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Mortgage Rates Pummeled By Regulatory Drama

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At face value, the bonds that underlie the mortgage market didn't sustain too much damage today. If there was nothing else to inspire lender rate changes, we might not be too much worse vs yesterday. Unfortunately, there is an **absolutely massive source of motivation** that unexpectedly burst on the scene last night. If you're not already up to speed on it, READ THIS.

As far as today is concerned, **rates got torched**. This is no surprise. Regulators just instantly doubled to fees they charge to provide guarantees for the mortgage market. Lenders will be forced to pay those fees on all loans that are already locked. Consumers will foot the bill for everything else.

Strikingly, the pull-back from lenders is **much bigger** than the 0.5 points imposed by the GSEs because of the way the announcement was rolled out. Mortgage lenders don't like surprises, and they don't like suddenly being forced to pay hundreds of millions of dollars they hadn't budgeted for. When that happens, they are going to raise rates to offset the newfound losses. And that's exactly what they did.

The average lender is quoting a conventional 30yr fixed rate that's **0.25% higher today** than it was yesterday morning. Ironically, this applies to both refis and purchases, even though the regulatory change only applied to refis. Why is that? The move by regulators was so abrupt that not every lender was able to implement it as a refi-specific upfront fee today. Instead, lenders simply raised costs across the board with the intent of sorting things out tomorrow (hopefully). Theoretically that means rates or purchases should come down relative to refis for those lenders, but we nonetheless expect the whole ordeal to have created lasting damage to mortgage rates well in excess of the 0.5 points regulators intended. Had they gone about this in a more even-keeled manner, and given the industry time to adjust, consumers wouldn't be paying nearly as high of a price.

So **is 0.5 points a big deal in the bigger picture?** Yes and no. It's 20 bucks a month on an average loan of roughly $300k. But again, it's much more than 0.5pts today. Most borrowers are seeing a $40/month difference.

Even then, examining financial impact in terms of monthly payment is an **old car dealer trick** to get you to care less about generating more profit for the dealer. Let's talk about it in terms of its present value. We can do that. After all, I got the $20/month thing by looking at the difference in monthly payments created by paying an extra 0.5 points upfront. In fact, you can opt to pay the 0.5 points upfront and not be penalized with a higher rate. 0.5 points upfront on a $300k loan is $1500. Is it a big deal if someone unexpectedly takes $1500 out of your pocket? And remember, the whole industry just recoiled in defensively priced fear such that the fee is at least equal to 1.0 point (aka $3000 out of your pocket).

Bottom line: don't let anyone tell you this isn't a big deal or that it doesn't matter or that it's a drop in the bucket in the bigger picture. All of that could be true to someone on the outside looking in. But if you had a loan in process that wasn't locked or if you are in a position to save money by refinancing and just haven't gotten around to it yet, the government just vacuumed $3000 out of your purse/wallet. In a perfect world, that $3000 will slowly shrink back down to $1500, but as it stands right now, it will never be any less than $1500.

In the government's defense, they could absolutely need that $1500 in order to defend the sound functioning of the mortgage market. If that's truly the case, then there was a far calmer and more gradual way to go about this--one that wouldn't have forced consumers to pay more than twice as much as intended and one that wouldn't have inadvertently hit the purchase market as well.

Bottom line for consumers reading this: yes, your mortgage quote just got way more expensive today if it wasn't locked by Wednesday afternoon. It has nothing to do with your lender and there's nothing your lender can do about it. Your options will likely be to opt for a rate that's .125-0.25 higher than what you were planning on or to simply pay higher costs upfront. The third option carries some risk, but also some potential reward, and that would be to wait to see if things calm down in the coming days. There's also a very low chance that this decision could be retracted and re-implemented with a healthier delay, but I wouldn't count those chickens.