

Mortgage Rates: Too Soon To Tell

By: Matthew Graham | Thu, May 19 2011, 5:23 PM

Although borrowing costs rose today, the newly updated Best-Execution mortgage rate offering we [discussed on Wednesday](#) remains unchanged.

While recent increases in borrowing costs are acting like spackle on "the wall" that had been preventing further rate improvements, trading in the secondary mortgage market today was encouraging. It's too soon to tell if the newer, lower Best-Execution availabilities will become widespread or not.

CURRENT MARKET: The "Best Execution" conventional 30-year fixed mortgage rate is in a state of flux between 4.75% and 4.625%. Some lenders are already quoting C30 loans at 4.625% with no origination points. If you are looking to move down from there or merely between the two, you'll be assessing the trade-offs between higher closing costs and lower monthly payments. This could be worth it to applicants who plan to keep their new mortgage outstanding for long enough to breakeven on the extra upfront costs. On FHAVA 30 year fixed "Best Execution" is also a moving target roughly centered on 4.375% with adjacent rates being logical in some scenarios. 4.50% is a no-brainer for everyone on FHA 30yr loans though. 15 year fixed conventional loans are best priced at 3.875%. Five year ARMs are best priced at 3.25% but the ARM market is more stratified and there is more variation in what will be "Best-Execution" depending on your individual scenario.

See Rates from Lenders in Your Area

PREVIOUS GUIDANCE: First of all, the possibility of an intermediate to longer term rates rally remains on the table for yet another day. So for all the flexible or aggressive long term scenario people in the audience, you're excused for the day. As for everyone else, loan pricing deteriorated today, leaving us feeling defensive about recent improvements in the short-run. You should be too. We saw a good example today of the sorts of pull-backs that can come even in the midst of a predominantly bullish run in mortgage rates. As we've said in the past, if you're seeing the lower of the two Best-Ex quotes mentioned in the Current Market section, the goal is to KEEP that rate rather than floating for the possibility of slightly lower closing costs.

CURRENT GUIDANCE: While we continue to see a longer term rally as a possibility, we're wary of short term pull-backs for shorter term or otherwise more constrained scenarios despite the strong showing made by bond markets in the second half of today's trading session. As we've said in the past, if you're seeing the lower of the two Best-Ex quotes mentioned in the Current Market section, the goal is to KEEP that rate rather than floating for the possibility of slightly lower closing costs.

What MUST be considered BEFORE one thinks about capitalizing on a rates rally?

1. WHAT DO YOU NEED? Rates might not rally as much as you want/need.
2. WHEN DO YOU NEED IT BY? Rates might not rally as fast as you want/need.
3. HOW DO YOU HANDLE STRESS? Are you ready to make tough decisions?

***"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 your originator to explain the findings of their "breakeven analysis" on your permanent rate buy down 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/FHAVA mortgage rates still include closing costs such as: third party fees + title charges + transfer and recording. Don't forget the fiscal frisking that comes along with the underwriting process.

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