MORTGAGE RATE WATCH
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Another Decent Day For Mortgage Rates

Mortgage rates have been trying to find a ceiling in the past 3 weeks after rising at the quickest pace in years. That search seemed to be going well until late last week when rates failed to break below the floor that's blocked other recent attempts at progress. The situation deteriorated at the start of the current week with the average lender back in line with long-term highs on Tuesday. We caught a break after that with the average lender showing modest improvements both yesterday and today.

How much improvement?

Prepare to be underwhelmed. It's far easier to count victories as an "absence of additional defeat" these days and today is no exception. The average lender is still quoting the same rates seen 2 days ago, in fact. So why am I telling you rates are a bit better? The answer has to do with the **two** types of rates in the mortgage market. More often than not, when people talk or think about their mortgage rate, it's in reference to the **NOTE rate** (the actual interest rate that's applied to the principal balance of their loan).

But keep in mind that the principal balance of the loan will vary based on closing costs. For instance, you might be able to choose between a rate of 3.5% in a hypothetical scenario where the lender is not collecting any "points," and a rate of 3.25% in a scenario where you're paying roughly 1% of the loan amount in points. The lender makes their money either way, and you pay interest either way. One way is upfront. The other is over time. We use the term **"effective rate"** to refer to both of those sorts of scenarios simultaneously.

The **only catch** is that mortgage lenders rarely change rates enough for note rates to change (because note rates are typically broken up in 0.125% increments, and that's a really big move for a single day). Instead, it's the upfront cost that changes at a more granular level day-to-day. Simply put:

"lower effective rates" = "unchanged note rate" + "lower upfront cost"

That's the equation that explains the drop in rates over the past 2 days. And as I said, it's **underwhelming**, with the average lender needing only **0.1 points** less upfront versus yesterday (aka $100 bucks for every $100k). That makes it one of the smaller day-over-day moves in 2021, but it's one of a precious few that's been in the right direction.

In the bigger picture, April brings **at least some hope** that the rising rate trend of 2021 has caused enough damage to find the need to cool off for a bit. Please understand that's far from a guarantee or a prediction--simply a hope that the mortgage community shares after 4 months of rapidly rising rates. In the short term, tomorrow could be a volatile day for better or worse as the big jobs report is released in the morning. Even though the bond market (which dictates rate momentum) hasn't been keen on reacting to economic data in the normal ways recently, the jobs report always has the power to surprise (specifically, the trading day is always at risk of being volatile, regardless of the outcome of the report itself). Translation: we're still defensive about additional rate spikes, even though our fingers are crossed for some relief.

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