



Buy A Home

Refinance

Mortgage Rates

Loan Options

Calculators

Learning Ce

Search

Home / Learn / Mortgage Basics / Mortgage Guide / How Bonds Affect Mortgage Rates



# How Bonds Affect Mortgage Rates

May 29, 2024 | 4-MINUTE READ

AUTHOR: [MIRANDA CRACE](#)

Share:

There are a few personal factors that affect your mortgage loan. Your down payment, credit score, and interest rate. However, there are also market factors that affect rates as a whole.

## We Use Cookies

Cookies help us improve our website, and allow us to view and retain your interactions with it. By continuing, you agree to our use of cookies. Our [privacy policy](#) explains more.

[I Understand](#)

One of those factors is the bond market. Let's examine how bond rates influence mortgage rates and which types of mortgage rates are influenced by the bond market.

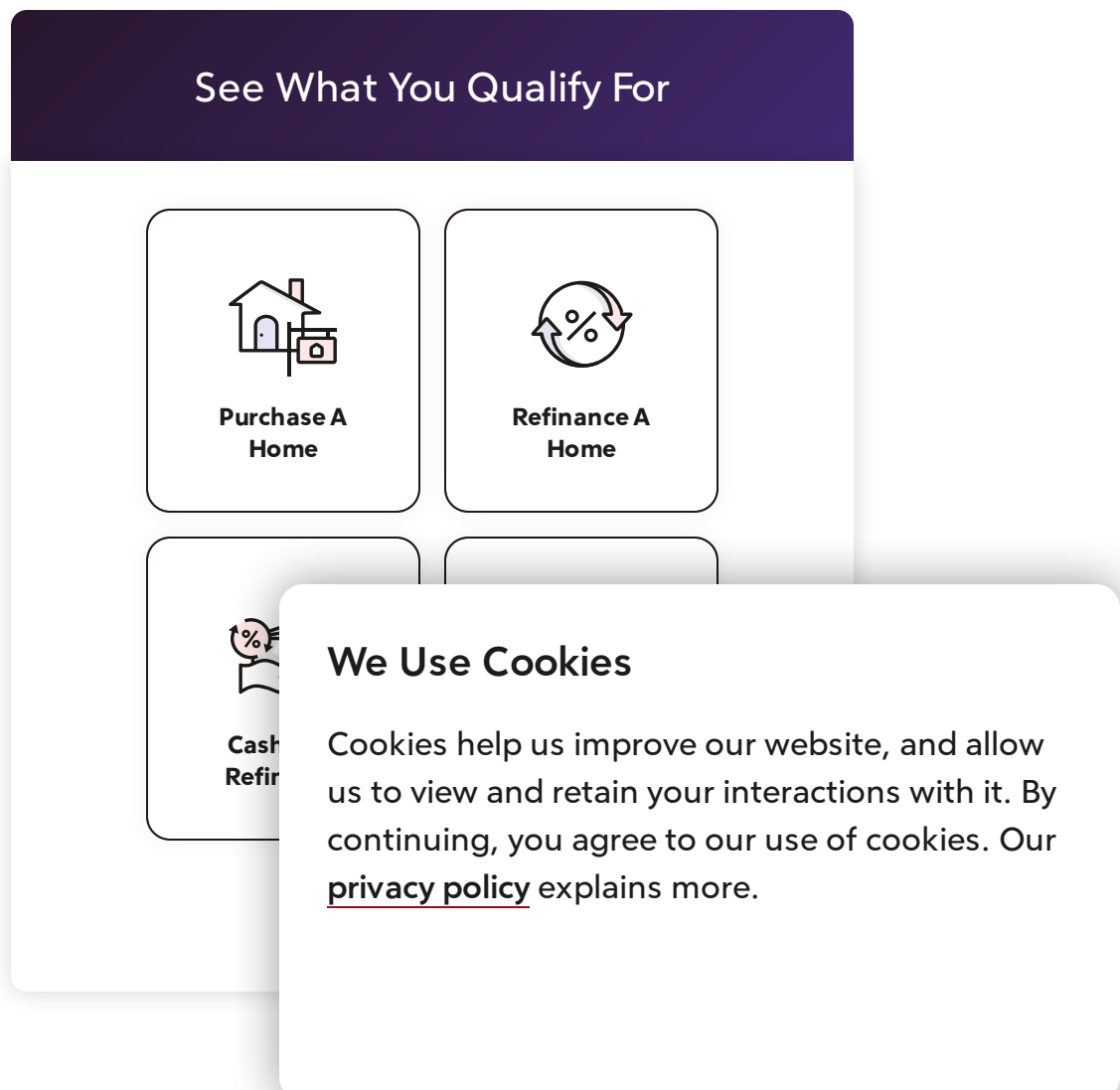
## The Relationship Between Bonds And Mortgage Rates

Bond prices and mortgage interest rates have an inverse relationship with one another. That means that when bonds are more expensive, mortgage rates are lower.

The reverse is also true – when bonds are less expensive, mortgage interest rates are higher.

At first glance, this might seem like an illogical correlation. When interest rates are higher, more people will want to buy bonds – why don't higher interest rates push bond prices up?

To understand, let's look at the supply and demand of the secondary bond market.



See What You Qualify For

Purchase A Home

Refinance A Home

Cash Refin

**We Use Cookies**

Cookies help us improve our website, and allow us to view and retain your interactions with it. By continuing, you agree to our use of cookies. Our [privacy policy](#) explains more.

## How Does A Bond Loan Work?

First, let's discuss what bond loans are. Bonds are long-term, low-risk investment products. Corporations can issue private bonds, but Treasury bonds issued by the federal government are much more well-known. When you buy a bond, you give the government a set amount of money per bond. The bond then accrues two types of interest: fixed interest and inflation interest.

The fixed interest on a savings bond follows the same model as the fixed interest on a mortgage loan. Every year on May 1 and November 1, the U.S. Treasury announces a fixed rate for new loans. This is also known as the bond's coupon rate.

For example, for bonds issued between November 1, 2023, and April 30, 2024, the bond rate is 5.27%.

You'll earn that percentage of interest on the loan if you buy one before the next interest rate announcement. It's important to note that although the bond coupon rate is fixed year-to-year by the U.S. Treasury, the price of a bond sold in secondary markets can fluctuate.

Your bond also accumulates additional interest to keep up with inflation rates. Once your bond reaches the end of its term, you get your original money back plus whatever the bond gained in interest. You can also buy and sell bonds on the secondary market, like stocks.

## How Do Bonds Affect Mortgage Rates?

The link between mortgages and bonds stems from the competition from investments. Both bonds and mortgage-backed securities are appealing to similar types of investors, typically those looking for stable returns with some degree of safety.

Generally, as bond loan interest rates move, so do mortgage rates, albeit at a slightly higher level to reflect the added risk.

As mentioned earlier, bonds from 1997 had a rate of 5.27%. Bonds issued from May 2023 have a rate of 5.27%.

Mortgage rates, of course, also increased to a higher level. For example, in May 2023, the rate was 7.17%, while in November 2023 it was 6.81%.

Remember, even though the current rates fluctuate based on market sentiment, the link between bonds and mortgage rates remains strong.

### We Use Cookies

Cookies help us improve our website, and allow us to view and retain your interactions with it. By continuing, you agree to our use of cookies. Our privacy policy explains more.

## Impact Of Increased Bond Rates

To better illustrate this relationship, let's take a closer look. Let's say that you buy a Treasury bond for \$1,000 with a 2% annual fixed interest rate. Once you buy that bond, you're locked into a 2% interest rate until the bond matures. Now, imagine that it's a year later and interest rates are higher. The same \$1,000 bond investment can net you a 3% annual interest rate.

The same year, you need some cash, so you decide to sell your bond. You probably won't be able to sell your bond for the full \$1,000. Other investors know that they can get 3% if they invest their \$1,000 by buying a bond from the Treasury. The price of your bond will fall to whatever other investors are willing to pay for it.

For example, an investor might offer you \$900 in cash for your bond. In effect, the price of your bond is lower now because current market rates are higher. Though you can still cash out your bond for \$1,000 when it matures, its current liquid value is less than \$1,000.

## Impact Of Lowered Bond Rates

If the Treasury lowers bond rates, the opposite scenario will play out. Imagine the Treasury announces that \$1,000 bonds will now have 1% interest rates. Investors know that they're better off buying your bond than bonds from the Treasury because your bond accrues more interest. With more competition for your bond, you can sell to the highest bidder.

The bond you bought for \$1,000 might now be worth \$1,100 to an investor who wants to hold onto it until it matures. The investor who buys your bond for \$1,100 will still receive \$1,000 when he sells it. However, right now, it's worth \$1,100 because interest is on the decline and an investor wants to secure his money at a higher rate.

## The Ripple Effect Of Bonds

The ripple effect of these shifts is for mortgage rates to stay slightly above bond yields to attract investors and provide a safeguard through property collateral.

This means when bond rates go up, mortgage rates also grow to match the trend. On the other hand, when bond yields lead to reduced mortgage rates, mortgage rates also decrease to match the trend.

### We Use Cookies

Cookies help us improve our website, and allow us to view and retain your interactions with it. By continuing, you agree to our use of cookies. Our [privacy policy](#) explains more.

## Which Bonds Affect Mortgage Rates:

Not every type of mortgage will feel the effect of Treasury bond rates. Bond prices only influence fixed-rate mortgages. This is because mortgage lenders only attach fixed interest rates to bond rates.

Let's say you're considering an adjustable-rate mortgage.

You'll need to consider the Federal Reserve's most recent interest rate decision. You'll pay less for your mortgage loan if the Federal Reserve (the Fed) decides to cut interest rates on the federal loans available to banks. If federal rates go up, you'll pay more.

As an individual, you cannot control how the bond market moves. However, you can control which mortgage lender you work with. Compare different lenders and take a look at all of your interest rate options before you choose which company you want to work with.

Choose a lender with a solid reputation and affordable rates. You'll feel the effects of your lender's customer service team and personal policies much more strongly than the movement of the bond market when you manage your loan.

## The Bottom Line: Understand The Relationship Between Bonds And Mortgage Rates

Bond prices have an inverse relationship with mortgage interest rates. As bond prices go up, mortgage interest rates go down and vice versa. This is because mortgage lenders tie their interest rates closely to Treasury bond rates.

When bond interest rates are high, the bond is less valuable on the secondary market. This causes mortgage interest rates to rise. The value of each bond goes up when bond interest rates fall again. This causes mortgage lenders to lower their rates.

Bond prices only affect fixed-rate mortgage loans. Decisions made by the Federal Reserve affect the prices of ARM loans. You'll want to pay attention to the Fed's decisions when you're looking to picking the best mortgage loan.

Explore your mortgage options and get a quote from Rocket Mortgage®.

### We Use Cookies

Cookies help us improve our website, and allow us to view and retain your interactions with it. By continuing, you agree to our use of cookies. Our [privacy policy](#) explains more.