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MORTGAGE INTEREST RATES FORECAST: HOW HIGH WILL RATES CLIMB IN 2022?

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The cost of lending is rising as mortgage rates continue to shoot up—and that will impact the bottom lines of homeowners and borrowers alike. Mortgage rates jumped 1.5 percentage points during the first three months of the year, the biggest quarterly climb in 28 years. So folks who are hoping for rates to fall may be waiting for a while.

Rising inflation is one reason we can expect rates to climb. In March, the consumer price index (CPI) rose to 8.5%, its highest level since 1981. Another catalyst was the Federal Reserve starting its rate hike in March, the first increase since late 2018.

“Aggressive inflation will force the Federal Reserve to raise interest rates multiple rounds this year and actively pursue quantitative tightening,” says Lawrence Yun, chief economist and senior vice president of research at the National Association of Realtors (NAR). “That is why mortgage rates recently have shot up so high. Higher mortgage rates will inevitably pull home sales down in the coming months and slow home price appreciation.”

MORTGAGE RATES FORECAST FOR APRIL 2022

Rising inflation, the uncertainty due to Russia’s war on Ukraine, and the Federal Reserve’s monetary policy are all putting pressure on mortgage rates. As inflation increases, the Fed reacts by applying more aggressive monetary policy, which invariably leads to higher mortgage rates.

“The pressure to contain inflation will grow and the Fed will have to raise its fed funds rate eight to 10 times with quarter-point hikes this year,” says Yun. “Additionally, the Fed will undo the quantitative easing steadily, which will put upward pressure on long-term mortgage rates.”

Experts are forecasting that the 30-year, fixed-mortgage rate will vary from 4.8% to 5.5% by the end of 2022. Here are their more detailed predictions, as of mid-April 2022:

- *Mortgage Bankers Association (MBA): “Mortgage rates are expected to end 2022 at 4.8%–and to decline gradually to 4.6%–by 2024 as spreads narrow.”*
- *NAR’s Yun: “All in all, the 30-year fixed mortgage rate is likely to hit 5.3% to 5.5% by the end of the year. Some consumers may opt for a 5-year ARM (adjustable-rate mortgage) at 4% by the end of the year.”*
- *Matthew Speakman, senior economist at Zillow: “Competing dynamics suggest that there will be little reason for mortgage rates to decline anytime soon.”*

IS THERE STILL TIME TO REFINANCE?

With mortgage rates quickly rising, homeowners are racing to save money on refinancing. Currently, the average rate on a 30-year fixed mortgage is hovering around 4.72%, which makes about 1.7 million homeowners able to reduce their rate by at least 0.75%, according to Black Knight, a data analytics company.

When rates hit 5%, the number of eligible refinance candidates will drop to 1.3 million. Each time rates inch up, fewer borrowers will be able to save money by refinancing.

Black Knight defines refinance-eligible borrowers as having a minimum of 720 credit scores, 20% equity in their home, and the ability to shave off at least 0.75% of their interest rate by refinancing into a 30-year fixed mortgage.

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The Number of Eligible Refinance Candidates Based on Interest Rates	
Interest rate (%)	Number of refinance-eligible homeowners (in millions)
4.75	1.6
4.88	1.4
5	1.3
5.13	1.2
5.25	1
5.38	0.9
5.5	0.8
Source: *Black Knight*	

While refinancing options can lead to a lower monthly payment, not all of the options yield less interest over the life of the loan. For example, refinancing from a 5% mortgage with 26 years left on it to a 4% rate but at 30 years will cause you to pay more than $13,000 in interest.

Before you start shopping around for a lender, you can find out how much you could save by using a mortgage refinancing calculator.

You'll also want to consider how long you plan on staying in your home as the closing costs can eat up your savings if you sell shortly after refinancing. The closing costs to refinance run between 2% to 5% of the loan amount depending on the lender. So you should plan on keeping your home long enough to cover those costs and realize the savings from refinancing at a lower rate.

Keep in mind, that the rate you qualify for also depends on other factors such as your credit score, debt-to-income (DTI) ratio, loan-to-value ratio (LTV), and proof of steady income.

CURRENT MORTGAGE RATE TRENDS

The average weekly mortgage rate for a 30-year fixed has jumped to 5% as of April 14, the highest level in 11 years.

The average cost of a 15-year, fixed-rate mortgage has also increased to 4.17% as of April 14, up 1.82 percentage points compared to a year ago.

CURRENT MORTGAGE RATES FOR APRIL 2022

Loan term	Interest rate	APR	Monthly payments per $100K
30-year fixed	5.50%	5.52%	$568
15-year fixed	4.74%	4.78%	$777
30-year jumbo	5.38%	5.40%	$560
5/1 ARM	3.67%	4.76%	$459
Source: Bankrate.com			

CURRENT REFINANCE RATES

Loan term	Interest rate	APR	Monthly P&I per $100K
30-Year Fixed	5.50%	5.51%	$568
20-Year Fixed	5.55%	5.58%	$691
15-Year Fixed	4.71%	4.80%	$779
5/1 ARM	3.46%	4.71%	$447
Source: Bankrate.com			

By Natalie Campisi, Rachel Witkowski
Forbes Advisor Staff, Editor
Source: https://www.forbes.com/

WILL RISING MORTGAGE RATES COOL OFF A HOT HOUSING MARKET?

Sales of existing homes fell 2.7 percent in March, but rising mortgage rates and tight inventory helped push the median home price to a record $375,300.

Buying a first home just keeps getting harder. The median price for an existing single-family home hit a record $375,300 in March — a 15 percent jump over March 2021 — as mortgage interest rates climbed and inventory remained tight, according to data released Wednesday from the National Association of Realtors.

Existing home sales fell by 2.7 percent in March compared to the previous month, bringing the adjusted annualized rate to 5.77 million units, and sales were down 4.5 percent compared to March 2021. The news comes just one day after the Commerce Department reported that single-family housing starts fell by 1.7 percent in March, compared to February.

Industry observers say while scarce inventory is a major factor, the extent of the slowdown — coming at a time of year when the housing market normally picks up steam — is a reflection of the rapid run-up in mortgage rates. According to Mortgage News Daily, the average rate on a 30-year fixed mortgage hit 5.35 percent Tuesday, a leap of more than 2 percentage points from a year ago, when the average was 3.2 percent, and the highest rate in more than a decade.

Higher rates have had a rapid impact on mortgage demand: Weekly data from the Mortgage Bankers Association released Wednesday found that the number of mortgage loan applications fell 5 percent from the previous week.

"In a housing market facing affordability challenges and low inventory, higher rates are causing a pullback or delay in home purchase[s]," commented Joel Kan, associate vice president of economic and industry forecasting for the MBA, when the data was released.

Higher rates are yet another piece of bad news for first-time homebuyers already grappling with scarce inventory and soaring prices. But those same factors may help ease the frenzy in another part of the market that has been putting a squeeze on inventories: the market for second homes.

While millions of people relocated permanently as remote work and school became the norm in 2020, many homeowners who could afford to hold on to their first homes bought second homes. In some towns, home prices climbed so high, so fast that residents were priced out of the housing market, and sometimes the rental market, too.

February marked the first time in nearly two years that second home demand, as measured by mortgage rate locks, actually dipped below demand for first homes, according to online brokerage Redfin. Demand for vacation homes was still above pre-pandemic levels in March, but Redfin Chief Economist Daryl Fairweather said the one-two punch of higher mortgage interest and thousands of dollars in new fees could prompt second-home buyers to change their minds. "When it's an optional purchase, people get more sensitive and may decide it's better to rent or stay in a hotel," she said.

The new fees are being imposed on second-home buyers by the Federal Housing Finance Agency. Beginning April 1, the agency raised upfront fees on second-home mortgages to between 1.125 percent and 4.125 percent, depending on how much of the home's value the owner is financing.

Previously, only second-home buyers with very small down payments have assessed this fee, which topped out at a modest 0.25 percent

While not the agency's only goal, the FHFA indicated that helping to level the playing field and foster primary homeownership, particularly among lower-income and first-time homebuyers, was one factor driving the higher fees.

The fees are also meant to weed out buyers who may run a higher risk of defaulting on loans held by Fannie Mae and Freddie Mac, which together account for close to 60 percent of outstanding mortgages in the U.S.

"We know that second homes are riskier. They do not perform as well, with all of the factors being the same, as your primary residence," said David M. Dworkin, president, and CEO of the nonprofit National Housing Conference.

Real estate industry trade groups had decried the higher fees, which the National Association of Home Builders said could cost a typical buyer an additional $4,875, saying they would dampen demand.

That would be welcomed by residents in many small towns that were overrun in the early months of the pandemic by newcomers looking to relocate or buy a second home in a place with access to good Wi-Fi, space to socially distance, and somewhere for the kids to run around.

"In those markets, I do think second home ownership is making it harder for households that are trying to live there as a primary residence to compete," said Kelly Mangold, principal at RCLCO Real Estate Consulting.

Dominique Jenkins knows something about those markets. Jenkins is a real estate agent with Krumpfer Real Estate and sells homes in the Catskill Mountains of New York and Pennsylvania. She said in many of the towns where she does business, high-speed broadband arrived just a little earlier than the pandemic, and it didn't take long before homes were being bid up to $100,000 over the asking price, catching longtime residents of the region's small villages and hamlets by surprise.

Jenkins said home-sharing platforms like Airbnb also made it more lucrative for homeowners to offer short-term rentals to out-of-towners, rather than long-term leases for residents, which just made the housing situation worse.

“The locals are absolutely … at a serious disadvantage. Locals have been completely priced out of their market. It’s very bad,” she said.

In some markets, though, the flood of second-home purchases seems already to be ebbing.

Steve Daria, a real estate broker at Maxim in Bonita Springs, Florida, said he lost one sale of a second home as a result of the higher costs the buyers would have incurred from the FHFA fees.

“They were going to get financing for a second home, and it turned them off with how much money they’d have to pay out of pocket to get the property,” he said, adding that he thinks more people are going to think twice about buying a second home — and that was before mortgage rates topped 5 percent for a 30-year fixed-rate loan.

“I think it’s going to price people out of the market,” he said. “The purchasing power is just going to decline.”

By: Martha C. White
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Source: https://www.nbcnews.com/

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