

## Here's What's Really Going on With Mortgage Rates This Week

We can appreciate that the daunting task of determining what "the" actual mortgage rate may be at any given moment. The word "the" is singled out in the previous sentence because there isn't one, perfect, singular, "going rate" for a mortgage. There's a bell curve with most lenders near the center and a few outliers at the margins.

The only thing that comes close to being a constant across multiple lenders would be the bond market. Specifically, prices of mortgage-backed securities (MBS) determine the value associated with loans originated by mortgage lenders. Still, there are numerous variables that lenders control that determine what rates they can offer for any given price level of MBS.

Looking at an individual rate quote from an individual lender is one way to know something fairly specific about rates, but of course things can still change for a variety of reasons between the initial quote and the closing table.

In order to get a general idea of where mortgage rates are, it's common to turn to a rate index. In terms of circulation and historical availability, Freddie Mac's weekly rate index is the only game in town. Unfortunately, in terms of accuracy, on shorter time horizons, it leaves something to be desired--especially for those interested in knowing day to day changes.

Freddie's survey is a 5 day average collected from Thursday through Wednesday and then reported the following day. When things are moving quickly, that means several inputs to the equation will no longer be relevant. We've also noticed that Freddie can quite simply undershoot the reality of a big, directional move, like the one we've seen take shape over the past 5 days. There's no telling why this occurs, but it could have something to do with the fact that--even after methodology changes--Freddie's survey still involves human input of rates that aren't necessarily available anymore.

Conversely, our daily rate is generated based on actual rate sheets--not a person's recollection or assumption of what the rate should be. Because of this, the day to day CHANGE in our rate index is highly reliable and accurate. The only time it will differ from a reality you may encounter would be due to changes in upfront costs on the loan quote in question.

For instance, there may be times when it costs a lender less to offer you a rate of 6.625 than 6.75 or even 6.875. But the 6.625% rate may require some out of pocket costs upfront. Bumping the rate up in order to cover those costs would require raising it to 7.0 or above in many cases. Lenders can take different approaches when presenting those options, and it's not possible for a single rate index to perfectly account for all those strategies.

Still, our index is the best option available because it's the only one that even attempts to account for an interpolated value of upfront cost changes. The only other accurate method would be to list rates and points, but the pitfall there over time is that no one pays attention to the points.

With all that out of the way, here's what's up with rates today: they're right in line with yesterday morning's levels.

Here's what's up with rates this week: they're MUCH higher and that movement is significantly bigger than Freddie's weekly index would suggest. The average lender is up 0.37% from October 2nd whereas Freddie is only showing a 0.2% week over week increase.



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Going back to the point about upfront costs for various rate levels, this can easily mean that the actual interest rate today will be 0.50% higher than it was last Thursday, but with lower upfront costs for some borrowers.