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# Mortgage Rates Are Super Low, But Not For Everyone

Investors buy and sell groups of mortgages that are pooled together in mortgage-backed bonds. The price an investor is willing to pay for a mortgage bond is the primary factor in determining mortgage rates. As demand for these bonds increases, rates fall (all other things being equal).

As is the case for other types of bonds, such as US Treasuries, **investor demand** tends to **increase** when the economic outlook is **bad** because bonds offer safety. Investors give up big potential gains in exchange for low, stable rates of return.

Given the unique economic circumstances surrounding coronavirus, investors didn't have to wait for official data to tell them the economy was in trouble. As such, they were able to get in position early and quickly. This means bond prices have been relatively flat at **extremely** high levels for weeks and weeks.

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.30% | +0.12 | 0.00 |
| 15YR Fixed | 6.92% | +0.09 | 0.00 |
| 30YR FHA | 6.89% | +0.07 | 0.00 |
| 30YR Jumbo | 7.40% | +0.03 | 0.00 |
| 7/6 SOFR | 6.80% | +0.31 | 0.00 |
| 30YR VA | 6.90% | +0.07 | 0.00 |

Rates as of: 11/10

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.43 | -0.62 |
| 10 YR Treasury | 4.9860 | +0.0952 |
| 30 YR Treasury | 5.3557 | +0.0737 |

Pricing as of: 11/10 5:59PM EST

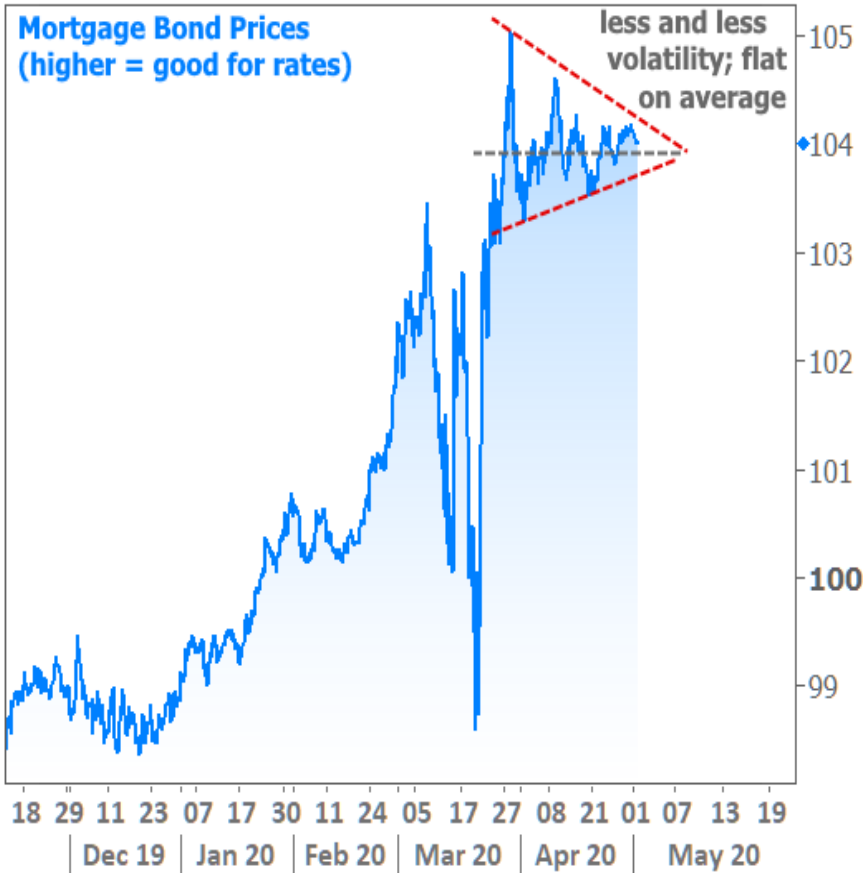
## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Oct 28 | 192.6 | -1.23% |
| Building Permits | Sep | 1.4M | +0.43% |
| Housing Starts | Sep | 1.22M | -4.24% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Aug | 71.2 | 0% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Oct | 29 | -9.38% |

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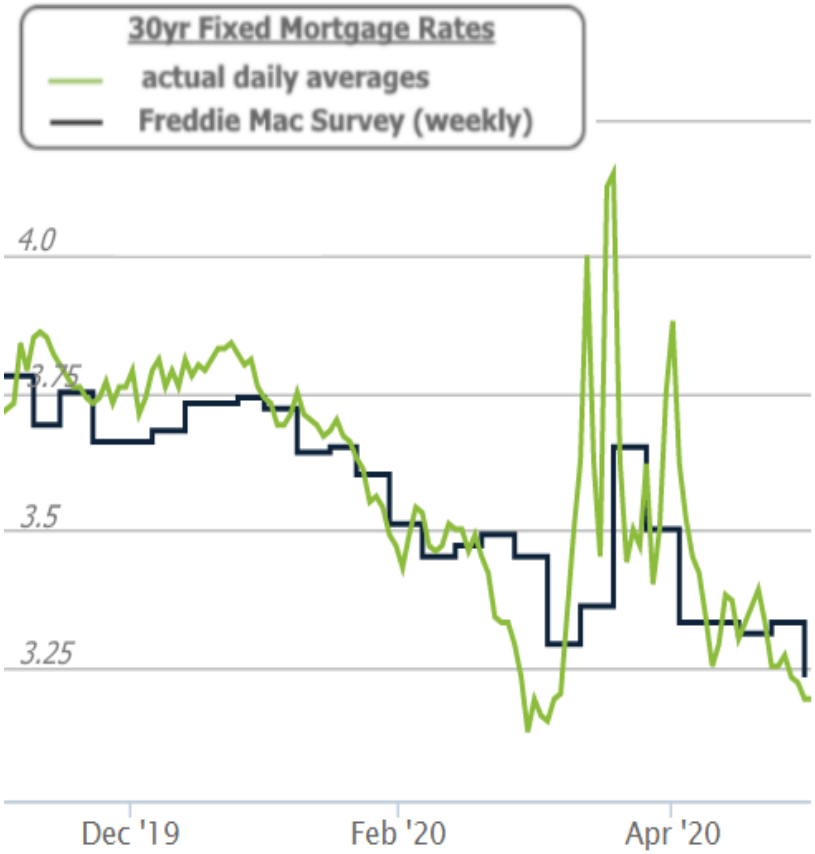



The nice thing about mortgage bond prices being high and stable is that mortgage rates have been low and increasingly stable. But are they as low as they should be? Unless we dig a bit deeper, all the casual observer can see is that rates are at **all-time lows** according to multiple sources on Thursday. Critically though, the stories in question were citing Freddie Mac's weekly survey-based rate data, which has a notoriously hard time capturing day-to-day changes. As far as actual daily averages are concerned, we're not yet back to the all-time lows seen in early March, even though some lenders are close.

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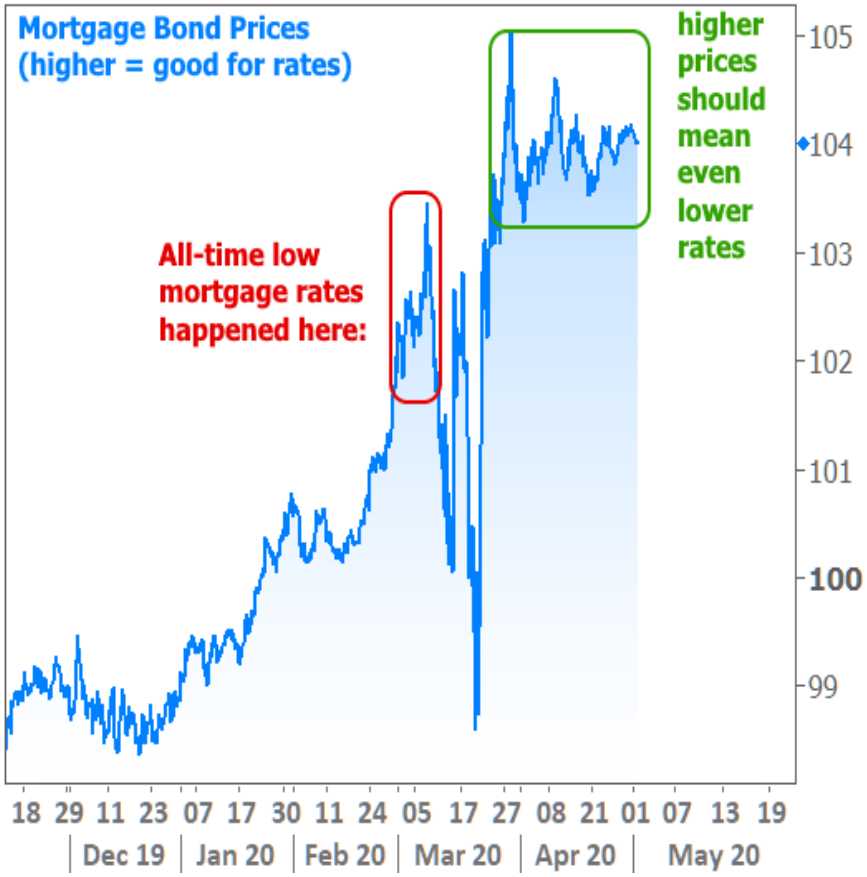



But remember the first chart? Let's revisit it and highlight the time frame that saw the all-time low mortgage rates.

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So how is it that prices are **even higher** now, but rates are **not** significantly lower?

In a word: coronavirus. The pandemic and the official response from policymakers have created an environment with more homeowners seeking forbearances than even the most dire stress tests could have predicted. That's causing **big problems** for the value associated with mortgage servicing and lenders' margins. These components of the mortgage rate equation exist independently from the mortgage bond prices referenced above.

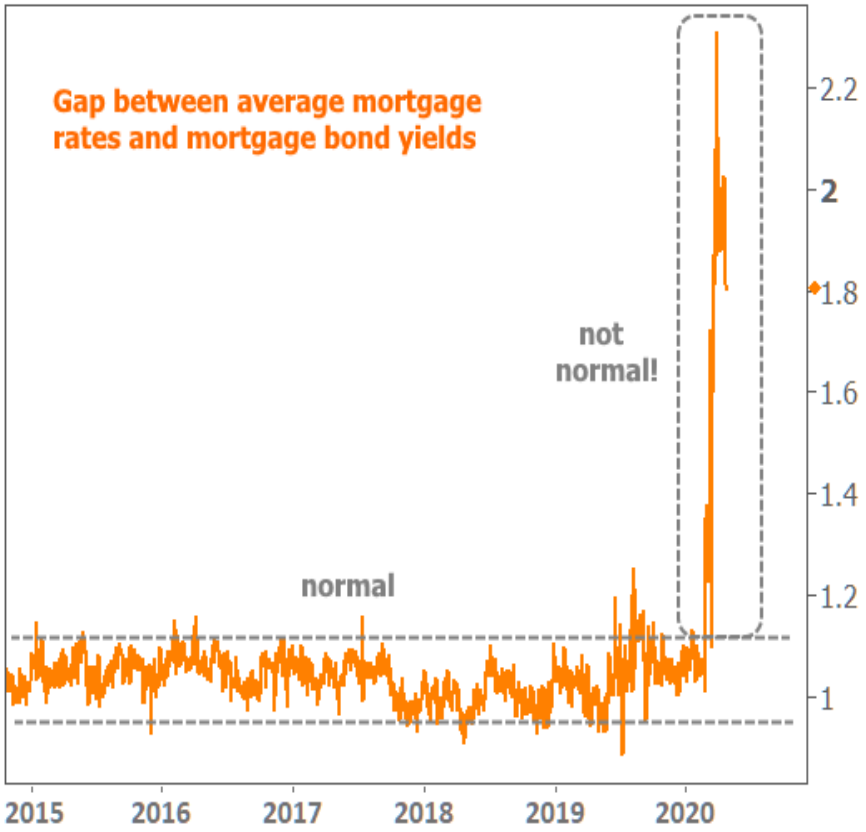
Servicing valuations and margins typically **don't** move enough to merit much attention. But now, they're accounting for **most** of the volatility seen in the past month and ALL of the mysterious gap between actual rates and those implied by mortgage bond prices.

And **what exactly are mortgage bonds implying?** The following chart shows the gap between the average 30yr fixed rate and mortgage bond yields. It was recently **twice** as wide as normal. Even after calming down a bit, it remains at least 0.75% higher than normal. In other words, a 3.25% mortgage rate today would be 2.5% without the forbearance situation.

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What does this mean for you? What does it imply for rates in the coming weeks?

Lenders/investors are **starting** to calm down about forbearance risks as the bigger picture becomes clearer, but that process has a cost. In order to calm down, investors have been **forced to shun** the loans at more risk of entering forbearance (or simply those that would be the most costly for investors in the event of forbearance).

This is having an inordinate impact on loans that are outside the box in terms of top tier qualifications. Whereas a normal 30yr fixed refi with a top tier scenario is seeing the lowest rates since early March, a borrower with a lower FICO seeking a cash out refi is seeing **staggeringly high costs** by comparison. In many cases, lenders are simply saying "sorry, we're not doing those scenarios currently."

The increased costs and decreased credit availability **will continue to be an issue** for the mortgage market. Many lenders will end up tightening guidelines further before they begin to relax them. While rates may continue to improve for top tier scenarios, things may get worse before they get better for many others. We'll need to see how big the forbearance issue becomes and how much damage it causes before mortgage pricing and availability starts to behave in a more historically logical way.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Tuesday, Apr 28** | | | | |
| 9:00AM | Feb CaseShiller 20 yy (%) | +3.5 | 3.2 | 3.1 |
| 10:00AM | Apr Consumer confidence | 86.9 | 87.9 | 120.0 |

## Event Importance:

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

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| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Wednesday, Apr 29** | | | | |
| 7:00AM | w/e Mortgage Refinance Index | 3901.4 | | 4206.7 |
| 7:00AM | w/e MBA Purchase Index | 208.0 | | 186.4 |
| 8:30AM | Q1 GDP Advance (%) | -4.8 | -4.0 | 2.1 |
| 10:00AM | Mar Pending Home Sales (%) | -20.8 | -10.0 | 2.4 |
| 10:00AM | Mar Pending Sales Index | 88.2 | | 111.5 |
| 2:00PM | N/A FOMC rate decision (%) | 0 - 0.25 | 0.125 | 0.125 |
| **Thursday, Apr 30** | | | | |
| 8:30AM | Mar Core PCE Inflation (y/y) (%) | +1.7 | 1.6 | 1.8 |
| 8:30AM | w/e Jobless Claims (k) | 3839 | 3500 | 4427 |
| 8:30AM | w/e Continued jobless claims (ml) | 17.992 | 19.238 | 15.976 |
| 9:45AM | Apr Chicago PMI | 35.4 | 38.0 | 47.8 |
| **Friday, May 01** | | | | |
| 10:00AM | Apr ISM Manufacturing PMI | 41.5 | 36.9 | 49.1 |
| 10:00AM | Mar Construction spending (%) | 0.9 | -3.5 | -1.3 |
| **Monday, May 04** | | | | |
| 9:45AM | Apr ISM-New York index | 826.5 | | 849.3 |
| 10:00AM | Mar Factory orders mm (%) | -10.3 | -9.7 | 0.0 |
| **Tuesday, May 05** | | | | |
| 10:00AM | Apr ISM N-Mfg PMI | 41.8 | 36.8 | 52.5 |
| 10:00AM | Apr ISM N-Mfg Bus Act | 26.0 | 45.0 | 48.0 |
| **Wednesday, May 06** | | | | |
| 7:00AM | w/e MBA Purchase Index | 220.0 | | 208.0 |
| 7:00AM | w/e Mortgage Refinance Index | 3835.7 | | 3901.4 |
| 8:15AM | Apr ADP National Employment (k) | -20236 | -20050 | -27 |
| 10:30AM | w/e Crude Oil Inventory (ml) | 4.590 | 7.759 | 8.991 |
| **Friday, May 08** | | | | |
| 8:30AM | Apr Non-farm payrolls (k) | -20500 | -22000 | -701 |
| 8:30AM | Apr Unemployment rate mm (%) | 14.7 | 16.0 | 4.4 |
| 10:00AM | Mar Wholesale inventories mm (%) | -0.8 | -1.0 | -1.0 |


## Expert Advice | Exceptional Service | Flawless Execution

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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