Mortgage Rates: Seeking Confirmation

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Yesterday we witnessed the second stage of a potentially significant shift lower in home loan borrowing costs. While these developments were encouraging, short-term reversals remained a constant threat. Today we were reminded of those short-term threats as investors took interest rate profits ahead of tomorrow's "high-risk" event: The Employment Situation Report. As a result bond prices fell and benchmark interest rates rose, pushing consumer borrowing costs marginally higher. Fortunately loan pricing didn't deteriorate enough to warrant a shift higher in Best Execution mortgage rate quotes, we continue to hover near 6-month lows.

CURRENT MARKET: The "Best Execution" conventional 30-year fixed mortgage rate is 4.50%. In some cases, 4.375% can make sense, but will involve increased closing costs in the form of an origination fee. 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 FHA/VA 30 year fixed "Best Execution" is 4.25%. 15 year fixed conventional loans are best priced at 3.75%. Five year ARMs are best priced at 3.125% 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: The tone has been generally positive for mortgage rates since April 11th. We continue to entertain that it could generally stay that way for even longer, clearly justifying longer term floating strategies. However, further positive progress can be slow and short term corrections are to be expected. That means borrowers who are working on a shorter lock/float timeline should remain defensive of new, lower "Best Execution" Mortgage Rate quotes. Your main goal is to protect a lower rate offer from short-term market fluctuations, especially with the high risk event on the horizon in the form of this Friday's Employment Situation Report. This is the sort of report than can either confirm the recent break lower in borrowing costs, or send them right back to other side of the fence.

CURRENT GUIDANCE: It might seem like it's time to consider "The Wall" as being completely destroyed at this point. Yes, **"The Wall"** is indeed teetering in its most precarious position this year. Borrowing costs are certainly low enough to justify that, but the **most important confirmation can only be granted by tomorrow's high-risk event: The Employment Situation Report**. If that data confirms the slower than expected economic recovery message that has fueled the two-month bond market rally, new improvements will be much less tenuous. We'd remain defensive even as rates progress lower, preferring the "sure thing" of the best rates of the year today versus the risk of losing them tomorrow. That assumes either that your time frame is limited or that rates won't recover from any set-backs on the horizon. Longer term and more flexible scenarios are still justified in floating.

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 cost 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 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/FHA/VA 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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