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Don't Believe Everything You Read About Mortgage Rates

Every Thursday, Freddie Mac releases its weekly mortgage rate survey. It's subsequently used as an authoritative primary source for most major media outlets. That's not **usually** a problem, but this week could be an exception.

First thing's first: over time, Freddie's weekly rate survey (officially, the "Primary Mortgage Market Survey") is **incredibly accurate**. For broad, analytical purposes, it does a perfect job of conveying bigger-picture mortgage rate movement. That's great for market analysts who are studying long-term trends, but the data runs the risk of being stale if you have timely needs.

Naturally, consumers who click on news stories about mortgage rates tend to have timely needs! Fortunately, Freddie's numbers **won't appear** stale if markets are calm.

Unfortunately, markets have been **anything but calm** for the past few weeks, causing Freddie's numbers to lag interest rate reality. The problem is compounded by the fact that Freddie's survey responses only come in during the first 3 days of the week (Thursday and Friday are never counted).

Last Thursday, Freddie reported rates as "unchanged," whereas actual rates rose at their **fastest weekly pace since November 2015!** As such, we would be justified in expecting a sharp increase in this week's Freddie survey. Instead, it rose by a modest 0.05%! That's only about a quarter of the actual move from the recent lows.

While the smaller-than-expected increase in Freddie's survey numbers is likely a **byproduct of the 3-day weekend**, that's of little help to consumers who are seeing one thing in the news and then being told another by their mortgage professional. Rest-assured, as of Wednesday, rates were the highest they've been in more than 4 months.

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

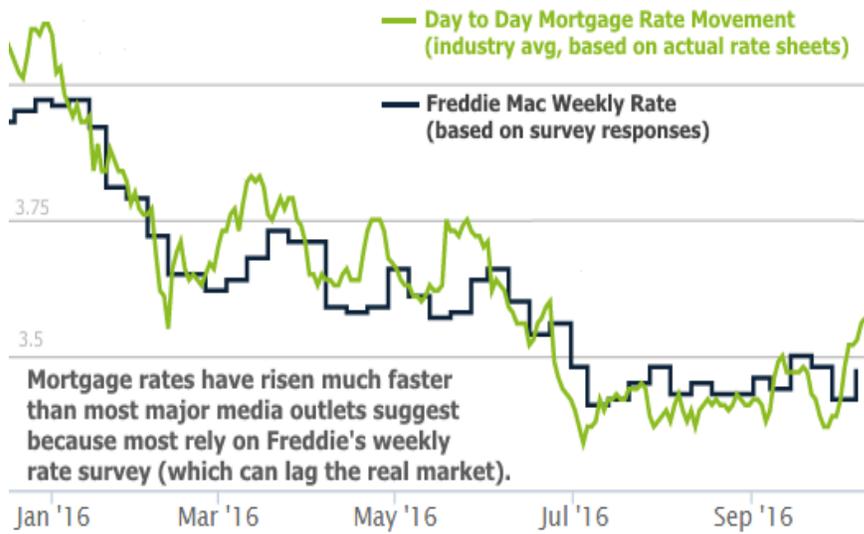
	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2262	-0.0263
30 YR Treasury	4.4444	-0.0281

Pricing as of: 7/23 6:50AM EST

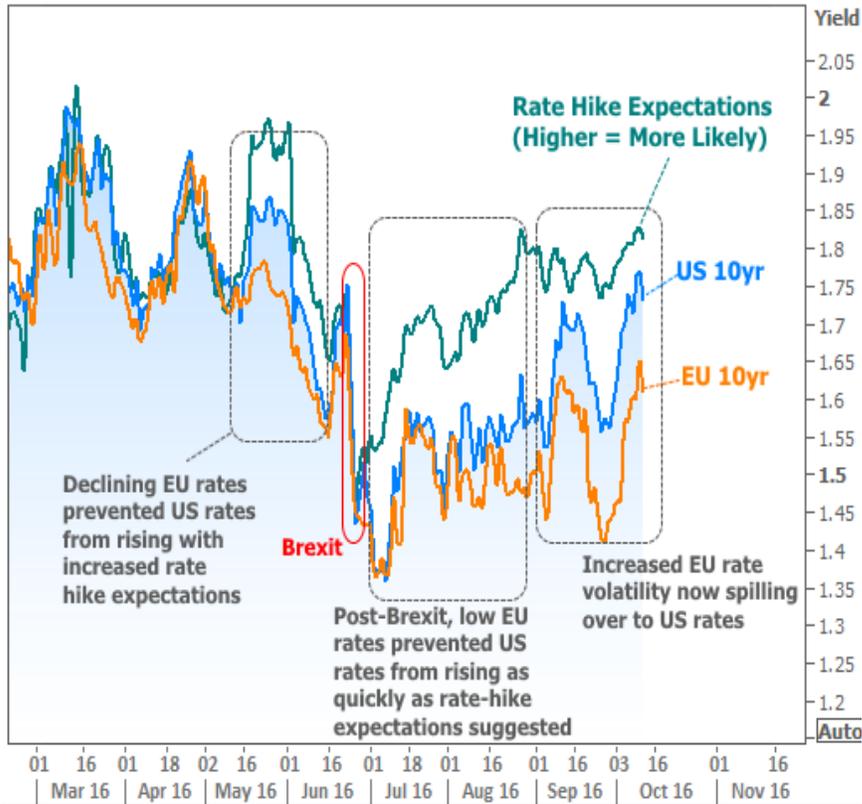
Recent Housing Data

		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



The motivations for the most recent rate spike are **diverse** and potentially even **debatable**. There are 2 distinct camps though. One camp sees rates moving higher as a result of Fed rate hike expectations. The other focuses more on global central bank stimulus expectations (last week's newsletter discussed this in detail). The truth is probably somewhere in between these two camps, and the following chart supports that conclusion.



US Housing Market Weekly

In the chart, the **higher** the green line, the **more** markets are expecting a Fed rate hike. Notice the strong correlation between US rates, EU rates, and rate hike expectations earlier in the year. Fed rate hike rhetoric strengthened in May, causing expectations to spike, but longer term rates (like 10yr Treasuries and mortgage rates) didn't follow because global markets were already buzzing about Brexit (the UK's vote to leave the European Union).

Post-Brexit, US rates have been **less willing to chase** the bounce in Fed rate hike expectations, despite clearly feeling some pressure (as seen in July/Aug, when the blue line inched higher relative to the orange line). Once European rate volatility increased, US rates have had freer rein to follow domestic motivations. This trend toward higher rates can continue if European rates keep moving gradually higher, but that's a big "if."

Bottom line: the Fed isn't the only source of inspiration for rate movement right now. The next few months bring significant risks to the outlook. These include **2 opportunities** for the Fed to hike rates and a **high likelihood** of the European Central Bank specifically addressing its asset purchase plans (the original source of the current rate spike).

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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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