Mortgage rate spike a hit to industry

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The spike in borrowing costs in response to President-elect Donald Trump's pro-growth agenda is causing some heartburn in America's housing industry.

San Diego mortgage broker Shanne Sleder said a third of his clients, many of whom were already stretching budgets to buy homes in pricey southern California, are having to reconsider what they can afford as rates soar.

"With a number of the people we were in the middle of pre-approving, as rates are going up, it's getting tighter and tighter qualifying them," Sleder said. He's urging them to lock in rates. "In some cases, the higher rates are making it so they are not as comfortable with the payment."

With investors anticipating faster expansion and inflation from Trump's policies, the yield on the U.S. 10-year note -- a bellwether of changes in mortgage rates -- has jumped more than 35 basis points since the Nov. 8 presidential election, the biggest three-day increase since 2009. Home loans may be beginning to follow suit: The average 30-year mortgage rate rose to 3.73 percent last Wednesday from 3.69 percent the prior week, according to Bankrate.com, whose chief financial analyst Greg McBride sees the rate climbing to near 4 percent this week.

A sustained surge in borrowing costs could further hinder first-time purchases at a time when rising values are already hurting affordability and pricing out buyers in many markets. What's more, the back-up in rates would leave the economy wanting of a boost from residential construction that's failed to contribute to growth for two consecutive quarters.

"It's not helpful at all for the housing market, and it also bears watching in terms of how bad it gets," said Scott Brown, chief economist at Raymond James Financial Inc. in St. Petersburg, Florida. The housing rebound "could be even more moderate than it has been."

Larry Seay, who retired in March as chief financial officer of builder Meritage Homes Corp., said rising rates will also limit the ability of developers to raise prices, pinching margins. Buyers will look for smaller, cheaper homes and builders will probably look for opportunities to accommodate them, he said.

"It's going to be incumbent on builders to manage cost better because they won't be able to pass on the cost increases with higher home prices," Seay said.

While mortgage rates remain near historical lows, action in funding markets is reminiscent of the so-called "taper tantrum" in 2013. That's when yields surged after then-Federal Reserve Chairman Ben Bernanke said that the central bank would soon start slowing the pace of bond purchases.

In August 2013, after mortgage rates climbed above 4.5 percent, sales of previously owned homes proceeded to fall nearly 8 percent by year-end. Existing home purchases are tallied a month or two after a contract has been signed.

At the current rate, monthly borrowing costs for each $100,000 of a loan would be about $462, up marginally from $456 in mid-October when the 30-year mortgage was 3.62 percent.

Bankrate.com's McBride said an increase in mortgage rates may prove temporary because "we still have a backdrop of slow global growth, low inflation and an aging populace in most developed markets. Those are factors that brought about low rates and kept rates low. That hasn't changed in the last week."

The nation's housing market has been grinding higher, helped by sturdy employment gains, nascent wage growth and attractive borrowing costs. A potential next leg up was first-time buyers. Higher mortgage rates that are sustained, however, would mean less buyer traffic of that segment of the market.

Home prices are currently rising about 5 percent on a year-over-year basis. That's kept an index of housing affordability hovering near the lowest level since the end of 2008, according to the National Association of Realtors.

Many buyers "are already stretching to begin with," said Sleder, the San Diego broker, who works at West Coast Mortgage.