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Mortgage Rates Finally Break Higher: What You Should Watch

Mortgage rates took their biggest leap in two months on Friday, thanks to a sell-off in the U.S. bond market. Mortgage rates loosely follow the yield on the 10-year Treasury **(U.S.: US10Y)**. It was only an eighth of a percentage point move, but enough to send stocks of the nation's homebuilders, as well as anything else that touches housing, tumbling.

The numbers on the tickers are dramatic, but the impact of higher mortgage rates on the nation's neighborhoods **will take different forms**.

First and foremost, rising rates scare a whole host of housing players: **buyers, sellers, builders and homeowners**. The average contract interest rate on the popular 30-year fixed mortgage is still historically very low, around 3.5 percent. The historical average for that rate is just more than 8 percent, and it has been as high as 18 percent. Still, a move higher is scary.

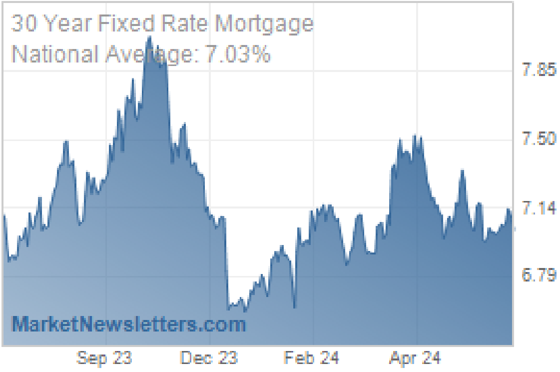
"When it comes to rates and financial markets in general, things can always go either way, but I will say that the past two days are the **scariest we've seen** since before Brexit," wrote Matthew Graham, chief operating officer of Mortgage News Daily on Friday. "This is the kind of move that should be treated as a serious threat to low, stable mortgage rates until proven otherwise."

Higher mortgage rates make homebuying more expensive. No question. The move now could make some buyers want to get into a contract quickly before their costs rise. That, however, has always been a very short-term stimulus. Higher rates could also scare some sellers into lowering prices slightly, to sell before they lose potential buyers. For homeowners, this could be one more reason to **jump on a mortgage refinance**. Even with rates sitting at near-record lows for months, there are still hundreds of thousands of borrowers who have yet to take advantage and reduce their monthly payments.

But even if the **Federal Reserve** raises its funds rate this month, mortgage rates may not move much higher. After the central bank made its first increase last December, mortgage rates moved up briefly, but then fell again.

"The easiest way to say it is that 'longer-term' rates (stuff like 10-year Treasury yields and mortgage rates) do indeed tend to move with Fed rate hike expectations, not the Fed rate hike itself," explained Graham. "Let December be your guide. The **Fed hiked and rates fell**. Now, why was that? Because rates had just spent the past 10 months rising in anticipation of an

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.03%	-0.05	0.00
15 Yr. Fixed	6.44%	-0.01	0.00
30 Yr. FHA	6.50%	-0.05	0.00
30 Yr. Jumbo	7.24%	-0.01	0.00
5/1 ARM	7.05%	-0.02	0.00
Freddie Mac			
30 Yr. Fixed	6.95%	+0.09	0.00
15 Yr. Fixed	6.25%	+0.09	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.03%	+0.09	0.62
15 Yr. Fixed	6.56%	+0.09	0.54
30 Yr. FHA	6.90%	+0.11	0.95
30 Yr. Jumbo	7.11%	-0.01	0.50
5/1 ARM	6.38%	+0.11	0.54

Rates as of: 7/5

Recent Housing Data

		Value	Change
Mortgage Apps	Jun 12	208.5	+15.58%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

impending Fed rate hike."

		Value	Change
Builder Confidence	Mar	51	+6.25%

So let's say rates rise a little bit in anticipation. There is **only a small chance** they would move a full percentage point higher; that has happened 14 times since 1971, according to an analysis by John Burns Real Estate Consulting. Burns is predicting rates could stay below 4 percent at least through 2018. Still, a mortgage rate increase will have different outcomes for different segments of housing.

"Historically, they have **hammered builder stocks**, hurt new home sales bad, hurt existing home sales a little, and had very little impact on home prices unless there was a recession too," noted John Burns. "My conclusion is that investors are right to punish the stocks, but often punish them too hard."

Even if rates make another small move higher, there are bigger things weighing on housing right now than mortgage rates. For one, **tight supply**. The severe lack of homes for sale is pushing home prices higher and hurting affordability far more than a slightly higher interest rate. Homebuilders need to ramp up production, but they are fighting higher costs for land and labor, as well as a far more restrictive landscape in terms of construction regulation.