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## HOUSING: Low benchmark interest rate helps homeowners ---- a little

People finding that paying principal offsets savings

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Record-setting low interest rates should, in theory, be great news for holders of adjustable-rate mortgages.

After all, in a period when the economy is depressed, low interest rates should mean lower monthly payments; a little financial Xanax for the troubled bank account.

So much for theory.

In the last 12 months, the London Interbank Offered Rate, a benchmark used by banks to lend to each other, fell more than two points from 3.89 percent to 1.24 percent, a record set on Monday. The interest on many of the adjustable-rate mortgages made to consumers in the last five years is tied to the LIBOR. High LIBOR means high interest, and vice versa.

For holders of traditional adjustable mortgages, the plummeting benchmark can wring substantial savings from monthly payments. But during the boom, thousands of borrowers in San Diego and Riverside counties ---- 40 percent in 2006, according to First American CoreLogic ---- took out loans that allowed them push off principal payments into the future, diluting their eventual savings from low interest rates.

Consider Roger Beamer, 61, a retired Escondido firefighter and owner of a three-bedroom house he bought in 2004.

For five years, he and his wife Jeanean made their regular monthly payments on a \$417,000 interest-only mortgage. They were pretty happy with the 4.62 percent rate they got when they took the loan, and they were prepared for an upward adjustment to hit in May. That's when they had to start paying off principal, and also when the interest rate would change based on what the LIBOR was doing.

But the Beamers' low interest rate went lower, to 4.5 percent. So even though their payment of \$3,048 is \$700 higher than it had been, they'll pay more principal and less interest every month.

"I was a little surprised about that," Beamer said. "Even though the overall payment went up, because we had the principal payment."

And that's the key: While traditional borrowers with adjustable loans may see some small savings, negative amortization and interest-only loan borrowers will have to start paying off their principal when the fixed payment periods ends. These borrowers will see their monthly payments go up, regardless of interest rates.

For people such as the Beamers, who were prepared for this moment, the low-interest rates are a little, unexpected bonus. Their rate is less than what he thinks he can get in a fixed rate loan, so he'll hold off on refinancing for a while and pocket the extra dollars.

The Beamers' mortgage agent, Craig Miller, says he's hearing the same story from many clients, but also from clients for whom the low interest rate is offering a temporary reprieve from foreclosure.

"I'm getting calls from clients whose low interest rates are letting them hang on to their houses just a little longer," he said.

But analysts reviewing the region's real estate data beg to differ. Economist Chris Thornberg of Beacon Economics doesn't think there are many people like Miller's clients ---- and they won't last long.

"There may be one human being out there, for whom that one percent of savings may be the difference between keeping the house and not keeping the house," Thornberg said. "If you're that close to the edge, you're in too much house."

Thornberg said that people are losing their homes these days because they bought a house they couldn't afford in the first place, or because they're losing their jobs. With unemployment in Riverside County at 14.3 percent and in San Diego County at 10.3 percent, Thornberg expects a wave of foreclosures in 2010 and 2011, when roughly 20 percent of adjustable mortgages will reset.

At best, analysts such as Lynn Reaser, chief economist for Point Loma-Nazarene University, think that the lower interest rates will spread foreclosures over more time, but they won't reduce the overall number.

"It's definitely good from a monetary policy standpoint," she said. "But it's only going to delay the foreclosures a little."

Reaser noted that the LIBOR also affects business loans and commercial mortgages.

Business owners with variable rate loans tied to LIBOR will save a little money on their monthly payments while the rate is low. They can reinvest that cash into their businesses, providing a little fertilizer for what Federal Reserve Chairman Ben Bernanke called "little green shoots" of economic growth back in the spring.

But the LIBOR won't stay low forever. Mortgage agent and San Diego State University instructor Mark Goldman is pretty convinced that the economy will rebound, and central banks will raise interest rates to prevent runaway inflation.

Beamer is ready for that. He's already begun a leisurely investigation into a 30-year fixed-rate loan that will get him out of the highly volatile, LIBOR-tied loan he's in.

"I already screwed up one opportunity," he said. "I don't want to do it again."