

Mortgage Rates of 7% Put New Stress on Buyers, Sellers

BY NICHOLAS G. MILLER

Average 30-year mortgage rates hit 7.03% this week, the first time they have surpassed 7% since the beginning of last year, according to Freddie Mac. The threshold doesn't hold any particular economic significance, but it is psychologically important for buyers. Economists say that with mortgages above 7%, more potential buyers are likely to stick to the sidelines, dragging down a housing market that is in its fourth year of stagnant sales.

Here are five things to know about how the housing market changes with rates above 7%.

1 High mortgage rates are becoming the new normal

Before 2022, mortgage rates hadn't hit 7% since 2001. Over those two decades, Americans became accustomed to rates in the threes and fours. During the pandemic, many buyers even purchased homes with a rate below 3%. When rates began spiking in 2022, the housing market ground to a halt, with many buyers expecting them to eventually fall back down to the levels they were used to. But over the past four years, rates have remained high and economists say they are unlikely to fall anytime soon, with inflation and economic uncertainty still elevated. Many buyers and sellers have begun to realize this, and are stomaching higher mortgage rates despite the economic cost simply because they can't wait any longer to move.

2 Adjustable-rate and interest-only mortgages become more attractive

With mortgage rates above 7%, alternative mortgages with lower initial monthly payments will likely become more attractive to buyers despite their risks. Adjustable-rate mortgages offer a lower fixed rate for a period of time—usually between 3 and 10 years—before readjusting to whatever rates are at the time that period ends. That makes sense if you are confident that rates will at some point fall, but that isn't a very safe assumption, said Homes.com chief residential economist Brad Case. Interest-only mortgages also offer a lower monthly payment initially but carry the risk that if the house price falls, the owner could end up in negative equity. "You have to know why the monthly payment is lower, both of those are riskier than a standard 30-year fixed-rate mortgage," Case said.

3 Housing market of 2026 is ending on sour note

In February, mortgage rates fell below 6% for the first time since 2022, sparking a flurry of buyer interest and fueling optimism that ahead of the market's key spring selling season, home sales were on their way back to normal this year. Then the Iran conflict started, and the associated disruption to oil prices and global trade pushed up rates. That turned the spring selling season into a bust. As rates have continued to rise, sales have continued to fall. In all, economists say the housing market did make some progress this year in that more buyers, as they get new jobs or have children, have opted to move despite the costs. But the industry is still waiting for the recovery that it has long been hoping for.

4 Sellers might take their homes off the market

For years, the housing market has been starved for inventory with sellers opting to stay put to hold on to their low mortgage rates. That lock-in effect has started to ease as sellers realize that rates aren't falling anytime soon and existing home inventory is approaching pre-pandemic levels. In August, there were 1.62 million existing homes available for sale, the highest since 2019. But the 7% mortgage threshold could halt that progress. Sellers not only will be wary of trading in their 3% rate, but also know that they may have to lower their list price to draw buyers whose affordability is hamstrung by 7% rates. Instead, sellers could stay in place, renovating their current homes rather than moving.

More bad news for home builders

It is a challenging time to be a home builder and 7% mortgage rates only make things worse. With their margins dragged down by rising materials and labor costs, home builders are also offering expensive mortgage rate buydowns to stimulate sales in a stagnant market. Higher mortgage rates make those incentives even more costly for builders, dragging down their profits and discouraging them from expanding production.

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Average rate on a 30-year fixed mortgage



Source: Freddie Mac

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