Mortgage Rates: Trend Not a Friend

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After hitting 2011 lows on a steady "flight to safety", home loan borrowing costs have drifted incrementally higher in six of the last six trading sessions.

The week ahead carries the potential for the broader bond market to confirm a potentially fence-sitter unfriendly **technical shift** from bullish to bearish. It hasn't been noticeable on the surface because borrowing costs have been inching higher over the past few days, but thin margins are starting to add up and it's making us more nervous about a jump in "Best Execution" mortgage rates. **This move has yet to be confirmed but we're definitely teetering on a shift...**

CURRENT MARKET: The "Best Execution" conventional 30-year fixed mortgage rate is 4.875%. For those looking to permanently buy down their rate to 4.75%, this quote carries higher closing costs. The upfront fee to permanently buy down your rate to 4.75% is not worth it to every applicant, we would generally only advise the permanent floatdown if you plan to keep your new mortgage outstanding for longer than the next 10 years. Ask your loan officer to run a breakeven analysis on any origination points they might require to cover permanent float down fees. On FHA/VA 30 year fixed "Best Execution" is 4.75%. 15 year fixed conventional loans are best priced at 4.125%. Five year ARMS are best priced at 3.50%.

See Rates from Lenders in Your Area

PREVIOUS GUIDANCE: No change to our recent stance that favors locking for short term/sensitive outlooks and allows for longer term/less urgent outlooks to wait for an additional recovery in mortgage rates. The bond market that indirectly affects mortgage rates moved to the edge of its recent range. If you are being quoted a below "CURRENT MARKET" mortgage rate...you are in danger of losing that quote if this "directional drift" heads much further in the wrong direction. There are events that can reverse this alarming trend, but if that doesn't happen, the penalty for waiting too long to lock may be a lot less tolerable next week.

CURRENT GUIDANCE: Bond investors largely ignored economic data and breaking news headlines last week. Instead investment decisions were based on trading technicals... which are not looking mortgage rate friendly at the moment. But investor participation was light and trading volume has been below average which indicates the move higher in rates was met with little resistance and is therefore vulnerable to a fence-sitter friendly reversal. With respect to Friday's guidance which warned of a bigger move in the wrong direction, we're very much still in the same position. Reason being: not much happened today to suggest where things may go from here. In the week ahead we are looking for the market to paint a clearer picture of its directional bias. Locking is advised for those working on a short-term time frame. For long-termers, if you need to lock a loan in the next month, it's time to shift your bias from aggressive/neutral to defensive/neutral.

CHART: CONSUMER BORROWING COSTS

ECONOMIC CALENDAR: THE WEEK AHEAD

"Best Execution" is the most efficient combination of note rate offered and points paid at closing. This note rate is determined based on the time it takes to recover the points you paid at closing (discount) vs. the monthly savings of permanently buying down your mortgage rate by 0.125%. When deciding on whether or not to pay points, the borrower must have an idea of how long they intend to keep their mortgage. For more info, ask you originator to explain the findings of their "breakeven analysis" on your permanent rate buydown costs.

Important Mortgage Rate Disclaimer: The "Best Execution" loan pricing quotes shared above are generally seen as the more aggressive side of the primary mortgage market. Loan originators will only be able to offer these rates on conforming loan amounts to very well-qualified borrowers who have a middle FICO score over 740 and enough equity in their home to qualify for a refinance or a large enough savings to cover their down payment and closing costs. If the terms of your loan trigger any risk-based loan level pricing adjustments (LLPAs), your rate quote will be higher. If you do not fall into the "perfect borrower" category, make sure you ask your loan originator for an explanation of the characteristics that make your loan more expensive. "No point" loan doesn't mean "no cost" loan. The best 30 year fixed conventional/FHA/VA mortgage rates still include closing costs such as: third party fees + title charges + transfer and recording. Don't forget the intense fiscal frisking that comes along with the underwriting process.

A flight to safety happens when investors are nervous about owning risky assets like stocks, but do not want to miss out on earning a return on their funds, so they allocate their money into risk-free government guaranteed U.S Treasury debt to provide a safe-haven AND an investment return. As benchmark Treasury yields fall on "flight to safety" buyer demand, prices of mortgage-backed securities move higher in unison. This allows lenders to reprice their rate sheets for the better and gives originators an opportunity to offer fence-sitting borrowers lower mortgage rates or more competitive closing costs.

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