



**Tom Payne**

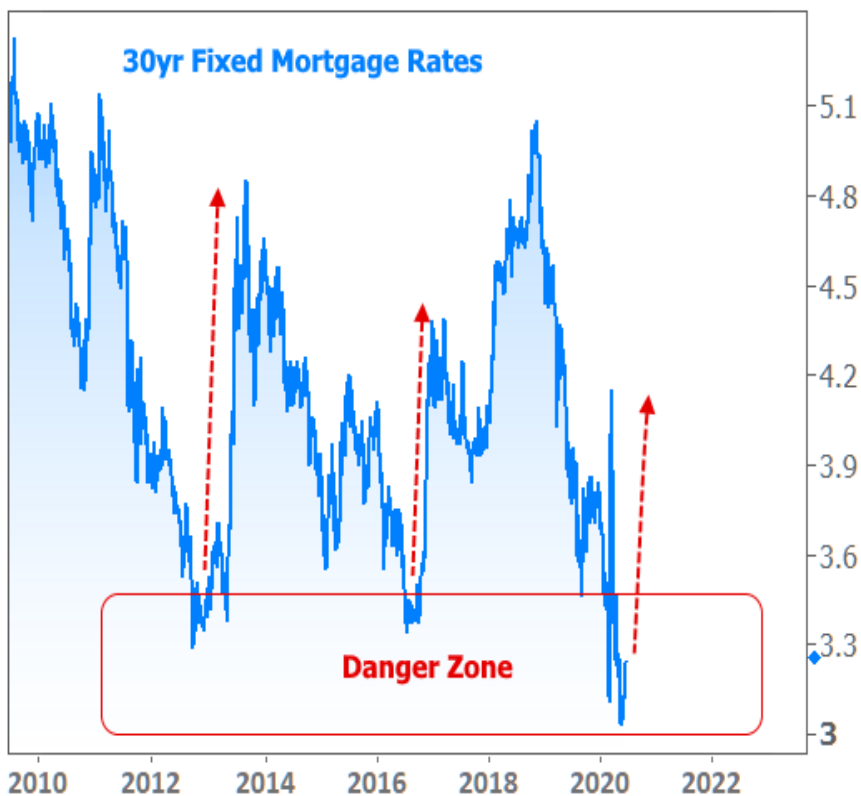
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## Are All-Time Low Mortgage Rates Behind Us Now?

Things are **quickly getting interesting** for mortgage rates, and by 'interesting,' I mean potentially alarming. Everything's relative though, so it should be said right up front that the average mortgage rate is still only a hop and a skip from the all-time lows seen last week.

But the recent past and present are old news when it comes to discussing rates and financial markets, right?! We want to know what the future holds! We want to know if rates are going to spike like they did the last 2 times they entered the danger zone.



Up until this week, there was a fairly even balance of opinion among analysts, economists, and mortgage market stakeholders. It was and still is perfectly valid to believe rates have an **equal chance** of pecking away at new all-time **lows** versus embarking on a journey back toward much **higher** levels.

## National Average Mortgage Rates



	Rate	Change	Points
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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	4.2272	-0.0107
30 YR Treasury	4.4598	-0.0127

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

## Recent Housing Data

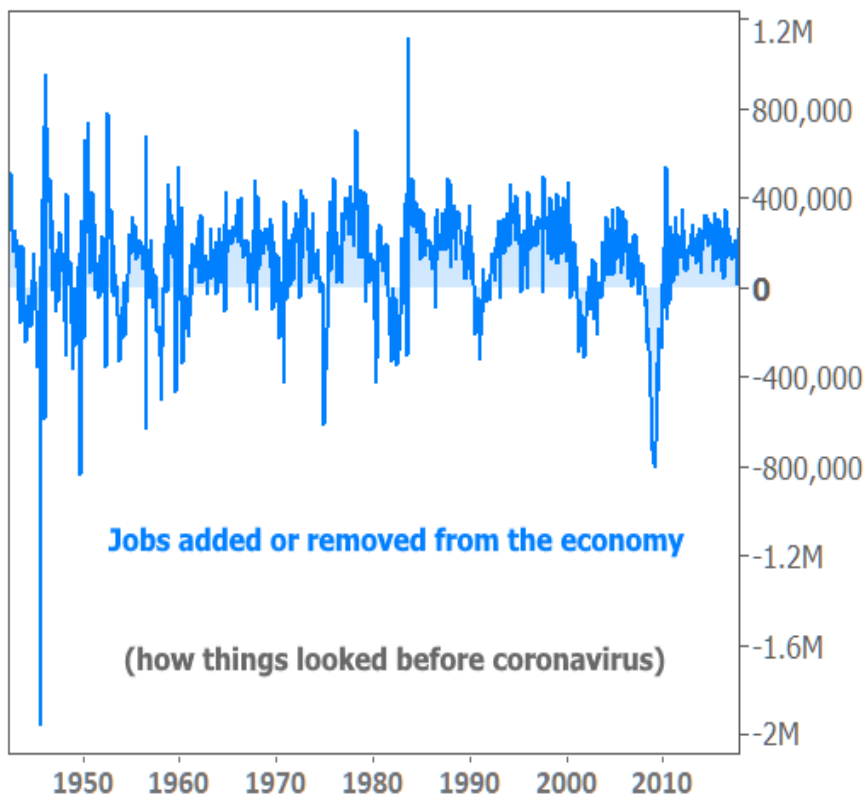
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

That said, those who saw equal chances of higher vs lower rates are being **forced to question** their resolve after the past 3 days of economic data and market movement. Reason being: the data suggests an economic recovery is off to a much faster start than expected.

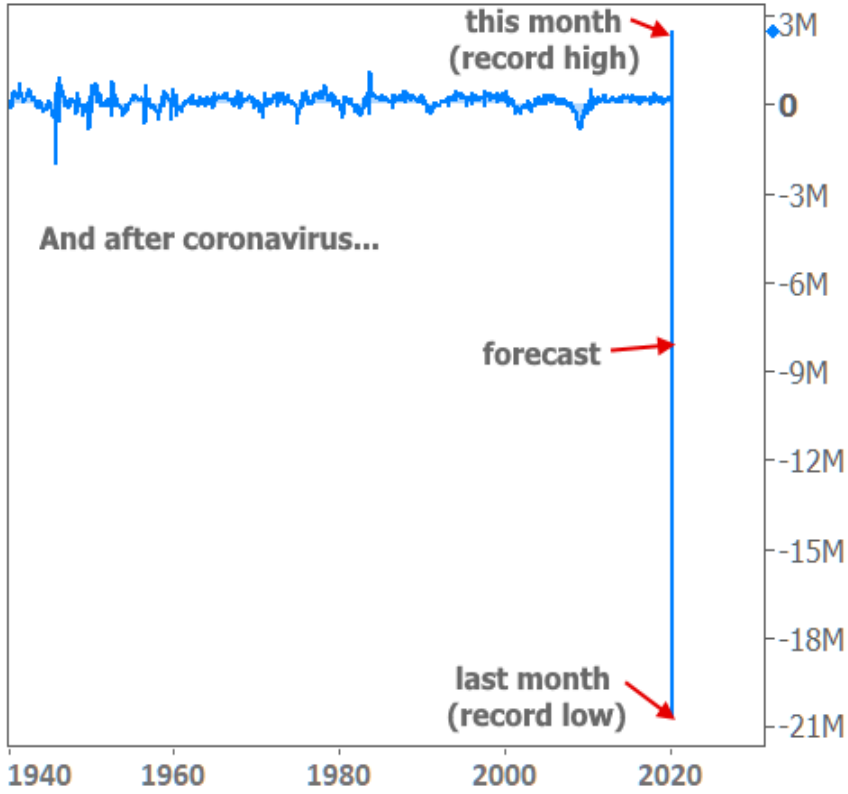
This began on Wednesday with a jobs count from payroll processor ADP that was staggeringly higher than expected. Ironically, this was the **2nd worst** ADP Employment report in history. Only last month's was any weaker, and it was only due to that weakness that economic forecasters were able to miss the mark so egregiously this month. Specifically, they saw ADP's job count declining by another 9 million on top of last month's 20 million decline. As it happened, only 2.76 million payrolls were lost.

Opinions vary as to how well the ADP numbers predict the all-important payroll count in the government's big jobs report (almost always released 2 days after ADP). But when ADP is **THAT far** from forecasts, investors can't help but expect some drama in the official jobs report.

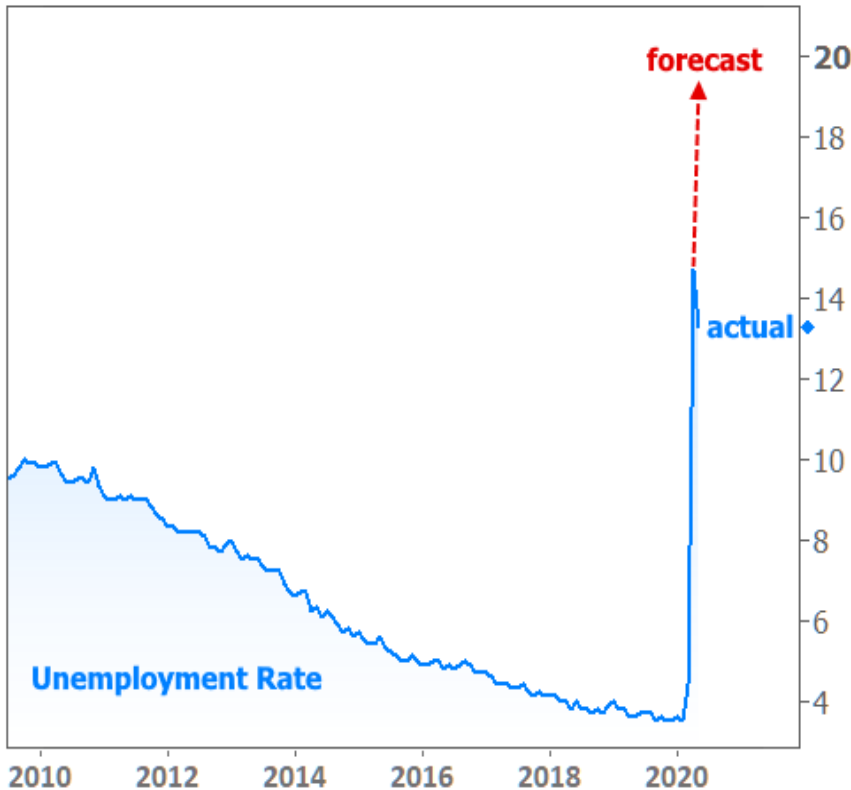
That instinct was vetted on Friday when the jobs report **absolutely demolished** its forecast with payrolls **RISING** 2.5 million versus a forecast calling for a drop of 8 million. This is by far and away the biggest gap we've ever seen and one that's unlikely to be repeated. That said, coronavirus has forced the market to redefine what's possible in terms of temporary economic outcomes. Here's the entire history of the Labor Department's jobs count before coronavirus effects.



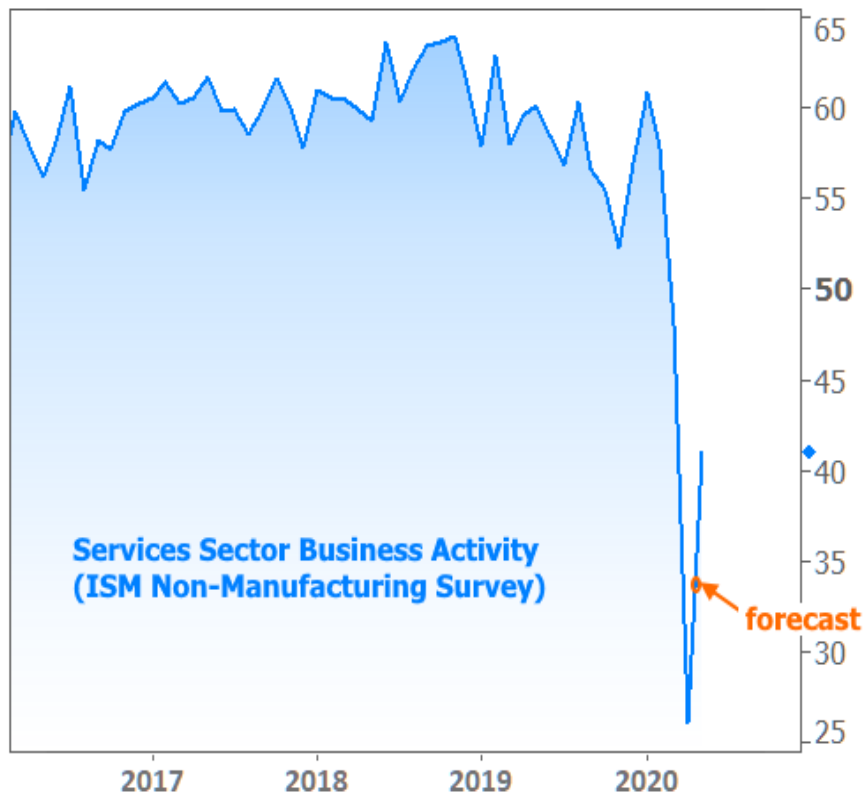
Now let's bring the post-coronavirus numbers into the mix so we can see how the past stacks up (and how far off the forecasts were):



Even though these numbers are arguably too big and too different from the past to observe much significance, they corroborate stories being told elsewhere in the economy. The unemployment rate (also released on Friday) is an even more basic way to convey the message that the labor market may already be healing significantly, even though experts thought it would continue to deteriorate.



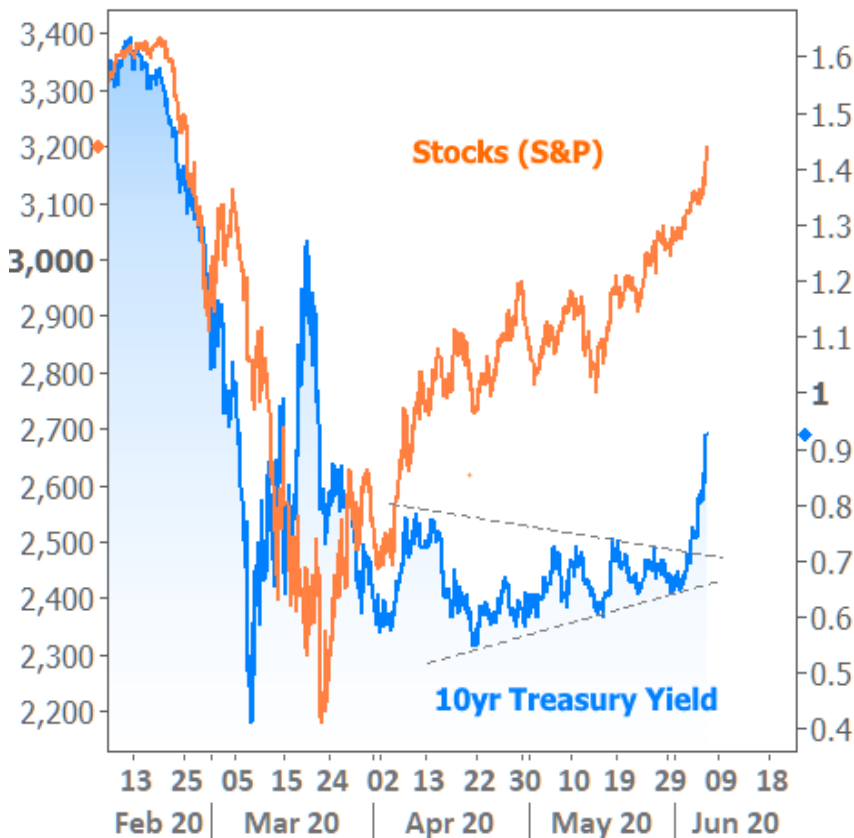
There are ways to observe the same message in other highly-regarded economic reports. A key barometer for the services sector was released on Wednesday. While economists accurately predicted an improvement, they vastly underestimated the pace.



Yes, that blue line is still much lower than it had been in recent years, but we already knew about that. What we didn't know was the pace at which it might bounce back. Combined with the stronger jobs numbers, data like this suggests the economy is getting back to business more quickly than expected.

**So what's the big deal for mortgage rates?** Rates are based on mortgage-backed bonds. These bonds typically move in similar fashion to US Treasuries. When the economic outlook improves, stocks tend to improve while bonds suffer. "Suffering" in the bond market means lower bond prices and higher yields. "Yield" is just another word for "rates."

Long story short, stronger-than-expected economic data means upward pressure on rates, all other things being equal. This is easily seen in the following chart, where the 10yr Treasury yield (a key benchmark for interest rates) has broken out of a holding pattern to move rapidly higher this week.



If the economic data continues to be much stronger than expected, there's a very real chance that all-time low rates are behind us for now. The counterpoint is that such comments are only ever as good as the data we currently have available. The data just so happens to be very strong this week. If the data happens to calm down, so too could the rise in rates.

Either way, mortgage rates have a bit of an advantage over Treasuries because they didn't fall as quickly in response to coronavirus for a variety of reasons. This means they have a bit of a cushion on the way back up. Additionally, it's worth keeping in mind that the two abrupt spikes seen in 2013 and 2016 (first chart, above) came in response to specific, massively important events. We haven't seen the same sort of event so far in 2020. Unless that changes, any rising rate trend will be much more gradual than those past examples.

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**Recent Economic Data**

Date	Event	Actual	Forecast	Prior
<b>Monday, Jun 01</b>				
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

**Event Importance:**

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

Date	Event	Actual	Forecast	Prior
10:00AM	Apr Factory orders mm (%)	-13.0	-14.0	-10.3
<b>Thursday, Jun 04</b>				
8:30AM	w/e Jobless Claims (k)	1877	1525	2123
8:30AM	w/e Continued jobless claims (ml)	21.487	20.000	21.052
<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
<b>Monday, Jun 08</b>				
1:00PM	3-Yr Note Auction (bl)	44		
<b>Tuesday, Jun 09</b>				
10:00AM	Apr Wholesale inventories mm (%)	0.3	0.4	0.4
<b>Wednesday, Jun 10</b>				
7:00AM	w/e MBA Purchase Index	311.7		296.0
7:00AM	w/e Mortgage Refinance Index	3529.0		3166.7
8:30AM	May Core CPI (Annual) (%)	1.2	1.3	1.4
2:00PM	N/A FOMC rate decision (%)	0.000 - 0.250	0.125	0.125
<b>Thursday, Jun 11</b>				
8:30AM	May Core Producer Prices YY (%)	0.3	0.4	0.6
<b>Friday, Jun 12</b>				
10:00AM	Jun Consumer Sentiment	78.9	75.0	72.3
<b>Wednesday, Jul 08</b>				
1:00PM	10-yr Note Auction (bl)	29		
<b>Thursday, Jul 09</b>				
1:00PM	30-Yr Bond Auction (bl)	19		

## 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](mailto:TPayne@loandepot.com)

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