



Mortgage Rates Rising... Will Home Prices Follow?

Freddie Mac published an *Insight Report* titled "Nowhere to go but up? How increasing mortgage rates could affect housing." The report focused on the impact the projected rise in mortgage rates might have on the housing market this year.

Many believe that an increase in mortgage rates will cause a slowdown in purchases which would, in turn, lead to a fall in house values. Ultimately, however, prices are determined by supply and demand and while rising mortgage rates may slow demand, they also affect supply. From the report:

"For current homeowners, the decision to buy a new home is typically linked to their decision to sell their current home... Because of this link, the financing costs of the existing mortgage are part of the homeowner's decision of whether and when to move.

Once financing costs for a new mortgage rise above the rate borrowers are paying for their current mortgage, borrowers would have to give up below-market financing to sell their home.

Instead, they may choose to delay both the sale of their existing home and the purchase of a new home to maintain the advantageous financing."

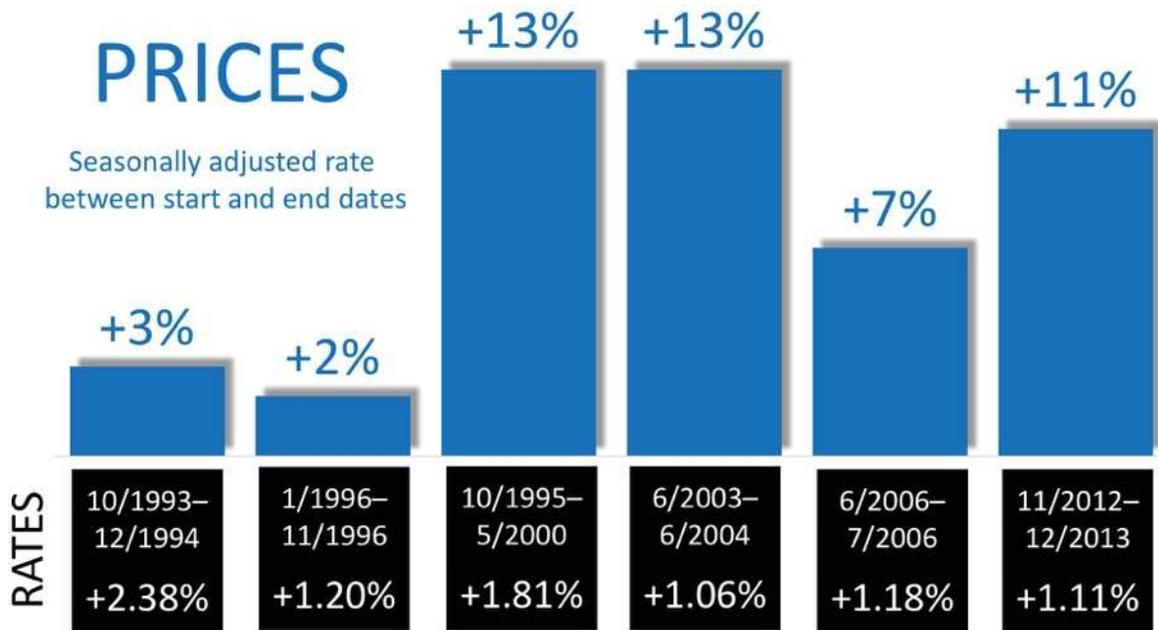
The *Freddie Mac* report, in acknowledging this situation, concluded that prices are not adversely impacted by higher mortgage rates. They explained:

"While there is a drop in the demand for homes, there is an associated drop in the supply of homes from the link between the selling and buying decisions. As both supply and demand move together in this way they have offsetting effects on price—lower demand decreases price and lower supply increases price.

They went on to reveal that the *Freddie Mac National House Price Index* is...

“...unresponsive to movements in interest rates. In the current housing market, the driving forces behind the increase in prices is a low supply of both new and existing homes combined with historically low rates. As mortgage rates increase, the demand for home purchases will likely remain strong relative to the constrained supply and continue to put upward pressure on home prices.”

The following graph, based on data from the report, reveals what happened to home prices the last six times mortgage rates rose by at least 1%.



Bottom Line

Whether you are a move-up buyer or first-time buyer, waiting to purchase your next home based on the belief that prices will fall because of rising mortgage rates makes no sense.



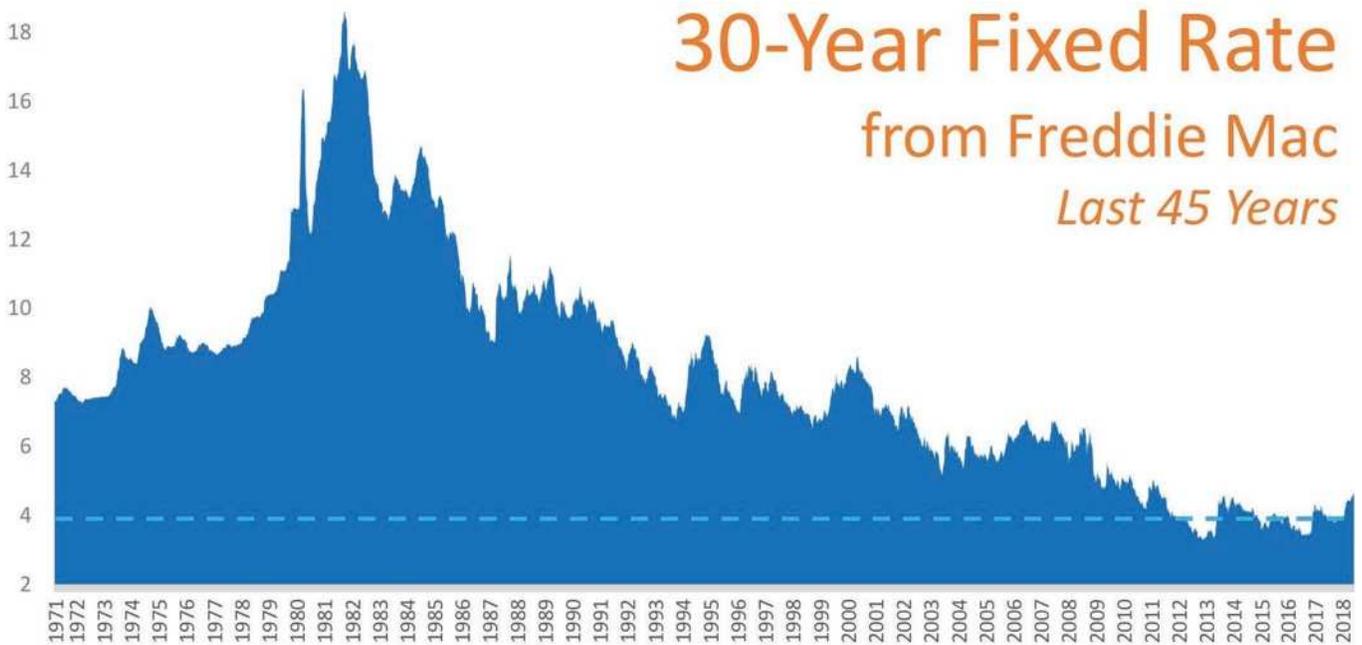


Be Thankful You Don't Have To Pay Mom & Dad's Interest Rate

Interest rates hovered around 4% for the majority of 2017, which gave many buyers relief from rising home prices and helped with affordability. In the first half of 2018, rates increased from 3.95% up to 4.66% and experts predict that rates will increase even more by the end of the year.

The rate you secure greatly impacts your monthly mortgage payment and the amount you will ultimately pay for your home. Don't let the prediction that rates will rise to 5.1% stop you from buying your dream home this year!

Let's take a look at a historical view of interest rates over the last 45 years.



Bottom Line

Be thankful that you can still get a better interest rate than your older brother or sister did ten years ago, a lower rate than your parents did twenty years ago, and a better rate than your grandparents did forty years ago.