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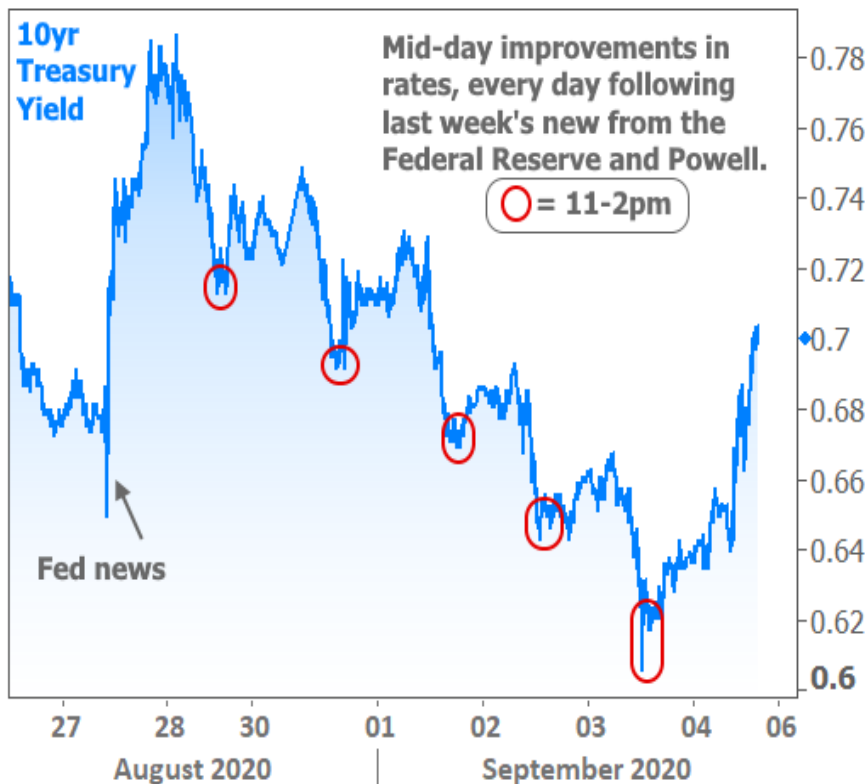
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The Uncommonly Strong Case For Locking a Mortgage Rate

Almost everywhere you look, low mortgage rates are in the news. Experts are claiming they'll remain low or move lower for years to come. They might be right! But that doesn't necessarily mean you should wait to refinance or to lock your rate if you're already in the loan process.

It is true that mortgage rates **improved noticeably** earlier this week. Part of the improvement is due to overall gains in the bond market following last week's Federal Reserve scare. When the Fed updated its policy framework, the bond market was briefly spooked. A spooked bond market means higher yields/rates.

The next 5 business days brought a deliberate recovery for longer-term rates. This can be seen in the following chart of 10yr Treasury yields (a benchmark for all longer-term rates in the US). Definitely make a note of the bounce toward higher rates today, as that helps build the case for locking to some extent.



National Average Mortgage Rates



Rate Change Points

Mortgage News Daily

30 Yr. Fixed	7.07%	+0.02	0.00
15 Yr. Fixed	6.45%	0.00	0.00
30 Yr. FHA	6.51%	+0.02	0.00
30 Yr. Jumbo	7.26%	0.00	0.00
5/1 ARM	7.02%	-0.01	0.00

Freddie Mac

30 Yr. Fixed	6.86%	-0.01	0.00
15 Yr. Fixed	6.16%	+0.03	0.00

Rates as of: 6/28

Market Data

	Price / Yield	Change
MBS UMBS 5.5	98.49	-0.45
MBS GNMA 5.5	99.10	-0.44
10 YR Treasury	4.3931	-0.0049
30 YR Treasury	4.5597	-0.0043

Pricing as of: 6/30 10:43PM EST

Recent Housing Data

	Value	Change
Mortgage Apps	Jun 12 208.5	+15.58%
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%

As far as mortgage rates are concerned, the **delay of the new refinance fee** was a **much bigger** source of inspiration. Combined with the strong move in the bond market, it meant that many lenders were back within striking distance of all-time lows.

Why does this fee have so much influence on rates?

In a perfect world, this fee equates to about 0.125%-0.25% in terms of interest rates, and it would only apply to refinances. That's still a big deal for many homeowners, but the **actual damage** ended being closer to **0.375%-0.500%** due to the heavy-handed implementation (which would have cost lenders hundreds of millions of dollars on 10s of billions of dollars of loans in progress).

Unsurprisingly, lenders responded defensively by raising rates to offset the big unexpected expense. This hit **both** purchases and refinances, and for much more than it would have with advance notice.

Thankfully, the delay was announced early last week and rates began to recover. As they approached all-time lows this week, lenders experienced **another surge** in application volumes and were once again forced to raise rates a bit to control their pipelines.

By leveling-off near all-time lows, rates are presenting us with a natural opportunity. In fact, these opportunities are rarely this clear.

The opportunity in question has very little to do with interest rate momentum in and of itself. Predicting the future of interest rates is tricky business. It's one thing to say that the economic realities associated with coronavirus will help rates stay **very low for a very long time**. It's another thing to predict the back and forth movement within that low range, let alone determine when any given borrower would be best served by locking versus floating.

Rather, the opportunity is **all about** the reintroduction of the refi fee. We already know it will be imposed on all refinances delivered to the housing agencies on or after Dec 1st. That might seem like a long way away, but "delivery" can take up to a month from the loan actually closing. As such, we know it will be showing up on rate sheets fairly soon. In some cases, it is already back in place for locks of 60 days or longer.

Why bring all this up? Because the fee brings an immediate, measurable, and foreseeable hit to interest rates (again, it's 0.125%-0.25% for the average lender). The smartest interest rate experts in the world would **never** be able to predict a 0.125% increase in rates with a high level of confidence, let alone 0.25%. That's because rates almost always depend on market movement. But the new fee exists independently from the market, thus offering an uncommon and unfair advantage to those who know it's coming.

Simply put, this is one of the few times in history where you can be absolutely certain that mortgage rates are about to be 0.125% higher than they otherwise would have been. Combine that with the average lender coming very close to all-time lows this week and the scary little move higher in Treasury yields and it presents a compelling cases for locking.

Econ data and the week ahead.

Economic data has had a very muted impact on financial markets lately. Investors figure the economic realities of the future have far more to do with the progression of the pandemic. There was arguably a major exception to this after Friday's big jobs report.

While the headline job count was actually slightly lower than expected, other aspects of the report were refreshingly strong. Bonds have a long history of selling off (i.e. moving toward higher rates) in those cases, and that's indeed what happened on Friday.

But was it all because of the jobs report? Probably not. 10yr Treasury yields just had 5 straight days of solid improvement. After that kind of winning streak, it becomes increasingly uncommon to see additional winning days. The 3-day weekend commonly results in traders closing out the week's dominant positions. In this case, those positions had been putting downward pressure on yields/rates, so closing them would push rates higher. It's also not uncommon to see yields move higher on the Friday before a big Treasury auction cycle, like the one coming up next week.

It will be interesting to see how traders come back into the office (virtually, or otherwise) next Tuesday. Treasury auctions will run through Thursday, so even if today's defensiveness is only temporary, we might not be able to confirm that until the end of next week. Just another reason to err on the side of caution when it comes to mortgage rates in the near term.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Sep 01				
10:00AM	Jul Construction spending (%)	0.1	1.0	-0.7
10:00AM	Aug ISM Manufacturing PMI	56.0	54.5	54.2
Wednesday, Sep 02				
7:00AM	w/e MBA Purchase Index	309.6		310.2
7:00AM	w/e Mortgage Refinance Index	3316.2		3423.0
8:15AM	Aug ADP National Employment (k)	428	950	167
10:00AM	Jul Factory orders mm (%)	6.4	6.0	6.2
Thursday, Sep 03				
8:30AM	w/e Jobless Claims (k)	881	838	1006
10:00AM	Aug ISM N-Mfg PMI	56.9	57.0	58.1
Friday, Sep 04				
8:30AM	Aug Non-farm payrolls (k)	1371	1400	1763
8:30AM	Aug Unemployment rate mm (%)	8.4	9.8	10.2
Tuesday, Sep 08				
1:00PM	3-Yr Note Auction (bl)	50		
Wednesday, Sep 09				
7:00AM	w/e MBA Purchase Index	317.7		309.6
7:00AM	w/e Mortgage Refinance Index	3415.1		3316.2
Thursday, Sep 10				
8:30AM	Aug Core Producer Prices YY (%)	0.6	0.3	0.3
10:00AM	Jul Wholesale inventories mm (%)	-0.3	-0.1	-0.1
Friday, Sep 11				
8:30AM	Aug Core CPI (Annual) (%)	1.7	1.6	1.6
Wednesday, Oct 07				
1:00PM	10-yr Note Auction (bl)	35		
Thursday, Oct 08				

Event Importance:

- No Stars = Insignificant
- ☆ Low
- ★ Moderate
- ★★ Important
- ★★★ Very Important

Date	Event	Actual	Forecast	Prior
1:00PM	30-Yr Bond Auction (bl)	23		

Real Talk

At The Rate Shop, we're not your average mortgage banker. We specialize in bringing you ridiculously low interest rates that will make you wonder what the other guys are doing. In fact the ONLY objection we ever hear is "your rates sound too good to be true". Well they're not, and here is why...

After 15 years in the retail banking world I was frustrated with the high interest rates that came from that business model. As I looked around at all the bloated layers of management and their expensive salaries and the overhead of running a larger company (think rent costs, employee health and benefit costs, payroll taxes, and on and on) it dawned on me that I was a part of the problem, and the solution, for me at least, was so easy to see.

Start my own mortgage brokerage shop. No expensive executive salaries, no expensive building to pay rent at, no unnecessary employees and all the costs that are associated with that. What happens when you cut out all the fat? You can provide lower rates and lower closing costs. It's simple. Now here is the best part, you still get great service from a local Kansas City Lender. My mission is to let everyone know that low rates and great customer service are NOT mutually exclusive.

Thanks for coming along on this journey where Low Rates meet Great Service. The two do NOT have to be mutually exclusive. It's just a lie that the big box mortgage companies have been telling you for years. Don't believe me? Give me a call or shoot me a text on my personal cell phone today and compare my rates and costs up against any other lender in the country, and be prepared to be blown away.

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