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Mortgage rates back near year-ago level

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Every evening, Pat Wendelken goes online and peeks at the posted mortgage interest rates. She winces at what she sees.

"I watch the rates going up every week," said Wendelken, who must decide soon the best way to finance a home she and her husband are building in Elgin. "I'm wondering where they're going to go."

Others are wondering the same thing as mortgage rates climbed to their highest level in nearly a year.

When Wendelken began tracking the rates in April, they were around 6 percent for a 30-year, fixed-rate loan. On Thursday, they averaged 6.8 percent across the country, according to a survey by Bankrate.com.

Mortgage financier Freddie Mac put the average slightly lower -- 6.7 percent -- and noted that it was the fifth straight week of increases. Rates have been bounding upward more than one-half of 1 percent, on average, since May 15.

The rising interest rates are tied to yields on the 10-year Treasury note, which also are up significantly.

And though the rates probably aren't news to many homeowners who are refinancing to get out of surging adjustable-rate loans, the change still apparently hasn't sunk in for the average home buyer.

"I don't think consumers are aware of what's happening," said Dan Green, a loan officer for Mobium Mortgage in Chicago. "It's just starting to become front-page news. Forty-five days ago, I was quoting 5.8 percent to people, and now I'm saying 6.6 percent."

It's a difference of about $156 a month on a $300,000 loan, and many real estate agents say that it's not enough to pull notoriously picky shoppers off the fence and into a serious buying mood.

"They don't seem to be really moved by the fact that rates are going up. They figure that rates will come down again," said Oak Park agent Norma Rixter. "And the inventory [of homes for sale] is so high, they figure the homes will still be here."

And at lower prices: Rixter and others say that after a disappointing spring season, sales have picked up somewhat in the past few weeks, though that's likely due more to reduced asking prices inspiring buyers to make offers.

"We've seen a change, and it's not what we would like it to be, but it's a change, nonetheless," Rixter said last week. "We've had 12 properties go under contract in the past week, and that's double what we were seeing recently.

"But 20 houses came on the market at the same time."

The inventory of unsold homes continues to vex the market, and analysts worry that rising rates will put further downward pressure on prices, which have managed to stay flat, on average, in Illinois while declining in other parts of the country.

Naperville appraiser Chip Wagner, whose firm compiles a monthly analysis of home sales around the Chicago region, said about 44,000 single-family homes were for sale here last July. It was about the same April 1. But on June 13, there were more than 58,000.

"What really jumps out at me from the previous quarter is that we've seen the average listing price drop almost $27,000 in the region," Wagner said. "At the same time, we see all these new listings. That's a scary number to me -- 58,000 is a 9.2-month supply [of homes for sale]. I was taken aback when I saw it."

Park Ridge agent Paula LaBree said higher interest rates may be, perversely, just what the housing market needs to get rolling again.

"I think the best thing is that interest rates could tick up," La Bree said. "There's no sense of urgency [among buyers]. If something else could create a sense of urgency -- a third party, like interest rates -- there would be a viable reason to buy now."

Chicagoans Mike and Kristin Egan shopped for more than six months before making an offer about a week ago on a house in Libertyville. Though rates were a factor in the first-time buyers' decision to act now, they were secondary to just purchasing something.

"We knew we needed to buy because we're losing our shirts on taxes by not having any deductions," Egan said. "But we're trying to work on the best rate possible. Rates went up about half a point a few days ago. I am not pleased."

Though housing analysts generally have been startled by the recent velocity of the rate change, many say they're not expecting rates to climb precipitously.

"My best guess is that they probably will stabilize around current levels," said Northern Trust chief economist Paul Kasriel. He said the rate change could cut two ways.

"It's possible that some people who were on the fence might jump into the market now, that's true," he said.

"It's also possible that some people who were on the fence might not qualify [for a loan] when they jump now."

Keith Gumbinger, an analyst for HSH Associates, a financial publisher that tracks mortgage rates in Pompton Plains, N.J., said in some respects, it's a replay of last year.

"The bad news is that interest rates have risen. The good news is that they're still below last year's levels," he said. "On June 30 a year ago, the average interest rate was 6.98 percent, and we're around 6.8 percent at the moment, so we're measurably below last year.

"There's no indication we're going to break out of that 6.98 percent range," he said. "As we roll forward into the summer, we probably will see some reasonable stability of rates."

Even so, the rates may be a wake-up call, analysts said.

"First-time buyers generally will shop for nine to 12 months," said Green. "And nine to 12 months ago, the payments looked manageable. Suddenly those payments are not so manageable. It does push some people into saying, well, it's not so bad for me to rent.

"If you pre-qualified for a loan in March or April or May, it's time to call your loan officer and get pre-qualified again," he said. "You might find that suddenly your purchasing power has decreased."

Lynette Briggs, who teaches classes for first-time buyers at the DuPage Homeownership Center, said the rate changes would be felt first in areas that already are nearly unreachable for lower-income families.

"Look at someone who makes 80 percent of the median income, with a family of four, just under that $60,000 income range," she said. "What they could have afforded a few weeks ago at 6.25 percent might have been a home for $238,000 or $240,000. That $238,000 was already a struggle in DuPage, where the median is more like $357,000.

"Now that rates are half a percent higher, they're at $230,000."

Real estate agents said that because rates have hovered near historic lows most of this decade, many of today's buyers are unaware of their potential sting.

"One of my clients was just quoted a 6.75 percent rate," said Eric Logan, the Egans' agent. "That's what I got on my first house six years ago.

"They kept saying two years ago that they would go over 7 percent and never come down, and look where they are now," he said. "Most buyers have no sense of urgency."

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