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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

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Rates as of: 7/22

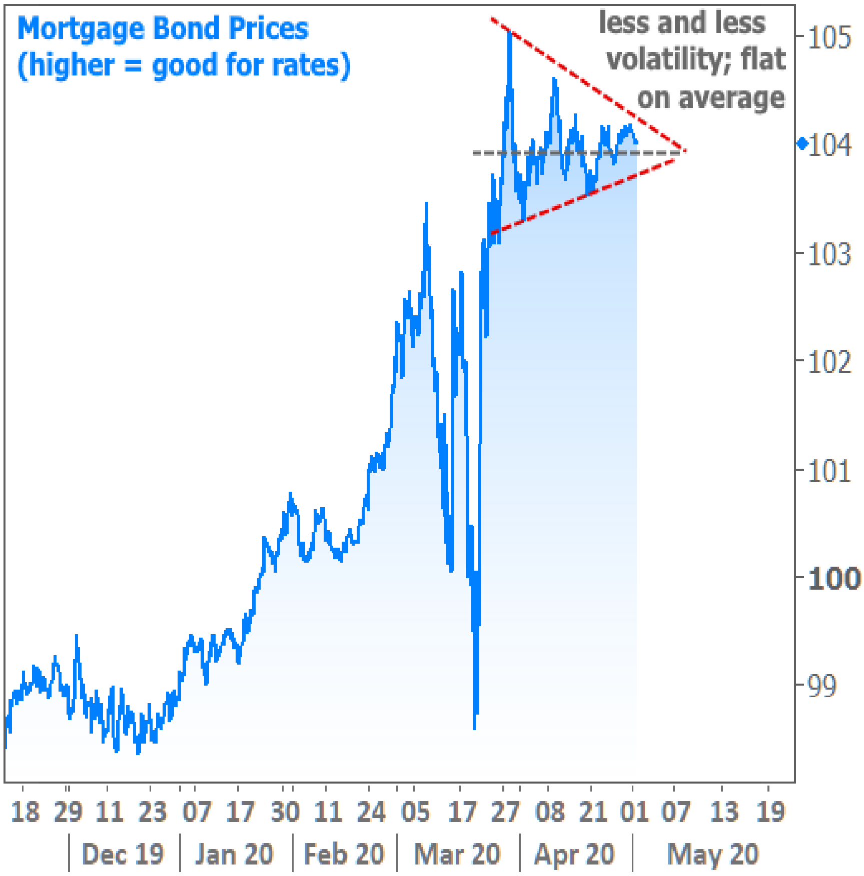
Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2418	-0.0107
30 YR Treasury	4.4598	-0.0127

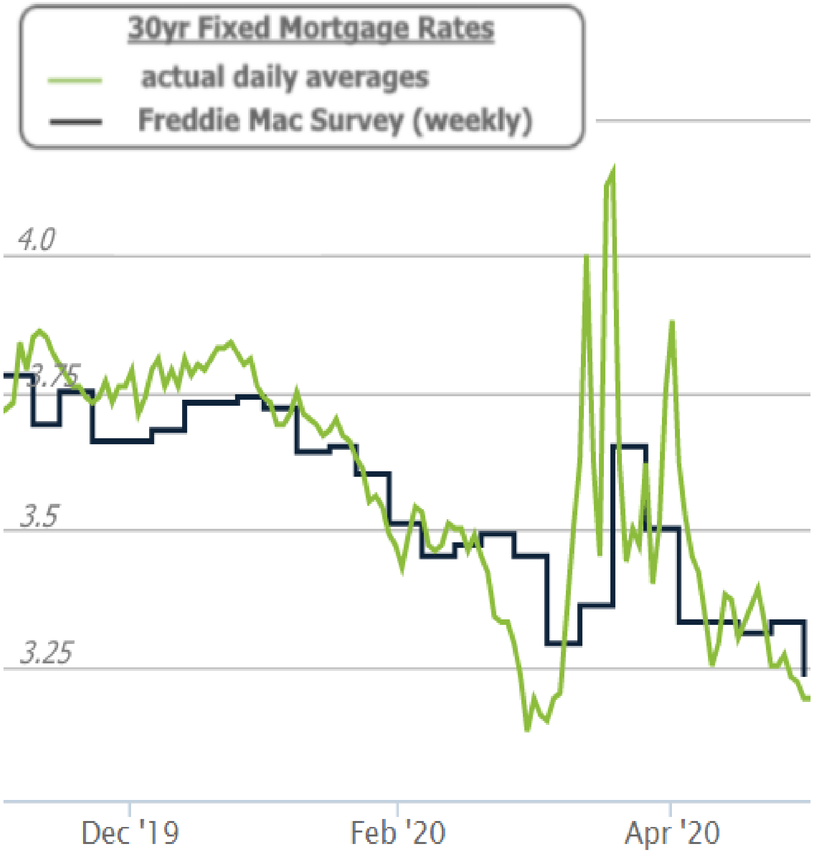
Pricing as of: 7/22 10:51PM EST

Recent Housing Data

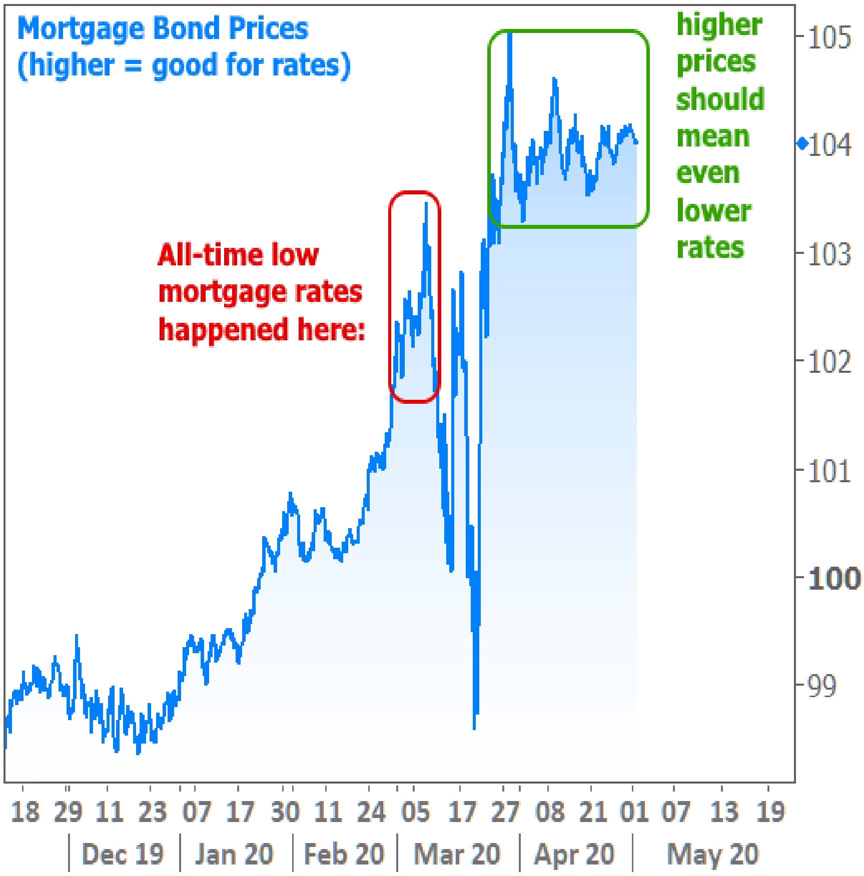
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



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.



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

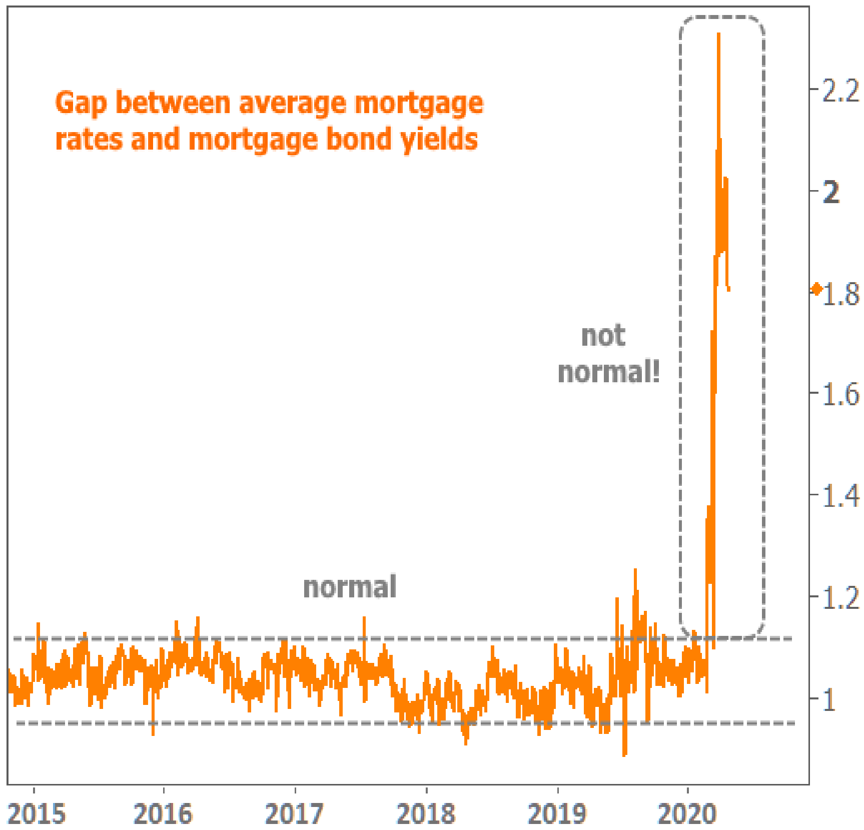


So how is it that prices are **even higher** now, but rates are **not** significantly lower?

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.



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

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

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its “Proposed Criteria for Evaluating Home Buyer Contract Forms” on Tuesday. The 15 criteria focus on the contracts’ form — whether the documents are readable and understandable — and content — whether they are fair to homebuyers.

-the document’s expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
-the right to terminate the contract
-the disclosure that compensation is negotiable
-the broker’s compensation clearly stated and that the buyer broker can’t receive additional compensation for facilitating a sale
-that any additional fees, such as for showing a home, will be deducted from the broker’s commission if there is a successful sale
-that the commission is due only if there is a successful closing
-that buyers have an obligation — for no longer than 60 days, CFA recommends — to pay a broker who earlier showed them a home they purchased after the contract ended
-seller concessions paid directly to buyers
-dual agency not pre-approved by the contract
-an explanation of how a broker treats different buyer clients interested in the same property
-that buyers should not be required to first go through mediation or arbitration if they have a complaint

Contact me for more information. 702-303-0243 or TPayne@loandepot.com

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