (ml)	21.052	25.750	25.073
10:00AM	Apr Pending Home Sales (%)	-21.8	-15.0	-20.8
10:00AM	Apr Pending Sales Index	69.0		88.2
1:00PM	7-Yr Note Auction (bl)	38		
<b>Friday, May 29</b>				
8:30AM	Apr Core PCE Inflation (y/y) (%)	1.0	1.1	1.7
9:45AM	May Chicago PMI	32.3	40.0	35.4
10:00AM	May Consumer Sentiment (ip)	72.3	74.0	73.7
<b>Monday, Jun 01</b>				
10:00AM	Apr Construction spending (%)	-2.9	-6.5	0.9
10:00AM	May ISM Manufacturing PMI	43.1	43.6	41.5
<b>Wednesday, Jun 03</b>				
7:00AM	w/e MBA Purchase Index	296.0		281.2
7:00AM	w/e Mortgage Refinance Index	3166.7		3466.2
8:15AM	May ADP National Employment (k)	-2760	-9000	-20236
10:00AM	May ISM N-Mfg PMI	45.4	44.0	41.8
10:00AM	May ISM N-Mfg Bus Act	41.0	34.0	26.0
10:00AM	Apr Factory orders mm (%)	-13.0	-14.0	-10.3
<b>Friday, Jun 05</b>				
8:30AM	May Non-farm payrolls (k)	2509	-8000	-20537
8:30AM	May Unemployment rate mm (%)	13.3	19.8	14.7

## 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 