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Low-rates window closing for mortgages

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WASHINGTON — The era of record-low mortgage rates is over.

The average rate on a 30-year loan has jumped from about 5 percent to more than 5.3 percent in just the past week. As mortgages get more expensive, more would-be homeowners are priced out of the market — a threat to the fragile recovery in the housing market.

And if you wanted to refinance at a super-low rate, you may have missed your chance. Mortgages under 4 percent are still available, but only for loans that reset in five or seven years, probably to higher rates.

Rates are going up because of the improving economy and the end of a government push to make mortgages cheaper.

For people putting their homes on the market this spring, rising rates may actually be a good thing. Buyers are racing to complete their purchases and lock in something decent before rates go even higher.

"We are seeing some panic among potential buyers who have not found houses yet," said Craig Strent, co-founder of Apex Home Loans in Bethesda, Md. "They're saying: Man, I should have found a house three weeks ago or last month when rates are lower."

It's all about affordability. For every 1 percentage point rise in rates, 300,000 to 400,000 would-be buyers are priced out of the market in a given year, according to the National Association of Realtors.

The rule of thumb is that every 1 percentage point increase in mortgage rates reduces a buyer's purchasing power by about 10 percent.

For example, taking out a 30-year mortgage for $300,000 at a rate of 5 percent will cost you about $1,600 a month, not including taxes and insurance. But the same monthly payment at a rate of 6 percent will only get you a loan of $270,000.

Good economic news is the first reason rates are rising: U.S. government debt, a safe haven during the recession, is losing its appeal as investors turn to stocks and riskier corporate bonds.

Lower demand for debt means the government has to offer a better interest rate to sell its bonds.

The second reason is the Federal Reserve. Last week, the Fed ended its program to push mortgage rates down by buying up mortgage-

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backed securities.

As of yesterday, the Mortgage Bankers Association put the national average for a 30-year fixed-rate mortgage at 5.31 percent. One week ago, it was 5.04 percent.

Many analysts forecast rates will rise as high as 6 percent by early next year. If they go much higher, the already shaky housing recovery could stall.