

Acra CEO Keith Lind
on staying the course
amid choppy waters
in non-QM

The Gathering 2024
On Demand

Virtual Demo Day:
July 9th

Jason Mitchell on the
power of B2B referrals

[Mortgage](#)[Mortgage Rates](#)

When will the Fed's moves alleviate the lock-in effect?

Realtor.com senior economist Ralph McLaughlin said 'anyone hoping the lock-in effect will be busted this year may be sorely disappointed'

June 13, 2024, 2:14 pm *By Flávia Furlan Nunes*

Federal Reserve Chairman Jerome Powell told reporters on Wednesday that the U.S. housing situation is a "complicated one" and that "bringing inflation down" is the best thing officials can do to help. Cooling inflation will eventually allow the Fed to cut rates and alleviate the

current lock-in effect, but this process will take longer than previously estimated.

"The housing situation is complicated. That's a place where rates are really having a significant effect," Powell said during a press conference after Wednesday's meeting of the Federal Open Markets Committee (FOMC). "Ultimately, the best thing we can do for the housing market is to bring inflation down, so that we can bring rates down, so that the housing market can continue to normalize."

Powell added that, "there will still be a national housing shortage as there was before the pandemic" and the "distortions that we see with lock-in effect."

Powell was referring to the current situation in which homeowners holding historically low rate mortgages aren't feeling incentivized to sell their homes, reducing the number of properties available in the market.

A **Federal Housing Finance Agency** research paper published in March 2024 shows that nearly all 50 million active mortgages have fixed rates, and most have interest rates far below prevailing market rates, creating a disincentive to sell.

The paper suggests that a homeowner with a 4% mortgage rate — closer to the pandemic-era levels of 2% to 4% — is more than 50% less likely to sell with mortgage rates at 7% than if they were at 4%.

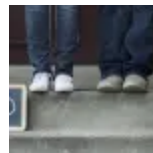
Also on Wednesday, as expected, the Fed maintained its short-term policy interest rate between 5.25% and 5.5%. It also released estimates showing that most of its officials forecast only one rate cut this year, compared to a majority who were planning for a total of three cuts in March. That's despite the lowest annual inflation report since early 2021.

"The Fed is wrangling with tenacious inflation. The consumer price index for May was lower than expected, but the Fed won't claim success until inflation has improved several months in a row,"

Featured Events



Hosted By HousingWire
Virtual Demo Day: July



Hosted By Maxwell
Surprise: First-time homebuyers are on the rise. Here's how to earn their business.

Holden Lewis, a home and mortgage expert at **NerdWallet**, said in a statement.

According to Lewis, mortgage rates dropped slightly last week, but the decline doesn't imply a long-term trend. In his opinion, "mortgage rates are likely to remain stubbornly above 6.5% for the rest of 2024."

Fed officials not only reduced the number of projected rate cuts this year from three to one but also increased their year-end rate estimate. The median federal funds rate at the end of 2024 is expected to be 5.1%, compared to 4.6% in March. For 2025, projections went from 3.9% in March to 4.1% in June.

It means that "once it starts, this cutting cycle is likely to be shorter than past cycles," according to **Mortgage Bankers Association** (MBA) chief economist Mike Fratantoni.

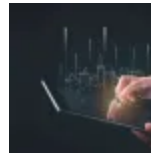
Wednesday's announcement, however, did not change the MBA's forecast that mortgage rates will drop to about 6.5% by the end of 2024.

Freddie Mac's latest index, released on Thursday, shows that 30-year fixed mortgages are averaging 6.95%. The conforming loan rate was 7.15% at [HousingWire's Mortgage Rates Center](#).

"Mortgage rate trends aren't likely to bust the mortgage rate inventory lock-in effect until at least the end of the year, and possibly well into 2025, as the Fed holds fast on fighting inflation," **Realtor.com** senior economist Ralph McLaughlin said in a statement.

According to McLaughlin, the 10-year yield has to drop by 150 to 200 basis points for homeowners to feel comfortable selling and buying another home.

"At current spreads, this could require 3-4 quarter-point rate cuts by the Fed," McLaughlin said. "As of now, the market is pricing in just one cut by the end of the year and 2-3 cuts in 2025. As such, anyone hoping the lock-in effect will be busted this year may be sorely disappointed."



Hosted By Tavant
AI accelerates lending. For real

Featured White Papers

By AIS

Navigating new norms: Outsourcing as a catalyst for mortgage service excellence

By Mike Simonsen

HousingWire Research: The Mortgage Rate Lock-In Effect is Shaping Today's Market

By Basecap

Increase revenue and mitigate risks by updating your data strategy

Featured Sponsored Video



Housing industry experts believe that deals are being made by sellers and buyers who face life events — such as people divorcing or retiring, moving to another state for work or forming families.

Chuckie Reddy, partner and head of growth investments at **QED Investors**, a fintech venture capital firm with more than \$5 billion under management, said that as relief in mortgage rates is delayed, “we are starting to see some signs of inventory build, which may lead to some price reductions.”

“We’re really starting to see for the first time some data showing that buyers are a little bit exhausted and that sellers are coming to the market, setting up the scenario where we could return to market equilibrium with housing price cuts and softness in house prices,” Reddy said in a statement.

More:

Federal Reserve

Housing Inventory

Jerome Powell

Leave a Reply

Your email address will not be published.

Required fields are marked *

Comment *

Name *

GTR Communications

**Change Wholesale’s future
focused non-QM strategies**