SFGate.com
Quick Search
GO
Search in:

SFGate Home
Today's Chronicle

Sports
Entertainment

News & Features
Business
Opinion
Politics
Technology
Crime
Science
Weird News
Polls
Photo Gallery
Columnists
Travel
Lottery
Obituaries

Personal Shopper

Classifieds
Jobs
Personals
Real Estate
Rentals
Vehicles
WebAds

Regional
Traffic
Weather
Live Views
Maps
Bay Area Traveler
Wine Country
Reno & Tahoe
Ski & Snow
Outdoors
Earthquakes
Schools

Entertainment
Food & Dining
Wine
Movies
Music & Nightlife
Events
Performance
Art
Books
Comics
TV & Radio

# Measuring the market
# Negotiating the mortgage maze becomes more dicey as rates rise -- shoppers warned away from ARMs, interest-only notes

Sunday, June 13, 2004
San Francisco Chronicle
CHRONICLE SECTIONS

Richard Paoli, Chronicle Real Estate Editor

· Printer-friendly version
· Email this article to a friend

Interest rates for home loans are poised to climb up the basement stairs in the coming months, according to the best estimates of real estate and mortgage experts.

The higher rates, they say, could create financial havoc for some borrowers, particularly those holding mortgages with floating or periodically adjusted rates.

The Federal Reserve last increased interest rates four years ago. In the interval, it has repeatedly dropped or not raised the rates. But when Fed policy-makers meet June 30, most mortgage experts believe, they will increase the rates by at least a 0.25 percentage point.

Rates for a 30-year, fixed-rate mortgages rose to 6.3 percent last week from the previous week's 6.28 percent, according to Freddie Mac. Rates for 15- year, fixed-rate mortgages rose to 5.67 percent from 5.63 percent.

Rates for one-year adjustable rate mortgages rose to 4.14 percent last week, a large step from the previous week's 3.98 percent.

The rising rates will have the greatest impact "on people with interest- only loans," said Leon Huntting, president of the California Association of Mortgage Brokers and head of American Pacific Mortgage in San Francisco.

"It also is going to have an impact on people looking for homes in the Bay Area," he said. "Home prices are still going up. The demand is still strong across the state.

"A move toward higher interest rates starts the clock ticking for many who want to get into a home before they are priced out of the market."

Sounding a warning

The higher rates should be a caution for home buyers and ARM holders to "focus on being financial astute. They're going to have to pay down their debt, particularly credit card debt," Huntting said.

Borrowers are already looking for ways to enhance

Search Listings

**Living**
Health
Home & Garden
Gay & Lesbian
Horoscope

**Resources**
Search & Archives
Feedback/Contacts
Corrections
Newsletters
Promotions
Site Index

**Subscriber Service**
Missed Delivery
Vacation Hold
Subscribe
Contact

**Advertising**
Advertise in Print
Place a Classified
Advertise Online
SF Gate Media Kit

their ability to buy a home. Huntting sees more gifting -- family members giving down-payment money to buyers. "Many Hispanic or Latino and Asian families do this when buying, but I see more of it now in a broader range of buyers," he said.

The mortgage industry, which already offers an array of mortgage terms, will probably develop even more to adapt to the higher rates.

While the new types of loans might be a creative way for home buyers to borrow, "they are not for everyone," Huntting said. Buyers should consult a qualified mortgage lender to determine what is the best loan.

D.J. Grubb, president of the Grubb Co., an East Bay real estate brokerage, agrees. "Lenders are going to come up with hybrid mortgages," he said, adding that shorter-term ARMs will not disappear.

"Short-term mortgage loans have become common," Grubb said. "Nobody thinks in terms of a 30-year mortgage. We have become used to the idea of shorter-term debt."

Grubb also wondered about the threshold of pain, the level where mortgage interest has a major impact on home buying. "Is it 6 percent, 8 percent, 10 percent?" he said.

Because of the Bay Area's geography, the housing market varies from place to place.

"Higher rates could have a bigger impact on the in upper-end markets, while places like Oakland, which is greatly undervalued, could continue to be very busy," Grubb said.

High interest rates also will mean fewer offers on homes. "Instead of seven offers, sellers might only get three," he said.

Other real estate brokers expect higher interest rates to slow the rate of increase in home prices.

Peering into the future

While nobody seemed willing to indicate how much the appreciation rate would drop, many were willing to predict how high the 30-year fixed mortgage rates might go.

The chief economist for the National Association of Realtors, David Lereah, said they will be at 6.9 percent by the end of the year.

Michael Sklarz, chief evaluation officer for Fidelity National Financial, said, "We're probably looking at 7.5 percent within a year."

Sklarz, whose firm interprets economic data for real estate clients, sees the possibility of an "extend sideways" movement in the real estate market with high rates.

"From 1989 to 1996, the market in the Bay Area just moved sideway while other parts of the economy readjusted to the residential over-supply. A major adjustment to balance interest rates would be employment growth."

The California Association of Realtors issues an affordability index on what percentage of median-income households can buy a median-priced single-family home.

In March, the statewide affordability rate was at 21 percent, down from 28 percent a year ago and 24 percent in February.

By comparison, the affordability index nationally for March was 58 percent, down from the 59 percent a year ago and in February.

In the Bay Area, Marin and San Francisco counties have affordability rates of 12 percent, the lowest in the association's index. That means they're the toughest markets for median-income families.

As the cost of money rises, many industry experts say, the number of Bay Area residents who can afford to buy a median-priced house will shrink even more.

*E-mail Richard Paoli at rpaoli@sfchronicle.com.*

---

Page G - 1