MORTGAGE RATE WATCH
Daily Coverage. Industry Leading Perspective.

Mortgage Rates Living Their Own Life By Their Own Rules

You might **think** you know mortgage rates. You might make assumptions about where they'll go and what they'll do based on past precedent. For decades, you may have done a nearly flawless job of that simply by drawing the exceedingly logical conclusion that mortgage rates tend to behave a lot like other longer-term bonds. After all, bonds and mortgages are both loans. They're both fixed income investments. And to cap it all off, the average mortgage "becomes" a bond, in a manner of speaking, with its underlying cash flow being traded alongside the most quintessential bonds like 10yr Treasury Notes.

That's why 10yr Treasury yields and mortgage rates move in the same direction at the same time with regularity that puts clocks to shame. So it's **understandable** that anyone familiar with this dynamic might conclude they know a thing or two about the nature of mortgage rate movement.

But mortgage rates are here to tell you that **2020 is different**. They're breaking all the old rules and making their own. They **refused** to drop as quickly as Treasury yields for months following the onset of the pandemic. They endured several weeks of big swings that were completely unrelated to bond market movement when regulators implemented a new fee on refinances. Then, they proceeded to move sideways to slightly lower for the following 3 months even though Treasury yields were moving gradually higher. Now in early December, they've opted to hold more-or-less perfectly flat even as Treasury yields are spiking again.

This disregard for convention **goes both ways**. While it worked in our favor last week, today saw mortgage rates hold steady yet again, even though Treasury yields dropped by 0.045%. Why all this ground-holding? The simplest, shortest, and most accurate answer is that mortgage rates are taking a majority of their day-to-day cues from lender capacity. In other words, lenders raise rates (or simply abstain from dropping rates) when they're as busy as they want to be, and they drop rates very gradually when they are ready to handle more business.

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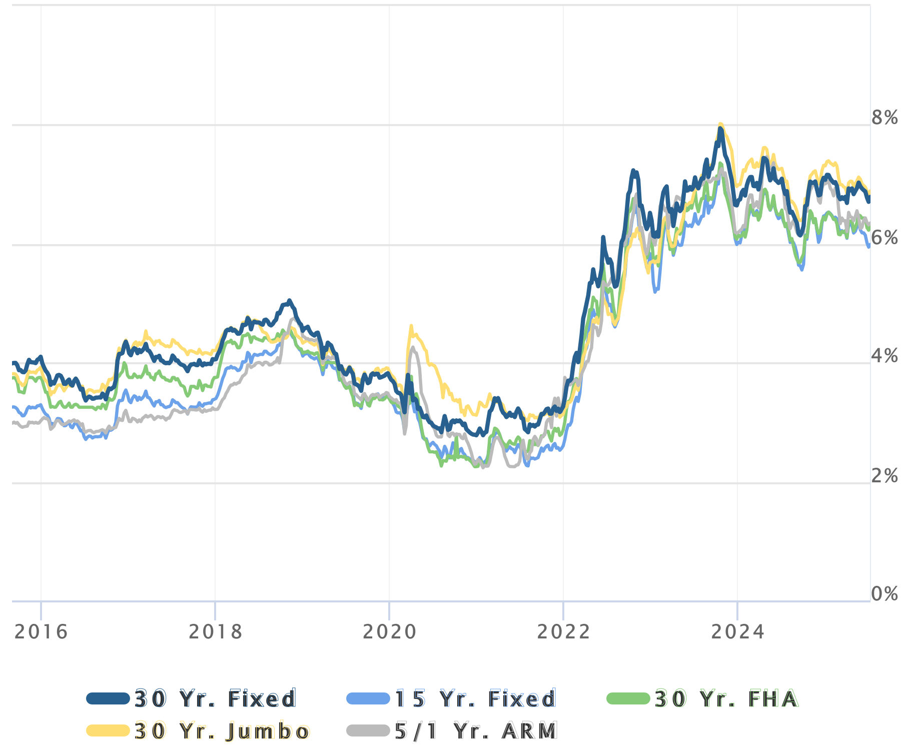
The scenario above assumes the broader bond market is maintaining **some semblance** of big-picture stability, but with 10yr yields taking 5 months to move up less than 0.5%, that hasn't been an issue. Things will change eventually, and to be sure, there is a certain amount of bond market drama that could indeed translate to mortgage rate volatility. For now though, these new rules have ushered in the lowest, most stable mortgage rate regime we've ever seen.


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