Mortgage Rates Move Modestly Lower, But Caveats Remain

By: Matthew Graham | Wed, Apr 15 2020, 5:16 PM

Mortgage rates had a reasonably calm and logical day--not something we've been able to say very often recently. It was **calm** in the sense that today's average rates didn't fall too far from yesterday's and intraday movement wasn't too extreme. It was **logical** in the sense that the improvement coincided with stronger trading levels in mortgage bonds.

That logic is typically **taken for granted.** After all, if mortgage bonds are improving, it means investors are willing to pay higher prices for mortgages. Paying a higher price for a bond/mortgage is the same thing as being repaid a lower yield (i.e. interest rate). In other words, investors are willing to accept lower rates, so it's exceedingly logical for mortgage lenders to offer lower rates as a result.

But for at least a month, we've seen wild divergences between mortgage bond performance and mortgage lenders' rate sheets. This doesn't have anything to do with the lenders being crazy or greedy. Rather, it has to do with the fact that the mortgage bond is only one piece of the puzzle when it comes to assigning value to mortgage. The **other major consideration** is the cost/value of "servicing" (the collection of payments over the life of the loan).

See Rates from Lenders in Your Area

COVID-19 has made for many economic "firsts"--most of them unpleasant. Nothing could have prepared the mortgage industry for the amount of forbearances created by the unprecedented level of unemployment and the CARES Act (which makes the forbearances a legal requirement for mortgage servicers). Unfortunately, the CARES Act doesn't include any protection for servicers. That's a problem because servicers and housing agencies are liable to mortgage investors for timely payments even if you're not paying. As such, investors quickly grew **EXTREMELY conservative** and **cautious** with the prices they were offering for the servicing rights on mortgages. That meant rates could be moving higher even as mortgage bonds were improving.

Now that the aforementioned drama has had a chance to settle down, we're seeing better connection between bond prices and mortgage rates although we should still expect disconnects from lender to lender and from time to time. Moreover, the only quasi-reliable connection between rates and bond prices is seen in the most "vanilla" section of the industry: conforming conventional loans with minimal risk adjustments. By the time we get into government loans (seen at higher risk of forbearance and also posing a greater challenge for servicers due to servicing rules), there **hasn't** been nearly as much of a logical connection to mortgage bonds.

The average lender is definitely **not yet back** to their lowest recent levels, but a few have been heading in that direction. The low 3% range is available for ideal scenarios, but two different lenders may be more than half a percentage point apart.

View this Article: https://www.mortgagenewsdaily.com/markets/mortgage-rates-04152020