MORTGAGE RATE WATCH
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Mortgage Rates Slightly Higher to Begin New Week

The holiday-shortened week sees mortgage rates starting out slightly higher when compared to the end of last week. Versus any other day in the past 4 months, today's rates would be right in line with the lows.

In just the past two weeks, a borrower may have seen a big change in rates from January 5th through last week. During that time, the average lender fell by roughly .40% for a top tier, conventional 30yr fixed mortgage scenario.

As always, a mortgage rate is more complicated than the rate itself. That rate only applies to the principal balance of a loan in order to determine the monthly payment. It says nothing of the upfront costs (or credits) associated with the loan.

To illustrate this point with an extreme example, let's say you have a better rate than me and the same loan size. Your lower rate makes your payment $10/month lower. Now let's say you paid $10,000 in closing costs while I only paid $5,000. I would have the lower effective rate in that scenario because you will not recoup that $5k difference, no matter how long we each keep our loans (it would take you 500 months and the loan only lasts 360 months).

All that to say that the rate you see or hear about isn't always as simple as it seems. This is especially true when rates are changing rapidly. Some lenders are quicker to offer lower rates in those scenarios, but with higher upfront costs.

If we average out multiple lenders and adjust for upfront costs, the average lender approached 6.0% as of last Thursday, but is now back up to 6.125% or higher. Due to the structure of the bond market that underpins mortgage rates, a 6.25% 30yr fixed mortgage is uncommon. That means lenders may be offering 6.125% with higher upfront costs or 6.375-6.500% with lower upfront costs.

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