How The Housing Market Is Being Affected - Housing Update

A drop in mortgage rates to near historic lows has not been enough to offset a decline in demand for homebuyers. The ongoing travel and socialization restrictions are inhibiting would be home shoppers from viewing and buying properties.

Of the various factors influencing the housing market, employment is the most significant. No matter how low mortgage rates are, if someone is unemployed, they won't be able to make a mortgage payment at all. Historically, rising unemployment rates have been detrimental to the housing market. The last housing contraction, as measured by the Federal Reserve's House Price Index, occurred in 2008 and 2009, when unemployment peaked at 10% in October 2009. Some economists believe that an extended period of elevated unemployment will negatively impact the housing market.

In addition, the onset of forbearance allowance for homeowners as enacted by the CARES Act has put lenders in precarious positions. The Federal Housing Finance Agency estimates that there were roughly one million mortgages in forbearance at the end of April, representing 7% of government held mortgages by the agency.

With mortgage rates falling, refinances have increased for existing homeowners, with numerous applications backlogged due to the flood of new refi activity. Borrowers are experiencing varied approvals as lenders are sensitive to a deteriorating economic environment that may lead to additional foreclosures and bankruptcies.

Sources: Federal Housing Agency, Fannie Mae, Federal Reserve