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Mortgage Rates Vary Widely--Nothing To Do With The Fed

Yesterday's policy announcement from the Federal Reserve had a **chance** to cause **significant volatility** for the bond market and the bond market is the chief ingredient in the mortgage rate equation. But this time around, the Fed didn't cause a measurable reaction in the mortgage market.

I'm frequently asked whether mortgage rates are 0% since the Fed just kept rates at 0%. People hear a headline on the news or a radio soundbyte mentioning the words **"Fed, rate, zero,"** and then assume the Fed just made some change that dropped rates to zero percent. After all why would there be so many news headlines about it if the Fed merely kept its policy rate unchanged?!

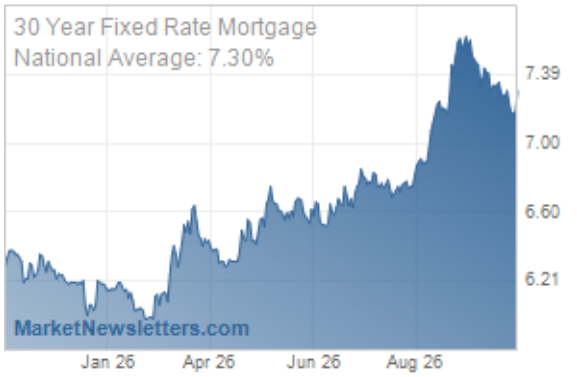
It's a **fair question** in that sense, but understand that the Fed's rate decision will always make the news, even if the rate is the same as it has been since March (and it is). As such, if mortgage rates weren't 0% for the past 6 months, they wouldn't be zero now. And in fact, they'll never be zero simply because the Fed Funds Rate is zero. These are two entirely different rates that apply to vastly different amounts of time and types of transactions.

The Fed Funds Rates governs **overnight** transactions between large financial institutions. Mortgage rates govern--well... mortgages! The Fed actually buys mortgage-backed debt at the same price as the rest of the bond market. Those prices are currently yielding rates around 3% in terms of top tier 30yr fixed loans. In that sense, the Fed is indeed setting mortgage rates, just **at the same levels** as everyone else and without much change from the past few days.

By far and away the **biggest factor** for recent rate movement has been the recently announced adverse market fee. It caused rates to spike significantly in early August when it was first announced. Rates then recovered when it was delayed several weeks ago. And now that we've hit the time frame where lenders need to reimplement the fee, rates have spiked quickly, but only for those lenders. As such, rates are significantly worse for some lenders compared to last Friday while others are slightly better. Ultimately though, any lender making a loan for a conventional 30yr fixed refinance will have to account for this fee, and most of them will be doing that before the end of this month (a majority already have as of this week).

For the sake of **comparison** with the rates we discuss here, a rate of just over 3% for a lender WITH the adverse market fee is equivalent to a rate of 2.875%

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 28	192.6	-1.23%
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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for a lender who has yet to reimplement the fee.

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