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# The Fed raised interest rates. What does that mean for homebuyers?

Despite the Federal Reserve announcing a .25% rate hike in the federal funds rate Wednesday, there's still some good news for buyers looking to purchase a home.

It's unlikely that the uptick in the federal funds rate will have a direct impact on how much mortgage rates rise, according to experts.

"The federal funds rate might tend to move in the same direction, but they are not clearly linked," said Ken H. Johnson, real estate economist at Florida Atlantic University. "I just don't think you are going to see this work into mortgage rates."

At times, when the federal funds rate — or the rate at which banks lend each other money overnight — rises, mortgage rates typically rises as well, though they are not directly related.

Johnson said that if there were any effects on the mortgage rates, it would be negligible.

“Mortgage rates have very little connection the federal funds rate. They do have a strong connection to the 10-year treasury notes,” he said. “It’s market interactions that really cause mortgage rates to rise.”

The hike is the first one since 2018 and is an attempt to combat inflation and ease some of the demand that has been pushing up prices, the Federal Reserve said.

More hikes are expected to happen by the end of the year to combat inflation, the fed added.

The real estate market has seen astronomical price growth in the past two years across the country, as low inventory, record low mortgage rates and intense demand put upward pressure on home prices.

In particularly hot markets such as South Florida, where median home sale prices have risen at least 20% over the past year, the uptick in the mortgage rates since the beginning of the year hasn’t slowed demand.

How high are mortgage rates now

Mortgage rates are rising rapidly, but they aren’t tied to the Federal Reserve raising the inter bank loan rates, Johnson explained.

Currently, mortgage rates stand at about 4.58%, a jump from around 4% last week. At the height of the housing boom, mortgage rates sat at around 2.75%, helping to fuel the housing market as buyers rushed to lock in low interest rates.

“We are tied to the 10-year treasure yield,” explained Doug Leever with the Tropical Credit Union in Miramar, Florida. “That is an indicator of our rates and it’s a direct correlation to that.”

Noting that mortgage rates are trending upward, Leever added, “This could be the time to get into a home that you want to buy.”

Inventory still remains one of the biggest deterrents for people getting into a home.

Effect on the housing market

Mortgage rates rising in general could have a cooling effect on the market, but it depends on which segment of the housing market.

Experts say it may not have much affect on the luxury housing market in South Florida, which has seen a boost from out-of-state buyers.

“The recent rate increase is unlikely to affect the luxury real estate market, largely because the majority of high-net-worth luxury buyers are buying in cash, or when they do choose to finance, they finance because the rates are advantageous,” said **Bonnie Heatzig, executive director of luxury sales at Douglas Elliman in Boca Raton**, adding that the lack of inventory available will have the largest impact on those buyers.

The biggest impact of the upward trend in mortgage rates will be with first-time homebuyers, experts warn.

“It’s going to make a difference in buyer’s mortgage payments, unfortunately, and it will reduce their buying power,” said Brian Pearl, principal agent with The Pearl Antonicci Group in Boca Raton.

But for some potential homebuyers, buying still might be a less expensive option, as inflation hits the rental market, sending many rents soaring.