Mortgage Rates Under 3% For The First Time (Again)

Mortgage rates moved lower this morning as lenders got caught up with recent improvement in the bond market. The bond market is the primary consideration for interest rate levels and investors have remained eager to buy bonds for a variety of reasons--not the least of which being the Federal Reserve leading the way with billions of dollars of bond purchases every day of the week. Stronger buying demand means higher prices and when bond prices rise, rates fall.

But in and of themselves, higher bond prices **aren't enough** to ensure mortgage lenders will offer lower rates. There is only so much capacity in the mortgage lending system. If lenders drop rates too much, too quickly, it can lead to several negative effects. The most obvious and logical effect would be an overloading of lenders' operational staffs. This can lead to longer turn times and, paradoxically, higher rates as lenders attempt to stem the tide of refinance demand.

From an investment standpoint, when rates drop too quickly, it also hurts the value of the underlying mortgage bonds. **Reason being:** investors pay a premium for the privilege of collecting interest over time. If mortgage borrowers refinance too quickly, the investor never has a chance to collect the expected interest and will thus not offer as much of a premium for new mortgage investments. This puts downward pressure on mortgage bond prices and thus upward pressure on rates for consumers.

Long story short, the capacity issues help us understand why mortgage rates haven't fallen as quickly as the bond market suggested so far this week. Lenders were able to get caught up today, to some extent, lowering mortgage rates more than today's market movement suggested. Keep in mind though, we're talking about very small movement in the bigger picture. Many borrowers **will still see the same rates** as they saw yesterday. The most likely place to see improvement would be in the upfront closing costs (which allow the overall cost of mortgage financing to be adjusted in microscopic detail relative to the typical 0.125% of distance between mortgage rates.

In terms of nuts and bolts, the average lender continues to quote conventional 30yr fixed rates **under 3.0%** for top tier scenarios. You may see media outlets talking up this "first ever" dip below 3.0%, but this is actually **old news**. We've been discussing sub-3% rates for several weeks. The slow-moving surveys that fuel the average journalist's mortgage rate coverage are just now getting caught up to reality.

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8%
6%
4%
2%
0%
2016
2018
2020
2022
2024
30 Yr. Fixed
15 Yr. Fixed
30 Yr. FHA
30 Yr. Jumbo
5/1 Yr. ARM