Homebuyers faced high mortgage rates, worsening affordability in October: ICE

Coastal areas, primarily in California and Florida, remain the least affordable in the United States

Stubbornly elevated mortgage rates created more affordability pressures for homebuyers in October, according to ICE Mortgage Technology's November Mortgage Monitor report.

In October, the monthly payment needed to purchase a median-priced home exceeded the $2,500 threshold for the first time ever. It now takes 40.6% of the median household income to afford monthly mortgage payments, making housing the least affordable it's been since 1984.

"For all but a single day, interest rates spent the entire month of October above 7.5%, topping out at 7.80% on Oct. 25," ICE Vice President of Enterprise Research Andy Walden said in a statement. "Mortgage rates haven't been that high in 23 years, which continues to hammer affordability."

However, the lack of housing inventory is also another driver of the high home prices.

With a one-two punch of higher mortgage rates and fewer homes on the market, consumer demand fell in October. The number of purchase mortgage applications declined 47% below pre-pandemic levels for the week of Oct. 26.

Meanwhile, the refinance market remained almost "non-existent," with the exception of equity-driven, cash-out refinance transactions, ICE reported.

"In fact, the refinance market in general is but a shadow of what it once was," Walden said. "There are pockets of cash-out lending occurring among a particular set of borrowers, but even that has been a niche market."

Rising home prices are boosting home equity

The good news is that U.S. mortgage holders are sitting on some $16.4 trillion of home equity, out of which $10.6 trillion is considered "tappable equity."

"Unfortunately, with borrower retention at a 17-year low, lenders are losing customers seeking to tap equity via cash-outs," Walden said. "What's notable is that they are losing this business not due to their rate offerings, but rather an inability to identify and market to those borrowers likely to transact in today's market."

Overall, the coastal areas, primarily in California and Florida, remain the least affordable. New York City, Nashville, Las Vegas, Seattle and Salt Lake City round out the list of the most expensive markets.

In 75% of the U.S. markets studied, borrowers need to earn 10 percentage points more than the local market's income to afford the median-priced home.