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Powell Puts a Lid on The Rate Debate, But Where's The Bottom?

Every year, the Federal Reserve (aka "the Fed") gathers in Jackson Hole, WY with a bevy of other central bankers and academics to discuss and comment on monetary policy in a setting that's slightly less formal than normal. Despite the scenic backdrop, Jackson Hole speeches by the Fed Chair have a somewhat reliable history of relevance to financial markets--especially those that dictate interest rate movement.

In this year's case, the symposium was almost perfectly timed to give Chair Powell an opportunity to append his last major appearance in the press conference that followed the Fed meeting just over 3 weeks ago. Rates liked what he had to say back then as well, but in Friday's speech, he said it a bit more forcefully.

In not so many words, Powell made it clear that the default game plan is to cut rates at the September meeting just under 4 weeks from now. In fact, as far as financial markets are concerned, the only uncertainty is whether the rate cut will be the minimum 0.25% or double that amount.

To be fair and clear, that's about where the market ended up after the last speech, but that was followed by several big ticket market movers that temporarily convinced traders the Fed would be cutting by AT LEAST 0.50% a few short days later. For a few moments, the market was actually closer to a 0.75% cut!

National Average Mortgage Rates



	Rate	Change	Points
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Mortgage News Daily

30 Yr. Fixed	6.44%	-0.04	0.00
15 Yr. Fixed	5.97%	-0.03	0.00
30 Yr. FHA	5.90%	-0.04	0.00
30 Yr. Jumbo	6.66%	-0.02	0.00
5/1 ARM	6.32%	-0.06	0.00

Freddie Mac

30 Yr. Fixed	6.46%	-0.40	0.00
15 Yr. Fixed	5.62%	-0.54	0.00

Rates as of: 8/23

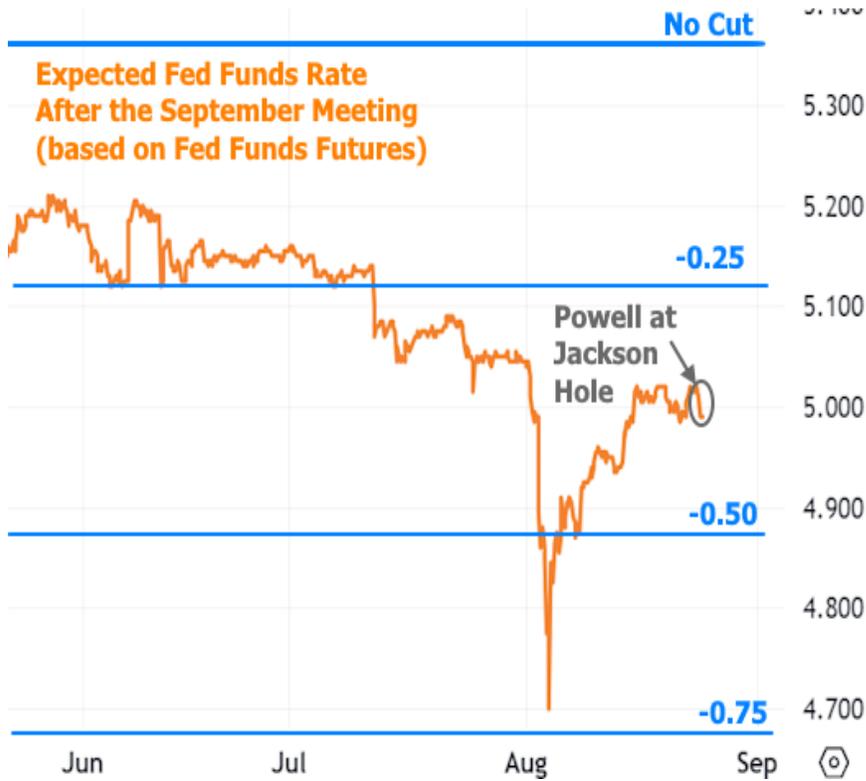
Market Data

	Price / Yield	Change
MBS UMBS 5.5	100.93	+0.26
MBS GNMA 5.5	100.83	+0.22
10 YR Treasury	3.7999	-0.0531
30 YR Treasury	4.0908	-0.0309

Pricing as of: 8/23 5:59PM EST

Recent Housing Data

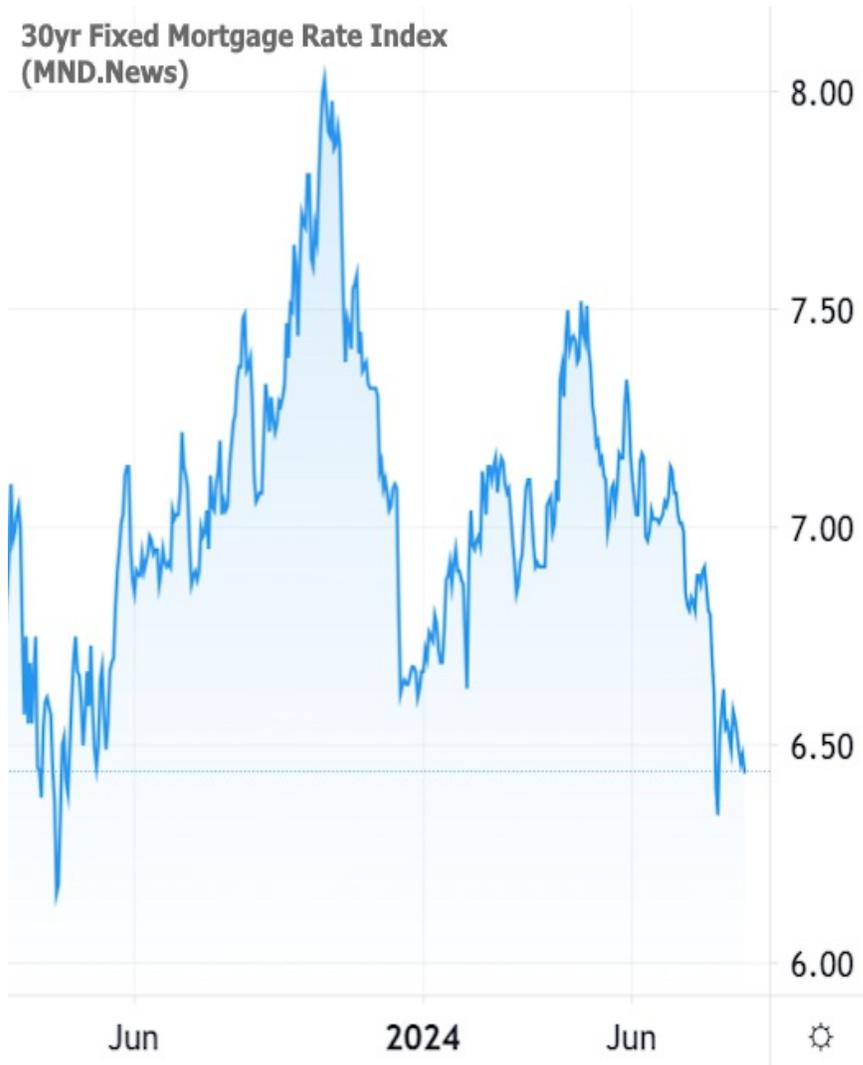
		Value	Change
Mortgage Apps	Aug 14	251.3	+16.83%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



Over the 2 weeks that followed, several economic reports forced a rethink of those assumptions, thus putting Powell in a position to put a ceiling on near term rate expectations (rather than comment on how quickly rates might move lower). His speech certainly delivered said ceiling and also stayed clear of signaling any low rate exuberance. As can be seen in the chart above, it was ultimately small potatoes compared to recent volatility.

For their part, [mortgage rates](#) had a "nice" day, making a modest move down to the lowest levels in just over 2 weeks. For those who prefer their milestones a bit more grandiose, that also makes today the 3rd best day in well over a year.

30yr Fixed Mortgage Rate Index
(MND.News)

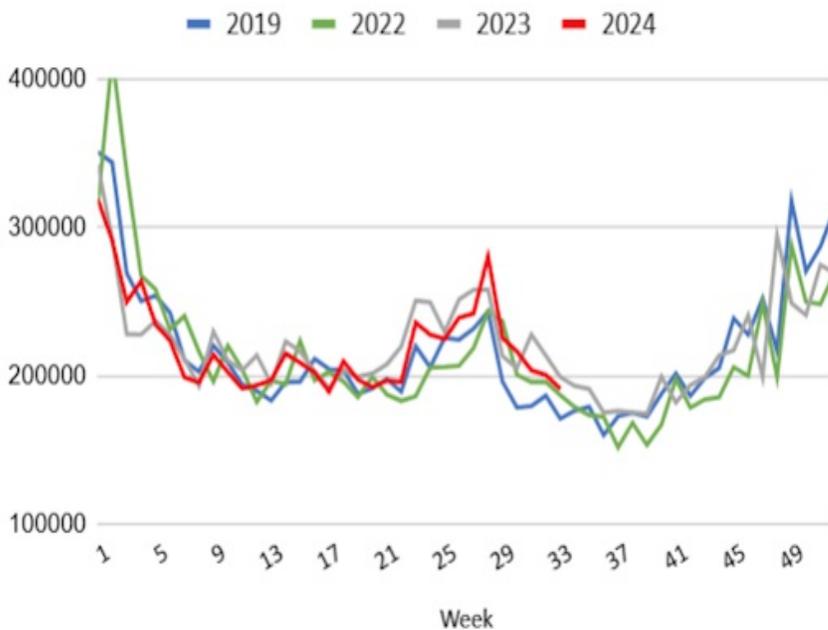


Despite the apparent clarity at the moment, it's good to keep the recent dichotomy in the data in mind. On the one hand, we had weak economic data in early August that helped drive rate expectations as low as they were. On the other hand, the economic reports in the following weeks helped push rates quickly back in the other direction. Since then, we've been consolidating in a narrower, relatively calmer range as seen in the chart of 10yr Treasury yields below.

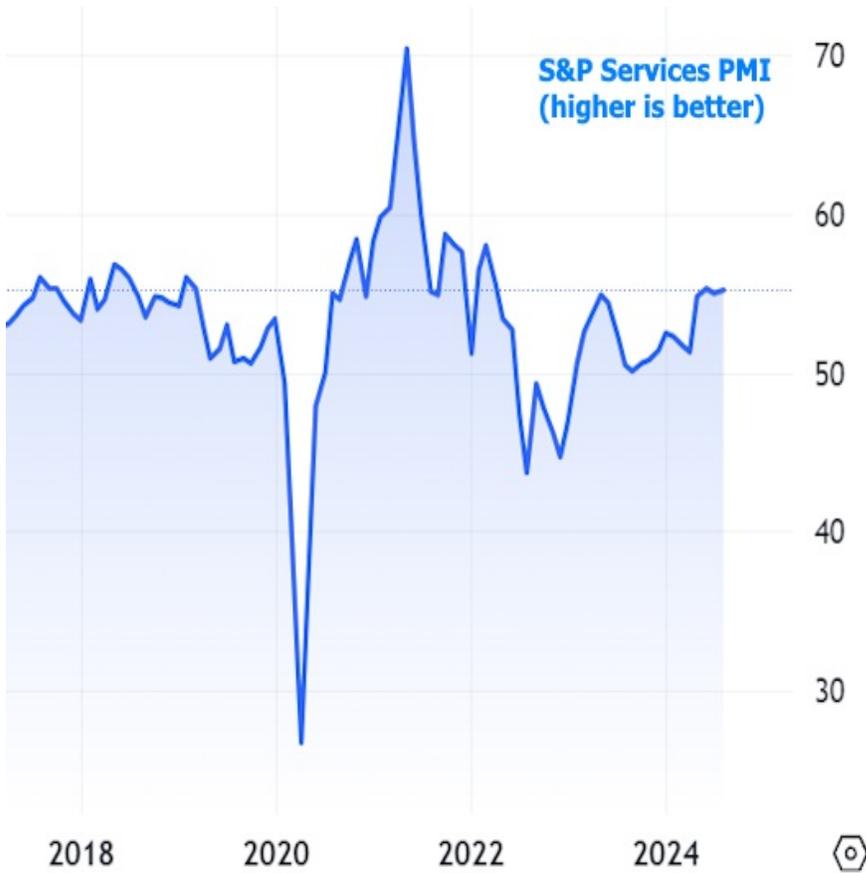


Even in the present week, economic data is far from signaling any sort of contraction or turmoil. The Jobless Claims report--the most timely major labor market indicator--continues falling in line with the last 2 years. This red line would need to be breaking up and away from the others in order for the more aggressive rate cut scenarios to pan out.

Jobless Claims, Week by Week, Not Seasonally Adjusted



The only other major report this week was the Services Purchasing Managers Index (PMI) from S&P Global. A PMI measures economic output with a reading over 50 generally indicating expansion. This month's came out at 55.2 which was just a hair higher than last month's and near the top of the recent range.



In the coming weeks (and especially in the first two weeks of September), we'll get even more economic data with the power to refine rate cut prospects. Just keep in mind that the Fed's rate cut would merely be the confirmation of what the rest of the rate market is already doing. In other words, mortgage rates and Treasuries have already priced in a rate cut. Now the data needs to avoid saying anything too glorious about the economy if the presently low rates are to stick around.

Additional improvements in rate would have to come from deterioration in the economic outlook, but there too, that's something that mortgage rates could price in well before the Fed meeting.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Aug 21				
7:00AM	Aug/16 MBA Refi Index	754.4		889.3
7:00AM	Aug/16 MBA Purchase Index	130.6		137.7
10:00AM	Mar Non Farm Payrolls Annual Revision (%)	-818K		-187K
2:00PM	FOMC Minutes			
Thursday, Aug 22				

Event Importance:

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

Date	Event	Actual	Forecast	Prior
9:45AM	Aug S&P Global Services PMI	55.2	54	55.0
10:00AM	Jul Existing home sales (ml)	3.95M	3.93M	3.89M
Friday, Aug 23				
10:00AM	Jul New Home Sales (ml)	0.739M	0.63M	0.617M
10:00AM	Fed Chair Powell Speech			

Upcoming Economic Data

Date	Event	Forecast	Prior
Monday, Aug 26			
8:30AM	Jul Durable goods (%) ☆	4%	-6.6%
Tuesday, Aug 27			
9:00AM	Jun FHFA Home Prices y/y (%) ☆		5.7%
9:00AM	Jun Case Shiller Home Prices-20 y/y (%) ☆	7.1%	6.8%
10:00AM	Aug CB Consumer Confidence (%) ☆	100.1	100.3
Thursday, Aug 29			
8:30AM	Q2 GDP (%) ★	2.8%	1.4%
8:30AM	Aug/24 Jobless Claims (k) ☆	234K	232K
10:00AM	Jul Pending Home Sales (%) ☆	0.2%	4.8%
Friday, Aug 30			
8:30AM	Jul Core PCE Inflation (y/y) (%) ★		2.6%
8:30AM	Jul Core PCE (m/m) (%) ★★	0.2%	0.2%
9:45AM	Aug Chicago PMI ★	44.6	45.3
10:00AM	Aug Consumer Sentiment (ip) ☆	67.8	66.4

National Association of Realtors - New Rules & Open Houses

New rules stemming from the National Association of Realtors' commission lawsuit settlement went into effect Saturday following years of litigation, potentially upending the industry, including how agents get paid.

This week, I have been hearing from agents, brokers, MLS executives, portals and other insiders as the rules roll out.

COMMISSION QUESTIONS: In the wake of NAR's new settlement rules, many buyer's agents are suddenly confronting a new question: What commission should they ask for in their buyers' broker representation agreements?

Here are a few responses found in a real estate master-mind group:

"I'm asking the buyer to pay my rate but advising them the seller may be offering something towards that," one agent responded. "If that's the case they only have to pay what's left."

"Sit down with your buyer and a trusted loan officer" another suggested. "Have the loan officer complete the various costs including your compensation and without any compensation (seller contributes). Once the buyer sees how much they have to come up with, they can make a decision. Then you make yours."

Some commenters also said that their brokers are making recommendations.

"This thread is illegal," one commenter argued, echoing a number of other remarks. "It is price fixing and the whole reason the U.S. Department of Justice got involved. Commission/Concessions should only be discussed between the agent and his/her client, never among agents."

The debate highlights the fact that many practical issues stemming from the settlement are yet to be worked out – and that additional litigation is top of mind for many real estate professionals,

OPEN HOUSE, OPEN QUESTION: Among the real estate professionals watching how the settlement changes unfolded this weekend was Randy Bell of Life Realty – The District in Henderson, NV who told me that "Buyers appear to be leery about signing short-term agreements and may favor open houses over individual tours until they're at ease with the rule." He went on to state "It'll be very interesting to see whether open house traffic increases, which I expect it will once buyers understand they don't have the same friction with agreements by going directly to open houses,"

One stat I'm going to be looking at is the number of open houses relative to active listings. I'll have numbers for you in the weeks to come. ...More to follow in future Newsletters.

Contact me for more information. 702-303-0243 or TPayne@loandepot.com

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Tom Payne

