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Mortgage Rates Are a Mess!

Mortgage rates **were unchanged for** many lenders today which is utterly and completely shocking given the other market developments that tend to coincide with rates moving lower. Specifically, stocks tanked and 10yr Treasury yields plummeted to the lowest levels since September 2016. For anyone under the impression that 10yr yields dictate the direction of mortgage rates without exception, it's high time to reassess that worldview. The bottom line is that rates are doing an absolutely terrible job of keeping pace with the rally in the broader bond market. The "**Temporary Note on Mortgage Rate Inconsistency**" below will be informative in that regard.

With that in mind, many lenders were unchanged today for slightly less complicated reasons. Sure, underlying mortgage bonds didn't improve as quickly as Treasuries but they still improved. The catch is that they weren't much better this morning compared to yesterday morning's levels. Yesterday afternoon saw heavy losses. Some lenders adjusted rates higher. Those lenders are indeed offering lower rates today, for the most part--just not as low as you might expect if you've followed along with market movement and the mortgage rates response in the past.

It will take a combination of TIME and BOND MARKET STABILITY for this underperformance to change. Mortgage rates can still move lower in this environment, but by an underwhelming amount relative to expectations. Thankfully, the bond market has remained in such strong shape that--despite the underperformance--mortgage rates are still very close to 3-year lows.

Today's Most Prevalent Rates

- 30YR FIXED - 3.625 - 3.75%
- FHA/VA - 3.375-3.5%
- 15 YEAR FIXED - 3.375%
- 5 YEAR ARMS - 3.375-3.75% depending on the lender

Temporary Note on Mortgage Rate Inconsistency:

> Mortgages have been doing a lousy job of keeping pace with broader bond markets (generally represented by US Treasuries and especially the 10yr yield). This is happening for a variety of reasons and we'll leave this temporary note intact until the phenomenon dies down.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.41%	-0.10	0.00
15 Yr. Fixed	6.84%	-0.06	0.00
30 Yr. FHA	6.88%	-0.11	0.00
30 Yr. Jumbo	7.60%	-0.07	0.00
5/1 ARM	7.50%	-0.05	0.00
Freddie Mac			
30 Yr. Fixed	7.17%	-0.27	0.00
15 Yr. Fixed	6.44%	-0.32	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: 5/1

MBS and Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.46	+0.40
MBS GNMA 6.0	100.48	+0.27
10 YR Treasury	4.5985	-0.0360
30 YR Treasury	4.7347	-0.0167

Pricing as of: 5/2 7:32AM EST

Mortgages and the bonds that underlie them (MBS) are subject to one major uncertainty that doesn't affect US Treasuries: the risk that a borrower will refinance. Investors pay extra money for mortgages upfront in exchange for interest over time. They have well-researched models that suggest average refinance risk. When rates fall more quickly than expected, people refinance faster and investors lose out on the returns they were counting on to break even. The result is that investors pay much less for any given mortgage relative to what they would pay if Treasury yields were holding steady. When investors pay less, borrowers pay more for any given interest rate, or they're simply forced to take a higher interest rate.

There's one more layer of frustration that exists between mortgage lenders and the bond market. Simply put, when volatility is high, it costs lenders much more than normal to ensure the availability of locked rates, not to mention the ability to remain profitable in the process. The result is that lender pricing will appear very conservative compared to times when MBS prices are holding in a more stable pattern.

This double whammy for mortgage borrowers can keep rates flat or even HIGHER on days where 10yr Treasury yields are MUCH lower. It will only be fixed by TIME.

If you're looking for the simplest possible analogy, here you go: mortgage rates find drops in the 10yr yield to be intoxicating and pleasant. But this particular drop is tantamount to alcohol poisoning. Last thing they want right now is another drink.

Ongoing Lock/Float Considerations

- 2019 has been the best year for mortgage rates since 2011. Big, long-lasting improvements such as this one are increasingly susceptible to bounces/corrections.
- Fed policy and the US/China trade war have been key players
- The Fed and the bond market (which dictates rates) will be watching economic data closely, both at home and abroad, as well as trade war updates. The stronger the data and trade relations, the more rates could rise, while weaker data and trade wars will lead to new long-term lows.
- *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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With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

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