



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](#)

Rates at 3-Week Highs, More Volatility Ahead

As recently as Thursday, August 6th, the average mortgage rate headline proclaimed the **lowest** rates in 6 months. That wasn't true on Thursday, and it's even less true today.

Were the other headlines lying?

No, not intentionally. The source of the confusion is Freddie Mac's weekly rate survey--the most widely cited source material for journalists who **aren't** necessarily dedicated mortgage rate reporters.

Freddie's methodology technically allows for survey responses on Monday through Wednesday, but it's a safe bet that **most** of the responses are in on Monday based on how the survey has performed over the years.

Rates were excellent at the beginning of the week. To Freddie's credit, they were indeed the lowest in 6 months. But that began to change on Wednesday. By the time Freddie released the survey on Thursday morning, we were **already** well on our way to **3-week highs**, and Friday made it official.

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	4.2525	+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%

30yr Fixed Mortgage Rates

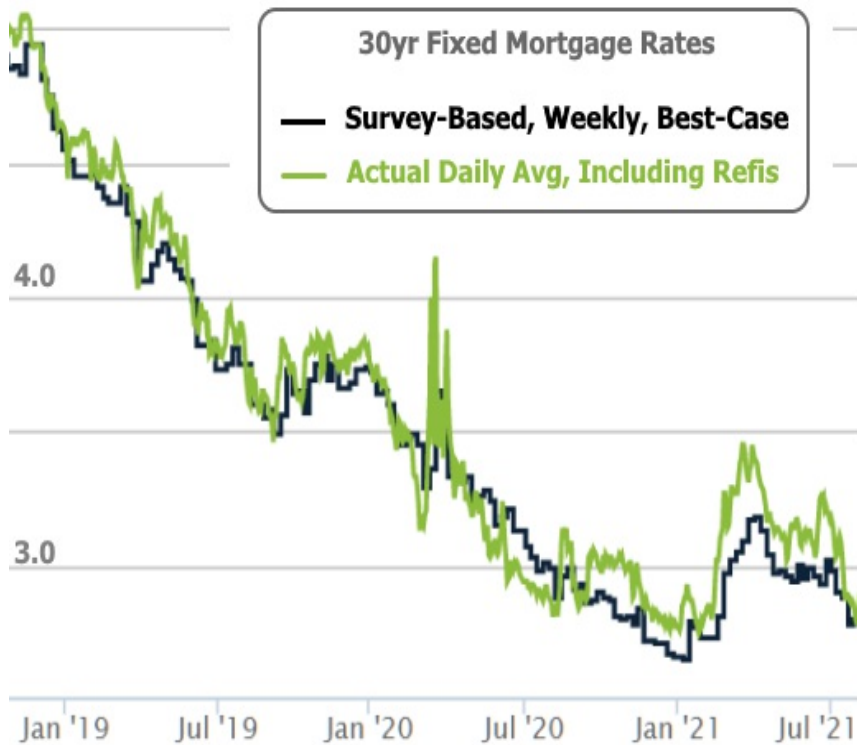
- Survey-Based, Weekly, Best-Case
- Actual Daily Avg, Including Refis



Notably, these 3-week highs are still historically low.

30yr Fixed Mortgage Rates

- Survey-Based, Weekly, Best-Case
- Actual Daily Avg, Including Refis

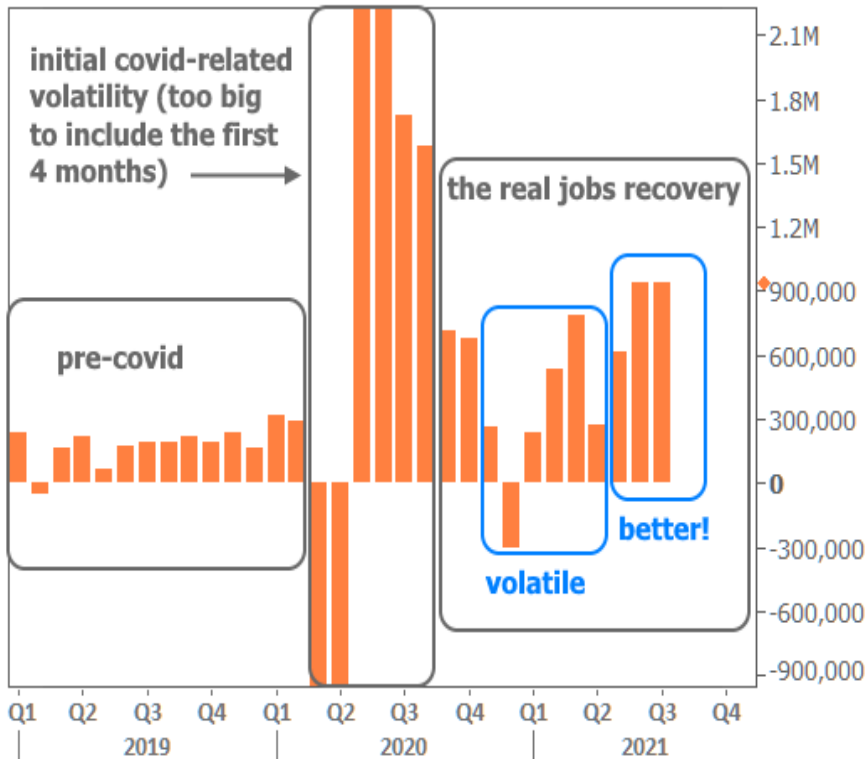


Friday's **main source of drama** was the strong jobs report from the Labor Department. The unemployment rate dropped from 5.9% to 5.4%, easily besting expectations of 5.7%. This was accomplished despite a 0.1% increase in Americans who considered themselves part of the labor force (a statistic that is sometimes used to offset changes in the unemployment rate).

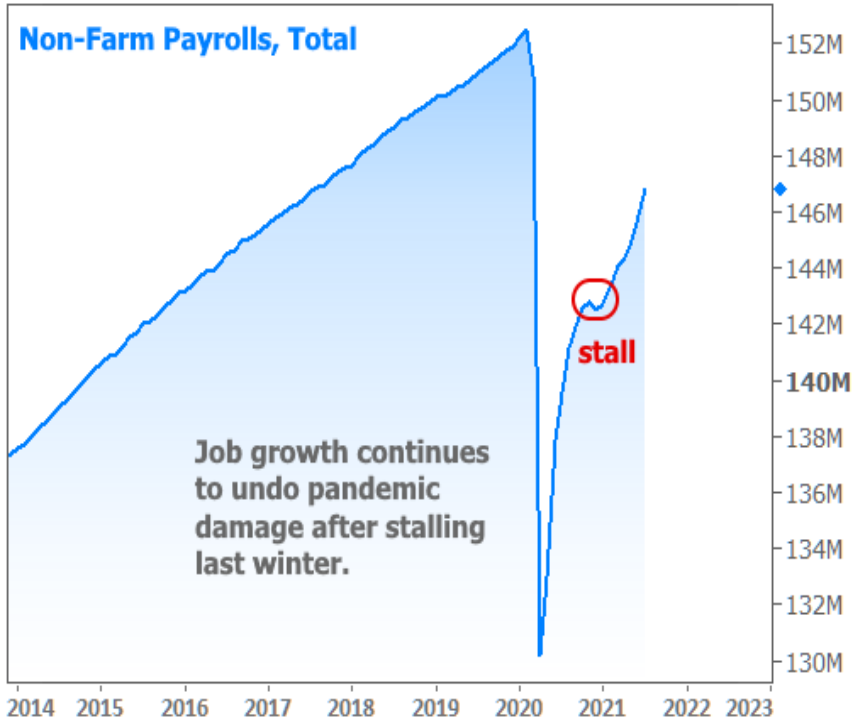
The jobs report is always important, but this one and the next one are **particularly important**. They provide 2 key data points that will help inform the timing of the Fed's decision to decrease its bond buying amounts (aka "tapering"). This would put upward pressure on rates, all other things being equal.

One member of the Fed laid out some specific numbers **before** the jobs report, saying we'd need to see around a million new jobs in the next 2 reports to justify a taper announcement on September 22nd. At 943k with another 88k of upward revisions to the previous month, this one was close enough to keep the conversation open.

New Jobs Added/Lost Each Month (NFP)

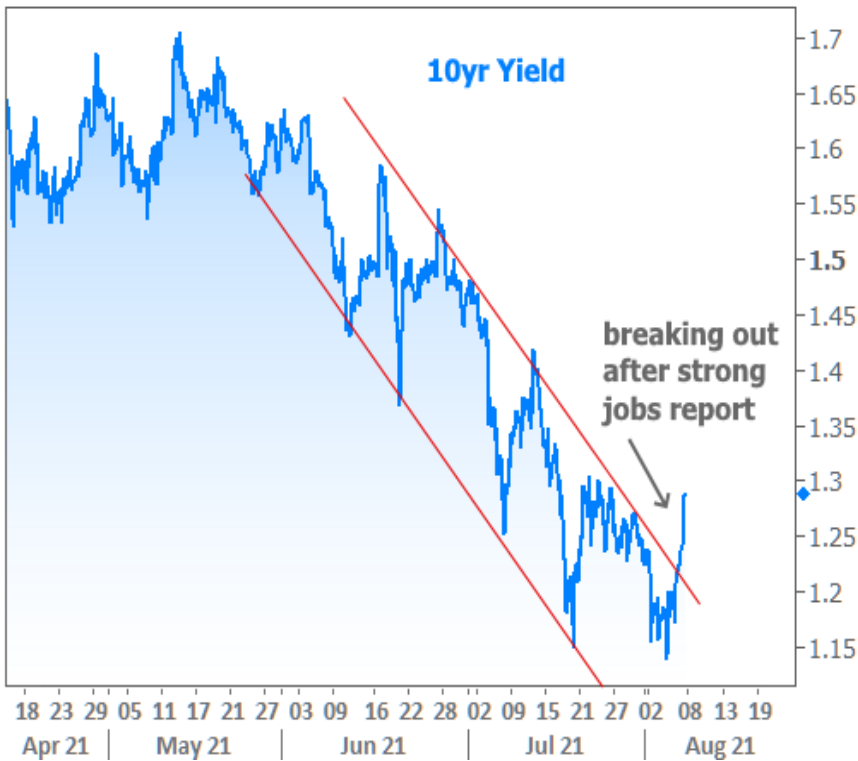


There are **other ways** to look at the job count, however. In cumulative/outright terms, we see that the labor market still has a long way to go before getting back to the pre-covid number of jobs.

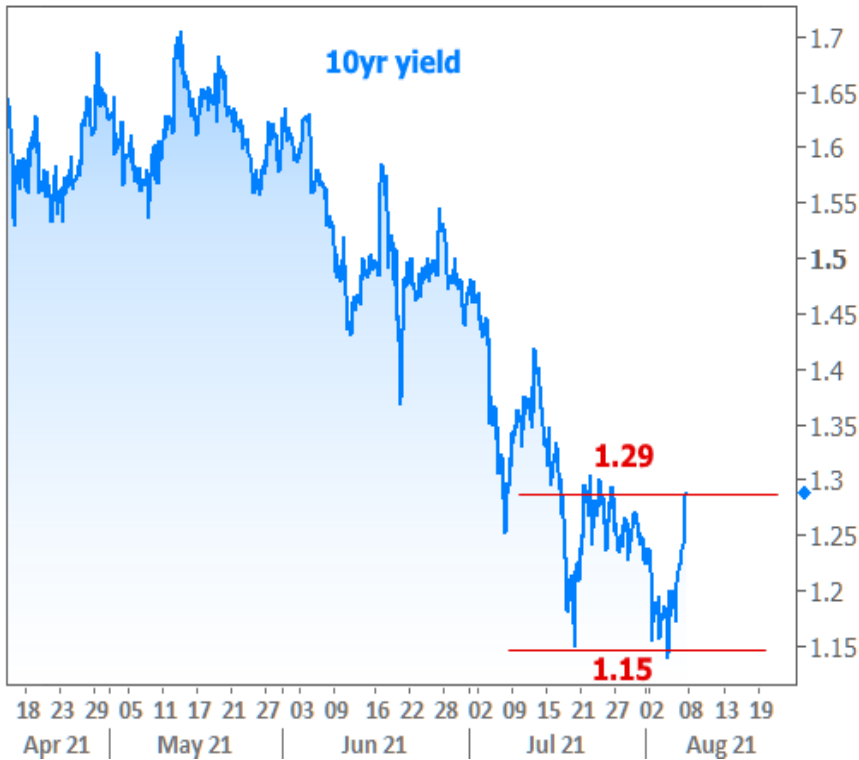


The Fed is well aware of this--as are markets. They are prepared to taper **well** before that gap is closed. All they need to see is the "substantial further progress" that continues to be mentioned in official Fed communications. This is why the bond market reacted so readily to the data.

In terms of 10yr Treasury yields/rates (a bellwether for longer term rates like mortgages), there are **two ways** to look at this week's rate spike. The first would be as a **breakout** from the downward trend of the past few months.



The second would be as a **return** to the top of the recent range.



There's **no way to know** which of these options will win out ahead of time. Traders are acutely aware of the Fed's deliberations on tapering. They're eagerly awaiting any clarification from Powell at the Jackson Hole Symposium at the end of the month, and they're far more prepared for tapering this time around than they were in 2013, when it caused a **massive** jump in rates.

Ultimately, the Fed's course or action b. Data depends on many factors including an unknown path for the pandemic (and pandemic-related policies at the state and local levels).

Bottom line, stronger data increases the risks for rates, but uncertainty about covid and its impact on the economy could push back in the other direction. We'll get some indication of the market's leanings next week, but we'll ultimately be waiting to see how covid numbers and economic data fare when a majority of the country has returned to school. That makes the next month or two highly charged in terms of potential volatility in rates.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Aug 02				
10:00AM	Jul ISM Manufacturing PMI	59.5	60.9	60.6
10:00AM	Jun Construction spending (%)	0.1	0.4	-0.3
Tuesday, Aug 03				
10:00AM	Jun Factory orders mm (%)	1.5	1.0	1.7
Wednesday, Aug 04				

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
7:00AM	w/e MBA Purchase Index	247.5		251.7
7:00AM	w/e MBA Refi Index	3571.3		3570.4
8:15AM	Jul ADP National Employment (k)	330	695	692
10:00AM	Jul ISM N-Mfg PMI	64.1	60.5	60.1
Thursday, Aug 05				
8:30AM	w/e Jobless Claims (k)	385	373	400
8:30AM	w/e Continued Claims (ml)	2.930	3.260	3.269
Friday, Aug 06				
8:30AM	Jul Non-farm payrolls (k)	+943	870	850
8:30AM	Jul Unemployment rate mm (%)	5.4	5.7	5.9
Tuesday, Aug 10				
1:00PM	3-Yr Note Auction (bl)	58		
Wednesday, Aug 11				
7:00AM	w/e MBA Purchase Index	252.0		247.5
7:00AM	w/e MBA Refi Index	3684.3		3571.3
8:30AM	Jul Core CPI (Annual) (%)	4.3	4.3	4.5
Thursday, Aug 12				
8:30AM	Jul Core Producer Prices YY (%)	6.2	5.6	5.6
Friday, Aug 13				
8:30AM	Jul Import prices mm (%)	0.3	0.6	1.0
8:30AM	Jul Export prices mm (%)	1.3	0.8	1.2
10:00AM	Aug 5yr Inflation Outlook (%)	3.0		2.8
10:00AM	Aug 1yr Inflation Outlook (%)	4.6		4.7
10:00AM	Aug Consumer Sentiment	70.2	81.2	81.2
Tuesday, Oct 12				
1:00PM	10-yr Note Auction (bl)	38		
Wednesday, Oct 13				
1:00PM	30-Yr Bond Auction (bl)	24		

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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