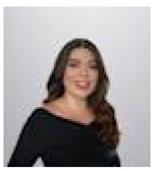
Mortgage rates hit highest level in 13 years and could cool housing market



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Thu, May 5, 2022, 9:35 AM·4 min read

Mortgage rates hit their highest level since August 2009 this week, following a sharp increase in the 10-year Treasury yield and continuing a breakneck ascent since the start of 2022.

The rate on the 30-year fixed mortgage increased to 5.27%, up from 5.10% last week, according to Freddie Mac. Mortgage rates have climbed over a half-point in the last four weeks and are up 2 percentage points from the start of the year.

The rapid increase in rates — tied to the Federal Reserve's moves to hike interest rates to curb inflation — may be finally cooling the once-blistering hot housing market as affordability challenges become untenable for buyers.

"While housing affordability and inflationary pressures pose challenges for potential buyers, house price growth will continue but is expected to decelerate in the coming months," said Sam Khater, Freddie Mac's chief economist.

The cost of financing 80% of a typical home listed for sale has increased by nearly 50% in the last year, according to Realtor.com. Housing affordability has worsened in the first quarter of 2022, with the monthly payment for an average existing home with a 20% down payment up $1,383, which is $319 or 30% more than a year ago, according to NAR analysts.

Families are spending 18.7% of their income on mortgage payments, compared with just 14.2% a year ago.

Those surging costs have started to price out some would-be homebuyers, weighing on sales volume. The number of homes under contract declined for the fifth straight month in March, according to data from the National Association of Realtors. Closed sales of previously owned homes and new homes also registered declines, showing signs of a weakening housing market.

At the same time, some home sellers are already seeing signs of a sharp slowdown in demand – as buyers can no longer keep up with skyrocketing home prices and borrowing costs. According to Redfin analysts, the shift in demand has forced some home sellers to drop listing prices to appeal to buyers.

According to Redfin data, 3.2% of homes for sale each week had a price drop, with 13% lowering their price in the past four weeks. That's up from 10% a month ago and 9% a year ago. Still, the average home sold for 2.4% above asking price.

“There really is a limit to homebuyer demand," said Redfin Chief Economist Daryl Fairweather, "even though the market over the past few years has made it seem endless.”

A home is offered for sale on April 26, 2022 in Chicago as the price of a mortgage continues to rise. (Credit: Scott Olson, Getty Images)

As for homeowners, the swift rate hikes have locked them out of opportunities to refinance.

While the slight pause in mortgage rates last week caused an increase in refinance applications of 0.2%, according to the Mortgage Bankers Association, the share of refi activity was still 71% lower than the same week a year ago. The refinance share of activity decreased to 33.9% of total applications from 35% the previous week.

At rates of 5.27%, only 832,000 high-quality candidates could shave at least three-quarters of a point off their mortgage by refinancing, down from 1.34 million three weeks ago and 11 million candidates at the start of the year, according to figures mortgage technology and data provider Black Knight gave Yahoo Money.

Borrowers that refinance at today's rate could save an average $315 per month. According to Black Knight, less than 200,000 refi candidates remain that could save upwards of $400 per month.

A child walks past a home for sale on G St. SE. The neighborhood of Hill East is between Capitol Hill and the Anacostia River and straddles the borders of Northeast and Southeast Washington. (Credit: Sarah L. Voisin, The Washington Post via Getty Images)

Mortgage rates have marched up almost every week since the onset of the year as rattled markets respond to inflation concerns, and the climb isn't going to slow down anytime soon, according to NAR analysts.

Last week, NAR chief economist Lawrence Yun projected rates to hit 5.3% by the fourth quarter and 5.4% by 2023, but those levels could come sooner than expected.

The 10-year Treasury yield – which mortgage rates tend to track – topped 3% on Thursday afternoon after the Fed's half-point rate hike this week. While the Fed Chair said a three-quarter point hike is not on the, financial markets remain volatile which may shift mortgage rates in the coming weeks.

Fed officials still have rate hikes planned throughout the year and confirmed other plans to make aggressive moves to fight runaway inflation by selling off Treasury bonds and mortgage-backed securities starting as early as June 1.

“Mortgage rates are an incredibly important channel through which Fed policy affects the real economy,” Realtor.com Chief Economist Danielle Hale said in a press statement. “In other words, the Fed’s decisions impact household budgets, balance sheets, and spending decisions via their impact on interest rates like mortgage rates.”

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