Mortgage Rates Jump Higher After Fed Rate Cut. Confused? Don't Be...

There is a reason that last week's newsletter was titled "The Fed is Cutting Rates Next Week, But Not Mortgage Rates."

Indeed, mortgage rates surged HIGHER after this week's Fed rate cut--a seemingly paradoxical move that has exposed widespread confusion about the nature of mortgage rate movement. Let's clear it up!

SHORT VERSION:

- The Fed Funds Rate (the thing the Fed cut this week) doesn't dictate mortgage rates
- The Fed Funds Rate only changes on Fed announcement days, 8 times a year. It changes in response to various economic reports and events.
- Mortgage rates change daily, often in response to the same economic data, and the bonds that drive mortgage rates change in real-time throughout the day. That means mortgage rates can drop for all the same reasons that drove this week's rate cut.
- Because those reasons were already in play well before Fed day, mortgage rates had already responded to them well before Fed day.
- Bottom line: the Fed Funds Rate and mortgage rates dropped for the same reasons, but mortgage rates got to do it **sooner** because they move more nimbly.

LONG VERSION:

- There is actually a dedicated primer for this topic: No, The Fed Hike/Cut Doesn't Mean Anything For Mortgage Rates

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SPECIAL NOTE REGARDING NEWS STORIES SAYING RATES ARE LOWER THIS WEEK:

There were an unfortunate number of news articles out on Thursday claiming that mortgage rates were LOWER this week. This is due to Freddie Mac's weekly rate survey dropping to 6.26 from 6.35. Freddie's rate is an average of the rates on Thursday through Wednesday, reported the following day. In other words, 4 out of 5 days in this week's survey were BEFORE Fed day, and those days also happened to have the lowest rates in a long time.

As such, we can certainly accept that the average rate of those 5 weekdays was lower than the average rate of the previous 5 weekdays. Unfortunately, news organizations quote the survey when it comes out on Thursday, mistakenly giving the impression that this week's rates are still lower than last week's--even if they've already bounced much higher, as was the case this week.

BOTTOM LINE:

If we remove the 8 days before Fed day from the equation, mortgage rates would still be at the lowest levels in 11 months. But they are currently unequivocally higher than the rates from that 8 day window, with Wednesday and Thursday's combined move being especially sharp.

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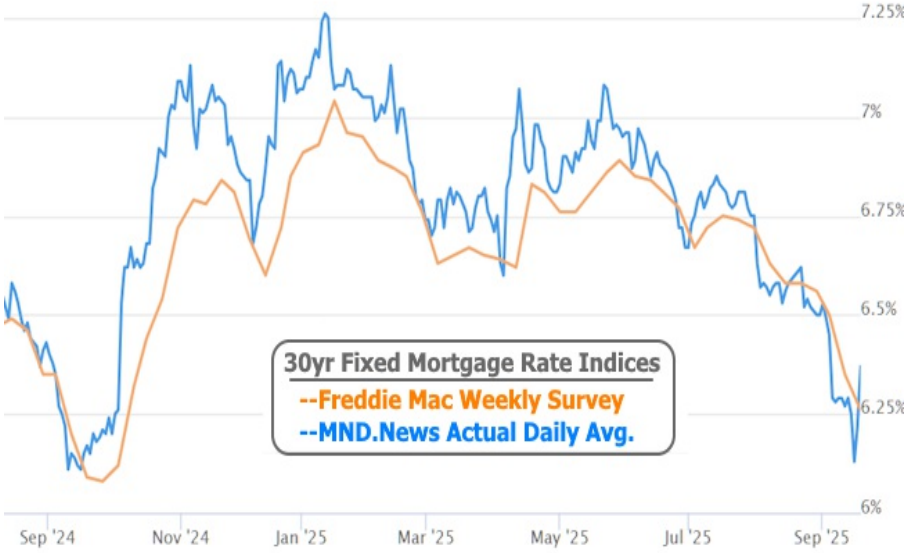

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