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MORTGAGE

Mortgage rates retreat as tax credit fades

By Chris Kissell • Bankrate.com

For the third straight week, mortgage rates went nowhere fast.

The benchmark 30-year fixed-rate mortgage edged down 1 basis point this week, to 5.21 percent, according to the Bankrate.com national survey of large lenders. A basis point is one-hundredth of 1 percentage point. The mortgages in this week's survey had an average total of 0.45 discount and origination points. One year ago, the mortgage index was 5.23 percent; four weeks ago, it also was 5.23 percent.

The benchmark 15-year fixed-rate mortgage slipped 1 basis point, to 4.54 percent. The benchmark 5/1 adjustable-rate mortgage fell 5 basis points, to 4.37 percent.

Up by the bootstraps

For the first time in two years, the U.S. housing market is going to have to stand on its own feet. After April 30, new homebuyers no longer will be eligible for a federal tax credit of up to $8,000 (for first-time buyers) or $6,500 (for move-up buyers). The credit's sunset marks the end of a string of homebuyer tax breaks dating back to the spring of 2008.

For Dick Lepre, the withdrawal of stimulus can't come soon enough. "It makes no sense to me to ask if housing is on a path to recovery if it is still being supported by the government to the extent which it presently is," says Lepre, senior loan officer at RPM Mortgage Inc. in San Francisco.

Weekly national mortgage survey

Results of Bankrate.com's April 28, 2010, weekly national survey of large lenders and the effect on monthly payments for a $165,000 loan:

	30-year fixed	15-year fixed	5-year ARM
This week's rate:	5.21%	4.54%	4.37%
Change from last week:	-0.01	-0.01	-0.05
Monthly payment:	$907.05	$1,265.61	$823.33
Change from last week:	-$1.02	-$0.85	-$4.88

Jim Sahnger, a mortgage planner for Palm Beach Financial Network in Stuart, Fla., agrees that years of government incentives make it "difficult to say just where we are right now," in terms of the housing market's true overall health.

Now that the stimulus is being withdrawn, "I believe we will see a pause" in housing activity, especially among first-time homebuyers, Sahnger says. "Housing prices could decline a bit before we resume an incline."

Mixed signals

Some recent reports suggest housing finally may be on the mend. In March, new-home sales surged 26.9 percent, the biggest monthly jump in nearly a half-century, according to the U.S. Commerce Department.

In addition, nationwide home prices recorded a modest gain in February, the first year-over-year increase in more than three years, according to the S&P/Case-Shiller Home Price Index.

But any potential housing recovery faces stiff headwinds. Despite the year-over-year home price rise, home values actually fell 0.9 percent in February when compared with January. And RealtyTrac says foreclosure filings jumped 19 percent in March, the highest monthly total in the report's five-year history.

Regardless of housing's true state of health, Lepre believes further government efforts to prop up sales would be "fiscally irresponsible" and counterproductive in a market where housing prices remain "at an unnaturally high level."

"People still are paying too large a percentage of their income for housing," he says. "It is time to believe in markets and let them take their course."

Rate forecast

Mortgage rates continue to remain low, though, defying widespread expectations.

Many forecasters predicted rates would rise in the wake of the Federal Reserve's recent suspension of its nearly 15-month-long campaign to reduce homebuyer borrowing costs by buying up $1.25 trillion in mortgage-backed securities.

Instead, rates have remained locked in a tight range. Sahnger and Lepre agree that private investors have stepped into the vacuum left by the Fed and are purchasing mortgage-backed securities, which look more attractive than they have in recent years.

"With underwriting standards as they are, the quality of loans being originated is far superior to what we had and knew about in late 2008," Sahnger says. Though he adds that he believes rates "inevitably will move higher."

Dan Green, a loan officer with Waterstone Mortgage in Cincinnati, echoes that sentiment. He says today's low mortgage rates are the result of investors fleeing to the relative safety of mortgage bonds in response to global turmoil ranging from the debt crisis in Greece to economic disruption caused by the eruption of a volcano in Iceland.

"Mortgage rates are low because of safe-haven buying, and buying like that doesn't last long," says Green, author of TheMortgageReports.com.

He adds that rates "are poised to soar higher. Rate shoppers should treat today's market as a gift."

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