Low Rates Unfazed by a Bit of Market Weakness

By: Matthew Graham | Mon, Feb 11 2019, 3:55 PM

Mortgage rates held their ground fairly well today, despite the fact that underlying bond markets were weaker. Bond market weakness is associated with higher interest rates, all other things being equal. To understand this, consider that a bond is essentially a loan. An investor who buys a bond is buying the right to collect interest payments on a loan. That investor is effectively "the lender." Ideally, those investors would compete with one another for the right to collect interest on loans. If bonds are "weaker," it means those investors don't see as much value in buying those loans. The price they pay to obtain the loan goes down (aka "weakness"). In turn, the loan's rate of return needs to be bumped up in order to attract investors. And "bumping up the rate of return on a loan" is tantamount to "higher rates."

See Rates from Lenders in Your Area

There is a **degree of separation** between the market price of loans and the rates actually being set by mortgage lenders. Timing can be one of the most common reasons for discrepancies like the one we're seeing today. In the current case, Friday saw lenders set their rates in the morning only for the bond market to improve throughout the day. When bonds improve, lenders can eventually offer lower rates, but it doesn't make sense for mortgage lenders to change rates more than necessary. If bonds only improve moderately, they may just wait for the following business day to adjust rates lower. If, however, bond markets move weaker (as they did today), we're often left with unchanged rates as today's weakness cancelled out Friday's mid-day strength.

All of the nuts and bolts above notwithstanding, the average lender remains in line with the **lowest rates in a year**. Only January 31st saw anything better, and it wasn't much better! While that's exciting news for anyone with a vested interest in lower rates, the outlook isn't without its risks. Several lingering uncertainties could be cleared up in the coming days and weeks (trade deal with China, government shutdown, more economic data after the shutdown-related hiatus). If that happens in such a way as to benefit stocks more than bonds, there is plenty of room for rates to move higher. In other words, current rate levels connote a bit of an opportunity to lock in the lowest rates in a long time.

Today's Most Prevalent Rates

- 30YR FIXED - 4.375 - 4.5%
- FHA/VA - 4.125 - 4.25%
- 15 YEAR FIXED - 4.0 - 4.125%
- 5 YEAR ARMS - 4.25 - 4.625% depending on the lender

Ongoing Lock/Float Considerations

- Headwinds that had plagued rates for most of the past 2 years began to die down in late 2018. A rapid decline in the stock market certainly helped drive investors into bonds (which helps rates) Highest rates in more than 7 years in Oct/Nov. 8-month lows by the end of the year

- This is a bit of a crossroads. The rising rate environment could flare up again. We may look back at Oct/Nov and see a long-term ceiling, or we may look back at early December and see a temporary correction before more pain.

- Either way, late 2018 was a sign that rates are willing to take opportunities presented to them. From here, it will be up to economic data, fiscal policies, and the stock market to decide on the next set of opportunities. The rougher the overall outlook, the better interest rates tend to do.

- *Rates discussed refer to the most frequently-quoted, conforming, conventional 30yr fixed rate for top tier borrowers among average to well-priced lenders. The rates generally assume little-to-no origination or discount except as noted when applicable. Rates appearing on this page are "effective rates" that take day-to-day changes in upfront costs into consideration.*

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