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Be aware that combining a first mortgage with a Home Equity Line of Credit (HELOC) or a fixed rate second mortgage will usually be considered a cash out refinance. The exception is if the HELOC or fixed rate second mortgage was used to purchase the subject property, and the borrower never borrowed more against the HELOC after initially closing on the purchase transaction.

Some loan products have caps on the DTI ratio where the lender compares the borrowers' monthly income to their monthly liabilities. Also, some loan products require the borrower to have a certain amount of reserve assets in their portfolio to cover 2 to 18 months of mortgage liabilities. These limitations on the loan products a borrower can qualify for may also increase the rates available to that borrower.

Unfortunately, the mortgage industry can advertise any rate they want to under the guise of 'estimate'. The true rate available to each borrower can only be fully determined after the loan application has gone in will all the supporting documents that validate the data points I addressed above. Most large mortgage lenders and banks employ a bait and switch tactic of advertising the lowest rate to get the application in the door and then switch the rate after the loan has been underwritten. This business model is designed to take in as many applications as possible and close a percentage of those transactions that meet with the lenders' profitability goals. Many borrowers are left with rates

that are higher than advertised or they simply don't get approved for the loan product that they applied for.

My process is to do the underwriting up front, at the very beginning when the loan application is taken, so I can quote accurate rates that don't change later in the process. I underwrite every loan myself and then deliver the loan to the lender. This makes for a transparent and accurate process which achieves a closed loan at the rate desired.

If you are curious to see how you can use the current market conditions to your benefit, please reach out for a free consultation. Stay tuned here for future updates and feel free to reach out for a free consultation if you want to understand more about interest rates and mortgage products.

As always, your mortgage guy,
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Vic's Mortgage Report

"Home of REAL Mortgage Advice®"



Vic Joshi
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My mission is to help buyers qualify for the best loan available for their circumstance. I spend a generous amount of time with each client to educate them about how the mortgage industry works, through free "Mortgage 101" consultations, so they can make good decisions and get the best loan possible. I've revamped my website to give clients the best resources to supplement my consultations.

When I'm not doing loans, I'm an avid scuba diver and certified Rescue Diver. Eventually, I'd like to become a dive instructor, so I can share the joys of this ocean sport with others.

I give back to the Monterey Bay Aquarium, Divers Alert Network (DAN), and the National Outdoor Leadership School (NOLS).

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Mortgage Rates Lagging Behind the Fed

Hi Friends,

Mortgage rates increased after the September Federal Reserve rate cut, due in part to the torrid stock market sucking investment dollars from the bond market. Less demand in treasury bonds increases the bond yield and mortgage rates go up and down with the bond yield. The current spread between the 10-year treasury bond yield and 30-year fixed mortgage rates is in the 2.5% range. With the 10-year treasury bond yield going to 4% in October of this year, 30-year fixed rates were again averaging 6.5% APR. The first week in October saw the 30-year fixed average rate at 6.125% APR, but starting October 7th mortgage rates went up roughly .375% to 6.5% APR.



Mortgage rates eventually follow the Fed and as the Fed continues to cut the Fed Funds rate another .5% this year and another 1% in 2025, mortgage rates will eventually come down further. We should also see the delta between the 10-year treasury bond yield and 30-year fixed mortgage rates come back to a more regular 2% spread, which will also help mortgage rates further decline. Mortgage rate drops rarely come down in a straight line and the road tends to be bumpy at the beginning of a change in the Fed's rate policy. The presidential election results could also add to volatility in mortgage rates.

Be aware that mortgage lenders and banks will always advertise their most attractive mortgage interest rates using criteria that a very small percentage of consumers fall within. Each borrower has their own unique set of data that goes into calculating

the actual mortgage rate available to that set of data. The characteristics that go into calculating mortgage rates include credit scores, property type, occupancy type, purpose of refinance, Loan-to-Value (LTV), Debt-to-Income (DTI) ratio, and amount of banked assets that a borrower has in their portfolio.

Credit scores that allow a borrower to qualify for the lowest rates are 780+ middle score of the three scores provided by the credit bureaus, Equifax, Experian, and Trans Union. The scoring model used in mortgage lending is the FICO 8 scoring model. This is not the model used by online services like Credit Karma and by most credit card companies and banks.

To know your credit scores for your mortgage application always look for a service that uses the FICO 8 scoring model.

Single Family Residence (SFR) will generally provide a better interest rate than condominium or multi-unit properties. LTV below 60%, meaning the property has 40%+ equity, will also provide a lower rate. Owner occupied properties will generally come with a .5%+ lower rate than second homes or investment properties.

Rate and term refinances, where you are refinancing the current principal balance of the mortgage and not taking any cash out of the equity in the property, will also come with a lower rate. Cash out refinances will generally come with at least a .5% higher rate than rate and term refinances. Depending on other factors like credit scores and LTV, cash out refinance rates can be even higher than rate and term.

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