Jeffrey Chalmers
Senior Loan Officer, Movement Mortgage
NMLS #76803 - #39179 Licensed: CA, CT, FL, MA, ME, NH,
99 Rosewood Dr, Suite 270 Danvers, MA 01923

Office: (774) 291-6527
Mobile: (774) 291-6527
Fax: (855) 951-5626
jeffrey.chalmers@movement.com
View My Website

A Message from Jeffrey Chalmers:

"The More You Know..."

The MOST Volatile Day For Mortgages

Today was the most volatile day in the history of the mortgage market in many regards. There were days in the early 80's that saw rates move by similar amounts, but none of them saw the underlying market for mortgage bonds move back and forth by such gigantic amounts. **What does this mean for you** and your ability to buy or refi at the rates you may have heard about recently?

That depends on the rates you've heard about recently! Many borrowers mistakenly believe the Fed's recent rate cuts mean that mortgage rates have fallen by an equal amount. In fact, many loan originators report getting calls about 0% rates. Unequivocally, there are **no 0%** mortgage rates! If you're not 100% sure about why that's the case, please read this article.

If you're participating in a more realistic reality, you may have heard about some exceptionally low rates nonetheless. You may have even discussed these rates with your mortgage professional of choice. For flawless scenarios and depending on the details, fixed rates in the low 3% range were a thing for a few hours of a few days recently. That's no longer the case--not even close.

Unless you make a habit of watching real-time bond trading it's hard to convey just how **INSANE** the past 2 weeks have been. I'll put it this way, by Friday of last week, after watching this stuff for nearly 2 decades, I was sure I'd just witnessed the craziest day for mortgage bonds (the stuff that dictates most of the movement in mortgage rates) that I'd ever seen or possibly would ever see. As of yesterday, this week was already crazier and today took it to another level. Today **ALONE**, as one individual **DAY** was more volatile than the entirety of last week! And by a wide margin at that.

Today alone, we saw a mortgage bond trading range that was as wide as last week's. Moreover there were 5 massive changes in the direction of movement. To oversimplify, the cost of any given mortgage changed massively, 5 times today. In more normal times, this would mean that your available rate went up or down massively, 5 times today. The reality is that most lenders began the day quoting significantly higher rates than we've seen recently, and the average change only made that rate much **MUCH** higher.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.43%	-0.02	0.00
15 Yr. Fixed	6.85%	-0.01	0.00
30 Yr. FHA	6.92%	-0.03	0.00
30 Yr. Jumbo	7.63%	-0.01	0.00
5/1 ARM	7.50%	0.00	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: 4/29

MBS and Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	99.44	+0.07
MBS GNMA 6.0	100.59	+0.24
10 YR Treasury	4.6136	-0.0509
30 YR Treasury	4.7310	-0.0429

Pricing as of: 4/29 5:04PM EST

The Fed cut rates to zero. They announced massive bond buying. Stocks have been tanking (which is usually good for rates). And you're telling me, after all that, mortgage rates are significantly **HIGHER?!**

Yes... I'm **absolutely** telling you that. I track the rates of more lenders more closely than anyone you've talked to. These past 2 weeks and especially today have been the biggest, most counterintuitive messes I could have ever imagined. The mortgage market is in absolute CHAOS! Regular readers will know I'm not prone to all-caps diatribes and excessive exclamation points. To whatever extent I've actually been able to take the time to write articles this week, the ratios of all-caps and exclamation is through the roof.

Why is the mortgage market in chaos? There are complex reasons and simple reasons. First off, this isn't 2008. If any lenders end up struggling to survive this environment, it **won't** be for the same reasons as 2008 and the systemic risks are a non-issue. To be sure, there is tremendous stress in financial markets, but whereas the mortgage sector CAUSED the problem in 2008, it's more of an innocent bystander this time around.

Coronavirus has created an unprecedented situation for the entire rates market (not just mortgages, but US Treasuries and everything else). Relative to some classes of bonds, mortgage rates aren't seeing nearly as much drama, in fact. Liquidity is one major issue. That refers to the ability to buy or sell whatever you want to buy or sell at the price you'd expect. It also refers to the ability to liquidate whatever you need to sell in order to raise **CASH**.

AND GUESS WHAT HAPPENS WHEN EVERYONE AROUND THE WORLD SIMULTANEOUSLY DECIDES CORONAVIRUS IS A HUGE DEAL?

Everyone wants cash. Before you run out to the bank to try to beat your neighbor to the ATM, I'm not talking about green cash. That won't do you any good in the zombie apocalypse anyway. I'm talking about a cash position in financial markets--the most liquid, nimble place an investor in the US can be. Outside of situations where the value of the American dollar is rapidly deteriorating, there is no other asset that offers a better combination of immunity from risk and liquidity/flexibility. So when no one knows what in the world is going to happen next with the rapid-onset recession (something that's already begun, even if economic reports will take months to confirm it), cash reigns supreme.

Investors are selling mortgage bonds hand over fist for cash. They're selling **lots of other stuff** for cash too. Investors that would typically buy mortgage bonds are either not in a position to buy at all, or are simply not willing to buy for the prices being charged (i.e. no liquidity). Lower prices for mortgage bonds = higher rates.

This phenomenon really began last week, but the Fed threw a big wrench in the works last Sunday with its emergency announcement. For the first time in years, they jumped back into the business of buying mortgage bonds outright (something they'd previously said there were not interested in doing again). You can take the Fed at their word there. They would NOT be buying mortgages if there wasn't serious funding stress in the mortgage market. Again, this funding stress isn't resulting from mortgages being bad or "toxic" in some way. If you hear any mentions of that, it's **nonsense**.

The issue, again, stems from the supply and demand situation being completely unprecedented. Just like panicked masses suddenly buy **toilet paper** despite not planning on using the restroom any more than normal, the herd mentality in financial markets is to buy nothing and sell everything (except for the talking heads that attempt to convince people it's a good time to buy stocks amid a freefall--a broken clock strategy that is wrong again and again until it's finally right). Things were so intense at one point today that the Fed had to announce major additions to its previously announced schedule of MBS buying.

NOTABLY, the Fed is not doing anything it said it wouldn't do on Sunday afternoon. In fact, it purposely left open the possibility to add additional buying as needed to support the normal functioning of the mortgage market. And therein lies the heart of the matter. Mortgage markets progressively freak out (other markets too), and the Fed continually steps up to offer reassurance. Its will is strong and its tools are capable in this regard. When the reassurance is first announced, markets move in the opposite direction from "freaked out." In the case of mortgages, this would normally mean "lower rates," but in the current case, it's only allowing lenders to temporarily stop the bleeding.

EVENTUALLY, this song and dance of market panic and Fed reassurance will level-off. There is absolutely a limit here. But this is also absolutely a major adjustment for financial markets. We're suddenly faced with a totally unexpected need to radically revalue nearly every asset class faster than it's ever needed to be done, and with less certainty about how to do it. No one knows what the supply and demand for mortgage bonds, let alone anything else (except maybe toilet paper?) will look like in a few days, weeks, or months.

While we can logically conclude that a massive economic recession should coincide with very low rates, there's too much uncertainty and too great a need for short-term cash for rates to simply drop to the levels we may eventually see. As for how long it takes rates to get back to where they "should" be, it's impossible to know. Until last week, I would have said "days." Until today, I would have confidently said "weeks, at worst." I'm getting **increasingly hesitant** to pin a timeframe on it. After all, the sudden shift in reality versus expectations is at the heart of the issue for financial markets. The safest bet at this point is to conclude that we haven't seen the last of mortgage rates near the recent all-time lows. We don't know exactly when we'll see them again. The best case scenario is quite palatable and the worst case scenario is something we don't even want to consider--exactly like the range of outcomes when Coronavirus became a household name weeks ago.

Bottom line: rates are as high as they've been in **NEARLY A YEAR**. If you're seeing a news article that references Freddie Mac's weekly survey, it's based on data that stopped being relevant on Tuesday. A lot has changed since then.

Subscribe to my newsletter online at: http://housingnewsletters.com/clicknfinance

Because Integrity Matters™

Jeffrey has spent the last three decades perfecting an Honest, Open and Transparent (HOT™) loan and closing process that is laser-focused on enhancing the consumer mortgage experience. By combining old-school, trustworthy customer service with real-time, mobile-friendly technology, he has successfully built thousands of loyal, raving fans.

Jeffrey Chalmers