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Should You Wait For Lower Rates?

Mortgage rates have fallen more aggressively than ever and they've been remarkably willing to set record after record. So is there any reason you **shouldn't** wait for them to go even lower?

This is an age old question any time rates fall to long-term lows. In the past, the answer has been **pretty easy**. If rates had fallen more than 1.5% from their previous high over the course of several years, and if something obvious happened to push them just a bit lower, it was time to refi!

For example, the Fed's policy shift (in favor of mortgages) in September 2012 and the Brexit vote in 2016 both pushed rates quickly lower. Both were singular events with finite information, that allowed markets to react and move on.

Coronavirus has filled this role in a different way. Like past events, it hit a market that had already seen rates fall **significantly** for more than a year. Unlike past events, it's vastly more complex with implications that are infinitely more uncertain. It's also very much **ONGOING** as opposed to finite.

The net effect has been an **uncanny** ability for rates to hit record low after record low with little apparent risk of a rebound. In an environment like this, it makes sense that rates could go even lower, but only for so long.

Naturally, rates will have to stop setting new record lows at some point. Unfortunately, it's **impossible** to know exactly when that will be (or if it has already happened). But there are a few things we **DO** know.

As we discussed last week, mortgage rates were only able to fall so steadily in recent months because they jumped so much higher in March. The following chart shows the gap opening up between mortgages and 10yr Treasury yields (often used as a benchmark for longer term rates like mortgages) and the subsequent closing of that gap.

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

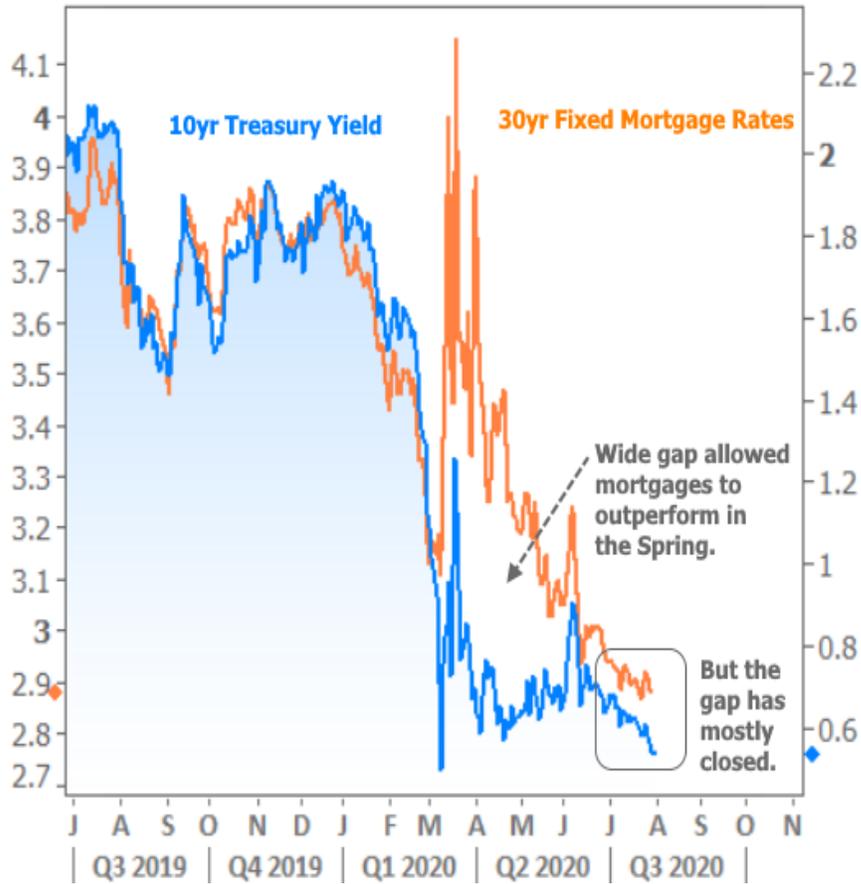
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2403	-0.0122
30 YR Treasury	4.4570	-0.0155

Pricing as of: 7/22 10:49PM EST

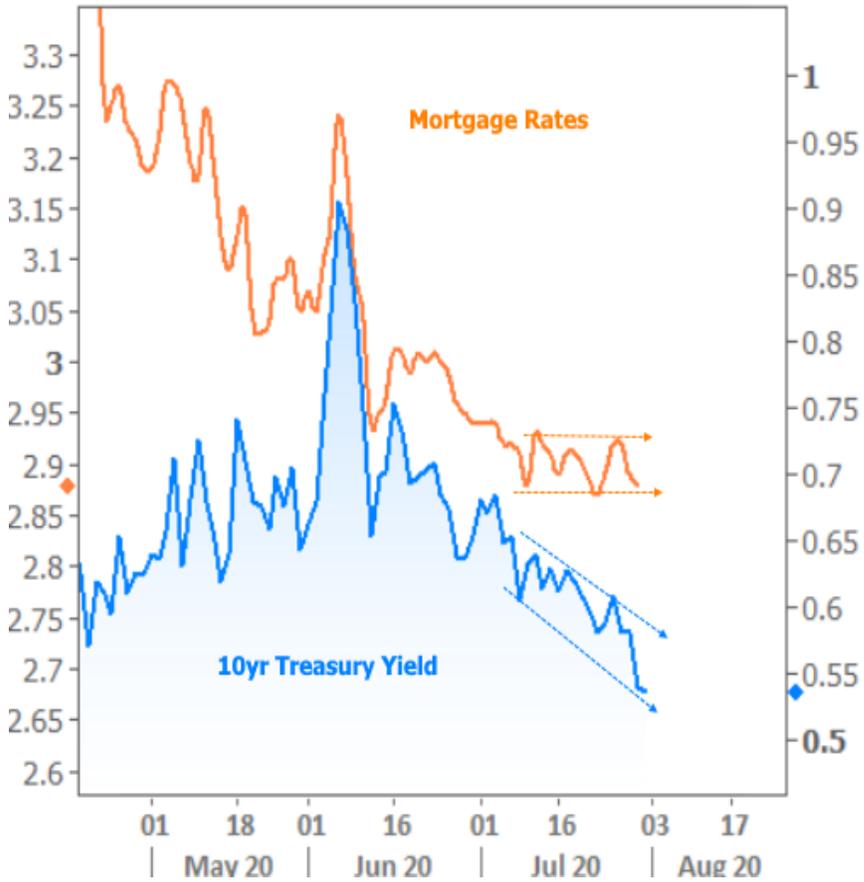
Recent Housing Data

		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%



If we zoom in to a narrower field of view with the same two lines, we can see how Treasury yields have been willing to move lower even as mortgage rates have resisted.

US Housing Market Weekly



Unlike past examples where mortgage bonds were straying from Treasuries, this is actually an issue specific to mortgage lenders (and not the bond market they sell into). We can verify this by comparing the movement in mortgage bonds versus mortgage rates. These two lines almost always track each other perfectly. We've never seen them open up this kind of gap before.

Rate movement implied by mortgage-backed bonds



Simply put, lenders are already too overloaded. Lower rates would only make things worse. The bond market is telling the mortgage market that rates **can** go lower, but the mortgage market is saying "no can do!"

So you should wait, right?

If you could be sure that the bond market would maintain current levels for several months, or get even better, then sure! There would be relatively low risk in waiting. But the flattening out of the orange lines above suggests there might not be as much benefit as you'd hope. If bonds happen to reverse course before rates catch up, you'd be out of luck.

So what's the best way to play this?

No one can say for sure, but we can look at the same math from last week to formulate a game plan that's just as good as anything. Last week we discussed the limitations on mortgage rates due to the structure of the mortgage bond market. Long story short, the conclusion was that in a perfect world, rates could go about 0.75% lower before facing an unprecedented level of resistance.

The great thing about that level of (potential) improvement is that if rates do manage to fall that much, it would make financial sense to refinance again in addition to refinancing right now. This has the added benefit of allowing you to capitalize on the interest savings between now and then. Moreover, if rates happen to move higher instead of lower, you won't have missed the opportunity. It's as close to a win-win as we typically see in a game that can only truly be won with clairvoyance.

In other news and the week ahead...

US Housing Market Weekly

The housing market has bounced back with a vengeance according to home sales numbers released this week from the National Association of Realtors. The Pending Sales Index, in the space of 2 months, has catapulted from the lowest levels ever to the highest levels in over 15 years.



The first reading of US GDP for Q2 was released on Thursday and it was almost exactly as bad as predicted. This was a non-event for financial markets which had long since priced-in the economic impacts of covid.

Financial markets also price in the offsetting forces from the Fed and fiscal stimulus. The Fed reiterated its commitment in its periodic policy announcement this week and Fed Chair Powell said the accommodative stance isn't changing any time soon.

Looking ahead, next week brings the typically important jobs report on Friday as well as another chance for lawmakers to hone in on another installment of fiscal stimulus. Earnings season continues in full swing throughout the week.

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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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