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The Real Reasons Mortgage Rates Can't Keep Up

Following The UK's vote to leave the EU, headlines have been awash with "all-time low rates." While that's abundantly true for benchmark rates like US Treasuries, mortgage rates **aren't quite there yet**--nor have they moved lower at the same pace. What's up with that?

First thing's first. Mortgage rates are **not** based on the 10yr Treasury note (for space-saving purposes, I'll call them "Treasuries" or simply "10's" from here on out). This is a common misconception that exists for a **great reason:** mortgage rates and 10s have moved together almost perfectly throughout history. The relationship broke down a bit heading into the financial crisis (investors didn't really want to buy mortgages), but it became **stronger than ever** thanks to ongoing support from the Fed and stringent underwriting standards.

In other words, investors could rest easy knowing there would constantly be a big buyer in the market if they needed to sell (because the Fed instantly became the biggest buyer of mortgages as a part of its various stimulus efforts, and the buying amount was guaranteed ahead of time!). Moreover, if they didn't need to sell, they knew these loans were at least being **held to a higher standard** than those seen before the financial crisis.

When we talk about "buying mortgages," what we're really referencing are the bonds that are created when groups of similar mortgages are packaged together and sold to investors. These mortgage-backed-securities (MBS) are the **lifeblood of mortgage rates**. When investors buy more, rates fall.

Because of the positive factors mentioned above, investors generally buy MBS at a similar pace to Treasuries. But sometimes the relationship gets a little bit out of sync--especially during times of exceptional volatility.

As we already know, the time frame surrounding Brexit (The UK's vote to leave the European Union) has been an **exceptionally volatile** time for financial markets. In general, when volatility is driving toward lower rates, Treasuries win and mortgages lag. The past few weeks are no exception.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Rates as of: 8/30

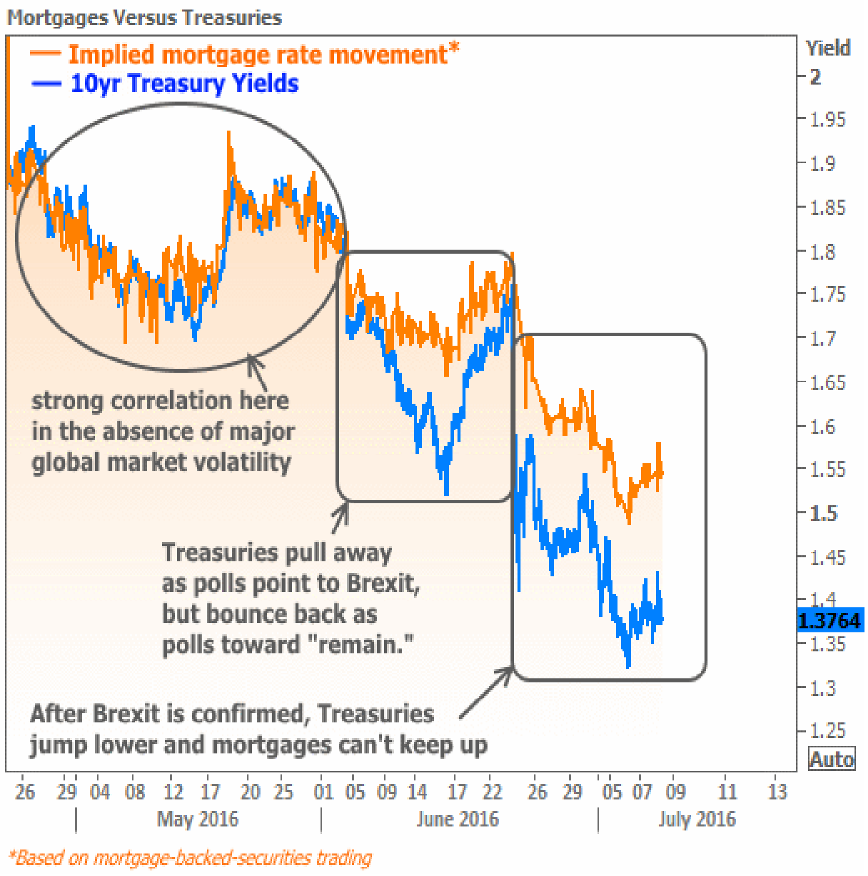
Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

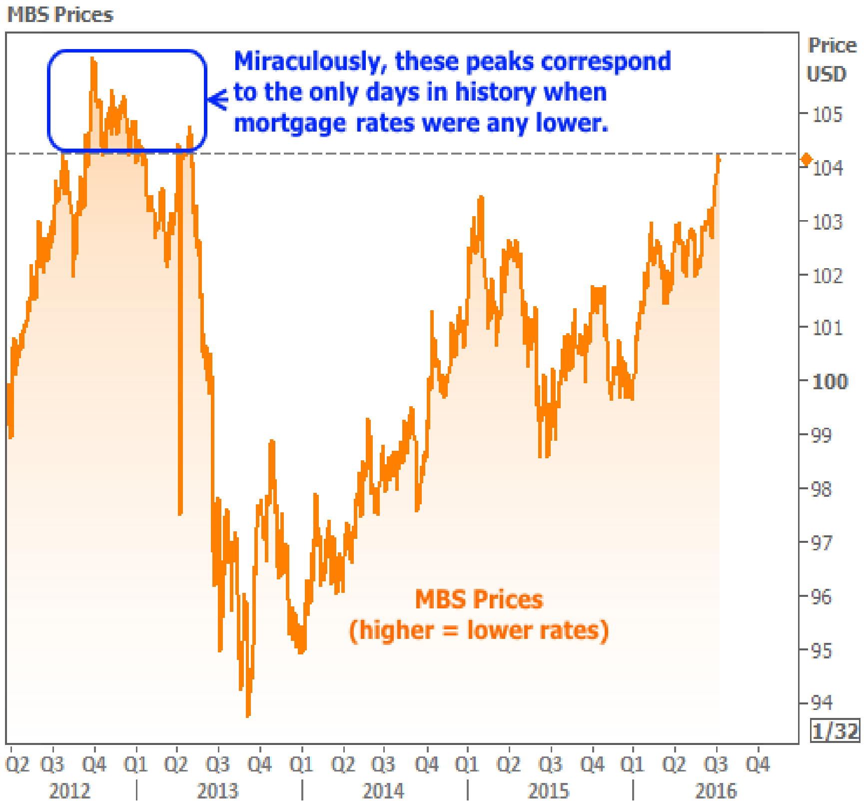
Pricing as of: 9/1 7:34PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



Taking this a step further, we can easily answer the question of why mortgage rates aren't quite at all-time lows. It's actually **very simple:** the prices of MBS aren't yet back to the levels seen during the all-time low rates of late 2012 and early 2013!



Nothing else is needed to explain the current mortgage rate environment, but just in case you need extra convincing, consider the fact that the average fees imposed by Fannie and Freddie are roughly 0.09% higher today (in terms of rate) versus late 2012. That means rates should still be about 0.09% higher even if MBS Prices were at late 2012 levels. Add the additional lender expenses from new regulatory requirements and **today's rates are actually LOWER** than the behind-the-scenes numbers suggest they should be.

None of this is of dire importance in the big picture, but it's important to know that lenders aren't simply **"being greedy"** by not lowering rates faster than they already have. Even if MBS buyers manage to get prices back to late-2012 levels, lenders will still need some time to get rates as low as possible. It's something that will happen faster for some lenders than others, depending on the structure of their business.

And regardless of business structure, all lenders **have to be careful** how quickly they drop rates due to fallout. This happens when a loan in process at any particular lender is canceled. In this environment, that would likely be due to the borrower pursuing a lower rate. But the original lender incurs several costs on that borrower's file, and those costs end up being paid by all mortgage borrowers in the long run. Bottom line: when fallout is minimized, lenders can offer their most aggressive rates.

Housing News

This week was light on housing-specific data, with CoreLogic's **Home Price Index** being the only notable release. It showed ongoing strength in OR, WA, and CO, but a potentially disconcerting deceleration in the pace of gains nationwide.

Adding to a less upbeat tone, Fannie Mae released its monthly Home Purchase Sentiment Index which showed **ebbing confidence** in home price appreciation and a high ratio of inclined sellers to buyers.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Jul 05				
9:45AM	Jun ISM-New York index	715.8		718.1
10:00AM	May Factory orders mm (%)	-1.0	-0.9	1.9
Wednesday, Jul 06				
7:00AM	w/e Mortgage Market Index	580.8		508.4
8:30AM	May International trade mm $ (bl)	-41.14	-40.0	-37.4
10:00AM	Jun ISM N-Mfg PMI	56.5	53.3	52.9
Thursday, Jul 07				
8:15AM	Jun ADP National Employment (k)	172.0	159	173
8:30AM	w/e Initial Jobless Claims (k)	254	265	268
Friday, Jul 08				
8:30AM	Jun Non-farm payrolls (k)	+287	175	38
8:30AM	Jun Unemployment rate mm (%)	4.9	4.8	4.7
8:30AM	Jun Private Payrolls (k)	+265	170	25
Monday, Jul 11				
1:00PM	3-Yr Note Auction (bl)	24		
Tuesday, Jul 12				
10:00AM	May Wholesale inventories mm (%)	+0.1	0.2	0.6
1:00PM	10-yr Note Auction (bl)	20		
2:00PM	Jun Federal budget, $ (bl)		24.00	-53.0
Wednesday, Jul 13				
12:00AM	Roll Date - Fannie Mae 30YR, Freddie Mac 30YR			
7:00AM	w/e Mortgage Market Index	622.4		580.8
8:30AM	Jun Import prices mm (%)	+0.2	0.5	1.4
8:30AM	Jun Export prices mm (%)	+0.8	0.4	1.1
1:00PM	30-Yr Bond Auction (bl)	12		
Friday, Jul 15				
8:30AM	Jun CPI mm, sa (%)	+0.2	0.3	0.2
8:30AM	Jun Retail sales mm (%)	0.6	0.1	0.5
9:15AM	Jun Industrial output mm (%)	+0.6	0.2	-0.4
9:15AM	Jun Capacity utilization mm (%)	75.4	75.0	74.9
10:00AM	May Business inventories mm (%)	+0.2	0.1	0.1

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

Getting a mortgage doesn't have to be painful!

I call myself a Mortgage Navigator because I feel it is my duty to give you the best information possible, not matter what! I love making homebuyers homeowners! I've been a mortgage broker for 29 years and compare options from multiple lenders, delivering 5 □ rates & service. Combined with my goal based mortgage planning, my desire is to help people make the best mortgage decisions while making the process less annoying and more fun. Not sure where to start?.. give me a call at 800-340-5465 or visit www.IcanSaveMortgage to find your best options today. Be sure to check out my YouTube channel link below for more helpful mortgage information.

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