Mortgage Rates Barely Budged on Wednesday; Deep Dive on Rate Index Methodology

Mortgage rates have been moving higher since late last week, ultimately hitting the highest levels in just over 2 weeks yesterday, but that trend ended today. The average lender is almost perfectly in line with yesterday's latest rate sheet offerings.

In other words, not only did nothing interesting happen to rates today, but arguably, nothing happened at all.

Looking elsewhere for something interesting to say, let's take a moment to address a common question we receive about our daily rate index. "What is the scenario it's based on because my rates are higher?!"

First off, our rate index is 6.70 today whereas Freddie Mac's most recent index was 6.35 and will probably rise into the 6.4's tomorrow. Notably, Freddie's methodology allows for "points" even though they are no longer captured after the most recent methodology change.

That leads to the question of whether the MND rate includes points. In not so many words, points are built in to our daily number. We use a proprietary formula to adjust base rates for points in cases where points are likely to be used in quotes.

In other words, if it makes solid financial sense to quote a rate of 6.625% with half a point upfront, our index would be higher than 6.625%. How much higher depends on our math at the time, and the the amount can be shockingly large at times. Reason being, there's almost no cost different between 6.625% and 6.875% for a majority of lenders. So quoting 6.875% makes very little sense compared to quoting 6.625% with a modest increase to upfront costs.

Let's quantify this with actual numbers.

One of the leading lenders is currently showing a 0.18% difference in price for the 0.25% in rate between 6.875 and 6.625%.

That means it would only cost $720 to drop your rate by 0.25% on a $400k loan. The payment difference is 67 bucks, meaning it would only take 10 months to break even on the extra expense. In cases like that, much of the industry is quoting rates with upfront points.

The other thing to know about our rate index is that it is based on a flawless scenario (or close to it). This used to apply to 20% down loans, but recent changes in Fannie/Freddie fees mean that 25% down is the new norm. In addition, a FICO of 760+ has replaced 740+ as the high benchmark for top tier rates.

Keep in mind, these are just two of the major considerations underlying our methodology. There are several other reasons that quoted rates can be quite different. The highest and best use of our data is for the DAY OVER DAY CHANGE, and we'd greatly prefer to present only that change and nothing else if we thought we could get away with it after 15 years of offering a rate benchmark.

At the end of the day, there's no replacement for a competent loan officer who can explain all the nuances of price "hits" that the industry has to deal with.

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