Nowhere to go but UP

Rise in interest rates could hurt those buying homes, cars

DAVID DYKES
STAFF WRITER
DDYKES@GREENVILLENEWS.COM

With the economy improving, mortgage rates are on the rise, posing a threat to many first-time homebuyers, local banking and real estate experts say.

Pat Cutler, director of capital markets for South State Bank, said mortgage rates are now above 4 percent, and he predicted they will increase an additional 0.25 percent between now and the end of the year.

Recent economic news such as higher than expected retail sales and the improved jobs market has raised consumer confidence, leading to increased spending and economic growth, he said.

Against that backdrop, many analysts expect

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BART BOATWRIGHT/STAFF

Dave and Jana Gordon tour a home near Furman this week. The couple is in the market to buy a home.



the Federal Reserve to raise rates later this year, perhaps in September, Cutler said.

The Fed said Wednesday the U.S. economy has strengthened since a slump early this year. But it wants to see further gains in the job market and higher inflation before raising interest rates from record lows.

While the Fed gave no timetable for a rate hike, it said all but two of its 17 policymakers believe the key short-term rate will go up sometime this year.

"When they raise interest rates, a lot of things are going to change," said Allen Berger, a banking and finance professor at the University of South Carolina and former senior economist at the Board of Governors of the Federal Reserve System. "It's going to be more expensive to buy a house. It's going to be more expensive to borrow to buy a car."

Though an increase will boost rates for savers, the impact will be slow to realize, Berger said.

"There's no question that rates are going to go up," said Brad Halter, chairman of the Caine Company, an Upstate real estate firm. "It's a fact of life. First-time homebuyers will be affected. There will be a certain section of buyers that will not be able to purchase."

But the impact won't be dramatic as some fear because rates won't run up, increasing instead in small amounts such as a quarter or an eighth of a percentage point, he said. In the near term, rates shouldn't top 5 percent, he said.

That might be a scary proposition for the "how low can you go" era of the last couple of years, Halter said.

"You have to have somebody around to remind you that 10 percent was a pretty good interest rate years ago," he said. "And some people were buying at 18 to 21 percent."

He urges homebuyers to review what they can afford for a monthly mortgage payment and "not to panic."

"We're going to be in a trending interest-rate market, and it's going to knock some people out of the ability to buy their first-time home," Halter said. "People are going to have to lower their sights on their price point."

Nancy Batson, a vice president and mortgage loan officer with South State Bank in Greenville, said the bank about two months ago quoted 3.875 percent on a conventional, 95 percent loan. The rate recently rose to 4.25 percent and was pushing 4.375 percent, she said.

That's derailing some first-time buyers, including some who thought they had qualified for a loan, Batson said.

"The rate changes that we've had the last three weeks have put them out of the market," she said.

"Good economic indicators are going to push rates upward," Batson said. "At the first glimmer of good economic conditions, we're going to see it continue."

Some first-time buyers can still qualify for 100 percent financing, she said.

Meanwhile, the predicted rise in rates could be among factors spurring home sales now.

South Carolina Realtors, a trade association, said 1,122 homes, condos and villas were sold in greater Greenville in May, a 15.4 percent increase over May 2014. Year-to-date, sales are up 19.1 percent.

Statewide, new listings in May were up 2 percent to 10,456. Pending sales increased almost 3 percent to 6,538. Inventory shrank 8 percent to 41,284.

Prices moved higher as the median sales price increased 9 percent to $174,900, according to the Realtors association. Homes sold faster, averaging 108 days on the market.

The median price in greater Greenville for a home, condo and villa was $171,200, or 7.2 percent higher than a year earlier.

Amanda Jones, executive vice president and broker in charge for Coldwell Banker Caine, said for each 1 percentage point increase in an interest rate, a buyer's purchasing power decreases 10 percent.

A higher interest rate can mean less house for the same or a higher monthly payment.

At 3.75 percent, for example, the monthly principal and interest payment on a $200,000 loan is $926.

At 4.75 percent, principal plus interest on a $180,000 loan means a $939 monthly house payment, she said.

Because many first-time homebuyers finance as much of the purchase price as possible, higher interest rates affect them more than most others, she said.

Though interest rates are projected to rise, they are still historically low, and the availability of 30-year fixed financing below 5 percent provides a strong incentive to purchase a home, Jones said. Even a 1 percentage point increase from current rates is better than the average over the past four decades, she said.

Although both fixed-rate and adjustable mortgages would originate at higher rates should the Fed begin to hike rates, substantially fewer existing mortgage holders stand to be impacted, Wells Fargo economists said.

In 2006, 44 percent of mortgages had adjustable interest rates, the economists said. In ensuing months, many households switched from adjustable-rate mortgages, or ARMs, to fixed-rate mortgages to lock in benefits of falling rates.

ARMs fell to just 2.5 percent of mortgage debt at the height of the recession, and although they have gained popularity in recent years, they comprise just 18 percent now, the economists said.

Mortgage debt in the U.S. grew to $8.2 trillion in the first quarter of this year. The economists estimate only 18 percent, or $1.5 trillion, would be affected by increasing rates.

Not everyone is mortgage shopping, however.

Dave Gordon, a retired engineer from Maryland, closed on his new 2,500-square-foot home near Paris Mountain on Monday.

He paid cash, opting not to secure a mortgage.

Gordon, who turns 65 next week, said that until his home in Maryland sells, owning two homes "is strapping me a little bit."

The movers were there Wednesday, packing for the trip to Greenville County.

"But as long as this one sells in the next couple of months, I should be OK," he said.

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Realtor Landon Thompson, left, gives Dave and Jana Gordon a tour of a home ne in Maryland hasn't yet sold.