

Long-term mortgage rate rises to 6.52%

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The average long-term U.S. mortgage rate ticked up this week to just below its high for the year, the latest sign that borrowing costs on home loans remain elevated relative to where they were before the war with Iran started.

The benchmark 30-year fixed rate mortgage rate rose to 6.52% from 6.48% last week, mortgage buyer Freddie Mac said Thursday. Despite the increase, the average rate remains below 6.84%, where it was a year ago.

Borrowing costs on 15-year fixed-rate mortgages, often sought by borrowers refinancing a home loan, also rose this week. That average rate climbed to 5.84% from 5.79% last week. A year ago, it was at 5.97%, Freddie Mac said.

When mortgage rates rise they can add hundreds of dollars a month in costs for borrowers, reducing their purchasing power.

Mortgage rates are influenced by several factors, from the Federal Reserve's interest rate policy decisions to bond market investors' expectations for the economy and inflation. They generally follow the trajectory of the 10-year Treasury yield, which lenders use as a guide to pricing home loans.

Rates have been mostly trending higher since the conflict between the U.S. and Iran began in late February, disrupting the flow of crude oil from the Persian Gulf to customers worldwide. That's sent oil prices sharply higher, helping drive up inflation.

Expectations of higher oil prices as the war drags on have kept long-term bond yields elevated, causing mortgage rates to mostly trend higher.

The yield on the U.S. 10-year Treasury note was at 4.53% in midday trading Thursday on the bond market, up from 4.47% a week ago. It was just 3.97% in late February, before the war broke out.

As recently as late February, the average rate on a 30-year mortgage had slipped just under 6% for the first time since late 2022. It's hasn't fallen below that threshold since. Two weeks ago, it climbed to 6.53%, its highest level since August 28.

While average long-term mortgage rates remain lower than they were at this time last year, their mostly upward trajectory and uncertainty over how much higher they may go has kept many would-be homebuyers on the sideline.

Sales of previously occupied U.S. homes declined in the first three months of the year compared to a year earlier, extending a nationwide housing slump that dates back to 2022 when mortgage rates began to climb from pandemic-era lows. Sales were essentially flat in April, but accelerated in May to their fastest pace since December.

Still, sales of existing U.S. homes continue to hovering close to a 4-million annual pace, far short of the historic norm that is closer to 5.2-million.

The latest mortgage applications data suggest home shoppers who can afford to buy at current rates are not holding out for them to move lower.

After declining in recent weeks, mortgage applications, which include loans to buy a home or refinance an existing mortgage, jumped 10.8% last week from the previous week, according to the Mortgage Bankers Association. Applications for both home purchase and refinancing loans rebounded. The increase in mortgage applications is an encouraging sign for the housing market heading into the second half of the year after a lackluster spring homebuying season.

“However, if inflation continues to outpace wage growth, eroding purchasing power alongside still-elevated mortgage rates, household budgets will come under increasing pressure, posing a meaningful drag on housing demand heading into the summer,” said Jiayi Xu, an economist at Realtor.com.