



## Mortgage Rates Still Predicted to Remain Low, Unless...

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The folly of predicting economic shifts is pretty apparent to anyone who revisits Freddie Mac's monthly economic summary from January 2010. At the start of the new year, the mortgage giant's economic staff projected the 30-year, fixed-rate mortgage would rise slightly more than 1 percentage point over the course of the year, ending 2010 at 6 percent.

In fact, during the entire year Freddie Mac's quoted average interest rate never rose above 5.21 percent and, as 2010 draws to a close, stands at 4.61 percent.

While its year-end summary is not yet available, in November Freddie Mac predicted rates will move up 1 or 2 basis points each quarter of 2011, and will finish the year at 4.8 percent. Over the entire year the interest rate is expected to average 4.6 percent, identical to the average in 2010.

There are, however, many variables that could make this year's prediction as flawed as the last.

**Jared Martin, chief executive officer of GOTeHomeLoans Inc.**, said the most predictable thing about the current mortgage market is its volatility.

Mortgage rates move inversely to the bond market and bond investors are having what **Martin** called "knee jerk reactions" to isolated bits of news. "People aren't looking at the whole picture," he said. "If you see a spike in a market, I guarantee there will soon be a drop."

One unknown in the current market is the effect of the second round of qualitative easing, or QE2, under which the Federal Reserve has begun purchasing some \$600 billion in government bonds, a process that will continue for the next eight months.

QE is a device often used by central banks to pump money into the economy when interest rates are at rock bottom (the federal funds rate is currently 0.25 percent) but the economy still lags. While one expected effect of QE is low interest rates, mortgage rates actually spiked up when the program was announced because of uncertainty and the fear of inflation.

Tim Dale, executive vice president for lending at BB&T Bank, said he expects that, at least in part, "QE2 will set the direction for rates over the next few months."

In late summer unusually high investor demand for mortgage-backed securities was driving rates lower, and Dale said mortgage-backed securities are still very attractive to investors. Working in the opposite direction, however, is what **Martin** referred to as a capacity problem.

The new underwriting guidelines require especially skilled underwriters, and many lenders find themselves short-handed but reluctant to hire more staff until the housing market stabilizes.

"Turn times have increased from the usual two or three days to as much as 30 days, and some lenders have artificially jacked up rates to manage the work flow," **Martin** said.

While Fannie Mae, Freddie Mac and the Federal Housing Administration still are facilitating the funding of most mortgages, both Dale and **Martin** noted there is private money available in the jumbo-mortgage market.

Dale said his bank and most other large banks have always written jumbo loans, and now there is some pickup in demand for the product. **Martin** said he sees the banks that usually deal in jumbo products becoming "less risk-averse" and expanding their footprint in the market.

Another potential game changer is the return of mortgage insurance companies. These companies, which write the private mortgage insurance lenders require for loans with less than a 20 percent down payment, were badly burned by defaults and foreclosures and literally disappeared from the market for more than a year.

Their reappearance is giving some buyers an alternative to an FHA-guaranteed loan and, in some cases, a better deal now that FHA has raised its monthly premium.

PMI companies, however, still are hesitant to write policies for any but the most qualified buyers, generally those with credit scores over 700.

Dale said he expected rates to remain low in the short term. "If the economy continues to pick up steam," he said, "rates should remain very favorable through the first quarter of next year."

**Martin** said borrowers can play on the current volatility to find a good rate, but suggested that "when a rate makes sense, lock it in."