The housing market faces a ‘cold’ future as mortgage rates reach new highs and other news

Peter Kavinsky

October 7, 2022

The interest rate on America’s most popular mortgage rose this week, surpassing a mid-summer peak as federal regulators continue to grapple with high inflation.

The 30-year fixed mortgage rate – rising for the third week in a row – is now very close to the 6% mark, a level that consumers have not seen in more than a decade.

The cost of borrowing could easily continue its upward momentum as the Federal Reserve plans further increases in the trend-setting interest rate as it attempts to cool the economy and drive down high prices.

“Our point of view and my point of view is that we need to act now, decisively and in the way that we have done, and we must continue in the same spirit until the job is done,” he said. this week Fed Chairman Jerome Powell. annual monetary conference of the Cato Institute.

Do not miss

30-year fixed-rate mortgage

30-year fixed-rate mortgages averaged 5.89% this week, up from 5.66% last week and 2.88% a year ago, housing finance giant Freddie Mac said Thursday.

“Mortgage rates have risen again as markets continue to drive the prospect of more aggressive monetary policy due to higher inflation,” said Sam Cater, chief economist at Freddie Mac.

Higher borrowing costs are weighing on the housing market as many potential buyers can no longer afford to finance a home purchase at rates more than double their last year’s rates.

However, this week’s higher figure is just an average. Borrowers who shop around can and do find lower rates.

“Our research shows that borrowers can save an average of $1,500 over the life of a loan by getting one extra rate quote, and about $3,000 on average if they get five quotes,” Hater says.

15-year fixed rate mortgage

Interest rates on 15-year fixed-rate mortgages averaged 5.16% this week, compared to 4.98% last week, according to Freddie Mac.

Last year at this time, the 15-year rate averaged 2.19%.

While housing activity tends to slow down this time of year as children return to school and families head out on their last summer trip, rising mortgage rates hit the market even harder over Labor Day weekend, said Daryl Fairweather, chief economist . in Redfin.

Fewer buyers visited homes during the long weekend, Redfin said, and the proportion of sellers cutting prices was near an all-time high. New listings fell 18% year-on-year due to a sharp increase in rates.

“I expect the fall and winter to be especially cold as sales shrink more than usual,” Fairweather said.

5-year adjustable rate mortgage

The average five-year adjustable rate mortgage (ARM) rate rose to 4.64% from last week’s average of 4.51%.

A year ago at the same time, the 5-year ARM averaged 2.42%.

ARMs start out at lower rates than long-term loans, but after their initial terms, they adjust each year—up or down—to the prime rate or other benchmark.

If long-term rates fall after the initial ARM period, the borrower could potentially refinance at a lower rate. But there is no guarantee that rates will go down. They can easily be higher depending on the state of the economy.

Mortgage applications this week

Demand for mortgage loans decreases as the cost of credit rises.

Mortgage applications fell 0.8% last week, according to the latest data from the Mortgage Bankers Association (MBA).

Applications to refinance existing loans fell 1% from a week earlier, and refinances are down a shocking 83% year-over-year.

Applications for home purchases were also down 1% last week and down 23% from the same week a year ago.

“There are no signs of a recovery in purchase applications yet, but a robust labor market and rising housing inventories should lead to a possible increase in buying activity,” MBA chief economist Mike Fratantoni said this week.