

## What's Going On With Mortgage Rates? A Definitive Guide As Of August 26th, 2020

With several major developments and interesting milestones in the mortgage world, I'm seeing a lot more confusion than normal. So let's clear it up without too many extra words or meaningless rants.

**I heard rates were 1.99%. What's up with that?**

Ever paid more upfront in exchange for lower cost over time? 1.99% is that simple, and it was aggressively/cleverly marketed. The average borrower tends to choose a higher rate over the bigger upfront costs associated with 1.99%. Read more on it [HERE](#).

**I heard there was some fee a few weeks ago that made mortgage rates 0.5% higher!**

Sort of... Remember, mortgage rates themselves are only one part of the equation. There's also the option of paying more or less upfront to make that rate higher or lower. In fact, whether you see it or not, there's a cost attached to every rate that's quoted. The 0.5% fee applied to that upfront cost, NOT the interest rate itself. The ratio between the two is such that 0.5 UPFRONT COST is roughly the same as 0.125% in interest rate.

**So you're saying rates went up 0.125% a few weeks ago?**

No, actually, they went up quite a bit more for the average lender--largely because lenders were spooked, for lack of a more confusing explanation. Lenders were also going to be forced to pay that 0.5% fee on loans that were already locked (i.e. they couldn't charge those borrowers any more than they'd already agreed to charge them, so they were forced to make up the difference on new loans).

**And now that fee went away, so rates are down 0.5%?**

No... rates are down 0.125% in some cases. They wouldn't go down 0.5% because 0.5% refers to the upfront cost side of the equation, and again, 0.5% in upfront cost equates to roughly 0.125% in terms of rate.

**What if I locked my loan after that fee was announced?**

Most lenders are automatically adjusting your loan quote to remove the fee. PLEASE NOTE, as described several times above, the fee that's being removed is 0.5% OF UPFRONT COST which roughly equates to 0.125% IN TERMS OF RATE.

**What if I locked BEFORE this fee was announced (i.e. before 8/12/20)? Where's the love for me?!**



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There is no love for you--at least not in terms of your locked rate getting better (though if you're savvy enough to be reading this article, you are undoubtedly loved). This question only matters if you were indeed locked before 8/12/20. If you were not locked (aka floating), today's rates are today's rates. Many lenders should be able to quote you a lower rate today vs yesterday, but that's not a universal rule.

### **So, should I lock or are rates going even lower?**

Anyone who pretends to know where rates are going to be in the future is naive, lying, trying to sell you something. Rates take cues from multiple inputs and the key input is the bond market. If there was a way to know what the bond market was going to do ahead of time, it would be exploited by traders, the market would "break," and the secret knowledge would be worthless. Everyone thinks they know the future at some point in their market watching careers, but the smartest rate watchers are the ones who know they have no idea. There are very limited exceptions to this wisdom. I've only seen it a handful of times in the last 15 years and today is not one of those times.

There are reasons I could argue that rates will stay low and drift lower, but they depend on variables in epidemiology and macroeconomics that are just that: VARIABLE. Even then, situations like the August 12th fee announcement go to show that short term surprises greatly outweigh the bigger picture probabilities when it comes to the average decision time frame for a prospective mortgage borrower.

This topic deserves a whole Q and A unto itself, but here's the gist: If you're simply trying to decide if now is the time to refinance, then I would simply consider the proposed monthly payment savings and additional payments you'll add by resetting your 30 or 15 year clock. If I could save half a percent and I was only adding a year or three or four to my repayment time, I'd refi now even if I thought rates would get lower. Then I'd refi again if they dropped another 0.5%.