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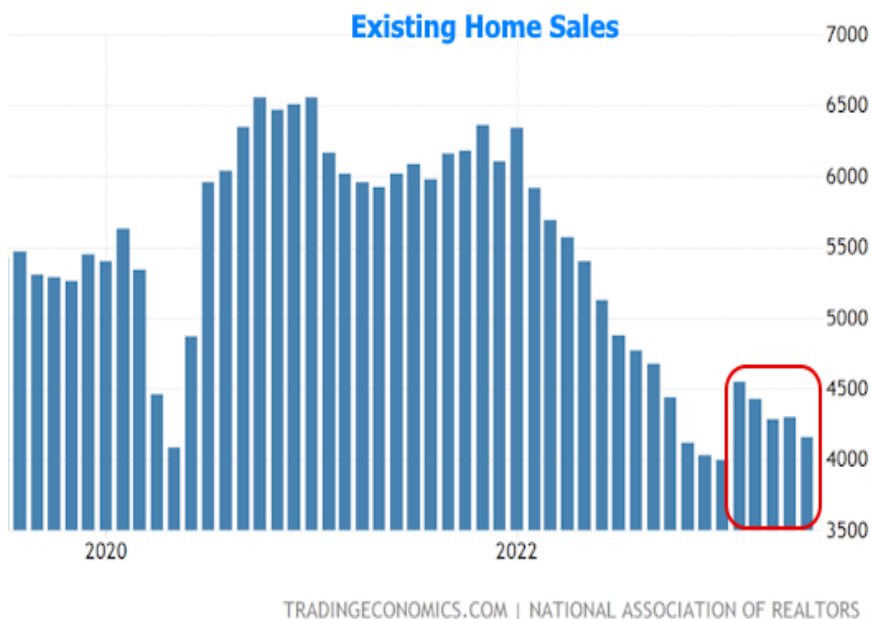
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## Slow Housing Market's Questionable Excuse (And a Much Better Alternative)

Inventory! That's been a buzzword for the housing market for more than a decade, but it's been especially prevalent in 2023 as the excuse for slower home sales. How good of an excuse is it?

Before digging into that question, let's take a look at the data that needs to have excuses made for it. This week brought the monthly release of Existing Home Sales from the National Association of Realtors (NAR).

Existing sales began the year with a pop, but have consistently been fading since then.



The chart above captures all-time highs and 12-year lows all in the space of few years (thanks Covid).

## 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
<b>Freddie Mac</b>			
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	99.37	-0.03
MBS GNMA 5.5	99.74	-0.04
10 YR Treasury	4.2599	+0.0220
30 YR Treasury	4.4776	+0.0308

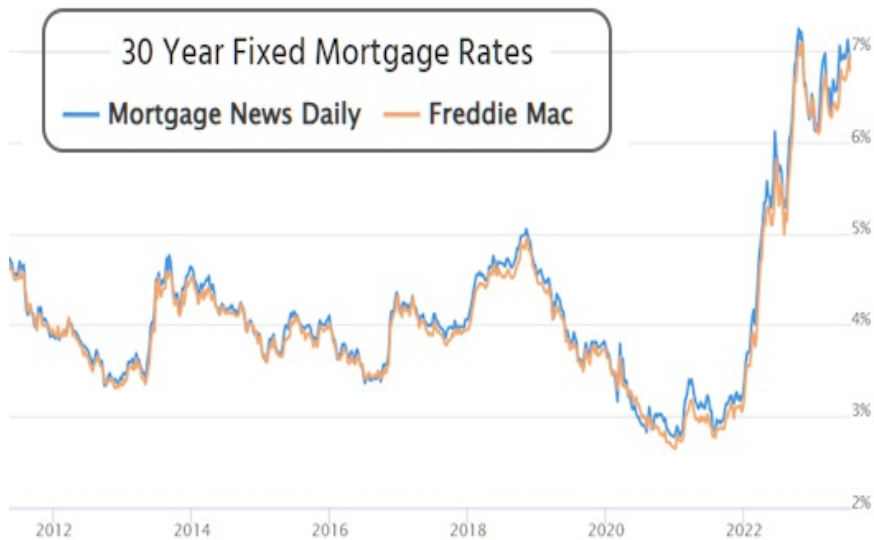
Pricing as of: 7/22 2:55PM EST

## 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%



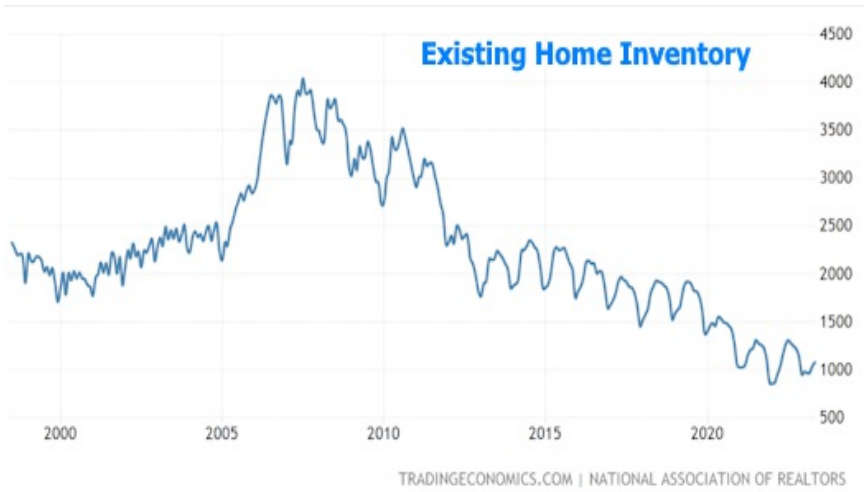
When it comes to explaining the slump, the National Association of Realtors places INVENTORY at the top of the list. And while no one should disagree that more inventory would result in more home sales, perhaps we're overlooking the bigger issue: RATES.



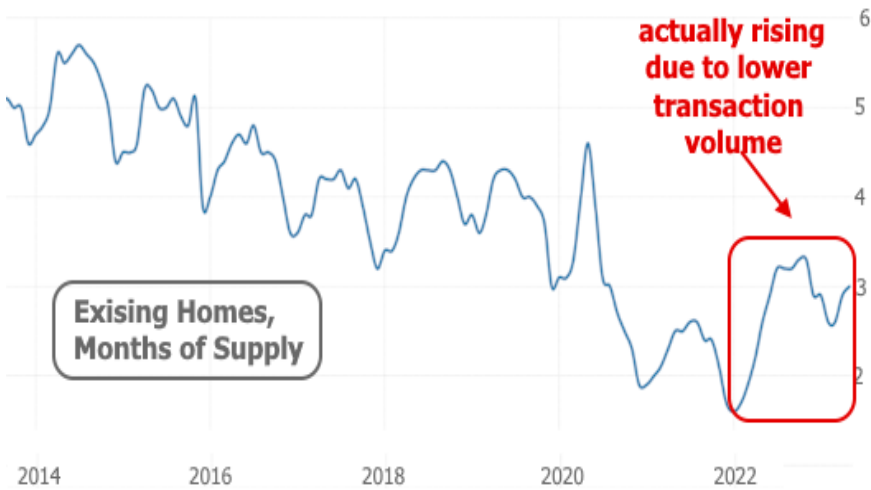
In the NAR's defense, they're quite aware that rates are a problem. But the recent hyperfocus on inventory might be overdone. After all, wouldn't many more homeowners consider moving up if they weren't faced with the prospect of giving up their 3% mortgage in exchange for something closer to 7%?

"There are simply not enough homes for sale," according to NAR Chief Economist Lawrence Yun. "The market can easily absorb a doubling of inventory."

To be sure, more inventory would be a good thing in almost every regard. A doubling of inventory would likely keep prices in check or push them slightly lower, but it might not conjure up as much buying demand as you might assume. Two separate stats in the Existing Home Sales data illustrate the point. The first is for inventory in terms of UNITS.



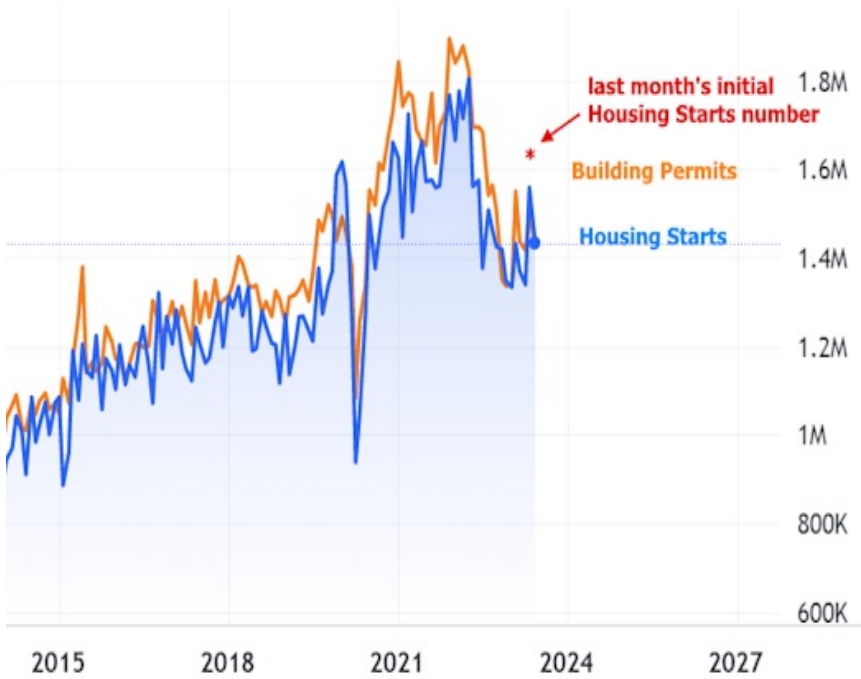
This chart makes it seem as if inventory is in line with all time lows and not building as quickly as it normally does at this time of year. But the takeaway changes a bit when we look at inventory in terms of "months of supply."



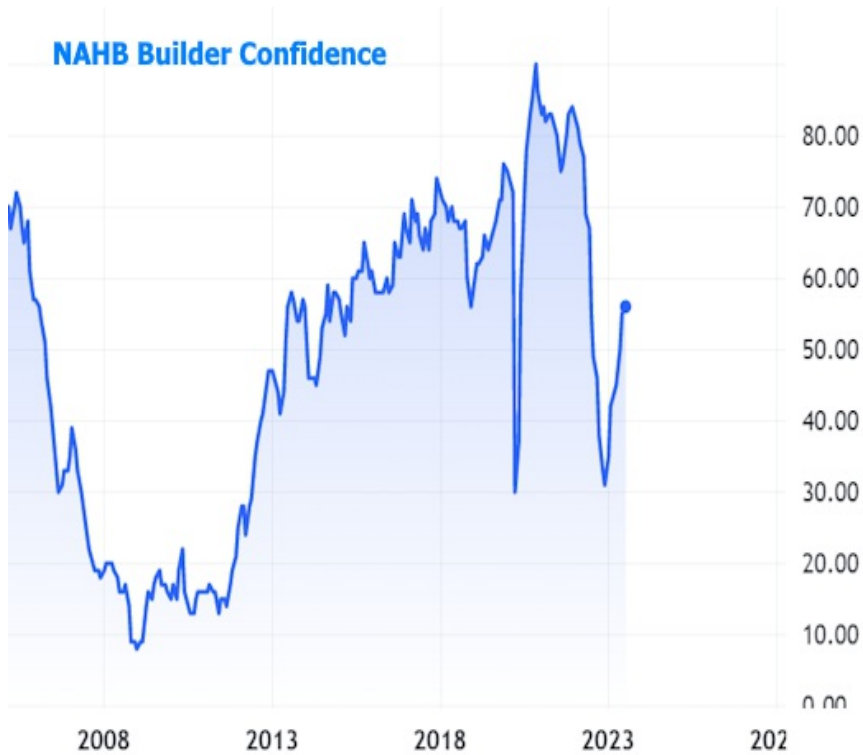
Since it's not incredibly easy to quickly glean the takeaway from the two charts above, here you go: in terms of units, inventory is nowhere near mid-2020 levels while "months of supply" is well above. Let's zoom in:



In separate data released this week, we saw more evidence of moderation on the demand side of the home sales equation. Housing Starts (the ground-breaking phase of new construction) were revised much lower after last month's surge and the current month's data came in just below forecasts. Without a doubt, the construction side of the market is doing much better than the resale side relative to pre-covid levels, but it's also only about a quarter of the market.



Nonetheless, homebuilders remain more optimistic than they were at the beginning of the year according to other data out this week from the National Association of Home Builders (NAHB).

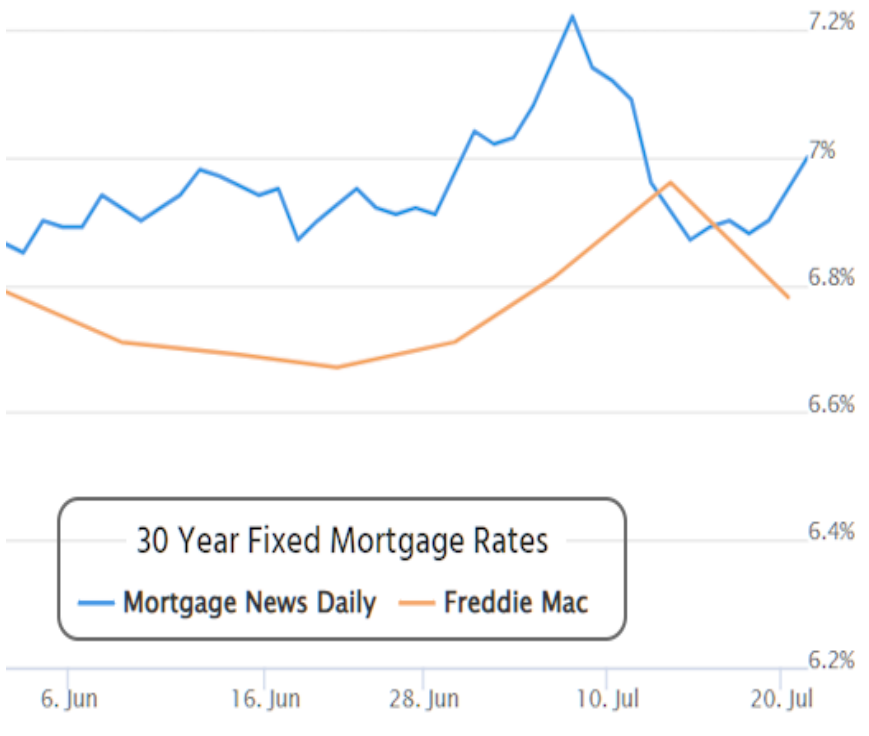


If high rates are a root cause of the housing market issue (and no, we're not ignoring the fact that low rates served as a sort of root cause in 2020-2022, acting to pull forward a significant amount of home sales volume), what's the root cause of high rates and what will it take for things to change?

As we discussed last week, it's almost all about inflation. Last week's friendlier CPI data helped rates move sharply lower. But this week's labor market data pushed back in the other direction. The following chart of 10yr Treasury yields shows the relative movement in the rates market.



Mortgage rates tend to follow a similar path to 10yr yields over time, so it's no surprise to see mortgages a bit higher versus last week with the average top tier 30yr fixed rate back around 7%. Freddie Mac's index covers the 5 weekdays leading up to Wednesday on any given week. During that time last week, rates were indeed much higher than the 5 days leading up to this past Wednesday.



In other words, Freddie's survey hasn't caught up to reality yet. It also runs a bit lower on average because it doesn't adjust for upfront costs whereas Mortgage News Daily does. That means a quote of 6.625% with 1% discount paid upfront would be recorded as 6.625% by Freddie, whereas the rate with no discount points would be closer to 7.125%.

Rates will receive their next big dose of information next week when the Fed announces its latest rate hike. The market already knows the hike is coming, so that part won't be a market mover. Rather, traders will tune in to hear what Powell has to say about how the outlook may be changing in light of recent progress on inflation. There's a chance the market comes away from next week's Fed hike with the sense that it was the last hike in a long time. Of course there's also a chance that Powell is concerned about market exuberance and thus doubles down on the higher rate narrative. There's no way to know which direction rates will go on Wednesday, only that the risk of volatility is bigger than normal.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Jul 17</b>				
8:30AM	Jul NY Fed Manufacturing	1.1	-4.3	6.6
<b>Tuesday, Jul 18</b>				
8:30AM	Jun Retail Sales (%)	0.2%	0.5%	0.5%
9:15AM	Jun Industrial Production (%)	-0.5%	0%	-0.5%
10:00AM	May Business Inventories (%)	0.2%	0.2%	0.1%
10:00AM	Jul NAHB housing market indx	56	56	55
<b>Wednesday, Jul 19</b>				
7:00AM	Jul/14 MBA Refi Index	446.4		416
7:00AM	Jul/14 MBA Purchase Index	163.2		165.3
8:30AM	Jun Housing starts number mm (ml)	1.434M	1.48M	1.559M
8:30AM	Jun Building permits: number (ml)	1.44M	1.49M	1.496M
8:30AM	Jun House starts mm: change (%)	-8%		15.7%
8:30AM	Jun Build permits: change mm (%)	-3.7%		5.6%
<b>Thursday, Jul 20</b>				
8:30AM	Jul/15 Jobless Claims (k)	228K	242K	237K
8:30AM	Jul Philly Fed Business Index	-13.5	-10	-13.7
10:00AM	Jun Existing home sales (ml)	4.16M	4.2M	4.3M
10:00AM	Jun Exist. home sales % chg (%)	-3.3%		0.2%
<b>Monday, Jul 24</b>				
9:45AM	Jul S&P Global Composite PMI	52		53.2
<b>Tuesday, Jul 25</b>				
9:00AM	May FHFA Home Price Index m/m (%)	0.7%	0.2%	0.7%
9:00AM	May Case Shiller Home Prices-20 y/y (%)	-1.7%	-2.2%	-1.7%
9:00AM	May FHFA Home Prices y/y (%)	2.8%	2.6%	3.1%
<b>Wednesday, Jul 26</b>				

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important



Date	Event	Actual	Forecast	Prior
7:00AM	Jul/21 MBA Purchase Index	159.2		163.2
7:00AM	Jul/21 MBA Refi Index	444.5		446.4
10:00AM	Jun New Home Sales (%) (%)	-2.5%		6.6%
10:00AM	Jun New Home Sales (ml)	0.697M	0.725M	0.715M
2:00PM	Fed Interest Rate Decision	5.5%	5.5%	5.25%
2:30PM	Fed Press Conference			
<b>Thursday, Jul 27</b>				
8:30AM	Jul/22 Jobless Claims (k)	221K	235K	228K
8:30AM	Jun Durable goods (%)	4.7%	1%	2%
8:30AM	Q2 GDP Advance (%)	2.4%	1.8%	2%
<b>Friday, Jul 28</b>				
8:30AM	Jun Core PCE Inflation (y/y) (%)	4.1%	4.2%	4.6%
8:30AM	Jun Core PCE (m/m) (%)	0.2%	0.2%	0.3%
8:30AM	Q2 Employment costs (%)			1.2%
10:00AM	Jul Consumer Sentiment (ip)			
10:00AM	Jul U Mich conditions	76.6	77.5	69



## 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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