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Mortgage rates defy forecasts

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Expert predictions that 30-year mortgage rates would climb to at least 5percent this year haven't come true, and the housing market is taking full advantage of the delay.

Some homeowners who weren't able to refinance their loans in the past are qualifying for lower rates because their home values have improved. Homebuyers find themselves qualifying for larger loans, and homebuilders are able to sell more optional features.

“We're swamped,” said Robert Curtis, a senior loan officer with Fifth Third Bank in Chicago.

“Instead of me being proactive and reaching out to my clients, I'm starting to get inbound calls.”

So much for the expert predictions about how the Federal Reserve's management of the recovering economy this year would trigger higher mortgage rates.

In a sign of confidence in economic growth, the Fed has cut purchases to $20 billion a month in mortgage bonds, down from $40 billion when the stimulus program began in September 2012.

Yet lenders last week were offering an average rate of 4.21 percent on a 30-year, fixed-rate mortgage, the lowest rate since Nov. 7, according to Freddie Mac.

“The further rates drop, the more house that people can buy,” said Charlie Murphy, president and CEO of IconBuilding Group in Algonquin.

“It's less about the gross sale amount and more about what the payments are to maintain the loan.”

Tim Bauwens and his family are among the beneficiaries of the faulty predictions. Last year, the Bauwenses sold their home in Huntley and are now living in a Buffalo Grove apartment while a new home is built for them in Hawthorn Woods.His goal is to lock in a mortgage between 4 percent and 4.25 percent, lower than the 4.75 percent he was paying for the Huntley house.

“I'm basically doubling the value of my home yet getting a lower rate,” Bauwens said.

Wiping some egg off their faces, economists said unforeseen factors have led worried investors to embrace the safety of high-quality bonds this year. And when demand for bonds rises, their effective interest rates fall.
The yield on the 10-year Treasury note, at 3 percent when the year began, has slipped below 2.7 percent,and home lending rates have followed, as they generally do.

Rising rates had largely choked off a huge boom in refinancing, which enabled millions of homeowners to lower their borrowing costs as the 30-year rate declined from more than 6 percent in early 2008 to below 4 percent. It bottomed out at less than 3.5 percent in late 2012 and again in May 2013.

The rates these days have fallen low enough to trigger a minirevival in refinancing.

Among the existing homeowners taking advantage of the lower rates are those looking to shorten their loan terms and those looking to convert from an adjustable-rate loan into a fixed-rate mortgage. Other homeowners are willing to take a gamble for a few more years and trade in one adjustable-rate mortgage for another.

Still, at 49 percent, the refinance share of mortgage loan applications last week was lower than the purchase loan share for the first time since 2009, according to the Mortgage Bankers Association.
Jeff Fishman, a mortgage adviser at Perl Mortgage Inc. in Chicago, thinks there remains a segment of the population that could refinance, particularly because of home price gains.

Home prices in the Chicago area were up 10.8percent from a year earlier in February, according to the most recent S&P/Case-Shiller home price index. The mortgage rates are far below what economists like Moody's Analytics' Mark Zandi had been expecting.

In September, Zandi forecast that the rates would have reached 5 percent by now. He now projects it will take until spring or summer 2015 to reach 5percent.

Freddie Mac chief economist Frank Nothaft's forecast is similar: a rise to 4.6percent or 4.7 percent by year-end, reaching 5 percent in mid-2015 instead of the end of 2014 as he had expected. A sluggish first-quarter economy, due in part to a harsh winter, slowed down the housing market and reined in borrowing costs, Nothaft said.

He, Zandi and Joel Kan, director of forecasting at the Mortgage Bankers Association, said international concerns, especially worries over Russia's aggressive stance Ukraine, had also helped drive down rates as investors sought a secure place for their funds.

“A lot of money flowed out of emerging markets,” Zandi said. “It went back into the developed countries — the U.S. and Europe. They just didn't want to be in Turkish bonds or Brazil bonds.”

Another factor driving rates down has been competition. As the refinancing business shriveled up, lenders for the first time in years had loans for home purchases as their principal business. But the demand has been lower than expected as the housing market has cooled.

In trying to boost production, bankers have cut their profit margins on lending, which had swelled in 2012 and 2013 amid the refinance boom, Zandi said.

Certainly not everyone is able to take advantage of the attractive rates. Lenders say they are turning away credit-challenged consumers, particularly given the federal government's new lending standards that took effect in January. Many homeowners remain underwater and are unable to take advantage of the lower rates unless they are approved for the government-backed Home Affordable Refinance Program.

Home shoppers are also vexed by a lack of for-sale homes, which is causing some to retreat to the sidelines and others to bid above asking price for their second or third choice homes.

Given the continued downward pressure, lenders are advising some consumers not to rush into a transaction.

“What's the best thing to be doing right now?” said Perl's Fishman. “Wait for that dream home. Don't push that dream home and revisit your current mortgage situation because there are still wonderful opportunities.”