



# Mortgage Pricing Insights

SEPTEMBER 2020

# CONTENT OVERVIEW

<b>INTRODUCTION</b>	<b>PG. 3</b>
• <b>MORTGAGE PRICING INSIGHTS REPORT SUMMARY</b>	3
• <b>AUGUST MARKET OBSERVATIONS</b>	3
<b>MORTGAGE RATES</b>	<b>PG. 4</b>
• <b>MORTGAGE RATE SUMMARY</b>	4
• <b>MORTGAGE RATE SPREAD TO TREASURIES</b>	4
• <b>PRIMARY TO SECONDARY YIELD SPREAD</b>	5
• <b>PRIMARY MORTGAGE RATES VIA OBMMI™</b>	5
• <b>MORTGAGE RATE FORECAST</b>	6
<b>PRIMARY MARKET</b>	<b>PG. 7</b>
• <b>LOAN ORIGATION VOLUMES</b>	7
• <b>ORIGINATIONS BY PRODUCT</b>	7
• <b>ORIGINATIONS BY BORROWER CREDIT</b>	8
• <b>LENDER PIPELINE PULL-THROUGH</b>	8
• <b>BEST-EFFORTS VS. MANDATORY SPREAD</b>	9
• <b>WHOLE LOAN VS. MBS PRICING</b>	9
<b>SECONDARY MARKET</b>	<b>PG. 10</b>
• <b>MBS NOMINAL SPREADS TO THE 10-YR. TREASURY</b>	10
• <b>NOMINAL SPREAD &amp; OAS HISTORY</b>	10
• <b>MBS CURRENT COUPONS OAS TO SWAPS</b>	11
• <b>30-YR. MBS EMPIRICAL DURATIONS</b>	11
• <b>EMPIRICAL VS. IMPLIED VOLATILITY</b>	12
• <b>CORPORATE CREDIT MARKET HIGH-YIELD SPREADS</b>	12
• <b>GSE CONFORMING MORTGAGE CREDIT CONDITIONS</b>	13
<b>SOURCES &amp; REFERENCES</b>	<b>PG. 14</b>
• <b>ABOUT OPTIMAL BLUE, LLC AND ANDREW DAVIDSON &amp; CO., INC.</b>	14
<b>LEGAL DISCLAIMER</b>	<b>PG. 15</b>

# INTRODUCTION

## MORTGAGE PRICING INSIGHTS REPORT SUMMARY

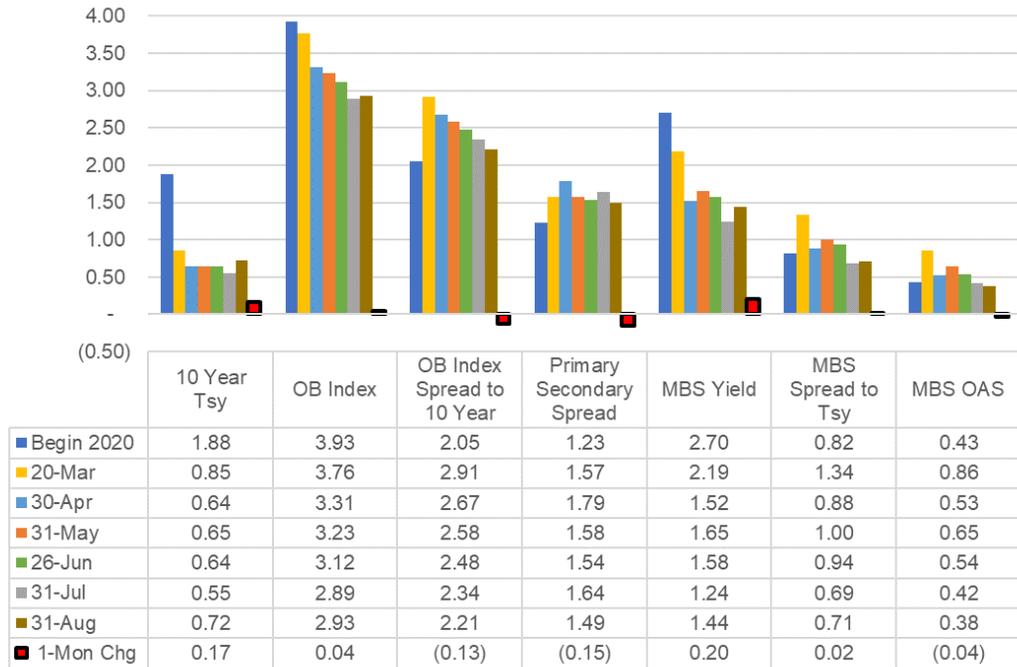
Optimal Blue and Andrew Davidson & Co., Inc. (AD&Co), a leading provider of risk analytics and consulting for residential lending and MBS, have partnered to deliver the Mortgage Pricing Insights report. Released monthly, this robust report leverages proprietary data and analytics produced by both firms to provide a comprehensive view into mortgage finance across the primary and secondary markets. For access to the data and analytics displayed herein, please contact Optimal Blue and/or AD&Co through the contact information provided on page 14.

## AUGUST MARKET OBSERVATIONS

- The 10-year Treasury rate closed August at 72 bps, up 17 bps from the July close. Primary mortgage rates increased by only 4 bps to 2.93% during the month. The primary mortgage rate spread to the 10-year Treasury fell by 13 bps to 2.21%.
- In line with the increase in the 10-year Treasury, the yield on current coupon MBS rose by 20 bps during August. The MBS current coupon nominal spread to Treasury rose 2 bps to 71 bps. The primary to secondary spread (PSS) consequently collapsed by 15 bps to 1.49%, and MBS OAS tightened 4 bps to 38 bps. Implied GFees remained steady on the month in the 29–33 bps range.
- Based on current and forward rates, the AD&Co model shows that rates will fall gradually over the next twelve (12) months to the 2.75%–2.80% range. The model forecasts PSS to fall from 1.49% to the 1.25%–1.30% range over the same interval.
- Volumes showed no signs of slowing in August, with rate locks up more than 75% year over year. Record low rates, high levels of home equity, and a growing demand for home purchases in response to work-from-home policies suggest origination activity will continue on this path for some time.
- Financial markets have stabilized, and housing prices remain strong—though credit has not relaxed. Policy, economic, and pandemic uncertainties persist, discouraging a rollback of the credit restrictions put in place during the early stages of the pandemic. Regardless, credit is less available for those with lower income, lower credit scores, and less wealth.
- Whole loan delivery pricing to TBAs has made a slow but steady recovery and now sits at 1 to 2 points below February levels, a dramatic improvement over the 4 to 5 points lost on spread this spring. Additionally, the best efforts to mandatory delivery spreads are almost back to “normal,” a sign that we are maintaining a steady recovery in secondary market prices.

# MORTGAGE RATES

## MORTGAGE RATE SUMMARY



Source: Optimal Blue Mortgage Market Indices™ (OBMMI™) — [optimalblue.com/obmmi](https://optimalblue.com/obmmi)  
AD&Co Analytics — [ad-co.com](https://ad-co.com)

## MORTGAGE RATE SPREAD TO TREASURIES

The 10-year Treasury yield rose 17 bps to 0.72% in August, as financial markets showed signs of stability. The OBMMI benchmark 30-year conforming rate hit an all-time low of 2.84% in early August before finishing the month at 2.93%—4 bps higher than it started. The mortgage rate spread to the 10-year narrowed by another 13 bps to 221 bps.



### SPREAD TO TREASURY

Open: 234 bps  
Close: 221 bps  
Average: 225 bps  
Min: 219 bps  
Max: 234 bps

Source: Optimal Blue Mortgage Market Indices™ (OBMMI™) — [optimalblue.com/obmmi](https://optimalblue.com/obmmi)  
U.S. Department of the Treasury — [treasury.gov](https://treasury.gov)

# MORTGAGE RATES – Cont'd.

## PRIMARY TO SECONDARY YIELD SPREAD

The mortgage rate to MBS spread dropped 15 bps to 149 bps. This is well below the 191-bps peak in mid-March but remains historically wide. Originators report high profits per loan, but their risk is elevated in several areas. Financing/hedging costs and delivery uncertainty due to forbearance are up, servicing values are way down, and loan-processing capacity is constrained by the pandemic.



### PRIMARY SECONDARY SPREAD

Open: 164 bps  
 Close: 149 bps  
 7-year Average: 130 bps  
 7-year Min: 108 bps  
 7-year Max: 191 bps

Source: Optimal Blue Mortgage Market Indices™ (OBMMI™) — [optimalblue.com/obmmi](http://optimalblue.com/obmmi)  
 Bloomberg L.P. — [bloomberg.com](http://bloomberg.com)

## PRIMARY MORTGAGE RATES VIA OBMMI™

Mortgage rates hit all-time lows in early August before ticking higher toward the back half of the month. While the average rates locked throughout the month of August were roughly 10 basis points lower than July across all tracked products, the recent uptick in mortgage rates indicates that we may have hit a floor.

### MONTHLY RATE AVERAGES (MoM)

- 30-YR. Conf.: 2.90% (-11 bps)
- 30-YR. Jumbo: 3.17% (-12 bps)
- 30-YR. FHA: 2.99% (-10 bps)
- 30-YR. VA: 2.63% (-10 bps)

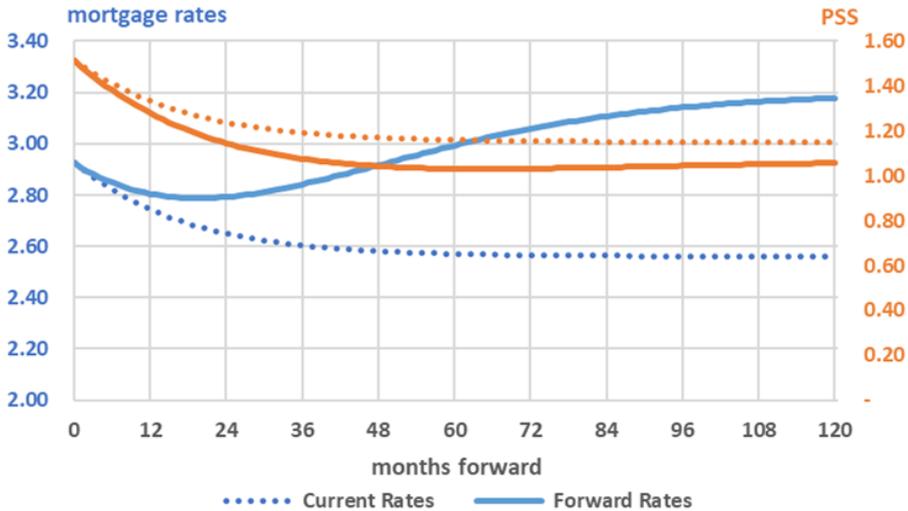


Source: Optimal Blue Mortgage Market Indices™ (OBMMI™) — [optimalblue.com/obmmi](http://optimalblue.com/obmmi)

# MORTGAGE RATES – Cont’d.

## MORTGAGE RATE FORECAST

AD&Co forecasts for PSS and primary mortgage rates indicate rates will fall gradually over the next twelve (12) months to the 2.75%–2.80% range, with expected rates between 2.60% and 2.85% over the next 36 months, based on current and forward rates.



### RATE FORECAST

(PSS)

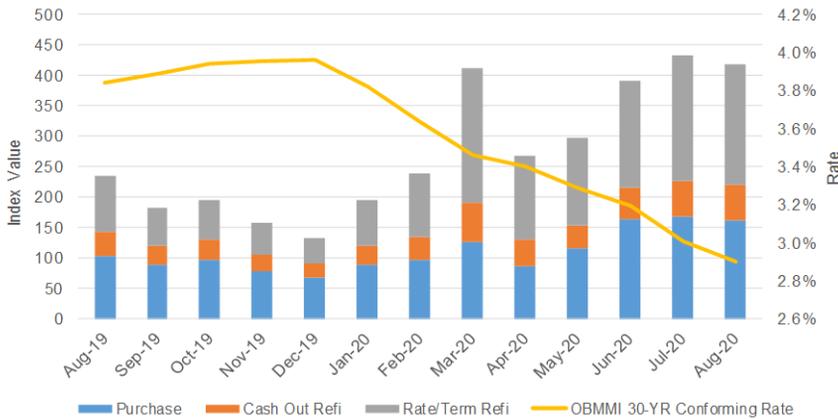
- 3 months: 2.89%  
(144 bps)
- 6 months: 2.85%  
(138 bps)
- 12 months: 2.81%  
(128 bps)

Source: AD&Co Analytics — [ad-co.com](http://ad-co.com)

# PRIMARY MARKET

## LOAN ORIGATION VOLUMES

Rate lock volumes continued at a torrid pace in August, up 78% year over year. Rate/term and cash-out refinance lock volumes were up 113% and 47% respectively from 2019. The homebuyers' market remained strong, growing 58% year over year. Any pandemic concerns related to purchase volumes have now been assuaged.



### VOLUME CHANGES

#### MoM, YoY

Purchase: -4%, +58%

C/O Refi: +1%, +47%

R/T Refi: -4%, +113%

Total: -4%, +78%

Source: Optimal Blue Mortgage Market Indices™ (OBMMI™) — [optimalblue.com/obmmi](https://optimalblue.com/obmmi)  
 Optimal Blue Market Analytics — [optimalblue.com/market-analytics](https://optimalblue.com/market-analytics)

## ORIGINATIONS BY PRODUCT

With conforming loans maintaining a dominant position, August saw little change in product share. The notable exception was the growth in non-conforming rate lock volume share. After bottoming in April, the market for non-federally connected products—particularly jumbo loans—has shown steady improvement, a good sign that liquidity is returning for non-agency products in the market.

### PRODUCT SHARE

#### (MoM)

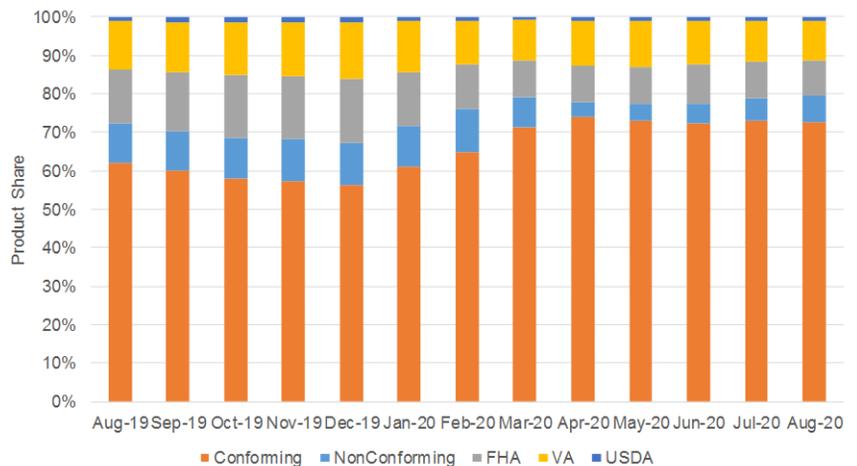
Conforming: 72.8% (-37 bps)

Non-Conforming: 6.9% (+112 bps)

FHA: 8.9% (-39 bps)

VA: 10.5% (-29 bps)

USDA: 0.9% (-7 bps)

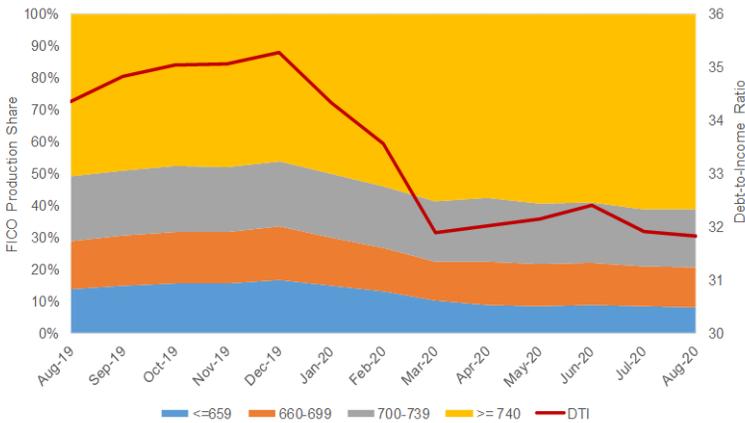


Source: Optimal Blue Market Analytics — [optimalblue.com/market-analytics](https://optimalblue.com/market-analytics)

# PRIMARY MARKET - Cont'd.

## ORIGINATIONS BY BORROWER CREDIT

Credit remained tight in August as high-FICO borrowers (740+) gained further share of production at the expense of low-credit borrowers. The average debt-to-income (DTI) ratio ticked down as well and sits just below 32%. Lender overlays meant to minimize fallout risk from forbearance risk have kept some low-credit score borrowers on the sidelines. With no shortage of refi volume coming from lower risk borrowers, lenders are likely to maintain these high standards.



### FICO BAND SHARE (MoM)

- <=659: 8.2% (-0.3%)
- 660-699: 12.4% (-0.1%)
- 700-739: 18.1% (+0.1%)
- >=740: 61.2% (+0.3%)

### BACKEND DTI RATIO (MOM)

August: 31.8% (-0.1%)

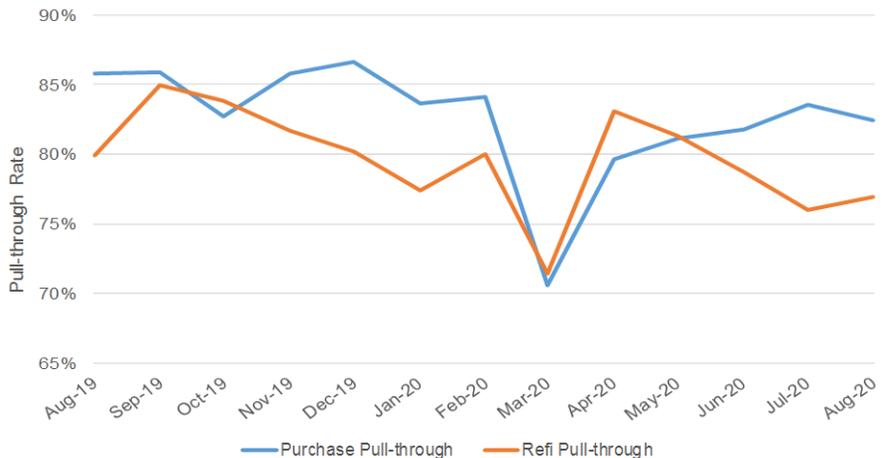
Source: Optimal Blue Market Analytics – [optimalblue.com/market-analytics](https://optimalblue.com/market-analytics)

## LENDER PIPELINE PULL-THROUGH

Purchase pull-through rates ticked down to 82% in August, while refi pull-through rates rose to 77%. Pull-through rates have normalized and are in line with historical levels.

### PULL-THROUGH (MoM)

Purchase: 82.4% (-1.2%)  
 Refi: 76.9% (+0.9%)

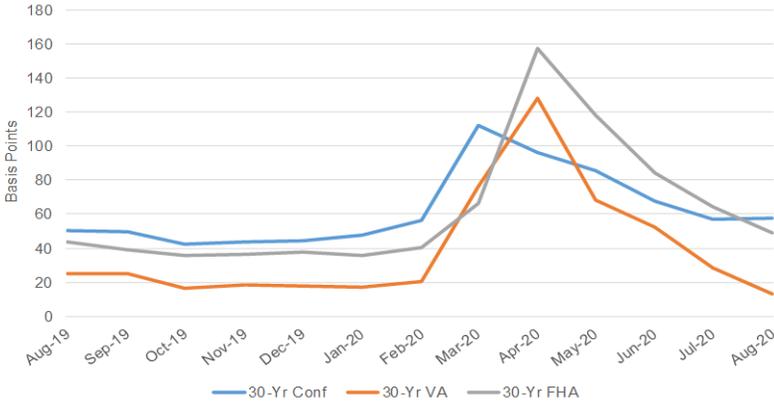


Source: Optimal Blue Hedge Analytics – [optimalblue.com/hedge-analytics](https://optimalblue.com/hedge-analytics)

# PRIMARY MARKET - Cont'd.

## BEST-EFFORTS VS. MANDATORY SPREAD

The spreads for VA and FHA loans fell again in August and are now very close to or at pre-pandemic levels. The spreads for conforming loans plateaued in August, roughly 10 bps higher than a year ago. As stability returns, the contracting spreads signal lower pipeline hedging costs.



### BEST-EFFORTS VS. MANDATORY SPREAD (MoM)

30-YR. Conf.: 58 bps (+1 bps)  
 30-YR. VA: 13 bps (-16 bps)  
 30-YR. FHA: 49 bps (-15 bps)

Source: Optimal Blue Hedge Analytics – [optimalblue.com/hedge-analytics](https://optimalblue.com/hedge-analytics)

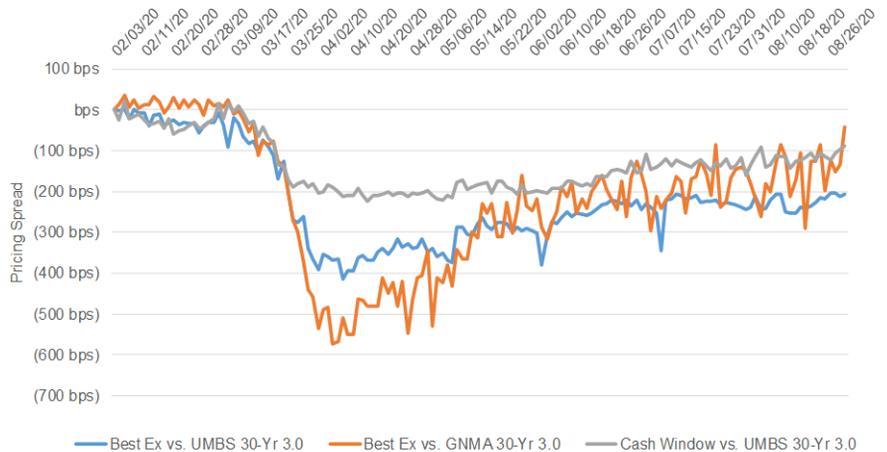
## WHOLE LOAN VS. MBS PRICING

Investor/aggregator pricing relative to MBS improved across the board in August. Pricing for GNMA-bound loans is now within a half point of where it stood prior to COVID-19. Cash Window and aggregator conforming loan pricing sit at roughly 1 and 2 points respectively, below February levels. While pricing is improved, concerns over forbearance have prevented a full return to normal.

### SPREAD CHANGES (MoM)

Best Ex vs. UMBS: +32 bps  
 Best Ex vs. GNMA: +96 bps  
 Cash Window vs. UMBS: +31 bps

Spreads indexed to zero on February 3, 2020.

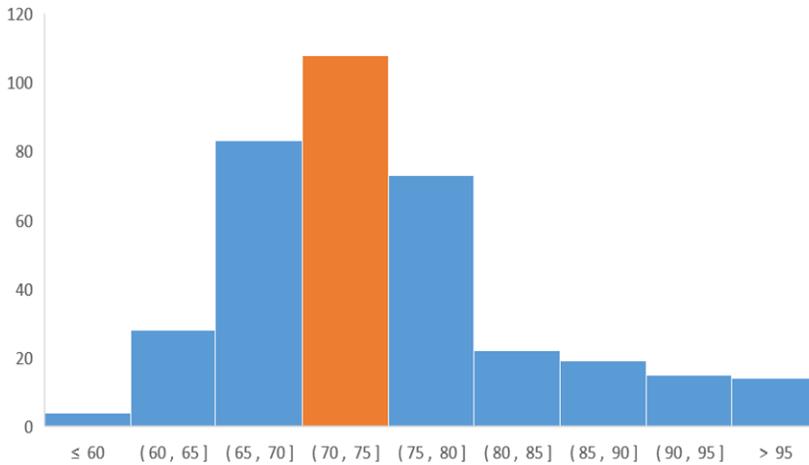


Source: Optimal Blue Hedge Analytics – [optimalblue.com/hedge-analytics](https://optimalblue.com/hedge-analytics)

# SECONDARY MARKET

## MBS NOMINAL SPREADS TO THE 10-YR. TREASURY

Up 2 basis points to 71 basis points for the month of August, the nominal MBS current coupon spread to Treasury is now very near its 7-year trailing average of 75 bps.



### MBS NOMINAL SPREAD

Current: 71 bps  
 Last Month: 69 bps  
 7-year Average: 75 bps  
 7-year Minimum: 57 bps  
 7-year Maximum: 141 bps

Source: AD&Co Analytics — [ad-co.com](http://ad-co.com)

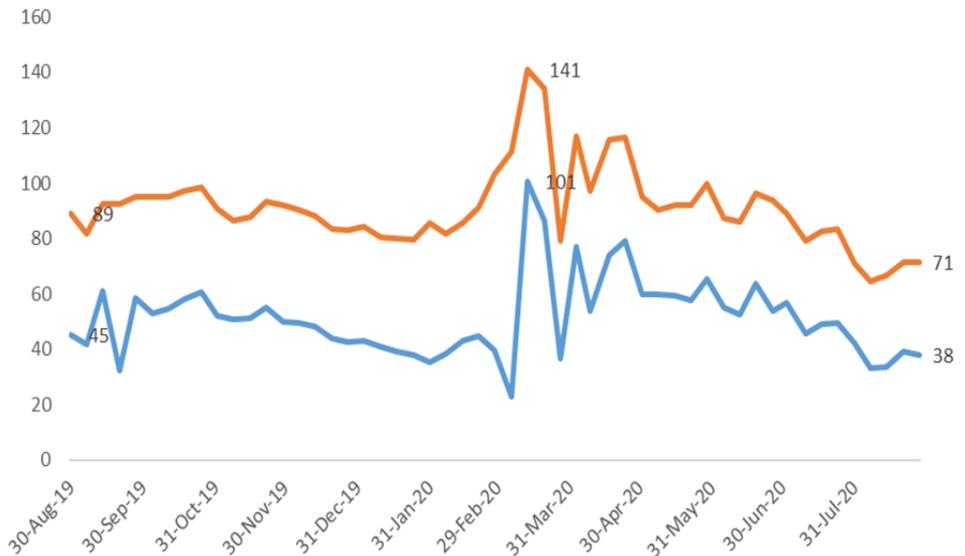
## NOMINAL SPREAD & OAS HISTORY

Both the MBS nominal and OAS spreads were close to unchanged in the month of August. The two spreads are tighter than their pre-pandemic levels observed a year ago.

### MONTHLY SPREADS

#### NOMINAL, OAS

Last Month: 69, 39  
 Current: 71, 38  
 Average: 91, 51  
 Minimum: 65, 23  
 Maximum: 141, 101

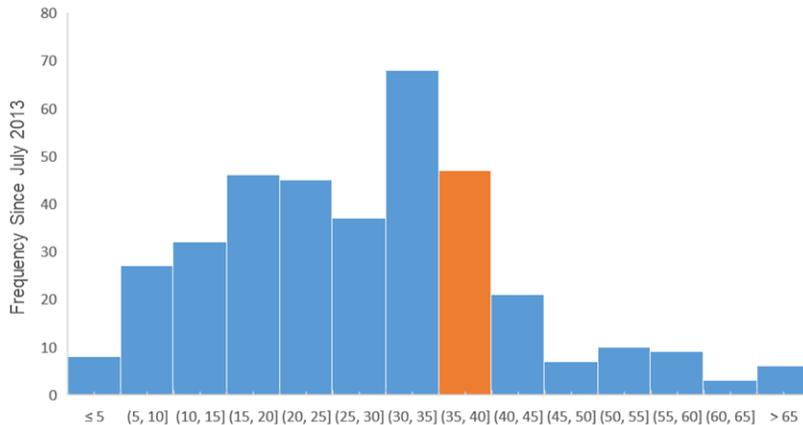


Source: AD&Co Analytics — [ad-co.com](http://ad-co.com)

## SECONDARY MARKET – Cont'd

### MBS CURRENT COUPONS OAS TO SWAPS

OAS tightened 1 bp in August to 38 bps. Since late-May, MBS OAS has tightened a total of 27 bps. MBS OAS are 63 bps lower than the highs observed in mid-March and are now relatively normal.



#### MBS OAS

Current: 38 bps  
 Last Month: 39 bps  
 7-year Average: 28 bps  
 7-year Minimum: 2 bps  
 7-year Maximum: 101 bps

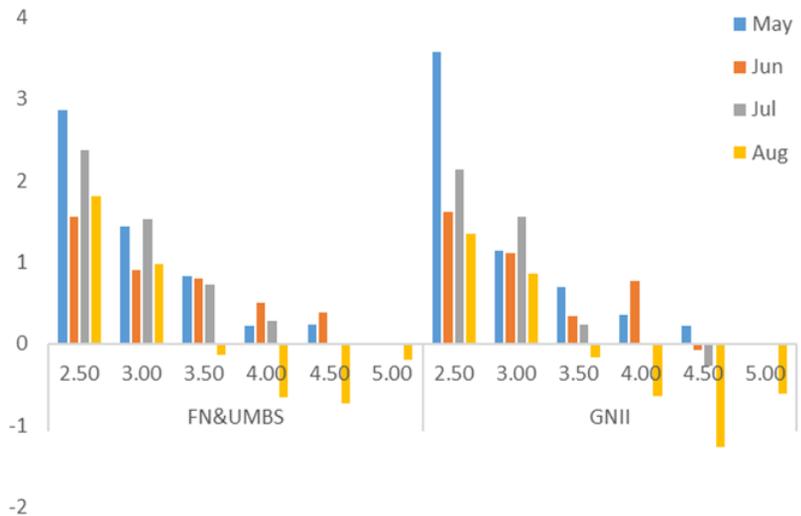
Source: AD&Co Analytics — [ad-co.com](http://ad-co.com)

### 30-YR. MBS EMPIRICAL DURATIONS

Empirical durations indicate that investors are willing to pay for additional mortgage coupons. MBS empirical durations shortened across the coupon stack in August, with high premium coupons exhibiting negative empirical durations.

#### CHANGE

GNII 2.5: -0.79  
 GNII 3: -0.69  
 GNII 3.5: -0.41  
 GNII 4: -0.65  
 GNII 4.5: -1.00  
 FN&UMBS 2.5: +0.28  
 FN&UMBS 3: +0.25  
 FN&UMBS 3.5: -0.41  
 FN&UMBS 4: -0.64  
 FN&UMBS 4.5: -2.35

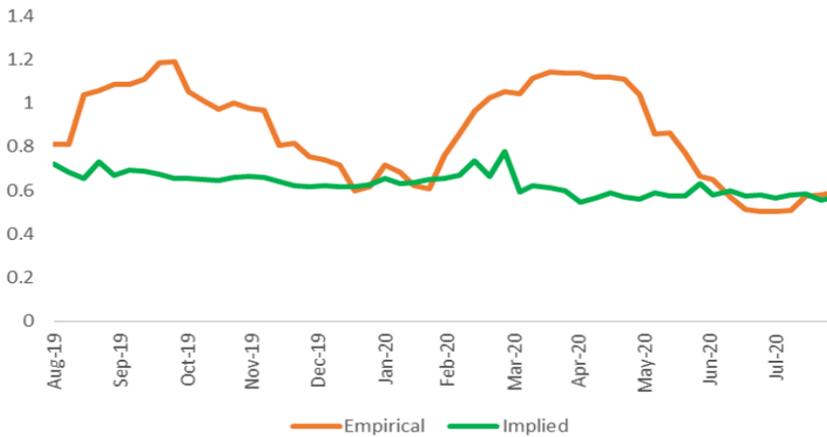


Source: AD&Co Analytics — [ad-co.com](http://ad-co.com)

## SECONDARY MARKET – Cont'd

### EMPIRICAL VS. IMPLIED VOLATILITY

Empirical volatility measurement is based on weekly changes in a 60-day moving average for a 10-year swap rate, annualized. Implied volatility used in MBS OAS calculations had recently been well below realized volatility. Driven by decreases in the observed volatility of market prices as risk conditions have gradually steadied, the difference between the two series has narrowed over the last several months.



**VOLATILITY**  
**EMPIRICAL, IMPLIED**  
 Last Month: .50, .57  
 Current: .59, .57  
 Average: .86, .63  
 Minimum: .50, .55  
 Maximum: 1.19, .78

Source: AD&Co Analytics — [ad-co.com](http://ad-co.com)

### CORPORATE CREDIT MARKET HIGH-YIELD SPREADS

Corporate credit spreads fell another 14 bps in August to 502 bps. Spreads are now roughly 100 bps wider than pre-pandemic levels. Mortgage rates, funding costs, and corporate credit spreads continue to trend downward—though at a much slower pace—as they approach “normal” levels.

#### CORPORATE HIGH-YIELD SPREADS

March 20: 1087 bps  
 June 30: 644 bps  
 July 31: 516 bps  
 August 31: 502 bps



Source: Optimal Blue Mortgage Market Indices™ (OBMMI™) — [optimalblue.com/obmmi](http://optimalblue.com/obmmi)  
 Federal Reserve Economic Data (FRED) | Federal Reserve Bank of St. Louis — [fred.stlouisfed.org](http://fred.stlouisfed.org)

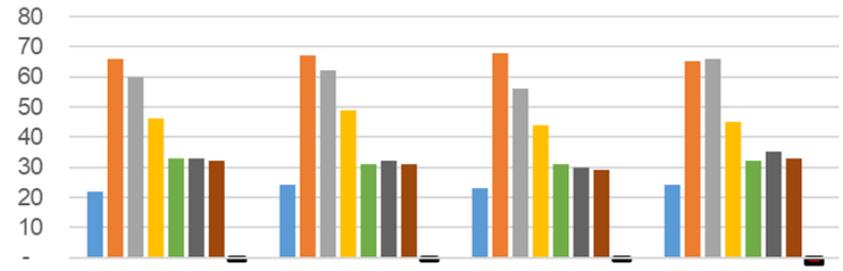
# SECONDARY MARKET – Cont’d

## GSE CONFORMING MORTGAGE CREDIT CONDITIONS

Market implied GFees are derived from CRT prices using three factors: (A) expected loss, (B) price of unexpected risk, and (C) technical spread. Implied GFees remained steady in July and were virtually unchanged in August. Since their March peak in the upper 60s, implied GFees have now fallen 30+ bps into the low 30s. Implied GFees remain above pre-pandemic levels by 6 to 10 bps, but the loss expectations they imply for GSE credit are now marginally above pre-pandemic levels.

### CHANGE FROM FEBRUARY TO AUGUST

- CAS: +10
- STACR: +7
- 60-80 LTV: +6
- HLTV: +9



(10)	CAS	STACR	60-80 LTV	High LTV
■ 2/28/2020	22	24	23	24
■ 3/31/2020	66	67	68	65
■ 4/30/2020	60	62	56	66
■ 5/29/2020	46	49	44	45
■ 6/30/2020	33	31	31	32
■ 7/31/2020	33	32	30	35
■ 8/31/2020	32	31	29	33
■ 1M Chg	(1)	(1)	(1)	(2)

Source: AD&Co Analytics — [ad-co.com](http://ad-co.com)

## SOURCES & REFERENCES

### ABOUT OPTIMAL BLUE

Optimal Blue's Marketplace Platform connects the industry's largest network of originators, investors, and providers. Nearly \$2 Trillion of transactions are processed across the platform each year, facilitating a broad set of secondary market interactions like pricing, locking, hedging, and trading of mortgage loans. For more information, please visit [www.optimalblue.com](http://www.optimalblue.com).



#### DATA CONTACT FOR OPTIMAL BLUE:

Brennan O'Connell, Data Solutions Manager

[boconnell@optimalblue.com](mailto:boconnell@optimalblue.com)

### ABOUT ANDREW DAVIDSON & CO., INC.

Andrew Davidson & Co., Inc. (AD&Co) was founded in 1992 by Andrew Davidson, an international leader in the development of financial research and analytics, mortgage-backed securities product development, valuation and hedging, housing policy and GSE reform, and credit-risk transfer transactions. Since its inception, the company has provided institutional fixed-income investors and risk managers with high quality models, applications, consulting services, research, and thought leadership, aimed at yielding advanced, quantitative solutions to asset management issues. AD&Co's clients include some of the world's largest and most successful financial institutions and investment managers. For more information, please visit [www.ad-co.com](http://www.ad-co.com).



#### DATA CONTACT FOR AD&CO:

Rose Barnabic, Director of Mortgage Banking

[rose@ad-co.com](mailto:rose@ad-co.com)

# LEGAL DISCLAIMER

## DISCLAIMER

Optimal Blue, LLC and Andrew Davidson & Co., Inc. (each a “Party” and together the “Parties”) believe this publication (the “Mortgage Pricing Insights” report) to be reliable, however its accuracy, completeness, timeliness, and suitability for any purpose are not guaranteed. All opinions are subject to change without notice. Nothing in the Mortgage Pricing Insights report constitutes: (1) Investment, legal, accounting, tax, or other professional advice; or (2) Any recommendation or solicitation to purchase, hold, sell, or otherwise deal in any investment. The Mortgage Pricing Insights report has been prepared for general informational purposes, without consideration of the circumstances or objectives of any particular investor. Any reliance on the contents of this publication is at the reader’s sole risk. Neither Party is responsible in any manner for any damages whether direct, indirect, special or consequential, howsoever caused, arising out of use of this content, or reliance on the information it contains. All investment is subject to numerous risks, known and unknown. Past performance is no guarantee of future results. For investment advice, seek a qualified investment professional. NOTE: An affiliate of Andrew Davidson & Co., Inc. engages in trading activities in securities that may be the same or similar to those discussed in this publication.

## UTILIZING OUR CONTENT

If linking to or referencing the Mortgage Pricing Insights report, you agree to clearly attribute the link or the reference to the Mortgage Pricing Insights report directly to Optimal Blue, LLC or Andrew Davidson & Co., Inc., dependent on from which source you have received the data. The Parties are and shall remain the exclusive owner of the Mortgage Pricing Insights report and all patent, copyright, trade secret, trademark, and other intellectual property rights therein and the Parties’ names, (including, but not limited to Optimal Blue, LLC, Andrew Davidson & Co., Inc., either Party’s logo) etc., may not be used in any advertising, publicity, promotion, or other commercial manner without our prior written consent, unless otherwise noted herein. By the Parties posting the Mortgage Pricing Insights report, it does not diminish or waive any of the Parties’ rights (including, but not limited to patents, copyrights, and trademarks) nor does it transfer any such rights to you or a third party. You agree not to delete any copyright or similar notice from any content.

## TRADEMARKS

All services names, product names, company names, and logos used in this report are trademarks or registered trademarks of their respective owners.

## COPYRIGHT

© 2020 Optimal Blue, LLC and Andrew Davidson & Co., Inc. (AD&Co). All Rights Reserved.

## REVISIONS

The Parties may amend or revise these disclosures at any time without notice.