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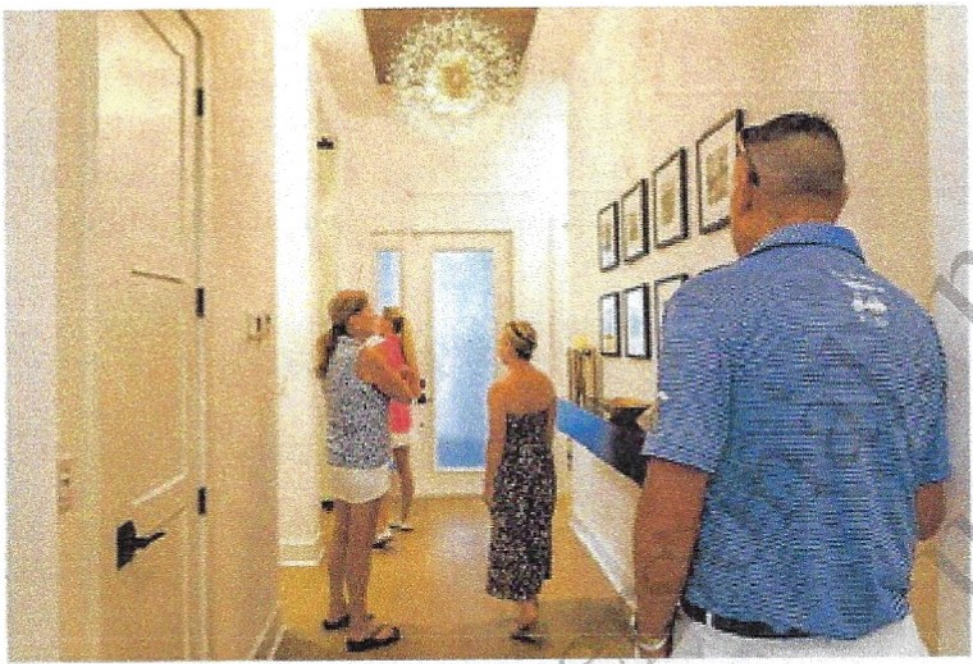

The market remains frozen by high borrowing costs and inventory gridlock in many areas. ZAK BENNETT/ BLOOMBERG NEWS

Brief Mortgage-Rate Drop Points to False Housing Start

BY VERONICA DAGHER AND NICOLE FRIEDMAN

The U.S. mortgage market is locked in a tug of war, leaving home buyers and refinancers caught between a brief respite in geopolitical tensions and a hawkish Federal Reserve.

In late February, driven by Fed rate cuts in prior months, the 30-year fixed mortgage rate drifted below 6% for the first time since 2022. President Trump lauded the milestone during his State of the Union address, declaring that lower rates would help solve the nation's housing problems.

The celebration was shortlived. Joint military actions by the U.S. and Israel against Iran ignited a war that spiked oil prices and stoked inflation expectations. Treasury yields surged in response, dragging mortgage rates with them. In May, mortgage rates rose above 6.5%.

While news of a ceasefire agreement and a framework to reopen the Strait of Hormuz helped trim the average mortgage rate back to 6.47% last week, according to Freddie Mac, that decrease looks fragile. The shipping lane was restricted again over the weekend following renewed regional escalations.

Mortgage rates rose again Monday to 6.66%, according to the daily calculation from Mortgage News Daily.

"We're still in a worse situation than we were in February, inflation-wise," said Brad Case, chief residential economist at Homes.com. "I don't see any reason to think that mortgage rates will come down in any substantial sense."

Where mortgage rates settle in the second half of the year is crucial to the housing market's ability to break out of a stubborn sales slump, which is now well into its fourth consecutive year.

Many buyers remain poised to act when mortgage rates show even a short-lived dip, as they did in February when rates began the year moving lower.

But with the prime spring buying season over and home sales holding at depressed levels, the market remains frozen by high borrowing costs and inventory gridlock in many parts of the country. Rising inflation could make things worse. Consumer prices were up 4.2%, a three-year high, in May, and Fed officials indicated at a meeting last week that further rate increases are on the table.

Fed Chairman Kevin Warsh said in a news conference last week that current rates are restrictive for the housing market, but he added that Fed policy isn't the only factor driving the market.

Note

"There was not much in his message that points to immediate relief for home buyers," said Jeff DerGurahian, chief investment officer and head economist at LoanDepot. "We likely still have a long way to go before seeing a meaningful drop" in m o r t g a g e rates. High home prices are also giving buyers a reason to avoid the market. The typical monthly payment for a buyer purchasing a medianpriced home with a 20% down payment was $2,647 in the four weeks ended June 14, the highest level in about a year, according to the real-estate brokerage Redfin.

Homeownership costs including insurance, electricity bills and maintenance also have risen in recent years.

In their latest forecasts, the Mortgage Bankers Association and National Association of Realtors both called for mortgage rates to average 6.5% this year.

"Until rates drift downward, the market will continue to feel stuck," said Chen Zhao, Redfin's head of economics research. "The Fed is more worried about inflation than coming to the rescue of rate-sensitive sectors like housing."

Frustrated home shoppers should stop trying to time the mortgage market, said Skee Orr, a financial planner in Knoxville, Tenn.

Note

"Focus on personal timelines rather than macroeconomic swings," he said. He advises buyers to give priority to income stability, budget constraints and long-term goals over waiting for a quarterpoint rate drop that could quickly reverse.

Note

To capitalize on dips in rates when they do occur, planners recommend having financial groundwork laid well in advance. This includes securing a preapproval and shopping around.

"The spread between different lenders on the same day can often be wider than the daily move in market rates themselves," said James Mayo, a financial planner in Lakewood, Colo.

Refinancing has come into focus for a segment of existing homeowners. Those who locked in mortgages above 7.5% in recent years stand to benefit from the current mid-6% range, but financial planners caution against rushing in.

Mayo suggests that a refinance typically only makes sense if the new rate is at least 0.5 to 0.75 percentage point lower than the borrower's current rate, and if they plan to stay in the home long enough to recover the upfront fees.

Borrowers also must look closely at how a new loan affects their long-term finances. If a homeowner is five years into a 30-year mortgage and refinances into a new 30-year term, that effectively resets the clock to year one. Even with a lower monthly payment, stretching out the loan term could cost borrowers thousands of dollars more in total interest over the long haul.

$2,647

Typical monthly payment for a median-priced home with 20% down

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Average rate on a 30-year fixed mortgage
7.0%
6.8
6.6
6.4
6.2
6.0
5.8
July 2025
'26
Source: Freddie Mac

