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How Much Will My Mortgage Rise by the End of 2017?

With the Federal Reserve ready to hike interest rates, home buyers and refinancers face higher mortgage rates - and fatter monthly home payment bills.

By Brian O'Connell

Economic experts are expecting with increased certainty that the Federal Reserve will raise interest rates -- and soon.

"The prediction for a December Federal Reserve interest rate hike has increased from 72.3% a week ago to 86.7%," the California Mortgage Report said in a research note on October 5.

The CMR notes that, with stocks booming, and the economy on the rise, the Fed may feel compelled to hike rates one more time this year, primarily to keep inflation in check.

"The stock market is still holding strong, accelerating into new record highs," the CMR says. "The Dow Jones Industrial Average rose 90 points (on October 5). The S&P 500 index rose 12 points 2,549. The Nasdaq Composite Index COMP was up 36 points, or 0.6%, to 6,570. All three indexes traded at or near intraday records."

"Consequently, with Federal Reserve interest rates poised to increase, mortgage interest rates may also increase," the organization adds. "Now could be the best time to lock in a low mortgage interest rate for years. Mortgage rates are only somewhat higher than their all-time lows in November 2012."

With rates set to rise, just how much will mortgage rates rise before 2017 calls it a year? It's a question any aspiring homebuyer or home loan refinancer should ask.

Right now, the average 30-year fixed mortgage rate is at 4.06%, with the 15-year rate at 3.32%. Expect those digits to rise, and soon.

"We've had a couple of rate increases of 25-basis points already this year," says Brett Anderson, a certified financial planner with St. Croix Advisors, LLC, in St. Paul, Minn. "I suspect we'll continue to see small increases going forward."

Anderson agrees with the sentiment that consumers are seeing a generational low in mortgage rates - but not for long. "In our lifetime, I don't believe we'll ever see rates so low again," he says. "Now's the time to buy and lock in those mortgage rates, as rates are still great."

Other financial experts concur with that estimate, but say the speed of mortgage rate growth may be more incremental in pace than consumers may think.

"All indicators point to interest rates rising slowly - a quarter point to start - over the next few months," says Allison Bethell, real estate analyst at New York City-based Fit Small Business.

Bethel expects the Federal Reserve will buy fewer Treasury and mortgage-backed securities, and that should impact the direction of rates.
"Unemployment rates are relatively low, and the economy is still growing despite several major natural disasters," she says. "Supply and demand have the strongest effect on mortgage interest rates."

"When the economy is sluggish, interest rates drop to encourage growth through consumer buying, but when the economy is in better shape, interest rates can slowly increase, since people are comfortable with the concept of buying," Bethel adds.

Bethel's advice to new homebuyers? "Buy now," she says. "Investing in real estate has repeatedly been proven to be a solid long-term investment strategy for building wealth. Don't wait for interest rates to drop because we don't know exactly when that will happen, and, in the meantime, they may miss out on a great property."

That said, mortgage industry insiders caution buyers and refinancers to pay attention to the direction of rates, but don't use them as a sole driver when deciding to apply for a mortgage or not.

"The interest rate is not the key decision maker for the buyer," says Shaun Hamman, executive vice president for the eLEND consumer division at American Financial Resources. "At the end of the day, nobody buys a house solely because of an interest rate. Interest rates affect the borrower's buying power, so they affect the affordability, but they don't control buyer motivation."

The higher the interest rate, the higher the mortgage payment, so it obviously affects what you can afford to purchase, says Hamman.

"People don't buy a house because rates are below a certain percentage," he adds. "People buy a house because it is the right time for them as a family. The school system, location, proximity to work, quality of life, those are the greatest influences."