How far will home equity loan rates drop after a Fed rate cut? Here's what experts say.

By: Jessica Walrack

Edited By: **Matt Richardson**

August 6, 2024 / 10:46 AM EDT / CBS News

Home equity loan interest rates could fall further this September, according to experts. Getty Images/iStockphoto

The current high-interest-rate environment has been tough on borrowers, who are facing higher rates on just about every type of credit product. While the rates on home equity loans and home equity lines of credit (HELOCs) have been lower than many other options, they're still relatively high compared to the last 15 or so years.

However, Fed rate cuts look to be on the horizon which will help to provide borrowers with some relief. "Many lenders set the interest rates they charge based on the prime rate — the rate banks offer their largest, most favored borrowers — which itself is benchmarked to the federal funds rate," says Riley Adams, CPA, founder and CEO at WealthUp.

But what will a Fed rate cut mean for home equity rates? We asked some experts for their predictions.

How far will home equity loan rates drop after a Fed rate cut?

Overall, experts generally predict a small initial Fed rate cut which will result in a small decrease in home equity interest rates.

"I predict the Federal Reserve will start cutting rates in September based on positive indicators that inflation is starting to decrease. These indicators include monthly economic reports called the Consumer Price Index and the jobs report," says Jeremy Schachter, branch manager at Fairway Independent Mortgage Corporation. He explains that both of these show that inflation and the cost of consumer goods and services are starting to fall.

When a cut is made, Schachter says HELOC interest rates will be reduced by the same amount. "So, if the Federal Reserve cuts rates by .25%, your rate will go down by .25%," says Schachter.

Adams also predicts that decreases in home equity rates will be similar to the amount of a Fed rate cut. "If the Federal Reserve cuts interest rates by 25 bps, as is largely expected, home equity rates likely will drop 25 to 50 bps," says Adams.

Further, Andrew Griffith, DBA and fellow associate professor of accounting at Iona University, doesn't expect big changes. "For borrowers, I expect that the interest rates will decline slightly if at all," Griffith says.

As for how long it will take to see changes, it's often right away — and sometimes even in anticipation of the cuts.

"When the Fed cuts rates, HELOC rates will fall quickly as well. HELOCs are variable loans with rates tied to the prime rate, which tends to move in tandem with the federal funds rate. HELOCs also can change their rates monthly, so the benefit of lower rates will be felt quickly by HELOC borrowers," says Jill Fopiano, CFA, CFP, president and CEO of O'Brien Wealth Partners.

She adds that it's important to keep realistic expectations in regard to how much Fed rates will decrease. "As the idiom goes, rates take the elevator up and the escalator – or even the stairs – going down," Fopiano says.

The bottom line

Interest rate cuts are on the horizon but aren't expected to be significant in 2024. If you're trying to decide between a home equity loan and a HELOC, a HELOC may be more beneficial if you want to take advantage of interest rate decreases in the weeks and months to come. Schachter explains that home equity loans typically come with fixed rates that remain the same throughout your loan term while HELOCs tend to have variable rates that align with changes in the market. However, although HELOCs help you take advantage of rate decreases, they also present the risk of cost increases if rates go up. You'll have to weigh the pros and cons to decide which is better for your situation.