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MY MONEY

FINANCIAL EDUCATION - Powered by CAMBRIDGE CREDIT COUNSELING

Trying To Buy a House, But Waiting for Lower Interest Rates?

Since late 2022, mortgage rates have experienced a significant increase, climbing to between 6% and 7%, and nearly reaching 8% in fall 2023, the highest levels in over 20 years. This surge in rates, combined with rising home prices, has led to a dramatic increase in mortgage payments. According to the Mortgage Bankers Association, the median monthly payment for new home purchases has risen to $2,167, a slight increase from the previous year. This sharp rise has discouraged many potential homebuyers and made existing homeowners reluctant to sell due to the fear of losing their low interest rates.

The question now is how long these elevated rates will persist and whether they will decrease enough to make monthly payments more manageable for consumers. The primary driver behind the high mortgage rates is inflation. In response to rising inflation rates, the Federal Reserve increased its benchmark federal funds rate 11 times between 2022 and 2023, pushing it from nearly 0% to a range of 5.25% to 5.50%. While mortgage rates are not directly linked to the Fed rate, they tend to rise when the Fed increases its rates.

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IN THIS EDITION

Administration Still Focused on Student Loan Relief

President Joe Biden is advancing a new student loan forgiveness program aimed at providing relief to millions of borrowers burdened by student debt. The initiative, expected to be implemented as early as October, is a revised version of an earlier plan that was halted by the Supreme Court last year. The updated proposal has been adjusted to address feasibility concerns, and the Department of Education will soon outline the specific eligibility criteria for borrowers.

The new plan is narrower in scope compared to the original proposal. It targets four primary groups for potential loan forgiveness. These include the following:

- borrowers repaying their loans for over 19 years,
- individuals who attended schools deemed to have offered low-value education,
- borrowers whose current debts exceed their initial loan amounts, and
- borrowers who might have qualified for forgiveness under other existing programs but have not yet applied.

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And what if the Fed Does Cut Rates? How Will that Affect Me?

Everyone is hoping that the Federal Reserve will cut interest rates in its September meeting. As of the July 31 meeting, the Fed decided to keep interest rates unchanged, maintaining the status quo amidst ongoing inflationary pressures.

Since inflation peaked at 9.1% in June 2022, the Federal Reserve has been on a campaign to control rising consumer prices through a series of 11 interest rate hikes. Rates have remained steady since August 2023. The Fed's target inflation rate is 2%, but with inflation still at 3% in June, the central bank is hesitant to reduce rates. After all, rate reductions are among the few tools in the FED's toolbox.

The Fed controls the federal funds rate, which is the short-term rate banks use to lend to each other. This rate impacts various financial products and borrowing costs. By raising rates, the Fed aims to slow economic activity to combat high inflation. Conversely, lowering rates is intended to stimulate the economy during downturns.

According to the Fed's statement on July 31, there has been some progress toward the 2% inflation target, but economic activity remains solid. Job gains have moderated, and the unemployment rate has risen slightly but remains low. This cautious approach suggests that the Fed is still assessing the need for future rate adjustments.

The current pause in rate hikes is likely to keep deposit account rates relatively stable. For checking accounts, the average interest rate was 0.08% in July 2024, a modest increase from the previous year. Savings accounts offer slightly higher rates, with traditional accounts at 0.45% and high-yield accounts reaching up to 5.25%. Certificates of Deposit (CDs) have also benefited from the higher interest rate cycle.

A 12-month CD now pays 1.85% interest, up from 1.72% last year, with the best CDs offering rates around 5.30% annual yield.

On the borrowing side, higher interest rates have increased costs for loans. Personal loan rates have risen from 8.73% to 11.92% over the past two years. Home mortgage rates have also climbed, with 30-year fixed-rate mortgages hovering near 7%. If the Fed cuts rates at its next meeting, mortgage rates may take a while to come down, after all, it took two decades for rates to come down from 7% in 2001 to 3% in 2020.

Credit card interest rates have surged from around 16% to over 21%, reflecting the impact of the Fed's rate hikes on consumer debt. If you're on Cambridge's DMP, you've probably already received rate concessions on the accounts you enrolled. But if you kept a card off the program for emergencies, you'll just need to be patient as the rate roller coaster slows down. As always, the best advice for that card is to keep it open and performing but keep your balance as low as possible.

When was the last time you looked at your household budget?

Understanding where your money is going is a key part of living your best financial life. Even if it's been a while, or never at all, creating and maintaining your household budget has never been easier. We encourage everyone to visit our **FREE MyMoney Financial Education & Budgeting Portal** and start taking control of your finances.

www.MyMoney.Cambridge-Credit.org

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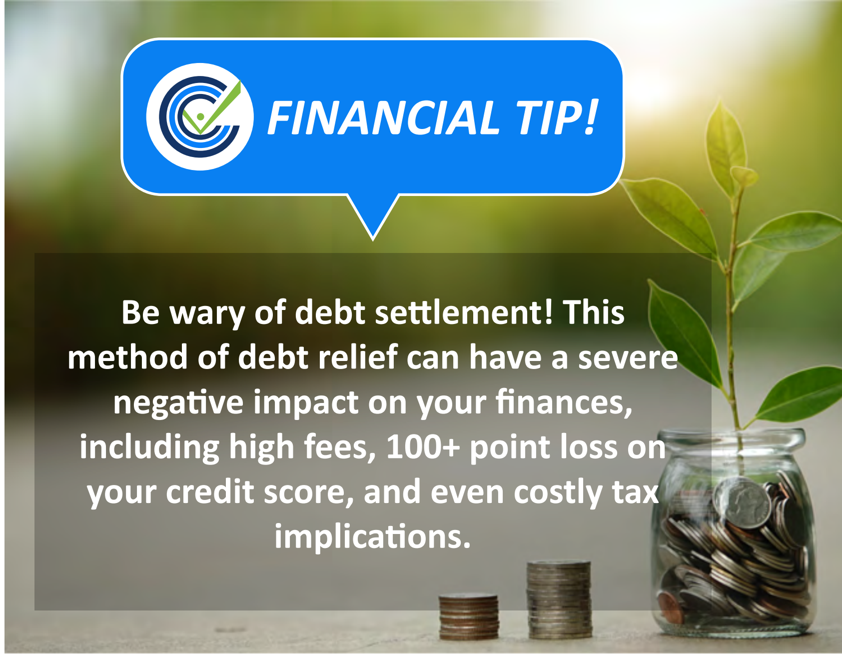
Despite the Fed's efforts to control inflation, it has not yet achieved its target of 2%. The inflation rate in June 2024 remained at 3.3% year-over-year, prompting the Fed to maintain higher interest rates. As long as inflation remains above the Fed's target, mortgage rates are likely to remain high. Experts suggest that a reduction in mortgage rates will depend on further decreases in inflation, slower job creation, and potential increases in unemployment filings, all indicators of a slowing economy that might prompt the Fed to lower rates.

Predictions about when mortgage rates might decrease vary, but most experts agree that any drop will be gradual rather than dramatic. Although there is potential for a rate cut by the Fed in the near future, such a cut is expected to be modest and not lead to a substantial reduction in mortgage rates.

For those considering whether to wait for lower mortgage rates before buying a home, experts advise running the numbers carefully. The impact of a rate decrease on monthly payments might be less significant than expected. Additionally, housing market conditions could change, with potential increases in home prices and more competition for properties as rates decline, potentially negating some of the benefits of lower rates.

Most experts recommend buying a home when it aligns with your financial situation rather than waiting for rates to drop significantly. If you can afford a mortgage with current rates and the housing market conditions are favorable, it might be better to buy now and consider refinancing if rates drop later. This approach allows buyers to start building home equity sooner rather than waiting and potentially losing out on appreciation and the opportunity to improve their net worth.



To secure the best possible mortgage rate, it's essential to compare lenders and get multiple loan estimates. Shopping around can save significant amounts annually. Improving your credit score can also help obtain a better rate.

Looking ahead, predictions for mortgage rates in 2024 suggest a potential decline, with the Mortgage Bankers Association projecting a rate of 6.6% by year-end and Fannie Mae predicting 6.7%. However, a return to the extremely low rates of 3% seen during the COVID-19 pandemic is unlikely without severe economic downturns. Over a longer horizon, such as five years, forecasts suggest a gradual decrease, with rates possibly falling to around 6% to 6.2%.

Administration Still Focused on Student Loan Relief

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The Department of Education has recently updated its guidelines and is preparing to notify borrowers about the relief plan. Key eligibility details have been specified, such as needing to have entered repayment on at least one loan for forgiveness to apply. Borrowers who are currently enrolled in income-driven repayment plans and earn below certain income thresholds may have their balances forgiven based on their current versus original debt amounts.

In addition to finalizing eligibility rules, the Department of Education has sent out emails to borrowers informing them of the plan and an August 30 deadline to opt out if they choose. This opt-out option allows borrowers to avoid potential state tax implications or other personal reasons for declining the relief.

Despite the progress, the plan is expected to face legal challenges that could potentially delay or obstruct its implementation. If the program proceeds as planned, it is anticipated to benefit over 30 million borrowers, providing crucial debt relief and addressing longstanding financial burdens for many individuals.

Creating a Saving Plan that Actually Works

Saving money is crucial for financial stability and peace of mind, according to financial experts. A healthy savings account can alleviate stress during emergencies, such as unexpected car repairs or medical bills, and it can provide a buffer that helps manage sudden expenses without adding to the stress or strain of the moment.

An emergency fund is specifically reserved for urgent situations like unexpected medical costs or job loss. Without such a fund, individuals risk accumulating unpaid bills, damaging their credit, and resorting to costly credit card debt. An emergency fund helps protect against these negative financial outcomes and supports long-term financial goals.

To start saving effectively, create a detailed budget to understand your financial situation. You can do this through Cambridge's new online portal, which you can access for free here: www.mymoney.cambridge-credit.org. This involves listing all income, expenses, and debts to determine how much can be saved. A clear budget helps in setting achievable savings goals and tracking progress. There are just a few other practical guidelines you'll want to include to develop your savings strategy.

- Setting realistic goals, such as saving for a vacation or a down payment on a home. This gives your strategy a sense of purpose.
- Allocating funds specifically for savings within the budget ensures it remains a priority.
- Reducing non-essential spending can grow your ability to save.
- Maintaining a balanced approach prevents you from feeling deprived and reverting to old spending habits.

Overall, a well-thought-out savings plan is vital for financial health. By creating a budget, setting goals, and making necessary adjustments to spending, individuals can build a solid savings foundation. This approach not only prepares for emergencies but also supports long-term financial stability and wealth growth.

Our Menu of Nonprofit Services

CREDIT COUNSELING
Understanding where your money is going is a key element to becoming debt-free. Our certified credit counselors will perform a FREE budget review and debt analysis to help determine a consumer's best course of action to eliminating their debts.

REVERSE MORTGAGE COUNSELING
Seniors who are interested in obtaining a reverse mortgage are required to participate in a one-on-one counseling session prior to finalizing the loan, and Cambridge is approved to provide this counseling to borrowers nationwide.

DEBT MANAGEMENT PLANS
If the results of the credit counseling session indicate that a Debt Management Plan is in the consumer's best interest, our program helps our typical clients eliminate their unsecured debts in under 4 years while saving them money every month.

STUDENT LOAN COUNSELING
There are many different student loan repayment options available, and it's important that borrowers are aware of their options. Cambridge's Student Loan Counselors can help guide borrowers to the right choice.

HOUSING COUNSELING
Cambridge is a HUD-approved housing counseling agency offering several services to both current and prospective homebuyers. We are approved to offer 1st-Time Home Buyer Courses, Foreclosure Assistance, Rental Counseling and more.

BANKRUPTCY COUNSELING
In addition to one-on-one bankruptcy counseling, Cambridge also offers the required bankruptcy education certificate courses. Our Pre-Filing Credit Counseling and Post-Filing Debtor Education are both available online.