MORTGAGE RATE WATCH

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Here's Why Mortgage Rates Are Outperforming

For most lenders, mortgage rates **improved again** today, adding to the 3-week lows achieved yesterday. We normally view mortgage rate movement primarily as a function of the bond market, but the bond market says rates should only be falling modestly from their recent highs. What gives?

This is a 2 part issue. **First**, there's a difference between the overall bond market and the bonds that underlie mortgages. So-called mortgage-backed securities (MBS) did a better job of holding their ground in August when compared to the broader bond market via the quintessential 10yr Treasury yield.

Second, and more importantly, the delay of the recently announced adverse market fee (an abrupt hit to all conventional refinances that unintentionally also affected purchase rates) is responsible for the lion's share of mortgage rate outperformance. It's worth keeping in mind, then, that the fee will be back very soon depending on the lender and on the length of time **borrowers** seek to lock their rates. In fact, some lenders have already added the fee again for lock time frames of 60 days or more.

Matt Graham
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All of the above aside, the broader bond market has indeed had a **good week so far**, and that has definitely helped. Markets are generally responsive to the Federal Reserve's recent messages. The Fed is setting the stage to offer the market lower rates and more bond buying for a longer period of time with less concern about inflation figures derailing their largesse. The Fed views this as necessary for a few reasons, and we can expect to hear all about them in 2 weeks when the next official policy statement is released.