

In the Press

Webb Financial Group, LLC

Gary Webb
RFC® & CEO



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Brace Yourself for Loan Squeeze

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Home ownership: It's the American dream. But thousands of homebuyers who have taken a giant leap to achieve that goal may be on the brink of a financial disaster.

The reason?

The Federal Reserve has raised interest rates 15 times since 2004 and it still might not be finished. As a result, those with adjustable-rate mortgages or other cut-rate mortgages soon will be seeing significant increases in their monthly payments.

Financial adviser Gary Webb says homebuyers who barely qualified for adjustable-rate, interest-only mortgages, are the most troubled.

Webb, owner of Webb Financial Group in Bloomington, Minn., says many

new homebuyers had "budgets that were so snug to begin with, there's no wiggle room. As a result, as interest rates rise, some likely will lose their homes," he warns.

"It's happening now and it will happen even more in the future..."
- Gary Webb, RFC®

"It's happening now and it will happen even more in the future as the Fed continues to raise rates a quarter point at a time," he adds.

Mike McGee, owner of Winchester McGee Financial in Rancho Cordova, says many people who couldn't qualify for a fixed-rate loan took out

ARMs and other low-rate mortgages "simply to keep their monthly payment affordable."

McGee says many low-rate loans were fixed for a set period of time, say three to seven years, but then were due to be adjusted upward.

"When that happens, there's certain to be some real sticker shock," he says.

He advises homeowners facing higher payments to figure out what they can do to absorb the increase.

"Right now," he says, "a lot of people are coming back to me asking for a 30-year, fixed-rate mortgage."

Greg McBride, senior financial analyst with Bankrate.com, monitors interest rate movements daily and he sees nothing but

trouble ahead for many with adjustable-rate mortgages, or ARMs.

"If you have an ARM and you haven't been caught yet, you are about to be," he says. "And it could be very expensive."

How bad can it be?

McBride says that if you took out a \$200,000, interest-only mortgage three years ago when some interest rates were less than 4 percent, your monthly payment could be close to doubling in the not-too-distant future.

But McGee, who has 35 years in the mortgage business, says homeowners should keep everything in perspective, recalling the early 1980s when he said rates got as high as 17 percent. "An 8 percent mortgage doesn't sound that bad to me, particularly when property values are rising as they are here."

Describing himself as a "glass-is-more-than-half-full" businessman, McGee says the upside is that many homeowners have mortgages on "real estate which, in our area, has appreciated by 12 to 14 percent a year for the last three years."

He believes that the Fed will boost the discount rate just one more time, which would mean "the worst could be over for those with ARMs," he says.

Bankrate.com's McBride says borrowers need to know how often their mortgage rate can change, as well as the index it is tied to and what margins are used.

"You just have to get in front of any possible rate hike increases," he says. "Even if your first adjustment is a year away, you need to get some flavor of what's likely to happen."

He notes that a common index for adjustable-rate mortgages is the one-year Treasury bill rate, which now stands at 4.8 percent. Then if you add in a lender's typical markup of 2.5 percent, you can see that adjustable rates could easily be 7.3 percent. (Adjustable rates do carry a ceiling, however.)

At the same time, with 30-year, fixed-rate mortgages currently offered in the 6.0 percent range, you might want to refinance now and lock in a solid rate, he advises.

Or you can do nothing and end up paying 7.3 percent - or even higher - next year if

adjustable rates continue to climb, he adds.

McBride advises homebuyers to dig out their loan paperwork and see when they are due for a rate adjustment.

Look at what kind of payment increase you could expect if rates rise from your original 4 percent to more than 7 percent, he says. You need to know that amount now, not a month before the higher rate hits your mortgage payment.

Webb, who's been in the financial services business for nine years, says that while refinancing is an option, many homeowners can't afford to take on the average 30-year, fixed-rate mortgage at 6.0 percent.

"If that's the case, they have limited options," he says. "They can cut their expenses or ask for help from family and friends." His advice: Look at all your loan options with a reputable loan officer and cut any costs you can to keep your home.