Heartbreaking Day Leaves Mortgage Rates Much Higher Than 6.29%

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At the close of business yesterday, there was hope. Well, to be fair, there's still hope, but it's much less immediate, and it certainly isn't the first thing that comes to mind today.

Yesterday's hope stemmed from a combination of factors. Rates had risen at a break-neck pace since the beginning of August, accelerating to the most troubling pace in the week following the most recent Consumer Price Index (CPI) release--a key inflation report that guides decisions of the Fed.

CPI had extra oomph due to the proximity of the next Fed meeting (the one we just lived through yesterday). Market participants expected the Fed to signal an even firmer commitment to its rate hike outlook as a result. Not only did that happen, but in the Fed's forecast summary, there was a strong shift in expectations for even higher rates in the coming months and years.

Granted, the members of the Fed can't begin to guarantee or even reasonably predict that rates will be as high in 2023-2025 as yesterday's forecasts suggested, but if they had to guess at those levels based on what they know today, those are their guesses.

How high do they see rates? That doesn't matter. I could tell you that almost a third of the Fed sees the Fed Funds Rate at 5.0% by the end of 2023, but that's the Fed Funds Rate--not mortgage rates. The two are both similar and different, and if you're not sure why, be sure to check in with our primer on the topic here: No, The Fed Hike Doesn't Mean Anything For Mortgage Rates.

Perhaps more significant was the fact that this represented about a 1.0% increase in the Fed's rate hike outlook from the last scheduled release of forecasts in June. For those that didn't click the link above or who otherwise need convincing, we can pause there for a moment to appreciate that , in addition to the 1.0% increase in the forecast ceiling, the Fed Funds Rate itself is now 1.5% higher than it was on June 14th, and despite all that, today's mortgage rates are nowhere new 1.5% higher. And yesterday's mortgage rates were actually much closer to June's levels.

And THAT'S the source of the hope. Or at least it was, as of yesterday afternoon. In other words, the market made it through what seemed to be bad news for rates from the Fed with rates actually moving a bit lower! The more optimistic hope was that such a ground-holding event could serve as a turning point after rushing up to the highest levels in 14 years.

But everything changed today. The bond market had massive second thoughts about yesterday's resilience. The underlying reasons for this remain a matter of debate among market participants. There are a laundry list of seemingly convenient excuses, but none of them hold water sufficient to explain today's carnage. It's not that I am the one person who knows everything about why the market moved in a certain way today. I'm simply saying that if some event, piece of data, or other discrete root cause was responsible for today, it was very far from obvious. I'm seeing/hearing every market watcher who I look up to say the same thing.

Once we're at the point of such humble admissions, further analysis of the market's motivation tend to get into the weeds with heavy reliance on the balance and nature of trading positions leading up to and away from Fed day. Suffice it to say, the move was unexpected at the close of business yesterday, and it was large and aggressive in a way rarely seen in the absence of the tidy scapegoats alluded to above.

Such moves in the bond market mean equally troubling news for mortgage rates. There's actually really no perfect way to relay the current position of the top tier 30yr fixed rate because it varies greatly depending on the lender's pricing structure and the borrower's pricing preferences. The big issue is the presence of upfront costs. They're unavoidable in many cases. In others, lenders use them to offer clients a way to "buy down" to a lower rate.

To be sure, while "points" or "buydowns" aren't good or bad, they are an interest expense in the same way the interest portion of your mortgage payment is. You're just paying it upfront instead of over time.

All that to say that the rates appearing in many news headlines are hopelessly low. Freddie Mac's weekly rate survey just came out at 6.29% today. Not only does that require almost a full "point" of upfront cost, it's also very stale data at this point. If we could magically remove the mortgage market's ability to rely on points as a part of the rate quote equation, and if we could magically track day to day rate changes including late-day "reprices" from panicked lenders, we would be left with a top tier 30yr fixed mortgage rate that's at least 6.625%.