BUSINESS

30-year mortgage rate rises

But loan cost still low, buoying housing market

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The Associated Press

WASHINGTON — Average rates on fixed mortgages rose this week, the first increase in seven weeks. But mortgage rates remain near historic lows, boosting prospects for home sales this year.

Mortgage buyer Freddie Mac said Thursday that the average rate on the 30-year loan increased to 3.71 percent. That's up from 3.67 percent last week, the lowest since long-term mortgages began in the 1950s.

The average rate on the 15-year mortgage, a popular refinancing option, rose to 2.98 percent. That's up from 2.94 percent last week, also a record low.

The rate on the 30-year loan has been below 4 percent since early December. The low rates are a key reason the housing industry is showing modest signs of a recovery this year.

In April, sales of both previously occupied homes and new homes rose near two-year highs. Builders are gaining more confidence in the market, breaking ground on more homes and requesting more permits to build single-family homes later this year.

Low rates could also provide some help to the economy if more people refinance. When people refinance at lower rates, they pay less interest on their loans and have more money to spend.

Still, the pace of home sales remains well below healthy levels. Economists say it could be years before the market is fully healed.

Many people are still having difficulty qualifying for home loans or can't afford larger down payments required by banks. Some would-be home buyers are holding off because they fear that home prices could keep falling.

The economy is growing only modestly and job creation slowed sharply in April and May. U.S. employers created only 69,000 jobs in May, the fewest in a year.

Mortgage rates have been dropping because they tend to track the yield on the 10-year Treasury note. Uncertainty about how Europe will resolve its debt crisis has led investors to buy more Treasury securities, which are considered safe investments. As demand for Treasurys increase, the yield falls.

To calculate average rates, Freddie Mac surveys lenders across the country on Monday through Wednesday of each week.

The average does not include extra fees, known as points, which most borrowers must pay to get the lowest rates. One point equals 1 percent of the loan amount. The average fee for 30-year loans was 0.7 point, unchanged from last week. The fee for 15-year loans also was unchanged at 0.7 point.