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Mortgage Rates Back to Flat After Starting Higher

Mortgage rates **had a scare** today, as they began the day at their highest levels of the month (depending on the lender) only to fall back in line with yesterday (or better!). The reason for the back-and-forth movement has to do with esoteric behind-the-scenes stuff in the bond market. I should be able to make it tangible enough for you, so let's give it a shot.

Bonds are the backbone for all interest rates. The bonds that underlie mortgages tend to move almost exactly like 10yr Treasury yields. Treasuries are a **great case study** to follow when it comes to rates because they are abundant, more actively traded, and essentially risk-free. That risk-free part is important because it means Treasuries can be used as a benchmark to assess the value of other bonds that aren't guaranteed by the full faith and credit of the US government (note: I realize that "full faith and credit of the US government" might not **sound** like a big deal to everyone, but in the bond world, it's as risk-free as it gets).

With all of the above in mind, it **makes a lot of sense** for MBS (the mortgage-backed-securities dictate mortgage rates) to move when the comparable Treasury security moves. That means we don't necessarily need to be near any important levels in MBS in order to see interesting movement, as long as Treasuries are near interesting levels.

That was the case today as the 10yr Treasury yield (the most widely-accepted benchmark against which MBS are measured) broke **above** a key short-term ceiling. When yields break such ceilings, it can serve as a sign for traders to keep pushing rates higher or as a sign that they've pushed enough and can now buy bonds again, thus bringing rates lower. In today's case, the ceiling prompted buying. Long story short: rates began the day in higher territory due to lingering weakness from yesterday, but as bonds improved, most lenders offered pricing improvements that brought rates back in line with yesterday morning's levels.

Today's Most Prevalent Rates

- 30YR FIXED - 4.625-4.75
- FHA/VA - 4.25-4.5%
- 15 YEAR FIXED - 4.125%
- 5 YEAR ARMS - 3.75-4.25% depending on the lender

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.37%	-0.04	0.00
15 Yr. Fixed	6.82%	-0.02	0.00
30 Yr. FHA	6.82%	-0.06	0.00
30 Yr. Jumbo	7.55%	-0.05	0.00
5/1 ARM	7.42%	-0.08	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 5/2

MBS and Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.07	+0.30
MBS GNMA 6.0	101.11	+0.38
10 YR Treasury	4.5041	-0.0754
30 YR Treasury	4.6706	-0.0584

Pricing as of: 5/3 11:55AM EST

Ongoing Lock/Float Considerations

- Rates moved higher in a serious way due to several big-picture headwinds, including: the Fed's rate hike outlook (and general policy tightening), the increased amount of Treasury issuance to pay for the tax bill (higher bond issuance = higher rates), and the possibility that fiscal stimulus results in higher growth/inflation.

- Despite those headwinds, the upward momentum in rates has cooled off heading into the summer months. This could merely be the eye of the storm, or it could end up being the moment where markets began to doubt that prevailing trends would continue.

- It makes sense to remain defensive (i.e. generally more lock-biased) because the headwinds mentioned above won't die down quickly. Temporary corrections can be explained away, but it will take a big change in economic fundamentals or geopolitical risk for the big picture to change. While that doesn't necessarily mean rates have to skyrocket, there's a good chance it means rates will struggle to move much lower than early 2018 lows until more convincing motivation shows up.
- *Rates discussed refer to the most frequently-quoted, conforming, conventional 30yr fixed rate for top tier borrowers among average to well-priced lenders. The rates generally assume little-to-no origination or discount except as noted when applicable. Rates appearing on this page are "effective rates" that take day-to-day changes in upfront costs into consideration.*

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