

Rate hike looms for mortgages

By Nancy Sarnoff
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Mortgage rates are at historic lows, but that might not be the case much longer.

Those holding out for a bargain or waiting to jump into the housing market for other reasons could be in for a rude awakening.

“I don't want to convince someone to buy a home who shouldn't, but for those who can and who want to, I want them to get the message that they're living on borrowed time when it comes to interest rates,” said housing consultant David Jarvis, the Houston director of Metrostudy.

Mortgage rates aren't expected to spike tomorrow. But as the economy improves and if inflation begins to affect more segments of the economy, rates should start to tick up.

How much is anyone's guess.

“The stronger the economy, typically the stronger interest rates are,” said Clifton Crabtree, CEO of Houston-based First Continental Mortgage, a mortgage banking firm.

For buyers on a budget, mortgage rates are key. As rates rise, so does the cost to own a home.

For example, the monthly principal and interest payment on a \$200,000 mortgage financed at 4.75 percent jumps nearly \$300 with a 2.25 percentage point rate increase.

Buyers either have to adjust their budgets or settle for a cheaper house.

That becomes a difficult proposition, Jarvis said, because people typically raise their housing budgets once they start looking.

“It's not like suddenly I can go out and make a higher payment because I'm already at the top,” said Jarvis.

If mortgage rates were to spike, the housing market could take a big hit as fewer consumers would be able to afford homes.

“If interest rates went to 8 percent tomorrow, we'd see a big dip in sales,” said Jim Gaines, an economist with the Texas A&M Real Estate Center.

But he doesn't expect such a drastic leap.

“If it goes up gradually, then the market has a chance to adjust and make allowances and understand what's going on,” he said.

Rising rates could even stimulate sales.

Many would-be buyers have stayed out of the housing market because they're worried about their jobs or the overall economy.

An uptick in rates could cause those buyers to jump back in for fear of rates going even higher.

Some were expecting mortgage rates to have already risen by now.

Government programs aimed at improving the economy have kept them low.

The 30-year mortgage fell to 4.60 percent this week, according to Freddie Mac's latest mortgage survey.

The low rates haven't resulted in a rash of sales.

Some blame the boost the federal homebuyer tax credit gave the market last year, saying it cannibalized sales from the future.

But there are other reasons.

Mortgage lending is still tight, and some consumers who may want to buy a house can't because they have one to sell in another market. Then there are those who are waiting because they're just skittish about the economy.

“I think a lot of people have been able to afford housing but they've opted not to,” said [Ted C. Jones](#), chief economist for Stewart Title Guaranty Co. “They've taken a conservative stance and decided to rent.”

Courtesy of JB Goodwin