

PLIGHT OF FLIGHT

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RECORD-LOW MORTGAGE RATES

Buyers still feeling chill of downturn

**Candidates may have refinanced
previously, hold little equity in their
homes or possess a poor credit score.**

By Aldo Svaldi *The Denver Post*

Mortgage rates have reached historic lows, with the average rate on a 30-year mortgage dipping to 4.44 percent last week, according to mortgage buyer Freddie Mac.

But industry insiders haven't seen a repeat of past cycles, where borrowers lined up like settlers in a land rush, anxiously staking their claims to lower payments.

A lack of home equity, tighter loan standards, less-stable incomes and problems with second mortgages could block many people from seizing the lowest mortgage rates in 60 years. Additionally, many homeowners just refinanced when rates were at around 5 percent and can't afford to do it again.

And some homebuyers, especially investors, are avoiding mortgages altogether.

Mortgage originations this year are expected to be well below half the levels seen in 2003, when mortgage rates hit what was then a low of 5.21 percent.

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MORTGAGE RATES: Credit standards easing somewhat

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More than \$4 trillion in loans was done in 2003, said Amy Crews Cutts, deputy chief economist with Freddie Mac.

Fears surrounding heavy government deficits in Europe, worries about the U.S. economic recovery stalling and Federal Reserve actions have all pushed down interest rates.

Despite that unprecedented combination of events, many borrowers won't be able to take advantage because of strict lending standards and a lack of home equity.

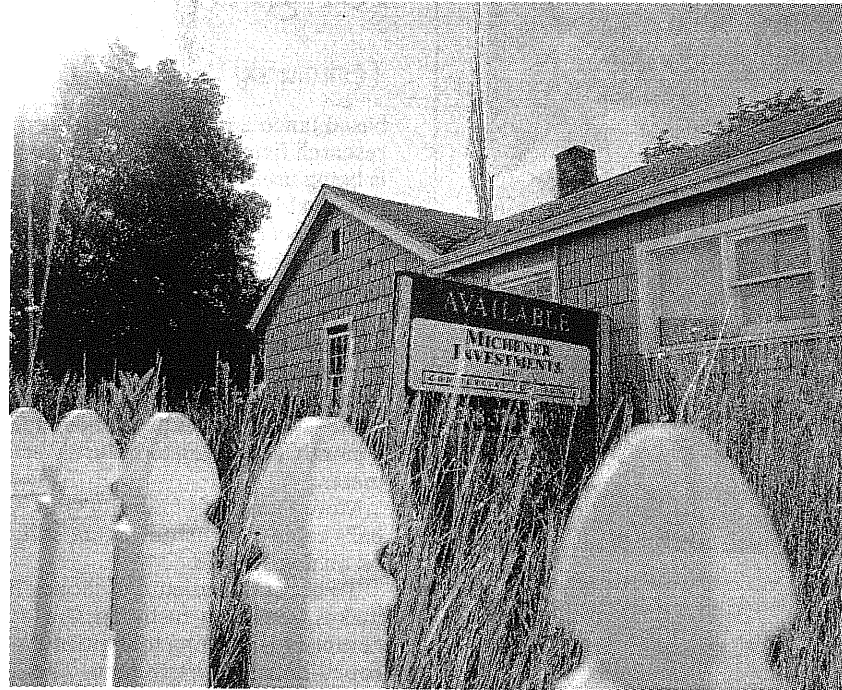
"Borrowers with '800' credit scores are having difficulties getting a loan," said Mike Thomas, a mortgage broker with Hyperion Capital Group LLC in Greenwood Village. "They are making it incredibly difficult."

Standards called too tight

By some estimates, 30 percent to 40 percent of borrowers may be blocked out of the market because they don't have enough equity in their homes, have credit scores that are too low, don't make enough income or otherwise don't qualify.

Lou Barnes, with Premier Mortgage Group in Boulder, blames Freddie and its sister company Fannie Mae for loosening their standards when the market was overheated and tightening them too much when the markets needed credit, rather than maintaining consistent underwriting like the Federal Housing Administration.

Although loosening is a relative term, Cutts said credit standards do appear to be easing somewhat, whether it is the return of no-cost refinancings or wider access to private mortgage insurance.



An "available" sign sits outside a house for sale in Boise, Idaho. Even the lowest mortgage rates in 60 years aren't stimulating the housing market. First and second mortgages are difficult to arrange. And some who might consider buying are staying away for fear that home prices — and values — will fall further. *Matthew Staver, Bloomberg News*

cash is a key reason why 2010 won't look like 2003 in terms of activity.

About a quarter of existing home sales are being done in cash, compared with 5 percent or 10 percent in the past, she said.

Right now investors, who don't have easy access to bank loans, are paying cash to buy homes and convert them into rentals, a trend that can't continue indefinitely.

Another problem is that some second-mortgage lenders are blocking borrowers who otherwise qualify for

With \$1 trillion in second mortgages floating out there, the issue isn't an insignificant one.

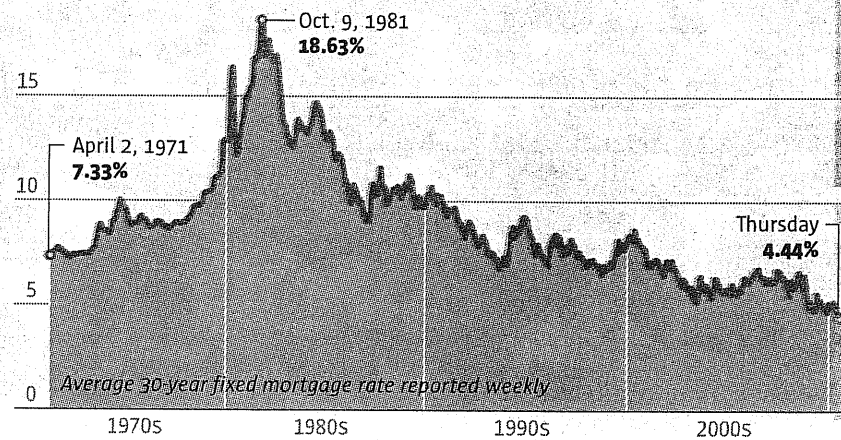
When the first mortgage lender steps out in a refinance, the second mortgage lender moves into first position.

Refinancing requires subordination, or an agreement by the second mortgage lender to go back behind the new first mortgage lender.

Some do it willingly, realizing a borrower with a lower first mortgage payment will have more spare income to

How low can you go?

Freddie Mac has surveyed mortgage rates every week since 1971 and never recorded anything lower than the 4.4 percent rate on a 30-year fixed-rate mortgage reached last week. Rates at this level, however, were available back in the late 1940s and early 1950s.



Source: Freddie Mac

The Denver Post

But it gets more complicated when a house doesn't have enough equity to cover both loans. A second-mortgage lender may hold a refinance hostage to get the borrower to repay the loan and remove a risky credit from the books.

A third group of lenders, grappling with loan modifications and foreclosures, don't respond in time, delaying a refinancing to the point where it falls apart.

Rates should stay low awhile

If there is any consolation for those blocked out of the market, it is that rates are likely to stay low for a sustained period. That is different than in 2003 and 2004, when the general sentiment was now or never.

Barnes called the inability of low rates to stimulate the housing market

Although refinancings are up, a weekly survey of mortgage applications for purchases shows them down nearly 40 percent since April, when two homebuyer tax credits ended.

Refis have risen to about 80 percent of all applications, compared with about half back in April.

A huge shadow inventory exists of homes owned by people who would like to sell but fear not getting enough, Barnes said.

New buyers are hesitant to step into that shadowland of falling prices, and lower mortgage rates alone won't give them courage.

"Once the marketplace loses faith in the price of housing, it doesn't make a difference if interest rates are 2 percent," Barnes said.

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