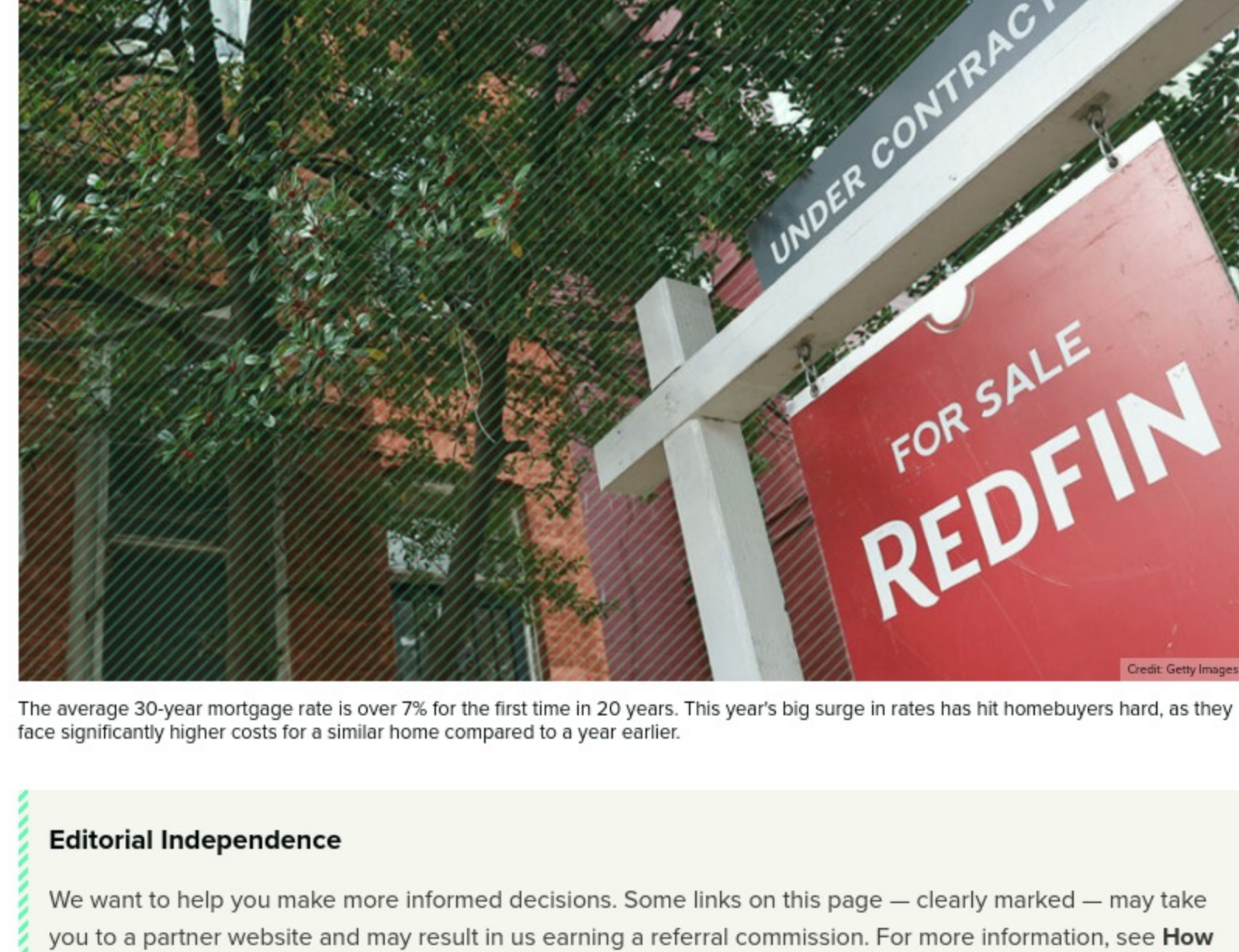


MORTGAGES • MORTGAGE NEWS

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Mortgage Rates Have Hit 7% for the First Time in 20 Years. How Buyers Can Cope

Jon Reed
October 27, 2022 15 MIN READ



The average 30-year mortgage rate is over 7% for the first time in 20 years. This year's big surge in rates has hit homebuyers hard, as they face significantly higher costs for a similar home compared to a year earlier.

Editorial Independence
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The last time mortgage rates were this high, a gallon of gas cost \$1.37, George W. Bush was in the White House and “Friends” was on Thursday nights.

The average 30-year mortgage rate was 7.12% this week — over 7% for the first time since April 2002 — according to Bankrate, which like NextAdvisor is owned by Red Ventures. A similar survey by the government-sponsored Freddie Mac put the average at 7.08%, also eclipsing 7% for the first time since April 2002.

Two decades ago, the average hit the 7% mark on a decades-long downward trend from the high-interest rate era of the 1980s, when rates peaked north of 16%. Today they're on the march upward in an environment of [high inflation](#) and [rising interest rates](#).

“It really comes back to inflation,” says [Jeff Tucker](#), a senior economist at Zillow.

The [Consumer Price Index](#) showed prices were up 8.2% year-over-year in September, continuing a trend of the highest inflation since the early 1980s. That has a direct effect on mortgage rates and encourages the Federal Reserve to raise its own short-term interest rate.

For homebuyers, the big jump in mortgage rates has been dramatic and unsettling. Alongside rising home prices, the cost to buy a house has risen massively in a short period of time. The monthly payment on the typical house is up 60-90% compared to a year ago, says [Ali Wolf](#), chief economist at Zonda, a home construction data firm.

“What we're finding is a lot of potential homebuyers are priced out of the market,” Wolf says.

The scariest part? The mortgage rate market is nowhere near settling down.

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What the Federal Reserve's Next Rate Hike Means for Mortgage Rates

The next big test comes next week, when the Federal Reserve announces its next rate adjustment. What the Fed announces isn't expected to be much of a surprise — most experts anticipate a fourth consecutive increase of 75 basis points to the federal funds rate — but the central bank's messaging could be significant.

Mortgage rates don't [move in concert](#) with the [federal funds rate](#), and experts say it's likely the market has already accounted for the expected 75-basis-point hike. But the market's reaction can be unpredictable.

“Anybody that tells you they know what's going to happen and where rates are going is just making it up,” says [Joe Allen](#), a senior mortgage lending officer at Quontic Bank, an online development financial institution.

Experts say markets will be watching for signals of the Fed's next steps, including whether the current pace of hikes will continue or if the central bank is ready to slow down.

“I do think that the Fed has heeded the call on main street about maybe slowing down a little bit and letting the checks and balances kick in,” says [Erin Sykes](#), chief economist at the real estate firm Nest Seekers International. “As we continue to do these 75-basis-point hikes month after month, it really has not given the market an opportunity to catch up.”

Current Mortgage Rates for January 4, 2023

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Purchase		Refinance		Zip Code	Property Value
Loan Amount		Percent Down	Loan Term	Credit Score	
\$ 352,000		20 %	30 year fixed	740+	
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Lender	APR	Rate	Mo. payment	Sort by
McGloone 30 Year Fixed NMLS: #3232				
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• Conventional, VA, FHA, USDA, Jumbo...we do it all!				
Next →				
FIRSTCAPUS 30 Year Fixed NMLS: #1639281	5.52%	5.25%	\$1,944	
	Jan 4, 2023	Points: 1942	Fees: \$10k	
Next →				
SILVERTON MORTGAGE 30 Year Fixed NMLS: #1561	5.83%	5.63%	\$2,026	
	Jan 4, 2023	Points: 1959	Fees: \$7,890	
Next →				
ThirdFederal 30 Year Fixed NMLS: #449401	6.17%	6.04%	\$2,119	
	Jan 4, 2023	Points: 1	Fees: \$4,915	
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What 7% Mortgage Rates Mean for Borrowers

The problem for potential buyers isn't just that mortgage rates are so expensive. Home prices, while they've started to fall on a month-to-month basis, are still incredibly high.

“For homebuyers, it's making a really dramatic one-two punch to the affordability of home ownership,” Tucker says.

Here are some reality checks to consider and some strategies to help buyers cope.

Can You Afford the Monthly Payment?

While mortgage rates draw a lot of attention, the most important thing to consider isn't the rate but rather the holistic cost of the home — best captured by your [monthly payment](#).

“If they can afford the monthly payment, they should lock in their interest rate from the very beginning,” Allen says.

Is This the Home for You?

Being able to afford the home is the important financial piece of the puzzle, but a house is more than just a money decision. In a turbulent market, you should find the home that you're comfortable buying. And you might have better luck finding one you like in a less competitive market like right now.

“Meeting that condition of finding the right home is a lot more feasible in this market than it was any time in the pandemic up until now,” Tucker says. “It's certainly much more feasible than it was any time in 2021.”

Consider Less Common Loans

If you don't like the interest rate on a 30-year fixed-rate loan, maybe get a loan with a better rate. Just understand the tradeoffs. A 15-year mortgage will come with a lower rate, but it will feature a much higher monthly payment. An adjustable-rate mortgage, meanwhile, will feature a lower fixed rate for a period, usually several years, before it starts moving with the market. That gives you time to refinance if rates drop, or move if you aren't planning on living in the home for too long.

“I think for an educated or savvy consumer, an ARM is not necessarily a bad idea right now, particularly if you expect to spend a short period of time in the property,” Sykes says.

Look for Deals on a House

The market slowdown wrought by higher interest rates has sent shockwaves through the housing industry, and that could present opportunities for a savvy buyer. There may be deals to be found, particularly in new construction homes, where builders have incentives to sell and may offer lower prices or buy down an interest rate, Wolf says.

“A builder has more cards to play to help someone close on the home,” she says.

PRO TIP

Home builders dealing with cancellations may have properties they're anxious to sell, and may be in the mood to cut a deal or buy down your interest rate.

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