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Fed Will Cut Next Week, But They're Not Cutting Mortgage Rates

Mortgage rates spent 5 out of 5 days moving higher this week. Frustratingly, the damage wasn't readily linked to normal motivations like stronger economic data or higher inflation. It served as a reminder that rates can move for reasons that transcend easy explanations.

One of the easiest and most blatantly incorrect explanations for mortgage rate movement is that it has something to do with Fed rate cuts/hikes. The Fed Funds rate and mortgage rates only reliably move in the same direction over very long time horizons. Over practical time frames for most mortgage borrowers, however, it can be very dangerous to expect such a correlation.

Back in September, we spent several weeks warning about the possibility that mortgage rates could rise even as people were waiting for the Fed to cut. This time around, the set-up is a bit different, but caveats remain.

To reiterate: the Fed does NOT set mortgage rates and the Fed Funds Rate does not necessarily move in the same direction as mortgage rates over short periods of time.

In fact, because the Fed only meets 8 times a year, the Fed's rate is typically perfectly flat for 6 weeks in a row. All the while, mortgage rates are free to experience as much volatility as they like.

To understand this, simply consider that rates are based on loans (debt/borrowing/lending on all scales) and there are many different variables that can impact loans. The simplest is the length of time in which a certain loan must be repaid. For most mortgages, it's up to 30 years with the average mortgage lasting between **5 and 10 years**.

For the loans based on the Fed Funds Rate, **it's less than 24 hours**.

Simply put, investors have different ideas about what the rate should be for multi-year lending versus overnight lending.

Now, forget the "why" and let's just look at how this has played out in the past year. The following chart shows the Fed Funds Rate (the thing the Fed is about to cut again) in blue and average mortgage rates in orange.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.71	+0.01
10 YR Treasury	5.1306	-0.0036
30 YR Treasury	5.4779	+0.0021

Pricing as of: 11/16 7:43PM EST

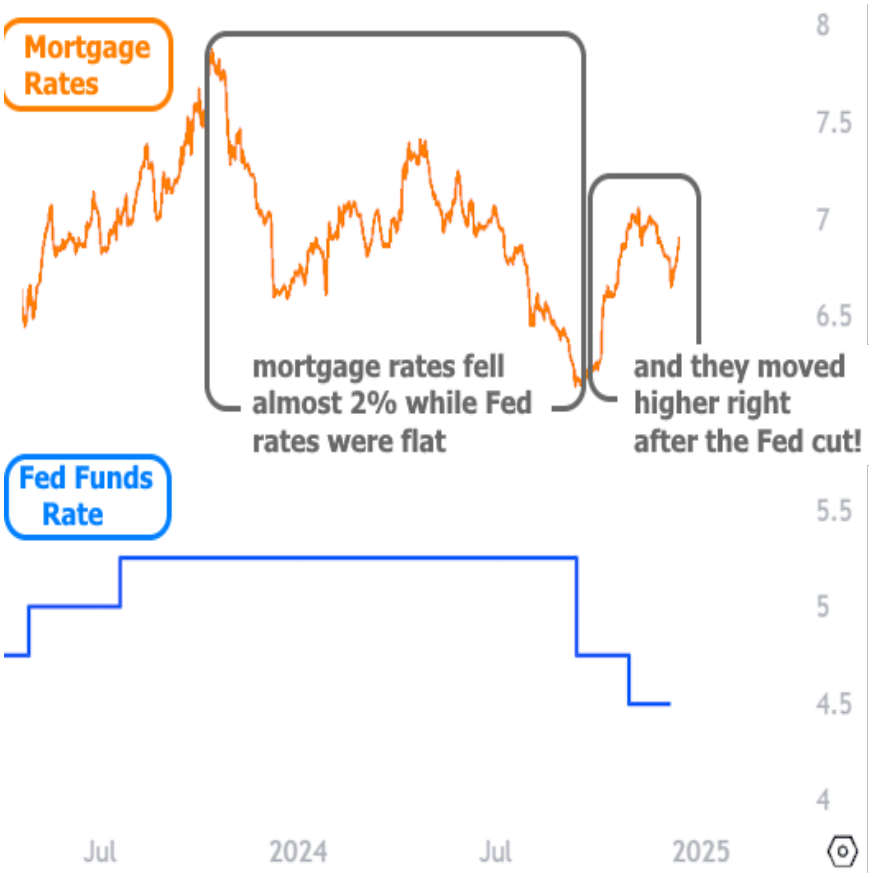
Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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To reiterate, mortgage rates dropped by nearly 2% without any help from the Fed Funds Rate! More importantly, it was literally the same day of the September rate cut that mortgage rates began moving HIGHER from their long term lows.

To be clear, this is not a prediction about the upcoming week. It's just a reminder that there are no guarantees about mortgage rates. The market already knows the Fed will cut. If anything on Fed day ends up having an impact on mortgage rates, it would have to be changes in the Fed's rate outlook and/or comments from Fed Chair Powell during the press conference that follows the rate announcement.

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The Solution to Aspire

From the Founders:

Aspire Mortgage Solutions was founded in 2023 with the main focus of Aspiring people. The vast majority of the business world is driven by making as much money as possible. However, we at Aspire Mortgage Solutions believe that there is much more to life than profit. This passion is why we are committed to being the best possible solution, and we will accomplish this by putting your dreams and goals first. We want to come alongside you and use our expertise in products and mortgage solutions to make sure that you are equipped with the best tools to help you achieve your financial goals. No matter what story you are writing, whether it's your first house, dream house, or building wealth, we want to be the experts that help you aspire to reach your dreams.

- Steve & Zach

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