

Interest rates and home prices not too stable

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GRAND RAPIDS — The government's plan to stop buying mortgage-backed securities and the potential end of tax credits for home buyers have bankers, builders and real estate professionals watching closely.

A senior vice president at the Bank of Holland's Grand Rapids office said mortgage interest rates are expected to rise slightly when the Federal Reserve stops buying mortgage-backed securities as of March 31.

"Most of the people in the financial world think that when the Fed stops purchasing those securities at the end of March, rates probably initially will start going up, maybe 25 to 50 basis points during the month of April," said Phil DeVries.

That means interest rates on mortgages now running from slightly under 5 percent to 5 percent, may go to 5.25 or 5.5 percent.

DeVries said that an increase of 25 basis points on a \$200,000, 30-year mortgage that was at 5 percent will mean an increase in payments of \$30.50 per month. If the increase in basis points is 50, that increase would be \$61.90.

DeVries said the Fed's action regarding mortgage-backed securities implies it believes the mortgage industry has stabilized enough to recover without the government propping it up. However, he believes investors in the secondary market will want a higher return on mortgage-backed securities they buy because of the perception of higher risk without government involvement.

The U.S. Commerce Department reported that housing starts were stronger in January than in the last six months, which the National Association of Home Builders attributed to "positive impacts of homebuyer tax credits and other favorable buying conditions."

Homes have been selling lately, and many existing

owners have refinanced over the last 12 months due to low interest rates, said DeVries. Most of the home sales, however, are houses selling for \$150,000 or less, and the trend "ties into that homebuyer tax credit."



DeVries said home mortgages at Bank of Holland were higher in number and dollar amount in 2009 than in 2008.

Those that were refinance deals probably amounted to 60 or 70 percent of the total, he said, while the portion of refinances was probably about 50 percent in 2008.

Both the \$8,000 credit for first-time homebuyers and the \$6,500 credit for repeat homebuyers are scheduled to expire at the end of April.

A lot of people in business are wondering if Congress is going to renew the homebuyers' tax credits. If that does not happen, some people will see a positive result — others not so positive.

DeVries said it could help some homebuyers by driving down home prices.

He said one impact of the tax credit for buyers was that sellers "were inflating home prices by the size of the tax credit. From that standpoint, some people have argued that (the end of the tax credits) could be good news."

DeVries also suggested that some people think an end to the credits could mean more business for home improvement companies, painters, roofers, landscapers and the like, because people who decide

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to stay in their existing homes may opt to spend money on fixing them up.

One thing is for sure: Despite record-low interest rates, mortgages are much harder to get now than they were back when people were “flipping” houses and being approved for mortgages for which they were not qualified.

“I think the requirements are higher than they were a couple of years ago,” said DeVries. “People’s credit rating does make a difference,” he said.

“Based on your overall credit history, underwriting is harder today than it was two years ago,” he said.

Several years ago, a person with a credit score in the 500s could get a mortgage.

“Today, you’ve got to be more in the upper 600s to get the better rates,” said DeVries.

He said it is not government regulations that are making the difference.

“The things that is affecting the mortgage industry is (that) the values of properties have come down substantially over the last couple of years,” said DeVries. A house appraised two years ago might be appraised today at 10 to 20 percent less. That’s a huge drop for those investors who hold residential real estate, he said.

DeVries agreed that some people who may be considering purchase of a home are still waiting to see if the prices are going to continue to fall.

The record low interest rates on mortgages “are very attractive” at 5 percent for a conventional 30-year mortgage, said DeVries, but he predicted that people who wait too long may suddenly be facing increasing home prices and increasing interest rates at the same time.