Rates Are Still Low, But Let's Talk About Forbearances

By: Matthew Graham | Wed, May 6 2020, 5:20 PM

Mortgage rates **moved slightly higher** this week, but not enough to worry about too terribly much. Most lenders are still in the mid-to-low 3% range and there's not much fear about an abrupt move to significantly higher levels any time soon. Whether or not that makes the market complacent remains to be seen. Either way, rates just haven't moved much when it comes to the rates we can actually talk about.

What do I mean by that?

While we can talk about any rate for any program, there's **only one way** to compare changes in rates from day to day and year to year. To do that, we have to keep track of the best-case rates at multiple lenders. Fortunately, that's exactly what I do. Unfortunately, the landscape has been far more varied than normal as we step away from those top tier scenarios.

The variation in question is an indirect result of coronavirus. Massive joblessness and overly-inviting wording in the CARES Act with respect to forbearances is creating the **biggest surge** in mortgage non-payment ever seen. Mortgage investors have quickly reevaluated what they're willing to pay for certain scenarios. The greater the number of forbearance risk factors, the higher you can expect the rate to be, EVEN IF you personally don't agree that the risk factor applies in your case.

For instance, many lenders have increased rates or altogether **ceased offering** cash-out mortgages. The "cash-out" piece is the risk factor the industry has identified. That means that a borrower with an 800 credit score who only owes 25% of their home's value would still pay a much higher rate, even if they only want to take out another 25% of that value.

To a great extent, this would be happening regardless of the people opting for forbearances who don't really need them. But those people are certainly **making things worse** for everyone else, and significantly worse for their mortgage originators. And let's not confuse originators and lenders. They're not always the same entity. In many current cases, lenders will be charging originators 7 percent of your loan balance if you agree to a forbearance soon after closing.

Why should you care? A few reasons. First off, the more financial damage (potential or realized) sustained by originators, the more they'll need to charge. And on a more **selfish note (for you)**, there's no guarantee that you'll be able to refinance or get a new mortgage with forbearance on your credit report. True, the law states that it will not be reported as a late mortgage payment, but it says nothing about the impact on your ability to qualify for a loan in the future.

Moreover, certain creditors are **freezing/decreasing available revolving balances** in the event forbearance shows up on a credit report (and it's showing up QUICK). When they do that, your debt-to-available-credit ratio goes up, and that's a key ingredient in determining your FICO score. In other words, even though the forbearance itself is not hurting your FICO, it can lead other lenders to do things that hurt your FICO and it can absolutely hurt your ability to buy/refi in the future. Could that be clarified to your advantage in the future? Certainly, but it's important to know that's not the way it is right now.

Loan Originator Perspective

No changes with my lock strategy at this time. My clients and I favor locking at the earliest opportunity. I really see no benefit in floating at this time. -**Victor Burek, Churchill Mortgage**

Bonds continued to tread water, posting small gains by early PM trading. I'm seeing unusually large pricing differences between 10 and 25 day locks, far higher than normal. If floating, ask your lender what lock period options you have, and the pricing variation. It may well be worth waiting to lock until close to closing. -**Ted Rood, Senior Originator, Bayshore Mortgage**

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