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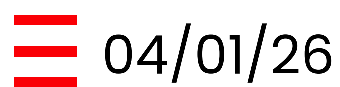 04/01/26

The Lock-In Effect Keeps Housing Supply Tight

As reported by wolfstreet.com

Ultra-low mortgage rates from 2020 to 2022 are still shaping today's housing market, limiting mobility and keeping supply constrained. Data from the Federal Housing Finance Agency shows that the share of mortgages below 3% has only declined to 19.7% in Q4, down from 24.6% at its peak in early 2022. Loans in the 3% to 3.99% range remain even more prevalent, accounting for 30.9% of outstanding mortgages.

Combined, more than half of all homeowners still hold mortgages below 4%. While that share has fallen from over 65% at its peak, the pace of decline remains slow. These borrowers are effectively locked into favorable financing, making it difficult to justify moving into a higher-rate environment with elevated home prices.

The result is a persistent "lock-in effect." Existing home sales remain significantly below pre-pandemic levels, and mortgage applications continue to lag. Even as some turnover occurs due to life events, the broader shift away from ultra-low rates is gradual, limiting inventory growth.

Meanwhile, higher-rate segments are expanding. Mortgages above 6% now represent 21.9% of the market, the highest level in nearly a decade. Adjustable-rate mortgages remain a marginal product, with originations falling to just 1.3%, near historic lows.

The data points to a market still adjusting to the aftermath of pandemic-era monetary policy, where the legacy of sub-3% rates continues to constrain both supply and transaction volume.

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