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Falling interest rates attract Sacramento home buyers

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Sacramento-area homebuyers flocked to mortgage offices Monday to lock in some of the year's lowest interest rates following a weekend federal takeover of mortgage giants Freddie Mac and Fannie Mae.

But inside one of the nation's hardest-hit housing markets, which has seen billions of dollars in home equity erased the past two years, it was still tough to gauge the longer impact. The early consensus among local mortgage brokers, home builders and economists was that the government takeover can't hurt and might be good for Sacramento's real estate market.

At the very least, some said, it averts the possible disaster of a credit meltdown and means things won't get worse.

"The good thing is at least it's not another blow to the banking industry," said Mark Levens, vice president for Northern California sales for builder John Laing Homes.

"It's something that we needed," said Howard Roth, chief economist at the state Department of Finance. "It gets rid of the risk that they fail. We would really have been in trouble – if they failed – with mortgage finance."

The region has had its share of economic woes this year. Unemployment in August jumped to 7.3 percent, highest in more than a decade.

Statistics released Monday showed the number of foreclosures still rising in El Dorado, Placer, Sacramento and Yolo counties. More than 2,800 households in the region surrendered their keys to banks during August. That compared to 2,204 foreclosures in July, according to a Fair Oaks Web site for real estate investors, Foreclosures.com.

Yet for Natomas buyer Gabe Ross, the weekend's federal takeover of Fannie Mae and Freddie Mac is a shot of good news. Currently in escrow, and with 30 days to get financing, he's hoping to see interest rates dip more in coming days.

"I think our broker is going to wait a day or two and see what the trend is. If it continues to go down, we'll assess what we do," he said.

Rates, which have declined for almost two weeks, dropped as low as 5.875 percent Monday, said Jeff Tarbell, managing partner of Sacramento-based Comstock Mortgage. That's down from 6.25 percent on Friday and back to levels last seen between January and May.

"I'm calling people and saying, 'I'm saving you $28,000' (over the life of a 30-year loan). That's a call I always like to make," Tarbell said.

Tarbell said the new rates affect only the residential real estate market and don't spill over into other business loans. Still, in stabilizing the market, the Fannie Mae-Freddie Mac takeover eventually may make credit easier to obtain for consumers and businesses alike.

Brokers across the region Monday confirmed rates below 6 percent and said they had received calls from people in adjustable-rate loans about refinancing. But no one could say how long it might last.

"We've been locking all the loans that we can," said Linda Arms, Lincoln branch manager of Maidu Finance and greater Sacramento president of the California Association of Mortgage Brokers. "When you've been doing this for any length of time, you know trends can change overnight."

Rates for the benchmark 30-year home loan reached a peak this year of 6.63 percent the week of July 24, according to Freddie Mac.

Brian Jacobosky, a Folsom house hunter, said he's pleased to see rates fall after the federal takeover. But he said, "That's not going to change our game plan."

His family is browsing for a home after selling a house in Arizona and moving to Sacramento. Jacobosky thinks he'll get more financial mileage from declining sales prices than fluctuating interest rates.

Industry players, including John Arvanitis, president of Sunrise Vista Mortgage Corp. in Citrus Heights, said Monday that the federal government's move should calm the global financial markets.

That might help with the nation's broader credit crunch.

"It's going to provide more liquidity to the marketplace," said Anker Christensen, chief financial officer of Sacramento's River City Bank.

Arvanitis said it's possible that lenders might also loosen standards that have been greatly tightened this year. That would expand the buyer pool and aid a recovery. But most interviewed Monday said it's too early to speculate.

Economist Chris Thornberg, principal at Beacon Economics in Los Angeles, doesn't believe the bailout of Fannie Mae and Freddie Mac will make the real estate market better. He said housing prices need to continue falling, allowing more people to qualify for loans.

"This is simply preventing it from getting worse. This doesn't fix the fundamental problem in real estate," he said.

"The problem with the housing market is prices are too high."

Thornberg said the economy's problems now go beyond the housing market. Consumer debt is a major issue. "This is a nation that has been spending way beyond its means," he said.

Part of that was home equity borrowing. "All this fake wealth we thought we had ... is disappearing," he said.

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