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Mortgage Market Watch

Spring 2022 Edition

U.S. Bank is committed to supporting your business whether you're a realtor, builder or financial services professional. Mortgage Market Watch brings you the insights you need to help you stay on top of housing market trends.

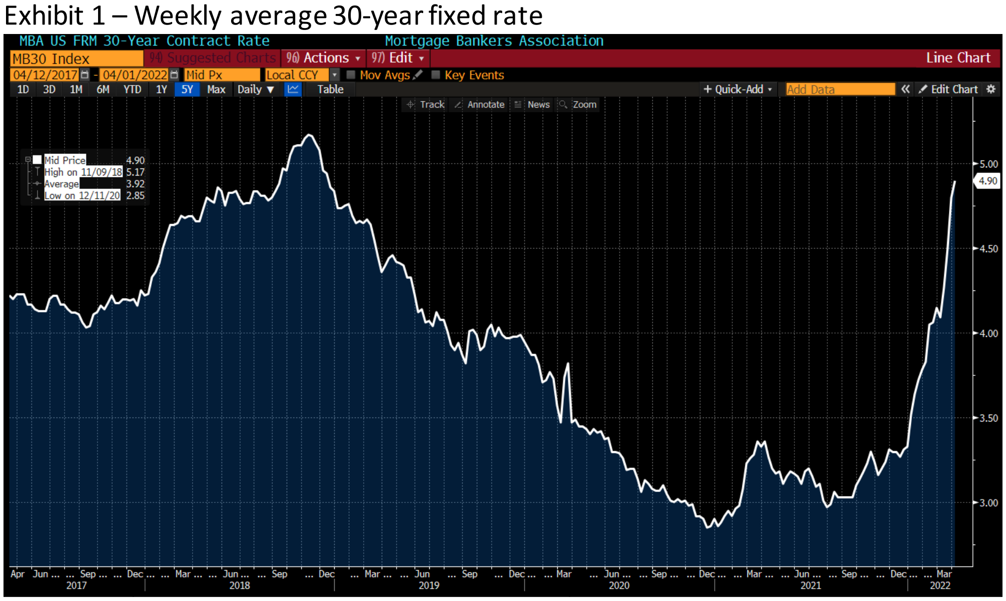
In this issue:

- What to expect from Q2 to YE 2022
- Protecting your clients from rate increases
- How the refinance market is reinventing itself

What to expect from Q2 to YE 2022

The beginning of the 2022 mortgage market has been anything but normal. In response to inflationary pressure, the Federal Reserve Bank has announced an aggressive plan to raise short-term interest rates and remove asset purchases. The real estate market has responded, with the weekly average 30-year fixed rate rising more than 1.5% to 4.9% YTD. (See Exhibit 1)

Exhibit 1 – Weekly average 30-year fixed rate



Source: Mortgage Banking Association – Chart: Bloomberg

U.S. Bank analysts expect rates to continue to be volatile for the remainder of Q2 and through the rest of the year. Expect more Fed action and Fed commentary to fuel this volatility, along with continued inflationary pressures and decreased employment expectations.

U.S. Bank is projecting that fixed-rate mortgages will dominate in originations, but that ARMs have the potential to increase on a percentage basis. Because of the enduring issue of low housing supply, the purchase market will continue to increase. With home prices remaining high – and in desirable markets climbing even higher – a high percentage of refinances will become cash-out transactions.

Protecting your clients from rate increases

In recent years the mortgage market has enjoyed both low interest rates and interest rate stability. As a result, both mortgage market professionals and buyers may have forgotten how to respond to significant rate increases and increased volatility.

Bottom line: Rate locks are your greatest asset.

Here are a few pointers to help you navigate this new, rapidly evolving environment:

Be extra attentive to the market

Breaking financial news – or even regularly scheduled economic data – can send rates higher. Stay on top of the news and prepared to move quickly. The only way to protect your clients is to lock rates.

Make sure rate locks do not expire

Markets are volatile, and originators need to take market positions to protect the rates committed to borrowers. Letting locks expire can expose clients to interest rate risk. This can result in a substantially higher rate if a new rate lock is required.

Select the appropriate lock period for your client or builder

Selecting a lock period that is too short gives you a better rate but exposes the borrower (and the originator) to costly rate-lock extensions. For new home construction consider a longer lock period as supply chain issues are expected to continue to have an impact for the remainder of 2022.

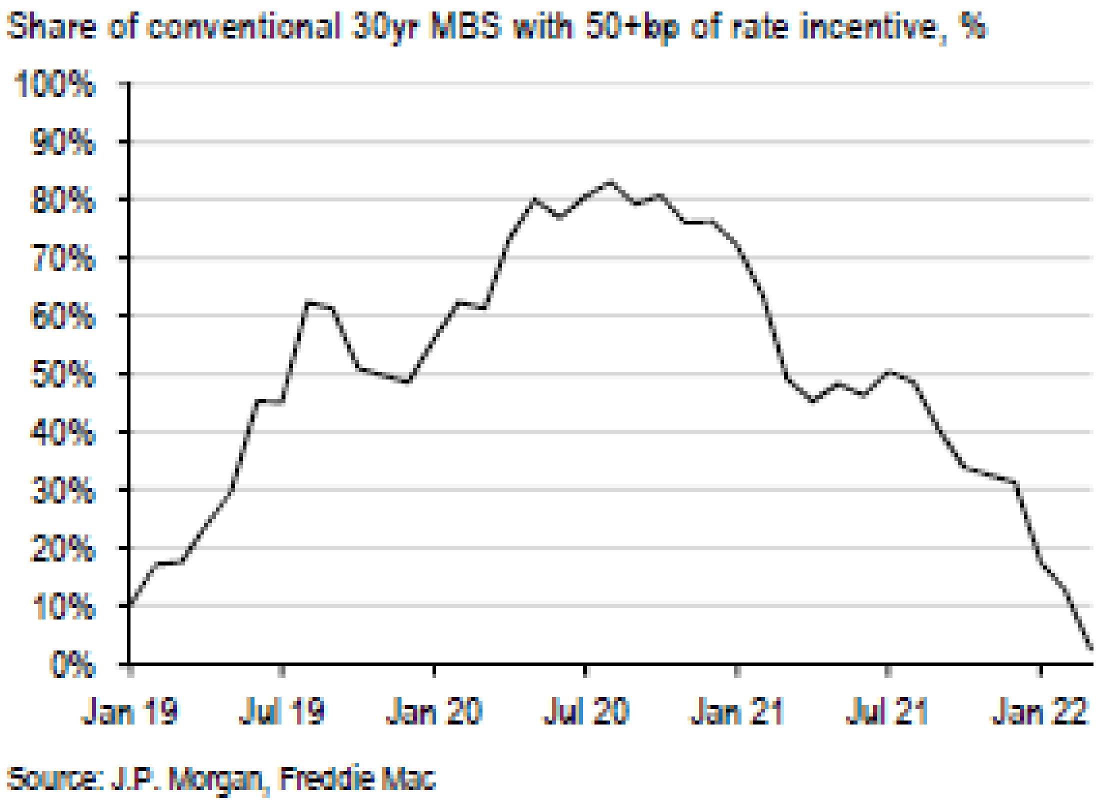
Be aware of long-term locks available for builder construction loans

These locks are available for 6-month, 9-month, and 12-month periods for qualifying borrowers. An up-front fee is required for this protection, but it can be worth it to protect for high rate increases in the future.

How the refinance market is reinventing itself

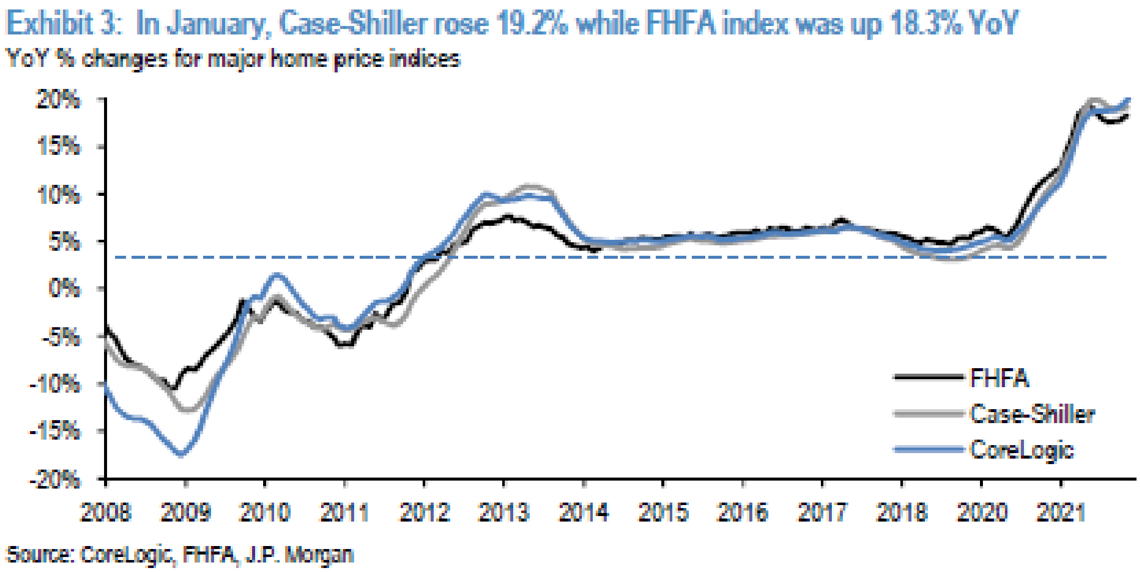
The percentage of loans that benefit from refinancing has dropped considerably. Government Sponsored Enterprises (GSE) have significantly increased the adjusters cost for these transactions. (See Exhibit 2)

Exhibit 2 – Declining Loan Inventory Available to Refinance



Nevertheless, with home values remaining high, there are still opportunities for borrowers to benefit from cash-out transactions. A historic rise in Home Price Appreciation (HPA) has generated enough homeownership equity to create an incentive to refinance. (Exhibit 3)

Exhibit 3 – Housing Price Index



Furthermore, the shortage of housing inventory has created a disincentive for homeowners to trade up to a better house. U.S. Bank has identified a strong trend in homeowners using refinancing to access cash for home improvements, renovations and expansions. Even with rising interest rates expect consumers to continue to want "more house" while still staying right where they are.