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**THE WALL STREET JOURNAL**

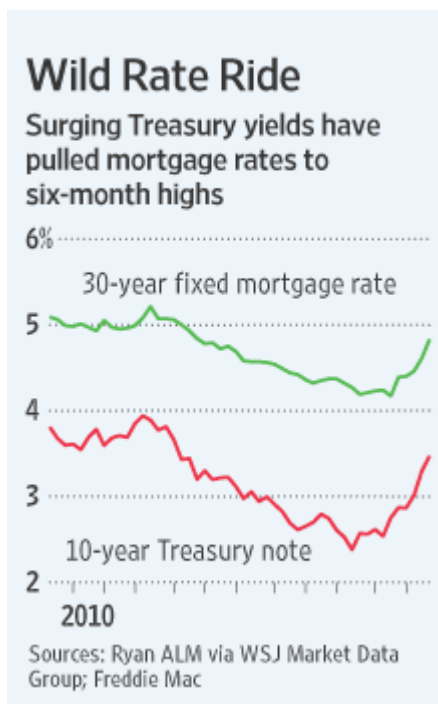
WSJ.com

HOMES | DECEMBER 17, 2010

## Swift Rise in Yields Pushes Up Mortgages

By NICK TIMIRAOS And MARK GONGLOFF

The sudden jump in Treasury yields has driven 30-year mortgage rates above 5%, keeping pressure on the struggling housing market and countering the Federal Reserve's efforts to help the economy.



The average 30-year fixed-rate mortgage hit a six-month high of 5.09% on Thursday, according to a survey by data tracker HSH Associates. A separate survey by Freddie Mac showed rates averaged 4.83% for the week ending Thursday, up from a record low 4.17% just one month ago.

"I've been doing this 15 years, and I've never seen rates rise this fast," said Wade Douroux, president and CEO of Resource Financial Services, a mortgage banking firm in Columbia, S.C.

Rising mortgage rates are one immediate consequence of the unusually large jump in Treasury yields in recent weeks. The yield on the 10-year note, which directly affects mortgage rates, closed Thursday at 3.473%, up from its October low of 2.382%.

The jump in Treasury yields, one of the swiftest in decades, has caught economists, investors and borrowers off guard.

Rising Treasury rates have roiled other markets, too. Yields on municipal bonds have also risen, increasing borrowing costs for state and local governments and punishing muni bondholders.

"By itself, it's not devastating," said Thomas Lawler, an independent housing economist in Leesburg, Va. "But if you don't see improvement in the jobs market, this is bad."

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The 0.66 percentage-point-rise in mortgage rates, which would add about \$150 to monthly payments on a \$400,000 mortgage, could be easily absorbed by some buyers. But it will squeeze others at the margins, especially first-time buyers already grappling with higher fees and bigger down payments required by lenders.

Many see rates moving higher still. And the Freddie Mac survey in particular probably understates the recent rise because it takes an average over the week. Much of the gain has happened in the past couple of days.

Even with rates hovering at historically low levels, any rise is likely to weaken housing demand, putting more pressure on sellers to cut their asking prices. And it has already slammed the door on a refinancing boomlet that began earlier this year when rates were lower.

Even with historically low rates, buyer demand has been weak ever since home-buyer tax credits expired in May.

"The mindset has been, 'What good is a great rate if I lose my job and my home price goes down?'" said Mr. Lawler.

Reid Kanehira, a 28-year-old computer engineer, was pre-approved three weeks ago with a 4.75% fixed rate on a 30-year loan for an investment property he plans to buy out of foreclosure in Santa Ana, Calif. Now, his rate has risen to 5.15%.

If rates rise further, Mr. Kanehira said, "I'll have to run the numbers to understand if this investment is still worthwhile."

A general rule of thumb holds that every one-percentage-point increase in rates effectively raises home prices for buyers by roughly 10%.

Higher rates are certain to push others completely out of the market.

Applications for home loans fell by 5% last week from the previous week, according to the Mortgage Bankers Association. While rates are still at historically low levels and below year-ago levels, they are now above their year-to-date average of 4.74%.

With rates at 4.5%, a buyer typically needs income of \$84,000, assuming a 10% down payment, to qualify for a \$400,000, 30-year fixed-rate loan.

At a 5.5% rate, the income requirement rises to \$92,000.

The impact of rising mortgage rates also could be more acute in housing markets where prices haven't fully corrected. In San Francisco's Marin County, "this is going to put added pressure on sellers already dealing with excess inventory," said Richard Redmond, a mortgage adviser at All California Mortgage in Larkspur, Calif.

Refinance applications have declined for five straight weeks to six-month lows. With rates at 4.1%, around 60% of qualified borrowers could have lowered their rate by 0.75 percentage points by refinancing, but now that share has dropped to around 30%, says Mahesh Swaminathan, senior mortgage strategist at Credit Suisse. If rates rise to 5.25%, he estimates that would shut out another 10% of borrowers.

Christine Collins applied last month to refinance the 30-year mortgage, which has a 5.5% fixed rate, on her West Hartford, Conn., home when rates were hovering at 4.25%.

Even though she has paid hundreds of dollars for an appraisal, she's decided it no longer makes sense to refinance with rates nearing 4.9%.

"You're watching the rates thinking, 'We really should do that,'" said Ms. Collins, 39. "But the kids start school, you're busy, and by the time you get around to it, you miss the boat."

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