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When Will Prices Care About Rising Rates? And Are Rates Done Rising?

Home prices have been on a tear since late 2020 despite generally higher rates in 2021. In the past few months, rates have upped the ante by surging at one of the fastest paces in history. But in data just released this week, home prices are moving higher at an even faster pace. **What's up with that?**

First, let's take a look at rates. We already examined the phenomenon in detail [last week](#), and there were no major changes this week. Actually, the absence of major changes is one of the most promising developments in weeks. As oil prices and inflation expectations have leveled off, rates have attempted to find some sort of ceiling. Whether it's temporary or longer lasting remains to be seen. The following chart shows the leveling-off process in terms of 10yr Treasury yields, which give us a more detailed short term view of rate trends.

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

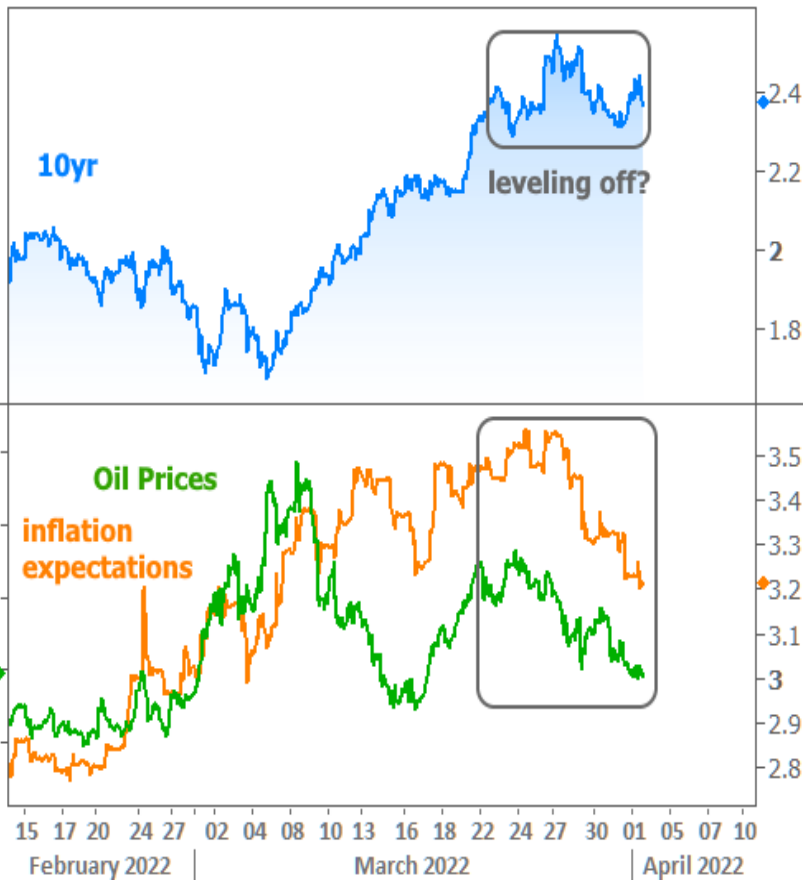
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.38	-0.02
MBS GNMA 5.5	99.77	+0.00
10 YR Treasury	4.2535	+0.0156
30 YR Treasury	4.4729	+0.0261

Pricing as of: 7/22 4:58PM 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%



Mortgage rates only get one data point per day, so it's much harder to see that they've leveled off a bit this week, but still very easy to see how much they've risen in 2022.

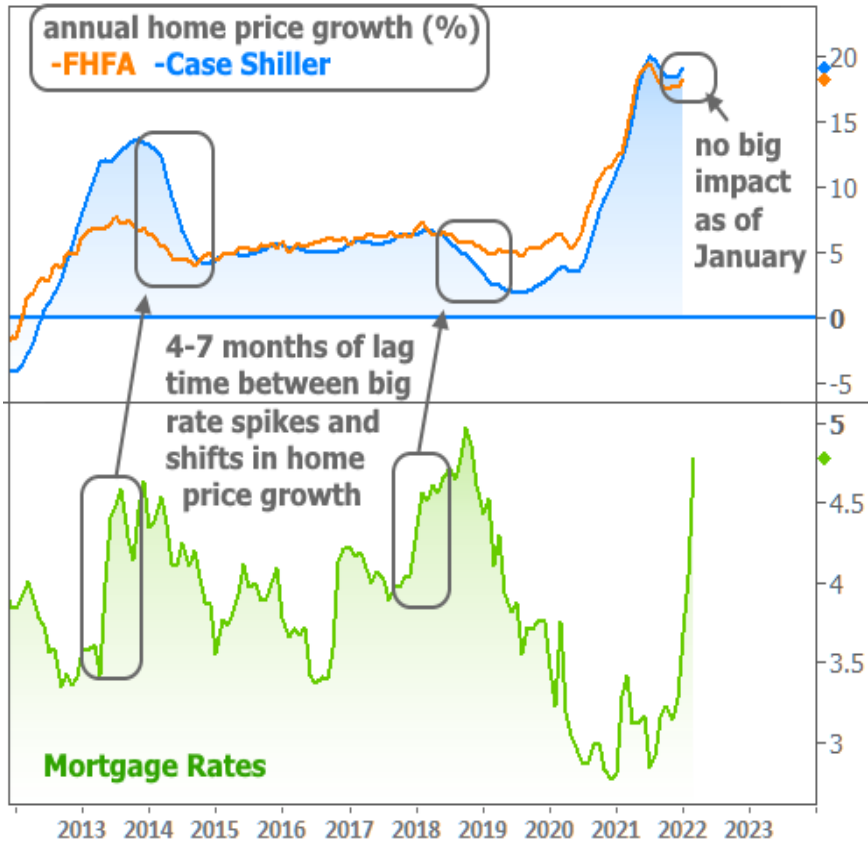
Average 30yr Fixed Mortgage Rates



That brings us **back to this week's big question**: if mortgage rates have moved up so quickly, why are home prices still rising?

There are a few parts to the answer. The first thing we have to consider is the **unprecedented supply/demand** environment in the housing market combined with a surge in incomes, not to mention the chain reaction of people being able to sell their homes for much higher values who then can spend more on their next home. Housing economists will be sorting these variables out for years, but the point is that there's more to home prices than rates.

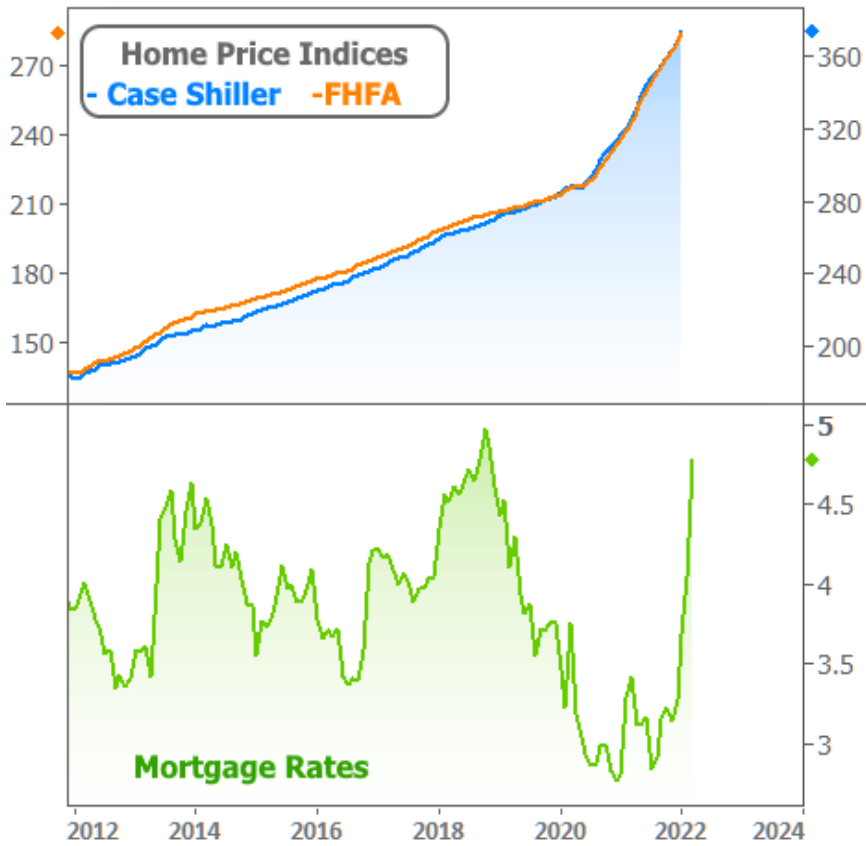
Even so, we can arguably see a few instances of big, unexpected rate spikes resulting in slower home price growth.



The chart also provides 2 clues as to why home price growth was able to accelerate in January. The **first** clue is the lag time between mortgage rate spikes and the potential impact on prices. It has taken between 4 and 7 months to make it into the data in the past. The **second** clue is that the major home price indices are fairly backward looking in that we just got January's numbers on March 29th.

Does this mean that current home prices are a **ticking time bomb**, set to decline in a few months?

No one knows, actually, and the chart above says **nothing** about home prices **declining**. The chart above is the **RATE OF CHANGE** in prices. If the blue/orange lines are above zero, prices are **rising**. Here's what the same data looks like if we use the actual home price indices:



In other words, prices have done nothing but move up for **more than a decade**, regardless of rate volatility. Could that change in the future? Sure, but also, it might not! The only thing most experts agree on is that the 18-20% per year gains will be subsiding.

Have home prices ever gone down?

Yes, ask anyone who owned real estate during the financial crisis. But that was actually the **only** major instance of falling property values in 40+ years, and it had nothing to do with rising rates.



Bottom line: the recent rate spike will almost certainly contribute to a slower pace of home price growth, but it remains to be seen if prices will actually decline. One thought provoking question for those of you who were tuned in to the property market during the financial crisis is this: if you told the average buyer in 2005-2007 and 2020-2022 that their home would lose 20% of its value over the next few years, who would care more? This isn't to say that home prices are invincible, simply that the market dynamics (and underlying loan program availability) are quite different compared to the financial crisis.

Next Wednesday brings the release of the "minutes" from the most recent Fed meeting. With the Fed's policy outlook being one of the key reasons for the abrupt nature of 2022's rate spike, markets are curious to see if the minutes will offer any new insight to the Fed's potential course of action. In addition, trading is often more volatile (for better or worse) in the first few days of a new quarter. As such, by the end of the week, we should have a much better idea of whether rates are indeed serious about leveling off.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Mar 28				
1:00PM	5-Yr Note Auction (bl)	51		
Tuesday, Mar 29				
9:00AM	Jan Case Shiller Home Prices-20 y/y (%)	19.1	18.4	18.6
9:00AM	Jan FHFA Home Prices y/y (%)	18.2		17.6

Event Importance:

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

Date	Event	Actual	Forecast	Prior
10:00AM	Mar Consumer confidence	107.2	107.0	110.5
1:00PM	7-Yr Note Auction (bl)	47		
Wednesday, Mar 30				
7:00AM	w/e MBA Purchase Index	267.1		265.4
7:00AM	w/e MBA Refi Index	1295.1		1522.7
8:15AM	Mar ADP National Employment (k)	455	450	475
8:30AM	Q4 GDP Final (%)	6.9	7.1	7.0
Thursday, Mar 31				
8:30AM	Feb Core PCE Inflation (y/y) (%)	5.4	5.5	5.2
8:30AM	w/e Jobless Claims (k)	202	197	187
9:45AM	Mar Chicago PMI	62.9	57.0	56.3
Friday, Apr 01				
8:30AM	Mar Non-farm payrolls (k)	431	490	678
8:30AM	Mar Unemployment rate mm (%)	3.6	3.7	3.8
8:30AM	Mar Average earnings mm (%)	0.4	0.4	0.0
10:00AM	Feb Construction spending (%)	0.5	1.0	1.3
10:00AM	Mar ISM Mfg Prices Paid	87.1	80.0	75.6
10:00AM	Mar ISM Manufacturing PMI	57.1	59.0	58.6
Tuesday, Apr 05				
10:00AM	Mar ISM N-Mfg Bus Act	55.5		55.1
10:00AM	Mar ISM N-Mfg PMI	58.3	58.4	56.5
Wednesday, Apr 06				
7:00AM	w/e MBA Purchase Index	258.1		267.1
7:00AM	w/e MBA Refi Index	1166.3		1295.1
Friday, Apr 08				
10:00AM	Feb Wholesale inventories mm (%)	2.5	2.1	2.1

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

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