REAL ESTATE

The Fed Cuts, and Mortgage Rates Climb. Why It Happened and What to Do Now.

By Shaina Mishkin Following

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Mortgage rates rebounded after the Federal Reserve lowered its benchmark interest rate. (DREAMSTIME)

Mortgage rates are climbing after the Federal Reserve's highly anticipated September rate cut. Yes, again.

In a pattern reminiscent of last September, mortgage rates dropped sharply in the weeks ahead of the Fed's expected quarter-point rate reduction, and then bounded higher in its wake. Fixed 30-year rates measured by Mortgage News Daily climbed to 6.35% as of early Friday afternoon, after hitting as low as 6.13% earlier this week.

It's another reminder that that mortgage rates operate largely independently of the Fed's benchmark interest rate, and is certainly a disappointment for aspiring homeowners.

For buyers and owners hoping to refinance, lower rates are always better than higher. But the mortgage rate reaction hasn't been as bad as it could have been, says Michael Read, the principal broker of the New Jersey-based Bridgeway Mortgage & Real Estate Services.

"I had a big sigh of relief that we didn't have this huge snapback," Read says. Mortgage rates could have landed closer to 6.5%, he says, which would have entirely erased their late-summer decline.

This increase shows up in daily data, but, assuming it holds, won't hit the closely watched Freddie Mac weekly mortgage rate survey until next week. That survey is a weekly average with a response period that runs through Wednesday, which means the fixed 30-year mortgage's decline to 6.26% in the latest week largely reflects the decline in rates before the Fed meeting.

It's a scenario that *Barron's* warned could repeat itself as long-term bond traders look past this week's rate decision and focus on future monetary policy and the economy more broadly. Unlike short-term interest rates, mortgage rates aren't set directly by the Federal Reserve, but move with the 10-year Treasury yield.

That yield, in turn, has climbed following the Fed meeting as investors update their expectations for the economy and future rate cuts. The 10-year Treasury was yielding 4.135% Friday morning, up 0.11 percentage point since Tuesday, the day before the meeting.

Mortgage rates' push higher will almost certainly prevent some homeowners from pulling the trigger to refinance. But some homeowners can still benefit from shopping for a new rate. "There's a lot of people with rates in the sevens," notes Read.

A household eyeing a refinance should examine why they want a new loan, says Keith Gumbinger, the vice president of mortgage website HSH.com. Depending on factors such as a loan's term and interest rate, borrowers could ultimately spend more refinancing than what they would save with a lower rate because of fees.

"It is certainly possible to refinance now, get a moderate break in payment for a time and then sell the home just a couple of years from now [...] and have the refinance cost you money, not save it," he says, recommending that would-be refinancers use HSH's calculator to better understand the potential all-in cost of refinancing.

Adjustable-rate mortgages, or ARMs, could also be good options to consider—though Gumbinger warns they "aren't for everybody." One group that could benefit are those who took out a hybrid ARM several years ago. Interest rates on these products remain fixed for a period of time, such as five or seven years, before switching to an adjustable rate. Unlike 30-year fixed-rate mortgages, the rates for these products are directly linked with the Federal Reserve's target interest rates.

"A homeowner who took one five or seven years ago whose loan is now coming due to adjust could be facing a considerable step-up in rate, making a refinance to a new ARM a palatable choice," Gumbinger says.

ARMs could also be good fits for households with plans to sell before the fixed period ends. In such a scenario, "if the costs are similar, it can be a good idea to buy a little more fixed-rate than you might expect to need," Gumbinger says. "There's no way to know what selling conditions might be five years from now."

For those waiting to buy, mortgage rates' trajectory from here will depend on data related to inflation and employment, which can affect traders' assumptions around the economy and the course of monetary policy.

All of that can shift ahead of the next rate-setting meeting in October.

"Ultimately depending on the influence of that group of data, 30-year fixed mortgage rates are most likely to be flat to perhaps somewhat lower over the next few weeks," says HSH's Gumbinger.

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