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 Rates in More Than 5 Months. What's Next?

This week brought pleasant surprises for the mortgage market as rates returned to levels not seen since February.

Back in February, we were passing through the present rate range on the way **UP**, and there were few--if any--reasons to think we'd return to those levels if underlying trends continued.

Specifically, covid case counts have continued to fall and are roughly as low as they've been since the start of the pandemic. Economic data has been volatile, but generally stronger in 2021 than most economists expected. Inflation metrics have been running hot (inflation is bad for rates). And the Fed has increasingly talked about dialing back its rate-friendly bond-buying programs.

But as is always the case, markets were trying to price in as much of the **future** as possible when rates were rising, and now they're trying to get ahead of the **next** move (the one where the rising rate trend cools off). In fact, they've been doing that for several months now.

This has taken the form of several distinct **"pauses for consideration"** (or **"consolidations"** in market jargon)--something the market tends to do when it's uncertain about what comes next. When it comes to covid, the original pause for consideration was the entire spring/summer of 2020.

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

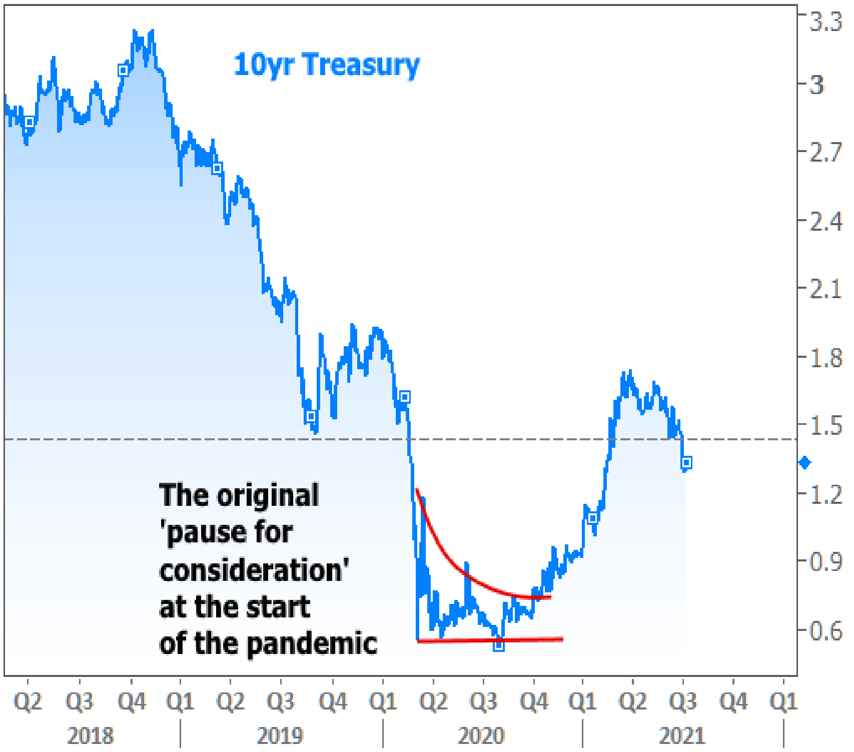
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	**-0.01**
MBS GNMA 5.5	99.78	**+0.00**
10 YR Treasury	4.2525	**+0.0146**
30 YR Treasury	4.4725	**+0.0257**

Pricing as of: 7/22 5:59PM 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%



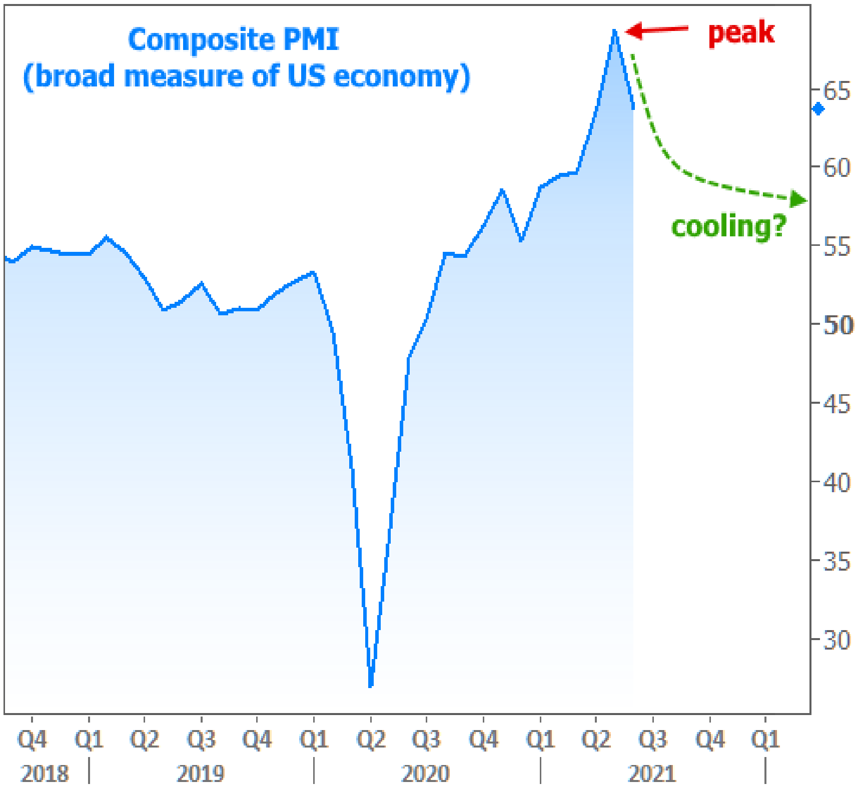
Clearly, rates found a reason to move higher heading into the new year, and have subsequently entered a new phase of **friendly** consolidations. The first was the biggest, and it played out over several months before giving way to the next consolidation in June. Now in July, we may be seeing the start of yet another!

The other way to view these recent consolidations is in the form of a broader downtrend in rates. In this case, we'd view this week's impressive rate rally as a temporary, failed attempt to break below this downtrend.

In the biggest of pictures, we can simply say that **rates are deciding** whether or not they're ready to move on from their covid-inspired all-time low range, and all of the above is merely noise.

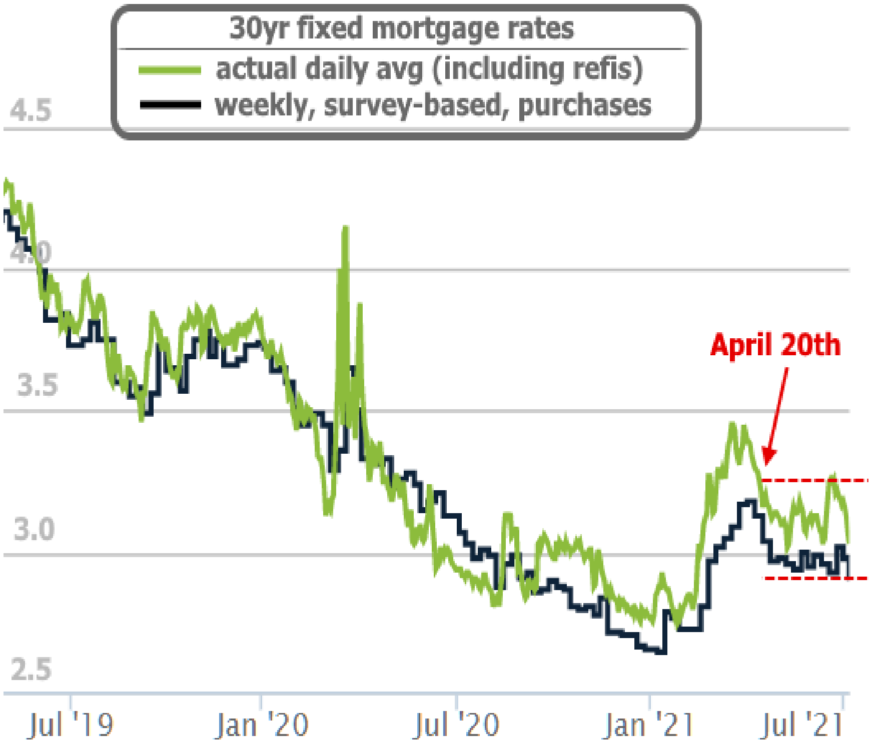
The common theme is that there **were** obvious reasons for rates to move **higher** after 2020's doldrums and now there are only slightly less obvious reasons for rates to be leveling off.

True, there is some strong economic data out there, but as we discussed last week, we're still roughly 7 million jobs away from pre-covid levels. Economists are also considering that much of the recent excess economic strength was a temporary byproduct of pent-up demand and perhaps a bit of euphoria due to economic reopenings. The thought is that post-covid growth just **peaked** and may now be cooling.

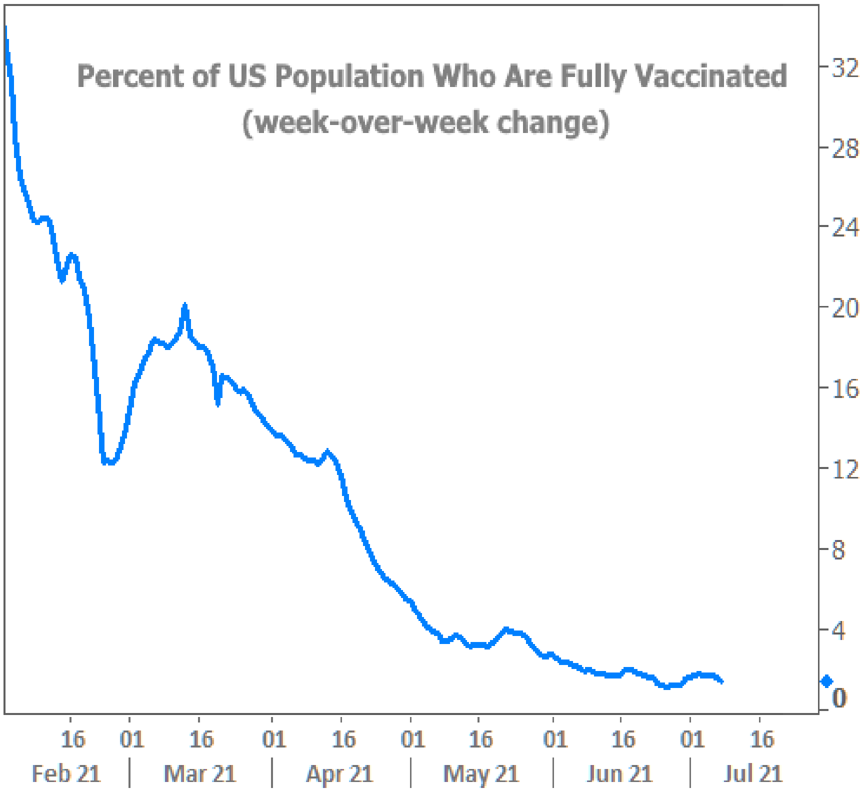


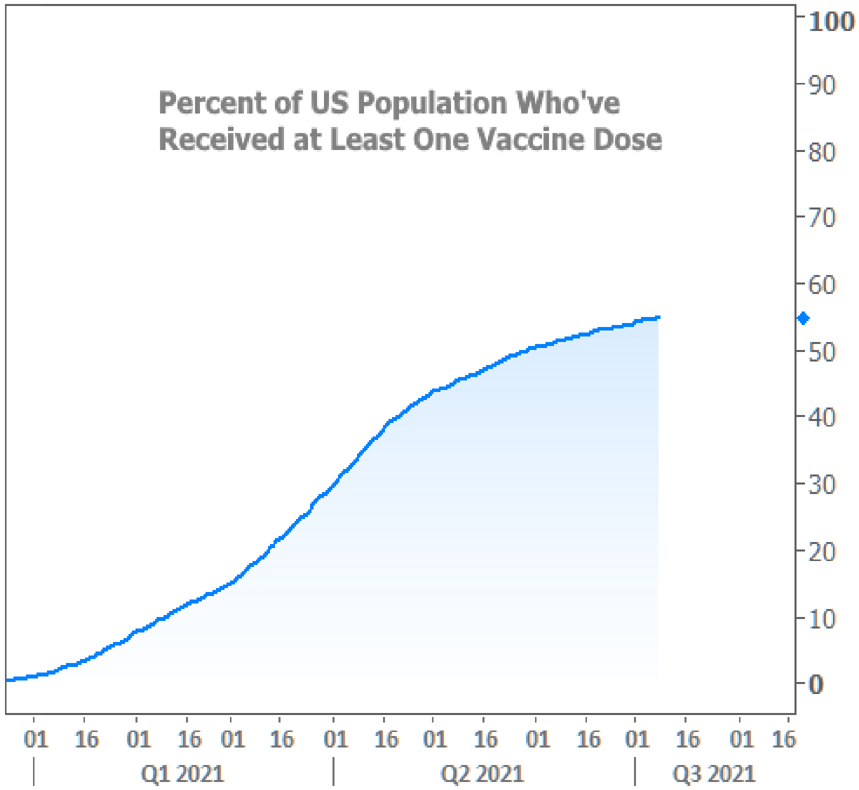
Inflation expectations have also been cooling noticeably since May and had begun leveling as early as March.

March is incidentally the same time **mortgage rates** turned the corner. They've been in a narrow, flat range since April 20th, with recent gyrations occurring inside that range until this week.



In addition to the measurable economic variables, markets can also consider the implications of vaccination rates, which have decelerated markedly (once again, incidentally during the same time that rates found their footing and began to pull back from longer-term highs).



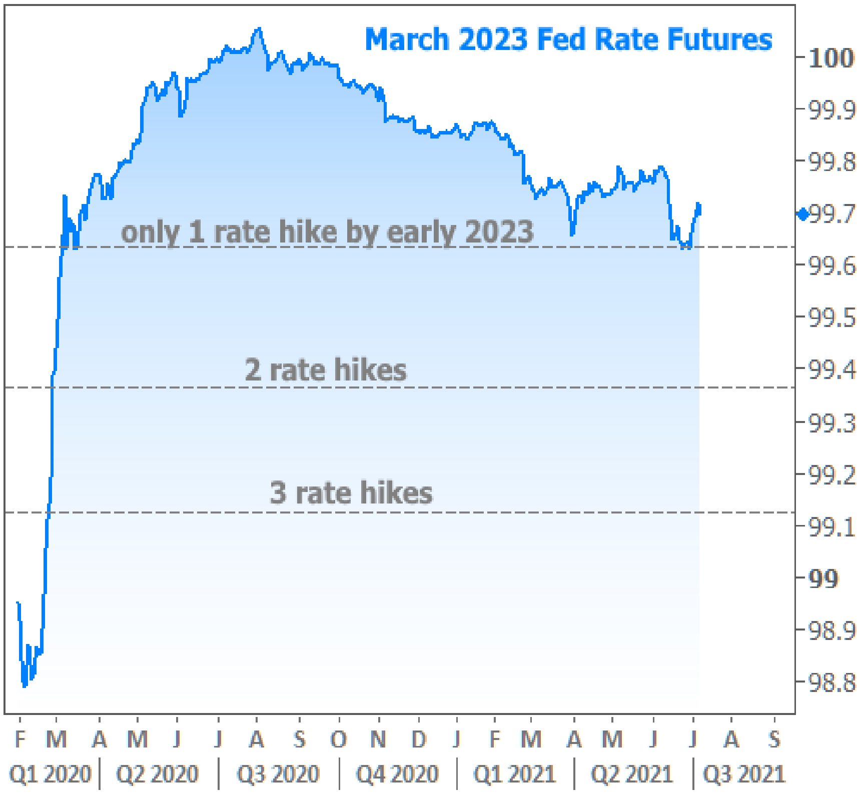


On a more anecdotal note, we're hearing more talk of "**buyer fatigue**" due to the recent surge in prices for homes, cars, and fuel, among other things. This could impede economic momentum at a time where it already seems to be leveling off from those "euphoric" levels.

When it comes to "**where we go from here**," we have to consider the potential economic outcomes and the resulting policy response from the Fed. This isn't complicated. It's merely unknown.

The Fed itself has noted that it **won't** have a clean read on economic momentum until **this fall** at the earliest. This has markets feeling a bit less threatened by a potentially premature shift toward less rate-friendly Fed policies.

A chart of Fed Funds Rate expectations tells the story fairly well. The horizontal line at 99.625 means the market is betting on the Fed Funds rate being in a range of 0.25-0.50 by March 2023 (it's currently at 0.00-0.25). Translation: the market **isn't** willing to confidently bet on even **ONE** rate hike by the beginning of 2023.



Before you get too excited, this **doesn't** mean rates will go lower or stay lower between now and then. The Fed Funds Rate doesn't even correlate well with mortgage rates over shorter time horizons. The chart is just another way to **quantify uncertainty** about the outlook and the fact that the burden is on the economy to prove it can get over covid and actually return to a semblance of its former self.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jul 06				
10:00AM	Jun ISM N-Mfg PMI	60.1	63.5	64.0

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important

Date	Event	Actual	Forecast	Prior
Wednesday, Jul 07				
7:00AM	w/e MBA Purchase Index	252.4		255.2
7:00AM	w/e MBA Refi Index	2791.3		2856.6
2:00PM	FOMC Minutes			
Thursday, Jul 08				
8:30AM	w/e Jobless Claims (k)	373	360	364
8:30AM	w/e Continued Claims (ml)	3.339	3.313	3.469
Friday, Jul 09				
10:00AM	May Wholesale inventories mm (%)	1.3	1.1	1.1
Monday, Jul 12				
11:30AM	3-Yr Note Auction (bl)	58		
1:00PM	10-yr Note Auction (bl)	38		
Tuesday, Jul 13				
8:30AM	Jun Consumer Price Index (CPI) (%)	0.9	0.5	0.6
8:30AM	Jun Core CPI (Annual) (%)	4.5	4.0	3.8
1:00PM	30-Yr Bond Auction (bl)	24		
Wednesday, Jul 14				
7:00AM	w/e MBA Purchase Index	273.3		252.4
7:00AM	w/e MBA Refi Index	3361.5		2791.3
8:30AM	Jun Core Producer Prices YY (%)	5.6	5.1	4.8
Thursday, Jul 15				
8:30AM	Jun Import prices mm (%)	1.0	1.2	1.1
8:30AM	Jul Philly Fed Business Index	21.9	28.0	30.7
8:30AM	Jul NY Fed Manufacturing	43.00	18.00	17.40
9:15AM	Jun Industrial Production (%)	0.4	0.6	0.8
Friday, Jul 16				
8:30AM	Jun Retail Sales (%)	0.6	-0.4	-1.7
10:00AM	Jul 5yr Inflation Outlook (%)	2.9		2.8
10:00AM	Jul 1yr Inflation Outlook (%)	4.8		4.2
10:00AM	Jul Consumer Sentiment	80.8	86.5	85.5
10:00AM	May Business Inventories (%)	0.5	0.5	-0.2

★★ Very Important

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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