Mortgage rates again edge closer to 7% after Fed’s latest rate hike

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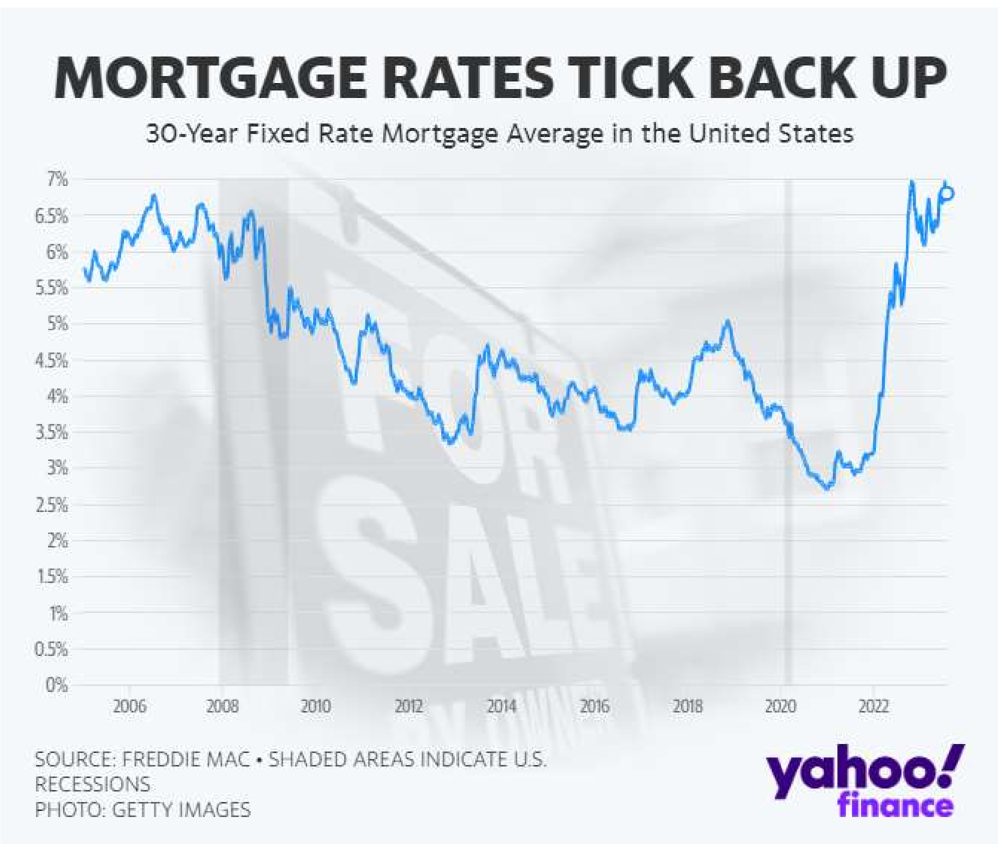
Purchasing a home got a little more expensive this week, as rates ticked closer to 7%. But relief may come later this year, according to a new forecast.

The average rate on the 30-year fixed mortgage increased to 6.81% this week, up from 6.78% the week prior, according to Freddie Mac. Rates followed the 10-year Treasury yield higher, as markets responded to the

Federal Reserve's quarter-point rate hike this week, which put short-term rates at the highest level in more than 20 years.

The increase compounds the unrelenting affordability problems homebuyers must swallow and further exacerbates inventory challenges, though softer rates may be in the offing.

"With consumer price inflation calming close to the Federal Reserve's desired conditions, mortgage rates look to have topped out," Lawrence Yun, chief economist at the National Association of Realtors (NAR) said in a statement on pending home sales Thursday. "Given the ongoing job additions, any meaningful decline in mortgage rates could lead to a rush of buyers later in the year and into the next."



Entry-level buyers can't keep up

First-time buyers, often the most rate sensitive in the market, took a step back as rates ticked up.

The volume of purchase applications for a mortgage decreased 3% from one week earlier on a seasonally adjusted basis to the lowest level in over a month, the Mortgage Bankers Association (MBA) survey for the week ending July 21 found. Overall, purchase demand was 23% lower than the same week a year ago.

The decline was partly driven by a 10% decrease in applications for home loans backed by the Federal Housing Administration, a popular choice among moderate-income and entry-level buyers.

“Many borrowers remain on the sidelines given current rates and persistent affordability challenges,” MBA deputy chief economist Joel Kan said in a statement.

A homeowner tours his new home, in Washingtonville, N.Y. The average rate on long-term mortgages increased this week to 6.81%, Freddie Mac said. (Credit: John Minchillo, AP Photo)

Home prices aren’t exactly helping the affordability equation either.

The median price of single-family homes was $450,000 for the week ending July 24, a separate survey by Altos Research found. That’s unchanged from last week and also from a year ago. The median price of a new listing was also unchanged from last year.

“Again, this is yet another signal that despite affordability challenges for so much of the country, there are sufficient buyers at these prices and these mortgage rates that home prices are not falling in 2023,” Mike Simonsen, CEO of Altos Research, wrote in his blog post.

A lack of inventory is also helping to prevent prices from falling. And that’s a direct consequence of elevated mortgage rates because many homeowners are holding off on selling their properties because they don’t want to give up their current low mortgage rate.

Altos Research forecasted at the start of the year that inventory would end 2023 at 600,000. The firm has since revised that figure down by a third to 400,000.

A new home under construction in Phoenix. The National Association of Home Builders/Wells Fargo said builders were feeling more optimistic in June, as buyers flocked to new homes as inventory of previously owned homes remained low. (Credit: Matt York, AP Photo)

“We’ve had low-inventory surprises almost every week all year,” Simonsen wrote. “The key takeaway on inventory is that there is no signal anywhere in the data, of a surge in inventory.”

Eventually homebuyers may get some relief as mortgage rates are widely expected to soften during the remaining months of the year.

For instance, NAR on Thursday released a forecast that puts the 30-year fixed mortgage rate at 6.4% this year and then drops to 6.0% in 2024. Realtor.com predicted in June that mortgage rates would average 6.4% throughout this year and fall to 6.1% by year-end. That’s similar to what the MBA is anticipating, too.

“MBA expects that rates will remain volatile in the coming months," MBA President and CEO Bob Broeksmit said in a statement this week, "but will fall to around 6% by the end of this year.”