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REAL ESTATE

How will the recent Fed rate hike affect mortgage rates? Here's what we know

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Key Points

Federal Reserve announces interest rate hike, but mortgage rates may not be affected.

Mortgage rates may begin to fall by summer or early Fall.

Earlier this week the Federal Reserve implemented another increase to the short-term interest rate, which now sits at 5.25%, up 25 basis points, which is the highest it has been in 17 years.

This latest hike comes in an effort to continue to slow economic activity by driving up rates for credit cards and adjustable-rate mortgages, but experts watching the housing industry say these rate hikes are not helping to bring down skyrocketing home prices.

Kevin Watson, Middle Tennessee district manager for Churchill Mortgage, said homebuyers need to approach this rate hike with some understanding of where it comes from.

"While the Fed hiked rates again, that entity looks at what has happened the past," Watson told The Tennessean. "Mortgage-backed securities actually look at what is going to happen, sort-of like the stock market. I commonly say the Fed likes to drive using only the rear-view mirror."

What does that means for mortgage rates right now? Actually, not much.

Since mortgages have already factored in the Fed's recent rate hike, homebuyers should not see a higher mortgage rate, Watson said, adding, "In fact, many experts think mortgage rates will fall in the next couple months."

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David M. Dworkin, president and CEO of the National Housing Conference said in a statement that raising interest rates further to control inflation is no longer the answer.

"This is instead contributing to an increase in the cost of shelter," Dworkin said. "The Federal Open Market Committee needs to let the economy absorb the previous rate increases while we focus on increasing housing supply to address skyrocketing shelter costs."

National Association of Realtors Chief Economist Lawrence Yun agreed, saying in a release that the latest interest rate hike by the Federal Reserve is "unnecessary and harmful."

His statement went on to say, "After the awful 9% consumer price inflation in the summer of last year, the latest data shows 5% inflation. It will be even lower as the heavyweight component to inflation, which is housing rent, will inevitably slow down given the 40-year high robust construction of new empty apartment units.

Watson, however, said there is light on the horizon for those looking to buy a home.

"The good news is the hike this week was already built into mortgage-backed securities, and we believe that new economic reports will indicate inflation is going down more than expected," he said. "So we are hopeful for rates to drop into the 5's for 30-year mortgages by the end of summer, maybe earlier, and at least by the Fall."

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