

What Will The Fed Do To Mortgage Rates?

By: Matthew Graham | Tue, Jul 27 2021, 4:04 PM

Wednesday afternoon brings one of the year's 8 regularly scheduled policy updates from the Federal Reserve (aka, the Fed). While there's **no question** that Fed policies have significant impacts on all kinds of interest rates, the Fed doesn't actually "set" mortgage rates. The only limited exception would be for certain lines of credit that adjust based on the PRIME rate which, in turn, is based on the Fed Funds Rate (the thing the Fed actually DOES "set"). Even if the Fed Funds Rate had a direct bearing on mortgage rates (it doesn't), there's no chance that they'll announce a rate hike this week, let alone this year.

So **why do we care** about the Fed? Why have we seen such big moves in mortgage rates after certain Fed announcements in the past?

As far as the mortgage market is concerned, the **biggest reason** to care is the Fed's massive bond buying programs. Here too, no change is expected at this meeting, BUT change is coming soon. Probably. Fed officials have been candid about discussing the process of winding down the bond buying program as early as this Fall. Powell himself recently said those talks would be continuing as this week's meeting, including a discussion about decreasing the purchases of mortgage-backed bonds at an even faster pace than Treasuries.

See Rates from Lenders in Your Area

Understand that if the Fed were to simply announce a hard stop to the bond buying program this week that rates would **skyrocket** at the fastest pace in years. If traders are even able to adjust their working estimates on when and how tapering might happen, it can have a significant impact on the market. After all, roughly half of the rate spike associated with 2013's taper tantrum was in place before tapering was actually announced.

Bottom line, market participants are simply looking to refine their understanding of how and when the Fed might act. Today's rates already reflect everything we think we might know about that. If the Fed says something to make it look like bond buying will last a bit longer (or that the conversation about tapering MBS before Treasuries is over), rates could go even lower. On the other hand, if the Fed says the recent surge in covid cases was on their radar and that there hasn't been any reconsideration of "late 2021" tapering goals, rates could definitely pop higher.

Either way, such a "pop" would be taking something that's historically incredibly low and making it **only slightly less incredible**--at least for now. Bigger moves are reserved for the fall when several important covid-related unknowns can be better assessed.

View this Article: <https://www.mortgagenewsdaily.com/markets/mortgage-rates-07272021>