Borrowers wait for lower mortgage rates and lose

After all-time low near 4%, figures are steadily rising in trend that could continue, partly as result of Washington's tax-cut deal.

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Homeowners who delayed locking in superlow mortgage rates think close to 4 percent for a 30-year fixed may have waited too long.

Rates are creeping back up, in part because of the tax-cut deal in Washington. Now those in the market to buy or refinance have to decide whether to take what's available or wait — and run the risk that rates will keep rising.

Freddie Mac, the government-backed company that buys and sells mortgages, said Thursday that average rates on 15- and 30-year fixed loans increased sharply from last week. It was the fourth straight weekly rise. Fixed rates had been the lowest in decades.

"People thought for a while that rates would fall below 4 percent, and they hedged on that," said New York mortgage broker and banker Andrew Toolin, who had just been on the phone with a client who is paying 5.875 percent on his mortgage.

A month ago, the client passed on what now looks like a once-in-a-lifetime opportunity: the chance to refinance at 4.125 percent. That would have put $321 more in his pocket each month.

He held out, thinking he could do even better. Now the rate is up to 4.75 percent. He could still shave money off his monthly mortgage payment but not nearly as much — about $229.

Rates are rising because they tend to follow the trends set by government bonds, such as the 10-year Treasury bond. Investors are selling those bonds, causing their interest rates to rise, because of the deal President Barack Obama and Republicans reached to hold off tax increases in 2011 and 2012 and cut taxes for most Americans.

Some economists think the deal, which would effectively put money in Americans' pockets right away, will help the economy heal faster.

Even though they're rising, mortgage rates remain at extraordinarily low levels by historical standards. The average rate on the 30-year mortgage rose to 4.61 percent from 4.46 percent last week. It hit 4.17 percent a month ago, the lowest level in the 40 years that comparable records have been kept.

The rate on a 15-year fixed loan, a popular refinancing option, rose to 3.96 percent. Rates hit 3.57 percent last month, the lowest since 1991.

The opportunity to refinance a home loan at a fixed rate of less than 5 percent is still a pretty good deal, and even better for those who are trapped in an adjustable-rate mortgage.

Still, for those homeowners who already have low rates or are thinking about a second refinancing, a quarter-point to half-point change over the month could be crucial. Many have already refinanced into lower rates in the last year or so at 5 percent or below. They would need rates to be at least 1 percentage point lower to make a refinance financially worthwhile.

Some who missed their opportunity acknowledged they may have gambled — and miscalculated.

Lisa Herman, a project manager at a financial institution in Philadelphia, said she learned from her mistake. She is trying to refinance her row house in Philly's Center City, while also buying a 1950s cottage home near her family in Traverse City, Mich.

Four weeks ago, she could have gotten 4.25 percent on her refinance and 4.875 on her purchase. She waited, betting rates would go back down or at least stay flat. But they edged up. A week later, she folded and locked in 4.378 percent and 5.125 percent. The price for her hesitation: about $50 a month.

"I got a little greedy, and I lost," Herman said.

For buyers, the calculus is different.

Their buying power has eroded marginally. But with house prices on the decline again, homes are still cheap. However, a sustained rise in mortgage rates will eventually sideline potential buyers who started to think of historically low rates as a given.

Courtesy of JB Goodwin