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## Plenty of Rate Volatility Despite Holiday-Shortened Week

This week got off to a late start as markets were closed on Monday for Memorial Day. Upon returning to the office, traders began pushing rates higher almost immediately.

It's often said that the bond market can experience elevated, seemingly random volatility amid the lighter trading participation seen on the days surrounding 3-day weekends. Tuesday may have been a good example as it brought the biggest move of the week despite an absence of high consequence data.

That's not to say that data was completely absent. Traders digested comments from several Fed speakers with the most memorable example coming from Minneapolis Fed's Kashkari who said he'd need to see "many" more months of good inflation data before the Fed would consider cutting rates. This is a departure from the average Fed speaker who uses words like "several" to discuss the same dependency.

In addition to Fed comments, there was a condensed schedule of Treasury auctions. These regularly scheduled auctions account for the "supply" side of supply and demand in the bond market. Higher supply means lower prices and higher rates, all other things being equal. In this case, the amount of supply is published well in advance, but the auction process provides a temperature check for investor demand. The relatively lower demand at this week's auctions also played a role in pushing rates higher in the first two days.

Things began to improve on Thursday--not only because auctions were over, but also due to rate-friendly revisions in the quarterly GDP data. Finally, Friday's PCE inflation data helped add momentum to Thursday's recovery.

## 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	99.31	-0.09
MBS GNMA 5.5	99.71	-0.06
10 YR Treasury	4.2745	+0.0366
30 YR Treasury	4.4908	+0.0440

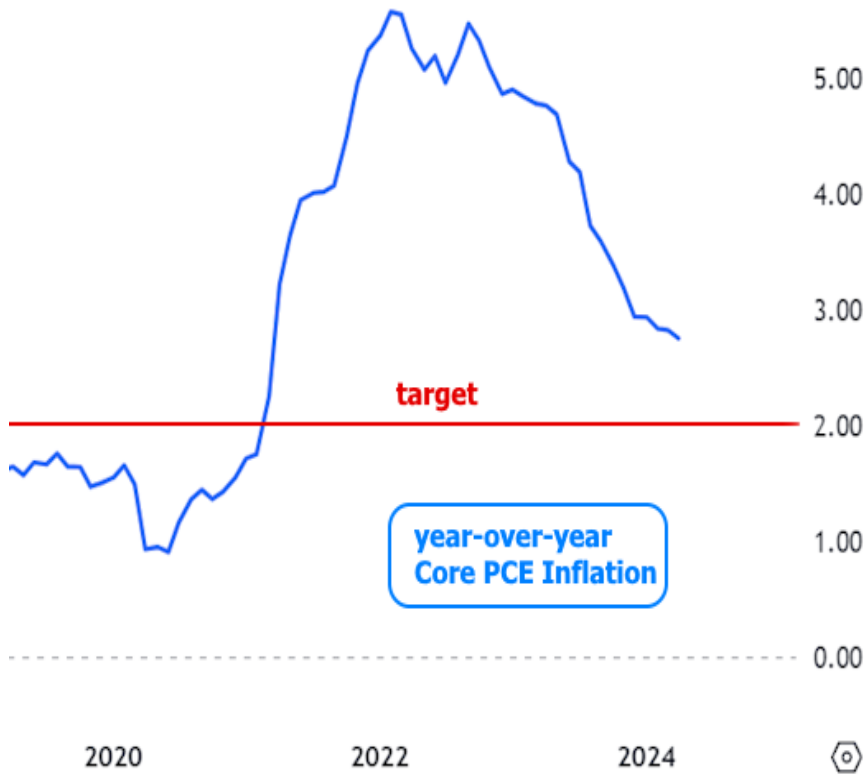
Pricing as of: 7/22 12:41PM EST

## 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%

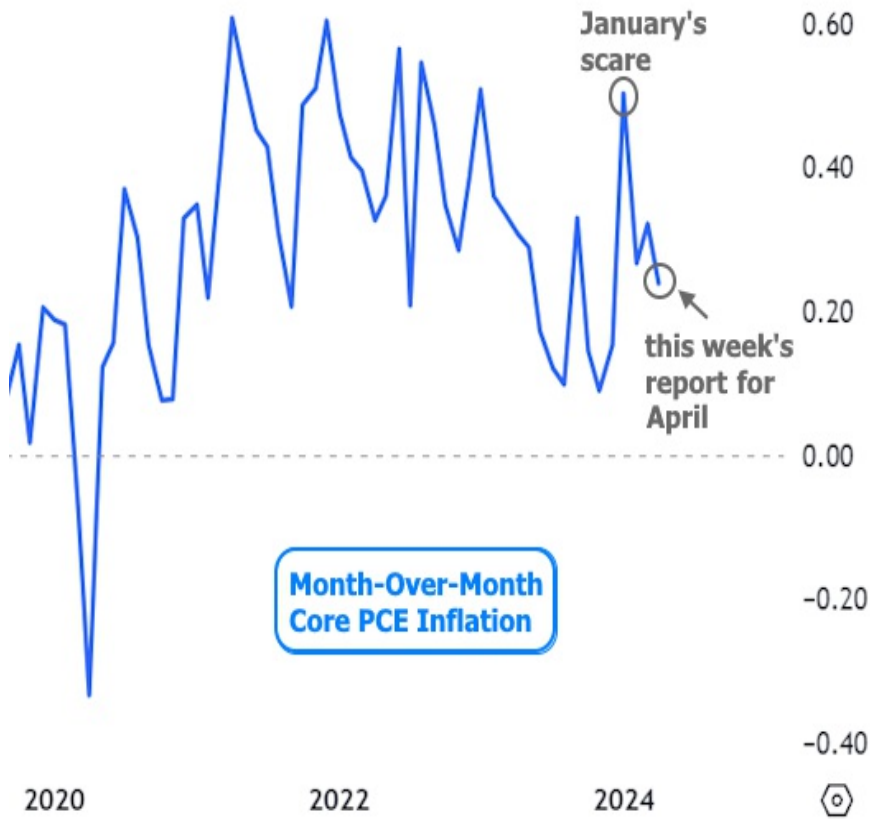


The PCE price index is similar to the Consumer Price Index (CPI). Both are official government measures of inflation. PCE is released 2 weeks after CPI. As such, it tends to produce less volatility, but the Fed actually prefers it to CPI when it comes to assessing the 2% inflation target.

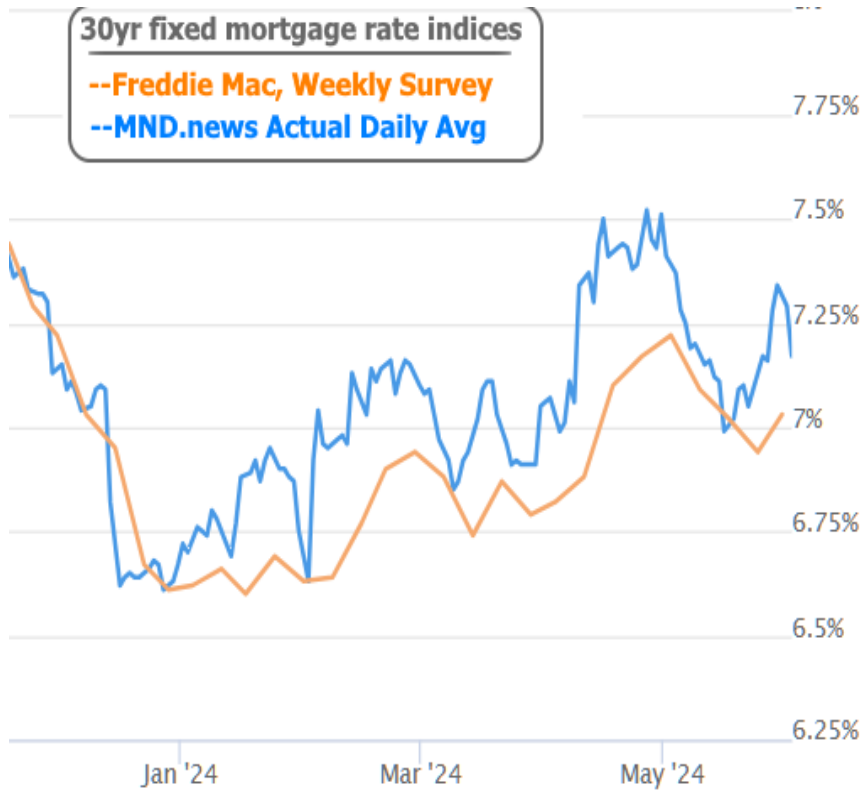


Clearly, progress toward the 2% target has slowed, but it is also technically continuing. When we look at the monthly version of the same data, we can see that the continuation wasn't necessarily a given based on how the numbers came out in the first quarter. January, specifically, was alarming. If January numbers were repeated for 12 months, the annual inflation level would be closer to 6% as opposed to just under 3%.

Feb/Mar reports were lower, but still suggested an annualized inflation level well over 3%. This week's data (for the month of April) is still nowhere near the lower readings seen last year, but it showed more progress in the right direction after January's scare.



Mortgage rates haven't calmed down as fast as the rest of the bond market. Mortgage rate volatility was even more elevated due to the structure of the underlying mortgage market causing some pricing overlap when rates move through levels ending in .125% or .625%. To simplify a very complicated explanation, there's very little difference between 7.125% and 7.25% as far as most lenders are concerned. As such, when rates move up past 7.125%, the next viable stop is 7.375%, even if the underlying market movement would normally only have pushed rates up to 7.25%.



The housing market continues expressing its lack of enjoyment of 7%+ mortgage rates. The most recent evidence was this week's Pending Home Sales Index from the National Association of Realtors.



In the week ahead, the potential volatility only increases as we'll get several top tier economic reports. Apart from Thursday, every day of the week has a scheduled report with the power to move markets by at least as much as any of this past week's data. Friday's jobs report is particularly potent, even if not quite in the same league as the Consumer Price Index (CPI) these days.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Tuesday, May 28</b>				
9:00AM	Mar FHFA Home Prices y/y (%)	6.7%		7%
9:00AM	Mar Case Shiller Home Prices-20 y/y (%)	7.4%	7.3%	7.3%
10:00AM	May CB Consumer Confidence (%)	102.0	95.9	97.0
11:30AM	2-Yr Note Auction (bl)	69		
1:00PM	5-Yr Note Auction (bl)	70		
<b>Wednesday, May 29</b>				
7:00AM	May/24 MBA Purchase Index	138.4		140.0
7:00AM	May/24 MBA Refi Index	463.8		536.9
1:00PM	7-Yr Note Auction (bl)	44		
<b>Thursday, May 30</b>				
8:30AM	Q1 Core PCE Prices QoQ Final	3.6%	3.7%	2%
8:30AM	Q1 GDP (%)	1.3%	1.3%	3.4%
8:30AM	Q1 GDP Final Sales (%)	1.7%		3.9%
8:30AM	Apr Wholesale inventories mm (%)	0.2%	-0.1%	-0.4%
10:00AM	Apr Pending Home Sales (%)	-7.7%	-0.6%	3.4%
<b>Friday, May 31</b>				
8:30AM	Apr Core PCE Inflation (y/y) (%)	2.8%	2.8%	2.8%
8:30AM	Apr Core PCE (m/m) (%)	0.2%	0.3%	0.3%
9:45AM	May Chicago PMI	35.4	41	37.9
<b>Monday, Jun 03</b>				
9:45AM	May S&P Global Manuf. PMI	51.3	50.9	50
10:00AM	May ISM Manufacturing PMI	48.7	49.6	49.2
<b>Tuesday, Jun 04</b>				
10:00AM	Apr USA JOLTS Job Openings	8.059M	8.34M	8.488M
10:00AM	Apr Factory orders mm (%)	0.7%	0.6%	1.6%
<b>Wednesday, Jun 05</b>				
8:15AM	May ADP jobs (k)	152K	175K	192K
9:45AM	May S&P Global Services PMI	54.8	54.8	51.3
10:00AM	May ISM N-Mfg PMI	53.8	50.8	49.4
<b>Thursday, Jun 06</b>				
8:30AM	Jun/01 Jobless Claims (k)	229K	220K	219K
<b>Friday, Jun 07</b>				
8:30AM	May Non Farm Payrolls	272K	185K	175K
8:30AM	May Unemployment rate mm (%)	4%	3.9%	3.9%
10:00AM	Apr Wholesale inventories mm (%)	0.1%	0.2%	-0.4%
3:00PM	Apr Consumer credit (bl)	\$6.4B	\$11B	\$6.27B

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

## 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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