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Bailout pushes mortgage rates up

By Stephanie Armour, USA TODAY

A recent jump in mortgage rates could jeopardize any turn-around in the housing market as home buyers face steeper loan costs.

The average interest rate on a 30-year, fixed-rate mortgage this week hit 6.46%, up from 5.94% last week, mortgage giant Freddie Mac reported Thursday.

The roughly half-point increase is the biggest weekly jump since 1987. On a \$165,000 loan, a borrower would pay \$1,069 monthly, or \$58 more than the payment on the same loan taken out last week. Despite the big jump, the 30-year rate is about where it was as recently as mid-August.

Home sales nationally have increased as prices have declined, the National Association of Realtors (NAR) reported last week. But escalating mortgage rates are eroding some of the growing affordability that has come from dropping home prices, say economists such as Joel Naroff of Naroff Economic Advisors.

Meanwhile, the USA's housing market remains well below its 2006 peak in both sales volumes and prices paid. According to the most recent data from NAR, the pace of home sales in August was 11% below the year-ago level. The median sales price of \$198,100 in August was down 9.5% from a year earlier, and the USA had more than a 10-month supply of homes on the market.

Naroff and others cite the federal government's bank rescue plan as a key reason for the recent jump in mortgage interest rates. The government's \$700 billion rescue plan means the Treasury is borrowing more money, putting pressure on long-term interest rates for mortgage securities — the source of most capital for home finance. That, coupled with investors' fears about future inflation, means rates could continue to rise.

Another feature of the rescue plan may also be affecting mortgages. The government has agreed to guarantee bank debt. As a result, investors who had previously bought mortgage debt issued by Fannie Mae and Freddie Mac debt are investing in bank debt, which now seems safer.

The big jump in mortgage rates mirrors recent volatility in Treasury securities. The 10-year Treasury, a benchmark for fixed-rate mortgages, was yielding about 4% Thursday, up from 3.5% early last week.

But some economists say rates should stabilize as fears over the economy recede and markets become less volatile.

"I suspect what we're seeing right now is the worst of it. I'm predicting the financial panic will abate some," says Mark Zandi, chief economist at Moody's Economy.com.

Some homeowners say they believe the federal bailout is unfair and could backfire if it continues to make the cost of home financing rise.

Mike Hogan, 30, of Columbus, Ohio, recently refinanced from an adjustable-rate loan to a fixed-rate, 30-year mortgage at 6%, and says he's concerned.

"People have been spoiled with low rates, and with higher rates they won't refinance or purchase. And we're paying to help bail other people out," says Hogan, who works in advertising.