US Housing: The Lock-In Factor Is Reshaping The Mortgage Market

Millions of US homeowners are locked into mortgages they took out near record lows. With market rates now near 6.30% (as of 30 April 2026), selling means a payment shock. The result: a housing market that is weaker in transaction volumes but more resilient in prices.

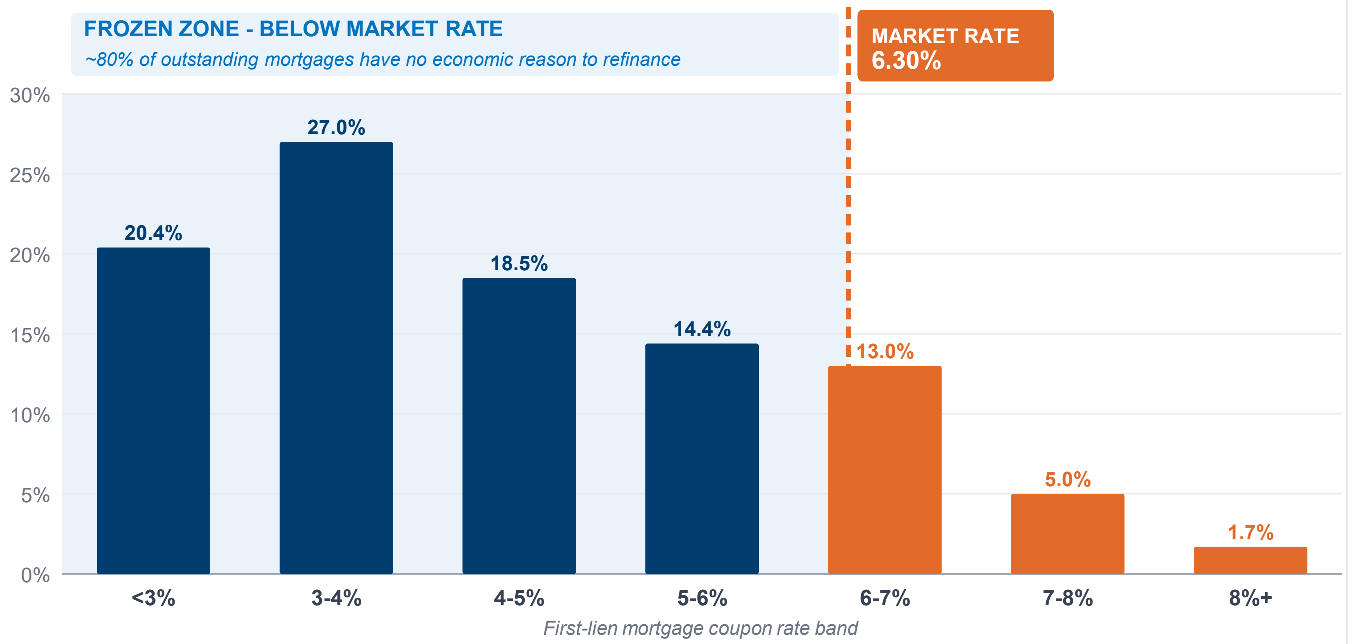
The Lock-In Effect, In Plain Terms

A borrower paying **3% on a $400,000 mortgage** faces roughly **$1,000 more per month** on the same loan at today's **6.30%** rate. That payment gap is what is keeping homes off the market - and what is reshaping the entire Mortgage ecosystem.

1 The Rate Gap - Why Households Will Not Sell

DISTRIBUTION OF OUTSTANDING FIRST-LIEN MORTGAGES BY COUPON RATE

Approximate share of outstanding fixed-rate mortgages by coupon band. Current market rate marked at 6.30%.



Source: FHFA National Mortgage Database, Redfin analysis, Freddie Mac PMMS; Aranca estimates.

A Different Transmission Mechanism

In a typical tightening cycle, higher mortgage rates weaken demand and pressure home prices lower. **This time, they have also restricted supply**, because Many existing homeowners are reluctant to give up low-rate mortgages.

The lock-in effect is no longer just a housing-Market issue - it is reshaping mortgage origination, refinancing demand, home-equity borrowing, servicer economics, and mortgage-backed securities (MBS) prepayment behavior.

A Frozen, Not Crashed, Market

FHFA research estimates that lock-in **prevented 1.72 million home sales** between 2Q 2022 and 2Q 2024 (the latest period in its updated paper), while lifting prices by **7.0%** through the supply channel - more than offsetting the direct price drag from higher rates.

The result is a housing market with **fewer transactions but firmer prices** - the opposite of what a textbook tightening would deliver.

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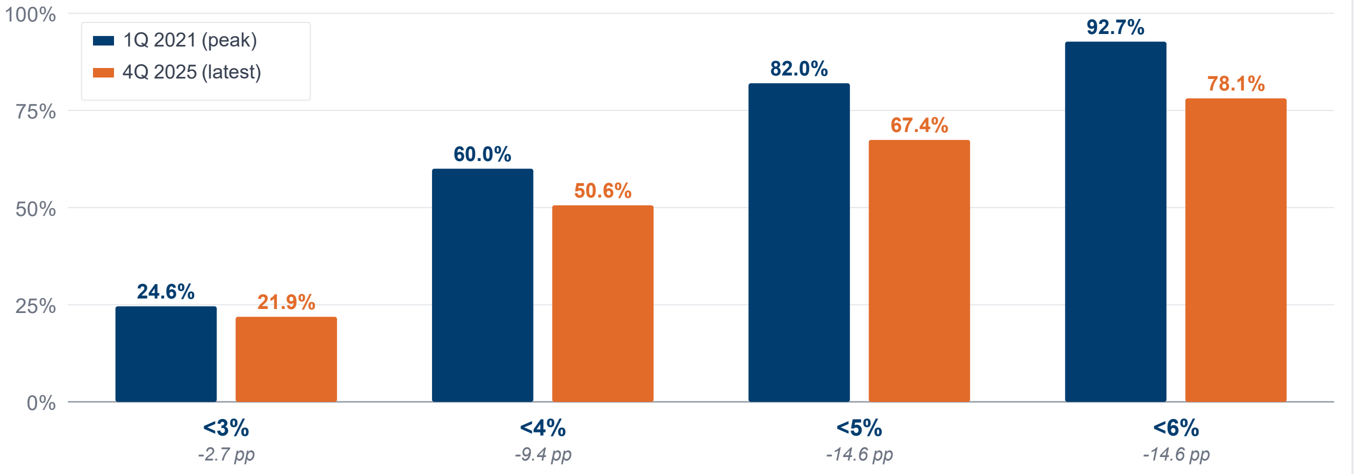
The lock-in effect is gradually easing. The mortgage stock is repricing slowly through sales, payoffs, and New originations. But the market remains bifurcated between subdued refinance activity and surging home-equity demand.

2 The Mortgage Stock Is Slowly Repricing

SHARE OF OUTSTANDING US MORTGAGES BY COUPON RATE

% of outstanding mortgages with rates below the indicated level, 1Q 2021 vs 4Q 2025.



Source: FHFA National Mortgage Database Aggregate Statistics, 4Q 2025 (released March 2026); Aranca analysis.

3 A Bifurcated Mortgage Market

Refinance Channel - Frozen

Traditional rate-and-term refinancing remains constrained because **most borrowers already hold cheaper mortgages** than the market offers. The 78.1% of outstanding loans below 6% (as of 4Q 2025) have no economic reason to refinance at 6.30%.

Mortgage banking fee pools are structurally weaker until rates fall materially below current levels - likely below 5.5-6.0% before lower-coupon pools become refinance- sensitive.

Home-Equity Channel - Surging

Years of rising home prices have left US homeowners sitting on huge amounts of wealth tied up in their homes. ICE reports **$17.6 trillion of total home equity**, of which **$11.5 trillion can be borrowed against** while still leaving the owner with at least 20% equity in the home.

Rather than refinance their cheap main mortgage at today's higher rate, homeowners are taking out a **second loan on top of it** - a Home Equity Line of Credit (HELOC) or home-equity loan - to pull out cash. **They keep their low first mortgage and just add a smaller loan alongside it**. Lenders that focus on these second loans are the clear winners from this dynamic.

4 Inventory Is Rising, Prices Are Softening Modestly

+20%+
Purchase Applications
Year-on-year (YoY) response to lower rates (Freddie Mac)

-3.6%
Existing Home Sales
Month-on-month (MoM), March 2026 (National Association of Realtors)

+8.1%
Active Inventory
YoY, March 2026 (Realtor.com)

-2.2%
Median List Price
YoY, March 2026 (Realtor.com)

5 What Major Forecasters See For 2026

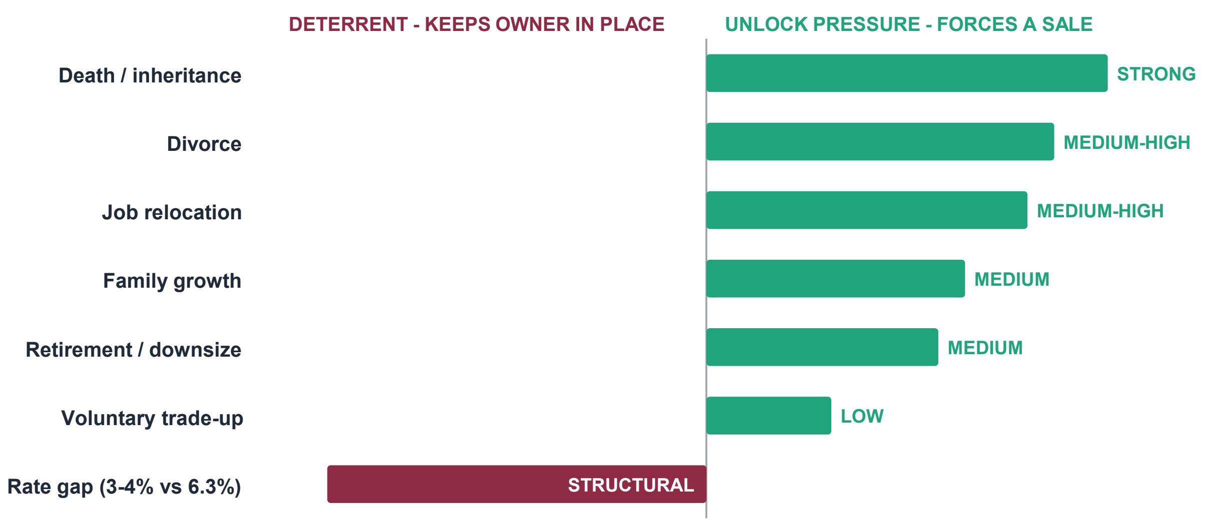
Source	Mortgage Rate	Home Sales / Prices	Takeaway
Fannie Mae	~5.9% (YE 2026)	Modestly lower rates expected	Mild Thaw
Realtor.com	~6.3% avg 2026	Existing home sales rise to 4.13M	Gradual
J.P. Morgan	Near current	Home prices ~0% growth in 2026	Stall

A "slow thaw" - not a rebound. Most 2026 forecasts cluster around mortgage rates staying near or Modestly below 6%, with home prices stalling and sales rising only gradually. The lock-in effect fades, but not abruptly.

6 The Slow Thaw Framework - What Drives Inventory Back

WHAT FORCES LOCKED-IN HOMEOWNERS TO SELL DESPITE THE RATE GAP

Life events drive the marginal sale - illustrative ranking of unlock pressure relative to the rate gap.



Source: Aranca analysis. Illustrative; relative weights vary by demographic and regional cohort.

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7 Regional Divergence Will Widen In 2026

South & West - Inventory Heavy

Higher exposure to price softness in 2026

- Inventory recovered more meaningfully post-pandemic
- Affordability stretched sharply during the rate cycle
- Builders may need incentives, buydowns, price discipline
- Sun Belt markets at the centre of any price weakness

Northeast & Midwest - Tight

Firmer prices despite weak affordability

- Inventory remains tighter than national average
- Lock-in effect more binding on resale supply
- Less builder activity, so less supply relief
- Prices more resilient even as turnover stays low

8 Takeaways For Portfolio Managers

POSITIVES - Structural Beneficiaries

Consumer Credit & Home Equity — STRUCTURAL UP

- Borrowers who will not refinance the first lien use **HELOCs and home-equity loans** for liquidity, supporting second-lien volumes.
- Watch borrower leverage, labor-market risk, and regional home-price exposure

Housing Starts — SECONDARY TAILWIND

- Constrained resale inventory continues to **redirect buyers toward new construction**, especially in fast-growing suburban and Sun Belt markets.
- New starts remain a structural beneficiary of the lock-in dynamic.

NEGATIVES - Structural Headwinds

Agency MBS — EXTENSION RISK

- Prepayment speeds likely stay **structurally slow for low-coupon cohorts** - borrowers deeply in-the-money have no incentive to refinance.
- **2023-2025 higher-coupon pools** become refinance-sensitive if rates fall toward 5.5-6.0%.

Mortgage Originators — SLOWER RECOVERY

- Purchase volumes recover gradually; a **broad refinance boom is unlikely** without a material rate move.
- Winners: lenders with scale, strong purchase channels builder relationships, and home-equity platforms

Homebuilders — TAILWIND FADING

- Lock-in has been a **relative tailwind** - constrained resale supply pushed buyers to new homes.
- As inventory improves, expect more reliance on **incentives, rate buydowns, and price discipline**, especially in Sun Belt markets.

Mortgage Banking Fees — WEAKER FOR LONGER

- Fee pools remain structurally weaker - refinance activity stays subdued unless mortgage rates fall **materially below current levels**.
- Servicing economics and HELOC-led products carry the model.

9 Aranca View - Five Things To Position For

1. **Gradual recovery in transaction volumes**, not a sharp rebound. Each life event - job, family, retirement, divorce - chips away at the lock-in, but no single catalyst breaks it.
2. **Flat-to-modestly positive national home prices**, with downside risk concentrated in inventory-heavy Sun Belt markets and resilience in supply-constrained Northeast and Midwest.
3. **Continued pressure on mortgage origination models** that rely on refinancing. Scale, purchase channels, and home-equity platforms are the moat.
4. **Persistent relevance of home-equity lending**. Borrowers extract liquidity via second-lien products rather than give up cheap first liens. Watch credit quality as labour markets evolve.
5. **Limited supply of existing homes** will keep the resale market constrained. Expect a steady **increase in housing starts** through 2026 as builders fill the gap, particularly in suburban and Sun Belt markets where the supply shortfall is most acute.

The Bottom Line

The lock-in effect is **past its peak but far from over**. The market is moving from a frozen state to a Slow normalization phase. For investors, US housing should not be viewed through a simple "higher rates equal lower prices" lens, the supply response matters as much as demand. **Lock-in has made US housing less liquid, more regionally fragmented, and more dependent on household balance-sheet strength** - and that structure will persist through 2026 and likely beyond.

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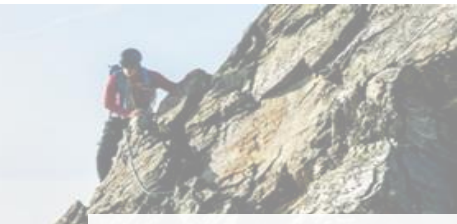

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