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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	7.50%	+0.08	0.00
15YR Fixed	7.03%	+0.03	0.00
30YR FHA	7.05%	+0.05	0.00
30YR Jumbo	7.50%	+0.04	0.00
7/6 SOFR	7.13%	+0.08	0.00
30YR VA	7.07%	+0.06	0.00

Rates as of: 11/13

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.77	+0.01
10 YR Treasury	5.1260	-0.0036
30 YR Treasury	5.4543	-0.0005

Pricing as of: 11/12 7:25PM EST

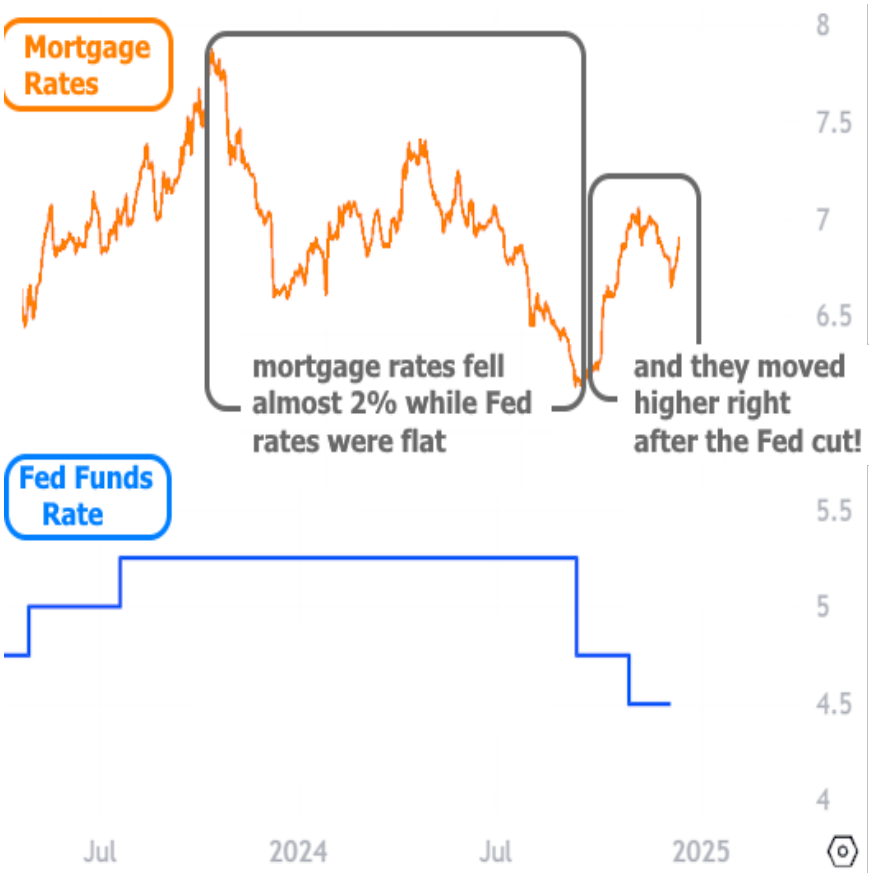
Recent Housing Data

		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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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Dec 11				
7:00AM	Dec/06 MBA Purchase Index	154.9		161.5
7:00AM	Dec/06 MBA Refi Index	634		498.5
8:30AM	Nov y/y CORE CPI (%)	3.3%	3.3%	3.3%
8:30AM	Nov m/m CORE CPI (%)	0.3%	0.3%	0.3%
Thursday, Dec 12				
8:30AM	Nov Core Producer Prices MM (%)	0.2%	0.2%	0.3%
8:30AM	Nov Core Producer Prices YY (%)	3.4%	3.2%	3.1%
8:30AM	Dec/07 Jobless Claims (k)	242K	220K	224K

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Friday, Dec 13				
8:30AM	Nov Import prices mm (%)	0.1%	-0.2%	0.3%
8:30AM	Nov Export prices mm (%)	0%	-0.2%	0.8%
Monday, Dec 16				
8:30AM	Dec NY Fed Manufacturing	0.20	12	31.20
9:45AM	Dec S&P Global Services PMI	58.5	55.7	56.1
Tuesday, Dec 17				
8:30AM	Nov Retail Sales (%)	0.7%	0.5%	0.4%
9:15AM	Nov Industrial Production (%)	-0.1%	0.3%	-0.3%
10:00AM	Dec NAHB housing market indx	46	47	46
10:00AM	Oct Business Inventories (%)	0.1%	0.1%	0.1%
Wednesday, Dec 18				
8:30AM	Nov Building permits: number (ml)	1.505M	1.43M	1.419M
8:30AM	Nov Housing starts number mm (ml)	1.289M	1.34M	1.311M
2:00PM	Fed Interest Rate Decision	4.5%	4.5%	4.75%
2:00PM	FOMC Economic Projections			
2:30PM	Fed Press Conference			
Thursday, Dec 19				
8:30AM	Q3 GDP (%)	3.1%	2.8%	3%
8:30AM	Dec/14 Jobless Claims (k)	220K	230K	242K
8:30AM	Dec Philly Fed Business Index	-16.4	3	-5.5
10:00AM	Nov Existing home sales (ml)	4.15M	4.07M	3.96M
Friday, Dec 20				
8:30AM	Nov Core PCE Inflation (y/y) (%)	2.8%	2.9%	2.8%
8:30AM	Nov Core PCE (m/m) (%)	0.1%	0.2%	0.3%

Could You Be Closer to Homeownership Than You Might Think?

CalTAP is California's leading home loan provider for teachers and public employees, offering no lender fees, a free rate float down, match-or-beat rate guarantee, and up to 3% cash-back with Listing California—delivering unmatched savings and support every step of the way.

 CalTAP borrowers may receive up to $500 in appraisal-fee reimbursement at closing on qualifying purchase, refinance, or home equity loans. Use promo code CALTAP250. Offer ends 12/31/2026; eligibility, underwriting, and loan approval required.

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