HOMEWISE Real Estate Tips and Advice

By ANNA CHANG-YEN | Green Shoot Media

Rising Rates


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In mid-December, the Federal Reserve raised interest rates by a quarter percent, one of only two interest rate hikes by the Fed during the past 10 years.

The Fed also signaled more rate increases in the coming year, and anyone who owns or plans to buy or sell a home could feel the effects.

MORTGAGE PAYMENTS

If you have an adjustable-rate mortgage that's tied to an index, it likely will adjust to reflect the higher rate. You should get plenty of notice of the change, as most ARMs reset to new interest rates only periodically (usually quarterly), and your loan terms probably require at least a couple of months' notice.

How much money are we talking? According to the Los Angeles Times, a half-point increase on a $300,000 loan would add nearly $100 a month to the payment. So for a quarter-percent hike, expect an increase of about $50.

The Fed signaled it may hike rates more than once next year, but if your ARM has a maximum interest rate, or rate cap, your loan could potentially approach or meet that threshold. Look at your loan papers to find out how much you might be expected to pay each month at the highest rate, and to be extra safe, budget for the maximum payment.

In any case, when rates are set to increase, it may be a good time to refinance from an ARM into a fixed-rate mortgage, depending on the current and future rates you could be required to pay.

BUYERS

To put it simply, mortgages will be more expensive.

Rates for most mortgage products are over 4 percent and could inch higher. With the Fed signaling more rate hikes next year, if you're planning a purchase, sooner may be better than later. With interest rates calculated into the equation, the same amount of money could buy you slightly less house a year from now than it will today. Another way to look at it is your payment on a particular home could be slightly higher next year than if you make the purchase today. If you're dragging your feet on a purchase, consider taking action.

If buying a home sooner rather than later would create a financial hardship for you, however, it's not worth the risk. The Los Angeles Times points out that mortgage rates have historically been around 8 percent, making even a 5 or 6 percent rate a relative bargain. If you have a plan to save up a down payment and pad your savings account to be sure you're ready for the financial challenge of homeownership, stay the course.

SELLERS

If your home has languished on the market, the interest rate increase and the potential for more increases could be a boon to your property in the short term. Buyers looking to seal a deal before rates go up again could come knocking at your door.

The National Association of Realtors pointed out, when rates last increased in 2015, that markets in which borrowers are most dependent on financing and face the most credit challenges will be most affected by the increase. Higher-priced homes in more affluent neighborhoods will likely be affected less by the change.

Before you make any long-term decisions based on interest rates, keep in mind that there is a lot of uncertainty surrounding the country's current economic recovery and in the political climate in general. Simply put, anything could happen. CNBC notes that increasing interest rates might not have their typical effects, saying, "After all, increasing rates are indicative of a stronger economy, and a stronger economy favors housing."

In addition, you could realize slightly higher returns on your investments as interest rates increase.

REAL ESTATE 101

Check the Market

The best way to find out what rates you would pay right now is to work with a lender or broker, who can customize your quotes to your personal financial situation. If you want a broader look at where rates currently sit, visit **Bankrate.com**, where you can find rates offered by various lenders for many different types of mortgage products, including fixed-rate loans, ARMS, FHA loans and other products.

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HOMEWISE GLOSSARY

Secondary market: the buying and selling of existing deeds of trust and promissory notes. The primary market is the one in which lenders loan money to borrowers; the secondary market is the one in which the lenders sell their loans to the large secondary marketing agencies or to other investors.

SOURCE: California Bureau of Real Estate