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Mortgage rates up...affordability down

Interest rates are the highest in years, helping to make housing markets even more overvalued. See rankings for 299 markets.

By **Les Christie, CNNMoney.com staff writer**

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NEW YORK (CNNMoney.com) - Mortgage rates have hit their highest level in nearly four years, and that has a direct impact on home affordability...and home prices.

The average rate on a 30-year fixed mortgage stands at 6.37 percent, up from 5.58 percent last summer.

"I think it's indisputable that demand in the housing market has declined in the past few months," says Richard DeKaser, chief economist for National City Corp., an Ohio-based mortgage banker. "It's very clear that rising interest rates figure very large in that decline."

Rising rates had already begun to take their toll in the fourth quarter of 2005, when the 30-year mortgage averaged 6.22 percent, according to a report released Monday from Global Insight, a financial information provider, and National City.

The report figures 71 of the 299 largest U.S. housing markets were "extremely overvalued" at year's end, up from 62 markets a quarter earlier (see table rankings below).

The report arrives at a fair market value based on population, income and interest rates and factors in historical premiums or discounts.

Rates have a direct affect on affordability. For example, a jump in interest rates from 6 percent to 7 percent on a 30-year loan adds about 10 percent to a monthly mortgage bill. A homeowner who financed a loan of \$200,000 at 6 percent would pay about \$1,200 a month. At 7 percent, the bill would come to \$1,330.

As rates rise, homebuyers who were already stretched may start demanding lower prices. "Low rates had offset unaffordability in past years," said DeKaser.

California and Florida accounted for 18 of the 20 most overvalued markets, with Naples, Fla. leading the way. A median home in Naples now costs \$367,100, according to the Office of Federal Housing Enterprise Oversight (OFHEO), nearly double what the study's authors estimate it should.

Undervalued markets are much less common and tend to be priced only slightly below where they should. They're especially common in Texas; eight of the top 10 are in the Lone Star State. College Station leads the way -- homes there cost 22.7 percent less than what the authors estimate they should fetch.

The table below lists 299 markets tracked by Global Insight and National City. Click on column headings to re-sort; click on state names for more statistics on top cities. ■

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<<click column headings to re-sort table>>

Housing prices			
Metro	State	Median price	% over/undervalued
Abilene	TX	\$69,900	-12.40%
Akron	OH	\$134,000	2.50%
Albany	GA	\$89,400	-1.20%
Albany	NY	\$181,300	15.70%
Albuquerque	NM	\$165,800	3.80%
Alexandria	LA	\$82,900	-2.00%
Allentown	PA-NJ	\$195,000	15.10%
Amarillo	TX	\$88,100	-2.30%
Anchorage	AK	\$226,900	23.20%
Anderson	IN	\$96,800	2.50%
Ann Arbor	MI	\$216,300	13.00%
Appleton	WI	\$136,400	2.20%
Asheville	NC	\$150,200	27.40%
Athens	GA	\$139,600	4.70%
Atlanta	GA	\$174,800	-0.10%
Atlantic City	NJ	\$245,400	59.60%
Augusta	GA-SC	\$105,900	-3.30%
Austin	TX	\$149,100	-7.80%
Bakersfield	CA	\$216,100	62.40%
Baltimore	MD	\$264,500	30.20%
Barnstable	MA	\$352,800	45.80%
Baton Rouge	LA	\$112,700	7.60%
Battle Creek	MI	\$103,800	18.30%
Bay City	MI	\$103,300	20.50%
Beaumont	TX	\$72,200	-12.70%
Bellingham	WA	\$274,200	48.60%
Bend	OR	\$256,200	68.40%
Bethesda	MD	\$423,100	35.10%
Billings	MT	\$141,100	4.60%
Binghamton	NY	\$100,000	-0.70%
Birmingham	AL	\$119,300	-2.70%
Bismarck	ND	\$91,200	-5.10%
Bloomington	IN	\$115,100	-1.20%
Bloomington-Normal	IL	\$130,000	-2.70%
Boise City	ID	\$171,000	21.50%
Boston-Quincy	MA	\$358,800	16.30%
Boulder	CO	\$294,800	14.90%
Bowling Green	KY	\$107,700	-0.70%
Bremerton	WA	\$249,500	24.70%
Bridgeport	CT	\$459,000	8.90%
Brunswick	GA	\$121,700	21.80%
Buffalo	NY	\$113,900	-4.00%
Burlington	NC	\$107,600	-3.10%
Burlington	VT	\$213,600	22.20%
Cambridge-Framingham	MA	\$392,400	9.70%
Camden	NJ	\$223,500	19.40%
Canton	OH	\$119,400	8.20%
Cape Coral-Fort Meyers	FL	\$230,400	56.30%
Casper	WY	\$134,800	23.60%
Cedar Rapids	IA	\$114,200	-2.10%
Champaign	IL	\$117,600	6.40%
Charleston	SC	\$163,100	28.60%
Charleston	WV	\$88,400	-9.00%
Charlotte	NC-SC	\$145,000	-5.30%
Charlottesville	VA	\$241,200	30.40%
Chattanooga	TN-GA	\$114,900	4.70%
Cheyenne	WY	\$144,600	4.70%

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