

By JAMES R. HAGERTY

Is it time to rush out and buy a house before mortgage rates go up?

As the Federal Reserve winds down its intervention in the mortgage market, rates on home loans are generally expected to rise at least modestly during the rest of this year from today's unusually low levels. Some analysts believe mortgage rates will jump to around 6% by year end from 5% in recent weeks, while others see only a slight increase.

Meanwhile, federal tax credits available for some home buyers are due to expire at the end of April, adding to the sense of urgency many shoppers feel.

"I'd hate to miss out on really low [mortgage] rates" or the tax credit, says Jennifer Hale, a veterinarian who is looking for a new home near Minneapolis with her fiancée, Lawrence Nystrom.

If rates do go up sharply, that will have a big effect on home buyers. Richard Redmond, a mortgage adviser at All California Mortgage in Larkspur, Calif., offers the example of a couple with combined pretax income of \$100,000 a year and debt obligations (excluding mortgage) of \$500 a month. At a 5% mortgage rate, he figures, the couple could qualify for a loan big enough to buy a \$590,000 house, assuming a 20% down payment. At 6%, that would fall to \$540,000.

Since late 2008, 30-year fixed-rate mortgages have been available for people with strong credit records at around 5%, near the lowest levels since the 1950s, thanks to the Federal Reserve's heavy purchases of mortgage securities. At the end of March, the Fed is due to stop buying the securities. Most mortgage analysts think the immediate effect of the Fed's withdrawal will be modest.

Laurie Goodman, a senior managing director at mortgage-bond trader Amherst Securities Group LP in New York, estimates that the Fed move will add a maximum of about 0.25 percentage point to mortgage rates. "There is a lot of private money on the sidelines," waiting to buy mortgage securities once the Fed stops gobbling most of them up, Ms. Goodman says. She points to banks, money managers and foreign investors.

What happens to interest rates over the rest of this year depends on many factors that are hard to predict, including the strength of the economy, Fed policies and foreign investors' willingness to buy U.S. debt.

Projections vary widely. At the lower end of the scale, analysts at Credit Suisse and FTN Financial Capital Markets forecast that mortgage rates will be in a range of roughly 5% to 5.25% at the end of 2010. Moody's Economy.com projects about 5.7%, and Barclays Capital 6%. Barclays cites a general rise in interest rates propelled by heavy government borrowing and a strengthening economy as the main factors.

John W. Anderson, a broker at Twin Oaks Realty of Crystal, Minn., who is helping Ms. Hale and Mr. Nystrom search for a house, says the tax credit and fear of higher interest rates are motivating buyers "to move a little faster." But he cautions against moving too fast because of the risk of overpaying or ending up with a home you don't really like. "Getting the right home is the No. 1 thing," he says.

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