Will Mortgage Rates Go Down in 2021?

Finances

Well, there's good news and bad news. The good news: Mortgage rates will probably stay low, around 3%, for a little while longer — at least for 30-year fixed mortgages.

Now for the bad news: Mortgage rates will probably stay low, thanks to the less-than-stellar August jobs report and the effects of the Delta variant of COVID-19.

That's a quick summary, but let's dig a little deeper on how these factors come together to influence mortgage rates.

COVID Variants

Mortgage rates will probably rise again, but only once new variants of COVID can be kept under control. Honestly, a little rise in mortgage rates would be a sign that the economy is opening back up and that businesses can start operating at or near capacity.

As more Americans get vaccines and boosters, people who have gotten sick with COVID recover, and masking policies start to slow the effects of the pandemic, restrictions will lift.

Inflation

Inflation is still — and always will be — a factor in raising interest rates. Unfortunately, 2021 has seen a larger than expected rate of inflation. Lenders may demand higher rates to compensate for lost spending power as the dollar gets weaker.

The Fed says the current inflation rates are temporary, but we'll see. If they're correct, that would certainly help to keep interest rates from getting higher.

Real Estate Boom

There's still a huge demand for houses. New homes, existing homes, it almost doesn't matter. The more that people are taking out loans, the more interest can be charged because people will pay it.

The after-effects of these new loans will start to be felt soon, but rates should still hover around 3%. The good news is that as more new homes are built and demand goes down, home prices will be driven down, which means that the amount paid on mortgages will be lower, too.

U.S. Debt

This is one of the few times where you'll hear good news related to United States debt! Thankfully, the U.S. is still a wise investment for overseas investors. As things like Treasury bonds and mortgage-backed securities get purchased, those dollars help to keep interest rates low.

But those mortgage-backed securities could also be the Achilles heel that results in interest rates rising again. The Federal Reserve currently purchases $40 billion worth of mortgage-backed securities every month. This will stop in the future — perhaps the very near future — thanks to the COVID stimulus program.

Once their goals are met for employment and price stability in the market, that purchasing goes away. This could happen as soon as the end of the year.

What's the Verdict?

It would be wonderful to be able to say, "Yes, mortgage rates will absolutely go down!" But we can't. Experts are predicting a slight rise to just above 3%, but no one is pushing any doom-and-gloom scenarios.

Unfortunately, if there's anything the pandemic has taught us, it's that predicting the future with any kind of certainty is a fool's errand. If you're thinking about refinancing, now's the time.

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