



## Tom Payne

Senior Loan Consultant, loanDepot  
 NMLS# 1017004 #174457 Licensed in all 50 States  
 2835 St. Rose Parkway, Suite 120 Henderson, NV 89052

Office: 702-303-0243  
 Mobile: 702-303-0243  
[tompaynemortgage@gmail.com](mailto:tompaynemortgage@gmail.com)  
[View My Website](#)

## "Lopsided Conditions" Dragging Down Pending Home Sales

Pending home sales **failed to rise as expected** in May, the third straight month that measure has declined. The National Association of Realtors'® (NAR's) Pending Home Sale Index (PHSI) dipped 0.8 percent compared to April, on top of a 1.3 percent downturn that month. The index is now 1.7 percent below its level in May 2016, the second consecutive month annual sales have been down.

The PHSI is a leading indicator of existing home sales based on signed home purchase contracts. The Index lever was 108.5 in May, and the April index was revised down from the 109.8 originally reported to 109.4.

Analysts polled by *Econoday* had expected the PHSI to increase from 0.4 to 0.8 percent. The consensus was for a one-half point gain.

NAR said the decline was the **result of ongoing supply shortages and resulting home price increases** in many metro areas. None of the major regions saw an increase in contract activity in May and three of the four have fallen behind their 2016 level.

Lawrence Yun, NAR chief economist, says it's clear the critically low inventory levels in much of the country somewhat sidetracked the housing market this spring. "Monthly closings have recently been oscillating back and forth, but this third consecutive decline in contract activity implies a possible topping off in sales," he said. "Buyer interest is solid, but there is just not enough supply to satisfy demand. Prospective buyers are being sidelined by both limited choices and home prices that are climbing too fast."

Like most other sources of such data, NAR says the shortages are **most severe in the lower price ranges**. That is being reflected in home purchase closings. April sales of homes under \$100,000 were down 7.2 percent from May 2016, and sales rose only 2.0 percent for those between \$100,000 and \$250,000. In higher price brackets, sales expanded incrementally all the way up to massive increases of 26.0 percent for homes priced between \$750,000 and \$1 million and 29.1 percent for those selling for \$1 million and more.

Weaker financial and economic confidence could also be playing a role in the slowdown in contract activity. NAR's quarterly Housing Opportunities and Market Experience (HOME) survey, released earlier this week, found that **fewer renters think it's a good time to buy a home**, and respondents overall are less confident about the economy and their financial situation than they

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
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
<b>Freddie Mac</b>			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/22

## 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%

# Housing News Update

were earlier this year.

"The lack of listings in the affordable price range are creating lopsided conditions in many areas where investors and repeat buyers with larger down payments are making up a bulk of the sales activity," said Yun. "Meanwhile, many prospective first-time buyers can't catch a break. Prices are going up and there's intense competition for the homes they're financially able to purchase."

NAR forecasts existing home sales to be around 5.63 million this year, an increase of 3.2 percent from the 5.45 million rate last year. The national median existing-home price is expected to increase around 5 percent. In 2016, existing sales increased 3.8 percent and prices rose 5.1 percent.

"A much higher share of homeowners compared to a year ago think now is a good time to sell, but until they do, sales will likely stay flat and low inventory will keep price growth moving swiftly," said Yun.

The PHSI in the **Northeast** decreased 0.8 percent to 96.4 in May, but remains 3.1 percent above a year ago. In the **Midwest**, the index was unchanged from April at 104.5, and is 2.8 percent lower than May 2016.

Pending home sales in the **South** declined 1.2 percent to an index of 123.4, a drop of 1.4 percent year-over-year. In the **West**, the index dipped 1.3 percent in May to 98.6, and is now 4.5 percent below a year ago.

The Pending Home Sales Index is based on a large national sample, typically representing about 20 percent of transactions for existing-home sales. In developing the model for the index, it was demonstrated that the level of monthly sales-contract activity parallels the level of closed existing-home sales in the following two months.

An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined. By coincidence, the volume of existing-home sales in 2001 fell within the range of 5.0 to 5.5 million, which is considered normal for the current U.S. population.

	Value	Change
Builder Confidence	Mar 51	+6.25%

## 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

Contact me for more information. 702-303-0243 or [TPayne@loandepot.com](mailto:TPayne@loandepot.com)

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