Low interest rates during the pandemic led to a refinance boom

The great pandemic mortgage refinance boom is most definitely over, but the aftershock is still rippling through the housing market. Homeowners are holding up home sales, as their ultra-low prize is too precious to give up. During the early days of coronavirus pandemic in 2020 and 2021, mortgage rates fell sharply, and millions of homeowners jumped at the opportunity to refinance. The 30-year mortgage fell down to 2.65% in early January of 2021, according to Freddie Mac data FMCC, +2.40%.

The Federal Reserve Bank of New York estimated that 14 million mortgages were refinanced during the "pandemic refinancing boom." The surge in refinancing was, in part, due to strong household balance sheets and an increased need for housing, the New York Fed said in a blog post published Monday. The average homeowner who refinanced saw their monthly payment drop by $220, the Fed said.

The biggest share of mortgages that were refinanced originated from 2015 onwards, the NY Fed. said. Older mortgages, such as those originated before 2010, were the least likely to be refinanced. Homeowners most likely to refinance their mortgage owed a balance of $400,000 to $500,000 on their mortgage, the NY Fed concluded. "The mortgage refinancing boom is over, but its impact will be seen for decades to come," Andrew Haughwout, director of household and public policy research at the NY Fed, said in a statement.

One of the biggest consequences of the refinancing boom is that would-be homebuyers today are now struggling to find homes for sale. "The end of the most recent exceptionally low interest-rate period leaves homeowners somewhat disincentivized to sell or change properties," the NY Fed authors noted. In other words, homeowners aren't keen on giving up their ultra-low mortgage rate and selling their home. Not only are rates far higher today, with the 30-year above 6%, but home prices have continued to stay elevated.

New listings — how many sellers were putting up their homes for sale — were down by 16% in early May compared to a year ago, according to Realtor.com. "Owners now looking to move will face increased borrowing costs and higher prices, with current home prices being more than 36% higher than they had been pre-pandemic," the NY Fed said. Homeowners appear reluctant to sell. Sales of previously-owned homes fell 22% year-over-year in March, according to the National Association of Realtors. New data on April home sales will be released this week. Many buyers are turning to new builds to find good housing options. New home sales jumped 9.6% in March. One-third of housing inventory is new construction, a deviation from the historic norm of new homes being just 10% of overall housing, the National Association of Home Builders said in April.
And for the mortgage industry, business is likely to be far slower than it was during the pandemic as fewer homeowners are refinancing. The NY Fed said mortgage originations — which include refinanced mortgages — fell sharply in the first quarter of 2023 to $324 billion, the lowest level since 2014. It's not hard to understand why few are interested in refis: The 30-year was averaging at 6.35% in mid-May, as compared to 5.3% a year ago, according to data from Freddie Mac. The rise in rates between December 2020 and October 2022 was not just steep, it was historic: Rates rose from 2.68% in 2020 to 6.9% in 2022, the largest swing since the early 1980s, the NY Fed said, citing data from Freddie Mac.

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RE/MAX OF BOULDER

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2425 Canyon Boulevard, Suite 110
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123 Vaquero Drive
Boulder - $1,600,000

A lovely 4-bed, 3-bath, 3427 finished sqft custom home in Spanish Hills with an additional 1954 sqft in an unfinished basement. Located on a beautiful 1.18 acre lot.

1268 Doric Drive
Lafayette - $743,2500

Remodeled and updated in every way including the landscaping, this 5-bed, 3-bath, 2856 sqft, 2 story home is close to Waneka Lake Park and all Lafayette offers.

1585 Hecla Way
Lafayette - $625,000

Found an ideal, contemporary 3rd floor condo in a secure building with an elevator for my client moving down from a home he designed and built in 1977.

939 Eldorado Lane
Louisville - $365,000

A brilliant corner building lot on a cul-de-sac lot location in Cornerstone with no HOA. Building plans available for a beautiful 4900 sqft contemporary home!

Second Quarter 2023

The local real estate market remains volatile and somewhat unpredictable. One week, a certain style of home and price point is busy with many showings and offers, but the next week an identical property may be very quiet. It is hard to tell if there are more anomalous sales or the anomalies are just more noticeable in our low sales numbers.

This current period of market uncertainty started last spring. Last fall 30-year mortgage rates briefly topped 7% but have settled into the mid 6% range since mid-March. There is a hotly debated belief by some that buyers are getting used to these higher rates and are no longer waiting for rates to decline to levels closer to the historic lows. The 30-Year Fixed Mortgage Rate chart, top right below, shows the shock of the rate rise on the heals of historic lows. Historically, mid-6% rates *are* low, but that is little solace to anyone born 2 decades ago.

Showing Appointments, top left chart, started the year in the typical strong seasonal pattern but has also shown some uncertainty, at times besting the last 5 years, and at other times, barely meeting the long term average since 2007. Listening to my colleagues at our weekly office meetings, some listings receive heavy showings and others sit without much attention. This is the strange consequence of the never before seen scenario of few listings and few buyers.

We remain in an odd zone where we have few numbers of both buyers and sellers. Typically, when we have a slower market, the available numbers of properties outnumber buyers. The number of Single Family Homes Under Contract, middle left below, gives us a peek at the number of buyers— well below the 5-year average. The latest reading of 266 homes U/C is much lower than the 5-year average of over 400 U/C homes. While Available Inventory, middle right chart below, is above 2022 levels, with all of the economic uncertainty, many sellers are pausing. We are still below the pre-COVID numbers of homes for sale. As the article on the front page mentions, there is a feeling that sellers who aren't yet in distress are sitting on their low rate mortgages, choosing to remain in their homes during these uncertain times.

Following a stronger than anticipated spring market, the % of Homes Under Contract, bottom left chart, has hit its high point for the year and started trending downward. The question is; is this a repeat of the typical seasonal pattern of a summer slump, or a trend disconnected from any seasonal effects?. We'll be watching the % UC closely to see how far this metric drops. Generally, a reading below 35% is historically where we have observed price appreciation to level off. Notably, the city of Boulder and the unincorporated plains area are already below that mark.

We'll be watching closely to see if these unique market circumstances follow seasonal patterns, or cause a wholly different trend. If we decelerate much further, will the available inventory shrink close to the limited number of transactions that are always a part of the greater whole, those who must sell due to typical life changes like death, divorce, job change, relocation, etc.? Tune in next time to see what the data are showing!