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# Mortgage Rates Approach 3-Year Highs Ahead of Fed

Mortgage rates **rose** for the **10th time in the past 11 days** today, bringing them very close to highest levels in 3 years. You'd have to go back to April 30th, 2014 to see the average lender offering higher rates. The most common conventional 30yr fixed quote is easily up to 4.375% on top tier scenarios with a growing number of lenders moving up to 4.5%.

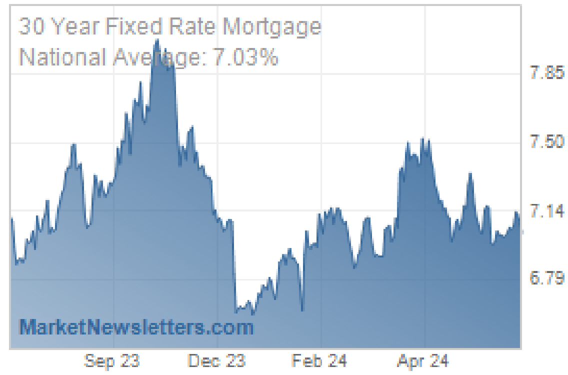
Despite that gloomy assessment, there were no new major developments causing bond markets to weaken (weaker bond markets imply lower bond prices and higher rates). Rather, this has simply been the trend since late February when several Fed speakers made comments intended to "**convince**" financial markets that the Fed was intent on hiking the Fed Funds Rate this week.

The Fed Funds Rate is an "overnight" rate--the shortest possible term used by banks to borrower and lend on an **overnight** basis to meet the shortest-term obligations. Mortgage loans are dictated by rates on longer-term bonds (specifically, "mortgage-backed-securities" or "MBS"). These bonds are moving up and down every day whereas the Fed Funds Rate has only changed 2 times in nearly 9 years. Longer-term bonds can also behave differently than shorter-term bonds.

Because of these factors mortgage rates **won't** necessarily move in the same direction as the Fed Funds rate this Wednesday. Rather, mortgage rates are more likely to follow the market's **EXPECTATIONS** for the Fed Funds Rate. The more likely and more frequent the market sees Fed rate hikes, the more mortgage rates (and other longer-term rates) will move up. That's exactly what's been happening so far in March, and today's weakness is just another expression of anxiety ahead of Wednesday's Fed meeting.

Markets are **already sure** the Fed will hike. It would be an utter shock if they didn't. Instead, markets are looking for surprises in the Fed's forward-looking forecasts. Markets are expecting a certain increase in the Fed's perceived pace of rate hikes. If the reality is that the Fed advances its forecasts even more than markets are expecting, mortgage rates can continue to move higher this week. But to whatever extent markets have done a good job of anticipating the Fed's accelerated outlook, this could be another case of a Fed rate hike where most of the damage was done ahead of time.

## National Average Mortgage Rates




| | Rate | Change | Points |
|---|---|---|---|
| **Mortgage News Daily** | | | |
| 30 Yr. Fixed | 7.03% | -0.05 | 0.00 |
| 15 Yr. Fixed | 6.44% | -0.01 | 0.00 |
| 30 Yr. FHA | 6.50% | -0.05 | 0.00 |
| 30 Yr. Jumbo | 7.24% | -0.01 | 0.00 |
| 5/1 ARM | 7.05% | -0.02 | 0.00 |
| **Freddie Mac** | | | |
| 30 Yr. Fixed | 6.95% | +0.09 | 0.00 |
| 15 Yr. Fixed | 6.25% | +0.09 | 0.00 |
| **Mortgage Bankers Assoc.** | | | |
| 30 Yr. Fixed | 7.03% | +0.09 | 0.62 |
| 15 Yr. Fixed | 6.56% | +0.09 | 0.54 |
| 30 Yr. FHA | 6.90% | +0.11 | 0.95 |
| 30 Yr. Jumbo | 7.11% | -0.01 | 0.50 |
| 5/1 ARM | 6.38% | +0.11 | 0.54 |

Rates as of: 7/5

## MBS and Treasury Market Data

| | Price / Yield | Change |
|---|---|---|
| MBS UMBS 6.0 | 100.61 | +0.22 |
| MBS GNMA 6.0 | 100.74 | +0.21 |
| 10 YR Treasury | 4.2818 | -0.0784 |
| 30 YR Treasury | 4.4857 | -0.0440 |

Pricing as of: 7/5 5:59PM EST

As possible as that is, and as nice as it would be to see a paradoxical move lower in mortgage rates after a Fed rate hike, it's **not a safe** outcome to PLAN on. In other words, floating can't really be justified until we actually see rates do what we hope they do.

**Today's Best-Execution Rates**

- 30YR FIXED - 4.375%
- FHA/VA - 4.0-4.25%
- 15 YEAR FIXED - 3.5-3.625%
- 5 YEAR ARMS - 2.75 - 3.25% depending on the lender

**Ongoing Lock/Float Considerations**

- Rates had been trending higher since hitting all-time lows in early July, and exploded higher following the presidential election
- Some investors are increasingly worried/convinced that the decades-long trend toward lower rates has been permanently reversed, but such a conclusion would require YEARS to truly confirm
- With the incoming administration's policies driving a large portion of upward rate momentum, mortgage rates will be hard-pressed to return to pre-election levels until well after Trump takes office. Rates can move for other reasons, but it would take something **big and unexpected** for rates to get back to pre-election levels.
- We'd need to see a sustained push back toward lower rates (something that lasts more than 3 days) before anything less than a cautious, lock-biased approach makes sense for all but the most risk-tolerant borrowers.
- *As always, please keep in mind that the rates discussed generally refer to what we've termed '**best-execution**' (that is, the most frequently quoted, conforming, conventional 30yr fixed rate for top tier borrowers, based not only on the outright price, but also 'bang-for-the-buck.' Generally speaking, our best-execution rate tends to connote no origination or discount points--though this can vary--and tends to predict Freddie Mac's weekly survey with high accuracy. It's safe to assume that our best-ex rate is the more timely and accurate of the two due to Freddie's once-a-week polling method).*

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## Expert Advice | Exceptional Service | Flawless Execution

With 27+ years of expertise in mortgage banking you can be confident in my knowledge and abilities to deliver a seamless loan transaction while providing personalized service.

**Rich E. Blanchard**