MORTGAGE RATE WATCH
Daily Coverage. Industry Leading Perspective.

The Market That Drives Mortgage Rates Just Had Its Worst Day in Weeks

Mortgage rates don't just **magically appear**. Lenders don't choose them arbitrarily. To sustain the pace and scope of the mortgage market in the US (and indeed of most any debt), the cost of money over time has to be carefully considered before a lender knows where to set its rates. When it comes to something like the money the US government borrows, it's the Treasury market that determines the cost of money over time. In other words, open trading in financial markets results in the yield (aka rate) on a 10yr Treasury note being at one level while the rate for a 30yr Treasury note is at a different level.

There's a market for mortgage lenders to openly trade groups of mortgages (or even individual mortgages) too! Like the US government sells Treasuries to fund operations, **mortgage lenders** sell Mortgage-backed securities (MBS) on the open market. The prices paid by investors determine the value of MBS and consequently the line in the sand for mortgage lender profitability.

With all of that background out of the way, we can finally **get to the point**. MBS had their **worst day in 2 weeks** today, mirroring an even bigger loss in the US Treasuries they often track. In the past, and in general, moves such as this would result in an obvious, measurable increase in mortgage rates, albeit a small one. In today's case, that's only true on a technicality. The average lender began the day with slightly lower mortgage rates (MBS were actually in better shape this morning compared to yesterday). But as the bond market deteriorated throughout the day, lenders did what they often do in those cases: they raised rates very slightly.

Is the increase **enough to ruin anyone's day?** That depends... How sensitive are you? We're not talking about even an eighth of a percent in interest rate, on average (some lenders increased rates by that much, but it was for reasons other than the weaker bond market conditions).

The **bigger question** is whether or not this first big move after weeks of calm consolidation is merely the tip of the spear. That's a question that can only be answered in time, however. There are great cases to be made for rates remaining in a generally low, sideways range for a long time. The biggest risk to this in the short term would seem to be unexpectedly swift progress toward to finalization of the much-anticipated stimulus bill

Bottom line: things have been very calm and sideways for rates. We just had a wake-up call today. The damage wasn't severe but it serves as a reminder that rates still move in 2 directions.

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