

Mortgage Rates Still Battling Hangover From Last Week's Drama

Mortgage rates are **still** coping with the after-effects of last week's surprise implementation of a new fee on refinances. The fee in question is technically an LLPA (Loan-Leve-Price-Adjustment). LLPAs are a normal part of the mortgage pricing process and they help lenders account for different risk factors (credit score, equity, occupancy, etc.). The new refi LLPA is a bit different in that it's in a sub-category known as an "adverse market fee." This is the agencies' way of collecting extra money to compensate for extra risks--hopefully transitory ones.

None of the above would have been a big deal for the mortgage industry had the new fee been rolled out like every other fee: with plenty of advanced notice and in logical, palatable amount. As it stands, it **more than doubled** the average fee currently going to ensure the GSEs' ability to backstop the mortgage market. It is also the first time they've reached so deeply and abruptly into lenders' pockets (lenders will have to pay it on billions of dollars of loans that were already locked). It's no surprise to see lenders drastically adjust pricing in response.

Slightly more surprising, however, is the fact that lenders have **continued** adding to the defensiveness. Simply put, today's rates moved **HIGHER** even though the bond market (typically the primary input for day-to-day mortgage rate movement) said rates could move lower.

How long will this last? Likely not too much longer--anywhere from a few days to a few weeks. But that only refers to lenders getting more defensive as opposed to less. From there, it will take several more weeks (at the very least) for rates to restore their previous relationship with the bond market.

Bottom line, we'll either need to allow some time to pass or to see a stronger move in the bond market than we've seen in the past few days to put meaningful downward pressure on rates.



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