Mortgage Rate Watch
Daily Coverage. Industry Leading Perspective.

Mortgage Rates Balking at New Record Lows

Matt Graham
Founder and CEO, MBS Live

Mortgage rates have **improved nicely** over the past week. While a lot of this improvement is due to the delay of the new refinance fee announced earlier this month, the broader bond market has helped. For instance, 10yr Treasury yields--often viewed as a benchmark for mortgages and other long-term rates--have fallen every single day since last Friday. When 10yr Treasury yields are falling, mortgage rates typically fall in rough proportion.

When it comes to that general rule linking Treasury and mortgage rates, 2020 has seen the **biggest exceptions in history**. There were **two reasons** for this at first. The mortgage bond market wasn't nearly as capable of coping with heavy volatility in March for a variety of reasons. Lower relative demand for mortgage bonds means that mortgage rates will move higher relative to Treasuries, all other things being equal. That issue is ancient history now, however, as the Fed's bond buying campaign has soothed markets enormously.

The **bigger, lingering reason** has to do with lender capacity. Simply put, with 30yr fixed rates below 3% (for ideal scenarios), there's more demand for mortgages than lenders can handle. They meter this demand by keeping rates higher than they otherwise would be. As we'll likely see in next week's mortgage application numbers, demand has ramped up in a major way with rates returning to near-record-low levels this week. Unsurprisingly, lenders have responded by slowing their roll when it comes to dropping rates. The mortgage bond market has compounded the issue by not improving at the same pace as the Treasury market this week.

Bottom line: depending on the lender, mortgage rates are slightly higher either today or yesterday when compared to Tuesday's rates. In fact there are a few lenders who have had higher rates every day this week.