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What Did The Fed Do To Mortgage Rates?

The Federal Reserve (aka "the Fed") released its latest policy announcement this week without making any changes to existing policies or rates. The Fed doesn't directly control mortgage rates, but Fed policies--and even the verbiage of the announcement--can have an impact on ALL rates.

This time around, the market's biggest concern was that the Fed would take another step toward "tapering."

What is tapering and why does it matter?

In the pursuit of its policy goals, the Fed buys US Treasuries and mortgage backed securities (MBS). Treasuries serve as a reference point for most of the lending that takes place in the US. By buying both, the Fed ensures rates are low in general and that mortgage rates are as low as they can be.

As the pandemic grew more manageable and especially as the economy has come back online, the Fed has increasingly discussed winding down (or "tapering") the bond buying programs. When the market thinks (or knows) tapering is on the table, rates are at risk of moving higher.

The **same thing happened in 2013**, only the market was much more **surprised** by the taper talk. This time around, the market fully expected it. In fact, much of the increase in rates (especially Treasury yields) seen between August 2020 and March 2021 was an effort to price in the eventual taper.

Markets may have gotten a bit ahead of themselves in that regard. While this is understandable given the traumatic taper tantrum of 2013, the Fed has been surprisingly steady-handed this time around.

In a press conference following the announcement, Fed Chair Powell clarified the economy is still "a ways away" from the level of progress required to actually pull the trigger on tapering. Whereas some economists thought we'd see such a trigger pulled as early as September, Powell gave the impression that the discussion would carry on for at least 2 more Fed meetings. That puts an announcement off until November at the earliest--possibly later--with tapering probably not commencing until early 2022.

In addition to that slower decision-making process, Powell also addressed MBS **specifically**. He acknowledged that several Fed members wanted to taper MBS before Treasuries, but that they were the minority. At worst, it sounds like the Fed might consider tapering MBS and Treasuries at different paces--still a victory compared to an "MBS first" scenario.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.71	+0.01
10 YR Treasury	5.1266	-0.0076
30 YR Treasury	5.4731	-0.0027

Pricing as of: 11/16 7:20PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
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%

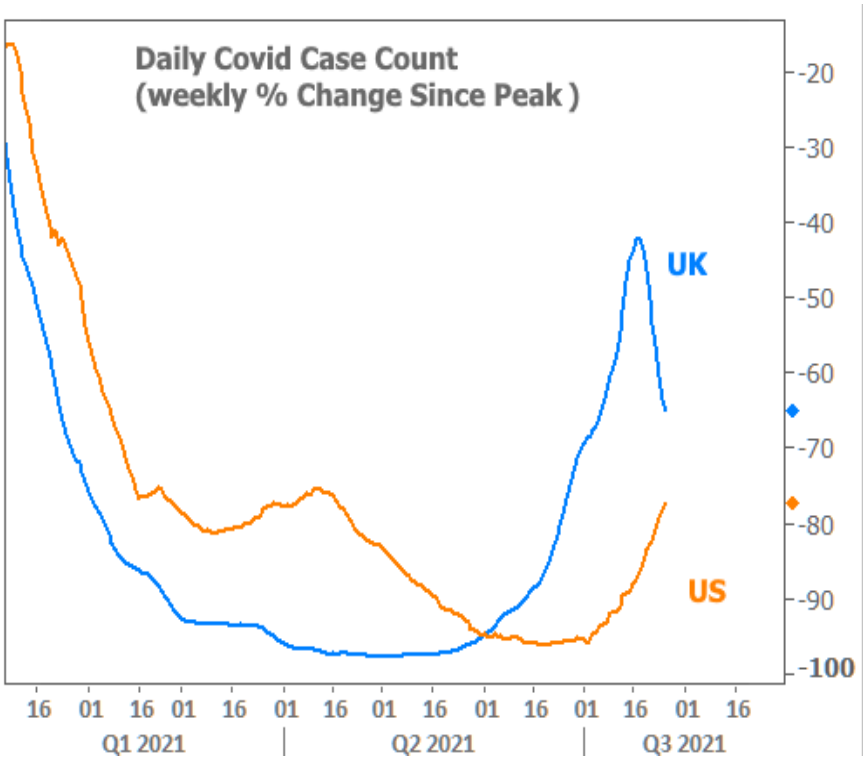
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All of the above has allowed the bond market and, thus, mortgage rates to remain at the strongest levels since February.

As long as covid cases continue to surge, rates should be able to avoid too much volatility. If other countries' experiences with the delta variant are any indication, we're measuring this time frame in weeks as opposed to days.



Still, next week brings bigger risks with several important economic reports culminating in Friday's official jobs report.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Monday, Jul 26				
10:00AM	Jun New Home Sales (ml)	0.676	0.800	0.724
10:00AM	Jun New Home Sales (%) (%)	-6.6	3.0	-5.9
Tuesday, Jul 27				
8:30AM	Jun Core CapEx (%)	0.5	0.7	0.5
8:30AM	Jun Durable goods (%)	0.8	2.1	3.2
9:00AM	May Monthly Home Price yy (%)	18.0		15.7
9:00AM	May Monthly Home Price mm (%)	1.7		1.8
9:00AM	May CaseShiller 20 yy (%)	17.0	16.4	14.9
9:00AM	May CaseShiller 20 mm SA (%)	1.8	1.6	1.6
10:00AM	Jul Consumer confidence	129.1	123.9	127.3
1:00PM	5-Yr Note Auction (bl)	61		
Wednesday, Jul 28				

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

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Date	Event	Actual	Forecast	Prior
7:00AM	w/e MBA Purchase Index	251.7		255.8
7:00AM	w/e MBA Refi Index	3570.4		3267.6
2:00PM	N/A FOMC rate decision (%)	0.000 - 0.250	0.125	0.125
2:30PM	Powell Press Conference 7/28/21			
Thursday, Jul 29				
8:30AM	Q2 GDP Advance (%)	6.5	8.5	6.4
8:30AM	w/e Jobless Claims (k)	400	380	419
10:00AM	Jun Pending Sales Index	112.8		114.7
10:00AM	Jun Pending Home Sales (%)	-1.9	0.3	8.0
1:00PM	7-Yr Note Auction (bl)	62		
Friday, Jul 30				
8:30AM	Jun Core PCE Inflation (y/y) (%)	3.5	3.7	3.4
9:45AM	Jul Chicago PMI	73.4	64.6	66.1
10:00AM	Jul Consumer Sentiment (ip)	81.2	80.8	80.8
10:00AM	Jul Sentiment: 1y Inflation (%)	4.7		4.8
10:00AM	Jul Sentiment: 5y Inflation (%)	2.8		2.9
Monday, Aug 02				
10:00AM	Jul ISM Manufacturing PMI	59.5	60.9	60.6
Tuesday, Aug 03				
10:00AM	Jun Factory orders mm (%)	1.5	1.0	1.7
Wednesday, Aug 04				
7:00AM	w/e MBA Purchase Index	247.5		251.7
7:00AM	w/e MBA Refi Index	3571.3		3570.4
8:15AM	Jul ADP National Employment (k)	330	695	692
10:00AM	Jul ISM N-Mfg PMI	64.1	60.5	60.1
Friday, Aug 06				
8:30AM	Jul Non-farm payrolls (k)	+943	870	850
8:30AM	Jul Unemployment rate mm (%)	5.4	5.7	5.9
10:00AM	Jun Wholesale inventories mm (%)	1.1	0.8	0.8

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood

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