Mortgage Market Update

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UPDATE: Rates vs MBS vs Treasuries and Lock/Float Thoughts.

It wouldn't be March 2020 if MBS weren't doing something every single day to make the outlook more exciting and volatile. Most of the volatility in MBS has been in favor of higher prices so far this week as the Fed has launched into its most aggressive support of the mortgage market to date.

To reiterate something I've said frequently this week: Fed buying isn't about trying to be best buds with mortgage rates in order to help consumers refi at low rates. The Fed is merely doing whatever it takes to keep some semblance of liquidity flowing in the bond market. After all, 10yr yields are at 0.82%. In any normal world, we wouldn't be watching mortgage rates struggle to make it down to the low 3's in that environment.

Think about it! Mortgage rates have been in the low 3's before, even when 10yr yields were in the 1.3-1.4 range. So clearly we have spread/liquidity issues elsewhere. There are always 2 main spreads to consider when moving from baseline benchmark rates (like 10yr yields) to consumer-facing mortgage rates:

1. The spread between benchmarks and MBS

2. The spread between MBS and lender rate sheet offerings

Thanks to the the Fed, we're quickly transitioning from an environment where we were getting hammered by BOTH of those spreads to one where we're only getting hammered by #2. Case in point, here's the restoration of normalcy in the MBS/10yr spread (for today, anyway!)

MBS & Treasury Market Data

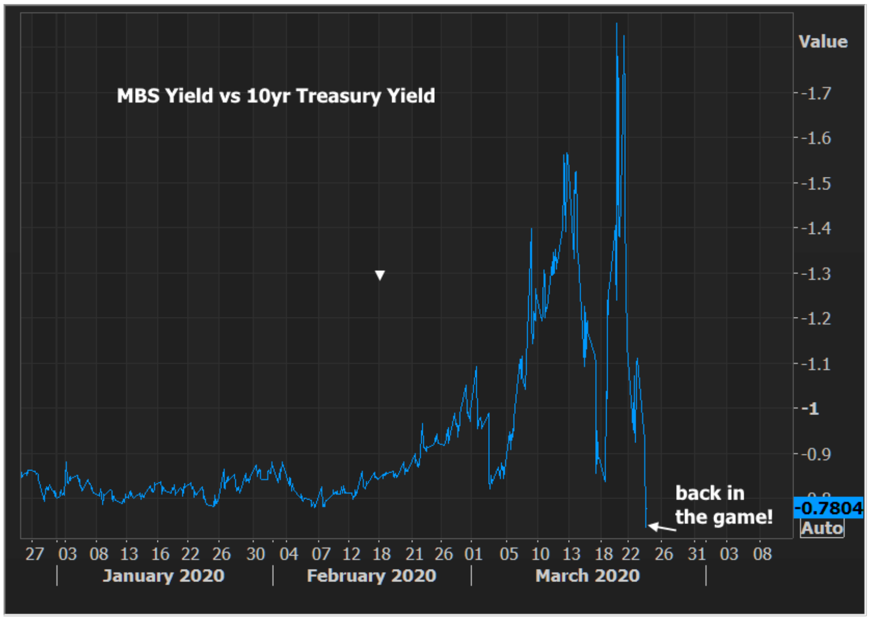
	Price / Yield	Change
MBS UMBS 6.0	99.06	-0.38
MBS GNMA 6.0	100.21	-0.39
10 YR Treasury	4.6774	-0.0055
30 YR Treasury	4.7808	-0.0031

Pricing as of: 5/1 12:48AM EST

Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.51%	+0.08	0.00
15 Yr. Fixed	6.90%	+0.05	0.00
30 Yr. FHA	6.99%	+0.07	0.00
30 Yr. Jumbo	7.67%	+0.04	0.00
5/1 ARM	7.55%	+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: 4/30



Before you get too excited about being at "all-time lows," let's zoom that chart out just a bit for context. In fact, apart from a few other months here and there, these are still the widest spreads since the Fed's last swung its thunderous hammer of mortgage market support (QE3 in late 2012).

Is it a coincidence that was also the last time spreads had blown out well above 100bps? Probably not... I've been telling you this ever since 2012. QE3 proved the Fed cares enough about MBS spreads to reign them in when they get frothy. This time around, they've done so in an even swifter, nimbler, and more authoritative way--both relative to 2012 and to my expectations for 2020. This is why we're able to see days like today where MBS are up more than a point despite Treasuries being in negative territory.

Granted, MBS aren't opposed to Treasury yields rising a bit from recent lows. That only helps stabilize valuations (because investors don't have to guess quite as much about how rate trends will affect prepayment speeds and valuations).

As for reprice risk, it continues to be primarily a factor of lender capacity although big intraday moves can still have an impact. With prices 3/8ths of a point off their highs, one could be mildly concerned that one or two lenders might pull the trigger for that reason, but the same lender would also need to have repriced for the better fairly aggressively near those highs. Either way, here's what's important:

Nothing about this pull back from the highs should make you decide to lock or float today if you were planning on doing the opposite a few hours ago. If you were already planning on locking and feel that your lender's rates are aggressive (and especially if they already repriced for the better), now's the time. If you weren't planning on locking and if your lender is offering crappy rates (and especially if they haven't repriced for the better today), I couldn't make any compelling case for you to lock based on this pull-back.

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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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