3 charts showing that we're not repeating the housing bubble: Morning Brief

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·Contributor
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Mortgage rates have surged to their highest level since October 2008. Meanwhile, Tuesday's release of the FHFA House Price Index and S&P CoreLogic Case-Shiller Home Price Indices are likely to confirm that home prices remain near record highs.

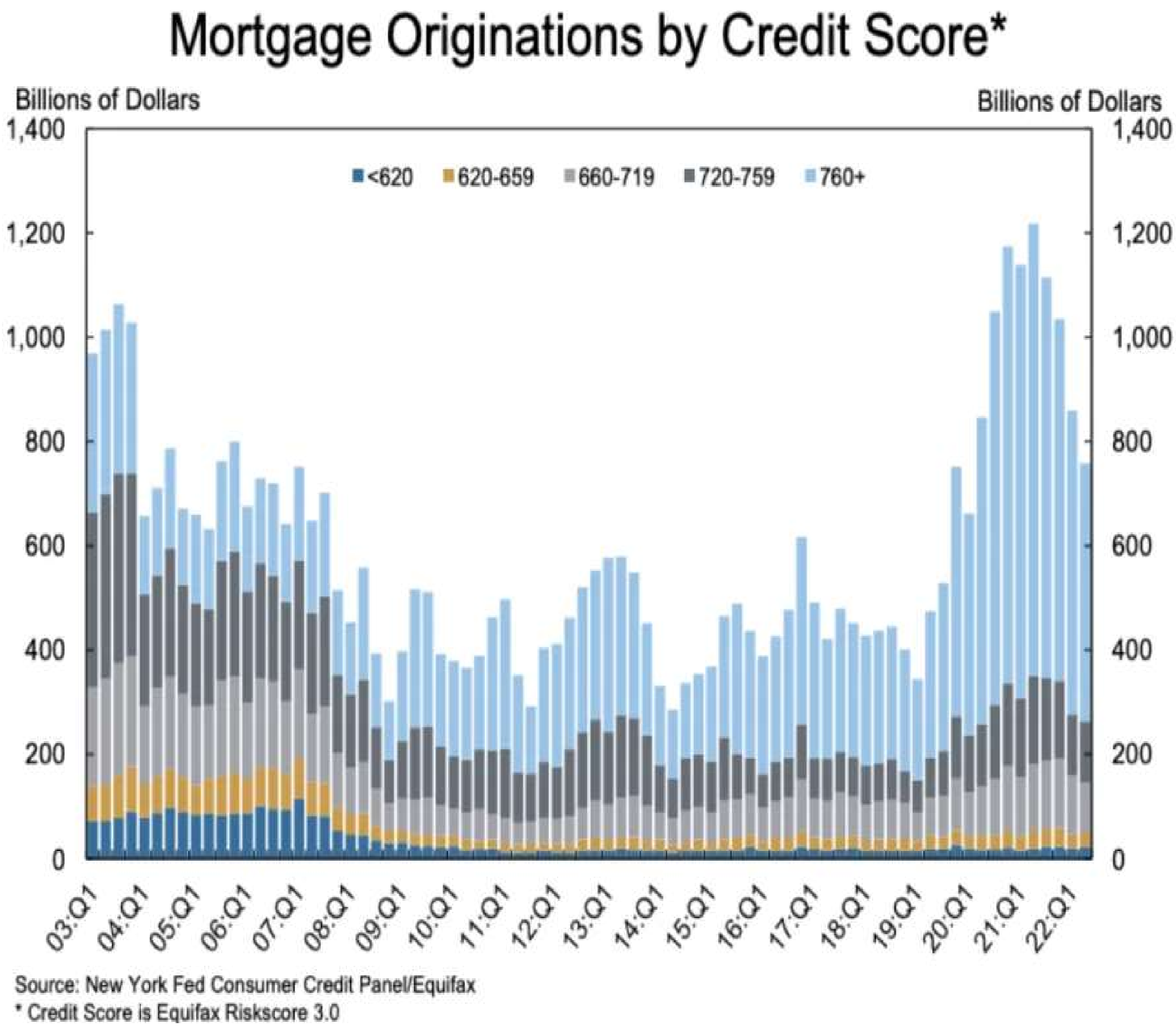
This dynamic has caused mortgage costs for newly purchased homes to explode, shutting out many prospective buyers and causing the housing market to go cold. For example, the average monthly mortgage payment in the Boise metropolitan area is $2,592, up 139% from its pandemic-era low of $1,084.

These extreme moves undoubtedly have some of us remembering the housing boom and crash of the mid-2000s that was largely responsible for triggering the global financial crisis.

But back then, there was a near-universal optimism about home prices, which made way for unreasonably lax lending practices and high-risk financial innovations that made the towering mortgage market much more fragile than many experts believed.

Things are very different today.

First, lenders have been much more disciplined with their lending practices. According to New York Fed data, the vast majority of new mortgage loans in recent years have gone to prime borrowers with the highest credit scores.



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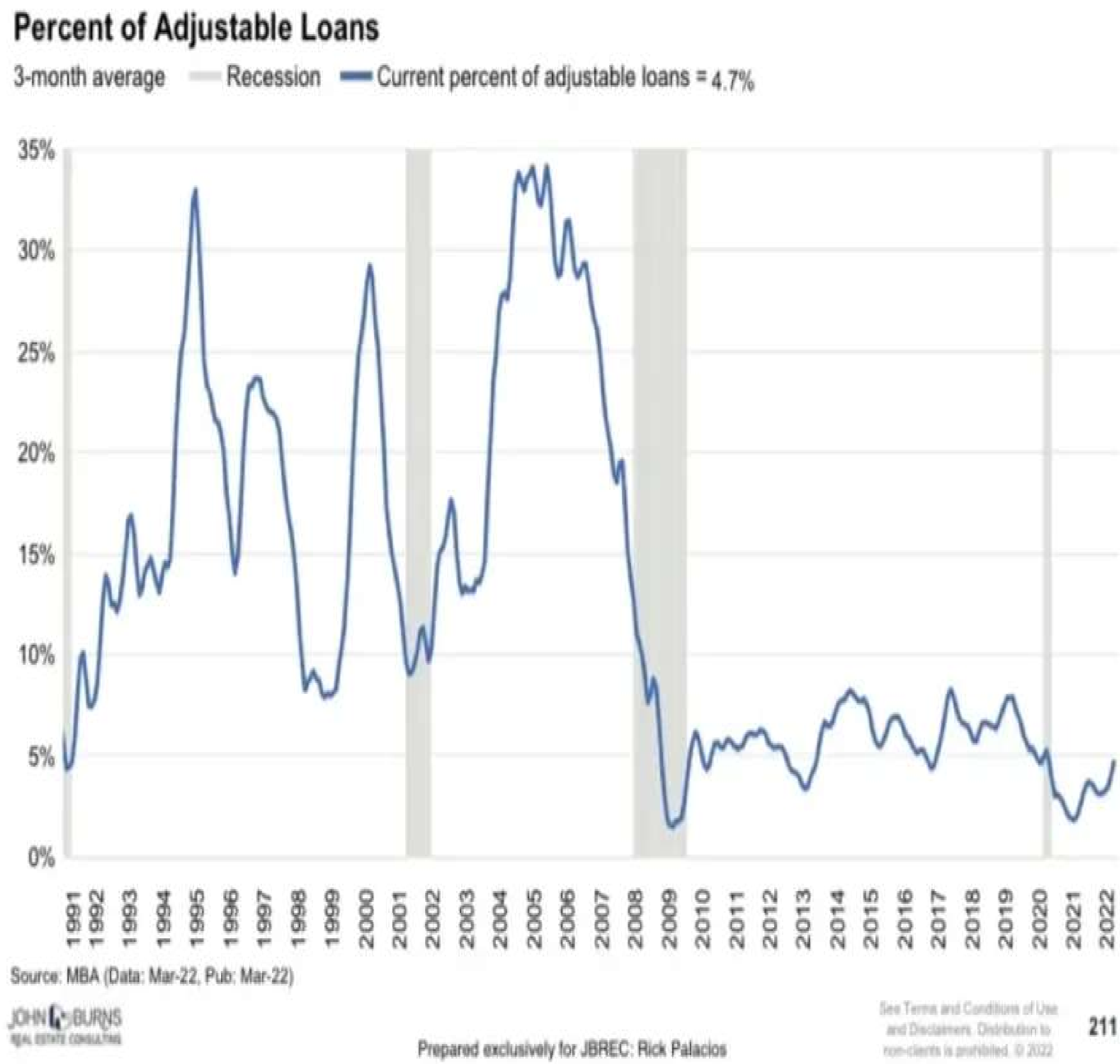
Second, adjustable rate mortgages are nowhere near as popular as they were during the housing bubble. This means very few new buyers are vulnerable to interest rate volatility.



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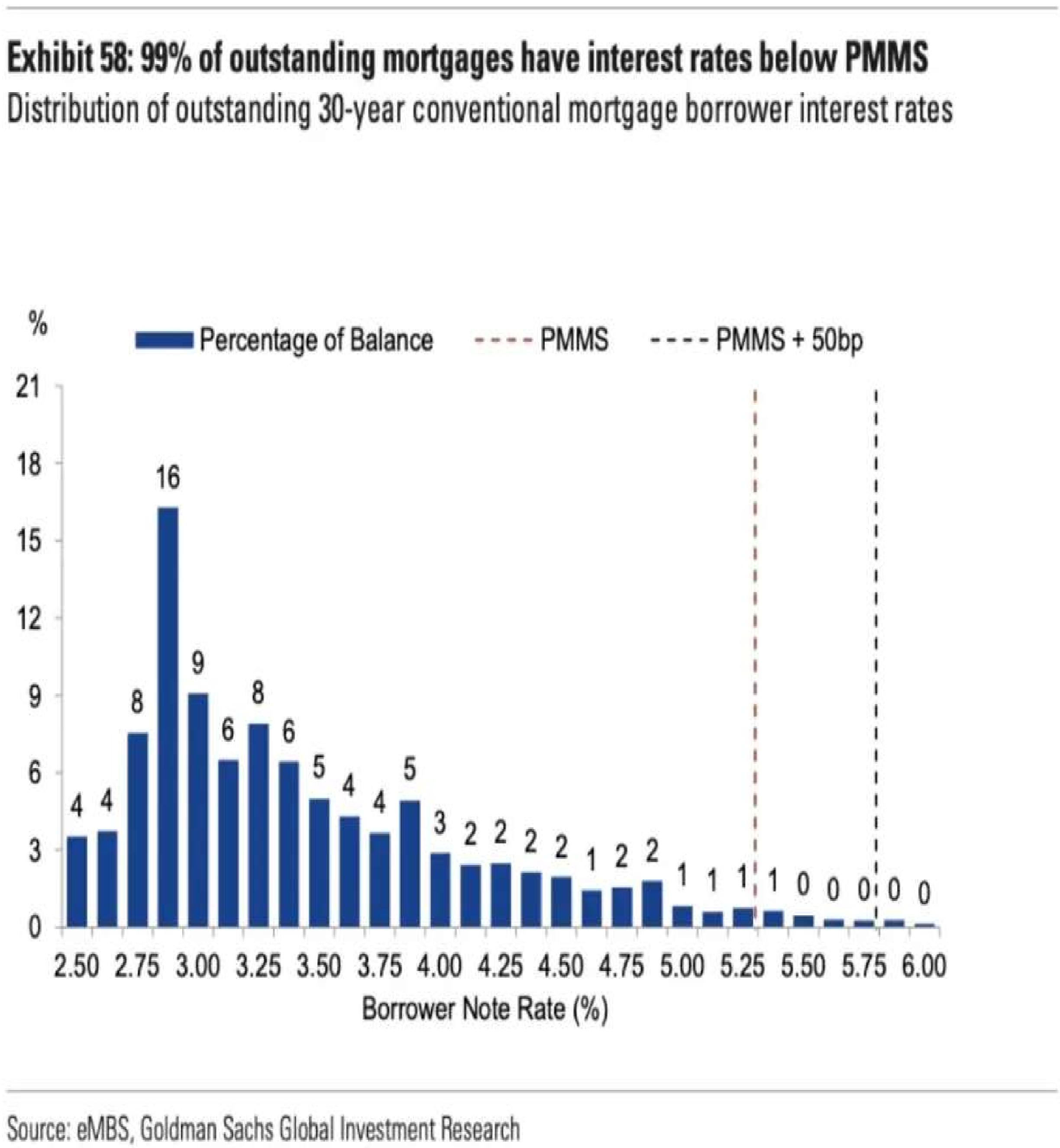
Third — and this is related to the chart above — about 99% of outstanding mortgages have a locked-in rate that's lower than the current market rate, according to Goldman Sachs analysts. In other words, the vast majority of homeowners are not materially affected by rising mortgage rates.



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With the Federal Reserve increasingly tightening monetary policy, mortgage rates are likely to stay high and housing market activity is likely to continue cooling.

However, we do not appear to be set up for a repeat of the housing market crash.

Today's newsletter is by Sam Ro, the author of TKer.co. Follow him on Twitter at @SamRo.