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A Message from Ted Rood:

"This article is a great example of the disinformation that gets distributed when non-lenders provide mortgage data. NAHB states the maximum front end debt ratio is 28%. For Fannie Mae, it's 45%. Their info isn't just incorrect, it's remarkably inaccurate."

Small Price and Rate Changes Make a Big Difference for Homebuyers

As home sales have slowed, attention has shifted to the subject of affordability. The combination of rising home prices and higher interest rates is blamed by many as the cause of the lagging sales.

The National Association of Home Builders (NAHB) has just published a study which attempts to **estimate the approximate effect of each increase in prices** and each **uptick in mortgage rates** means in terms of how many households can afford to buy a new home. The study relies on mortgagee qualification criteria.

NAHB's latest estimates show that nationally, a $1,000 increase in the price of a median-priced new home (using the national figure of $355,183) will price 127,560 U.S. households out of the market. Based on their incomes and standard underwriting criteria, each of these households would be able to qualify for a mortgage to purchase the home before the price increase, but not afterward.

NAHB says a related issue is the **difference between builder costs and the final price** of a new home and their focus here is government regulation. They say, "When government-imposed fees, changes in regulations, or other factors increase costs for a builder or developer, the final price of the home for the buyers will usually go up by more than the increase in the costs, as related costs, such as financing and broker commissions, also rise." The Association's "priced out" estimates however seem equally applicable to the affordability of both new and existing homes.

NAHB basis its estimates on the sum of the mortgage payment including escrows. **This total cannot be more than 28 percent of monthly gross household income**, the standard used in underwriting conventional mortgage loans. As a result, the number of households that qualify for mortgages for a certain priced home depends on the household income distribution in an area and the mortgage interest rate at that time.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.68	-0.01
10 YR Treasury	5.1281	-0.0061
30 YR Treasury	5.4763	+0.0005

Pricing as of: 11/16 7:51PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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Other assumptions are a 10 percent downpayment, the monthly costs of the private mortgage insurance required with that downpayment and national rates for property taxes and homeowners' insurance. The interest rate was held constant at 4.85 percent.

Table 1. US Households Priced Out of the Market by Increases in House Prices, 2019

Area	Mortgage Rate	House Price	Monthly Mortgage Payment	Taxes and Insurance	Minimum Income Needed	Households That Can Afford House
United States	4.85%	$355,183	$1,831	$447	$97,640	32,679,580
United States	4.85%	$356,183	$1,836	$448	$97,915	32,552,020
Difference		$1,000	$5	$1	$275	-127,560

Calculations assume a 10% down payment and a 73 basis point fee for private mortgage insurance.
A Household Qualifies for a Mortgage if Mortgage Payments, Taxes, and Insurance are 28% of Income

US Household Income Distribution for 2019

Income Range:			Households	Cumulative
$0	to	$9,467	7,955,220	7,955,220
$9,468	to	$14,202	5,532,864	13,488,083
$14,203	to	$18,936	5,489,920	18,978,003
$18,937	to	$23,670	5,918,061	24,896,064
$23,671	to	$28,404	5,410,078	30,306,142
$28,405	to	$33,138	5,740,337	36,046,479
$33,139	to	$37,872	5,312,359	41,358,838
$37,873	to	$42,607	5,399,931	46,758,769
$42,608	to	$47,341	4,800,124	51,558,893
$47,342	to	$56,809	9,329,130	60,888,022
$56,810	to	$71,012	12,228,533	73,116,556
$71,013	to	$94,683	15,336,884	88,453,440
$94,684	to	$118,353	10,983,833	99,437,273
$118,354	to	$142,024	6,900,185	106,337,459
$142,025	to	$189,366	7,673,283	114,010,742
$189,367	to	More	8,494,218	122,504,959

Both the size of the population and the affordability of new homes influence the number of priced out households in the various states and metro areas. Among all the states, Texas registered the largest number of households priced out of the market by a $1,000 increase in the median-priced home in the state (11,152), followed by California (9,897), and Ohio (7,341). The smallest impacts were in Alaska and Wyoming where the priced-out numbers were 205 and 230 households respectively.

Among the 382 metropolitan statistical areas (MSAs) NAHB investigated the Chicago area had the largest prices out effect. There 4,499 households were squeezed out of the market by a $1,000 home price increase, both due to its large population and the relative affordability of housing compared to the large coastal metros. **Around 27 percent of households can buy a new median priced home.** For similar reasons, the Houston MSA where nearly 33 percent of households can afford median-priced new homes.to begin with, registered the second largest number of priced out households (3,546). In New York-Newark-Jersey City 3,531 households would be affected. Compared to Chicago or Houston, the median-priced new home is affordable to a smaller share of the households in New York, but New York is the largest metro area by population size with over 7 million households.

Taken alone, **interest rates have a similar impact**. NAHB estimates that every quarter point increase in rates eliminates the homebuying ability of one million households. The impact however is felt more strongly when rates are low. For example, an increase from 2.85 percent to 3.10 percent would affect around 1.26 million households, while an increase from 10.6 percent to 10.85 percent would mean about 423,000 households would be squeezed out of the market. These diminishing effects happen because only a few households at the thinner end of household income distribution will be affected while at the low end a 25 basis-point increase would hit at the thicker part of income distribution.

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Table 4. U.S. Households Priced Out of the Market by an Increase in Interest Rates, 2019

Mortgage Rate	Median New House Price	Monthly Mortgage Payment	Taxes and Insurance	Minimum Income Needed	Households That Can Afford House	Change in Households	Cumulative Change
2.85%	$355,183	$1,450	$447	$81,297	42,725,140		
3.10%	$355,183	$1,495	$447	$83,235	41,469,606	-1,255,534	-1,255,534
3.35%	$355,183	$1,541	$447	$85,203	40,193,873	-1,275,733	-2,531,267
3.60%	$355,183	$1,588	$447	$87,203	38,898,290	-1,295,583	-3,826,850
3.85%	$355,183	$1,635	$447	$89,233	37,583,225	-1,315,065	-5,141,915
4.10%	$355,183	$1,683	$447	$91,292	36,249,055	-1,334,170	-6,476,085
4.35%	$355,183	$1,732	$447	$93,380	34,896,170	-1,352,885	-7,828,970
4.60%	$355,183	$1,781	$447	$95,496	33,674,419	-1,221,751	-9,050,721
4.85%	$355,183	$1,831	$447	$97,640	32,679,580	-994,839	-10,045,560
5.10%	$355,183	$1,882	$447	$99,811	31,672,215	-1,007,365	-11,052,925
5.35%	$355,183	$1,933	$447	$102,008	30,652,626	-1,019,589	-12,072,514
5.60%	$355,183	$1,985	$447	$104,231	29,621,120	-1,031,506	-13,104,020
5.85%	$355,183	$2,037	$447	$106,479	28,578,008	-1,043,112	-14,147,132
6.10%	$355,183	$2,090	$447	$108,752	27,523,600	-1,054,408	-15,201,540
6.35%	$355,183	$2,144	$447	$111,048	26,458,211	-1,065,389	-16,266,929
6.60%	$355,183	$2,198	$447	$113,367	25,382,154	-1,076,057	-17,342,986
6.85%	$355,183	$2,253	$447	$115,708	24,295,744	-1,086,410	-18,429,396
7.10%	$355,183	$2,308	$447	$118,071	23,199,295	-1,096,449	-19,525,845
7.35%	$355,183	$2,363	$447	$120,455	22,455,449	-743,846	-20,269,691
7.60%	$355,183	$2,420	$447	$122,859	21,754,618	-700,831	-20,970,522
7.85%	$355,183	$2,476	$447	$125,283	21,048,064	-706,554	-21,677,076
8.10%	$355,183	$2,533	$447	$127,726	20,335,978	-712,086	-22,389,162
8.35%	$355,183	$2,591	$447	$130,187	19,618,549	-717,429	-23,106,591
8.60%	$355,183	$2,648	$447	$132,665	18,895,964	-722,585	-23,829,176
8.85%	$355,183	$2,707	$447	$135,161	18,168,407	-727,557	-24,556,733
9.10%	$355,183	$2,765	$447	$137,674	17,436,058	-732,349	-25,289,082
9.35%	$355,183	$2,824	$447	$140,202	16,699,095	-736,963	-26,026,045
9.60%	$355,183	$2,884	$447	$142,745	16,050,843	-648,252	-26,674,297
9.85%	$355,183	$2,943	$447	$145,303	15,636,233	-414,610	-27,088,907
10.10%	$355,183	$3,003	$447	$147,875	15,219,343	-416,890	-27,505,797
10.35%	$355,183	$3,064	$447	$150,461	14,800,261	-419,082	-27,924,879
10.60%	$355,183	$3,124	$447	$153,059	14,379,076	-421,185	-28,346,064
10.85%	$355,183	$3,185	$447	$155,670	13,955,875	-423,201	-28,769,265

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood

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