Mortgage Rates Unchanged Despite Bond Market Improvement

Trading levels in the bond market directly impact the rates that mortgage lenders can offer. This is why rates moved so much lower after last week's news regarding planned purchases of $200bln in mortgage backed bonds.

But bonds aren't the only input for rates, and those other inputs can make for days like today where bonds are noticeably better while mortgage rates refuse to follow. Those other inputs aren't as easy to observe and quantify as the objective trading levels in the bond market, but in the current case, we can assume that at least some of the explanation has to do with mortgage lenders quickly becoming too busy to handle more volume.

"Busy" isn't necessarily the right word, but in this case, it's a catch-all term for the side effects of rapidly originating a much higher volume of new loans. One aspect has to do with the flow of funding. Lenders don't have unlimited cash to accept new lock commitments. As they approach those limits, they will raise rates (or not lower them as much as their peers) to deter new business.

A slightly more esoteric aspect has to do with deterring borrowers who recently acquired new mortgages from refinancing. Early payoffs (which mostly occur via refinancing when rates unexpectedly fall) cost lenders money because, on average, lenders pay more than the principal amount to originate a loan. They then rely on earning interest to offset that expense. An early payoff means they won't be able to collect that interest. As such, they have an incentive to avoid setting rates at low enough levels to entice recently minted mortgages from refi'ing.

In today's case the net effect was that the average lender was perfectly unchanged versus yesterday--not a bad outcome considering today is tied for the 3rd lowest rates of any day going back to early 2023.

Charles Dailey
COO, iLoan
www.charlesdailey.com
P: (651) 428-6968
M: (612) 234-7283
charles@charlesdailey.com
2107 Skyway Dr
Saint Paul MN 55119___
79048

© MBS Live, LLC. All rights reserved. This newsletter is a service of MBS Live.