The Federal Reserve Raised Interest Rates, Yet Mortgage Rates Plummeted. Why?

If you follow mortgage interest rate fluctuations, you may wonder how mortgage rates can drop despite several increases in the Federal Reserve’s much talked about discount rate over the past year.

The benchmark 30-year mortgage rate plummeted 27 basis points (over 1/4 percent) last week, the biggest weekly drop in a decade, creating a huge affordability window for home buyers and for homeowners considering a mortgage refinance. The last time the benchmark 30-year rate was below this level was Jan. 3, 2018, when it hit 4.10 percent, according to Bankrate’s historical data.

This can be a teachable moment, so I asked one of my preferred lenders, Scott Lagge of Movement Mortgage to explain.

According to Scott, financial markets are complex, and many factors impact interest rates. What we are experiencing currently is based to a large degree on consumer sentiment. As consumers, we can have a huge impact on the market based on what we “feel” about where the economy is headed. If we “feel” the market is getting worse, we hold onto our money, spend less, buy less, and shift our investments from short term to long term investments. Therefore, worries about slowing economic growth can change our behaviors as consumers and as investors. Investors worried about the economy slowing in the short-term start to shift their money to long-term investments such as bonds, specifically mortgage backed securities (also known as mortgage bonds). This flood of money into mortgage bonds reduces mortgage bond values and rates fall due to an over abundance of supply of bonds. In essence, it’s supply and demand.

For a more technical explanation, Scott cited this statement from Greg McBride, CFA, Bankrate’s chief financial analyst: “Concerns about slowing economic growth — both domestically and abroad — and the inversion of the Treasury yield curve put investors into semi-panic, bringing bond yields still lower after the Fed indicated no more rate hikes in 2019.”

Above is a chart from www.Bankrate.com showing last week’s sudden drop in mortgage interest rates.

Changes in mortgage rates can affect home prices. To the extent that buyers use mortgage financing, what they can afford to purchase goes up or down. As mortgage rates flirted with 5%, we saw a definite softening of the long-running seller’s market. If these low rates last into the coming weeks, we may see more buyers wanting to resume home hunting and lock in a low mortgage rate.

Scott Lagge invites you to call him at 303-944-8552 if you’d like to see what interest rate you qualify for. Call me at 303-525-1851 if you’d like to go house hunting!

Western Slope Home Just Listed by Kim Taylor

Perhaps you remember Kim Taylor. She was our office manager and licensed broker associate before moving to the delightful Western Slope community of Cedaredge two years ago. Now she has a listing in that town which we’re happy to feature here. I haven’t seen it myself, but here’s how Kim describes it: This charming 3-bedroom/2-bath home with oversized garage offers one-level living in a quiet neighborhood just 1.5 miles from Cedaredge’s main street with its shops, grocery store, restaurants and the new Mesa Arts & Events Center. Just a 15-minute drive north takes you to the top of the Grand Mesa with over 300 lakes, miles of trails for hiking, skiing, snowshoeing, snowmobiling and spectacular views of the mountains and valley! Just a 15-minute drive south takes you to the Gunnison River with its world class fishing, canoeing, and rafting and the modern Delta Rec Center for staying in shape “off season.” The house sits on its lot in a way that maximizes the tranquil setting! Sit on the front porch and enjoy the views of the San Juan mountains with the wildlife running through the open pasture in front of you, then relax in the hot tub on the secluded back patio and view the abundant stars at night! You will love the open floor plan designed for entertaining. Learn more by visiting www.CedaredgeHome.info or come by the open house Saturday, April 6, 1-4 pm -- or call Kim at 303-304-6678.

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Do you have a question about real estate that you’d like answered here? Put it in an email and send it to me at Jim@GoldenRealEstate.com.