Coronavirus vs Interest Rates

Last week, in the midst of our pandemic, Saudi Arabia and Russia initiated an oil price war – tumbling prices by 34% (down to $31.73 per barrel). That combination sent the stock market into a tailspin. After equity investors fled to safe-haven holdings, the DJIA dropped 10% to 23,185 (it was down 18% at one point during the week – 28% off the February 12 high of 29,551).Although 10-Year Treasuries (the rate that typically sets the direction of fixed mortgage rates) have averaged 2.27% over the past 5 years, the buy-up last week resulted in a record low **0.318% 10-Year yield.But if mortgage rates usually reduce when investors flee the stock market, *why did 30-year fixed mortgage rates increase from 3.19% to 4.0% during this commotion???***For several reasons due to huge uncertainty, volatility and panic – all of which increased costs to lenders… which in turn were passed to borrowers via higher mortgage rates:

- Profits to mortgage servicing companies (who manage borrowers' monthly payments and escrows for lenders) were significantly reduced after many mortgages were repaid/refinanced early – i.e., servicing fees to lenders increase if there may be less mortgages to manage
- Pools of residential mortgages (mortgage-backed securities/MBS's) became difficult to value – so investors paid less to the lenders who were selling these mortgages
- Lenders, thinking Treasury rates had bottomed, paid higher fees to hedge against rising rates – and were also subjected to margin calls as the 10-Year rate quickly dropped further (because they had to continue paying the higher, hedged rate)

Here's the Point: ***In a market with unprecedented volatility, there are several reasons why mortgage rates actually go in a***

direction opposite to what you might expect.