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## Predicting Rising Rates is a Very Dangerous Game

Mortgage rates **plunged to 8-month lows** this week, defying most expectations. What's up with that?!

Interest rates, in general, have been falling for more than 30 years. Any time anything in financial markets moves in one direction for long enough, pundits, analysts, mavens, and armchair economists **can't help** but predict the end of the trend.

It goes something like this (we'll use the term "economist" as a catch-all for the list of pundits above):

1. Textbooks teach economists that inflation is bad for rates and that Fed money-printing is bad for inflation.
2. Economists subsequently predict hyperinflation due to Fed-money-printing associated with the several iterations of "quantitative easing" (the programs whereby the Fed directly purchased Treasuries and Mortgage-Backed-Securities).
3. Combined with the fact that rates were already "too low," economists think it's clear that increasing inflation and the economic expansion can't help but result in rates moving higher

But economists have been **dead wrong time and time again**. This time around, it was supposed to be the Fed rate hike in December that finally confirmed the end of the 30+ year rate rally. I gave you a [heads up on why you might not want to listen to them](#) even before the Fed hiked. I also talked about the fact that [rates could continue to do fairly well](#) even after the Fed hike.

As it happens, rates have done much better than "fairly well." As economists have learned through trial and error, any time the outlook seems like a sure thing, something else tends to come along to **throw a wrench in the works**.

2016 has a growing list of "something else." At first, it was the major losses in stocks and oil. As investors sold stocks at a frantic pace, much of that money made its way into bond markets, **resulting in lower rates**. Just when it looked like the stock weakness and falling interest rates were leveling-off (discussed last week), another "something else" comes along—several somethings, actually.

## National Average Mortgage Rates



	Rate	Change	Points
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### Mortgage News Daily

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	99.45	+0.06
MBS GNMA 5.5	99.84	+0.06
10 YR Treasury	4.2306	-0.0219
30 YR Treasury	4.4570	-0.0155

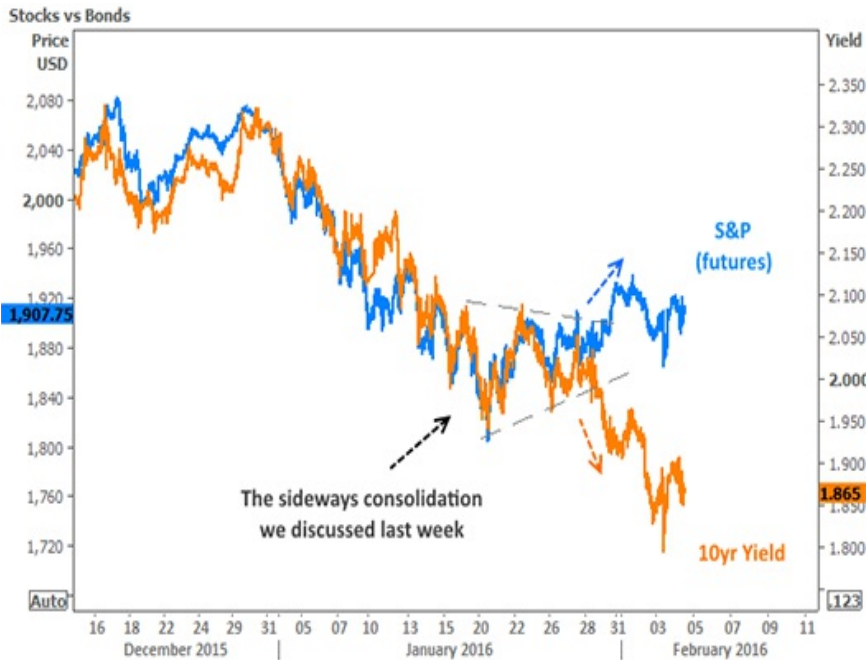
Pricing as of: 7/23 11:01AM EST

## 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%

# US Housing Market Weekly

These **include**: weakening economic data (good for rates), promises of increased central bank accommodation from Europe, and a surprise rate cut from Japan's central bank. Central bank accommodation is generally good for BOTH stocks and rates, as we can see in the breakout from last week's sideways consolidation (10yr Treasury yield used as a proxy for mortgage rates):



Let's break this down a bit more, because it's a **big deal right now**. Europe and Japan are the 2 biggest central banks next to the Federal Reserve. If they're making money easier to get, it obviates some of the Fed's urgency to raise rates at home.

You may have heard the term "**currency wars**." It's not just some tinfoil hat conspiracy theory. Major global economies want their currency to be cheap enough for their exports to remain affordable around the world. If other countries are having the same feeling, there can be more than a little bit of competition to see who can devalue their currency enough to accomplish their goals.

Looking at this from the other side of the equation, the byproduct of the Fed hiking rates is a **STRONGER** currency. In other words, the Fed is moving the opposite direction of the other major central banks. This is taking a toll on corporate profits of US companies and has many folks questioning whether the Fed even needs to continue hiking rates.

That's a **scary prospect**. No one really knows what the implication would be because the Fed has always continued to hike rates fairly steadily after hiking from long-term lows. Scared investors buy bonds—especially when global central banks are pumping more money into the system. And bond buying = lower rates.

## Housing-Specific News

**Construction spending** numbers were tepid. Although spending did improve month-over-month, it was only by 0.1 percent—falling well short of expectations. On a brighter note, **home prices continue improving**, with CoreLogic seeing annual appreciation rise above 6 percent. Unsurprisingly, more equity means more **cash-out refinances** as well as more questions about affordability—both of which were discussed in [Black Knight's Mortgage Monitor](#).

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## 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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