BANK OF AMERICA INSTITUTE

BANK OF AMERICA

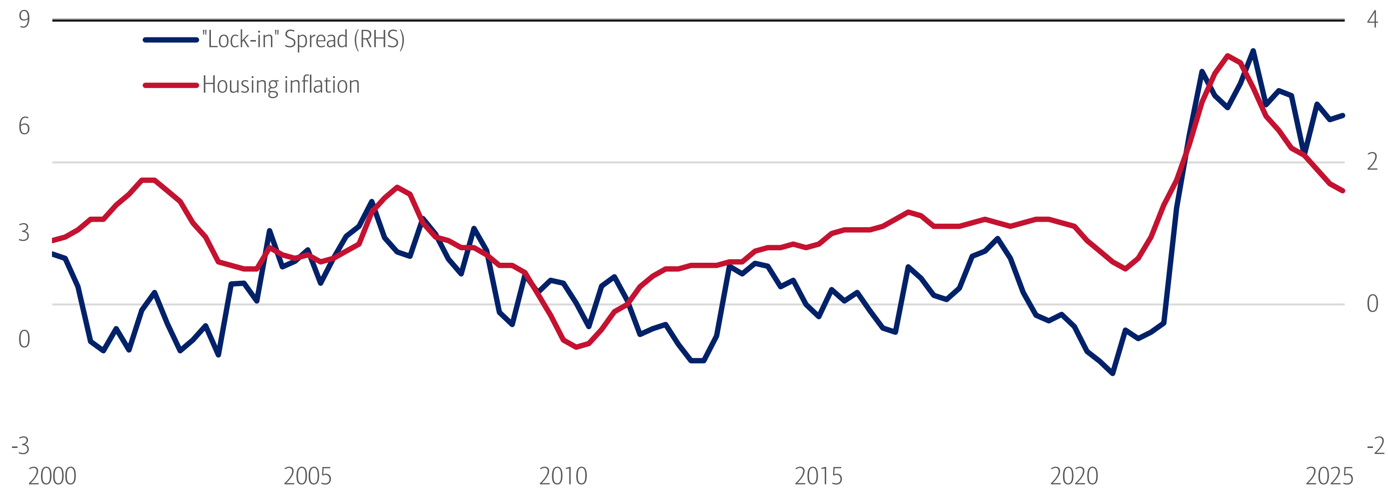
Daily Insights

As "lock-in" eases, will the housing market roar?

14 October 2025

"Lock-in effect" drives housing inflation

Year-over-year (YoY) owner's equivalent rent inflation, "Lock-in" mortgage spread since 2000 (right-hand side (RHS))



Source: BofA Global Research, Bloomberg

Note: "Lock-in" mortgage spread = spread between Freddie Mac 30-year mortgage rate and effective mortgage rate

BANK OF AMERICA INSTITUTE

What's driving housing inflation? There is a large gap between the mortgage rate facing new borrowers and the average "effective" rate that existing borrowers are paying. As a result, many homeowners are "locked in" and have little incentive to expose themselves to higher rates through a move. In turn, the low housing supply that the "lock-in effect" fosters results in upward pressure on home prices.

But there is historical precedent for a turnaround. In fact, back in the 1980s, when Fed Chairman Paul Volcker tamed inflation, longer-term mortgage rates fell sharply, sparking a recovery in the housing market and home price inflation. As such, BofA Global Research suggests that if current mortgage rates were to drop to the 5% range, existing home supply could increase by 20-30%, putting downward pressure on housing price inflation.

To read more about the "lock-in effect," see our analysis: On the move: Still waiting for the thaw.

Contributors

Liz Everett Krisberg

Head of Bank of America Institute

David Michael Tinsley

Senior Economist, Bank of America Institute

Sources

Jared Woodard

Strategist, BofA Global Research

Disclosures

These materials have been prepared by Bank of America Institute and are provided to you for general information purposes only. To the extent these materials reference Bank of America data, such materials are not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America. Bank of America Institute is a think tank dedicated to uncovering powerful insights that move business and society forward. Drawing on data and resources from across the bank and the world, the Institute delivers important, original perspectives on the economy, sustainability and global transformation. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of Bank of America Institute and any individual authors listed, and are not the product of the BofA Global Research department or any other department of Bank of America Corporation or its affiliates and/or subsidiaries (collectively Bank of America). The views in these materials may differ from the views and opinions expressed by the BofA Global Research department or other departments or divisions of Bank of America. Information has been obtained from sources believed to be reliable, but Bank of America does not warrant its completeness or accuracy. These materials do not make any claim regarding the sustainability of any product or service. Any discussion of sustainability is limited as set out herein. Views and estimates constitute our judgment as of the date of these materials and are subject to change without notice. The views expressed herein should not be construed as individual investment advice for any particular person and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular person. This material does not constitute an offer or an invitation by or on behalf of Bank of America to any person to buy or sell any security or financial instrument or engage in any banking service. Nothing in these materials constitutes investment, legal, accounting or tax advice.
Copyright 2025 Bank of America Corporation. All rights reserved.