MORTGAGE RATE WATCH
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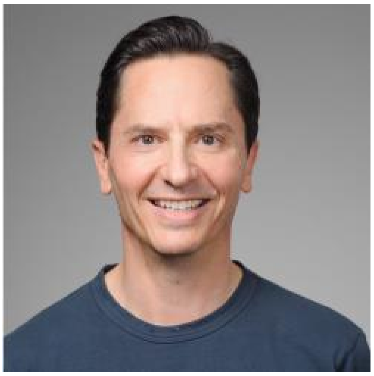
No, Mortgage Rates Are NOT Actually At All-Time Lows



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Many of today's mortgage-related headlines are touting "new all-time lows," but there are significant caveats. The biggest caveat would likely be the fact that the average 30yr fixed rate is actually nowhere near its previous all-time lows! So why are there so many headlines saying otherwise?

Issue 1: Freddie Mac's Weekly Rate Survey

Freddie conducts the longest-running weekly mortgage rate survey in the biz. If you're not worried about nitty gritty details or day to day movement, it's plenty accurate and consistent. That's why the industry and news media have grown to rely on it for a quick, rough take on mortgage rates every Thursday morning.

The problem with Freddie's survey is that it's a quick rough take every Thursday morning. It doesn't go into nitty gritty detail--the kind that could be important to many pros and civilians in the mortgage market. And most importantly, it doesn't capture day-to-day detail. In fact, it doesn't' even count mortgage rate movement in the 2nd half of any given week. As such, it has missed a few dramatic moves over the years--especially when rates make a big move in one direction in a big way in the 2nd half of the week and then a completely different direction the following week.

Issue 2: Purchases vs Refis

Much of what follows is a repeat from yesterday, but it's even more relevant today because it explains why a survey that asks loan originators for their best case rates would be coming up with all-time lows (spoiler alert: because purchase mortgages actually are close to all-time lows).

If you're in the market for a refinance, rates are **nowhere near** all-time lows--especially if you count jumpier lenders (those who change their rates with minimal provocation from the bond market or their operational capacity) and shorter time horizons. In fact, the average lender was quoting refi rates roughly a quarter of a percent lower in early August before the new refi fee was announced.

All of the above having been said, whether you're looking at purchase rates close to all-time lows or refi rates that are nowhere close, they haven't changed much at all over the past few weeks. That's been the case even though the underlying bond market suggests a bit more volatility. Mortgage rates have been able to defy that volatility due to extra wide margins. That's another way of saying lenders are keeping rates **higher** than they otherwise would be in order to slow down the pace of new business. They're overloaded as it is.

The **downside** is that it could take months for margins to shrink, but the **upside** is that when the bond market says rates should be going higher, lenders don't have to pay as much attention (within reason). A huge move would still have an effect, but the sort of movement seen over the past two weeks has been taken fairly well in stride.

Bottom line

Refinances account for a majority of new mortgages, and refis are subject to a new fee that results in their rates being 0.125-0.25% higher. Additionally, many lenders were already offering lower rates for purchases. Freddie's survey is capturing those best-case rates whereas I'm looking at best case rates weighted for the proportion of refis vs purchases. I'm also considering rates available on every hour of every day as opposed to picking one rate to apply to an entire week based on the average of survey responses that came in over 3 days. Bottom bottom line: some purchase rates may be near all-time lows, but refis are nowhere close.