Home Mortgage Alliance

Mortgage rate direction: 2019

Presented by Brett Holland

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NMLS 270023

First- The Federal Reserve “The Fed”

- While the “The Fed” impacts mortgage rates they do not control mortgage rates
- The main function of the Fed is to :
  - Promote maximum employment
  - Promote stable prices
  - Moderate long term interest rates

Source: www.federalreserve.gov

Brief history of “Fed” moves and mortgage rate direction

- “The Fed” controls the Fed funds Rate- the rate banks charge each other for reserve balances.
- Fed funds rate was zero between 2008 and 2015.
- “The Fed” began to raise the Fed Funds rate in 2015 – they normally raise in ¼ point increments
- By the end of 2018 the Fed Funds rate had been increased to 2.50 and had been raised 9 times
- The main purpose of these raises is to control money supply and inflation- to contain excesses when the economy is strong
  - Source: federalreserve.gov and businessinsider.com

Mortgage Rate Direction

- How have mortgage rates responded to these “Fed” moves
- End of 2014 the average 30 year mortgage rate was 3.87
- 2015= 4.01 / 2016= 4.32 / 2017= 3.99 / 2018= 4.55
- Last week = 4.35
- We are now near 2016 levels even though The Fed raised rates 8 times since then- say whaaaaat??!!
- Mortgage rates are different – they can be impacted by “The Fed”, but are not controlled by “The Fed”
  - Source- www.freddiemac.com/pmms

Mortgage rates are influenced by……

- Supply and demand for mortgage backed securities (MBS)
- After a mortgage is closed and funded it is packaged along with other mortgages to form a security- called a “mortgage-backed security”
- They are traded as bonds
- Supply and demand of these bonds is what controls mortgage rates
- Historically more demand when there is less certainty in the economy and less demand when the economic picture is more rosy
- Why? A nine letter word that impacts bonds the most……

INFLATION

- A bond is a fixed rate asset – it pays a set rate over time
- Inflation erodes the bond’s value
- As inflation fears increase bonds become less popular (mortgage rates rise)
- As inflation fears decrease bonds become more popular
- Any economic event that portends inflation can move the mortgage rate market rapidly
- Ex- Jobs Report, CPI, GDP, Jobless claims, consumer confidence, personal income, etc.

Mortgage backed securities (MBS)- supply and demand

- Who buys ‘em?? Institutions and institutional investors, foreign countries, The Fed, individuals
- From 2008-2015 The Fed purchased bonds – up to $4.5 trillion – called Quantitative Easing (QE)- created false demand
- In 2007 they held under $1 trillion
- End of 2017 began “unwinding” these holdings
- Now at $4 trillion with a goal of getting to $3.5 trillion by the end of 2019
- Then they will pause and see how the market reacts
- So far so good- the market has absorbed this extra supply without mortgage rates getting too high

Mortgage Rate Prediction for 2019

- As “The Fed” unwinds their balance sheet and sells more MBS there will be an artificial supply
- This should cause rates to rise moderately during 2019
- My forecast is for rates to finish 2019 between 5 and 5.5% if inflation remains tame and US GDP growth stays below 3%
- Any uncertainty though can keep mortgage rates low- ex. Wars, terrorism, impeachment, recession, etc.
- And any big increases in inflation will cause mortgage rates to rise- inflation is the mortal enemy of bonds
- The mortgage rate market is more complex than simply following what “The Fed” does with the fed funds rate

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Please contact Brett Holland for more information

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