

Amy Hoak's Home Economics



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## Mortgage rates to stay low for most of 2012

Why rates will stay low this year, and why it won't matter for some

By Amy Hoak, MarketWatch

**CHICAGO (MarketWatch) — Mortgage rates should remain low in 2012, especially in the first half of the year, according to the predictions of several industry watchers.**

"We may spend the entire year below 5%," said Greg McBride, senior financial analyst for Bankrate.com, referring to the average interest rate for a 30-year fixed-rate mortgage.



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The slowly improving economy, more favorable housing market data and record low mortgage rates could entice more buyers into the market this year. Amy Hoak looks at what home sellers should know before listing. Photo: AP

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Rates may even fall to new lows early this year, particularly if the European debt crisis hits a crescendo, McBride added.

Already, rates are sitting at record lows. The 30-year fixed-rate mortgage averaged 3.91% for the week ending Jan. 5, according to Freddie Mac's weekly survey of conforming mortgage rates. That ties the record for the lowest rates have been in the history of the survey. In contrast, the highest average for the mortgage was 18.63%, set during the week ending Oct. 9, 1981, according to Freddie Mac. [Read more: 30-year fixed-rate mortgage at record low.](#)

In general, the financial troubles in Europe, combined with the Federal Reserve's pledge to keep short-term rates on hold at least through 2013, will keep mortgage rates from rising significantly, McBride said.

Europe's woes have caused a "flight to quality" among investors, sending their money in the direction of U.S. bonds, which has the effect of lowering mortgage rates. The Fed's short-term rate policy also reduces long-term rates, since long-term rates "reflect expectations of where short-term rates will be in the future," he said.

Lately, consumers have been conditioned to expect low rates. Last year, the 30-year fixed-rate conforming mortgage had its lowest annual average on record at 4.66%, according to Bankrate.

According to Freddie Mac, the 30-year mortgage averaged 4.5% in 2011, with the mortgage posting the lowest weekly rates on record toward the end of the year.

But whereas rates fell in the second half of 2011, they are expected to rise at least somewhat during the second half of 2012, said Frank Nothaft, chief economist of Freddie Mac.

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“Operation Twist is scheduled to remain in effect until June,” Nothaft said. And the intent of the Federal Reserve’s Maturity Extension Program, or “Operation Twist,” is to push — and keep — long-term interest rates low, which means rates should stay low for the first half of the year, he said. The Fed plan, announced in September, involves buying long-term securities and selling \$400 billion in short-term debt.

But the Fed hasn’t made a commitment on whether it will extend the program beyond the June cutoff, Nothaft said.

## Economic outlook

An improving economy could also cause rates to rise.

Rates on a conforming 30-year fixed-rate mortgage will average 4.2% in the first quarter of 2012, and should average 4.8% by the fourth quarter, according to Freddie Mac’s forecast.

Meanwhile, HSH Associates, a publisher of consumer loan information, predicts conforming, 30-year fixed-rate mortgages will remain between 3.85% and 4.85% throughout 2012.

“Things appear to be improving domestically. The economy, employment, the housing market are showing signs of warming,” said Keith Gumbinger, vice president at HSH.

While the troubles of 2011 will certainly carry over into the new year, there is expected to be at least some upward emphasis on mortgage rates “as things start to look a little more rosy,” he said.

But those who aren’t as optimistic about the growth of the economy have different rate forecasts. For example, Fannie Mae’s chief economist, Doug Duncan, expects rates will stay relatively flat all year, with the 30-year fixed-rate mortgage rising to 4.1% or 4.2% at the most by the fourth quarter.

The low-rate environment means that even people who have been in the process of improving their credit quality for the past five years may have a shot at scoring some of the lowest mortgage rates in history — and they may add sales to the housing market in the process, Duncan said.

Some mortgage market watchers also have a sense that lenders may be more willing to work with borrowers with good but not great credit in the year ahead, as the housing market and economy show some signs of improvement and lenders look to grow their business.

“I don’t see credit becoming appreciably easier. But I think what you will see is more lenders willing to dip their toes into the waters of 700 and 720 credit-score consumers,” McBride said. “You may end up, as a consumer, seeing more lenders at the table for those that have good credit scores and not just those who have great credit scores.”

But despite continued favorable mortgage rates, don’t expect great strides in the housing market just yet.

The economy is still weak and unemployment is still high — two strong headwinds pushing against housing demand, even though affordability is so high, Nothaft said.

“Consumer confidence is still relatively low. And what a low reading for consumer confidence means is that consumers are nervous about their economic well being,” he said. “If you’re feeling ill at ease, you will be reluctant to buy something that costs \$200,000 to \$300,000 and commit to monthly payments for 30 years.”

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