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Mortgage Rates Skyrocket to 4%. New Normal?

It's been a **long time** since anyone could say that top tier conventional conforming 30yr fixed **mortgage rates** were at **4%**. Indeed, even last Monday, the thought of 4% rates would border on preposterous. But what a difference a week makes! Over the past 3 days, rates have moved higher at a pace that's only matched by the worst 3 consecutive days of the mid 2013 taper tantrum. There were several days in 1987 were rates moved higher more quickly on an outright basis, but the more recent spikes have constituted much larger proportions of respective ranges. In both cases (1987 and 2013), the recent major highs in rates occurred 6 years early. Simply put, the 2013 rate spike traversed more of its 6-year range than the 1987 spike, and the past 3 days have matched 2013's pace.

Granted, by the time we look at the weeks and months that preceded the 2 most recent rate spikes, 2013 remains a bigger overall move toward higher rates. But that same caveat is the reason the current rate spike is **as scary as it is:** we don't yet know what the coming weeks and months will look like! As recently as last Thursday, quite a few market participants figured that rates had gotten so much higher so quickly, that it surely must have been a knee-jerk reaction to the presidential election that would soon be reversed after the 3-day Veteran's Day weekend. Yet here we are on Monday with rates still surging higher.

For most of the Summer, rates never moved outside an eighth of percentage point range. Even when rates are trending higher or lower, it **typically takes weeks** to see a move to the next eighth point increment. Now we've seen rates move an eighth of a point higher on EACH of the past 3 business days. This has only happened a handful of times, ever.

If there's one saving grace apart from the platitude about 4% still being relatively low in the biggest of pictures, it's that the mortgage payment on a $200,000 loan would only be $14 higher today vs Thursday. Unfortunately, things are a bit less graceful for higher loan amounts counting back more than 1 business day, but you get the idea.

Now for the **big question: when will this end?**

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/22

MBS and Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.47	+0.08
MBS GNMA 5.5	99.84	+0.07
10 YR Treasury	4.2286	-0.0239
30 YR Treasury	4.4547	-0.0178

Pricing as of: 7/23 10:54AM EST

It would be quite useful to be able to accurately predict the timing of these big moves. More often than not, a big rate spike on any given day results in greater-than-average chances of a bounce back toward lower rates--even if only temporarily. Moves like this break the mold though. The price of incorrectly timing the top in rates is steeper than normal as these sorts of moves can often result in rates 'leveling-off' as they settle into a **new, higher reality.** Bottom line: locking still makes sense until and unless we see a substantial move back toward lower rates.

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