Mortgage Rate Update

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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

	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	99.46	+0.07
MBS GNMA 5.5	99.84	+0.06
10 YR Treasury	4.2330	-0.0195
30 YR Treasury	4.4584	-0.0141

Pricing as of: 7/23 10:56AM EST

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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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

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