Real Estate

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Mortgage-rate jump is a mixed blessing

Fence sitters may buy in, bidding wars could ease

By **Carolyn Said**

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Mortgage interest rates are surging.

Last week saw the biggest one-week jump in a quarter century. Interest rates now stand at 4.46 percent for a 30-year fixed mortgage, according to Freddie Mac - a full percentage point higher than just two months ago and a two-year high.

The rapid run-up has fueled fears that surging rates could dampen the housing rebound that has provided a strong economic engine. Rates are likely to continue to trend up as the Federal Reserve scales back its huge bond-buying campaign to keep them low.

Most experts, though, say the real estate market will shrug off the impact - and may even benefit.

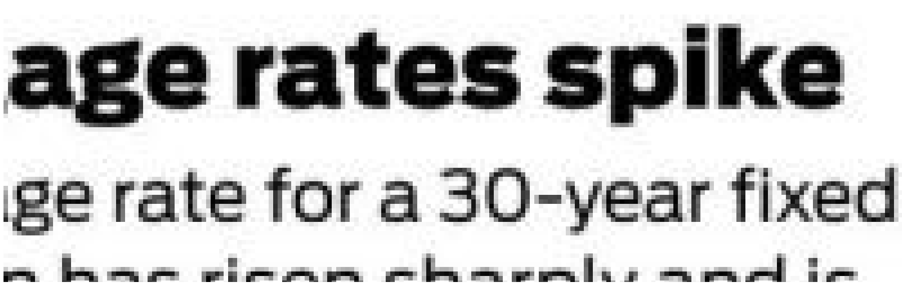
"Higher mortgage rates may dampen some housing market activity, but the effect will be muted by the high level of buyer affordability, and home sales should remain strong," said Frank Nothaft, Freddie Mac chief economist, in a statement.

The two obvious potential impacts of higher rates are on home purchases and refinancing. But it's unlikely that the higher rates will curb buyer appetites, especially in the fevered Bay Area.

"We're seeing such a dearth of inventory and such an incredibly overwhelming number of buyers that I think rates would have to climb more than 1 percent to make a significant impact on prices and sales," said Catherine Stern, an agent with Red Oak Realty in the East Bay.

Likewise, Guy Cecala, publisher of Inside Mortgage Finance, said the current rates are unlikely to discourage home buyers.

"I think the impact will be marginal because there are other factors besides mortgage rates that go into deciding to buy," he said. "Two years ago, we had sub-4-percent mortgage rates and nobody in the U.S. would buy a home. So we know interest rates are not the primary driver of home sales. It has much more to do with people's confidence in their personal situation, holding a job, expectations that home prices won't go down."



For anyone who's bought a house in the past, a 4.5 percent interest rate still sounds appealing.

"All in all, it's still a good rate," Cecala said. "A normal mortgage rate in a healthy economy would be 5 or 6 percent. The only reason we had sub-4-percent rates was because we were basically in a recession and the Fed was taking extraordinary steps to make money as cheap as possible and drive down interest rates."

Some may buy in

If anything, the rates movement might motivate some fence sitters to jump in before they rise still further. Higher rates might also help rein in the frenzied bidding wars - and that would be a good thing, warding off the specter of another bubble, most experts say.

Unquestionably, the higher rates will reduce some folks' purchasing power. For a mortgage of $400,000, monthly payments at 4.46 percent are $2,017. In early May, when rates were 3.35 percent, payments on the same mortgage would have been $1,763 - or $254 less.

And higher rates are already making an impact in refinancing. Applications for refis have fallen more than 40 percent since early May when rates started rising, according to the Mortgage Bankers Association. Applications for purchase mortgages fell just 3 percent in the same period.

Many homeowners refinanced during the many months of low rates. But there's a significant group of people who up until recently found themselves in a difficult financing position. The market meltdown meant their homes were underwater, making it much harder to refinance unless they qualified for a special government program. That same meltdown spurred government action that led to record-low rates - but underwater homeowners could only look at them longingly.

Now, recovering values mean they may be able to qualify for a refinance - just as rates start to rise.

Facing a catch-22

Jessie Warner and Jason Sanders experienced that catch-22. The couple bought a condo in Oakland's Uptown neighborhood in 2007 for $450,000, then watched as the market collapsed and that "emerging" area took the brunt. Their unit's value plunged to $280,000. Meanwhile, interest rates also fell to historic lows, but they were locked into a 5.5 percent rate because they were so far underwater.

But this year, with the real estate market surging and Uptown getting an extra boost from new developments, their condo's value finally swung upward. This spring they consulted mortgage broker Dianne Crosby at RPM Mortgage in Orinda. An appraisal showed that the unit was worth $475,000, giving them enough equity to refinance - just as interest rates started trending up.

"It was a touch-and-go feeling," said Warner, a re-entry coordinator for formerly incarcerated people. By locking in early, they were able to complete the refi at 3.625 percent, lopping $500 off their monthly payments.

"It was a huge relief that we were able to do it just in time," she said.

Stern, the real estate agent, has a long-term view.

"I got into real estate in New York City in the 1980s when interest rates hit about 17 percent," she said. "Literally the city (housing market) came to a screeching halt for the better part of a year. Because rates were so high, not only were existing properties not selling but new (condo) developments opened rental offices."

Today, it seems certain that rates will continue to rise. The real issue, Cecala said: "How fast will we get up to that 5 or 6 percent level?"

"My personal guess is that 30-year fixed-rate mortgages for conforming loans will bounce around 3.75 to 4.5 percent for the next year," he said. "Get used to it. Even that 4.5 percent, people may say, 'My God, that's a full percentage higher than we've seen' - but historically, it's still a great rate."

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