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A Message from Timothy Baron:

"One of the greatest potential sources of confusion for prospective mortgage borrowers is the relationship between the Fed and mortgage rates."

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

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.

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.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	100.01	+0.20
10 YR Treasury	4.8811	-0.0488
30 YR Treasury	5.2507	-0.0575

Pricing as of: 11/2 11:28AM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 21	195	+3.39%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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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).

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The Arizona Loan Baron is at your service!

I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me to be your mortgage lending partner.

Timothy Baron 

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