

Real trouble in real estate

Adjustable-rate mortgages are about to blast through the roof.

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Local mortgage brokers have a warning for people already struggling to make their adjustable-rate mortgage payments: Get out of them now.

Adjustable-rate mortgages normally start at a lower rate than the traditional 30-year fixed-rate mortgages, and are periodically adjusted to reflect current interest rates — and there are hundreds of different types.

But for many people who bought a home three years ago during the low rate trend, this might be the first big rate adjustment, and it's a doozy.

For those who had been paying about 4 percent interest, the rates could jump to 8.5 percent or 9.5 percent when the rates reset.

"It's going to double the payment," said Lance Bryce, branch manager with Countrywide Home Loans in San Antonio. "They could literally see their mortgage double this year."

And that's just the first adjustment.

The increases are happening

Adjustable rate mortgage holders are in for a big shock

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in part because the Federal Reserve has raised short-term interest rates 15 straight times since June 2004.

While many adjustable-rate mortgages, known as ARMs, cap increases at 2 percentage points per year, others — especially those sold to lower-income buyers who don't have strong credit — do not.

And therein lies the potential disaster.

ARMs have been especially attractive to lower-income home buyers who otherwise may not have been able to afford a mortgage payment. During the peak of the boom when rates were already at their lowest, buyers were able to get an even deeper rate reduction by choosing an ARM.

Doubling their mortgage costs now could devastate these homeowners, to say nothing of what they might encounter if they stay in their ARMs and face additional rate boosts.

"They're going to be losing their homes," said Scott Thom-

Mortgage rates

Monthly average rate on a 30-year fixed-rate mortgage

April '97	8.14%
April '98	7.14%
April '99	6.92%
April '00	8.15%
April '01	7.08%
April '02	6.99%
April '03	5.81%
April '04	5.83%
April '05	5.86%
April '06*	6.49%

Note: April 13 is a weekly average. Other numbers are monthly averages.

Source: Freddie Mac

MONTE BACH/STAFF

as, owner of Harbor Financial Mortgage in San Antonio. "I think a lot of these people were so happy to get into a mortgage that they have no idea what

COST OF OWNING A HOME IN S.A.

The rise in interest rates is driving up the monthly cost of owning a home. Using a \$131,900 home — San Antonio's median price — here is the monthly mortgage cost based on various interest rates:

30-YEAR FIXED-RATE MORTGAGE

■ 5.89 percent (last April's average) — \$781.50

kind of repercussions this will have."

Last year, 9.1 percent of San Antonio home buyers chose an ARM, according to LoanPerformance, a real estate analysis firm. That's the highest rate in six years, and up considerably from 6.7 percent in 2004.

Bryce said the most common adjustable-rate mortgages reset after one or three years. That means many San Antonians will face an increase this year if they bought their home in 2005 or in 2003, when rates were at their lowest.

While ARMs were designed

- 6.49 percent (last week's average) — \$832.83
- 7.0 percent — \$877.53
- 7.5 percent — \$922.26

ADJUSTABLE-RATE MORTGAGE

- 4.0 percent — \$629.71
- 8.5 percent — \$1,014.20
- 9.5 percent — \$1,109.09

Source: Bankrate.com

for short-term buyers, Bryce said many people have used the lower introductory rates as a way to buy a house for the first time.

"The frustrating thing is many of those have been used to get people into more house than they can afford," he said.

Thomas said people who know that their rates will rise should refinance if they can.

Because some loans carry a large penalty for refinancing or don't allow refinancing, some people's best option may be to sell their home if they can't afford the higher rates, he said.

The adjustable-rate mortgage has been growing in popularity across Texas, where 11.3 percent of home buyers chose an ARM last year, according to LoanPerformance. ARMs have been especially popular in Austin, where home prices are the highest in the state and 22 percent of buyers in 2005 chose an ARM.

"It's tied directly to housing prices," said Bob Visini, vice president of marketing for LoanPerformance. "The higher the housing price, the higher the incidence of these types of loans."

But home prices are on the rise in San Antonio along with home mortgage rates, just as the residential real estate market enters its busiest time of the year.

In the first quarter of the year, median home prices reached \$131,900, a 9 percent increase over the first quarter of 2005.

Average interest rates rose last week to 6.49 percent on a 30-year fixed-rate mortgage, according to Freddie Mac, the nation's second-largest mortgage lender. That's up from an average 5.89 percent at this time last year,

and it's the highest average since July 2002.

Thomas expects rates to rise to 7 percent soon and 7.5 percent within the year. Those rates still are historically low across the country.

Mortgage brokers don't expect the rate increase to slow San Antonio's housing market boom.

Bryce said short-term buyers — those who expect to live in a house less than five years — are the only ones who should consider ARMs. Most Americans live in their homes longer than five years.

Frank Dunn, owner of Genesis Mortgage Co., said the only customers to whom he might recommend an ARM are in the military. Dunn said those buyers can consider a five-year adjustable, which keeps the same low interest rate for five years before resetting at a higher level.

"By the time it would adjust, they'd be gone," he said. "Personally, I would never do an ARM. I'm scared of it for my customers."

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