MORTGAGE RATE WATCH
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Longest Winning Streak For Rates Since Late July

Mortgage rates moved lower for an impressive 4th straight day. That hasn't happened since late July, but there are a few caveats. First off, while the streak may be the longest in a few months, it's not the biggest. Rates fell at a faster pace at the end of September, but in a slightly more volatile pattern.

The bigger catch, perhaps, is that rates had achieved fresh 20 year highs just before the current winning streak began, and it's not that uncommon to see some stronger improvement immediately following big spikes to long-term highs.

All of the above having been said, the gains are far from insignificant. The average lender is roughly 0.375% lower from last Thursday in terms of the "note rate" (the rate that actually applies to a mortgage as opposed to the "effective rate" or APR which factors in upfront costs). Effective rates have been a bit of a moving target due to pricing challenges presented by illiquidity in the underlying bond market.

Big words, but here's the gist: during more normal times, lenders are able to sell mortgages at a premium (meaning an investor might pay something like $410k for a $400k loan and earn their profits over time by collecting interest on a rate that would be comparatively higher than a non-premium scenario).

Premium pricing requires a good amount of volume of loans in a certain rate range and good amount of stability. We have neither in 2022. The bonds that make premium pricing possible are in their infancy--not a high volume, liquid market. There's also been a ton of volatility. For both those reasons, investors haven't been eager to pay the premium for loans with the comparatively higher rates.

Long story short, the absence of premium pricing has resulted in the need for many borrowers to pay points whereas they historically wouldn't need to. Now we're getting to a point where certain investors are offering decent enough premium pricing that certain lenders are able to increase rates slightly in exchange for far fewer points. The net effect is that "effective rates" have been able to move noticeably lower even as "note rates" have been the same or higher. This isn't the case for everyone, but it is affecting the averages in a big way.

In the bigger picture, longer-term improvement in rates depends on upcoming economic data and certain events like next week's Fed announcement. Markets already know the Fed will hike rates by 0.75%, but traders are waiting to see if there are any hints about the Fed maybe growing a bit more balanced in coming meetings.

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