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June 19, 2017

WHAT THE LATEST FED HIGH RATE MEANS FOR MORTGAGE RATES

The Federal Reserve raised short-term interest rates another quarter percentage point Wednesday. No surprise there. If only you could talk the central bank into a game of high-stakes, no-limit hold 'em. The Fed doesn't have a poker face — and that's the way it's supposed to be. Fed Chair Janet Yellen and her Federal Open Market Committee counterparts go out of their way to make sure short-term interest rate moves are anything but a surprise to world markets. But even an expected interest rate increase can have some very real consequences.

Here's what this latest move means for mortgage rates:
Before this third short-term rate hike in just six months, fixed-rate mortgages were barely off 2017 lows. The experts have been predicting a gradual rise in home loan interest rates for months, but rates have head-faked their way lower since the Fed's last rate increase in March.

Why is that happening?
"Even though the U.S. economy is really looking pretty strong right now, particularly in the job market, the rest of the world is lagging behind," says Mike Fratantoni, chief economist for the Mortgage Bankers Association. "So central banks elsewhere are still aggressively stimulating their economies and keeping their rates low, and that's acting as a bit of an anchor on longer-term rates." With this foreign demand for safe assets, the MBA expects U.S. mortgage rates "are going to be held back by the lower rates abroad over the next couple of years."

Where mortgage rates will end 2017:
The three economists we interviewed say they expect the Fed to raise rates by another quarter-point before the end of the year. That will make for a full percentage point increase within one year. "This move by the Fed to increase short-term rates was expected, and we expect to see another increase from them before the end of the year," says Sean Becketti, chief economist for Freddie Mac. He notes that 30-year fixed mortgage rates are still close to a seven-month low, "which is very good news for those potential home buyers in the market and even those who may be looking to refinance." However, Freddie Mac expects mortgage rates to "start rising slowly as the year progresses, yet still remaining right around 4%," Becketti adds. Frank Nothaft, chief economist at CoreLogic, says, "Fixed-rate mortgage rates are likely to gradually edge higher over the next six to 12 months. Rates are likely to rise to 4.25% to 4.50% by the end of 2017."

Fratantoni also expects 30-year rates to be near 4.5% by the end of the year — and above 5% by the end of 2018. "We think [the Fed will] hike once more in September and then probably three or four times in each of the next couple of years," Fratantoni says.

The Fed is not only raising interest rates, the Fed is planning another action that could affect mortgage rates: selling off its portfolio of mortgage-backed securities. During the financial crisis, the Fed lowered short-term rates to zero. In an effort to further stimulate the economy by lowering long-term interest rates, such as mortgage rates, it began buying mortgage-backed securities. Higher demand raises bond prices, resulting in lower yields. The Fed now holds more than $1.7 trillion in mortgage-backed securities, about one-third of all those outstanding. Now the central bank is looking to get back to a “more normal operating environment,” Fratantoni says, with a smaller portfolio — and holdings only in U.S. Treasury.

“They’re not going to get there all at once,” he says. “Our expectation is that the Fed will begin to lay out a schedule for how they’ll treat that balance sheet over time. This will be another factor putting some upward pressure on mortgage rates.” Source: MBA

Market Snapshot (Previous week in parenthesis)

2-yr. Treasury:	1.32% (1.34%)	5-yr. Treasury:	1.74% (1.77%)
10-yr. Treasury:	2.15% (2.20%)	30-yr. Treasury:	2.78% (2.87%)
2-yr. Swap:	1.53% (1.55%)	5-yr. Swap:	1.81% (1.85%)
10-yr. Swap:	2.12% (2.16%)		
30-Day LIBOR:	1.21% (1.12%)	90-Day LIBOR:	1.27% (1.23%)
DJIA:	21384 (21271)	NASDAQ:	6152 (6208)
S&P 500:	2433 (2431)		
Gold:	$1255 ($1267)	Crude Oil:	$45 ($46)
Prime Rate:	4.25%	Unemployment Rate:	4.30%

Compliments of Rick Ellis
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