

EUROPE'S TURMOIL HAS A SILVER LINING

A rally in Treasuries has helped push down mortgage rates.

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Rates on fixed mortgages are under 5%. The 2010 European debt crisis has been bad for the euro and bad for stocks, but there is a positive consequence emerging here in the U.S. - conventional mortgage rates are back below 5% again.

On June 3, Freddie Mac's Weekly Primary Mortgage Market Survey found average rates on 30-year home loans at 4.79%. That's .3% lower than in the January 7 survey. Now let's look at the 15-year FRM. In Freddie Mac's estimate, average interest rates on those home loans decreased from 4.50% to 4.20% over the same period.¹

Why are rates staying so low? Well, the lack of inflation is one reason. The other is that investors are buying plenty of Treasuries. So their rate of return has decreased and mortgage rates have decreased as a side effect. Qualifying homeowners can now access plenty of money at very low interest rates.

Contributing factors may keep rates low for a while. In addition to the current tepid inflation, prominent analysts such as MoodysEconomy.com's Mark Zandi see the euro losing more value in the near term, and the European Central Bank keeping interest rates low (which would influence our Federal Reserve).²

What if this "silver lining" leads to another one? There is that possibility. If stock market investors really sour on what they're seeing, then more of them might decide to put money into real estate. Home prices aren't exactly a barrier right now, so if rates remain low, there is the possibility that the housing market could get an unexpected shot in the arm - at least in the short term.

As the crumpling of the housing market was the major factor leading to the stock market downturn, it would be wild if a slump in the stock market indirectly promoted a comeback in the housing market and ultimately buoyed the economy. Does that sound far-fetched? Stranger things have happened.

What if you could save thousands? On June 2, the Mortgage Bankers Association noted that U.S. refinancing activity had hit its highest level in seven months, accounting for about three-quarters of all mortgage applications.³ If your credit score is good, you may want to look into a refi before things change too much.

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Citations

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2 - philly.com/inquirer/opinion/20100530_Silver_lining_in_Europe_s_debt_crisis.html [5/30/10]

3 - totalmortgage.com/blog/page/2 [6/2/10]