Sudden Drop In Mortgage Rates Spurs Housing Buffer - Housing Market Update

The abrupt drop in interest rates has brought about a boost to the housing market in the form of lower mortgage rates. The rate for a conforming 30-year loan fell to 3.45% at the end of February, nearly a full percentage point from a year earlier.

Falling interest rates have prompted an increase in mortgage activity as the cost to borrow for homebuyers has become less expensive. Mortgage rates fell in late February approaching the lows last seen in 2012, when the rate for a conforming 30-year loan was 3.37% in October 2012.

The challenge for many homebuyers has been rising home prices and affordability throughout the country. Slow rising wages and stagnant incomes have, for the most part, not kept up with rising home prices. Even though mortgage rates have dropped, housing prices are still elevated to the levels that force many to wait or rent until housing prices drop.

Data tracked by the Federal Reserve Bank of St. Louis and Freddie Mac reveal that even as mortgage rates fell since the beginning of the year, affordability still declined. Affordability is the ability of a homebuyer to purchase a home and pay for all related expenses with an existing income.

Mortgages accounted for two-thirds of the $14 trillion in U.S. household debt in the last quarter of 2019. Because they are typically paid off over decades, mortgage rates tend to be correlated with 10-year Treasury bond yields rather than with the short-term rates controlled by the Federal Reserve.

Sources: Federal Reserve Bank of St. Louis, Freddie Mac