MORTGAGE RATE WATCH
Daily Coverage. Industry Leading Perspective.

Record Low Rates For Some; Frustration and Confusion For Others

Mortgage rates moved modestly **lower** today, but face an **uphill** battle in general. They fell very quickly as coronavirus first hit financial markets. They hit multiple new all-time lows in since March 9th and continued setting new records as recently as last week for some lenders. In fact, there are a few lenders that are offering their best rates ever TODAY. **The catch** is that these rates are very similar to those seen yesterday and the day before (and so on and so on). Markets are waiting to see if we can prevent a massive 2nd wave of coronavirus cases while still reopening the economy. To whatever extent that's possible, rates should begin to see gradual upward pressure.

There's **another important catch**, and it's one we've talked about quite a bit in the past few months. At the very same lenders who are offering their lowest rates ever today, many borrowers will see absolutely nothing of the sort. In other words, the lender will quote record low rates on some scenarios but not on others.

Perhaps **even more important** than today's rates versus the past range is the fact that, for those "other scenarios," much of the news about mortgage rate improvements will not apply. They may see articles (like this one!) talking about rates being lower than at some other point in the recent past, while their own rate quote fails to improve.

This is a reasonably common phenomenon at times when rates are adjusting to a new normal. In large part, it has to do with the changes in investor preferences for certain types of mortgage investments. To make a long and complicated story shorter and **only slightly less complicated**, mortgages are ultimately grouped together to become bonds. Investors can choose to pay higher prices for higher rates of return. Mortgages with more risky features are slotted into groups that command a higher price but offer a higher rate of return.

At the moment, investors are **not nearly as comfortable** paying a higher premium for those groups of mortgages for a variety of reasons. These include the increased potential for covid-related forbearance and the simple risk that rates will move lower and entice the homeowner to refinance (this is costly for mortgage investors if it happens too early in the life of a loan). So the safest bet has been to focus demand on the mortgages with the lowest rates and fewest risky features.

At the end of the day, this all means that a borrower with middle-of-the-road credit seeking a cash out refinance on a duplex won't be seeing the same improvement as a borrower with and 760+ credit score simply looking to lower their rate on a single family home with 30%+ equity.

If this is a topic that interests, confuses, excites, or enrages you, let me know in the comments below if you'd like me to go into greater detail in the future. Today's coverage really only scratches the surface when it comes to explaining how two different borrowers could be living two very different realities when it comes to rate movement.

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