



Tom Payne

Senior Loan Consultant, loanDepot
 NMLS# 1017004 #174457 Licensed in all 50 States
 2835 St. Rose Parkway, Suite 120 Henderson, NV 89052

Office: 702-303-0243
 Mobile: 702-303-0243
tompaynemortgage@gmail.com
[View My Website](#)

If The Fed Didn't Hike, Why Did Mortgage Rates Hit Long Term Highs?

This week's main event was the scheduled policy announcement from the Fed. As was the case two meetings ago, the Fed opted to hold its policy rate unchanged, but almost every other interest rate in the US moved sharply higher.

This counterintuitive movement is fairly common when it comes to the 8 Fed meetings each year. Rates have fallen on several occasions when the Fed hiked throughout this rate hike cycle. There are several reasons this can happen. Some are complicated, but two of the simplest reasons are all we need this time around.

First off, the Fed only has 8 scheduled opportunities to update rates every year while the bond market has thousands of opportunities every day. Because of that, a Fed rate hike is often just a lagging development that the market has already priced in. The Fed actually tries to avoid surprising the market when it comes to hikes/cuts. Via speeches and press conferences, it effectively preps the market for potential changes.

The market can trade these expectations in a variety of ways. The most direct is via Fed Funds Futures, which give traders a way to bet on the level of the Fed Funds Rate on any given month well into the future. Traders haven't budged in their expectation of this week's meeting resulting in a 5.375% Fed Funds Rate for **months!**

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

Rates as of: 7/22

Market Data

	Price / Yield	Change
MBS UMBS 5.5	99.37	-0.03
MBS GNMA 5.5	99.76	-0.01
10 YR Treasury	4.2599	+0.0220
30 YR Treasury	4.4776	+0.0308

Pricing as of: 7/22 3:05PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%



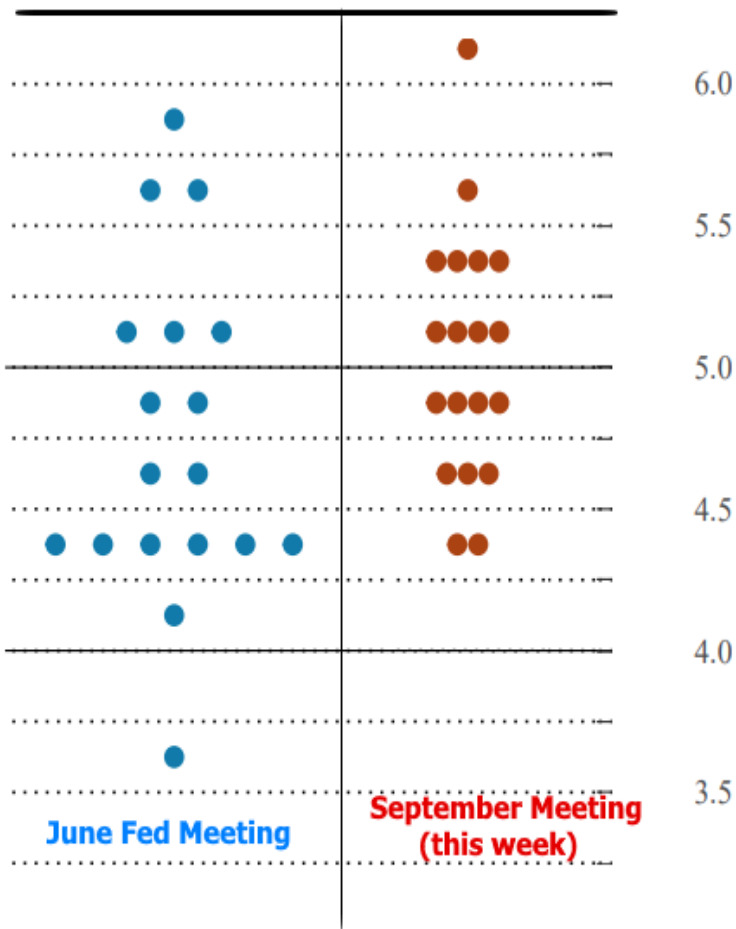
In other words, when the Fed held rates steady this week, it wasn't a surprise to anyone and the market was already priced for it. We can thus rule out the rate decision as the catalyst for the mortgage rate volatility and look elsewhere. We won't need to look far.

On 4 out of the 8 Fed announcements per year, and at the exact same moment as the Fed Funds Rate decision, the Fed also releases a "summary of economic projections." Among these forecasts is a dot plot showing where each Fed member sees the Fed Funds Rate at the end of the next few years. These so-called "dots" have become a big deal for financial markets despite Fed Chair Powell's requests to avoid reading too much into them.

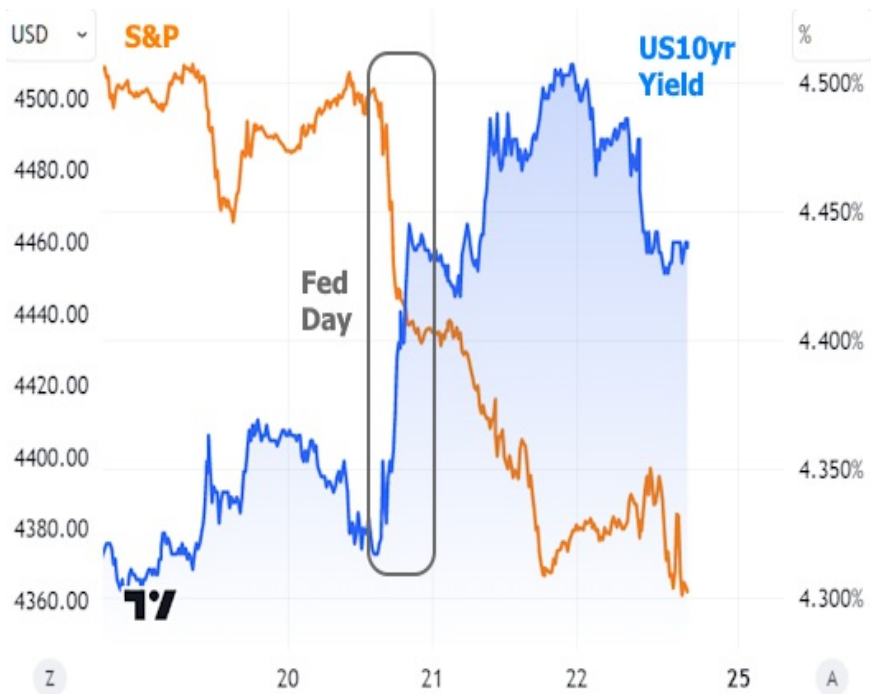
The market doesn't care about the dots due to some amazing track record of accuracy from the Fed. Rather, they simply offer a very detailed update as to how the Fed's decision-making process is evolving when it comes to future rate hikes/cuts. If the average Fed member expected rates to be almost 1% lower by the end of 2024 and now only sees them being 0.25% lower, that would tell the market a lot about the Fed's intention to keep rates higher for longer, all other things being equal.

That is exactly what happened.

Anticipated Fed Funds Rate, Year-End, 2024



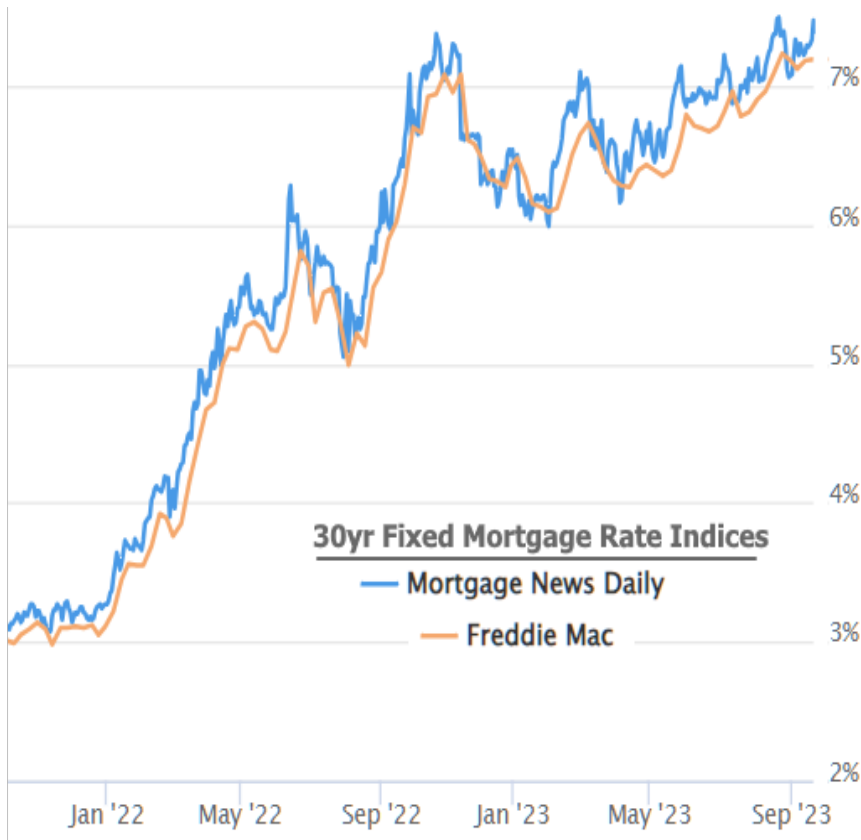
Markets expected the dots to rise, but not by this much. Neither stocks nor bonds (aka rates) were happy about it.



Traders had already been pricing in a "higher for longer" path for the Fed Funds rate based on recent economic data. In the bigger picture, this week's revelation didn't materially alter the trend in those expectations, but it did give them a noticeable bump. Here's how the market's outlook for the Fed Funds Rate in September 2024 has been evolving.



The "bump" just happened to hit when rates were already near long-term highs. The average 30yr fixed rate didn't technically break above the highest level seen last month, but it came within 0.01% based on the more timely data from Mortgage News Daily. We expect Freddie's weekly numbers will challenge multi-decade highs next week.



Why is all this happening? In a nutshell, the Fed Funds Rate is a blunt instrument tasked with fighting inflation. Inflation has been coming down, but it's still high and a bit of a rebound can't be ruled out due to things like higher fuel prices, auto worker strikes, and an adjustment in the way certain health care costs are calculated. In addition, the Fed is not yet seeing the type of downturn in economic data that would suggest impending disinflation.

That last point is a matter of debate as some critics say the Fed has already done enough and simply needs to give their policy more time to have an impact. The Fed admits that this economic cycle is different than past cycles and that there's no way to know with certainty when it's time for a friendly shift.

Regardless of who's right about the timing of a policy shift and whether enough has already been done, most can agree that it will be economic data that serves as the trigger for a change. Not just any economic data will do. The Fed and the market are both focused on several of the highest impact reports. Most of them will be released on the first week of October. If they take a turn for the worse, rates would likely recover. If they continue to surprise to the upside, so will rates, unfortunately.

Subscribe to my newsletter online at: <http://housingnewsletters.com/thomaspayne>

Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Sep 18				
10:00AM	Sep NAHB housing market indx	45	50	50
Tuesday, Sep 19				
8:30AM	Aug Housing starts number mm (ml)	1.283M	1.44M	1.452M
8:30AM	Aug Building permits: number (ml)	1.543M	1.443M	1.443M

Event Importance:

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

Date	Event	Actual	Forecast	Prior
Wednesday, Sep 20				
7:00AM	Sep/15 MBA Purchase Index	147		143.7
7:00AM	Sep/15 MBA Refi Index	415.4		367
2:00PM	Fed Interest Rate Decision	5.5%	5.5%	5.5%
2:00PM	FOMC Economic Projections			
2:30PM	Powell Press Conference			
Thursday, Sep 21				
8:30AM	Sep/16 Jobless Claims (k)	201K	225K	220K
8:30AM	Sep Philly Fed Business Index	-13.5	-0.7	12
8:30AM	Sep Philly Fed Prices Paid	25.7		20.8
10:00AM	Aug Exist. home sales % chg (%)	-0.7%		-2.2%
10:00AM	Aug Existing home sales (ml)	4.04M	4.1M	4.07M
Friday, Sep 22				
9:45AM	Sep S&P Global Services PMI	50.2	50.6	50.5
9:45AM	Sep S&P Global Manuf. PMI	48.9	48	47.9
Tuesday, Sep 26				
9:00AM	Jul FHFA Home Prices y/y (%)	4.6%		3.1%
9:00AM	Jul Case Shiller Home Prices-20 y/y (%)	0.1%	-0.3%	-1.2%
10:00AM	Aug New Home Sales (ml)	0.675M	0.7M	0.714M
Wednesday, Sep 27				
7:00AM	Sep/22 MBA Refi Index	411.7		415.4
7:00AM	Sep/22 MBA Purchase Index	144.8		147
8:30AM	Aug Durable goods (%)	0.2%	-0.5%	-5.2%
Thursday, Sep 28				
8:30AM	Sep/23 Jobless Claims (k)	204K	215K	201K
8:30AM	Q2 GDP sales Final (%)	2.1%	2.2%	4.2%
Friday, Sep 29				
8:30AM	Aug Core PCE Inflation (y/y) (%)	3.9%	3.9%	4.2%
8:30AM	Aug Core PCE (m/m) (%)	0.1%	0.2%	0.2%
8:30AM	Aug Wholesale inventories mm (%)	-0.1%		-0.2%
9:45AM	Sep Chicago PMI	44.1	47.6	48.7
10:00AM	Sep Consumer Sentiment (ip)	68.1	67.7	69.5

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its "Proposed Criteria for Evaluating Home Buyer Contract Forms" on Tuesday. The 15 criteria focus on the contracts' form – whether the documents are readable and understandable – and content – whether they are fair to homebuyers.

- the document's expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
- the right to terminate the contract
- the disclosure that compensation is negotiable
- the broker's compensation clearly stated and that the buyer broker can't receive additional compensation for facilitating a sale
- that any additional fees, such as for showing a home, will be deducted from the broker's commission if there is a successful sale
- that the commission is due only if there is a successful closing
- that buyers have an obligation – for no longer than 60 days, CFA recommends – to pay a broker who earlier showed them a home they purchased after the contract ended
- seller concessions paid directly to buyers
- dual agency not pre-approved by the contract
- an explanation of how a broker treats different buyer clients interested in the same property
- that buyers should not be required to first go through mediation or arbitration if they have a complaint

Contact me for more information. 702-303-0243 or TPayne@loandepot.com

We are a direct nationwide lender.
EQUAL HOUSING LENDER

Tom Payne

