HOUSING NEWSLETTER
The Week's Most Important Housing News

A Rare Week of Data Brings Friends and Foes For Rates

Rates are dictated by bonds and bonds take cues from economic data. But during the shutdown, the most important data has been on hold. This week brought a rare concentration of non-government data to help bridge the gap and bonds were more than willing to respond.

Almost all the volatility transpired on Wednesday and Thursday surrounding a few key reports. Wednesday's ADP employment was first up, and while the overall job count remains in lower territory, it moved out of negative territory at a faster pace than the market expected.

Later that morning, The Institute for Supply Management (ISM) released its services sector index. Along with ADP, this report has influence even when we're not in a shutdown. When it's stronger than expected, bond yields and rates often move higher. This particular installment was **unequivocally higher**—especially the component that tracks "new orders" (3rd highest reading in more than 2 years).

That duo of stronger reports was responsible for rates rising to their **highest levels in nearly a month** by mid-week, but subsequent data pushed back in the other direction. Thursday morning brought a report from Revelio—a firm that has created a synthetic job count from a diverse array of aggregated data. Were it not for the shutdown, many market participants would still have never heard about this report, but in this environment, it proved to be a surprisingly relevant ingredient in Thursday's momentum.

Unlike ADP, Revelio suggested a **modest decrease** in the monthly job count in October.

For those curious how well this data tracks with the all-important nonfarm payroll (NFP) number from the U.S. government, the following chart overlays the two:

The following morning, weaker Consumer Sentiment data helped solidify the bond market's push back against Wednesday's weakness. The survey showed the **lowest opinion of "current conditions" in its 70+ year history.**

The following chart illustrates the bond market's reaction to all of the reports discussed above. 10yr Treasury yields are the most common benchmark for longer-term consumer rates (like mortgages).

Bottom line: rates took 2 steps higher and 2 steps back thanks to the data.

Special note on credit score changes

News is making the rounds at the end of the week regarding Fannie Mae removing its minimum credit score requirement. In some circles, this sparked a perfect storm of misunderstanding. This does not mean that those with credit scores under 620 will now magically qualify for conventional loans. It also doesn't do anything to alter the **steep price penalties** that exist on loans with low scores.



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For all practical purposes, it's an operational change that will apply to an incredibly small subset of prospective borrowers. A vast majority of borrowers with sub-620 credit scores will still be unable to qualify for conventional financing. The only change will be the reasons for denial.

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