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The Fed Isn't Cutting Interest Rates Today. Mortgage Rates Could Still Spiral

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The Federal Reserve is almost certain to hold interest rates steady at the conclusion of its meeting today, despite President Trump's demand that they be slashed immediately.

If you're in the market for a home, you might be wondering what that means for mortgage rates.

When the Fed adjusts its benchmark interest rate, interest rates on savings accounts and short-term loan vehicles follow quickly. Long-term rates like mortgages, however, take their cues from the broader economic outlook and fiscal indicators rather than directly from policymakers' moves.

Given today's turbulent political and economic environment, mortgage rates could wildly fluctuate up or down -- or they could stay relatively steady in the 6% to 7% range.

"The Fed doesn't set mortgage rates, but it sets the tone," said Nicole Rueth of The Rueth Team with Movement Mortgage.

Mortgage rates are closely tied to the bond market and investor predictions about what's next. Right now, Trump's erratic tariff campaign has generated widespread uncertainty among bond investors, resulting in volatility in the mortgage market.

What are the main considerations of the Fed?

After three interest rate cuts in 2024, the Fed has been holding steady this year. The central bank needs to gauge how Trump's economic agenda, particularly around trade, immigration and government spending, will affect inflation and employment.

There are also concerns about a potential US recession, marked by a shrinking GDP, rising jobless claims and falling consumer confidence.

"The Federal Reserve is in one of the trickiest spots in recent economic history," said Ali Wolf, Zonda and NewHomeSource chief economist.

Lowering interest rates could allow inflation to surge, which is bad for mortgage rates. Keeping rates high, however, increases the risk of a job-loss recession that would cause widespread financial hardship. "This is why there's been a lot of 'wait and see' happening from the Fed," Wolf said.

In the mortgage market, what the central bank *says* matters more than what it *does*. Investors will be scrutinizing Fed Chair Jerome Powell's remarks for clues about how policymakers are weighing economic risks.

If Powell signals concerns about inflation or mentions the possibility of fewer rate cuts in 2025, bond yields and mortgage rates are likely to increase. But if he points to ongoing policy easing in the coming months due to tariff-induced growth risks, mortgage rates could go down.

"Tariffs add inflation risk while simultaneously slowing demand; it's a policy nightmare for the Fed," said Rueth.

How does the Fed influence mortgage rates?

The Fed sets and oversees US monetary policy under a dual mandate to maintain price stability and maximum employment. It does this largely by adjusting the federal funds rate, the rate at which banks borrow and lend their money.

When the economy is in a slump or downturn, the Fed reduces interest rates to stimulate consumer spending and propel growth, as it did during the COVID-19 pandemic.

In an inflationary environment, the Fed raises interest rates to slow economic growth. For example, the Fed raised its benchmark interest rate by more than five percentage points between early 2022 and mid-2023 to combat inflation by curbing consumer borrowing and spending.

Altering the price of credit causes a slow domino effect on mortgage rates and the broader housing market. Banks typically pass along the Fed's rate hikes or cuts to consumers through longer-term loans, including home loans.

Yet, because mortgage rates respond to several economic factors, it's not uncommon for the federal funds rate and mortgage rates to move in different directions for some time.

How will the Fed's future rate cuts affect mortgage rates?

While the Fed's projections point to two cuts this year, with the first potentially coming in July, much is still uncertain. For the Fed to resume lowering interest rates, policymakers would need to see an ongoing decline in inflation or a rapid deterioration of the labor market.

If unemployment spikes and the economy slows further, the Fed will likely be forced to implement more interest rate cuts. In that case, mortgage rates should gradually ease.

Most housing market forecasts, which already factor in at least two 0.25% Fed cuts, call for 30-year mortgage rates to stay above 6% throughout 2025.

Even if rates do fall during a recession, the housing market won't suddenly become affordable if families are grappling with high prices and job insecurity. Today's unaffordable housing market also remains plagued by limited inventory and steep home prices.

What other factors affect mortgage rates?

Mortgage rates rise and fall for many of the same reasons home prices do: supply, demand, inflation and even the employment rate. But your own personal mortgage rate also comes down to your individual finances, like your credit score and down payment, as well as the specific type and terms of the loan you pick.

Policy changes: When the Fed adjusts the federal funds rate, it affects many aspects of the economy, including mortgage rates. The federal funds rate affects how much it costs banks to borrow money, which in turn affects what banks charge consumers to make a profit.

Inflation: Generally, when inflation is high, mortgage rates tend to be high. Because inflation chips away at purchasing power, lenders set higher interest rates on loans to make up for that loss and ensure a profit.

Supply and demand: When demand for mortgages is high, lenders tend to raise interest rates. This is because they have only so much capital to lend in the form of home loans. Conversely, when demand for mortgages is low, lenders tend to slash interest rates to attract borrowers.

Bond market activity: Mortgage lenders peg fixed interest rates, like fixed-rate mortgages, to bond rates. Mortgage bonds, also called mortgage-backed securities, are bundles of mortgages sold to investors and are closely tied to the 10-year Treasury. When bond interest rates are high, the bond has less value on the market where investors buy and sell securities, causing mortgage interest rates to go up.

Other key indicators: Employment patterns and other aspects of the economy that affect investor confidence and consumer spending and borrowing also influence mortgage rates. For instance, a strong jobs report and a robust economy could indicate greater demand for housing, which can put upward pressure on mortgage rates. When the economy slows and unemployment is high, mortgage rates tend to be lower.

Is now a good time to get a mortgage?

Even though timing is everything in the mortgage market, you can't control what the Fed does. "Forecasting interest rates is nearly impossible in today's market," said Wolf.

Regardless of the economy, the most important thing when shopping for a mortgage is to make sure you can comfortably afford your monthly payments.