Mortgage rate dip defies expectations

Fixed-rate mortgages back in the 4 percent to 5 percent range as investors buy bonds

Posted: May 24, 2010 - 1:20am

By Adam Van Brimmer

So much for the expiration date on low-mortgage interest rates.

The strengthening dollar, skittish investors, steady loan demand and absence of inflationary pressure dropped the average 30-year fixed rate below 5 percent earlier this month. The rate - which reached 5.21 percent in early April only to end last week at 4.9 percent - is at its lowest point since last December.

The 15-year fixed rate, meanwhile, is around 4.2 percent.

The buyer-friendly marks defy analysts' predictions that rates would begin a gradual and irreversible rise once the Federal Reserve ended its mortgage-backed security purchase program on April 1. The Fed dominated that market for a year in an attempt to stabilize the housing market, and the consensus was private investors would demand better returns once the Fed backed away.

"For the rates to be dropping again ... wow, that's something," said Tracey Burdette, president of the Mortgage Banker's Association of Savannah and a loan officer with First Bank Mortgage. "It remains a great time to buy a home."

Investors, meanwhile, are buying bonds. Fixed-rate mortgage rates typically reflect the yield on 10-year Treasury notes, and the stock market's recent volatility has money flooding into the bond market. Bond yields move in the opposite direction of bond prices.

"It's called fleeing for safety," said Joe Menna, the first mortgage underwriter for Workmen's Circle Credit Union in Savannah. "How long that continues, who knows? But there's still no sign of inflation out there."

The low mortgage rates could help maintain the momentum in the housing market now that the federal homebuyer tax credit has expired. The credit, which granted first-time buyers as much as an $8,000 refund and repeat buyers up to $6,500, ended April 30, although those buyers with homes under contract as of that date have until June 30 to close those deals.

Many industry officials, including local real estate professionals, predicted a post-credit hangover in May and June as buyers who might otherwise have bought in those months moved up their purchases to take advantage of the tax credit.

"The timing is fortuitous," Greg McBride, a senior financial analyst at Bankrate.com, told the Associated Press.

Potential buyers - as well as refinancers - would do well to act soon, local lenders agree. Rates are fickle and can swing quickly, although the consensus is they aren't likely to rise dramatically before the November elections.

"If you lock in now, you'll feel like a genius in a few years when rates are at 6 or 7 or 8 percent," said Chris Miltiades, president of Workmen's Circle. "If rates are like water, we might not be at the bottom of the barrel, but you can see your feet."

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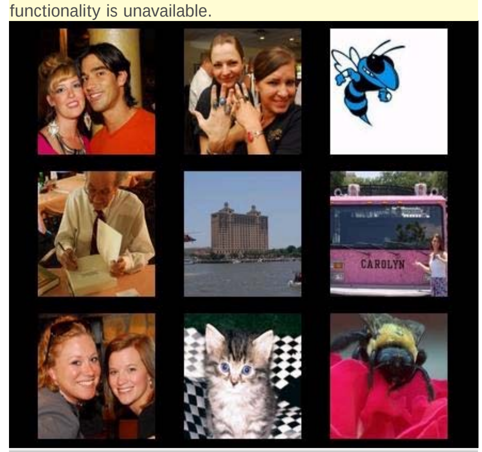

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