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Why MBS Matters To You

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So let me first reassure you that I am not referring to the Saudi Crown Prince - Mohammed bin Salman (affectionately known as MBS). That is an MBS you may not want to know, but the MBS in this column is the humble Mortgage Backed Security.

The price people pay to acquire the MBS determines how your home loan interest rate rises or falls. If the price paid is higher, then the yield (or return on investment) is lower. The yield on the humble MBS is directly connected to housing interest rates. If the price being paid is lower, then the yield goes up and your interest rate for a home loan goes up with it.

Now there are more kinds of Mortgage Backed Securities on the shelf than the choices you have for potato chips and other snacks at Carr's Safeway. However, most analysts trying to predict where home loan interest rates are going will study the FNMA 30 year MBS index. I track the 30 year MBS 2.0 index which, over the last week, has been in the 99.04 to 99.73 range. If that index drops for MBS prices, say, below 99 then you are in for a higher interest rate at your lender of choice. If it gets above 100, then housing interest rates will go down.

When you are in the process of obtaining your home loan, your loan originator is always wondering when you should 'lock' the rate. That is, when to lock at the lowest rate you can expect to obtain for your closing.

At the time of writing, analysts are concerned about the effect of the FED's 'tapering' of its bond purchases and what effect it will have on interest rates. Since the Pandemic, the Federal Government has been stepping into the MBS market place and buying a lot those securities themselves - which meant higher prices, lower yields and lower interest rates for you to buy a home.

By the time of publication, Jerome Powell (Fed Chairman) will have announced when, and by how much, he is 'tapering' off the Federal Government's buying of the humble MBS. If the 'taper' begins then prices may well come down, yields go up, and your 3% rate may now be 3.25%.

Many of us who study such mundane matters believe that, one way or another, rates will remain low for years to come as the Federal Government will not be able to allow them to go up very far or the whole country goes down for lots of reasons.

Listen to your lender's advice about

when to 'lock' your rate. Loan originators are provided daily counsel from their experts about what is likely to happen next. However, it is your decision.

As with Quantum Mechanics, we are dealing with 'Probabilities' here, not 'Certainties'. Life is about working the probabilities and bending them to your best advantage. Stay well, and stay tuned.

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