No, Mortgage Rates Aren't Lower This Week. They're Actually Back Over 7%

Matt Graham
Founder and CEO, MBS Live

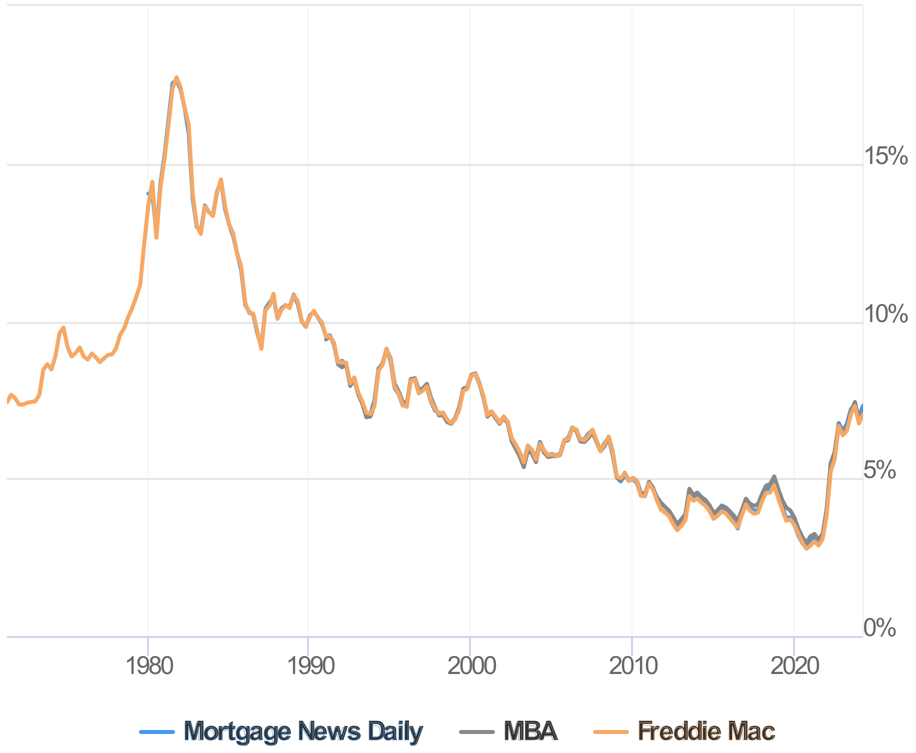
Mortgage rates were refreshingly lower at the beginning of the week with most lenders continuing to improve through Tuesday afternoon. Much has changed since then. In fact, the average lender is once again above 7% for top tier conventional 30yr fixed rates.

Contrast that to today's prevailing mortgage rate headline which says something to the effect of "rates fell to 6.66% this week," and you may wonder who's telling the truth.

The good news is that no one is lying and, by the time we understand the source of confusion, no one is even trying to mislead you. As is the case on any Thursday, many of today's mainstream mortgage rate headlines are based on Freddie Mac's weekly rate index. Many times, that's not a problem. Other times, the survey's methodology (which Freddie is working on changing) leads to misdirection.

Specifically, the survey responses tend to come in on Monday and, to a lesser extent, Tuesday. Results aren't reported until Thursday. As such, any major shift in rates that occurs on Wed/Thu fails to be captured in the data. Consider those timing considerations in conjunction with this week's rate volatility (where rates bottomed out on Monday/Tuesday before reversing much higher on Wed/Thu) as well as the fact that the survey rate depends on discount points that often don't make it into the headlines, and it's easy to see why the numbers can be so different.

Long story short, if Freddie's survey was daily instead of weekly, and if it adjusted the rate to factor out upfront points, it too would be over 7% today.



Why are rates so much higher? This is the frustrating part. The better question is actually why were rates so much lower earlier this week. That had to do with the market undergoing a friendly correction following last week's debt drama in the UK. Granted, we cover interest rates in the US, but it was UK fiscal/debt drama spilling over to US bond/rate markets that drove last week's mortgage rates up and over 7% for the first time in 20 years.

After the UK snafu, markets calmed down and attempted to find the trading range they otherwise may have found more quickly after the September 21st Fed Announcement. In general, the bond market (which dictates interest rate movement) has been bouncing from one Fed Announcement to the next while keeping an eye on the economic data that the Fed calls out as important in the 6 weeks between announcements.

One of the economic reports at the top of the Fed's list, the Employment Situation(or simply, "the jobs report"), comes out Friday morning. If it shows a marked contraction in the labor market, rates could catch a break and recover a bit. If it shows employment continuing to fire on all cylinders, markets will conclude that the Fed will remain in a very unfriendly mood when it comes to rates, thus pushing Friday's rates even higher.

There's no way to know whether we'll get the good news, bad news, or something in between. The only high-probability bet is on volatility.