

THE FEDERAL SAVINGS BANK



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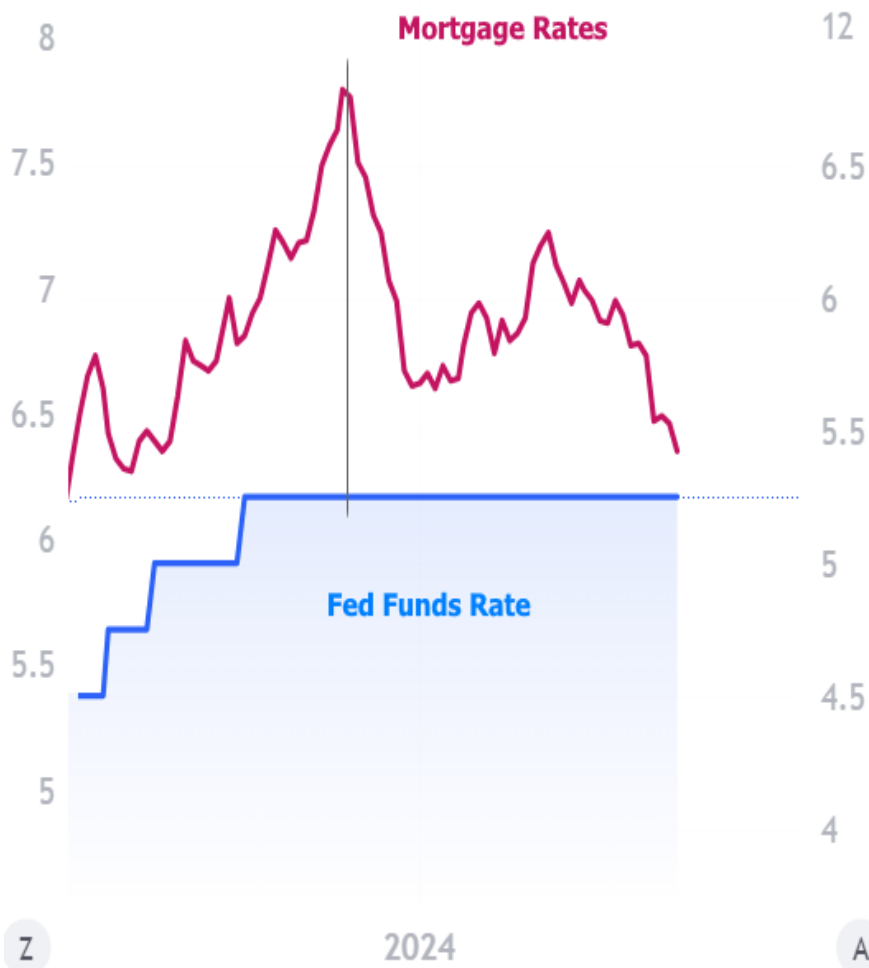
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## Here's Exactly What a Fed Rate Cut Will Do For Mortgage Rates

It's still just over 3 weeks away, but questions are already ramping up regarding the impact of the Fed's rate cut on mortgage rates. Here is exactly what the rate cut itself will do: NOTHING!

The easiest way to understand why is to ask yourself how mortgage rates have been able to move down by more than 1.5% since late 2023 despite the fact that the Fed never cut rates during that time.



The same principle works in reverse as well, as seen during the massive rate spike in early 2022 when mortgage rates moved 1.5% higher before the Fed ever hiked.

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

Rates as of: 8/30

## Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.35	-0.16
MBS GNMA 5.0	99.91	-0.04
10 YR Treasury	3.9039	+0.0424
30 YR Treasury	4.1932	+0.0468

Pricing as of: 8/30 5:59PM EST

## Recent Housing Data

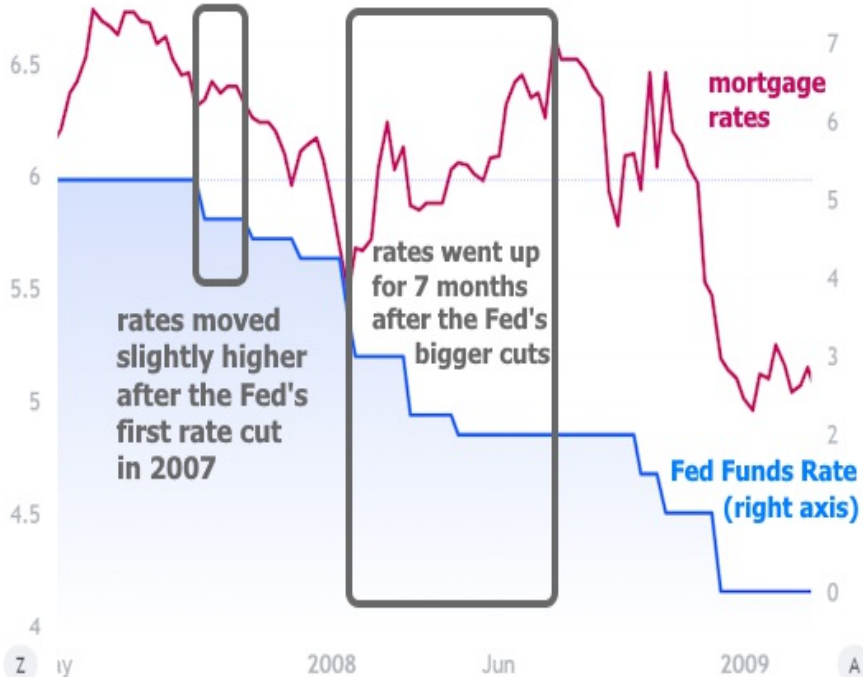
		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

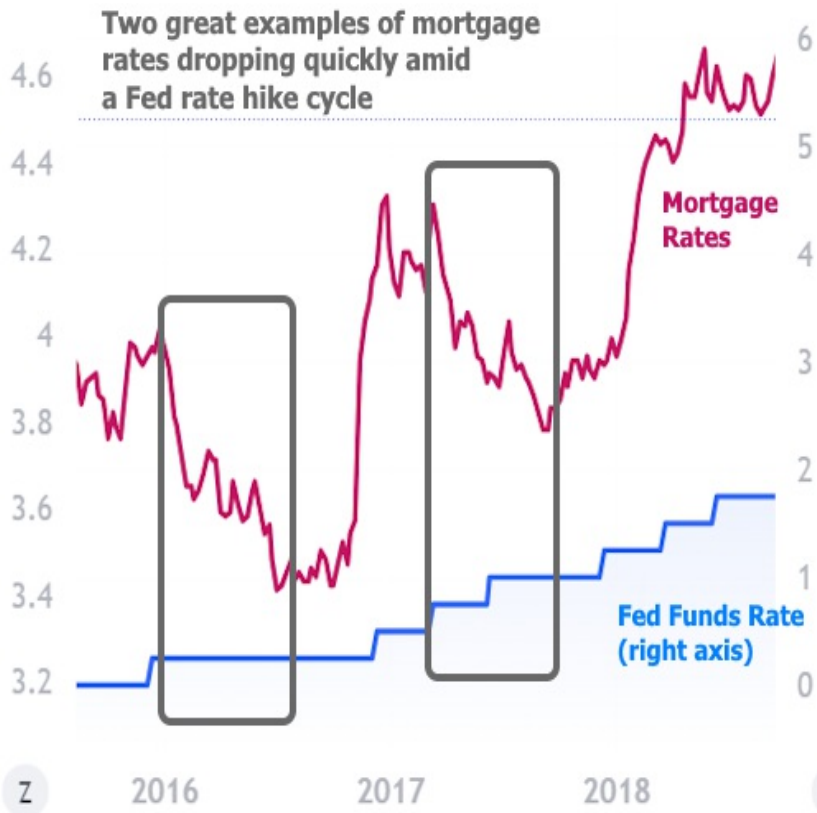


How about an example from the last time the Fed actually cut rates in a non-emergency scenario? In late 2019, the economy was slowing and inflation was at bay, so the Fed began cutting at a similar pace to what the market is expecting in late 2024. There were 3 rate cuts of 0.25% and mortgage rates actually moved HIGHER during that time.



And here are several other examples of mortgage rates paying no attention to the Fed Funds Rate.





This isn't a mortgage-specific phenomenon. The charts would look the same for any other mainstream interest rate. That's because the Fed only has 8 times it can change rates on any given year (apart from the extraordinarily rare "emergency cut"). Contrast that to the bond market--the source of movement for all manner of interest rates--which frequently moves more than 8 times in any given second.

In other words, the financial market is able to make its move well in advance of the Fed and that's a substantial part of the explanation for the drop in mortgage rates seen over the past year. The bond market is "pricing in" the policy shift that the Fed finally confirmed in recent weeks. In fact, there are even financial markets that specifically bet on future levels of the Fed Funds Rate (unsurprisingly called "Fed Funds Futures").

These futures correlate very well with certain bond yields which, in turn, correlate very well with mortgage rate movement. The 5yr Treasury is a good example at the moment.



Bottom line, by the time the Fed cuts in September, the financial market and mortgage lenders will have LONG since adjusted rates accordingly (and they arguably already have).

NOTE: this does not mean that rates won't move between now and then, or that they are forbidden from falling after the Fed cuts its policy rate. It's just that those potential movements will be based on other considerations (chiefly, incoming economic reports) and NOT on the Fed's rate cut.

To make matters more confusing, it's important to remember that Fed policy still has a tremendous impact on rates, but that impact stems from the Fed's words and quarterly projections. Frustratingly, those projections are released at the exact same moment as the Fed's rate decision and there's every chance that September's installment will cause some volatility in the bond market.

For instance, if the Fed's projections are surprisingly friendly, mortgage rates could fall sharply on Fed day and many uninformed onlookers will falsely conclude that the Fed rate cut was the thing that did the trick.

One caveat to all of the above is that these conclusions are only as good as the market's understanding of the Fed's probable course of action. Fortunately, since 2008, the Fed has unequivocally telegraphed rate changes in advance. The only real opportunity for "surprise" is in a situation where the market is split between expecting different sizes of cuts. Notably, this could certainly be the case on the eve of the September rate announcement.

We'll know more about the market's expectations for the size of the rate cut after we see the first two weeks of economic data in September. The upcoming week has several of the big ticket reports that have strong track records of causing rate movement. Friday's jobs report is particularly important this time around as it has a chance to reiterate or retract the rate-friendly message sent by the previous installment.

Simply put, another weak report would greatly increase expectations for a 0.50% Fed rate cut whereas a stronger report would all but guarantee a 0.25% cut. In either case, mortgage rates won't wait for the Fed before reacting.

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## Recent Economic Data

Date	Event	Actual	Forecast	Prior
<b>Monday, Aug 26</b>				
8:30AM	Jul Durable goods (%)	9.9%	5%	-6.6%
8:30AM	Jul Core CapEx (%)	-0.1%	0%	1%
<b>Tuesday, Aug 27</b>				
9:00AM	Jun FHFA Home Prices y/y (%)	5.1%		5.7%
9:00AM	Jun CaseShiller 20 mm nsa (%)	0.6%		1%
9:00AM	Jun FHFA Home Price Index m/m (%)	-0.1%	0.2%	0%
9:00AM	Jun Case Shiller Home Prices-20 y/y (%)	6.5%	6%	6.8%
10:00AM	Aug CB Consumer Confidence (%)	103.3	100.7	100.3
<b>Wednesday, Aug 28</b>				
7:00AM	Aug/23 MBA Purchase Index	131.8		130.6
7:00AM	Aug/23 MBA Refi Index	753.8		754.4
<b>Thursday, Aug 29</b>				
8:30AM	Q2 GDP (%)	3%	2.8%	1.4%
8:30AM	Q2 Core PCE Prices QoQ Final	2.8%	2.9%	3.7%
8:30AM	Jul Wholesale inventories mm (%)	0.3%	0.2%	0.2%
10:00AM	Jul Pending Home Sales (%)	-5.5%	0.4%	4.8%
<b>Friday, Aug 30</b>				
8:30AM	Jul Core PCE Inflation (y/y) (%)	2.6%	2.7%	2.6%
8:30AM	Jul Core PCE (m/m) (%)	0.2%	0.2%	0.2%
9:45AM	Aug Chicago PMI	46.1	45.5	45.3
10:00AM	Aug Consumer Sentiment (ip)	67.9	68	66.4
10:00AM	Aug Sentiment: 1y Inflation (%)	2.8%	2.9%	2.9%

## Event Importance:

No Stars = Insignificant

☆ Low

★ Moderate

★★ Important

★★★ Very Important

## Upcoming Economic Data

Date	Event	Forecast	Prior
<b>Monday, Sep 02</b>			
12:00AM	Labor Day ★★★		
<b>Tuesday, Sep 03</b>			
10:00AM	Aug ISM Manufacturing PMI ★★	47.8	46.8
10:00AM	Aug ISM Mfg Prices Paid ★	52.5	52.9
<b>Wednesday, Sep 04</b>			
10:00AM	Jul USA JOLTS Job Openings ★	8.10M	8.184M
<b>Thursday, Sep 05</b>			
7:30AM	Aug Challenger layoffs (k)		25.885K

Date	Event	Forecast	Prior
8:15AM	Aug ADP jobs (k) ☆	150K	122K
8:30AM	Aug/31 Jobless Claims (k) ☆	235K	231K
9:45AM	Aug S&P Global Services PMI ★★	55.2	55
10:00AM	Aug ISM N-Mfg PMI ★★	51.5	51.4
10:00AM	Aug ISM Services Prices		57.0
<b>Friday, Sep 06</b>			
8:30AM	Aug Non Farm Payrolls ★★	163K	114K
8:30AM	Aug Unemployment rate mm (%) ★★	4.2%	4.3%
8:30AM	Aug Average earnings mm (%) ★	0.3%	0.2%

## Responsive service, experienced expertise

I've dedicated my 22 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** 