

No, The Fed Didn't Do Anything To Mortgage Rates Today

The Federal Reserve released a new policy announcement today. This is one of the 8 times per year where the Fed can opt to change "rates," or adjust its other policies that impact "rates." Fed announcement days have a track record as being some of the **best (or worst)** days for mortgage rates. That said, they can be completely **meaningless** as well, and that's the designation we'd pick for today's version (if we could only pick one).

Is it true that the Fed kept rates unchanged at 0-0.25%? **Yes**, but it's important to understand that refers to the Fed Funds Rate--a target rate for overnight lending between big banks. **Mortgage rates** can **loosely** correlate with the Fed Funds Rate over very long time horizons, but they frequently move in the opposite direction. More importantly mortgage rates are constantly moving whereas the Fed Funds rate hasn't changed in more than a year now (and is only usually capable of changing once every 6 weeks, outside of extraordinary circumstances).

So **why** do mortgage rates have a history of big reactions to the Fed if the Fed Funds Rate doesn't have much of a bearing on mortgage rates?

Simply put: the Fed does "other stuff" besides announce the Fed Funds Rate. That's just the piece of the announcement that news outlets tend to lead with. Mortgage rates are far more interested in the Fed's bond buying programs, which include \$40 billion per month in new mortgage bond purchases (in addition to reinvestments of proceeds from past mortgage bond purchases). On that topic, the Fed held steady and indicated we're still a long way from a situation where bond purchases would be tapered.

While this wasn't really new news to anyone who'd tuned in to recent Fed comments, bonds and mortgage rates were nonetheless marginally relieved to get confirmation. Specifically, after beginning the day in just slightly **weaker** territory, mortgage lenders began to **drop** rates back in line with yesterday's levels. None of the above constitutes a big change, but if we want to discuss rate movements over the past 24 hours in the context of the Fed, this is the only way to do it.



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