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## Fed Reminds Markets Why Rates Went Sharply Higher in August

While it was never likely to contain too many surprises, this week's much-anticipated Jackson Hole speech from Fed Chair Powell served as an important reminder as to why rates have risen so sharply in August.

The Fed has 8 scheduled policy meetings per year. At the conclusion of those meetings, the Fed releases an official statement which includes any potential changes in the Fed Funds Rate.

The Fed Funds Rate is quite different from mortgage rates, but the things that lead the Fed to adjust its rate hike pace often have an impact on longer-term rates like mortgages and 10yr Treasury yields.

All that to say, there was no official policy statement from the Fed this week and no change to the Fed Funds Rate. Markets were nonetheless eager to check in with Fed Chair Powell and were forced to rely on a brief speech delivered at the Fed's annual Jackson Hole Economic Symposium, or simply "Jackson Hole" to market watchers.

Jackson Hole has been responsible for helping to telegraph a few important shifts in Fed policy over the years. As such, it always garners a bit of speculation as a potential flashpoint for the market, even if the big reactions have been more scarce over the years.

This year was perhaps more deserving of some anxiety considering the Fed's policy path as communicated by Powell in late July and multiple Fed members in the subsequent weeks. In short, the Fed Funds Rate has risen quickly enough that policymakers can BEGIN to consider slowing the pace of rate hikes.

The promise of that policy shift--highly conditional though it may have been--coincided with several downbeat economic reports in late July. The result was July standing as one of the best months for downward movement in mortgage rates in decades. And the market has been pushing back against that exuberance ever since.

### Why?

To reiterate, the Fed's late-July message was highly conditional. The slightly friendlier inflation data would need to continue in the same vein for **months** to build a disinflationary case (inflation is a key reason rates have been as high as they are) and a handful of weak economic reports didn't mean

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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 5:03PM EST

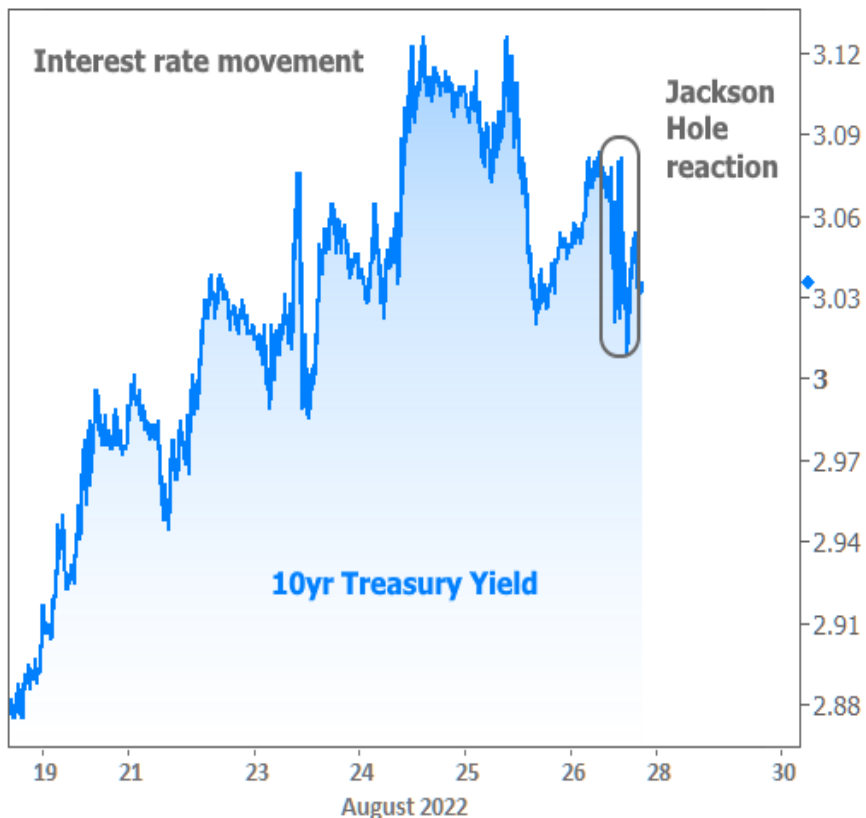
## Recent Housing Data

		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%

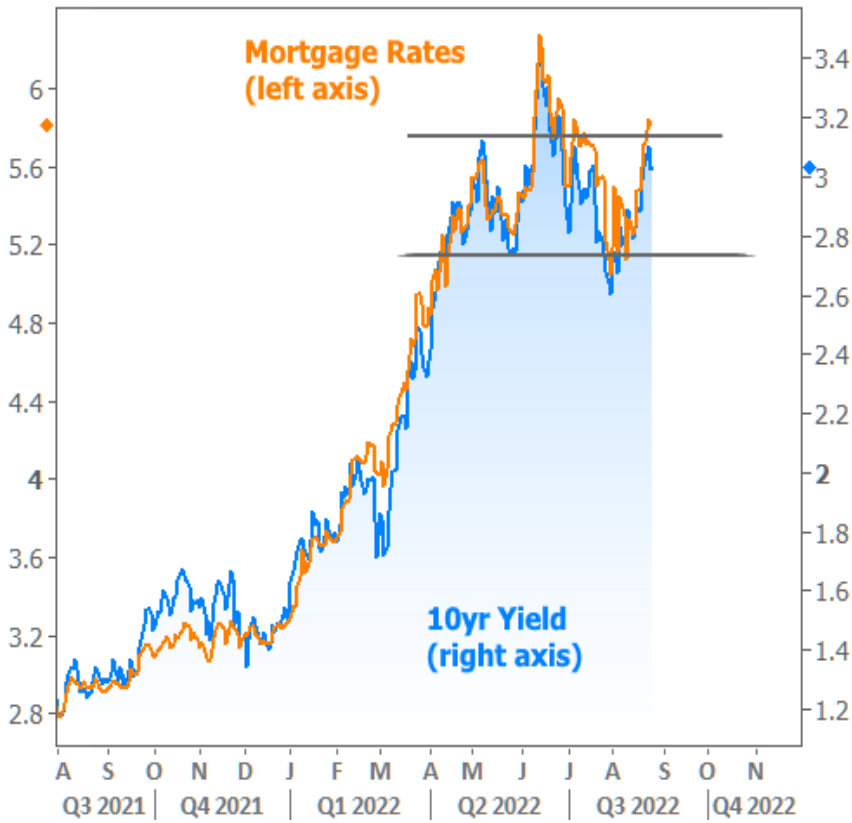
anything conclusive unless they too were joined by subsequent months of deterioration (weaker economic data tends to coincide with lower rates).

To make matters worse, economic data began to improve in August--in some cases substantially. Then speculation increased that July's inflation news was more of a one-off due to a big correction in fuel prices. Last but not least, a slew of other Fed speakers was saying essentially all of these same things over the past few weeks. One of the most sobering parts of the thesis was the need to do damage to the economy (by continuing to hike rates) in order to achieve inflation goals.

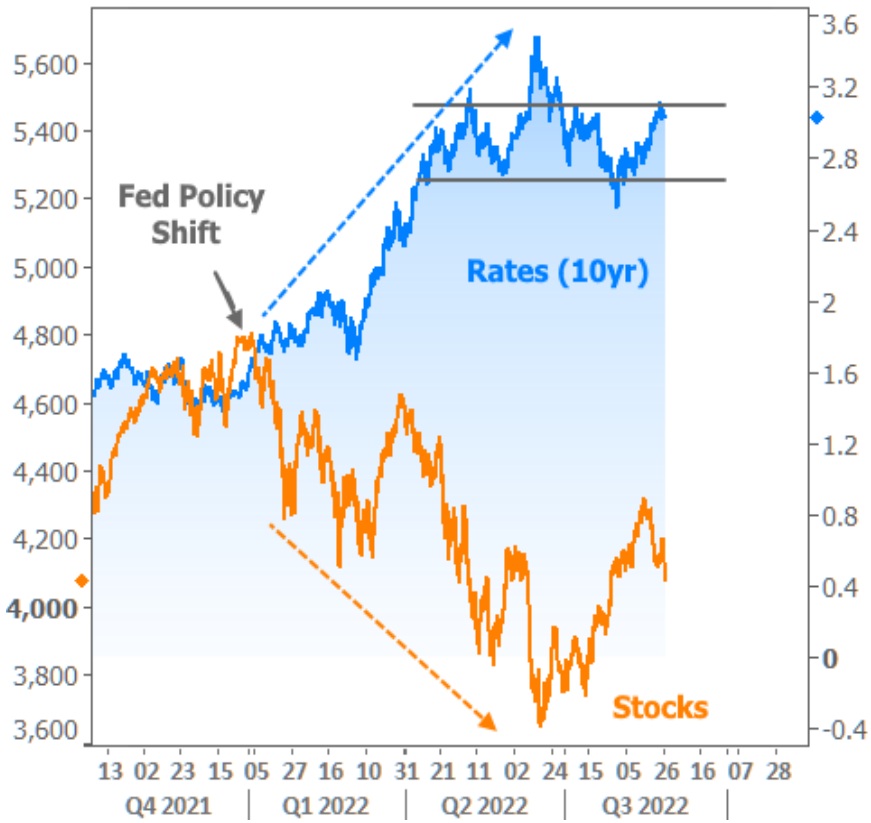
Thus it came to be that the market was positioned at the highest rates in more than a month before Friday's speech from Powell. When Powell bluntly reiterated everything we already knew, there wasn't much for the bond market to do. While that was a good thing in terms of avoiding additional rate spikes, it also meant there was no compelling case for rates to drop quickly. The following chart shows the range-bound indecision in 10yr Treasury yields after having risen throughout the week in advance of Powell's speech.



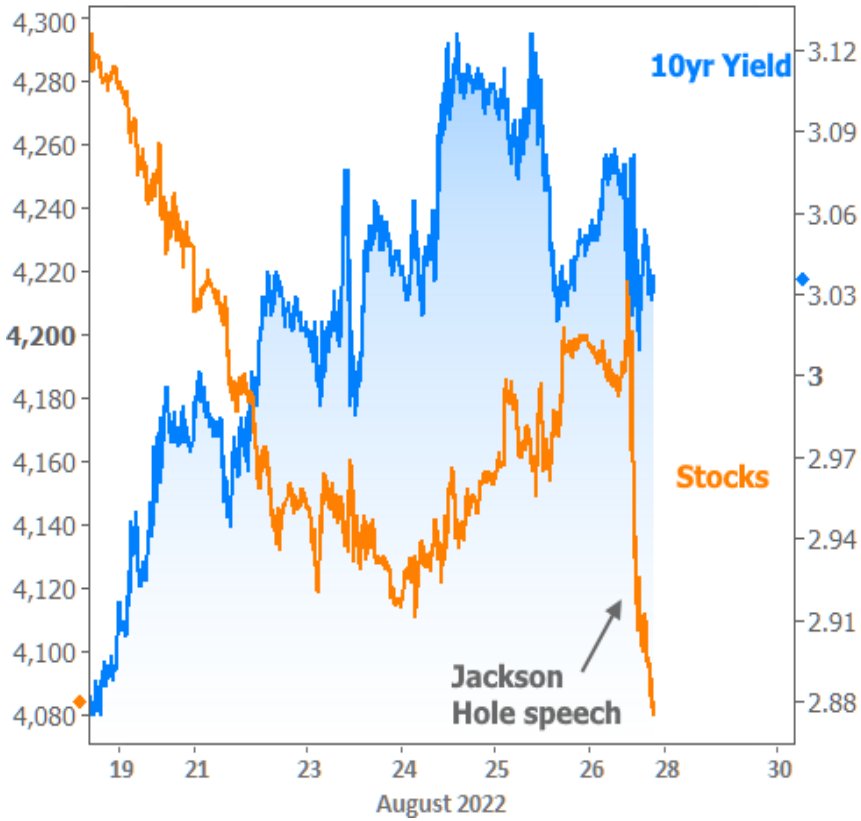
While the 10yr yield doesn't directly dictate mortgage rates, the two are highly correlated most of the time.



There is a bit of a counterargument to the notion that the market was fully prepared for Fed Chair Powell's direct tone. It comes courtesy of the reaction in stocks. But before we examine that in detail, let's take a moment to remember that friendly Fed policies are like proverbial rising tides that lift all boats. They help both stocks and bonds. Conversely, when the Fed shifts toward tighter policy, stocks and bonds often lose ground together. That's basically 2022 in a nutshell: a big, unfriendly shift from the Fed followed by heavy selling on both sides of the market.

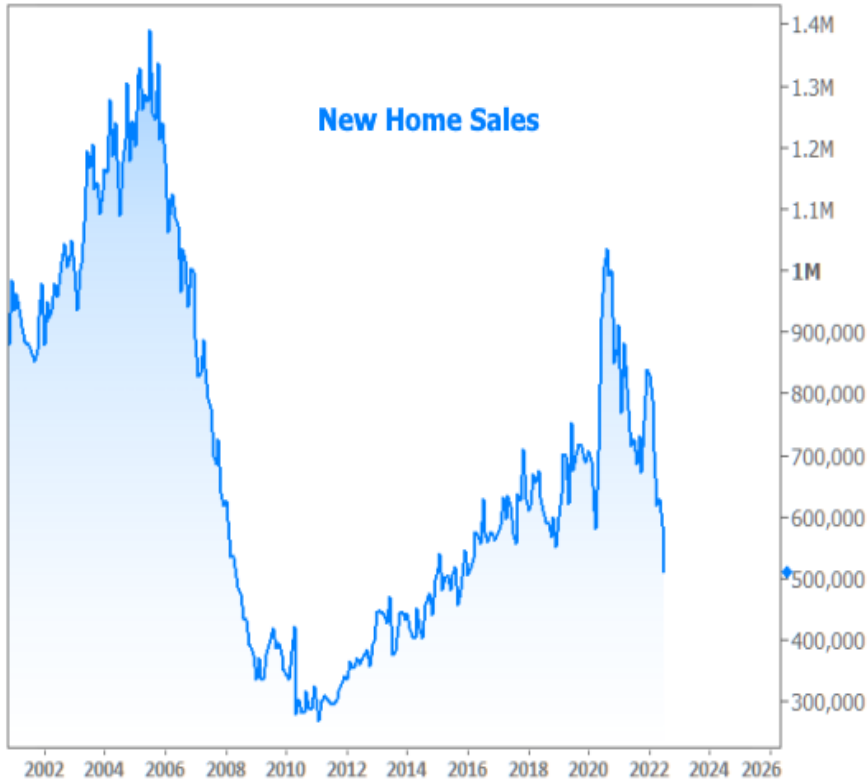


With that in mind, Friday's stock market reaction to Powell suggests stocks were not nearly as well positioned as bonds/rates. In fact, stocks lost so much ground that bonds/rates may have had a bit of additional benefit from investors fleeing the stock market to seek safer havens. In other words, rates might have risen more noticeably after Powell's speech were it not for the stock market taking the news so hard.

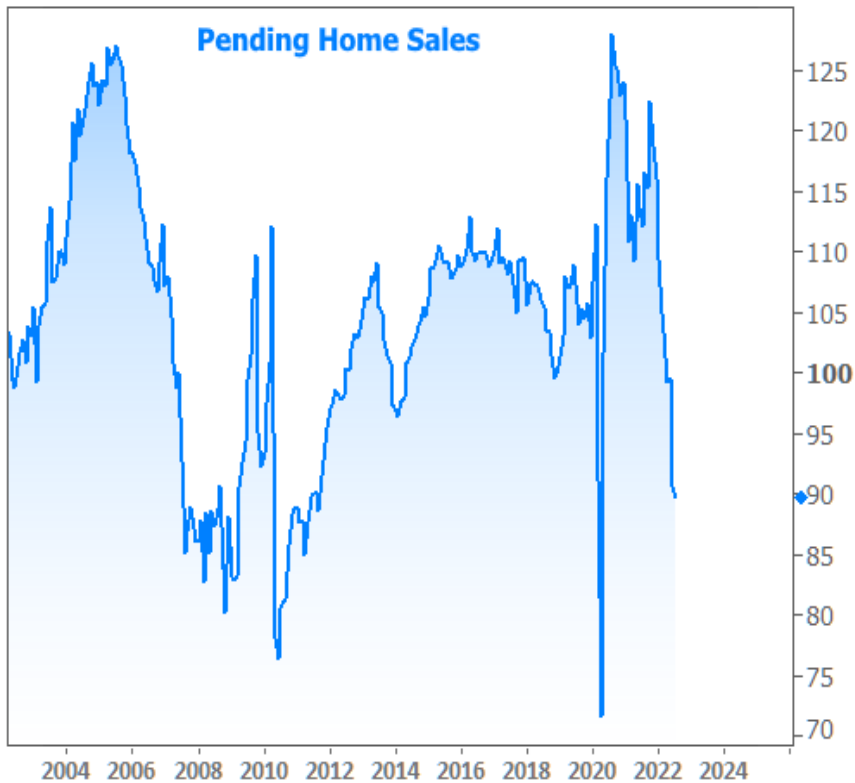


At the end of the day, the rate market is probably right about where it should be: not at the absolute highs of 2022, but not taking too much of a lead-off back down to lower levels. In order for a sustained drop to make sense, we need several more friendly inflation readings and, unfortunately, to see the negative impacts on the economy that the Fed is expecting.

At least one sector of the economy can already claim to be experiencing quite a bit of drama thanks to the shift in rates. If you're anywhere close to the housing market, you already know. This week brought more of the same in that regard with a big drop in New Home Sales.



Pending Home Sales also declined, but at a far slower pace in this week's data (which covered the month of July).



The chart above doesn't look great, but keep in mind that July only accounted for a 1% decline versus June whereas June dropped almost 9% vs May. This deceleration prompted a hopeful comment from NAR's chief economist Lawrence Yun, who said, "in terms of the current housing cycle, we may be at or close to the bottom in contract signings."

## Looking ahead

Next week could be critically important in shaping the rate trend because it brings several economic reports that have recently had a big impact on rate momentum. Chief among these is Friday's jobs report, which is expected to show a major deceleration in jobs growth from July's 528k to 285k for August.

We'll also get June's FHFA Home Price Index. While that's not a big market mover, it's part of a larger data set that helps determine conforming loan limits. June marks the end of Q2 and will round out 3 of the 4 quarters that feed the conforming loan limit equation. The equation becomes complete in late November when Q3 home prices are released.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Tuesday, Aug 23</b>				
9:45AM	Aug Markit Composite PMI	45.0		47.7
9:45AM	Aug Markit Services PMI	44.1	49.2	47.3
9:45AM	Aug Markit Manuf. PMI	51.3	52.0	52.2
10:00AM	Jul New Home Sales (ml)	0.511	0.575	0.590
10:00AM	Jul New Home Sales (%) (%)	-12.6		-8.1
1:00PM	2-Yr Note Auction (bl)	44		
<b>Wednesday, Aug 24</b>				
7:00AM	w/e MBA Refi Index	609.8		627.1
7:00AM	w/e MBA Purchase Index	202.8		203.8
8:30AM	Jul Durable goods (%)	0.0	0.6	2.0
10:00AM	Jul Pending Sales Index	89.8		91.0
10:00AM	Jul Pending Home Sales (%)	-1.0	-4.0	-8.6
1:00PM	5-Yr Note Auction (bl)	45		
<b>Thursday, Aug 25</b>				
8:30AM	Q2 GDP Prelim (%)	-0.6	-0.8	-0.9
8:30AM	w/e Jobless Claims (k)	243	253	250
1:00PM	7-Yr Note Auction (bl)	37		
<b>Friday, Aug 26</b>				
8:30AM	Jul Core PCE Inflation (y/y) (%)	4.6	4.7	4.8
10:00AM	Aug Sentiment: 1y Inflation (%)	4.8		5.0
10:00AM	Aug Sentiment: 5y Inflation (%)	2.9		3.0
10:00AM	Aug Consumer Sentiment (ip)	58.2	55.2	55.1
10:00AM	Powell at Jackson Hole			
<b>Tuesday, Aug 30</b>				
9:00AM	Jun Case Shiller Home Prices-20 y/y (%)	18.6	19.5	20.5
9:00AM	Jun FHFA Home Prices y/y (%)	16.2		18.3
9:00AM	Jun FHFA Home Price Index m/m (%)	0.1		1.4

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
9:00AM	Jun CaseShiller Home Prices m/m (%)	0.4	1.0	1.3
10:00AM	Aug Consumer confidence	103.2	97.7	95.7
<b>Wednesday, Aug 31</b>				
7:00AM	w/e MBA Purchase Index	199.1		202.8
7:00AM	w/e MBA Refi Index	562.5		609.8
9:45AM	Aug Chicago PMI	52.2	52.0	52.1
<b>Thursday, Sep 01</b>				
8:15AM	Jun ADP National Employment (k)		288	128
8:30AM	Q2 Labor Costs Revised (%)	10.2	10.7	10.8
8:30AM	w/e Jobless Claims (k)	232	248	243
10:00AM	Jul Construction spending (%)	-0.4	-0.4	-1.1
10:00AM	Aug ISM Manufacturing PMI	52.8	52.0	52.8
<b>Friday, Sep 02</b>				
8:30AM	Aug Average earnings mm (%)	0.3	0.4	0.5
8:30AM	Aug Non-farm payrolls (k)	315	300	528
8:30AM	Aug Unemployment rate mm (%)	3.7	3.5	3.5
10:00AM	Jul Factory orders mm (%)	-1.0	0.2	2.0



## 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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