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Low mortgage rates likely to continue through 2012, experts say

But with high unemployment and home prices still falling in many areas, analysts say there is little chance for a housing recovery.

By E. Scott Reckard, Los Angeles Times

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The mortgage market told a sad story throughout 2011: record low rates, but few people taking advantage of them to buy homes.

The likely scenario in the new year, according to many analysts, is more of the same. Although the Federal Reserve has pledged to keep rates low through 2013, the experts say high unemployment and home prices that are still falling in many areas provide little incentive for stressed-out consumers to surge back into the housing market.

"I think there may be a little bit of an uptick in units sold," said Doug Duncan, vice president and chief economist at mortgage finance giant Fannie Mae. "But home prices will probably be down again, so the total dollars spent on purchases is likely to be pretty close" to 2011.

Freddie Mac, the other big government-backed mortgage company, had predicted two years ago that lenders would write \$1.8 trillion in home loans in 2011. They later revised that estimate to just over \$1 trillion.

In the end, home lending last year totaled \$1.3 trillion, down from \$1.7 trillion in 2010 and an all-time high of nearly \$3.3 trillion in 2005.

Last year's better-than-expected finish had nothing to do with home purchases. Instead, a decline in 30-year fixed mortgage rates to historic lows of less than 4% triggered a massive wave of refinancings.

As last year began, Freddie Mac expected applications for home-purchase loans to make up two-thirds of all mortgage demand by the end of 2011. As it turned out, about 4 in 5 mortgage applications in

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December were from homeowners wanting to refinance, according to the Mortgage Bankers Assn.

Little wonder why. Lenders were offering 30-year fixed-rate mortgages to solid borrowers at an average of 3.95% last week, the ninth consecutive week of rates at or below 4%, Freddie Mac said. (The survey covers loans up to \$417,000 with borrowers paying less than 1% of the amount in upfront lender fees.)

That wrapped up a year of record lows. In 1981 and 1982, the average 30-year mortgage carried an interest rate of more than 16%, and the typical rate was above 8% as recently as 2000, Freddie Mac said. The average last year was 4.45%. Freddie Mac economists are predicting an average of 4.5% for 2012, increasing to 5.4% in 2013 — still phenomenally low by historic standards.

But in the long-suffering economy, "remarkably low rates are not enough," said Michael Fratantoni, an economist for the Mortgage Bankers Assn. He noted that many homeowners can't even take advantage of the opportunity to refinance because of "lack of equity in their properties, poor credit and a weak job market."

With lending standards still tight and demand for home loans waning, Morgan Stanley analysts titled their housing outlook for 2012 "The Year of the Landlord."

"While we had forecast lower prices [for 2011], we did hold out some hope that at the very least transactions would pick up slightly from 2010 levels," said the report from a team led by analyst Oliver Chang.

"However, it proved to be too optimistic a prediction," the report said. "Not only did total home sales fail to rise, but also mortgage applications for purchase continued to fall — indicating that not only is tight mortgage credit limiting demand, but even the desire to buy a home continued to wane."

Analysts aren't universally pessimistic: "Housing has hit the bottom and has begun to heal slowly," said Cal State Channel Islands professor Sung Won Sohn, a former top economics advisor to the White House and Wells Fargo & Co.

Although large numbers of foreclosures and other distressed home sales are keeping housing prices from rising, the inventory of new homes is at a 49-year low, setting the stage for a rebound, Sohn said in his 2011 housing forecast.

"On balance," he said, "the increased demand for rental housing, higher rents and multifamily starts should encourage home builders and boost confidence on the part of the potential home buyers. Despite the high level of foreclosures, house prices should stabilize and even rise slightly toward the end of 2012."

But any recovery will be slow given the extreme damage inflicted by the housing boom and bust, warned Duncan, the Fannie Mae economist.

"I tell people we're five years through a 10-year adjustment," he said. "Not until year 10 will we return to the traditional rate of housing starts."

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