



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
[View My Website](#)

Fed Week Rate Volatility Had Nothing to do With The Fed

As far as the economic calendar suggested, the week's big to-do was Wednesday's Fed announcement. But the biggest market movement arrived a **day before**, and **didn't** line up with any conventional motivation. Even seasoned analysts agreed it was a relative "mystery move" that took rates to the highest levels in roughly 2 weeks.

Movement like this typically involves a **few common ingredients** that are always at play behind the scenes, but that have nothing to do with economic data, news headlines, or Fed policy. These include things like imbalances in trading positions, automated trading programs designed to protect traders from unexpected movement (aka "stop-losses"), and trades required as a part of a transaction in another part of the market (which we'll discuss in more detail below). All were seen on Tuesday.

A relative **imbalance** in trading positions set the stage for the quick move. Specifically, more bond traders were betting on rates continuing to move **lower** after the last rate spike was averted in early July. That means more traders had those defensive stop-losses in place in the event something came along to push rates higher.

This process began with European bond yields moving higher overnight. This was the **spark that set the dry tinder ablaze**. US rates didn't rise as quickly as European rates at first, but it was enough for those defensive stop-losses kick in, thus adding to the upward momentum. Traders looked to other traders for cues. Several big trades appeared on widely-followed reporting systems, leading other traders to follow suit, pressuring rates higher still.

Think of this like a **massive traffic jam** where cars begin turning around and heading the other direction. Those bigger trades would be like someone rolling down their window and saying "hey pal... I was just at the front of the line and there's a big accident. They said it would take 4 hours to get traffic moving." As you can imagine, only the people that absolutely couldn't take any other road would remain in position.

With the benefit of hindsight, we'd also come to suspect the corporate bond market played a role in Tuesday's weakness. Big corporate bond deals often involve the selling of US Treasuries (which pushes rates higher) in advance of the corporate bond's official launch. When AT&T launched a **gigantic \$22bln bond deal** on Thursday, it helped explain some of Tuesday's big trades (the financial firms that help big corporations structure and launch these deals

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	4.2306	-0.0219
30 YR Treasury	4.4486	-0.0239

Pricing as of: 7/23 7:05AM EST

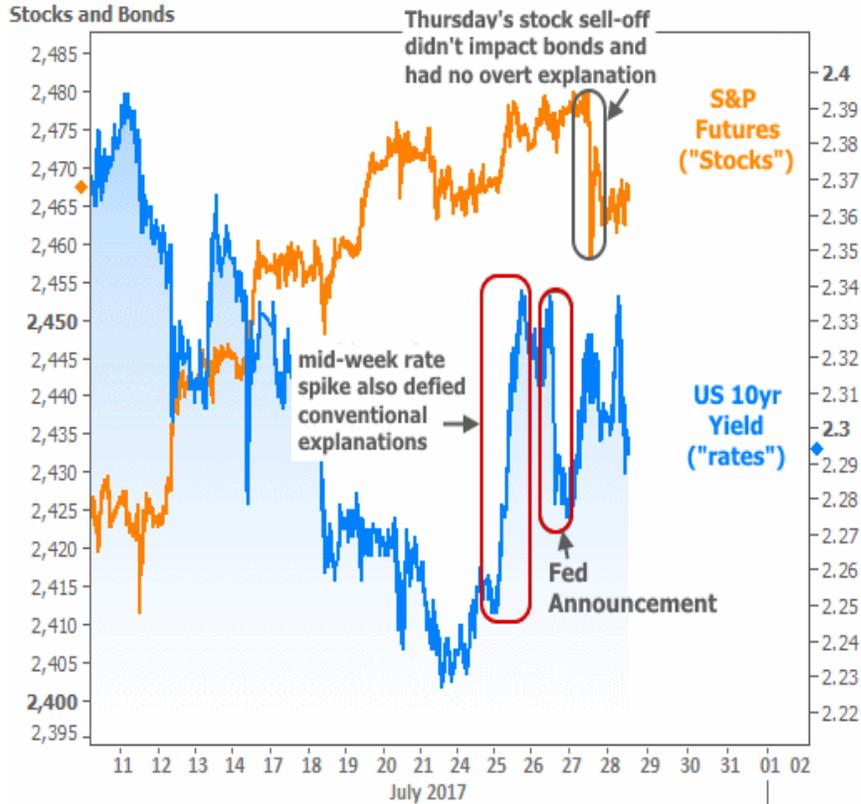
Recent Housing Data

		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

can begin selling Treasuries several days in advance).

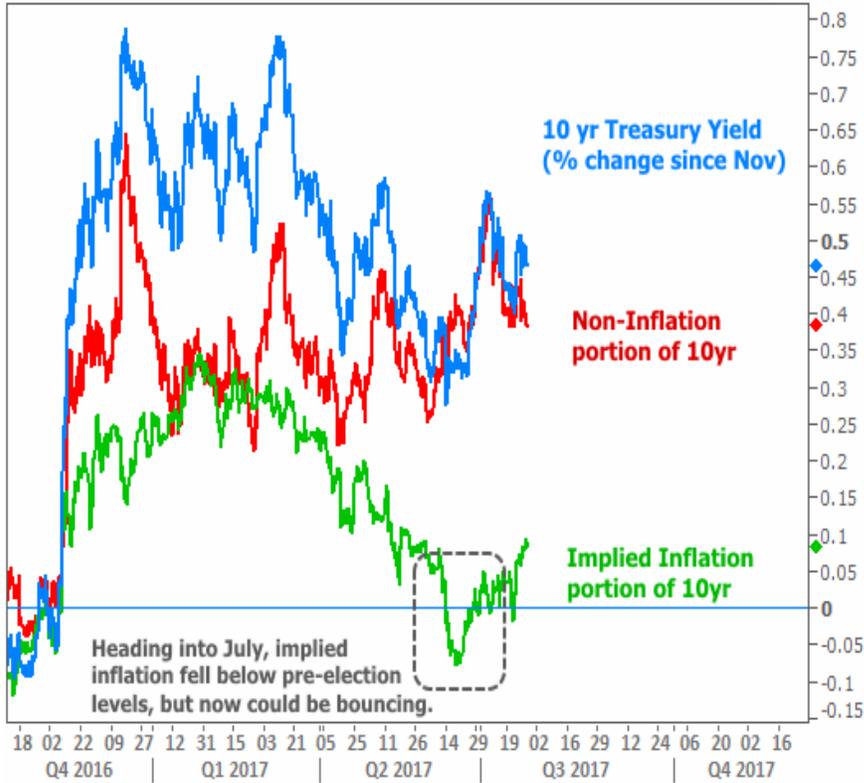
When all was said and done, Tuesday's volume and rate movement was the **biggest in more than 2 weeks**. In fact, even the Fed Announcement (which typically draws a good amount of volume regardless of its content) failed to get Wednesday's movement into the same league. This comparison can be seen in the following chart, and the absence of big moves in the stock market during the same time suggests we were indeed dealing with bond-market-specific considerations. The improvement after the Fed had more to do with Tuesday's momentum having run out of steam (the Fed said **nothing new or surprising**).



This **complicates the bigger picture** for rates. While we could take heart in the fact that rates did a good job of holding just under Tuesday's ceiling for the rest of the week, we'd also have to acknowledge the "higher lows" throughout the week. If we break rates into their inflation and non-inflation components, we can see that recent resilience has been made possible by falling inflation in 2017. If inflation metrics continue to recover (green line in the following chart), rates will remain under pressure.

US Housing Market Weekly

Rate Components



While higher rates might help cool off the [record run in home prices](#), they wouldn't do any favors to home sales numbers. Both [New](#) and [Existing](#) Home Sales figures were released this week, and **both fell short** of expectations. That said, we're not talking about any major shifts here. Plus, **low inventories deserve** as much of the blame as anything, according to the National Association of Realtors (NAR). [Freddie Mac's monthly outlook](#) delved deeper into the inventory issue for newly constructed homes, citing increased development costs and a lack of skilled labor.

Subscribe to my newsletter online at: <http://housingnewsletters.com/thomaspayne>

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

We are a direct nationwide lender.
EQUAL HOUSING LENDER

Tom Payne

