

The Stagnant Housing Market Is About to Face a 7% Mortgage

The housing market is approaching the highest mortgage rate since January 2025, likely spooking home buyers and home builders even more

By

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Mortgage rates are closing in on 7% for the first time since the beginning of last year, promising more pain for prospective home buyers already wincing at record-high home prices and an uncertain economy.

Last week, 30-year fixed rates averaged 6.76% according to Freddie Mac. But daily rates have jumped since then and already surpassed 7%, according to Mortgage News Daily, which uses a different methodology.

The milestone of 7%, while not itself significant in terms of affordability, will likely spook buyers even further, economists say, and add a disappointing punctuation mark to a year once expected to launch the housing market's recovery.

"A jump in rates like this will certainly cause [prospective home buyers] to pause," said Michael Fratantoni, chief economist at the Mortgage Bankers Association. "They may not go ahead and put in that contract or apply for the loan."

Mortgage rates as surveyed by Freddie Mac touched 7% in January 2025, but haven't stayed above that level for an extended period since the second half of 2023. Before 2022, mortgage rates hadn't hit 7% since 2001.

The 30-year rate tends to follow the 10-year Treasury yield, which on Monday briefly broke through 5%—a point it hadn't hit since late 2023.

The Federal Reserve is expected to raise the federal-funds rate on Wednesday for the first time in three years. A rate hike could lead to lower Treasury yields—and therefore mortgage rates—if the market believes that the Fed is taking inflation seriously. Or it could push yields higher if taken as a sign that the economy faces a real inflation problem.

This year's run-up in mortgage rates, driven primarily by the war in Iran, has kneecapped a housing market that is now well into its fourth year of stagnant sales.

The National Association of Realtors said last Thursday that sales of existing homes declined 2% in August over the previous month to a seasonally adjusted annual rate of 3.98 million, the lowest since June of last year.

Zillow economists once projected 4.3% growth in home sales for 2026. Now they are forecasting sales to be up 1.3% for the year and down 3.5% for the fourth quarter.

"The math for the rest of the year is going to be very challenging," said Zillow economist Kara Ng.

A difference of a few percentage points on a mortgage can translate to hundreds of thousands of dollars in interest over a 30-year loan. Home buyers also won't have an opportunity to refinance anytime soon with rates likely to stay elevated, economists say.

Home prices have been steadily rising, but many home buyers remain rate sensitive, even during this extended housing slump. In February, rates briefly dropped below 6%, sparking a flurry of buyer interest and optimism that a rebound in sales was on the horizon.

But after the U.S. and Israel attacked Iran, rates surged and have risen significantly since then. They jumped further in recent weeks as a bond selloff driven by fears of sticky inflation and soaring government deficits drove up Treasury yields.