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What's Behind The Year's Biggest Spike in Mortgage Rates?

The term "**taper tantrum**" refers to the market movements that took place in mid-2013 as the Federal Reserve increasingly confirmed it would begin reducing the amount of bonds it was buying under its quantitative easing ("QE") program. Because QE targeted Treasuries and mortgage-backed-securities, it had a profound effect on mortgage rates, bringing them to all-time lows in the fall of 2012.

May and June of 2013 were the worst two months in modern economic history for mortgage rates in terms of the pace of movement. Ironically, it wasn't until the European Central Bank (ECB) began work on **its own QE plan** in April 2014 that rates finally began to make a meaningful recovery.

The connection between European policy and US interest rates may **seem** counterintuitive, but there is a strong correlation between the government bonds of the world's biggest economies. If there was to be a huge, guaranteed source of demand for European bonds, then US bonds would experience some of the benefit.

The remainder of 2014 consequently saw rates move progressively lower in anticipation of European QE. By the time ECB QE was officially approved in early 2015, rates were once **again approaching all-time lows**. The rest of 2015 would serve as the market's opportunity to catch its breath before continuing the trend in 2016.

The case of QE in the US taught us that rates could continue falling as long as central bank bond-buying was either steady or potentially expanding. As soon as the Fed indicated QE was "steady or potentially contracting," it marked a **sea-change** for the rate environment.

Investors are now **anxiously awaiting** a similar big-picture shift in European bond-buying. Even though European officials have denied having those conversations, an article from earlier this week cited anonymous officials as saying there was consensus on the need to consider reducing the pace of bond-buying.

Whether or not the sources were accurate, the **proverbial can of worms** has been opened. Markets are ready to pounce on even the smallest hint of confirmation out of Europe. To that end, the European Central Bank announcement on October 20th could be a focal point for volatility.

National Average Mortgage Rates



	Rate	Change	Points
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	99.49	+0.10
MBS GNMA 5.5	99.93	+0.15
10 YR Treasury	4.2267	-0.0258
30 YR Treasury	4.4519	-0.0206

Pricing as of: 7/23 8:47AM 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

Between now and then, the mood is definitely defensive. Even after the big jobs report came in weaker than expected this week, rates refused to come down from the highest levels in more than 3 months. If we look at 10yr Treasury yields (the best proxy for general momentum in longer-term rates like mortgages), we can see a new trend taking shape, and potentially breaking an important ceiling (roughly 1.73%).

10yr Treasury Yields



Despite the doom and gloom, **perspective** is easy to find in the bigger picture. After all, during almost any other time in history, today's mortgage rates would be all-time lows. It's only in relation to the "low 3's" in July that today's "mid 3's" seem anything other than stellar.

It's also worth keeping in mind that financial markets will **never** move in a straight line. Some say the lowest rates are behind us, but that's a premature conclusion as long as we continue to operate in the broader downtrend seen in the following chart. That said, **even if** rates go on to make new all-time lows in the future, periodic corrections toward higher rates are **inevitable**. The severity and duration of such corrections are the only uncertainties.

10yr Treasury Yields



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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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