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A Real Conversation About The Fed and Mortgage Rates

Mortgage rates **jumped again** today, moving to the highest levels more than a month ahead of tomorrow's hotly anticipated Fed Announcement. Many lenders are now back up to quoting 4.125% on conventional 30yr fixed scenarios, though quite a few remain at 4.0%. As I look out over the landscape of media coverage on "how the Fed rate hike will affect mortgage rates," I'm shocked out how frequently pundits seem to be getting this wrong. So let's get a few things straight--just the facts.

First of all, I haven't seen anyone make a differentiation between Fed policy in general and the rate hike specifically. Reason being: elsewhere in the Fed's current policy framework, they are choosing to maintain reinvestments from their MBS (mortgage-backed-securities) proceeds. In other words, all the income they receive from all that MBS they bought is going right back into buying more MBS. Over the past few cycles, that's been **$24-26 billion dollars a month--a staggering amount** that accounts for nearly every newly originated MBS. If you're not already well aware of the implication, understand that these reinvestments do vastly more to push rates lower than the next 5 rate hikes could possibly do to push rates higher.

My next big problem with the prevailing assessment of what happens **AFTER** the Fed hike is that markets don't work like that. **Everyone knows** the rate hike is coming. It's not as if financial markets have been sitting on their hands, waiting for the Fed to confirm that they're actually going to hike when more than 90% of market participants believe it's going to happen. Far from it, in fact. Market participants always make trades that correspond with their best guess about the future. If traders think rates are going higher, they trade rates higher well before the Fed hike confirms it. This has obviously been a huge part of the pressure on rates in 2015, and failing to mention this current and ongoing effect of the Fed rate hike would be irresponsible. In other words, the Fed hike has already pushed mortgage rates higher, even though it hasn't happened yet (the hike).

Then there's the more complicated topic of **how direct an effect** the Fed Funds Rate even has to have on something like mortgage rates. The short answer is that the two can move in completely opposite directions, and they have! Even in the most recent Fed rate lift-off in 2004, longer term rates like mortgages and 10yr US Treasuries were flat to slightly lower as the Fed began a series of hikes. Of course those longer term rates had previously spiked in anticipation of the Fed's policy tightening, but there again, that's exactly my point in the previous paragraph.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.29%	+0.03	0.00
15YR Fixed	6.93%	+0.11	0.00
30YR FHA	6.97%	+0.02	0.00
30YR Jumbo	7.40%	0.00	0.00
7/6 SOFR	6.68%	+0.08	0.00
30YR VA	6.99%	+0.03	0.00

Rates as of: 11/27

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.65	-0.24
10 YR Treasury	4.9345	+0.0755
30 YR Treasury	5.3271	+0.0792

Pricing as of: 11/27 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 18	212	+6.11%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Oct	701K	+3.7%
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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The bottom line is that **no one** can accurately claim to know what the effect on mortgage rates would be for any given Fed scenario. To do so would be to claim that one's own opinion/knowledge superseded the collective power of the entire financial market. You can be sure the market has already priced mortgage rates to reflect all of its anticipations about the near term future. Now, as always, the next move higher or lower will be driven by the things that the market did NOT see coming or that the market has NOT yet been able to account for.

Count on volatility tomorrow. Or rather, count on the POTENTIAL for volatility being through the roof. Even know we know what the Fed is going to do, we don't really have any idea how financial markets are going to react. Plus, there are other components of the Fed's announcement that can have a dramatic effect on the longer term outlook. Don't assume that you'll be able to lock today's rates tomorrow--for better or worse.

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