Why Mortgage Rates Move in Jumps Instead of Smooth Lines



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Why Mortgage Rates Move in Jumps, Not Smooth Lines

Mortgage rates often "jump" as they approach certain cutoffs. The reason isn't just daily moves in Treasuries. It's how mortgages get bundled and sold as mortgage-backed securities (MBS).

Quick primer

- Mortgages are pooled into MBS that trade like bonds.
- MBS come in 0.50% "coupon" buckets: 5.0%, 5.5%, 6.0%, etc.
- Only certain note rates are eligible for each bucket. Buckets have upper limits.

Why the .125 and .625 cutoffs matter

Retail mortgage rates can accelerate as they near **.125%** or **.625%** endings because those are the practical edges of key MBS buckets. When investors shift demand to a lower coupon, lenders rush to price loans that qualify, and consumer rates can drop faster than the day's bond move would suggest.

Plain-English example

Suppose the 5.5% MBS coupon (can hold rates roughly from 5.75% to 6.625%) has been the workhorse. If markets improve and investors favor the 5.0% coupon (holds rates up to 6.125%), lenders pivot. That creates a quick slide toward **6.125%** as pricing realigns to fit the lower bucket.

Why MBS coupons don't equal your note rate

Mortgage rates are higher than their underlying MBS coupons because certain costs come off the top to pay for things like Fannie/Freddie guaranty fees and loan servicing. The result is that a rate of, say, **5.625%** may only have about **5.0%** of interest available to an investor. As such, it would be a perfect candidate for a **5.0% MBS coupon**.

Investor preference and refinancing risk

Investors like predictable cash flows. When rates are falling, they prefer lower coupons, trading a bit of yield today for a better chance the loans won't refinance quickly. That demand shift is what makes movements near **.125** and **.625** feel sharp.

Practical takeaway

- Don't expect rates to move in a straight line.
- Watch how close prevailing quotes are to **.125%** and **.625%**.
- As pricing nears a lower bucket's upper limit, rate sheets can reprice quickly.

Nerd corner (optional)

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- The 5.5% UMBS coupon typically accommodates ~5.75%–6.625% note rates.
- The 5.0% UMBS coupon typically accommodates ~5.25%–6.125% note rates.
- Lower coupons tend to be more sensitive when momentum shifts.

Bottom line

When investor demand migrates to a lower MBS coupon, lenders reprice to fit that bucket, and consumer rates can lurch toward **.125%** or **.625%** faster than headline bond moves would imply.

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