

Mortgage Rates: Questioning the Rally

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After finally managing to topple "**The Wall**", the mortgage rate rally stalled and went sideways last week.

We'd describe this pause as mortgage rates taking a "breather" in the wake of a 2-month rally. The sideways shuffle seen last week serves as a reminder of the threats faced by home loan borrowers when floating a loan on a short-term timeline. The market doesn't always act the way you'd expect it to and rallies don't last forever. Investors always end up finding a way to question positive progress, and that generally leads to an unfriendly directional reaction.

CURRENT MARKET: The "Best Execution" conventional 30-year fixed mortgage rate is 4.50%. Aggressive 4.375% quotes are still being reported but will involve increased closing costs in the form of origination fees. 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 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

THE WEEK AHEAD: The week ahead offers key data on second-quarter industrial production, retail sales, inflation, the housing market, consumer sentiment, and manufacturing. It also presents an opportunity to question the positive progress we've made over the past two-months. As illustrated by the sideways behavior of mortgage rates last week, bond investors are already acting nervous about the end of the Federal Reserve's "Quantitative Easing" program (just a few weeks away now). Adding anxious sentiment is the potential for the U.S. to **briefly default** on its debt if Congress fails to raise the debt ceiling. From that perspective we feel it's going to take another round of poor economic data this week to confirm our longer-term bullish mortgage rates bias.

GUIDANCE: With "**The Wall**" now torn down a path has been paved for mortgage rates to continue on the path toward more improvements. An extended rally will not come without setbacks though. Short-term corrections are possible. That means borrowers working on a shorter lock/float timeline should remain defensive of their current quotes. While the rally has indeed stalled, we still feel that intermediate to longer-term scenarios are justified in floating. But we caution, with the politics of money and banking taking center stage into the summer months, your main goal is to protect new, lower rate quotes from unexpected market fluctuations. Stay-tuned for further developments....

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 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 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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