



Gary Webb
RFC® & CEO

In the Press:



Interest Rates Fall, but That May Not be Enough

Jim Buchta, December 1, 2007

Amid the depressed housing market there's some good news: Mortgage interest rates last week dipped to 6.1 percent -- within shouting distance of the historic lows that propelled home sales into the record books.

But with home prices falling and lenders on the defensive, low rates may not be enough to revive the market. "And that's the bad news," said Keith Gumbinger, an analyst with HSH Associates. "It's not the price of money that's the big issue, it's the availability of that money."

Craig Toquam of Maple Grove, for example, left his job in the mortgage industry to become a full-time investor. He hopes to buy eight investment properties this year and fix some up to sell and keep some to rent. He has hundreds of houses to choose from, including many at very favorable prices, but closing those deals has been challenging.

He recently applied for a mortgage to buy a rehabbed duplex, but the bank asked

for a 20 percent down payment rather than the customary 10 percent.

He's already cutting back on vacation plans, eating out and holiday shopping because he's not sure he'll meet his purchase goals.

"It's absolutely horrendous," he said. "It's like being on the Oregon Trail -- it's meager rations on everything."

"For people who are considering buying, I wouldn't hold off and risk waiting another year because someone believes the market is going to fall. No one knows what rates are going to do."

- Gary Webb

They could be lower

According to federal data released Thursday, a 30-year fixed-rate mortgage averaged 6.1 percent with an average half a point this week, down from last week when it averaged 6.2

percent. (A point is a payment equal to 1 percent of the loan amount.) Last year at this time, the 30-year fixed rate averaged 6.14 percent, the lowest in more than two years and less than a percentage point from 45-year lows. Even so, rates are not as low as they typically would be, thanks in part to the financial and psychological impact of the subprime mortgage mess.

Mortgage rates are tied to long-term bonds, which are generally considered among the safest investments. With concerns about the economy growing, investors have poured money into the bond market. That helped send yields on the benchmark 10-year Treasury note below 4 percent last week.

Typically, the rate on a 30-year, fixed-rate mortgage is about 2 percentage points higher than the yield on the 10-year Treasury. But last week, that spread was 2.52 percentage points -- a sign that lenders remain cautious about the mortgage market

and are demanding a higher price for loans.

"The relationship [between bond yields and rates] broke during the summer and is not yet repaired," Gumbinger said. "Mortgages are not as risk-free as once thought to be, and mortgages have gone wanting for money."

Although well-qualified borrowers will have little trouble getting a mortgage, the situation continues to be a challenge for borrowers seeking nonconforming and jumbo mortgages -- even for those with good credit. That's because shell-shocked investors have lost their appetite for any kind of risk.

Million-dollar near-miss

Faith McGown, a Coldwell Banker Burnet sales agent, said she recently helped clients with stellar credit and plenty of assets buy a house along Lake Minnetonka for nearly \$1 million, but they couldn't find a lender to finance the deal because her clients were self-employed and were trying to get a stated-income mortgage. Two loan officers worked almost around the clock trying to find a lender, and the closing was postponed twice.

They found two banks willing to finance the deal, but one went out of business the next day. "Some of my sellers with

higher-priced homes think that the current mortgage crisis won't hurt them," McGown said. "And I always tell them that story."

Gary Webb, CEO of Webb Financial Group, said that despite such uncertainties, he's advising his clients that it may not be prudent to try to time the market. Home prices have fallen and could fall even more, he acknowledged, but the bottom won't be obvious until the market is on its way back up, he said.

"For people who are considering buying, I wouldn't hold off and risk waiting another year because someone believes the market is going to fall," he said. "No one knows what rates are going to do."

Frank Nothaft, Freddie Mac's vice president and chief economist, agrees. He said that while there's little upward pressure on rates, with the broader economy in the midst of transition it's difficult to predict what will happen.

Hopes for a cut by the Fed

However, there's a growing consensus that the Federal Reserve will cut its benchmark rates when it meets Dec. 11 and that could have a positive effect on some borrowers. Activity on the Chicago Board of Trade futures markets suggests that there's an 80 to 90 percent chance that

the Fed will cut rates a quarter percentage point.

Although a Fed rate cut won't have a direct impact on the most popular long-term mortgage rates, it would provide immediate relief to some people with short-term debt such as adjustable-rate mortgages and home-equity loans,

"Don't expect the housing market to start booming," he said. "But it will help."

That boost may not come soon enough for those who have little equity, blemished credit and mortgages that are set to adjust upward in the coming months -- including many who would have had no trouble qualifying for a new mortgage just several months ago.

"I am still getting two or three leads a day that I can't help; the tightening of guidelines and drop in values is making some people stick with what they've got." said Ronny Loew of First Horizon Mortgage. "The true winners right now are the buyers who are getting a home at a great deal with a great rate to go along with it."