Variant scare causes mortgage rates to fall to 2.78%

By Georgia Kromrei

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The average 30-year fixed-rate mortgage sank 10 basis points to 2.78% for the week ending on July 22, continuing several weeks of declines, according to mortgage rates data released Thursday by **Freddie Mac**'s PMMS.

According to Sam Khater, Freddie Mac's chief economist, concerns about the COVID-19 Delta variant and the recovery from the pandemic are taking their toll on economic growth.

While the economy continues to mend, Treasury yields have decreased, and mortgage rates have followed suit, said Khater. "Unfortunately, many homebuyers are unable to take advantage of low rates due to low inventory and high prices."

While prospective homebuyers face a tough market, Khater added that declining mortgage rates give homeowners the chance to refinance and reduce their monthly payments.

Mortgage rates have mostly remained below 3% this year, despite predictions that they would return to higher levels earlier. Economists and investors are closely monitoring any indication from the **Federal Reserve** that it may begin tapering of mortgage backed securities and bond purchases.

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But that is "still a ways off," Federal Reserve Chair Jerome Powell said at a Congressional hearing last week. The U.S. central bank plans to continue its asset purchases until there is substantial progress on jobs.

That accommodative stance is bolstered by concerns about the Delta variant and the market outlook, an analysis from Goldman Sachs noted this week. The **Federal Open Market Committee** is scheduled to meet next week.

President Joe Biden also pushed back at concerns over rising inflation during a press conference this week. "No serious economist" is suggesting the economy is headed toward unchecked inflation, he said.

“If we were to ever experience unchecked inflation over the long term that would pose real challenges to our economy,” Biden said, adding that his administration would “remain vigilant about any response that is needed.”

Since March 2020, the Fed’s asset purchases have been split between $80 billion of U.S. Treasury bonds and $40 billion of mortgage backed securities each month, keeping the cost of long-term borrowing low, in turn depressing mortgage rates. A year ago at this time, the 30-year fixed-rate mortgage averaged 3.01%.

Despite the low cost of borrowing, the housing market is showing signs of sluggishness.

Ten-year Treasury yields declined sharply last week, in part due to investor concerns about the spread of COVID variants and their impact on global economic growth, according to a report from the **Mortgage Bankers Association**.

Mortgage applications for new home purchases decreased 3% from May to June, sliding 23.8% year over year, according to the latest report from the MBA.

New single-family home sales decreased 5% to 704,000 units from 741,000, the trade group found. New home sales also declined slightly, from 68,000 to 66,000 in May. Overall, sales of new homes are down 7% from last year.

Homebuilders have encountered price increases for some building materials and labor shortages have dampened new home sales and increased home price appreciation, according to Joel Kan, MBA associate vice president of economic and industry forecasting. Persistent low inventory is keeping competition for available units high, he added.

In June, the average loan price rose to a record $392,370, according to the MBA.

“In addition to price increases, we are also seeing fewer purchase transactions in the lower price tiers as more of these potential buyers are being priced out of the market, further exerting upward pressure on loan balances,” Kan said.