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Mortgage Rates Are Not 1.99%. In Fact They're Back Over 3%

Some mortgage companies have generated buzz by advertising 30yr fixed rates of 1.99%. While it is possible to obtain such a rate, there is definitely a catch.

Rates are certainly low in the big picture. Up until this week, they were **as low as they've ever been**. The average lender was easily able to do a conventional 30yr fixed in the high 2% range for ideal scenarios. The situation has deteriorated fairly rapidly since then. More on that in a moment.

For now, let's pretend rates are still at all time lows, because even when that was the case, 1.99% **still** wasn't what it appeared to be.

The key concept that will help us understand why we could see 1.99% advertised when the average lender is almost a full percentage point higher is that of **upfront costs vs interest rate**. Fortunately, it's pretty simple. If you borrow money, your lender makes money by earning interest over time OR by collecting finance charges upfront.

In the mortgage industry, the finance charge that has a direct bearing on your rate is often referred to as "discount" (aka "discount points" or just "points"). A point refers to a **percentage point** of the loan amount. For instance, if you're paying 1 discount point on a \$300k loan, it would be an additional \$3000 upfront.

Almost any lender will be fine with getting paid upfront or over time. They have math in place that allows you to choose whether you want to pay more upfront and less over time or vice versa. For instance, the 4 options below could all conceivably be equal in the eyes of the lender.

1. No points, 2.75%
2. 1 point, 2.5%
3. 2 points, 2.125%
4. 2.5-3 points, 1.99%

For example, in option 1, you'd pay no extra upfront cash for a rate of 2.75%. Contrast that to option 4 where someone with a \$300k loan would be paying as much as **\$9000 upfront** (or adding an extra \$9000 to their loan balance if refinancing). Moreover, lock time frames can be restricted in order to get the rate down to 1.99%, and that can be very costly if the market moves in the wrong direction (as it did this week!).

National Average Mortgage Rates



	Rate	Change	Points
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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	4.2423	-0.0102
30 YR Treasury	4.4622	-0.0103

Pricing as of: 7/22 8:50PM 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 takeaway here is that someone could certainly **advertise** mortgage rates of 1.99% with multiple discount points in a market where the going rate is 2.75% with no points, but the advertising lender is **no different than the competition**. They've just adjusted their marketing to pique your interest--no pun intended.

Bottom line on 1.99%, it's not the going rate, and by the time the downsides are factored in, pursuing such a rate may not make sense for the average borrower.

High Drama in The Mortgage Market This Week

Now let's talk about that rapid deterioration of the mortgage rate outlook this week. It all stems from a surprise announcement from conventional mortgage regulators (Fannie and Freddie or, collectively, the "GSEs") that they will collect a **new fee on all refinances**. Any loan that's not already very close to the closing table will be affected.

Some people are **very mad** about this. Some people think it's no big deal because rates are already so low in general. There's no right or wrong way to feel. There are only the facts as we can know them. Here they are:

The new fee is 50 basis points. That's **HALF A POINT** for those of you who happened to read the first half of this newsletter (\$1500 on a \$300k loan). While this might not sound significant to some, the average fee currently charged by the GSEs is just under half a point, up from a quarter point before a series of hikes beginning in 2011.

This effective **DOUBLING** of existing fees makes this by far the largest hike in history, and that's **not** even the biggest problem.

The GSEs have ways they could **justify** this fee. It is true that they are entering a time window where they will be paying out claims to mortgage investors on a significant number of loans in forbearance. In most cases, it was the mortgage servicers who'd been making those payments (certain loans require investors to be paid even if the homeowner is not paying).

If that was confusing, here's a flow chart of monthly payment money in the mortgage market:

Homeowner ---> Servicer --->Investor and/or Bondholder

If that chain is broken due to the homeowner entering forbearance, the servicer made the payments to investors for 4 months. But **after** that, GSEs are footing the bill.

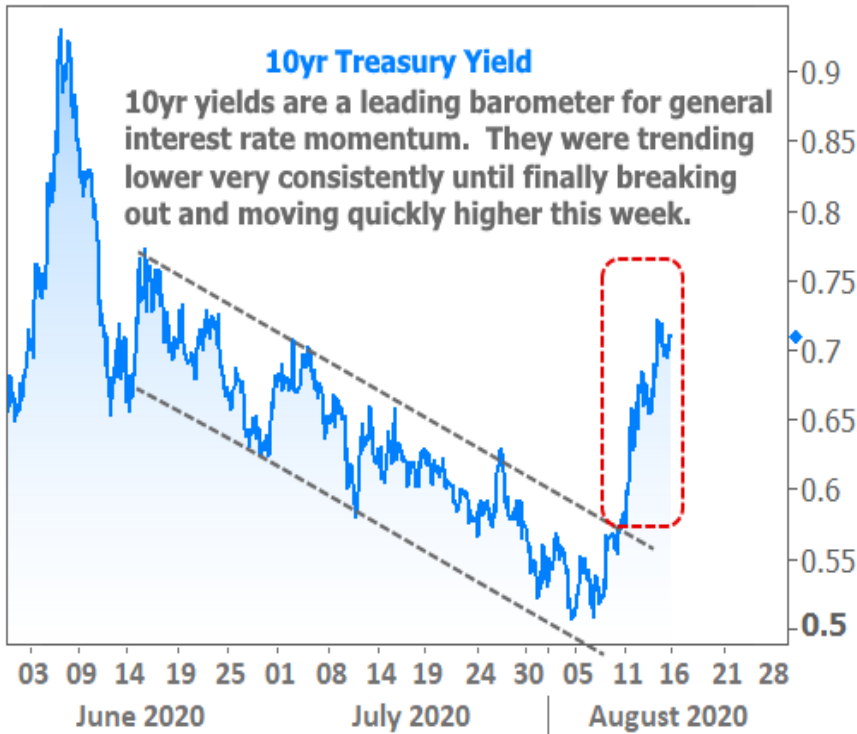
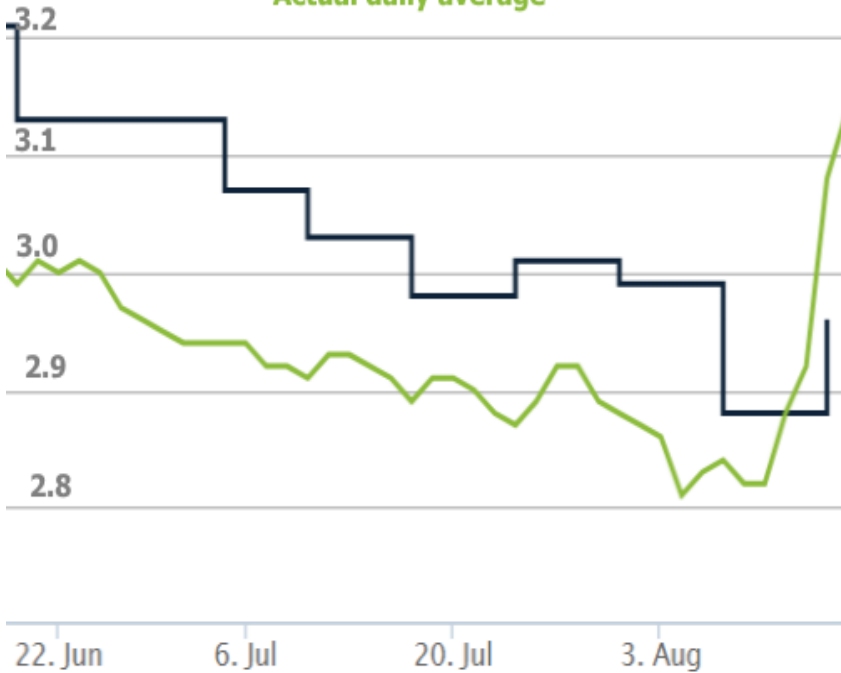
All that to say, GSEs could justify this increase by pointing to this unprecedented payout to investors. The **problem** is the **way** the fee was rolled out--basically overnight and with significant, obvious negative impacts on homeowners and the industry.

By surprising the industry with this fee, the GSEs are effectively forcing lenders to pay them **10s of millions of dollars** on loans that have already been locked. In turn, this forces lenders to raise rates for new loans to make up for that lost revenue **IN ADDITION** to applying the new half point fee.

It's a **double whammy for homeowners** seeking to benefit from the lowest rates in history at a time where cash flow is very important for some. This also means purchase rates moved higher, even though the GSE announcement only pertained to refis.

30yr Fixed Mortgage Rates (Conventional)

— Freddie Mac Survey Rate (weekly)
 — Actual daily average



If we were just dealing with the half point fee and if it were rolled out with advance notice, we'd only be looking at rates moving up by about .125%. **Instead**, the average lender was **at least 0.25% higher** in rate 48 hours after the announcement. Ironically, that means a week that began with buzz about 1.99% rates will end with the average lender well over 3% for the first time in months.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Aug 11				
8:30AM	Jul Core Producer Prices YY (%)	0.3	0.0	0.1
Wednesday, Aug 12				
7:00AM	w/e MBA Purchase Index	306.6		300.7
7:00AM	w/e Mortgage Refinance Index	4025.0		3688.1
8:30AM	Jul Core CPI (Annual) (%)	1.6	1.1	1.2
Thursday, Aug 13				
8:30AM	w/e Jobless Claims (k)	963	893	1186
8:30AM	w/e Continued jobless claims (ml)	15.486	15.898	16.107
Friday, Aug 14				
8:30AM	Jul Retail Sales (%)	1.2	1.9	7.5
9:15AM	Jul Industrial Production (%)	3.0	3.0	5.4
10:00AM	Aug Consumer Sentiment	72.8	72.0	72.5
Monday, Aug 17				
8:30AM	Aug NY Fed Manufacturing	3.7	15.00	17.20
10:00AM	Aug NAHB housing market indx	78	73	72
Tuesday, Aug 18				
8:30AM	Jul House starts mm: change (%)	22.6		17.3
8:30AM	Jul Build permits: change mm (%)	18.8		3.5
8:30AM	Jul Housing starts number mm (ml)	1.496	1.240	1.186
8:30AM	Jul Building permits: number (ml)	1.495	1.320	1.258
Wednesday, Aug 19				
7:00AM	w/e MBA Purchase Index	308.9		306.6
7:00AM	w/e Mortgage Refinance Index	3809.7		4025.0
Thursday, Aug 20				
8:30AM	Aug Philly Fed Business Index	17.2	21.0	24.1
10:00AM	Jul Leading index chg mm (%)	+1.4	1.1	2.0
Friday, Aug 21				
9:45AM	Aug PMI-Composite (source:Markit)	54.7		50.3
10:00AM	Jul Existing home sales (ml)	5.86	5.38	4.72
10:00AM	Jul Exist. home sales % chg (%)	24.7	14.7	20.7

Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

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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