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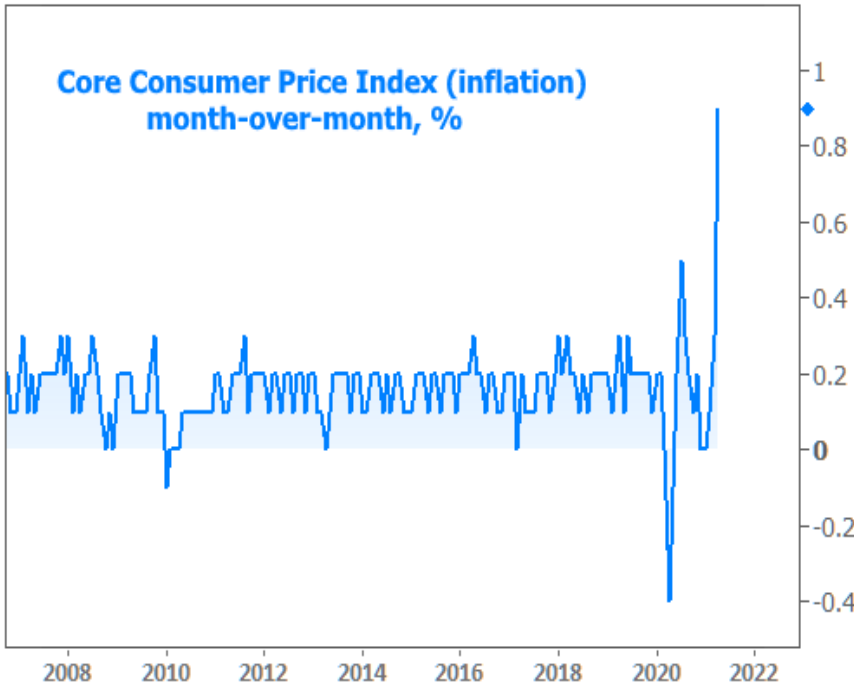
Big Inflation Scare, But Rates Remain Resilient

The 70's and 80's brought unforgettable economic lessons about inflation. Since then, certain market participants have been watching inflation like **hawks**, even when they didn't need to.

After the start of the pandemic, the massive amount of fiscal stimulus (covid relief bill) and monetary accommodation from the Fed (bond buying and rate cuts) had inflation hawks on **high alert**. Fed speakers have been consistent in their response: **yes**, inflation was likely to spike this spring for a variety of reasons, but it wouldn't necessarily be evidence of a sustainable shift.

Inflation can be measured in a few ways, but the most basic and most popular is via price indices published by the government. The **Consumer Price Index (CPI)** is one of the two dominant forces in that regard and this week brought a fresh update for the month of April.

While analysts agreed with the Fed's inflation warning, this week's **actual** CPI data eclipsed even the **most aggressive** forecasts, both in monthly and annual terms.



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

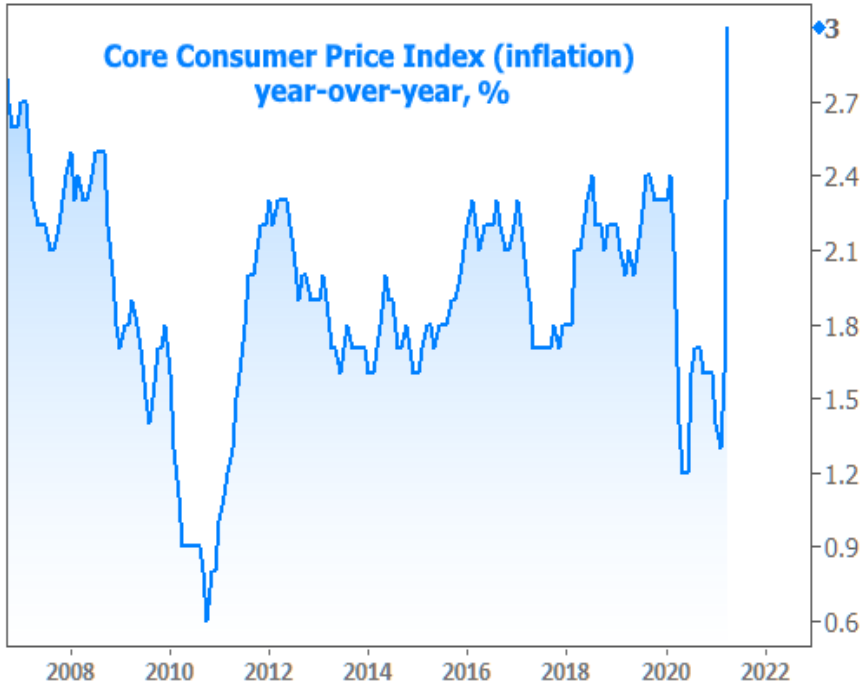
Market Data

| | Price / Yield | Change |
|----------------|---------------|---------|
| MBS UMBS 5.5 | 99.39 | -0.01 |
| MBS GNMA 5.5 | 99.78 | +0.00 |
| 10 YR Treasury | 4.2427 | -0.0098 |
| 30 YR Treasury | 4.4626 | -0.0099 |

Pricing as of: 7/22 9:03PM 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% |



What's so bad about inflation though? After all, hasn't the Fed said they want inflation to remain a bit higher relative to their typical target?

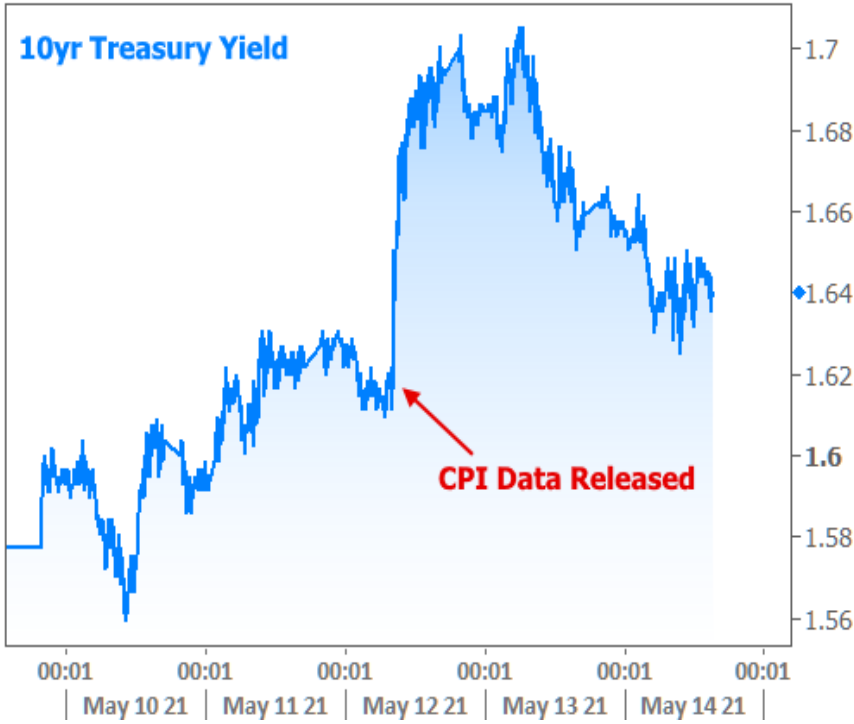
Yes, the Fed is actually **trying** to keep inflation higher than normal because they argue it will foster a stronger economic recovery for a wider slice of society. Regardless of one's opinion on that complicated topic, everyone agrees that "**too much**" inflation is a **bad** thing.

One of the most relevant negative impacts of high inflation on the mortgage/housing market is that it puts upward pressure on rates.

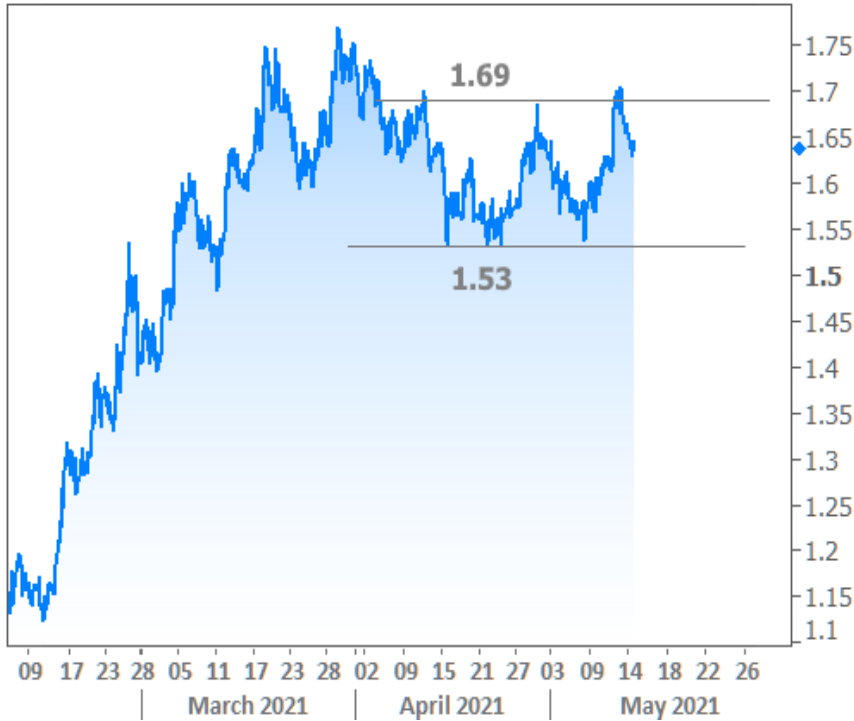
Here's a **quick explainer** as to why:

Mortgage rates are primarily determined by trading in the bond market. Investors who buy bonds earn returns by collecting payments over time based on terms agreed to upfront. Inflation robs those payments of future purchasing power (I'm giving you \$100/month for 30 years, but what if a pack of gum costs \$100 in 30 years?). As such, if investors expect higher inflation, they adjust by charging higher rates today.

That scenario played out immediately in the bond market on Wednesday with 10yr Treasury yields spiking **abruptly** in the wake of the inflation report.



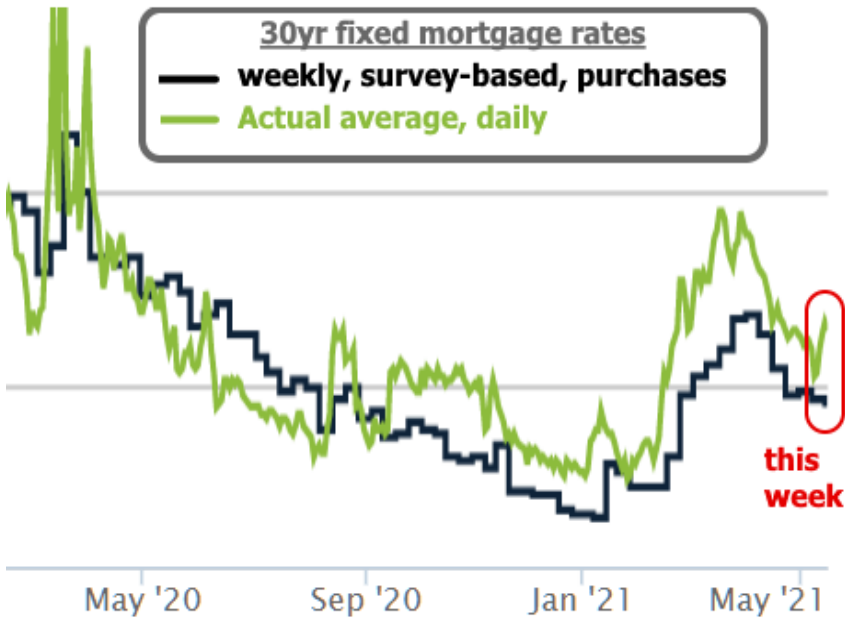
That looks fairly dramatic on the 5-day chart, but in the bigger picture, the bond market arguably took the inflation surprise in stride.



The 2nd half of the week was spent recovering back into the prevailing range with a weak Retail Sales report doing nothing to stand in the way. We'll stop short of giving the data credit for the rate recovery simply because this series remains exceptionally volatile. No one wants to read too much into another "rebound month" following last month's stimulus check effect.



Mortgage rates were logically **higher** on the week, even if multiple headlines suggested they were **lower**. Those headlines almost certainly cite Freddie Mac's weekly survey data. By the time the survey is released on Thursday, **it can be very stale** if rates experienced much volatility earlier in the week.



Next week brings a **slew of housing-related reports** with Builder Confidence leading off on Monday. Residential construction numbers follow on Tuesday and the important Existing Home Sales report will be released on Friday. Analysts expect the housing data to hold fairly steady with last month's levels.

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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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