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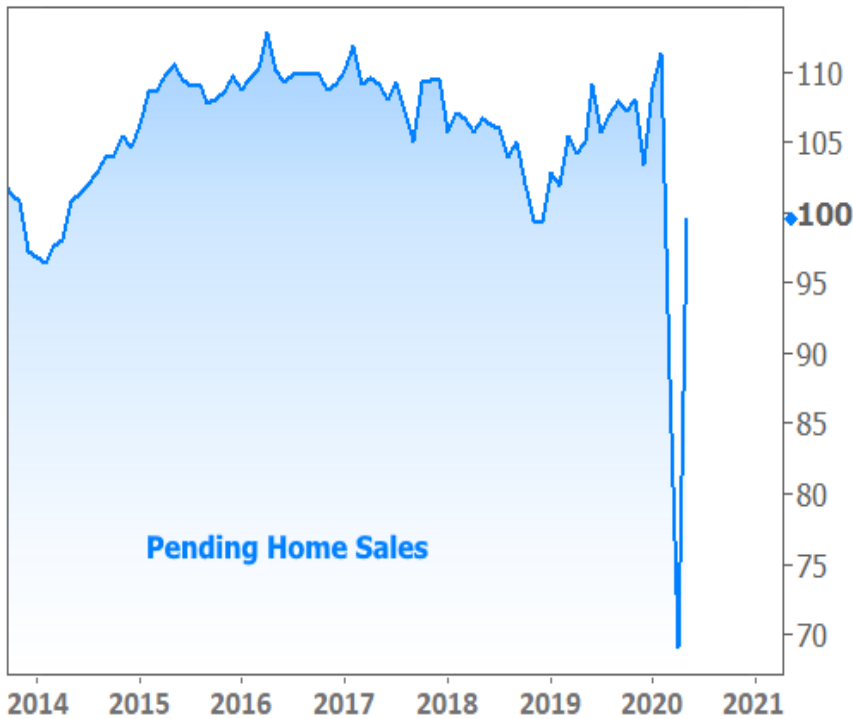
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Huge Housing Rebound, All-Time Low Rates, But At What Cost?

This week's economic data included the **biggest-ever** gain in Pending Home Sales, a leading indicator for the housing market. Meanwhile, mortgage rates pushed down to new all-time lows yet again.

But at what cost?

The **most pessimistic** way to explain the surge in home sales is to say it was only made possible by the record-setting **declines** in the past few months.



That's mostly true, but it **fails to give credit** to what the industry and government officials have been doing to help jump start economic activity. Would sales bounce back like this without all-time low mortgage rates and a stock market recovery (both made possible by emergency intervention from the Federal Reserve)? Would consumers be as comfortable spending money without the promise of additional fiscal stimulus and other support programs already in place?

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	4.2403	-0.0122
30 YR Treasury	4.4338	-0.0130

Pricing as of: 7/22 10:48PM EST

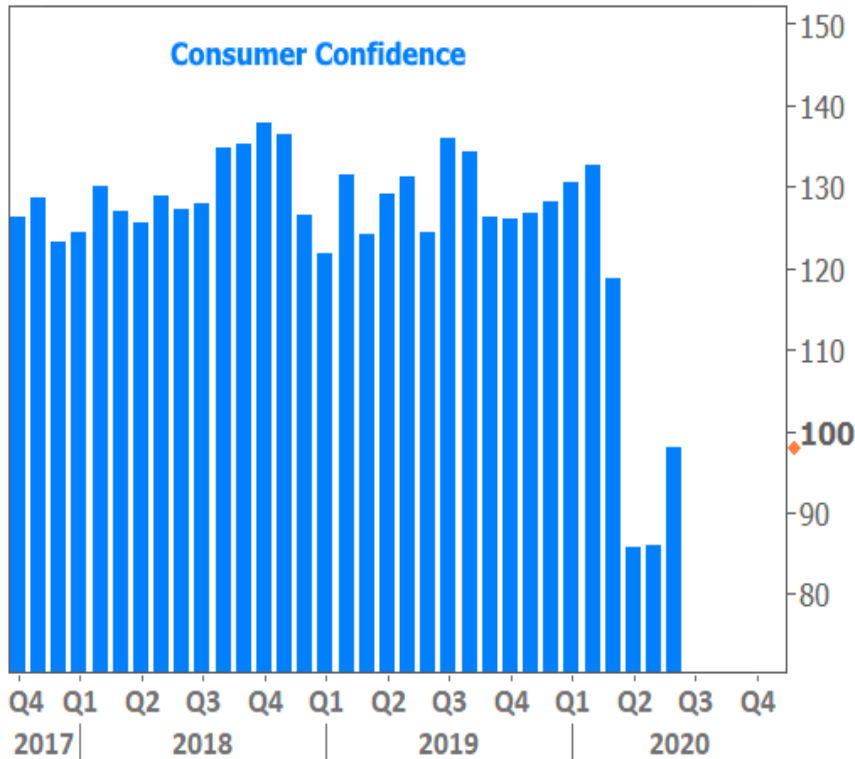
Recent Housing Data

		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%

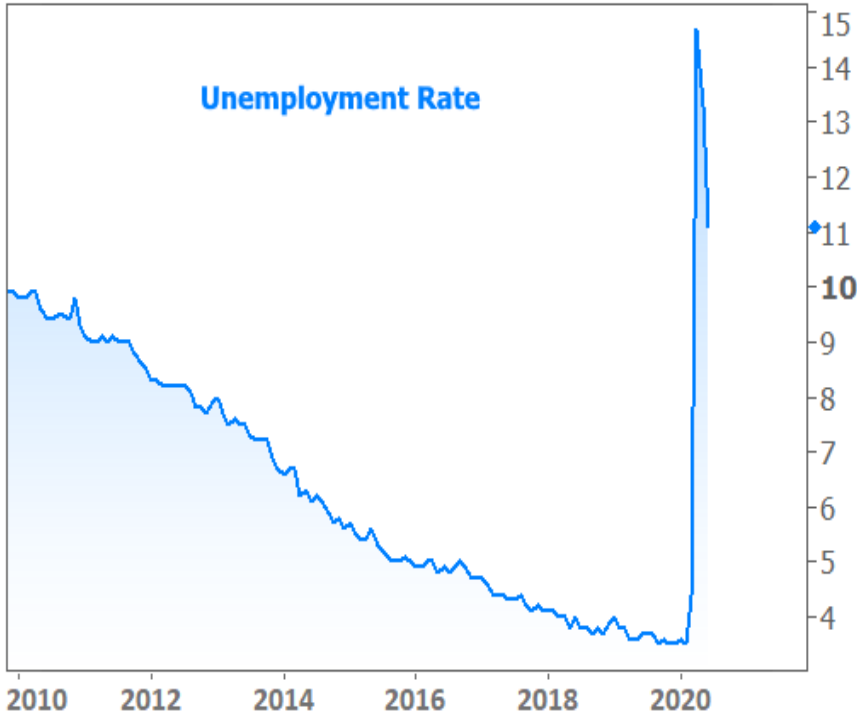
While we can't say exactly how big the impact would be if we removed those helping hands, we have to assume things would be worse without them, at least in the here and now. Critics contend that the emergency programs could cause issues in the future, but as is **always** the case with emergency support from the Fed or the US government, the preference is to avoid **present day** pain even if it simply delays the inevitable.

It's also important to keep in mind that we're really only talking about the **early stages** of an economic recovery. Many other economic indicators suggest we've only taken a small bite out of the broader damage caused by coronavirus.

For instance, consumer confidence jumped **much higher**, but it's **nowhere near** pre-coronavirus levels.

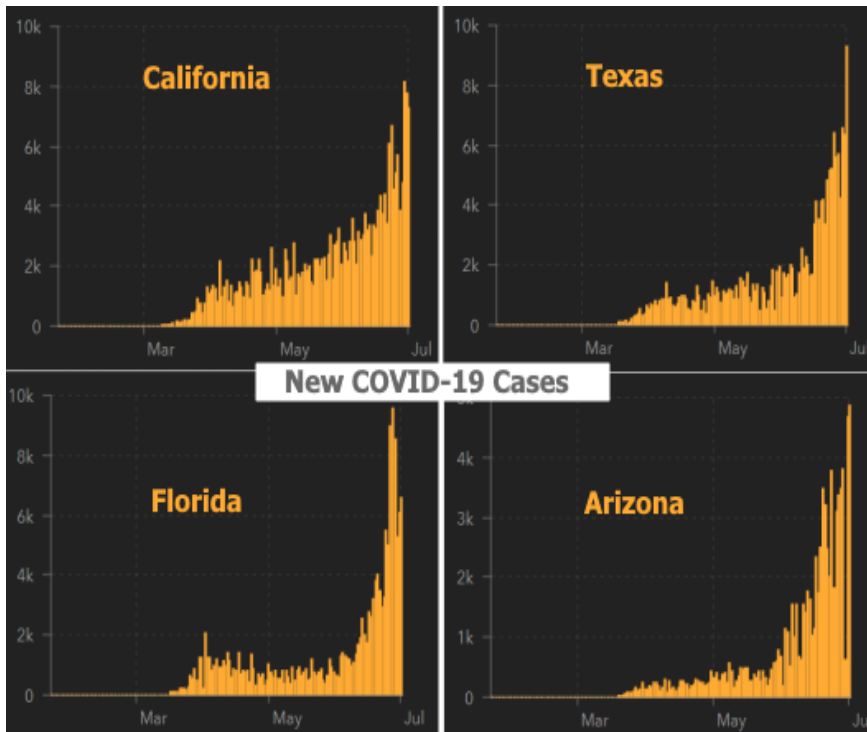


The unemployment rate fell **much** more than economists expected, but it remains at levels that would be considered **borderline catastrophic** relative to recent precedent.

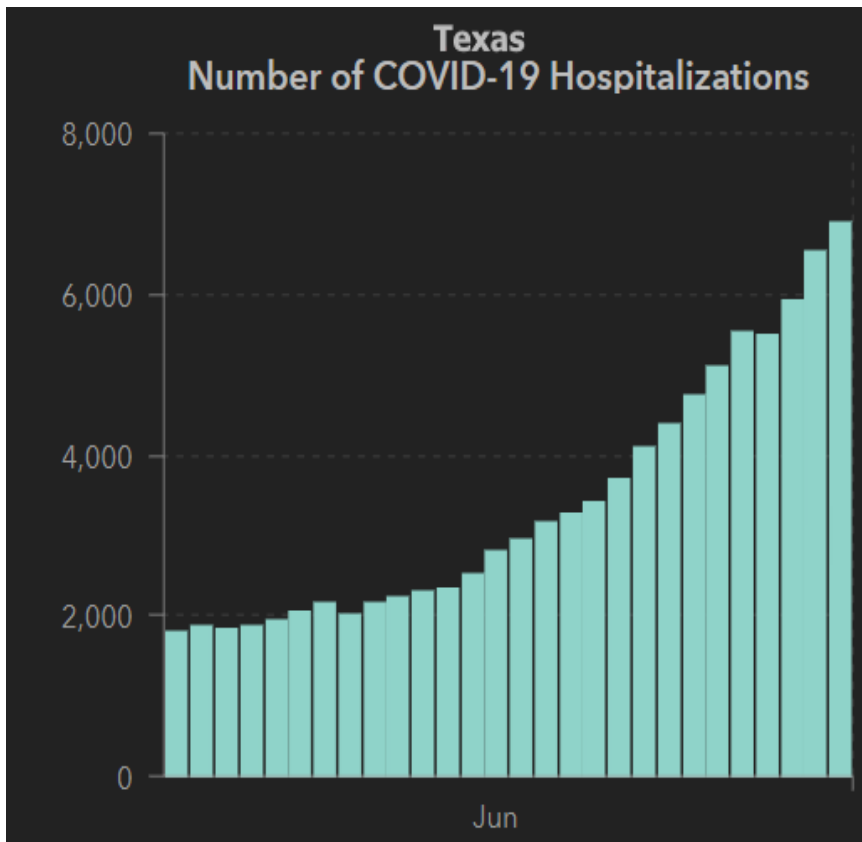


The **true test** for an economic rebound will be **HOW MUCH** of the recent precedent can be recovered. The jury is very much out on that one, and it's going to take plenty of time for that to change.

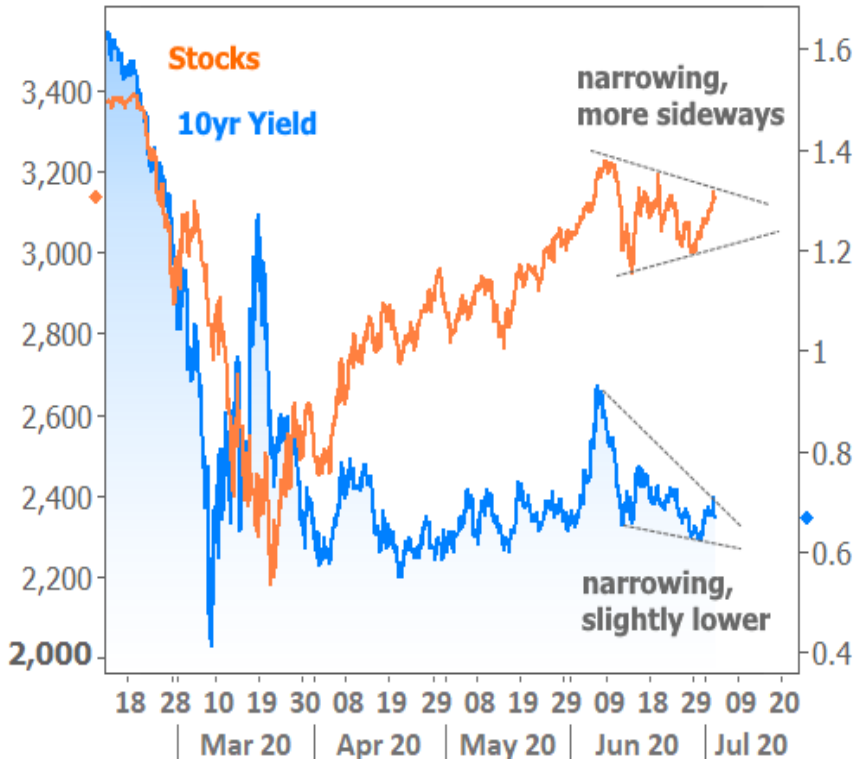
Financial markets know this. They've settled into the role of **spectators in the battle** between coronavirus numbers and economic progress. Several states have been in the spotlight recently, serving as a warning that it may not be a simple task to reopen local economies without risking an unacceptable increase in case counts.



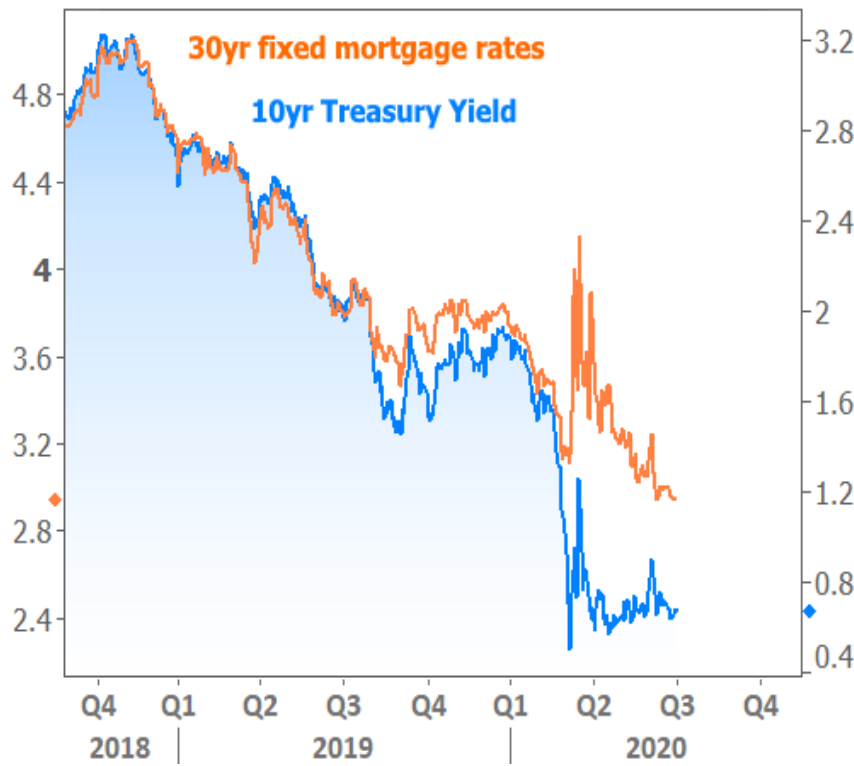
And yes, we should all be cognizant of the nuances created by **increased testing** capacity. That's why the focus has shifted from case counts to include positive test rates and hospitalizations. In some cases, increased testing explains most of the surge. But in general, the states with troubling increases in numbers are seeing hospitalizations ramp up as well.



As the correlation between economic reopening and these covid numbers came to the forefront in June, both sides of the financial market (equities/stocks and debt/bonds/rates) **halted** their prevailing momentum and circled the wagons. In other words, stocks were surging, but since early June, they've been sideways in a narrower range. The bond market is also consolidating, but with slight bias toward lower rates.

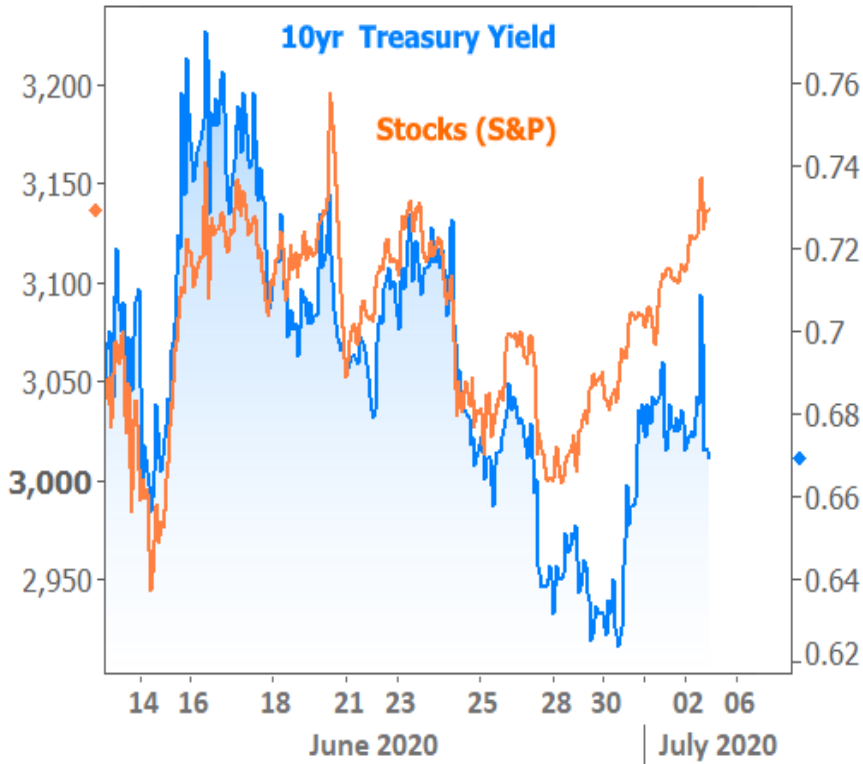


10yr Treasury yields are historically an excellent indicator for mortgage rates. They still are to some extent, but it's important to remember that mortgage rates did so much worse than Treasuries in March that they've had some **extra room to improve** recently. That's why mortgage rates were able to hit all-time lows yet again this week even as 10yr yields remain well above their recent lows.



One word of caution on the chart above. It may **look** like mortgage rates (orange line) are destined to rejoin the blue line, but there are several reasons that they'll have a hard time doing that. At the very least, it would take months and months. Simply put, the chart does **not** guarantee additional improvements in mortgage rates or that they would be immune to rising Treasury yields.

Financial markets closed early on Thursday in observance of Independence Day and will be **fully closed on Friday**. When trading resumes next week, we can expect stocks and bonds to continue taking cues from each other as they both watch the debate between economic performance and coronavirus numbers. The following chart shows the correlation between stocks and bonds that we tend to see on most days.



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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jun 29				
10:00AM	May Pending Home Sales (%)	+44.3	18.9	-21.8
10:00AM	May Pending Sales Index	99.6		69.0
Tuesday, Jun 30				
9:00AM	Apr CaseShiller 20 yy (%)	+4.0	4.0	3.9
9:45AM	Jun Chicago PMI	36.6	45.0	32.3
10:00AM	Jun Consumer confidence	98.1	91.8	86.6
Wednesday, Jul 01				
7:00AM	w/e Mortgage Refinance Index	3359.2		3434.6

Event Importance:

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

Date	Event	Actual	Forecast	Prior
7:00AM	w/e MBA Purchase Index	308.7		312.7
8:15AM	Jun ADP National Employment (k)	2369	3000	-2760
10:00AM	Jun ISM Manufacturing PMI	52.6	49.5	43.1
10:00AM	May Construction spending (%)	-2.1	1.0	-2.9
Thursday, Jul 02				
8:30AM	Jun Non-farm payrolls (k)	4800	3000	2509
8:30AM	Jun Unemployment rate mm (%)	11.1	12.3	13.3
8:30AM	w/e Jobless Claims (k)	1427	1378	1480
8:30AM	w/e Continued jobless claims (ml)	19.290	18.950	19.522
10:00AM	May Factory orders mm (%)	8.0	8.9	-13.0
Monday, Jul 06				
10:00AM	Jun ISM N-Mfg PMI	57.1	50.1	45.4
10:00AM	Jun ISM N-Mfg Bus Act	66.0	49.0	41.0
Wednesday, Jul 08				
3:00PM	May Consumer credit (bl)	-18.28	-15.50	-68.78
Thursday, Jul 09				
10:00AM	May Wholesale inventories mm (%)	-1.2	-1.2	-1.2
Friday, Jul 10				
8:30AM	Jun Core Producer Prices YY (%)	0.1	0.4	0.3

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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