

MORTGAGE RATE WATCH

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Mortgage Rates Brace For Potential Impact

Mortgage rates got off to a **slow start** yesterday. It was hard to object considering that left the average lender in line with record lows. But today was a bit different. While most lenders were little-changed at first, many ultimately raised rates during the day in response to deterioration in the bond market.

The notion of "raising rates" is relative, in this case. The average prospective mortgage borrower wouldn't think much of the mid-day increases. **In fact**, they would likely be seeing the same rate quote as yesterday with only a slight increase to upfront costs (or a decrease to lender credit). This is typically the case for mortgages. It takes some serious drama in the bond market for rates to move in an alarming way, and that sort of drama has been in short supply for months.

If there was/is one event that traders agree has the potential to get things moving again, it's tonight's Senate run-off elections in Georgia. If democrats win both seats, then one party will control congress and the presidency. Any time one party has full control, it's easier for the government to spend money. The result is more Treasury debt, and the level of Treasury debt is a **key input** for interest rates in general.

While the additional spending may or may not have the intended effect down the road, there is an **objective reaction** in the bond market any time it needs to account for increased Treasury debt. **Simply put**, more Treasury issuance = higher rates, all other things being equal. There's no way to know how big the reaction will be, but in terms of potential, tomorrow could be the biggest day we've seen in months (for better or worse).



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