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How Low Will Rates Go, and What Will Be the Impact on Buyers and Sellers?

I spoke recently with **Jaxzann Riggs**, owner of **The Mortgage Network**. I asked her to help prospective homebuyers (and me) understand the relationship between the "Fed Funds Rate" and mortgage interest rates.

Let's Talk Home Financing

By JIM SMITH Realtor®

The Federal Reserve was created by the United States Congress in 1913 with the mandate to provide the nation with a safer, more flexible, and stable monetary system. It is often referred to as the central bank of the United States. The interest rate set by the "Fed" dictates how much banks receive or pay each other in interest to borrow or lend funds to each other overnight.

There is no direct correlation between the "Fed Funds" rate and mortgage interest rates. Mortgage rates typically track the "yield" on 10-year treasury bonds. The "yield" that investors can earn on 10-year bonds is affected not just by the Fed's interest rate decisions but also by investors' overall perceptions about the health of the economy, the stability of the employment market, inflation, and politics.

Because the Fed has clearly signaled its intention to reduce rates in the near term, investors who purchase mortgage-backed securities have already begun to respond to the news and, as we have hoped for, mortgage rates have fallen recently from an October 2023 high of 7.79% to approximately 6.41% in the past week. The obvious question — will they go lower and how much lower? — generated this answer from Jaxzann: "My 38 years of experience have taught me that my crystal ball is cloudy, but the sub-4.00% rates that we enjoyed in the early 2020s were an anomaly, fueled by the Fed's need to keep the US economy afloat during the pandemic."

Forecasts by mortgage giants FNMA, FHLMC and GNMA suggest that ***if*** we see market rates below 6%, it is not likely to occur until 2025. While we might see the "affordability" of mortgage loans improve slightly, it's important to note that interest rates have averaged 7.74% since the 1970s.

The number of homes available for purchase has risen in recent months, so sellers are willing to offer financing concessions which can be used to "buy down" mortgage interest rates. The cost to buy down the interest rate on a 30-year fixed rate mortgage with a loan amount of $520,000 on a $650,000 purchase price from 6.41% to 5.5% is approximately $10,075 as of Aug. 11. The difference in the monthly principal and interest payment is roughly $299 per month.

"Buydowns" can be paid for by the borrower or by the seller on behalf of the borrower. The cost of the buydown in the above example would be recouped in approximately 33 months. For purchasers who expect to own their new home for 5 to 10 years, it can make sense to consider purchasing an even lower interest rate.

Sellers who have been unwilling to part with their enviable 2.75% to 4% mortgages might want to consider using a portion of their strong equity positions to buy down the rate on their next home and/or convert their current home into an investment property, allowing them to keep their valuable low rate.

A balanced market is frankly a gift to both buyers and sellers. If rates continue to fall, demand will build, and buyers will, once again, find themselves competing with multiple offers.

Jaxzann's message to buyers and sellers:

Affordable interest rates ***are available right now*** by utilizing interest rate buydowns**.** Jaxzann says (and I concur) that there is no better time than now to be a buyer or seller of real estate in Colorado.

If you have questions about lending, you can reach Jaxzann anytime on her cell phone at **303-990-2992**.