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Housing Data Already Reflecting Rate Spike? This Time Might Be Different

The timing of 2016's massive spike in interest rates sets us up to see a **big shift** in the tone of housing and mortgage-related data in 2017. There is already a wide variety of opinions on the matter--most of them fairly dire. How warranted are they?

When something in financial markets (including housing and mortgages) has been "good" for a long time, it's natural to wonder when that might change. Even before rates spiked at the end of 2016, several major reports on home prices and sales suggested things **might be leveling-off**. The rate spike only validates the concern.

In other words, if we were already wondering if prices, sales, and mortgage applications might be taking a turn for the worse, doesn't the rate spike essentially **seal the deal?**

Yes, no, and maybe.

Here's what we know for sure. Rising rates have **already** taken a noticeable toll on mortgage applications. While there was no new MBA application data this week, we've already seen enough evidence of the correlation. Beyond that, refi applications are always the first thing to fall when rates move higher.

At the end of November, Freddie Mac said that mortgage activity would be **"crushed"** by rising rates. Freddie's economists cited the 2013 taper tantrum as precedent for said crushing.

Freddie failed to account for the fact that refi applications were almost twice as high before the taper tantrum than they were before the election. In other words, we **don't have as far to fall** before getting to the bottom of the long-term range. Yes, applications will be just as scarce at current rates, but much of the shift may have already happened.

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

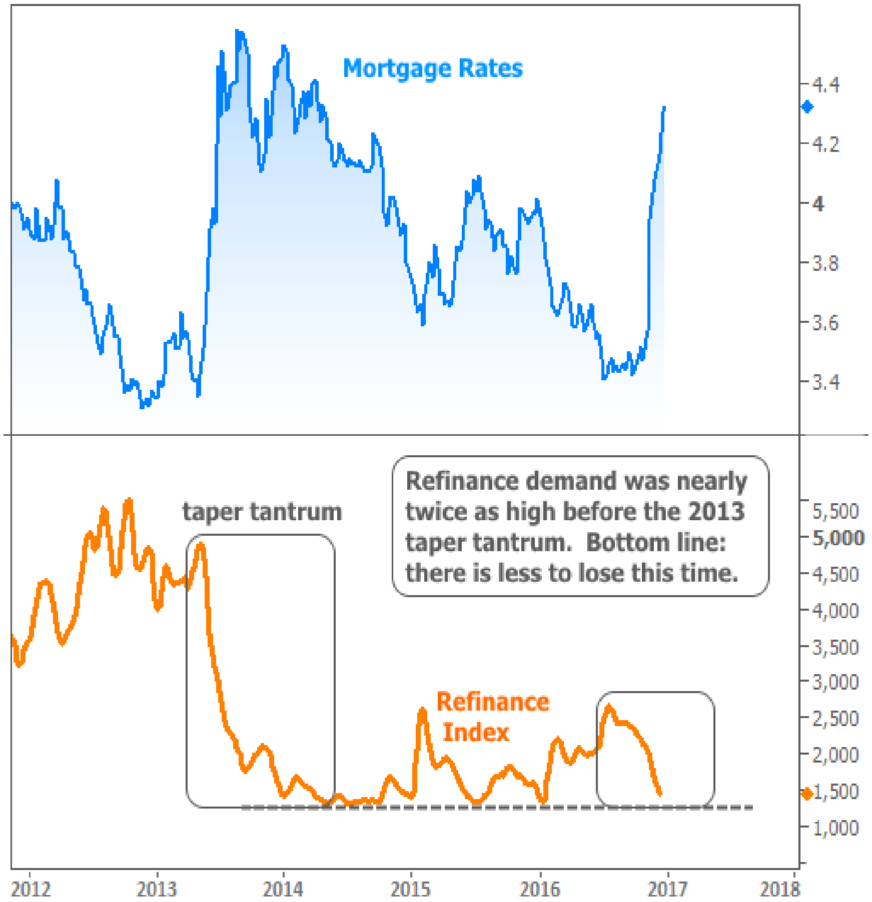
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.48	**+0.10**
MBS GNMA 5.5	99.93	**+0.16**
10 YR Treasury	4.2276	**-0.0249**
30 YR Treasury	4.4500	**-0.0225**

Pricing as of: 7/23 8:45AM 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%

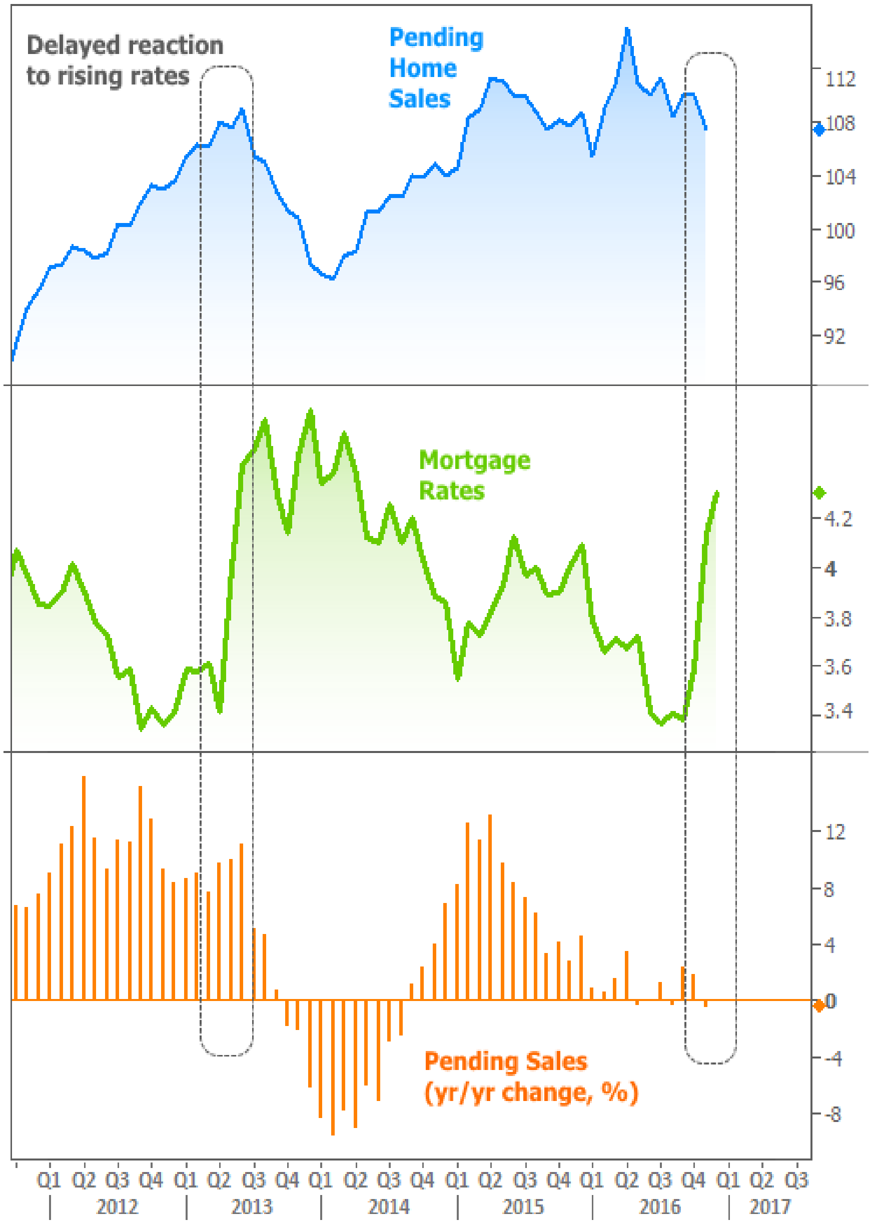


Less obvious and less immediate (and more contentious among pundits!) is the **effect on home sales**. Different reports speak to different aspects of home sales. Some are more timely than others. For instance, last week's Existing Home Sales report covered closed transactions in November. These **wouldn't** have been affected by the rate spike.

While it's true that rates have a far smaller impact on purchases compared to refis, there's **definitely** an effect. This time is no different, and this week's Pending Home Sales data from the National Association of Realtors already claims the "brisk upswing in mortgage rates" has "dispirited some would-be buyers."

The Pending Sales report is **much more timely** than Existing Sales, because it covers contract signings as opposed to closings. If any major report would show the effects of the rate spike, it's this one.

To be sure, **further declines in sales** are coming, but it remains to be seen if those declines are as sharp as they were in 2013. We enter the current rate spike with sales **already** stagnating (notice the flat year-over-year change in the chart below) and a well-established home price recovery. Contrast that to early 2013 when sales expanding quickly and prices were just showing signs of lift-off.



You might be noticing a theme here. Both in terms of refi applications and home sales, things were humming along at a much nicer pace before the taper tantrum. Coupled with fear that home prices wouldn't make a fuller recovery, we had more to lose. A **sharper correction made sense**. Because of this, 2017 is more of a wild card than a guaranteed "crushing" for mortgage activity.

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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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