JBGoodwin REALTORS®

Average 30-year mortgage rate rises past 5%

By Julie Schmit, USA TODAY
February 11, 2011

Mortgage rates rose this week to their highest level in 10 months, but the increase isn't expected to derail strengthening in the battered U.S. housing market.

Freddie Mac reported Thursday that 30-year fixed-rate mortgages averaged 5.05% this week. That's the highest since late April and up sharply from a modern record low of 4.17% in November.

Rates would have to rise much more to squelch a housing market recovery, economists say. And the federal government would likely take steps to pull rates down if that occurred, they add.

"Nobody is welcoming a rise in interest rates but it's not enough to kill purchases in the housing market," says Keith Gumbinger of mortgage researcher HSH.com.

To discourage large numbers of sales, rates would have to top 6%, predicts ISH Global Insight economist Patrick Newport. If they went over 5.5%, that would likely spur government action, adds Cameron Findlay, LendingTree chief economist.

Even though rates have been rising since November, they're still low by historical standards. For the past 20 years, 30-year fixed loans have averaged 6.9%, Findlay says. For the past 10 years, they averaged 5.93%.

Low rates and low home prices helped fourth-quarter home sales, the National Association of Realtors reported Thursday.
Nationwide, fourth-quarter sales rose 15% from the third quarter. But they were still 20% below a year earlier, when federal tax credits artificially boosted sales.

Median prices for single-family homes were up year-over-year in 78 of 152 metropolitan areas. But they were up just 0.2% nationwide, the NAR said. Newport expects prices to drop further and begin to turn around midyear.

The association's data indicate several larger markets posted healthy price gains due to stronger job growth. In Washington, D.C., median prices were up 8.1% year-over-year. The Boston region posted a 4.2% rise, and Austin was up 4.1%.

"Sales clearly recovered in the latter part of 2010," says Lawrence Yun, NAR economist. He expects sales to pick up this year despite interest rates he predicts will be 5.5% or higher by year's end.

But job creation "will trump the rise in rates" and keep home sales improving, Yun says.

Higher rates will have a bigger impact on refinancing activity, Gumbinger says. That fell 8% for the week ended Feb. 4 as interest rates jumped, the Mortgage Bankers Association says.
Mortgage rates follow yields on 10-year Treasury bonds, which have been rising recently.

Courtesy of JB Goodwin