

Mortgage Rates Spooked By Taper Talk (Over)reaction

Mortgage rates began the day in line with yesterday's levels, for the most part. **Things changed** in the afternoon. Bonds began to deteriorate modestly after a scheduled Treasury auction. These types of auctions can add clarity to the "demand" side of the supply/demand equation, thus causing a bit of bond market movement at times.

The **bigger impact** followed the release of the minutes from the Fed's most recent policy meeting. Here too, the x-factor is clarity when it comes to the supply/demand equation. When it comes to the Fed, we're talking about the biggest driver of demand in the MBS and US Treasury markets. Collectively, these bond markets do more than anything else to influence day-to-day changes in mortgage rates. So when the Fed speaks, rates listen.

The Fed has been buying \$120 bln a month in new Treasuries/MBS for more than a year now (it also reinvests **proceeds** from previous bond purchases). Ideally, the Fed won't need to do this forever (some say they're already doing too much). When the Fed moves to make a change in its bond buying plans, they will do so gradually. In other words, they'll **TAPER** the amount of their bond purchases until it gradually moves to zero.

The last time the Fed hinted at tapering after an extended period of heavy buying was in May 2013. Those comments gave birth to the infamous "**taper tantrum**," which resulted in some of the most abrupt rate spikes in decades. Markets are understandably cautious about a repeat performance, but today's comments were not the same as those seen in Fed Minutes released on May 22nd, 2013 (a day I don't even need to look up because it is that well ingrained in my memory).

In 2013, the threat was real and the comments were unequivocal. **Multiple** Fed members were in agreement, and Bernanke happened to offer a preview in a congressional testimony that occurred on the same morning. Back then, the Fed was unanimous and the reality of tapering was well-ingrained, barring a surprising back-slide in the economy.

Today, in contrast, was really **just a reiteration** of comments that have already been made in various Fed speeches in recent weeks. The Fed is far from unanimous on this front. There's a lot more uncertainty about how the economy evolves in the coming months. And perhaps most importantly, a substantial amount of the rising Treasury yields seen since last August owes itself to the anticipation of eventual tapering. Last but not least, it would be an **understatement** to say the comment in question was highly qualified. See for yourself:

"A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases."

Keep in mind, this meeting took place **BEFORE** the most recent jobs report, which was significantly weaker than the one before that. Even so, bonds were spooked enough for mortgage lenders to issue **mid-day reprices**. The changes weren't extreme, by any means, even though they could be inconvenient for those floating their rate. In most cases, however, the damage was limited to a slight increase in upfront costs as opposed to a change in the "note rate" itself. The average lender is still in the lower 3% range for an ideal conventional 30yr fixed scenario.



Jason Wood

Mortgage Advisor & VA
Loan Specialist, VA Loan
Guy - American Mortgage
Network

www.valoanguy.us

P: (760) 350-3989

M: (760) 217-0820

1185 LINDA VISTA DR
SAN MARCOS CA 92078
317293

