MORTGAGE RATE WATCH
Daily Coverage. Industry Leading Perspective.

Huge Gaps Remain Between Lenders' Mortgage Rate Offerings

While all is easily forgiven in light of all-time low rates, the pandemic made a mess of the mortgage market in many ways. Most messes have been resolved, but **several big ones remain.** A few examples include a near doubling of previous turn times (from just under 30 days to just under 60 days for the average loan), high costs for certain types of loans, and a disconnection between mortgage rates and the bond market.

It's that last one that we're interested in today--not for any particular reason, but it gives us something to discuss in this environment where the average rate continues holding almost perfectly flat. In fact, that's just another symptom of the disconnection!

Mortgage rates are primarily based on the prices of mortgage-backed bonds. Those bonds trade on the open market throughout the day. Lenders update rates each day to reflect market changes, and occasionally several times during the day if the changes are big enough. Well... at least they used to. Now, **the bar is much higher** when it comes to bond volatility having an impact on rates.

The culprit is "capacity." At a certain point, lenders are too busy to take on new loans at a faster pace. They either raise rates or abstain from lower rates in order to divert loans to other lenders that may not be as busy. Then those lenders get busy and the cycle compounds.

But between the lenders with the highest and lowest capacities for new business, there are now extreme differences between the interest rates being offered. (For what it's worth, capacity isn't the only issue when it comes to the example I'm about to give, but it's the biggest part). For example, on the **EXACT** same scenario quoted by two different lenders, a borrower could encounter 30yr fixed rates more than 0.5% apart. The **most extreme** recent example I've personally seen was 0.75%! 100% apples to apples with the only difference being the lender offering the quote.

This speaks to an environment where the average rate is still quite a bit higher than the bond market suggests. That's only recently begun to change... slowly. It will continue, however, and when it runs its course, mortgage rates will once again **have to be concerned** about bond market volatility. Rest assured, we'll be talking all about it here when that happens.

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