

Mortgage Interest Rate Predictions & Forecast: Mortgage Rates Likely to Rise From Current Levels by the End of 2021

By Jason Stauffer

After mortgage rates hit an all-time low in January of this year, they quickly increased and have since dropped back down closer to their record lows. But many experts forecast that rates will rise by the end of 2021.

As the economy begins to reopen, the expectation is for mortgage and refinance rates to grow. But that doesn't mean rates will shoot up overnight.

So far, the increase in rates has come with ups and downs marked by a gradual rise over time. And today's mortgage interest rates are still low when you look at mortgage rate history.

That means those looking to buy a home, and homeowners who haven't refinanced, still have a chance to lock in exceptionally low rates. While no one has a crystal ball when it comes to predicting mortgage rate trends, the general consensus of the experts we talked to is that it's likely rates will inch upward by the end of 2021.

Mortgage Rates Predictions for Late 2021

Since the beginning of the year, the average 30-year fixed mortgage rate increased sharply, topping out at 3.18% in early April, according to Freddie Mac. Since then, rates have gradually decreased hitting 2.78% in late July. Given the economic recovery we've seen, this dip in rates has been unexpected. "Mortgage rates trended down in the past two months – surprisingly – given the inflationary pressures," says Lawrence Yun, chief economist with the National Association of Realtors. However, the overall expectation is still for mortgage rates to increase.

Inflation has been high recently, but some believe that what we are seeing is being driven by temporary supply chain issues, and won't be sustained over the long term. "Inflation is being touted as transitory by both the White House and the Federal Reserve," Yun says. "But if inflation remains stubbornly high for a longer period, then the long-term bond yields will definitely have to rise. That will force up mortgage rates."

Even if inflation returns to reasonable levels, the general trends for mortgage rates should be up. We are still in the midst of our economic recovery and as we return to pre-pandemic levels of activity, rates should continue to slowly rise. However, if something unexpected happens, such as the Delta variant damping our return to normal, then rates are less likely to increase.



Will Mortgage Rates Go Up in Late 2021?

Although the average 30-year and 15-year fixed mortgage rates have dipped recently, it's likely that rates will increase in the second half of 2021.

Some experts forecast mortgage rates to stay fairly low this summer. So the rise in rates may be less severe than originally anticipated. "We initially expected rates to approach 3.4% by the end of 2021. While those levels are certainly possible, it's more likely that we'll have a more gradual uptrend," says Danielle Hale, chief economist with Realtor.com. "This would mean that rates will likely near 3.25% by year-end."

There are a number of competing factors pushing and pulling on rates. Inflation looks to be growing, which would normally increase rates. But many believe what we're seeing is only temporary inflation. The economy looks like it is slowly turning a corner, but the Federal Reserve wants to keep rates low for the foreseeable future. "The [Federal Reserve] won't start to make major changes to monetary policy directly this year," Hale says. "But the way they communicate about the tightening that's ahead will have the biggest impact on rates this year." Once we know how and when the Federal Reserve plans to implement policy changes, we'll have a better idea of what future mortgage rate growth will look like.

As of August 12, 2021, the average 30-year fixed mortgage rate is 2.87%, according to Freddie Mac. Looking ahead, here's what the experts are predicting will happen to mortgage rates in 2021.

Logan Mohtashami, Housing Data Analyst at HousingWire

Based on how low interest rates were in 2020, Mohtashami believes we'll see the average mortgage interest rate inch upward in 2021. But it is difficult to see it going above 4% since we're still in the thick of the COVID-19 pandemic, he says. "The COVID-19 crisis was a deflationary event that sent bond yields and mortgage rates lower than they traditionally would have gone in a normal recession."



Any increase we may see in mortgage rates hinges on the health of the U.S. economy, and Mohtashami maintains that is dependent on how we handle the pandemic. "Once we get a vaccine distributed and better treatments, that last 10 million Americans who are still unemployed should be able to find work. That income, plus the fiscal aid and monetary aid, should drive up inflation just a little bit higher. Demand should be higher and growth should be back to normal. Slow and steady growth of the U.S. economy will be the primary driver of higher mortgage rates next year," he says.