Mortgage rates surge to the highest point since 2008

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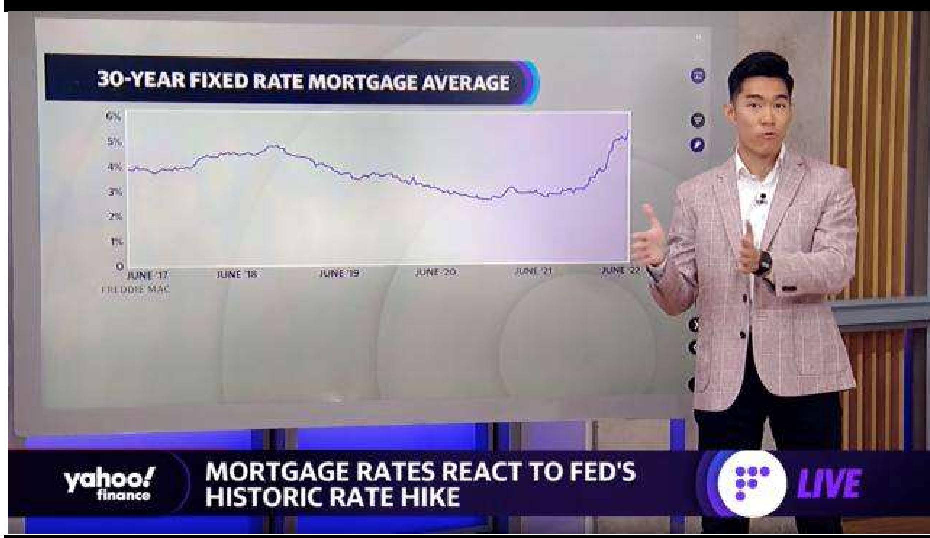
BRIAN CHEUNG: All right, time now for our Chart of the Day.



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Mortgage rates this week jumped by the largest amount in 35 years, making home-buying significantly more unaffordable in just seven days.

The rate on the 30-year fixed rate mortgage surged to 5.78% from 5.23% last week, according to Freddie Mac, marking the biggest one-week increase since 1987 and hitting the highest level since November 2008. The average rate is more than two and a half points higher since just the start of the year.

Rapidly increasing mortgage rates have become the biggest hurdle homebuyers face in addition low inventory levels and double-digit price gains, pricing many out of the market altogether.

“Climbing mortgage rates continue to put pressure on the housing market, pushing the cost of homeownership ever higher,” Hannah Jones, economic data analyst at Realtor.com, said in a statement. “There has been little relief for American consumers at the grocery store, the pump, and in both the for-sale and rental markets."

The jump in mortgage rates, which track the 10-year Treasury yield, comes after the Federal Reserve on Wednesday increased a benchmark interest rate by three-quarters of a point to help tame inflation, which is at 40-year highs. That increase was the largest since 1994 and the central bank signaled it would raise the rate by another 1.75 percentage points over the rest of the year.

"Any persistent/obvious signs of a wage or inflationary spiral will continue to lead to more aggressive policies," Robert Heck, vice president of mortgage at Morty, told Yahoo Money. "In these extreme scenarios it is very possible, we’ll see mortgage rates head towards 7% or higher, reflective of the inflationary environment of the 1980s.”

Even if rates don't go that high, they are likely going to exceed current levels, making it harder and more expensive to break into homeownership.

Huntington Beach, CA - April 22: A view of a townhome at 704 Lake St #62, for sale in Huntington Beach, listed at $1,100,000 Friday, April 22, 2022. The median home price in Orange County has reached $1 million for the first time in history. (Allen J. Schaben / Los Angeles Times via Getty Images)

For instance, the median list price for a home in the U.S. was $447,000 in May, up 18% since May 2021. That means it's about 65% more expensive to finance 80% of the median priced U.S. home now than a year ago. That translates to paying an extra $820 a month, according to Realtor.com.

“For every 1% rise in mortgage rates, your borrowing power drops about $50,000. A 0.5% rise drops your purchasing power by $25,000 approximately,” Scott Sheldon, branch manager at New American Funding, told Yahoo Money. “In other words, the more rates rise the more your purchasing power diminishes, forcing you into a lower purchase priced home.”

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