The housing market correction will be deep, and ugly

If rates do climb into the 7s, the current origination forecast of $2.2 trillion in 2023 will look awfully rosy

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You think things are bad in the housing market now? Stick around and see if mortgage rates climb into the 7% range.

If it happens, the current origination forecast of $2.2 trillion in 2023 will look awfully rosy. Even the most battle-tested industry players are preparing for one of the strongest housing market corrections in decades.

Federal Reserve Chairman Jerome Powell sent a clear message during a press conference following the announcement of the central bank's decision to hike the federal funds rate by 75 basis points on Wednesday: the ongoing housing market correction, which brought the largest mortgage rates increase in four decades, is far from at an end.

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MATT GRAHAM, CEO OF MBS LIVE

"Builders are having a hard time finding lots, workers and materials," Powell said. "For the longer term, what we need is supply and demand to get better aligned, so house prices go up at a more reasonable

pace and people can afford houses. Probably, the housing market needs to go to a correction to get to that place."

So far, the tightening monetary policy led the 30-year fixed mortgage rate to 6.29% this week, up 27 basis points from the previous week, the **Freddie Mac's** Primary Mortgage Market Survey (PMMS) showed on Thursday. A year ago at this time, rates averaged 2.86%.

"The housing market continues to face headwinds as mortgage rates increase again this week, following the 10-year Treasury yield's jump to its highest level since 2011," Sam Khater, Freddie Mac's chief economist, said in a statement. "Impacted by higher rates, house prices are softening, and home sales have decreased. However, the number of homes for sale remains well below normal levels."

Some market watchers were hoping to see Powell express some willingness to tone down the tightening. These observers were based solely on the expectation that existing policies will have the desired effect to bring inflation closer to the 2% target, according to Matt Graham, founder and CEO at **MBS Live**.

"But the biggest takeaway for the mortgage industry is that Powell remained completely unflinching in his commitment to hike rates as much as it takes to tackle inflation," Graham said. "Between yesterday afternoon and today, the entire financial market is in the throes of adjusting to that new reality. Mortgage-backed securities are right about the worst place on the duration spectrum for this move. Freddie's weekly survey is hopelessly low today – actual 30-year-fixed rates are well over 6.5% now."

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BLAKE BIANCHI, CEO OF FUTURE MORTGAGE

Where did the 'correction' bring us?

Freddie Mac's index compiles only purchase mortgage rates reported by lenders during the past three days. Other estimates, however, show that rates are even higher.

The 30-year fixed mortgage rate was at 6.62% on Thursday afternoon, up 20 basis points compared to the previous day, **Mortgage News Daily** reported.

According to **Bankrate.com**, which surveys from the 10 largest banks, the primary mortgage rates are currently hovering around 6.4%. Rates are up over 300 basis points year-over-year, the largest trailing 12-month increase since the early 1980s, analysts from the investment banking firm **Keefe, Bruyette & Woods** wrote in a report on Wednesday.

"This creates a very challenging environment for volume-sensitive businesses such as mortgage originators and title insurers," the analysts said. "Given the magnitude of the move in rates, we think there could be a downside to current estimates for industry volumes in 2023."

Fannie Mae's latest forecast, which was published this week, projects total mortgage origination activity at $2.44 trillion in 2022 and $2.17 trillion in 2023.

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NADIA EVANGELOU, AN ECONOMIST AT NAR

With rates at this level, the entire mortgage market is 150-200 basis points (or more) out of the money to refinance, KBW analysts said. In addition, purchase activity has also declined materially in recent weeks. The **Mortgage Bankers Association** purchase index is currently 21% below 2021 levels and 26% below 2019 levels.

To understand the impact on borrowers, this week's increase in mortgage rates to 6.29% resulted in a monthly payment on a $400,000 loan of about $2,470, compared to $1,660 a year ago, according to Nadia Evangelou, **National Association of Realtors** senior economist & director of forecasting, said in a statement.

"Owners may be locked into their existing homes as mortgage rates rise, and the 3% rates from last year may not be back anytime soon. While the nation suffers from a severe housing shortage, lower mobility can make housing inventory even tighter and cause home prices to continue escalating."

However, the median-priced home is worth about $80,000 more than in 2020 and $200,000 more than in 2012. "Thus, having positive equity in one's home may ease the effects of rising mortgage rates on mobility."

Where is the housing market heading?

Looking ahead, loan officers have started to expect mortgage rates at the 7% level, a sign that the housing market correction will bring even greater affordability challenges in the year to come.

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SEAN GRAPEVINE, BRANCH MANAGER FOR UMORTGAGE

"After the Fed raised rates yesterday, we now see the 10-year Treasury up today at 3.697%. My guess is that traditional lenders will most likely be charging points to stay in the high 6's or pushing into the 7's now," said Blake Bianchi, founder and CEO at Boise-based brokerage **Future Mortgage.** "Mortgage brokers like us are most likely in the low-mid 6s on a primary residence."

Bianchi said that in the current landscape, rate shopping has become more critical than ever, as saving half a percent or paying no points can financially impact buyers in this market. "The good news is that we see it is driving down prices, so buyers can get into a home for a better price and less competition and hopefully refinance later to improve their loan situation," he said.

Sean Grapevine, a branch manager for **UMortgage** based in Atlanta, said Wednesday's Fed decision pushed rates up by 50 to 75 basis points over the last couple of weeks, which is not entirely bad for the housing market.

"Rising rates from the Fed do cause some temporary pain as people adjust to the differences, but a few years of 5-7% interest rates on mortgages are going to be good for the economy, great for buyers, as demand becomes less insane, and more sustainable long-term," he said.