MORTGAGE RATE WATCH
Daily Coverage. Industry Leading Perspective.

Mortgage Rates Inch Lower, But Volatility Risks Are Increasing

When interest rates plummeted in response to the early realities of the pandemic back in March/April, mortgage rates did a **terrible** job of keeping pace with the broader bond market. When we talk about the "broader bond market," things like 10yr Treasury yields come to mind. Over the years, 10yr yields and mortgage rates move with extraordinarily high correlation. There are huge exceptions, however, and the pandemic made for an extreme example.

Mortgages **couldn't keep** up with the drop in Treasury yields for a variety of reasons, but it turns out to have been a good thing from today's perspective. The underperformance of the past has allowed mortgage rates to outperform in the present. Despite 10yr yields rising quite clearly in October, mortgage rates have barely budged. Zooming into shorter time horizons we have days like today where Treasury yields are up just a hair while mortgage rates are actually DOWN just a hair!

Before you get too excited, this doesn't mean that you'll see a lower mortgage rate quote today vs yesterday. When I talk about rate movement, I'm looking at EFFECTIVE rates (which take upfront costs into consideration). Upfront costs move every day, and they allow for much finer adjustments in mortgage cost. They have to move by a certain amount before lenders will even change rate quotes, and they have to move appreciably for lenders to change the **NOTE RATE** portion of a quote.

So what are they changing if not the rate itself? Again, it's the upfront costs. This will typically take the form of discount points or origination fee, but in the case of a lender credit, it could also simply mean a larger credit. Upfront costs can be translated to interest rates in terms of **"effective rate,"** but it all depends on how long you keep your loan. Assuming someone keeps their loan for an average amount of time, today's change would come out to 0.01 - 0.02% if translated to interest rate. That's why our daily rate index can move by such small amounts even though lenders are actually quoting rates in 0.125% increments (with a few exceptions).

This period of calm and resilience for mortgages could continue, but it will face some of its **bigger recent risks** in the upcoming week. Results of the presidential election (as well as the battle for control of the senate) can have a big impact on markets. Even if you've heard a compelling argument for the direction of the move based on certain outcomes, there's no way to know if that will pan out. History shows that post-election volatility can prove more predictions wrong than right. We just won't know until we're actually in the middle of it.

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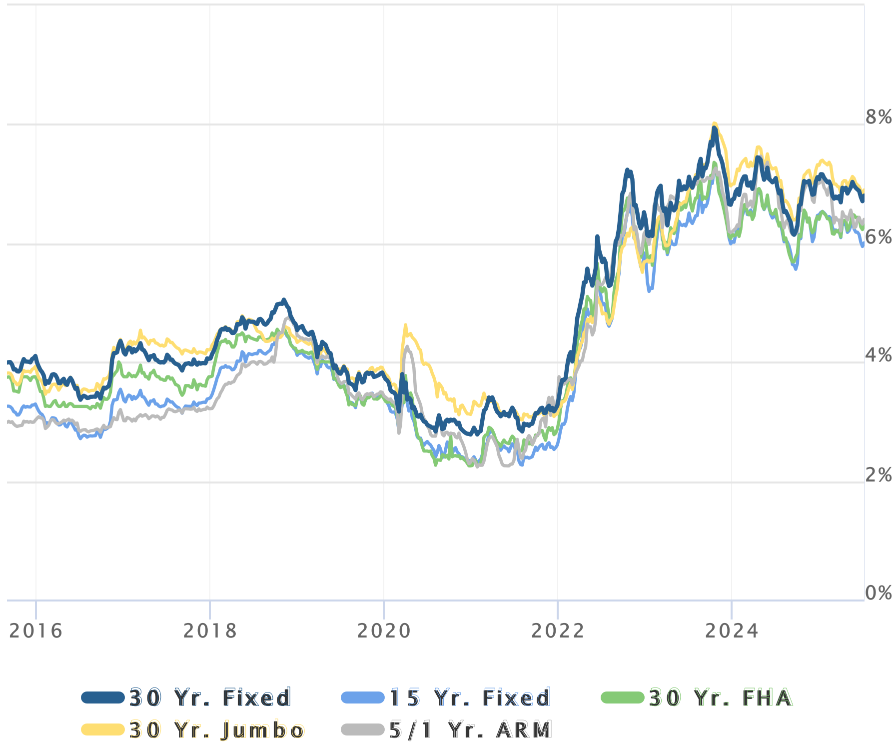
8%
6%
4%
2%
0%
2016
2018
2020
2022
2024
30 Yr. Fixed
15 Yr. Fixed
30 Yr. FHA
30 Yr. Jumbo
5/1 Yr. ARM