



## Tom Payne

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## More Mortgage Drama--Especially For Investment and 2nd Home Loans

Most of this week's mortgage rate coverage focused on a fairly gentle increase of 3.05 to 3.09 for the average 30yr fixed. That number comes from Freddie Mac's weekly rate survey, which is one of the only games in town when it comes to capturing a broad, best case scenario.

Over time, reporters have found it easy to simply cover mortgage rates once a week when Freddie's report comes out rather than gopher multiple rate quotes from multiple lenders every day. That model has worked well for just about everyone just about every week, but there are times where it **breaks down woefully**. This is one of those times.

At issue is the inherent lag in Freddie's methodology. Surveys are sent out Monday and are accepted through Wednesday. But most of those who are going to respond end up doing so right when they get the survey. That means the rate index that is published on a Thursday is mostly a reflection of Monday vs the previous Monday. As such, it can be **wildly inaccurate** when the rest of the week is volatile.

Beyond that, Freddie's survey rate also tends to move **more slowly** than actual rates for reasons that remain a mystery. For example, this week's report suggests rates were only 0.29% higher compared Feb 12, 2021 (the most recent plateau). But an analysis of **actual** lender rate offerings puts that gap at 0.54%, which is a significant difference in the mortgage world. The chart below tells the story.

## 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

### 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

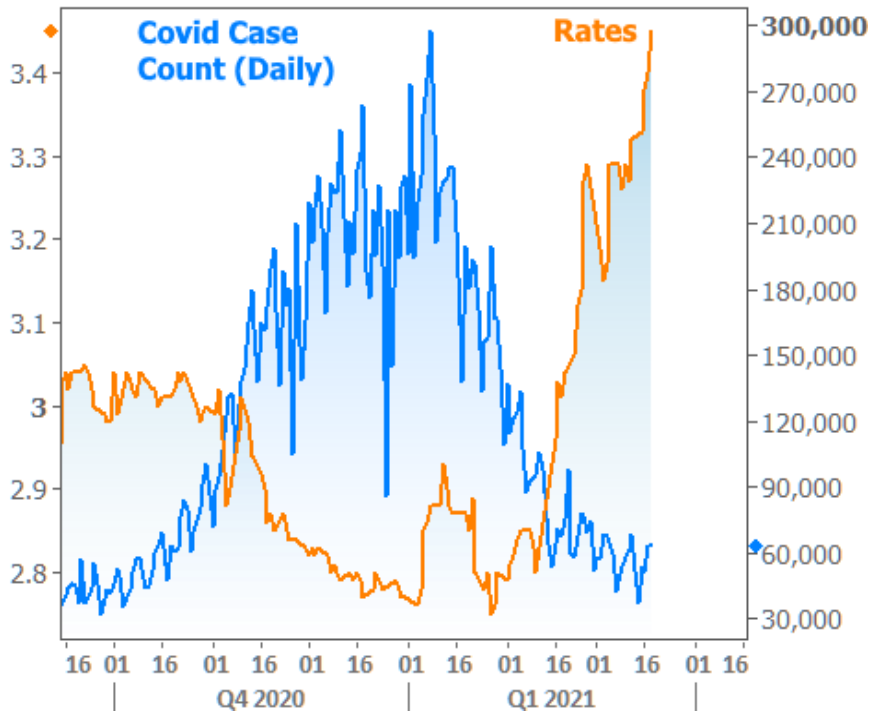
	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2452	-0.0073
30 YR Treasury	4.4631	-0.0094

Pricing as of: 7/22 9:04PM 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



All of the above is bad enough for the average mortgage borrower (relatively speaking, of course... rates are still exceptionally low historically), but some borrowers have it **even worse**. While they don't constitute a huge percentage of total loan volume, non-owner occupied and 2nd home loans continue experiencing huge drama.

This is an extension of the news discussed in [last week's newsletter](#). In short, a regulatory change has forced Fannie Mae and Freddie Mac to instruct lenders to limit the amount of non-owner/2nd home loans they originate to a certain percentage of their total business. Lenders who were already over the limit had to act **quickly and decisively** to stem the flow of those loans. The fastest and easiest way to do that is to make rates so high (just for those loan types) that no rational borrower would accept them.

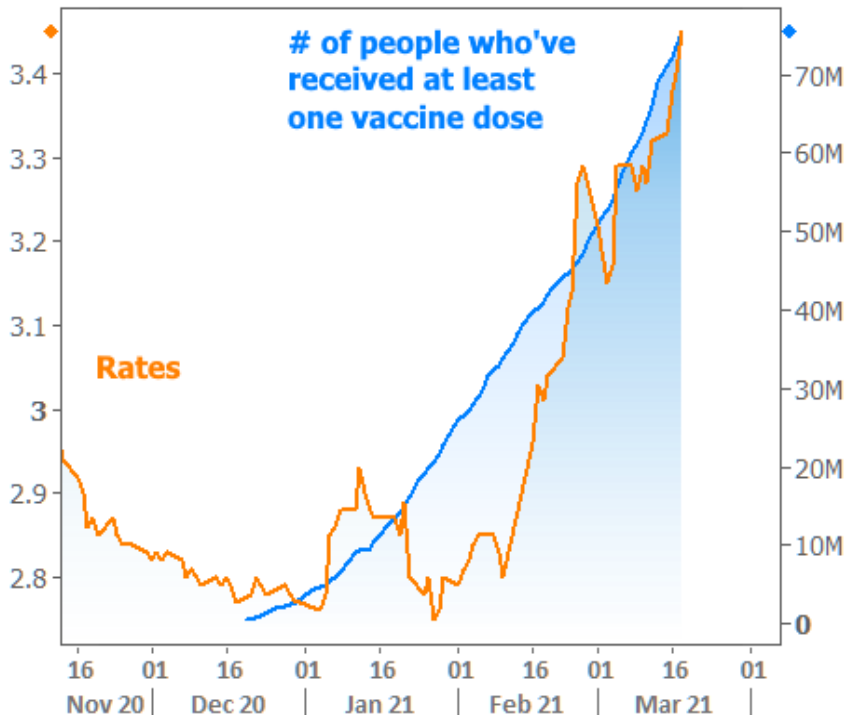
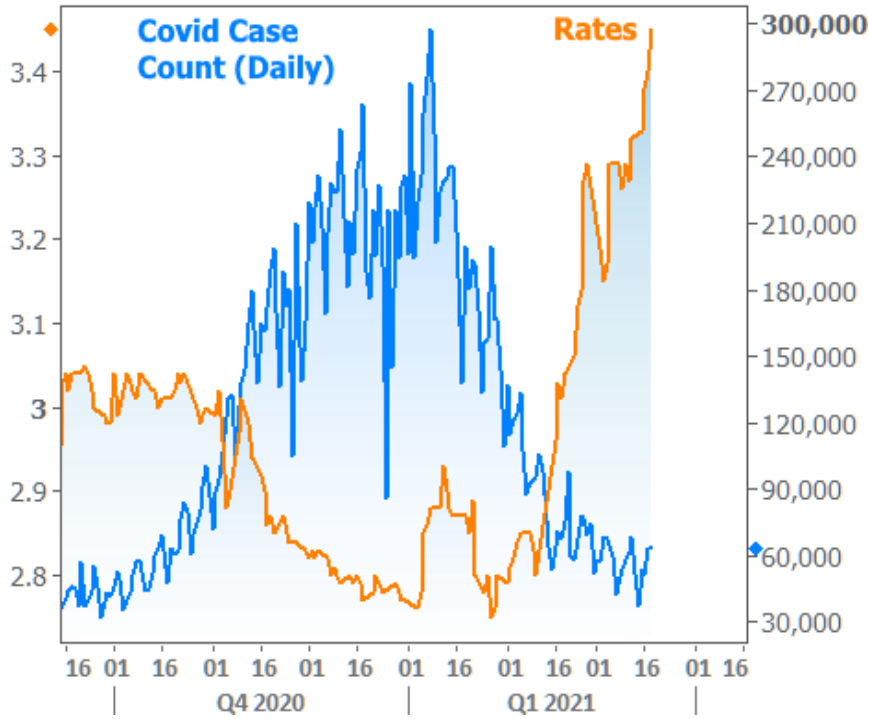
That's exactly what started to happen last week. To give an example of just how big these adjustments can be, some lenders are charging more than 7 points for certain investment property scenarios (that's more than **\$20k on a \$300k loan**).

Granted, that is one of the **worst** examples, but the problem is that it is **no longer** an isolated example. In other words, only the hardest-hit lenders had implemented this strategy last week whereas a **majority** are affected this week. This trend will likely continue as lenders with no additional cost adjustments expect to see an increase in those loans (due to their suddenly more competitive rates).

## Bigger picture...

Since we're talking about all manner of rising rates, it's worth taking a moment to refresh ourselves on **why** this is happening and ask whether we'll see some relief any time soon. It's actually very simple. Covid is on the run. There's a lot that goes hand and hand with that, but if we could only cite one reason for the extremely low rates in 2020 and the abrupt spike in 2021, it's the shift of momentum in the pandemic.

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**Will we see some relief?** Yes, it's just a matter of how much higher rates need to go in order for that to happen. This is already one of the biggest rising rate episodes on record, but the counterpoint is that 2020 was a completely unprecedented falling rate episode.

# US Housing Market Weekly

As rates have risen, a great many experts, amateur market watchers and everyone in between has offered an opinion on why things wouldn't get any worse. Yet **every likely ceiling has been broken**. The latest is marked by 1.75% in terms of 10yr Treasury yields. This was a target for a good portion of the trading community a few weeks ago, and we bounced there this week.

None of the above should be taken as an endorsement of 1.75% as a ceiling, however. The only point is to suggest a key level to watch in the week ahead. Things can still go either way.



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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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