



Freddie Mac February 2018 Insight

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Nowhere to Go but Up? How Increasing Mortgage Rates Could Affect Housing

MCLEAN, VA -- (Marketwired) -- 02/23/18 -- [Freddie Mac](#) (OTCQB: FMCC) released its [February Insight](#), which looks into the effects of higher mortgage rates on home buyers, homeowners wishing to refinance, mortgage lenders, home builders and real estate agents. The Insight delves into the past to review periods when interest rates spiked and analyze the effects on the housing industry.

Insight Highlights

- Based on prior experience, if rates continue to hover between 3.5 and 4.5 percent and inflation remains low, expect originations, home sales and housing starts to each increase by 5-10 percent in 2018.
- If rates spike by 1.5 percentage points, originations would fall by 30 percent, with home sales and starts also dropping between 5-11 percent.
- The most dramatic increase in mortgage rates in the last 50 years came during a four-year period ending in 1981, when rates increased from 8 percent to 18 percent. This hit the industry hard, causing
 - New mortgage originations to fall nearly 40 percent;
 - Annual single-family home sales to drop 36 percent; and
 - Housing starts for single-family homes to plummet over 51 percent.

Quote: Attributed to Len Kiefer, Deputy Chief Economist.

"History has shown that periods of rising mortgage rates can be challenging for U.S. housing and mortgage markets. In historical episodes of rising rates, home sales slipped, housing starts stalled, and mortgage originations swooned. Home builders are doubly affected by increasing mortgage rates because they use financing to fund construction costs. When interest rates on funding for new construction and mortgage rates rise simultaneously, home builders are squeezed by a fall in demand and an increase in costs. However, though rates have moved higher recently, mortgage credit is still historically cheap if borrowers can get in while the getting is good.

"If rates rise, will housing markets follow the historical precedent, or will they buck the trend and maintain momentum? It's uncertain, but with a solid labor market, rising household incomes, and a demographic tailwind from a large young adult population coming of age, U.S. housing markets could show modest growth this year even with higher mortgage rates."

Freddie Mac makes home possible for millions of families and individuals by providing mortgage capital to lenders. Since our creation by Congress in 1970, we've made housing more accessible and affordable for homebuyers and renters in communities nationwide. We are building a better housing finance system for homebuyers, renters, lenders and taxpayers. Learn more at [FreddieMac.com](#), Twitter [@FreddieMac](#) and Freddie Mac's blog [FreddieMac.com/blog](#).

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