HIGHER Mortgage Rates Despite Fed Rate CUT. Here's Why

By: Matthew Graham | Wed, Sep 18 2019, 4:54 PM

One of the greatest potential sources of confusion for prospective mortgage borrowers is the relationship between the Fed and mortgage rates. While the Fed's policy changes absolutely have a big impact on all sorts of interest rates (including mortgages), a drop in the Fed's policy rate **DOES NOT** result in lower mortgage rates. In fact, the **OPPOSITE** was true today.

The **main reason** for confusion is the fact that there's a **huge difference** from an investment standpoint between a rate that governs the **shortest**-term transactions (The Fed Funds Rate applies to loans that last for 1 day or less) and a rate that can remain in effect for **up to 30 years** in the case of mortgages. Even if we use the average life span of a 30yr fixed mortgage, we're still talking about 5-10 years depending on the broader market landscape. You may have heard about the "inverted yield curve?" That's a reference to vastly different behavior between longer and shorter term rates, and it stands as evidence of the different sets of concerns that apply to each side of the duration spectrum. The differences are only more pronounced when we take the shorter end of the spectrum all the way down to the "overnight" level (Fed Funds Rate) and all the way up to the duration of the average mortgage loan.

See Rates from Lenders in Your Area

Beyond the fact that a mortgage rate is very simply a different animal than the Fed Funds Rate, there's also the matter of **frequency of movement**. The Fed only meets to potentially change rates 8 times a year. Mortgage rates change every day--sometimes more than once. And the bond markets that underlie mortgage rates change thousands of times per day. That means the mortgage market can easily and quickly get into position for any expected move from the Fed. In today's case, where the rate cut was seen as highly likely, any effect that the Fed Funds Rate could ever have on mortgage rates was already priced-in weeks ago.

But let's say the first two points don't quite convince you. **The third is irrefutable**. The Fed doesn't just take the stage, cut rates, and go home. They release a ton of other info and hold a press conference to discuss their present and future policy decisions. The rates market (for mortgages, Treasuries, and everything else) is tremendously interested in all that "other stuff." Today, particularly, there was a set of updated forecasts for future rate movements. These were a bit less market-friendly than the average investor expected. In addition, market participants interpreted Powell's press conference as being a bit less friendly than expected.

Long story short: there are multiple reasons for mortgage rates to go their own way regardless of the Fed rate cut. In today's case, mortgage rates were roughly unchanged from yesterday. Interestingly enough, they were actually a bit lower this morning, but many lenders raised rates in the afternoon due to the modest disillusionment with the Fed announcement (not the rate cut part, mind you... no one cared about that anyway... at least not anymore).

Loan Originator Perspective

Bonds' morning gains evaporated following the Fed announcement and Chairman Powell press conference. Today may have marked our lowest rates for a while, those floating should ask for current pricing (if able to) this PM and assess their situation. I am locking most October closings early in the process. - **Ted Rood, Senior Originator**

Today's Most Prevalent Rates

- 30YR FIXED -3.875%
- FHA/VA - 3.5%
- 15 YEAR FIXED - 3.375-3.5%
- 5 YEAR ARMS - 3.25-3.75% depending on the lender

Ongoing Lock/Float Considerations

- 2019 has been the best year for mortgage rates since 2011. Big, long-lasting improvements such as this one are increasingly susceptible to bounces/corrections and as of September, it looks like such a correction is underway

- Fed policy and the US/China trade war have been key players. Major updates on either front could cause a volatile reaction in rates

- The Fed and the bond market (which dictates rates) will be watching economic data closely, both at home and abroad, as well as trade war updates. The stronger the data and trade relations, the more rates could rise, while weaker data and trade wars will lead to new long-term lows.
- *Rates discussed refer to the most frequently-quoted, conforming, conventional 30yr fixed rate for top tier borrowers among average to well-priced lenders. The rates generally assume little-to-no origination or discount except as noted when applicable. Rates appearing on this page are "effective rates" that take day-to-day changes in upfront costs into consideration.*

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