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Mortgage Rates Moving LOWER After Fed Hikes by 0.75%

The Federal Reserve concluded one of its 8 regularly scheduled meetings in 2022 today. As expected, they announced a rate hike of 0.75%. But if you still think that means mortgage rates moved higher, think again.

In fact, if you're not sure why mortgage rates could move lower even though the Fed hiked, you're better off reading yesterday's commentary: The Fed Doesn't Directly Hike/Cut Mortgage Rates.

As for today, it was fairly simple. The market wasn't simply already expecting a 0.75% rate hike. It was a 100% foregone conclusion. The only other option that anyone could argue to be on the table was a 1.00% rate hike, but Fed speakers themselves had already dismissed the idea 2 weeks ago.

More importantly (and as the link above explains in detail), the Fed Funds Rate decision has nothing to do with mortgage rates by the time that decision is actually announced. The only exceptions are for the occasions where the market is legitimately unsure about the size of the impending rate change or the extremely rare intermeeting, emergency rate changes.

That meant today's impact on mortgage rates would have to come from the words in the Fed's policy statement or from Powell himself during the press conference. On that note, Powell set the stage for the Fed to shift gears in the coming months, saying that the Fed Funds Rate was now at neutral levels and the pace of rate hikes may need to slow down in response to economic strain. While he did specify that the shift would depend on data, it was nonetheless notable for being the first time in 2022 that the Fed explicitly discussed the light at the end of the rate hike tunnel.

Why does that matter to mortgage rates? Have I mentioned the link above yet? Mortgage rates may readily ignore a Fed hike on the day it is announced, but they remain very interested in Fed rate hike expectations. Indeed securities that track Fed Funds Rate expectations over the course of the next few years are tremendously well correlated with the path of mortgage rates.

Today's net effect was for a small but swift decline in rate hike expectations by late 2022 and early 2023. Based on the rationale above, this should be good for mortgage rates and indeed it was. The average lender was already near the lowest levels since early June even before the Fed. Afternoon gains in mortgage-backed bonds allowed many lenders to lower rates just a bit more this afternoon. Lenders who didn't make any changes today will be in a

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.08%	-0.05	0.00
15 Yr. Fixed	6.45%	-0.02	0.00
30 Yr. FHA	6.55%	-0.05	0.00
30 Yr. Jumbo	7.25%	-0.04	0.00
5/1 ARM	7.07%	-0.03	0.00
Freddie Mac			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/3

MBS and Treasury Market Data

	Price / Yield	Change
MBS UMBS 6.0	100.39	+0.19
MBS GNMA 6.0	100.53	+0.14
10 YR Treasury	4.3602	-0.0724
30 YR Treasury	4.5297	-0.0761

Pricing as of: 7/3 5:59PM EST

good position to do tomorrow morning unless the bond market hits a big snag in overnight trading.

Lender rate quotes continue to be widely stratified depending on the inclusion of "points" or other forms of higher upfront costs. Points are simply worth more than normal right now when it comes to lowering the interest rate attached to a mortgage. In more normal times, 1 point (aka 1% of the loan balance) might be worth roughly 0.25% in terms of rate on a 30yr fixed loan. At present, it is worth more than 0.50% for some scenarios.

While paying that point may or may not make sense for any individual borrower, the fact that it's an option is resulting in many lenders advertising the lower rates with the proverbial asterisk.

Points aside, the mortgage market is still more stratified than normal as different lenders were affected in different ways by the recently brutal rate spike. That fallout is still being sorted out. Strategies vary on how to move forward and some of those strategies involve the lender's rate-setting policies.

All that to say that the going rate for a conventional 30yr fixed is anywhere from 5.125% to 6.125% depending on upfront costs, the specifics of the scenario, and the lender. If we had to try to split the difference between all of the above and just come up with one number to capture recent changes in rates (indeed, that's one of my jobs), that number would now be closer to the middle of the 5% range this week than the top (which is where it had been for most of the middle of July).

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