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# Falling Mortgage Rates Raise Hopes for Battered Housing Market

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Mortgage rates have fallen to around their lowest levels in eight months, offering a potential boost to the housing market after a rough patch in recent months.

The average rate for a 30-year fixed mortgage fell to 4.51%, matching the lowest level since last spring, according to data released Thursday by mortgage-finance giant Freddie Mac . That rate is still higher than its level of 3.95% from a year ago but has fallen from a more-than-seven-year high of nearly 5% last fall.

The decline stands to give consumers another shot at obtaining low rates on loans to purchase or refinance their homes, if they can stomach volatile financial markets and still lofty home values.

“I think there is latent demand on the sidelines given where rates are today,” said Sam Khater, Freddie Mac’s chief economist. “The problem is that volatility is the obstacle.”

Rising rates choked off a boom in refinancings and damped the purchase market for much of 2018, slowing the pace of home-price growth. The rate on a standard 30-year mortgage tends to closely follow the 10-year Treasury yield, which also hit a seven-year high of 3.23% last fall. On Friday, it finished at 2.66%.


Stock-market swings, high home prices and a traditionally slow time of year for home buying have largely kept a lid on housing-market activity in recent months. Mortgage applications slid 9.8% in the week ended Dec. 28 from two weeks earlier, according to a survey released Thursday by the Mortgage Bankers Association. The shutdown of the federal government also factored into the drop, according the group.

Yet as rates have steadily fallen, some agents said they have seen buyers start to creep back into the market. Tami Pardee, founder of Los Angeles-based Halton Pardee & Partners, said her firm had seven homes go into escrow in the week before Christmas—typically a dead time of year.

She said sellers have lowered their expectations about prices and buyers are anxious that rates will rise further, both of which have contributed to a pickup in sales. “I think people are worried that rates are going to go really high,” she said.

Brian Benjamin, president of Two River Mortgage in Red Bank, N.J., said that one couple he worked with last week had been tentatively looking at homes a month ago. Now, after learning how much in savings they could get with lower rates, they are out looking more actively.

“Hopefully as the news gets out that mortgage rates have fallen, it will get those on the fence to accelerate their looking,” he said.

Sales of existing homes rose 1.9% in November from a month earlier to a seasonally adjusted annual rate of 5.32 million, according to the National Association of Realtors, though the figure is down sharply from a year earlier.

Refinancings also could pick up if mortgage rates keep falling, analysts say. If the standard 30-year rate drops by another 0.2 percentage point, borrowers of about $300 billion worth of loans backed by Fannie Mae and Freddie Mac would find it beneficial to refinance because they would save at least 0.5 percentage point on their rate, according to FTN Financial.

Those loans make up about 7.5% of outstanding loans backed by Fannie and Freddie.

“We’re right on the cusp of a significant refi event,” said Walter Schmidt, manager of mortgage strategies at FTN Financial.

Santhosh Kumar, a software engineer, bought a home in the San Francisco Bay Area about six months ago. He took out an adjustable-rate mortgage at a fixed rate of 3.5% for the first seven years and a floating rate after that.

On Sunday, he was approached by his mortgage lender about refinancing. He plans to use the drop in rates to refi into a 30-year fixed-rate loan at 3.75%.

“I’m worried what will happen in the next seven years and where rates will be,” he said. “I’m thinking I’ll have peace of mind for the next few years.”

Still, the rise in rates over the past year has taken many potential buyers out of the market for now.

Michael Severns, an agent for real-estate brokerage Redfin in Philadelphia, said he has tried calling buyers who withdrew from the market in the fall when rates rose. But many have already signed new year-long leases or decided to invest in their current homes. Others are just wary of rates rising again.

“They’re afraid that they’re going to get invested again in the process and then get let down,” he said.

Mr. Severns said he still expects 2019 to be one of the coolest housing markets in recent memory, due to higher rates and a lack of inventory.

Lindsey Gudger, a real-estate agent in Seattle, which has experienced one of the country’s sharpest drops in buyer demand in recent months, said many clients are using stock in locally based tech companies like Amazon.com Inc. to help them come up with down-payment money to buy a home, so recent market declines have had an outsize impact on their appetite.

“We have Amazon employees that say, ‘I feel 25% to 30% poorer than I did six months ago. I’m going to pause this’” home search, he said.

The S&P 500 fell 12% in the last three months of 2018 and has marked large swings in the first three trading days of this year. That disproportionately affects wealthier buyers purchasing homes worth more than about $750,000, according to Freddie Mac’s Mr. Khater.

Nonetheless, mortgage rates are likely to have a more widespread effect on buyer behavior than swings in the stock market.

“If you’re a middle-class American, for the majority of Americans, they’re not looking” at the stock market, said Daryl Fairweather, chief economist at Redfin.