A Huge Number of Homeowners Have Mortgage Rates Too Good to Give Up

On a scale not seen in decades, many Americans are stuck in homes they would rather leave.

By Emily Badger and Francesca Paris

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Something deeply unusual has happened in the American housing market over the last two years, as mortgage rates have risen to around 7 percent.

Rates that high are not, by themselves, historically remarkable. The trouble is that the average American household with a mortgage is sitting on a fixed rate that's a whopping three points lower.

Average fixed mortgage rates

8%
6%
4%
2%

Existing mortgages

Rates on new loans

3.2-point gap

Rates on new home loans now far surpass rates locked in by Americans with existing mortgages.

2000 2005 2010 2015 2020 2023

Source: Federal Housing Finance Agency analysis. Note: New loan figures show the predicted rate that existing mortgage holders could get on the same mortgages at new market conditions.

The gap that has jumped open between these two lines has created a nationwide lock-in effect — paralyzing people in homes they may wish to leave — on a scale not seen in decades. For homeowners not looking to move anytime soon, the low rates they secured during the pandemic will benefit them for years to come. But for many others, those rates have become a complication, disrupting both household decisions and the housing market as a whole.

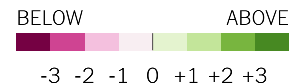
Indeed, according to new research from economists at the Federal Housing Finance Agency, this lock-in effect is responsible for about 1.3 million fewer home sales in America during the run-up in rates from the spring of 2022 through the end of 2023. That's a startling number in a nation where around five million homes sell annually in more normal times — most of those to people who already own.

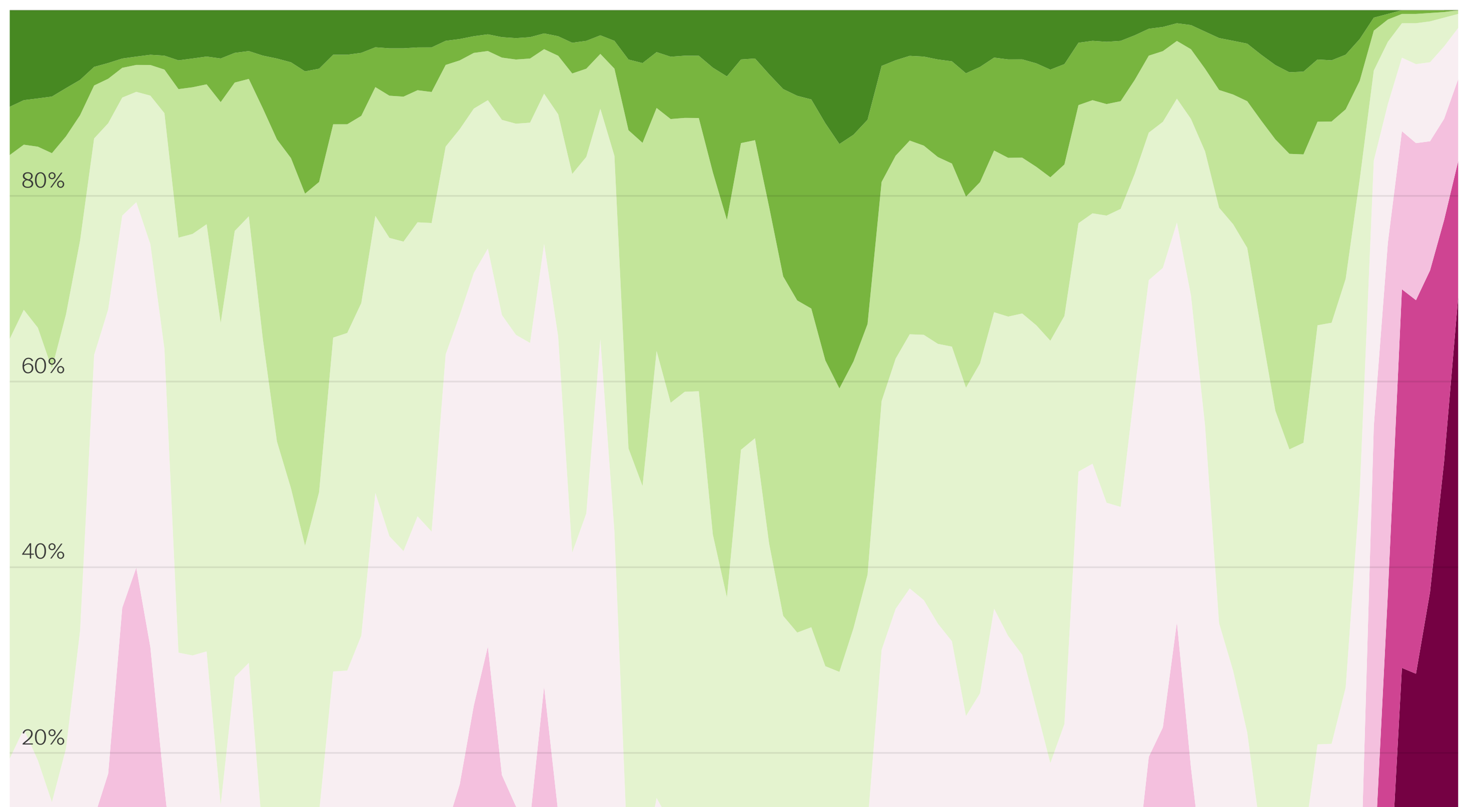
These locked-in households haven't relocated for better jobs or higher pay, and haven't been able to downsize or acquire more space. They also haven't opened up homes for first-time buyers. And that's driven up prices and gummed up the market.

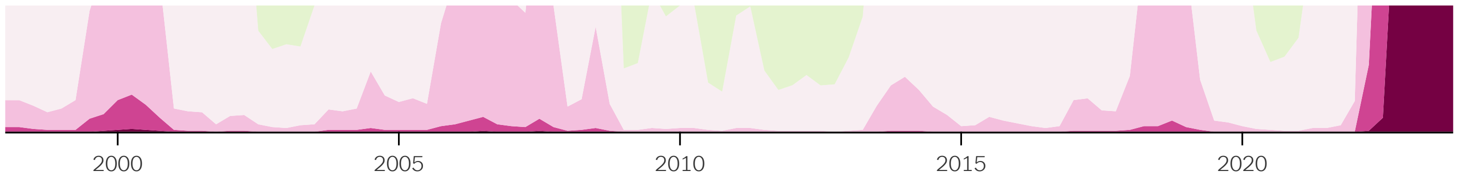
Another way to state how unusual this dynamic is: Between 1998 and 2020, there was never a time when more than 40 percent of American mortgage holders had locked-in rates more than one percentage point below market conditions. By the end of 2023, as the chart below shows, about 70 percent of all mortgage holders had rates more than *three* percentage points below what the market would offer them if they tried to take out a new loan.

Share of existing mortgages with rates below or above new market rates

Percentage point difference from rates on new mortgages







Federal Housing Finance Agency analysis. Note: Data covers all fixed-rate mortgages in the U.S.

For all the stories this picture tells, the big one it captures is a stuckness in the housing market that may also be feeding broader frustration with the economy.

To show how we got here, consider the distribution of rates held by all American homeowners with fixed-rate mortgages, going back in time.

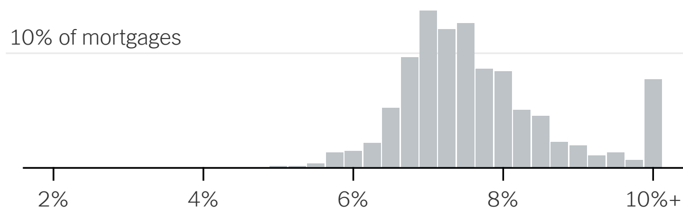
In the late 1990s and early 2000s, at the beginning of the timeline covered by the F.H.F.A. analysis, most homeowners had rates between about 7 and 9 percent. Rates then fell with the dot-com recession, and dropped further coming out of the Great Recession. Many homeowners also refinanced along the way.

Then early in the pandemic, rates bottomed out at historical lows, giving many households bargains below 3 percent.

Distribution of fixed rates held by existing mortgage holders

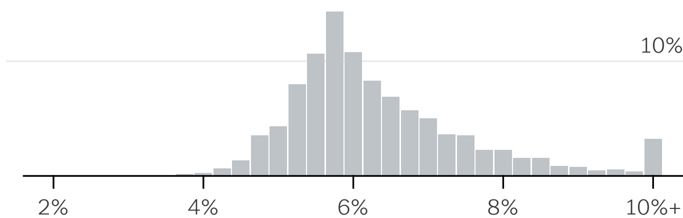
1999

Before the dot-com recession



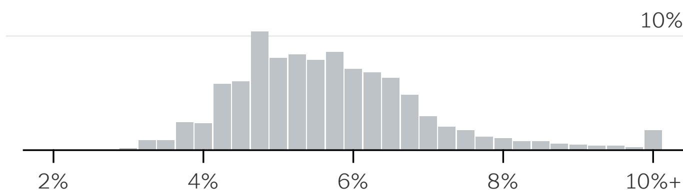
2005

During the housing boom

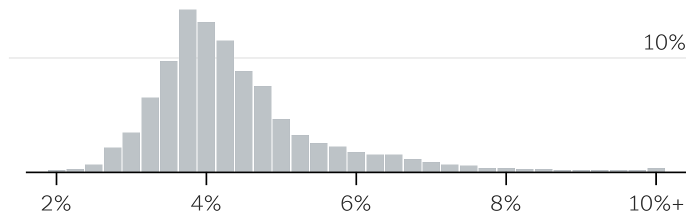


2011

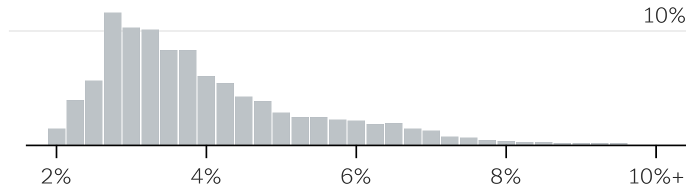
Emerging from the Great Recession



2019
On the eve of the pandemic



2023
Post-pandemic



Source: Federal Housing Finance Agency analysis. Note: Data shown captures the fourth quarter of each year.

For most of this period of generally declining rates and regular refinancing, most homeowners held rates that weren't so different — within a single percentage point or so — from what they could get on a new loan. If you held a mortgage rate higher than the market, that made moving or refinancing relatively painless. If you held a lower one, the difference was seldom big enough to discourage people from changing homes.

But that shifted significantly in the last two years as the Fed battled inflation, and as interest rates on all kinds of loans spiked.

It might seem strange to suggest there's a problem now with so many people having scored great housing deals during the pandemic. The problem arises from the fact that rates rose from their pandemic low so high, so fast. Seemingly overnight, most American homeowners with mortgages found themselves in a situation where it might now feel financially foolish to sell their home.

"You could think of your locked-in rate as an asset that you own," said Julia Fonseca, a professor at the University of Illinois at Urbana-Champaign.

And over this period, that asset has never been worth as much as it is now.

Professor Fonseca estimates that locked-in rates are worth about $50,000 to the average mortgage holder. That's roughly the additional amount people would have to spend if they swapped the existing payments left on their current mortgages for higher payments at today's rates.

Put another way, the F.H.F.A. researchers estimate that this difference was worth about $511 a month to the average mortgage holder by the end of 2023. That's enough to influence the decisions households make and cause shock waves in the housing market.

"These are real families that are not able to optimize their housing," said Jonah Coste, a F.H.F.A. economist who worked on the research.

The ripple effects are already evident in other research. The economists Jack Liebersohn and Jesse Rothstein find that mobility rates fell for homeowners with mortgages in 2022 and 2023, at a time when there were no comparable declines in mobility for homeowners *without* mortgages or for renters.

Professor Fonseca and Lu Liu at the University of Pennsylvania also find that homeowners who are more locked in are less likely to move to nearby areas with high wage growth. That suggests how kinks in the housing market can create problems in the labor market, eventually preventing businesses from hiring the right workers, or preventing wages from rising further.

All of this stems not simply from the level of high rates today, but from the particular sequence of events that led us here.

“We’ve never had anything like the last four years,” Professor Rothstein said.

Some of these effects may sound similar to the years after the 2008 housing crash, when a different problem — underwater mortgages — trapped many people in homes they wanted to leave. But today’s challenge may be more lasting. That’s because 30-year mortgage rates get locked in for, well, 30 years, and because rates below 3 percent are unlikely to be seen again anytime soon.

President Biden has made note of how unsettling this may feel to many people. In his State of the Union last month, he spoke directly to anyone fretting about interest rates. “If inflation keeps coming down, mortgage rates will come down as well,” he said.

But while many Americans wait, he proposed temporary tax credits worth up to $10,000 for new buyers and the owners who sell to them. For first-time buyers doing the psychologically fraught mortgage math at home, the White House points out that for the median-priced home, this is equivalent to reducing rates by more than 1.5 percentage points for two years.

For the homeowners who’ve so far been unwilling to sell, however, that sum is a good deal less than the $50,000 that locked-in rates are effectively worth to the typical mortgage holder.

Emily Badger writes about cities and urban policy for The Times from Washington. She’s particularly interested in housing, transportation and inequality — and how they’re all connected. More about Emily Badger

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