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Fed Finally Hikes. Mortgage Rates Fall. Wait... What?!

Last week I said that the Fed had done a great job of making sure markets were fully prepared for the upcoming rate hike. That's no great mystery, but it is something that needed to be seen to be truly believed. **Markets were so prepared**, in fact, that mortgage rates moved lower on the day of the Fed rate hike, and substantially lower the following day.

How could we spend the **better part of 7 years** with the Fed Funds Rate at all-time lows and NOT expect rates to move higher when the Fed ultimately hiked? After all, don't most interest rates follow the Fed rate over time? The following long term chart of mortgage rates and the Fed Funds rate shows that this is **definitely true**.



What the **chart DOESN'T show**—at least not as obviously—are the **subtleties** that help brighten the outlook. First of all, notice the last Fed hike in 2004. At the time, mortgage rates actually moved slightly lower just after the Fed raised rates. The reasons for that are similar to the present-day reasons.

This all goes back to the Fed providing ample warning for this rate hike. It provided mortgages and other rates the opportunity to move slightly higher **preemptively**, just like they did in 2004.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.33%	-0.12	0.00
15YR Fixed	6.89%	-0.10	0.00
30YR FHA	6.95%	-0.10	0.00
30YR Jumbo	7.44%	-0.06	0.00
7/6 SOFR	6.81%	-0.19	0.00
30YR VA	6.97%	-0.10	0.00

Rates as of: 11/20

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.51	+0.41
10 YR Treasury	4.9403	-0.1033
30 YR Treasury	5.3324	-0.0738

Pricing as of: 11/20 5:59PM EST

Recent Housing Data

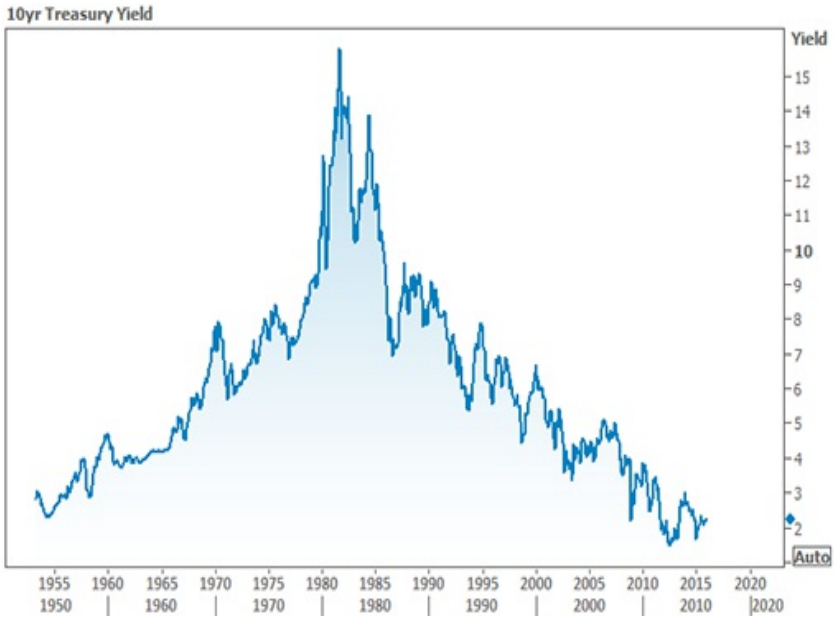
		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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The other subtlety is the nature of the longer term trend itself. It's easier for us to look at this in terms of 10yr Treasury yields, which correlate fairly well with mortgage rate movement over the long run. The longer-term chart shows that the 70's and 80's standing out as a potential aberration in the history of interest rates.



Now even the Fed is asking itself **what's "normal" for interest rates**. They've increasingly pondered the possibility of rates getting permanently stuck in a lower-than-historical range. Fed Chair Yellen also admitted that the Fed would like to raise rates a few times in order to have the means to respond to any adverse shocks to the economy. In other words, part of the reason for raising rates is simply so they have the ability to lower rates again in the future, if needed.

This dovetails with the **final subtlety**: the short term vs long term economy. In the short term, things are arguably pretty good. Unemployment is low. Job creation is high. There are certainly some nagging issues, but all things considered, we've definitely seen worse. In this sense, it's not an economy that justifies record low Fed rates.

But investors are increasingly wondering when the **next downturn** will begin gathering momentum. Some see this as early as 2016, though the median view is in the 2-3 year range. The Fed Funds Rate speaks to the short term stability, but rates like mortgages and 10yr Treasuries will take much of their guidance from the longer term economic outlook. Because of this, in conjunction with the other subtleties mentioned above, the Fed rate hike **does not doom mortgage rates**.

All that having been said, there's nothing on the other side of that argument that guarantees rates will move lower! As always, rates can **move in either direction**.

In **housing-specific news**, the OCC noted an uptick in 30-60 day delinquencies over the past 3 quarters, despite the general improvement in other mortgage performance metrics.

CoreLogic released **two reports**. The first showed a general increase in mortgage fraud—especially in some areas of the country. The second merely recapped the unsurprising phenomenon of decreasing negative equity, although one interesting statistic might be of use around the water cooler: more than quarter million homes regained positive equity in the third quarter of 2015.

Housing Starts and Building Permits topped analysts' estimates, thanks to another strong performance from the multi-family sector. A Fannie Mae survey noted an improvement in the outlook for credit availability. And finally, Builder Confidence ebbed slightly, but remains in strong territory overall.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Tuesday, Dec 15				
8:30AM	Dec NY Fed manufacturing	-4.59	-6.00	-10.74
8:30AM	Nov Core CPI index, sa	244.14		243.70
8:30AM	Nov Core CPI mm, sa (%)	+0.2	0.2	0.2
10:00AM	Dec NAHB housing market indx	61	63	62
Wednesday, Dec 16				
7:00AM	w/e Mortgage Refinance Index	1592.7		1570.1
7:00AM	w/e MBA Purchase Index	221.7		228.2
8:30AM	Nov Building permits: number (ml)	1.289	1.150	1.161
8:30AM	Nov Build permits: change mm (%)	+11.0		5.1
8:30AM	Nov Housing starts number mm (ml)	1.173	1.135	1.060
2:00PM	N/A FOMC rate decision (%)	0.25-0.50	0.375	0.125
2:00PM	FOMC Economic Projections			
Thursday, Dec 17				
8:30AM	w/e Continued jobless claims (ml)	2.238	2.230	2.243
8:30AM	w/e Jobless claims 4-wk avg (k)	270.50		270.75
8:30AM	w/e Initial Jobless Claims (k)	271	270	282
8:30AM	Dec Philly Fed Business Index	-5.9	1.5	1.9
Tuesday, Dec 22				
10:00AM	Nov Exist. home sales % chg (%)	-10.5	0.0	-3.4
10:00AM	Nov Existing home sales (ml)	4.76	5.35	5.36

Event Importance:

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

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Date	Event	Actual	Forecast	Prior
Wednesday, Dec 23				
8:30AM	Nov Durable goods (%)	0.0	-0.6	2.9
8:30AM	Nov PCE price index mm (%)	0.0		0.1
8:30AM	Nov Core PCE price index mm (%)	+0.1	0.1	0.0
8:30AM	Nov Consumption, adjusted mm (%)	+0.3	0.3	0.1
8:30AM	Nov Personal consump real mm (%)	+0.3		0.1
10:00AM	Nov New home sales chg mm (%)	+4.3	2.0	10.7
10:00AM	Nov New home sales-units mm (ml)	0.490	0.505	0.495
Thursday, Dec 24				
2:00PM	Christmas			
Friday, Dec 25				
12:00AM	Christmas			

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