



**Tom Payne**

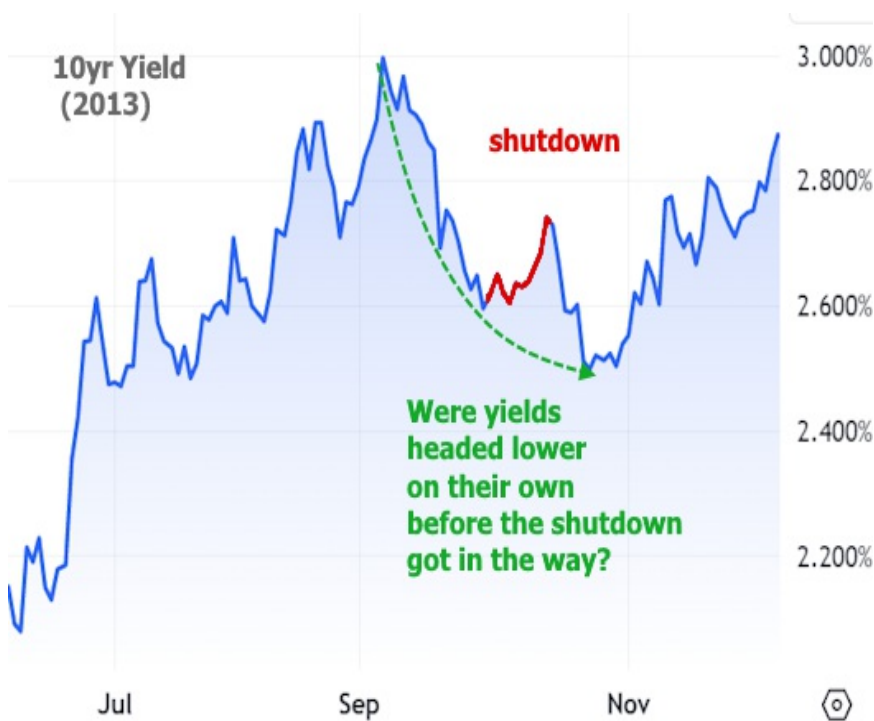
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## How Will The Government Shutdown Affect The Mortgage and Housing Markets?

It's nearly impossible to consume any news these days without coming across the government shutdown. As of Friday afternoon, the shutdown looks like it will be a thing. Even if it's miraculously avoided in the 11th hour, we can still discuss some objective questions and conclusions about shutdowns in general. As always, we're not interested in the politics of the matter--just the question of whether or not the housing and mortgage market should care.

First off, it's extremely difficult if not impossible to predict a shutdown's impact on various sectors because we simply don't have a large body of evidence. There are really only two examples of extended shutdowns in the present century. Let's take a look at both through the lens of everyone's favorite interest rate benchmark, the 10yr Treasury yield.



## 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	99.36	-0.04
MBS GNMA 5.5	99.76	-0.02
10 YR Treasury	4.2599	+0.0220
30 YR Treasury	4.4781	+0.0313

Pricing as of: 7/22 2:48PM 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%



In both cases, yields had recently reached long-term highs and had begun to move back down. In the 2013 example, the shutdown seemed to get in the way of that trend. In the 2018/19 example, the shutdown seemed to accelerate that trend. Ultimately, removing the red sections from each chart leaves the bigger picture narrative very much unchanged.

If there was only one thesis for the shutdown's impact on rates, it would be that they don't really matter--especially in the bigger picture. That may seem like a hasty conclusion based on two quick charts, but let's consider the following:

- The shutdown had the opposite impact in each chart
- The 2018 example occurred during a time of year that traditionally sees weird behavior in markets
- The most popular and plausible theories arrive at opposite conclusions

#### Popular and plausible theory number 1: economic uncertainty for consumers, restricted growth, etc.

This one is pretty simple. A shutdown restricts economic activity to some extent. Masses of government employees are delayed in receiving paychecks and thus cannot go out and spend money in the economy. Non-government employees whose work or play depends on government agencies are also on hold during the shutdown. With a slower economy generally being correlated with lower rates, this theory is that the shutdown is good for rates.

#### Popular and plausible theory number 2: economic uncertainty for investors, restricted revenue, increased Federal borrowing, etc.

This one is definitely more complex. In this case, we're not as worried about the slower economic growth because it is thought to be offset by other factors that push rates higher. First off, lower consumption relating to government employees and closed agencies is technically delayed as those employees will eventually be paid. Moreover, furloughed employees are able to seek part time employment during a shutdown which means they'd have more income than normal by the time the shutdown ended.

On an even more objective level, this theory also focuses on tax revenue. Depending on the size of the shutdown, revenue can drop by billions of dollars. This is important to rates because lost revenue is generally recouped via increased Treasury borrowing. Higher "supply" of Treasuries means that Treasury prices are lower and rates are higher, all other things being equal. Notably, this dynamic would take quite a while to come out in the wash, and it could certainly be offset by factors from "theory 1," but Treasury supply is one of the most objective factors we can measure surrounding a shutdown.

**Impact on government mortgage loans**

There could be some headaches and delays in the processing of some FHA/VA loans, but as far as we know today, the core functions of these government housing programs will not be shut down. The delays would not be a factor for the average FHA/VA loan.

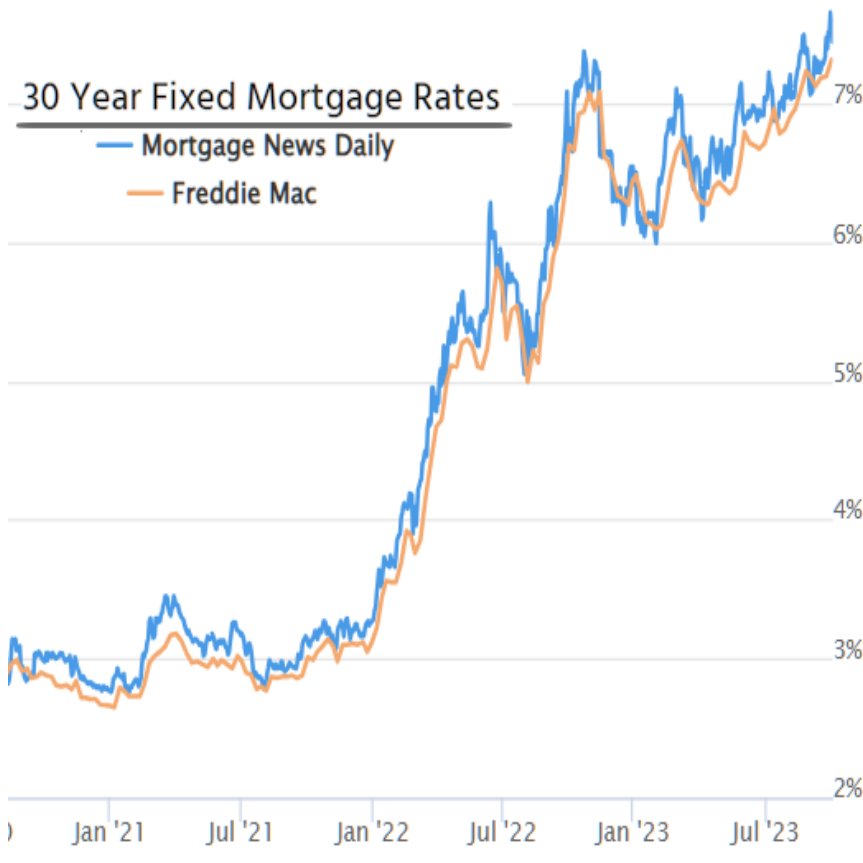
**The one and only obvious impact for financial markets and rates: UNCERTAINTY**

For rates and markets, there are far bigger motivations for movement than the presence of the government shutdown. Ironically, the shutdown means that those motivations are on radio silence.

We're talking about the major economic reports that come out each month--things like the Consumer Price Index (CPI) and the big jobs report (officially referred to as "The Employment Situation").

Several of these big ticket reports are due out in the coming week. It has already been decided that the reports will not be released if there is a shutdown. Moreover, data collection efforts for future reports would also be impacted.

This couldn't come at a worse time for rates. Resilient economic data paved the way for mortgage rates to hit multi-decade highs this week.



And now the shutdown means we can't even hope to see slightly less resilient data in the coming week. Moreover, after the shutdown, the subsequent data might be taken with a grain of salt due to constraints on the data collection process.

There are still several economic reports that are well regarded, but not dependent on government data collection. That's either a blessing or a curse depending on the outcome of the data. Either way, the impact could be magnified due to the absence of the government data. If the remaining reports continue conveying resilience or strength, rates could continue to face upward pressure.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Tuesday, Sep 26</b>				
9:00AM	Jul Case Shiller Home Prices-20 y/y (%)	0.1%	-0.3%	-1.2%
9:00AM	Jul FHFA Home Prices y/y (%)	4.6%		3.1%
9:00AM	Jul FHFA Home Price Index m/m (%)	0.8%	0.5%	0.3%
10:00AM	Aug New Home Sales (ml)	0.675M	0.7M	0.714M
10:00AM	Sep CB Consumer Confidence (%)	103	105.5	106.1
<b>Wednesday, Sep 27</b>				
7:00AM	Sep/22 MBA Refi Index	411.7		415.4
7:00AM	Sep/22 MBA Purchase Index	144.8		147
<b>Thursday, Sep 28</b>				
8:30AM	Sep/23 Jobless Claims (k)	204K	215K	201K
8:30AM	Q2 GDP (%)	2.1%	2.1%	2%
10:00AM	Aug Pending Home Sales (%)	-7.1%	-0.8%	0.9%
<b>Friday, Sep 29</b>				
8:30AM	Aug Core PCE Inflation (y/y) (%)	3.9%	3.9%	4.2%
8:30AM	Aug Core PCE (m/m) (%)	0.1%	0.2%	0.2%
9:45AM	Sep Chicago PMI	44.1	47.6	48.7
10:00AM	Sep Consumer Sentiment (ip)	68.1	67.7	69.5
<b>Monday, Oct 02</b>				
10:00AM	Sep ISM Manufacturing PMI	49	47.8	47.6
<b>Tuesday, Oct 03</b>				
10:00AM	Aug USA JOLTS Job Openings	9.61M	8.8M	8.827M
10:00AM	Oct IBD economic optimism	36.3	41.6	43.2
<b>Wednesday, Oct 04</b>				
7:00AM	Sep/29 MBA Purchase Index	136.6		144.8
7:00AM	Sep/29 MBA Refi Index	384.6		411.7
8:15AM	Sep ADP jobs (k)	89K	153K	177K
9:45AM	Sep S&P Global Services PMI	50.1	50.2	50.5
10:00AM	Aug Factory orders mm (%)	1.2%	0.2%	-2.1%

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

Date	Event	Actual	Forecast	Prior
10:00AM	Sep ISM N-Mfg PMI	53.6	53.6	54.5
<b>Thursday, Oct 05</b>				
7:30AM	Sep Challenger layoffs (k)	47.457K		75.151K
8:30AM	Sep/23 Continued Claims (ml)	1664K	1675K	1670K
<b>Friday, Oct 06</b>				
8:30AM	Sep Non Farm Payrolls	336K	170K	187K
8:30AM	Sep Unemployment rate mm (%)	3.8%	3.7%	3.8%

## 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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