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Why some homeowners are trapped in low-rate mortgages

Mary Ellen Podmolik

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During one week in November 2012, the average interest rate on a 30-year, fixed-rate mortgage hit an all-time low of 3.31 percent, and rates like that prompted tens of millions of homeowners to refinance their mortgages, reducing their payments or shortening the notes' terms.

In early 2014, the average rate on that popular mortgage loan was 4.43 percent in January and 4.30 percent in February. The increase in rates, reported by Freddie Mac, has dried up interest in refinancing and caused mortgage lenders to lay off thousands of employees.

But what does the uptick mean for those homeowners who did take advantage of ultralow rates? According to researchers at DePaul University's Institute for Housing Studies, it has created a new population of homeowners who are seemingly stuck in their homes.

The housing crisis created a large class of people who couldn't sell their homes because they were underwater, owing more on the mortgages than the properties were worth. But in addition, another class of homeowner has formed, those who took advantage of the low rates and would have to give them up if they sell their homes.

Compounding the increase in interest rates is that the home price gains seen in Chicago and other markets last year are moderating. As a result, homeowners who refinanced, and those who bought homes at the low rates, could see smaller home price appreciation going forward. Yet even if they buy a house for the same price as the one they are selling, it will cost them more because of the higher interest rates. That scenario could affect their mobility and, as a result, the overall number of homes that change hands, the study concluded.

Similar scenarios have played out in the past, according to the researchers, who noted that the average monthly rate for a 30-year, fixed-rate mortgage rose from 10.1 percent in November 1978 to 17.8 percent in November 1981. An earlier study of that period found that every 2 percentage-point increase in rates lowered household mobility by 15 percent.

"We had this huge lock-in problem in the early '80s, and people just stopped moving," said Patric Hendershott, a senior research fellow at DePaul's institute and one of the authors of the study.

"These people that aren't coming on the market could very well be people who wanted to move up," he added. "They might be doing reasonably well; they might want larger homes."

Hendershott and his co-authors also found that the households most locked into their mortgages are higher-income, more creditworthy consumers who live in higher-income neighborhoods.

That's because, they reasoned, those homeowners were more apt to take advantage of the ultralow rates and refinance their mortgages.

Using Cook County as a sample, the study found that in 2011, 7 percent of households in strong housing submarkets were "locked" into low interest rates, compared with 4percent in moderately healthy markets and 1 percent in weak markets.

According to the researchers' simulation, after four years, as mortgage interest rate increases were accompanied by only modest gains in home prices, 42 percent of households in strong markets would be rate-locked, along with 33 percent in moderately healthy markets and 17 percent in weak markets.

The trend won't deter the people who either have to move or just want to move very badly. And there could be an upside for one segment of the housing industry, according to Hendershott.

"You might find people adding on instead of moving," he said.

An app for that. The Census Bureau has developed a free app for the iPhone, Android phones and tablets that lets users explore where they might want to live, based on their own demographics and preferences.

To use Dwellr, consumers answer a series of questions about themselves, as well as what kind of community, climate and region they're looking for and what their dream job would be.

The app matches a user's criteria to data from the census' American Communities Survey, but in a more eye-appealing form than an Excel spreadsheet.

A user can also check out how well the area where they now live fits in with their preferences.

According to the Census Bureau, privacy protection is built into the app, and the information is stored only on a person's device.

mepodmolik@tribune.com

Twitter @mepodmolik