Mark Yecies
President, SunQuest Funding, LLC
18958
20 Commerce Dr, suite 130 Cranford, NJ 07016

Office: 9082728330
Mobile: 9737137964
Fax: 9088429154
myecies@sqf.net
View My Website

Lowest Mortgage Rates in Weeks After Fed Hikes Rates. Here's How That Works...

The implication of "Fed rate hikes" is a constant source of confusion in the housing market. The general belief is that the Fed controls rates and if they're hiking, then rates are going higher. That's not exactly how it works.

Let's leave aside the question of the Fed's control for another day. It's a fairly circular and philosophical debate (chicken/egg kinda thing) with no real relevance to today's mortgage rate movement). Instead, let's focus on why today's Fed rate hike coexists with mortgage rates moving lower.

The Fed hike the Fed Funds Rate. That applies to loans between large institutions for period of less than a day. By influencing the cost of the shortest-term capital at the highest levels, the Fed is attempting to cool demand for goods and services, thereby reducing inflation.

Mortgage rates apply to loans that last more than 5 years on average (before the home is sold or the loan is refinanced). That means they serve a very different purpose for investors and can move quite differently versus shorter-term debt. But this isn't even the biggest reason for the disconnect.

The most obvious reason that a Fed rate hike can coexist with lower mortgage rates is that the bond market already knew the Fed was going to hike and had long since priced that in to the present level of rates. It would be different if the Fed could hike rates any time, any day, but there are only 8 meetings per year that result in rate changes. That means the market has a lot of time to adjust its expectations in between those meetings.

Because the market had already accounted for the hike, all that was left was to react to the changes in the Fed's verbiage and the comments from Fed Chair Powell in the post-announcement press conference. That verbiage generally conveyed the possibility that this was the last Fed rate hike for a long time. Even if that possibility is heavily dependent on economic data, the bond market liked the fact that the Fed wasn't set on continuing to hike.

The average mortgage lender is down to the lowest levels in roughly 3 weeks. Additional gains will depend on the economic data in the coming days--particularly Friday's jobs report and next week's Consumer Price Index (CPI).

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National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/22

MBS and Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.39	-0.01
MBS GNMA 5.5	99.78	+0.00
10 YR Treasury	4.2423	-0.0102
30 YR Treasury	4.4631	-0.0094

Pricing as of: 7/23 4:44AM EST