Buyers are tuned out, despite mortgage rates hitting lowest point since June

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Mortgage rates continued to trend below 7% for the second straight week, but even rates within the 6% range failed to coax buyers back into the market.

The rate on the 30-year fixed mortgage declined to 6.67% from 6.95% the week prior, according to data released by Freddie Mac on Thursday. Rates fell for the eighth consecutive week and hit the lowest level since June.

The decline is a departure from recent months when rates surged over 7% to the highest clip in 23 years. Rates have since scaled back over a full point since peaking in October when they hit 7.79%.

It also comes as signs of cooling inflation solidified the Federal Reserve's decision to hold its benchmark rate steady last week while indicating up to three possible rate cuts in 2024. While welcome news for some homebuyers, lower mortgage rates won't be enough to mend affordability challenges plaguing most Americans. They have, however, rekindled some refinance activity.

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"Unless it's a really compelling rate climate, mortgage and housing activity does slow measurably this time of year — there's your seasonal holiday effect," Keith Gumbinger, vice president of HSH.com, told Yahoo Finance. "The good news is that rates are down, and to the best levels since summer. The bad news is that they are only as low as they were during the summer, which to say not all that compelling an opportunity for buyers or those looking to refinance."

Buyer demand slides despite lower rates

As mortgage rates slid to their lowest level in months, buyers strained by affordability were once again slow to react. The volume of applications to purchase a home fell 1% for the week ending Dec. 15, according to the Mortgage Bankers Association (MBA). Overall, purchase activity was 18% lower than the same period last year.

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And though sales of previously owned homes increased by 0.8% in November, a separate indicator by the National Association of Realtors (NAR) found the low level of transaction activity was still at a "cyclical low point." November sales were down 7.3% year over year.

"Maybe we have one or more (month of) similar sales activity, but home sales always respond to lower interest rates when interest rates decline," Lawrence Yun, NAR chief economist, said this week. "After a few months, we (will) see the revision in sales."

A sign is posted in front of new condos for sale in Los Angeles. (Credit: Mario Tama/Getty Images)

But if anyone benefitted from the recent rate dip, it was homeowners.

Though applications to refinance a home loan dropped 2% for the week ending Dec. 15, they had jumped 19% the week prior, according to the MBA. Refinance applications for VA home loans also registered an increase of 18%, the latest data showed, with overall refi activity 8% higher than the same week a year earlier.

The surge of refinance activity was driven by government loans, according to the MBA. The Federal Housing Administration (FHA) offers a streamlined refinance process, Gumbinger noted, while the Veterans Affairs offers its IRRRL program — where borrowers can benefit from lower payments and less paperwork.

According to Jeffrey Ruben, president of WSFS Mortgage, some of those looking to refinance are likely recent buyers shouldering rates around 8% or folks who waited too long to refinance when rates were ultra low.

"People may go back and refinance right after the deal closes if rates come down," Ruben told Yahoo Finance. "They want to feel good about spending money. Higher rates were the biggest drag on the housing market."

Lack of inventory is the biggest obstacle

Potential homebuyer Chris Thibodeau has the 12th place in line as he waits to buy one of the new houses advertised in the "low-$1,200,000's. (Credit: Mark Boster/Los Angeles Times via Getty Images) (Mark Boster via Getty Images)

As rates have trended lower, homebuyer affordability has shown modest signs of improvement. Still, it's nowhere near enough to make buyers rush back to the market.

In November, the national median payment for purchase applicants decreased to $2,137, down $62 from October. Still, that figure is up [$160] from one year ago, equal to an 8.1% increase, the MBA’s purchase applications payment index (PAPI) found.

The national median mortgage payment for conventional loan applicants was $2,137, down from $2,208 in October — and up from $1,994 last year. Meanwhile, FHA applicants paid an average $1,902 last month, down from $1,995 in October and up from $1,631 in November 2022.

Those purchasing newly built homes also may have noticed a mild improvement in payments. The median mortgage payment for new homes fell $75 to $2,597 in November, MBA data revealed.

"Lower mortgage rates don't fix all the troubles in the housing market," Gumbinger said. "While they do help with affordability, they do little to increase the number of homes for sale in the market (which has throttled sales activity despite high financing costs), and the increase in buyer demand that lower rates may bring at the margins will likely serve to press home prices higher."

For instance, at 7.5%, the typical payment for a $400,000 home loan is about $3,000, Bright MLS found. If that buyer had a rate of 6.2%, that monthly payment would inch down to roughly $2,700.

Still, those figures are far out of reach for many would-be homebuyers and will remain so as long as there’s an undersupply of inventory.

According to Realtor.com, inventory in November increased 2.4% from the previous month but remained 37.8% below typical 2017 and 2019 levels.

"The bigger obstacle to homebuyers and affordability is a lack of inventory, which continues to keep home prices high and rising," Lisa Sturtevant, chief economist at Bright MLS in an emailed statement. "The solution to making homeownership more affordable is simply to build more housing. Builders need to find ways to build homes more efficiently."

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