

What Do Rising Interest Rates Mean For You?

With inflation at all-time highs, the Federal Reserve is fighting back by making money more expensive to borrow — or raising the base interest rates.

In June, the Fed raised rates by 0.75 of a percentage point, which may not seem like much, but it's the biggest rate hike since 1994. More hikes are likely, too, as inflation continues to surge.

This makes the complicated process of buying a home even more complicated. Here's how.

IF YOU'RE BUYING

You want to lock in that lower rate and find a property fast before rates go up even more. A mortgage rate lock freezes your interest rate for a period of time during which you must close the loan or the rate will fluctuate again. This is important with rising rates. Be careful, though. Your lender may charge a fee for locking the loan or roll that into the cost of the loan. Make sure it'll be worth your while to lock.

Rate locks can also be voided if any of your information



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REAL ESTATE 101

Understanding Basis Points

A basis point is the common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100 of 1%. They are used to show the change in value or rate of a financial instrument. They can be abbreviated to bp, bps or bips.

changes. If your credit score takes a hit, you change employment, your property appraisal changes or anything else, the rate lock could roll off, leaving you open to paying more for your home loan.

IF YOU'RE SELLING

As money gets more expensive, more buyers will leave the real estate market, opting

to stay in rentals or in their current home until mortgages become cheap again.

However, even with rising rates, mortgage rates are still near historic lows, thanks to years of the Fed keeping interest rates at or near zero. In 1981, for instance, during the OPEC-fueled recession, mortgage rates soared to near 20%, finishing the decade at 10%,

which would still seem outrageous to most borrowers today.

This means that you are going to have to work harder than you did even just a few months ago to sell your home. Consider paying all or part of the closing costs, particularly if the home you're selling is marketed to first-time buyers. You may also consider offer-

ing sweeteners such as home warranties, including appliances with the sale, and other things to entice buyers to pounce on your property.

This is where working with a real estate professional could really pay off. They know the market in your area intimately and can offer you tips to put your home head and shoulders above other inventory, attracting what buyers there are as rates inch upward.

THE FORECAST

Unfortunately for buyers and sellers alike, the forecast foretells more Fed hikes in the future this year. So far this year, an aggressive Federal Reserve Board has hiked rates by a full percentage point and it could go all the way up to nearly 3% before the year is out. Making money more expensive is one way to cool the economy (and hopefully that record inflation), but the balance for Fed officials is not doing too much, too fast, pushing the country into a recession.

Two of the last three tightening cycles have ended in a recession, and odds are that this one will, too, making markets (and homebuyers) uneasy about the future. That unease translates into people staying put wherever they are.



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HOMEWISSE GLOSSARY

Nehemiah: An FHA insured government loan that helps low income home buyers with down payment assistance. SOURCE: MLS.com

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