

WHAT 7% MORTGAGES MEAN FOR HOUSING AND THE ECONOMY

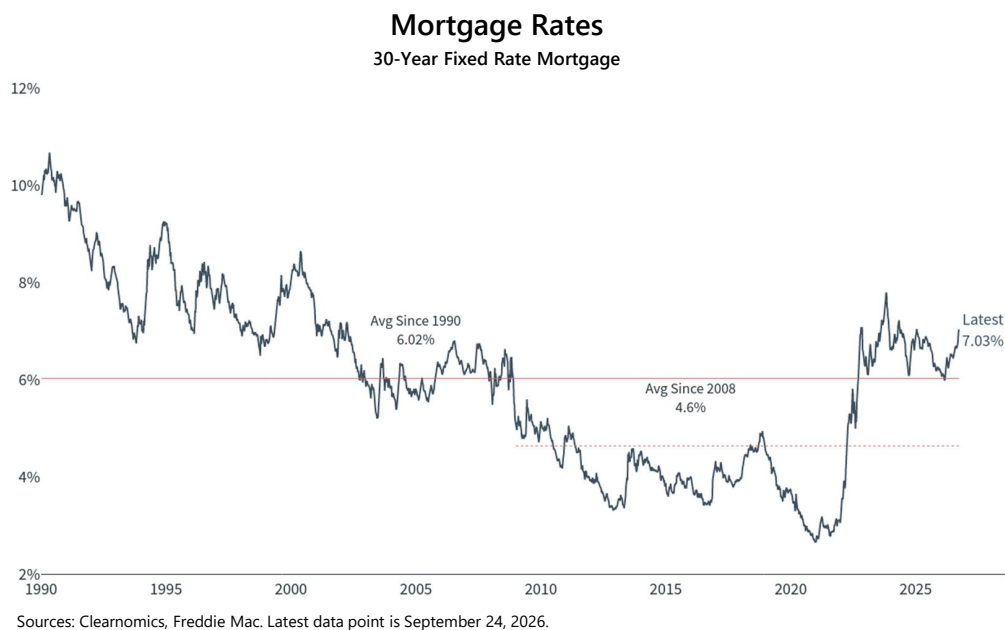
The housing market is directly affected by interest rates, which in turn impacts the economy and consumers. How could 7% mortgage rates affect the broader economy?

Housing matters both to individual households and to the broader economy and financial system. For many families, a home is the product of years of planning and saving, and it represents their largest asset, biggest monthly expense, and main source of debt. Housing also accounts for between 15% and 18% of the country's economic activity. Together with the wealth effect, these factors can shape consumer sentiment, household balance sheets, and the pace of economic growth.

Interest rates directly influence the housing market. When rates rise, mortgage costs for new borrowers rise too, affecting everything from loan qualification to sales volume. The average 30-year fixed mortgage rate is back above 7% after falling toward 6% early this year, a level not sustained in nearly 25 years despite recent volatility. What could these pressures mean for households and the broader economy?

Mortgage rates are back above 7%

Mortgage rates declined alongside long-term Treasury yields from the early 1980s until bottoming out during the pandemic in 2020. The 30-year fixed rate averaged 6% from 1990 to the 2008 financial crisis, but only 4.6% since then. Over much of the past decade, especially when rates fell to 3% or below during the pandemic, buyers and homeowners grew used to financing costs well below historical norms.



The return to 7% raises questions about the economics of homeownership, most notably the “lock-in” effect. Homeowners who secured low fixed rates are reluctant to sell, since buying again would mean a much higher mortgage rate. This limits the supply of existing homes for sale and keeps transaction volumes low. Washington policymakers are even considering “portable mortgages” that would let homeowners carry their lower rates to new homes.

According to the National Association of Realtors, existing home sales fell 2.0% month-over-month and 1.2% year-over-year in August. Existing home inventory stands at 4.9 months of supply and new homes at 8.5 months, the highest levels in over a decade. Higher inventories are positive, but because these figures are based on the pace of sales, they may also reflect homes sitting on the market longer. For buyers who enter the market, higher rates hurt affordability, since more monthly income must go toward mortgage payments. This encourages waiting for lower rates, further delaying activity and forcing difficult tradeoffs on location, size, or down payment.

Despite slow activity, home prices remain near record levels

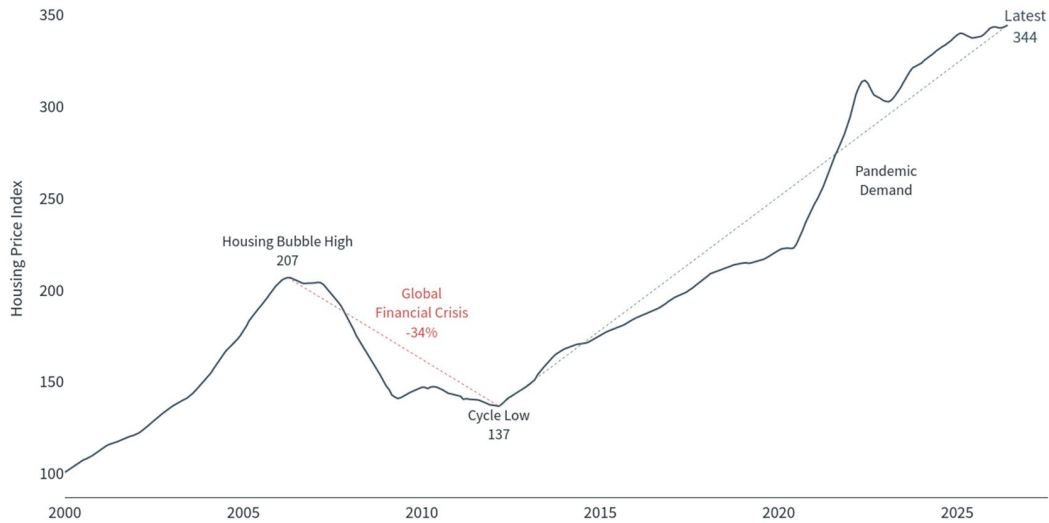
Although transaction volumes are low, national home prices remain near record highs according to the S&P Cotality Case-Shiller Index, as shown in the chart on the next page. Activity and prices often diverge in housing. With a healthy economy and low unemployment,

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existing homeowners can afford to stay in their homes but may not feel a need to move. High home values also fuel the “wealth effect.” When households see their homes holding or gaining value, they feel more financially secure. Combined with the stock market hovering near all-time highs, this can support greater spending on goods and services.

S&P Cotality Case-Shiller Index

20-City Composite Home Price Index



Sources: Clearnomics, Standard & Poor's. Latest data point is June 2026.

This may help explain why consumer spending has held up better than many economists expected despite tariffs and higher energy costs, even as consumer sentiment remains near historic lows. The gap between how consumers say they feel and how much they actually spend has been a puzzle for several years. One explanation is that sentiment is driven more by inflation, such as this year's higher gasoline prices, while spending is driven by the wealth effect. Housing makes up more than one-third of the Consumer Price Index, yet these “shelter” costs have risen 3% over the past year while gasoline prices have jumped 27.4%.

Refinancing activity has declined sharply

As long-term rates have risen, refinancing has fallen sharply. Mortgage Bankers Association data show refinancing volumes at multi-year lows after peaking from 2020 to 2022, when many homeowners used historically low rates to reduce payments or tap home equity. Homeowners who might have refinanced can no longer do so at attractive rates. Because refinancing is one way households turn rising home values into spendable cash, this could weigh on consumer spending going forward.

Mortgage debt remains by far the largest component of household borrowing, even as credit card and student loan balances have grown. Household debt service, including mortgage and consumer debt, was about 11% of disposable income in the second quarter, moderate compared with the pre-2008 peak of 16%. This suggests most households are managing their debt, even if they can't access their equity.

The effect on spending, home prices, and transactions depends on how long rates stay high. Many rates, including 5-year, 10-year, and 30-year Treasury yields, are near twenty-year highs. With inflation stubbornly above the Fed's target, bond yields suggest rates may stay higher for longer, and the Fed's Summary of Economic Projections suggests policy rates could remain elevated through at least 2027. While rates are hard to predict, especially amid shifts in inflation, oil prices, and the job market, investors and households should stay disciplined in following their financial plans.



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