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# Mortgage Rates Back in The 5's. Here's Why

This week's potential volatility was supposed to be all about the big jobs report, but an unexpected headline completely stole the show.

On Thursday afternoon, Trump announced he would be directing his representatives to buy $200bln in mortgage-backed securities (MBS). These are the bonds that directly impact mortgage rates and such a level of buying would easily push rates lower.

The initial news prompted immediate questions and some incredulity. But no matter what one's personal opinions may be regarding bold announcements from the President, this one is absolutely serious and the market has already confirmed that.

**How do we know?**

The easiest and most conclusive way to know is to avoid any deep thinking and simply know that the MBS market reacted immediately and forcefully. In other words, traders have already done the mental heavy lifting for you. They wouldn't have been moving billions of dollars of MBS at a time of day typically reserved for wrapping things up and heading home.

In other words, the chart of MBS price/volume doesn't lie. This particular chart also includes the relative movement in Treasuries to emphasize the MBS-specific nature of the move:

## National Average Mortgage Rates




| Mortgage News Daily | Rate | Change | Points |
|---|---|---|---|
| 30YR Fixed | 7.26% | -0.06 | 0.00 |
| 15YR Fixed | 6.82% | -0.05 | 0.00 |
| 30YR FHA | 6.95% | 0.00 | 0.00 |
| 30YR Jumbo | 7.40% | -0.02 | 0.00 |
| 7/6 SOFR | 6.60% | -0.10 | 0.00 |
| 30YR VA | 6.96% | -0.01 | 0.00 |

Rates as of: 11/25

## MBS and Treasury

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 99.88 | +0.29 |
| 10 YR Treasury | 4.8590 | -0.0677 |
| 30 YR Treasury | 5.2479 | -0.0735 |

Pricing as of: 11/25 5:59PM EST

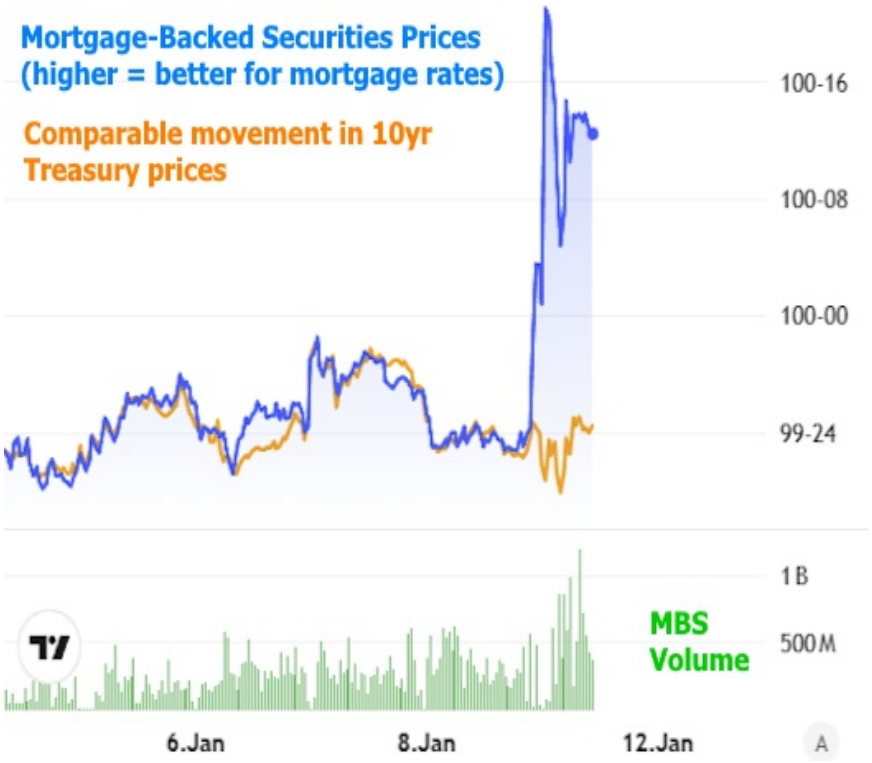
## Recent Housing Data

| | | Value | Change |
|---|---|---|---|
| Mortgage Apps | Nov 11 | 199.8 | -2.35% |
| Building Permits | Oct | 1.3M | -7.5% |
| Housing Starts | Oct | 1.31M | +7.21% |
| New Home Sales | Sep | 676K | -1.17% |
| Pending Home Sales | Oct | 63 | -4.69% |
| Existing Home Sales | Oct | 3.99M | +0.25% |
| Builder Confidence | Nov | 25 | -13.79% |

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Those who want to dig a bit deeper can do just a little bit of math. In his announcement, Trump offered the dollar amount of "$200bln." Incidentally, as of the most recent monthly filings, the GSEs (Fannie and Freddie, the only entities to which Trump could have been referring) have $202.9bln of room on their balance sheets before hitting their current regulatory cap. In other words, $200bln is a carefully chosen number and not some random, off-the-cuff remark.

Perhaps more importantly, Bill Pulte, the director of the FHFA (which oversees Fannie and Freddie), has already confirmed this is the game plan.

**Does the president have the authority to do this?**

In a word, yes. Under the existing regulatory and conservatorship authority, FHFA can direct the GSEs to buy MBS up to the caps set forth in the PSPAs (the legal documents that govern the conservatorship). In fact, this has already been happening over the past 7 months as GSEs ramped up MBS holdings significantly (roughly $50bln).

**Do the GSEs have the money for this? Where would it come from?**

Recent filings show the GSEs have nearly $200bln in cash equivalents (actual cash + short-term liquid securities). The money does not come from Treasury or the Fed, etc. In addition, the GSEs are the largest non-sovereign issuer of corporate debt, and they can borrow at rates that would allow them to cash flow new MBS purchases. So the only real limitation is the aforementioned regulatory cap of $202.9bln.

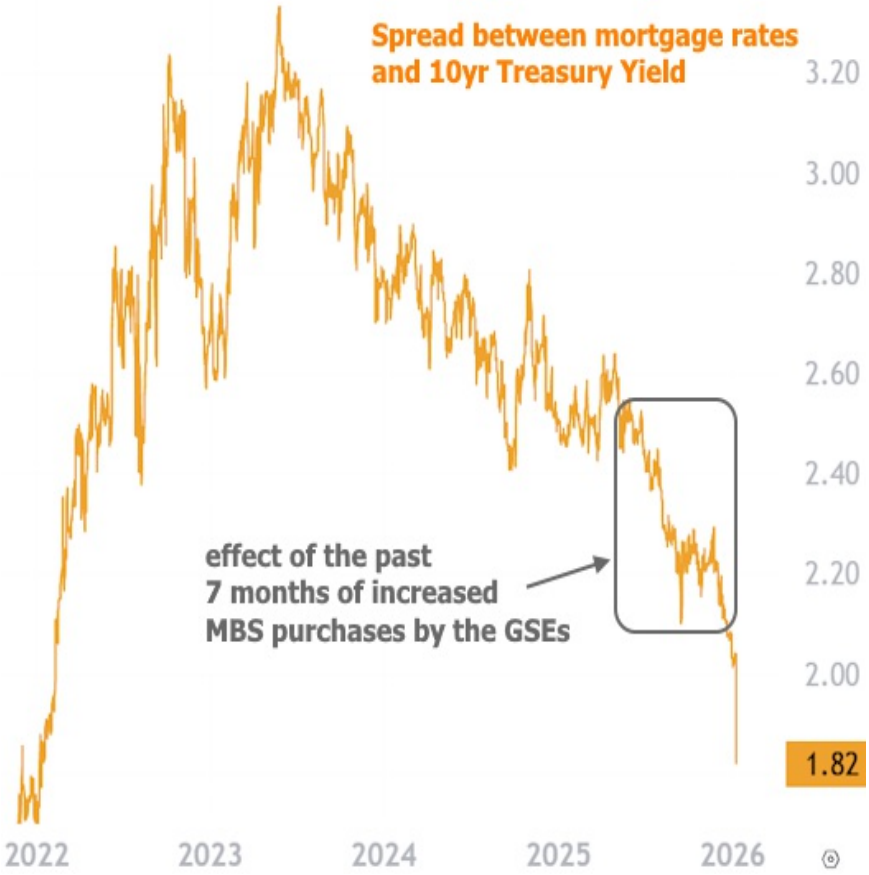
**How big a deal is $200bln?**

This depends on a few factors, but the reaction in the MBS market is enough to tell you that it matters. Also consider that we can assess the impact of that $50bln of additional purchases over the past 7 months and see what it's done to spreads between mortgage rates and Treasuries.

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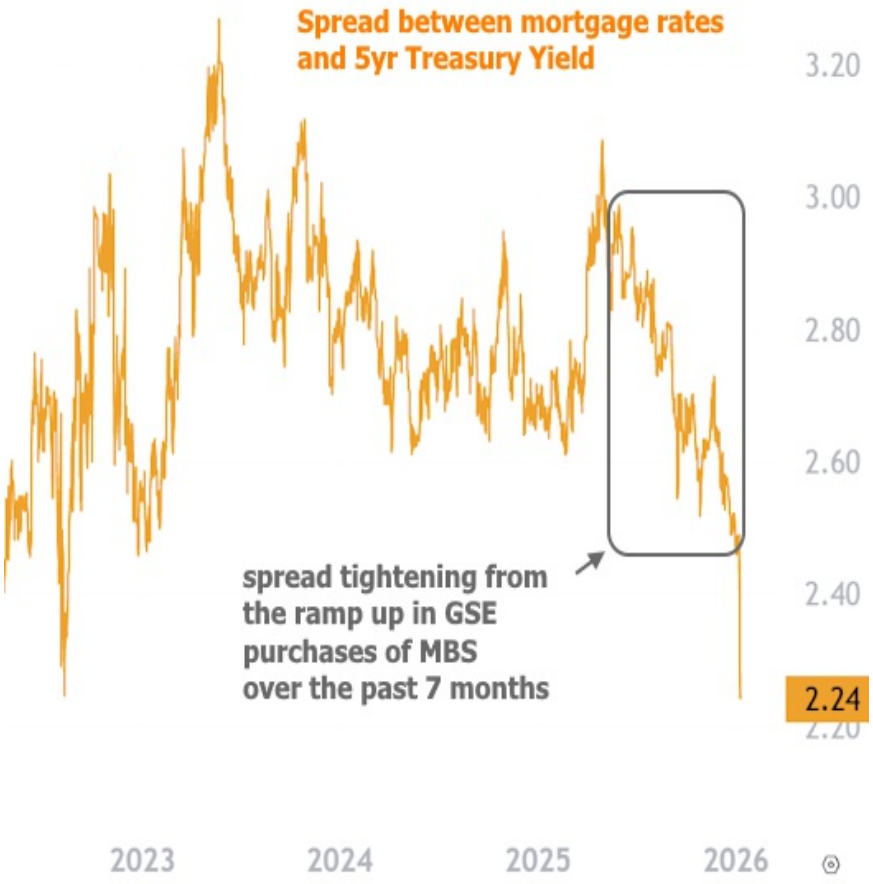



Conventional wisdom will have most people comparing mortgage rates to 10yr Treasuries, but that's not the right way to assess spreads these days. 5yr Treasuries are currently a better benchmark and will provide a more realistic idea of what that $50bln in MBS buying did for spreads. Granted, there are some other factors at work that can account for the tightening of mortgage rates to 5yr yields, but during the time that MBS purchases were ramping up, that spread tightened by about half a percent (50bps).

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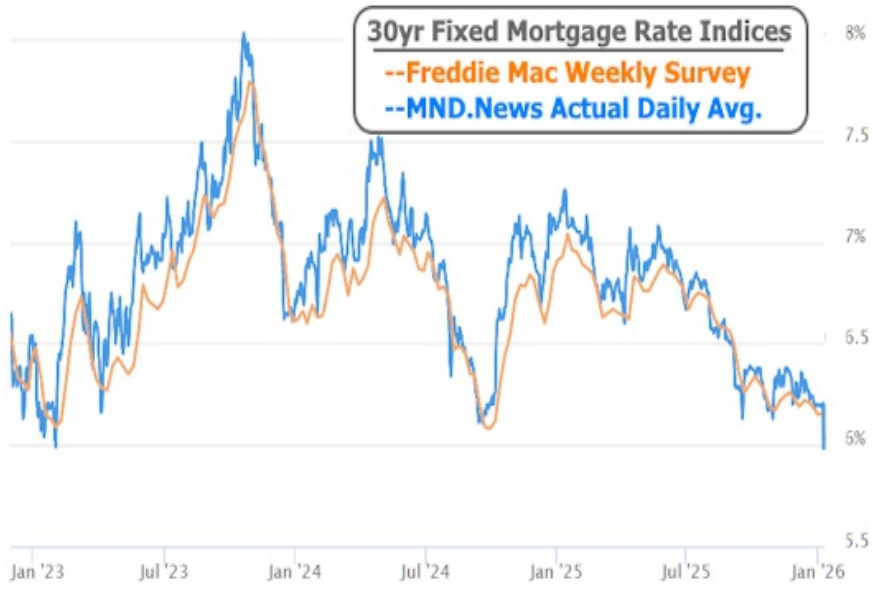
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There are diminishing returns to additional MBS purchases as this spread continues to compress. If the last $50bln accounted for about 0.30% of spread tightening (0.50% actual - 0.20% likely due to other factors), we won't simply multiply that by 4 and assume another 1.2% drop. But it will be a meaningful impact. In fact, today's rate drop alone was just over 0.20%.

This took the average top tier 30yr fixed rate to the lowest level since February 2, 2023, matching the lowest level in more than 3 years.




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Ultimately, the impact over time will depend on the details of how the purchases are conducted. We know the MBS market is definitely already reacting, but that reaction will continue to be volatile and unpredictable as traders rush to price in the unknown impacts of unknown implementation details.

**What's the bottom line for now?**

This is not Fed-style QE. It's not an ongoing commitment to steadily buy MBS until further notice. That said, it's definitely **something** and it definitely suggests rates will be left in a better position than before. Exactly how good remains to be seen. Expect volatility.

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## Recent Economic Data

| Date | Event | Actual | Forecast | Prior |
|---|---|---|---|---|
| **Monday, Jan 05** | | | | |
| 10:00AM | Dec ISM Manufacturing PMI | 47.9 | 48.3 | 48.2 |
| **Wednesday, Jan 07** | | | | |
| 7:00AM | Dec/26 MBA Purchase Index | 169.8 | | 169.9 |
| 7:00AM | Dec/26 MBA Refi Index | 872.1 | | 1084.3 |
| 8:15AM | Dec ADP jobs (k) | 41K | 47K | -32K |
| 10:00AM | Dec ISM N-Mfg PMI | 54.4 | 52.3 | 52.6 |
| 10:00AM | Nov USA JOLTS Job Openings (ml) | 7.146M | 7.60M | 7.670M |
| **Thursday, Jan 08** | | | | |
| 8:30AM | Jan/03 Jobless Claims (k) | 208K | 210K | 199K |
| **Friday, Jan 09** | | | | |
| 8:30AM | Dec Non Farm Payrolls (k) | 50K | 60K | 64K |
| 8:30AM | Dec Unemployment rate mm (%) | 4.4% | 4.5% | 4.6% |
| 10:00AM | Jan Consumer Sentiment (ip) | 54.0 | 53.5 | 52.9 |
| **Tuesday, Jan 13** | | | | |
| 8:30AM | Dec y/y CORE CPI (%) | 2.6% | 2.7% | 2.6% |
| 8:30AM | Dec m/m CORE CPI (%) | 0.2% | 0.3% | |
| **Wednesday, Jan 14** | | | | |
| 10:00AM | Dec Existing home sales (ml) | 4.35M | 4.21M | 4.13M |
| **Thursday, Jan 15** | | | | |
| 8:30AM | Jan/10 Jobless Claims (k) | 198K | 215K | 208K |
| **Friday, Jan 16** | | | | |
| 9:15AM | Dec Industrial Production (%) | 0.4% | 0.1% | 0.2% |
| 10:00AM | Jan NAHB housing market indx | 37 | 40 | 39 |
| **Tuesday, Feb 10** | | | | |
| 8:30AM | Dec Retail Sales (%) | 0% | 0.4% | 0.6% |

## Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

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## Speed, Ease & Expertise

In my 8th year of mortgage lending I am still looking for ways to improve my business for clients and referral partners. Even though our industry is ever-changing, my goals have stayed consistent. For clients, I want to make the process of purchasing their home an enjoyable one for them. I do this by being highly available by phone, email or in person from morning to night and having the fastest response time in the industry. I want my clients to be well educated on their loan options so they feel confident about their mortgage before and after purchasing their home. I want referral partners to know they can trust in me to handle everything on the loan side of things so they can focus their time on what they do best, Real Estate. I have excellent systems in place for communication to keep everyone involved in the purchase updated. I feel grateful to be in this industry, and take a great amount of pride in people counting on me for their biggest purchase of their lives!

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