REAL ESTATE

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The Real Estate and Home Guide sections in the Sunday editions are produced by Sentinel Media Services, a content provider, specifically for The Chronicle.

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INSIDE

Average long-term mortgage rate rises to 6.43% this week

By Alex Veiga
AP BUSINESS WRITER

LOS ANGELES — The average long-term U.S. mortgage rate rose this week for the second week in a row, another setback for homebuyers facing a housing market that remains unaffordable for many Americans after years of soaring home prices.

The average rate on the benchmark 30-year fixed-rate home loan edged up to 6.43% from 6.39% last week, mortgage buyer Freddie Mac said Thursday. A year ago, it averaged 5.10%. Higher rates can add hundreds of dollars a month in costs for homebuyers, on top of already high home prices.

The average rate on a 30-year mortgage fell for five straight weeks before rising last week. The average rate on 15-year fixed-rate mortgages, popular with those refinancing their homes, fell this week to 5.71% from 5.76% a week earlier.

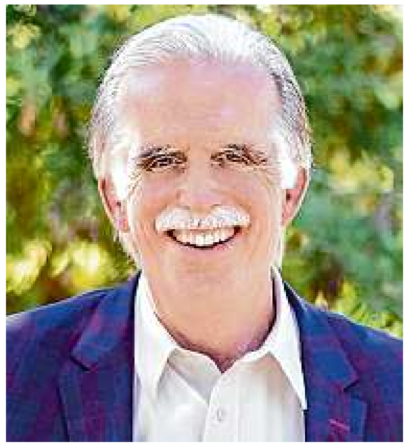
Higher borrowing costs have taken a toll on the housing market over the past year. The spring homebuying season, traditionally the busiest period for home sales, is off to a lackluster start, partly due to the elevated borrowing costs.

Sales of previously occupied U.S. homes fell 2.4% from February to March to an annual rate of 4.44 million, according to the National Association of Realtors. The national median home price fell to $375,700 last month — down 0.9% from a year earlier and the biggest year-over-year drop since January 2012.

Despite the pullback in home prices, a near-historic low inventory of properties for sale is fueling bidding wars in many markets, especially for the most affordable homes.

SOUND OFF

Are 40-year terms going to become the new normal for mortgages?



A: While mortgages with 40-year terms do result in a lower monthly payment compared to a mortgage with a 30-year term, I think it is highly unlikely that they will become the new normal for mortgages. The big reason that won't happen is that a mortgage with a 40-year term is not considered a Q.M. loan — as in a qualified mortgage. As a result, financial institutions have a more limited ability to foreclose on borrowers with a 40-year term mortgage. As a result, none of the bigger banks offer mortgages with a 40-year term.

There are other types of mortgages that can also result in lower monthly payments, such as an 7/6 ARM. This is a loan that stays fixed for the first seven years and then converts to an adjustable rate mortgage for the remainder of the 30-year term. The interest rate for the initial seven years is typically lower than what you will see for a 30-year fixed rate mortgage. Currently that difference in the interest rate is about a half a percent.

I recommend that my buyer clients sit down with a qualified loan officer to explain the various loan programs and obtain underwriting approval on their financing before they start seriously looking for a home.

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A: Now that mortgage interest rates are significantly higher, it seems that amortizing the loan over 40 years rather than the standard 30 years would be an ideal way to lower the monthly payment merely by spreading the payments over a longer time period.

But upon checking with five different preferred lenders, the idea is not translating into a viable option for prospective borrowers. In fact, two out of those five mortgage providers currently have no product or investor for a 40-year note. And all said the underwriting parameters are stricter and the interest rates are actually higher.

So, I chalk the idea up to "sounds good in theory," but apparently it is not the magic mortgage pill that many homebuyers wish they could take to cure the ills of higher monthly payments.

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A: The 40-year "discussion" is coming about due to press on FHA offering up 40-year terms beginning May 8 for certain situations — namely, loan modifications. A 40-year term will lower a borrower's payment, as the balance is amortized by 10 additional years versus the traditional 30-year loan.

Our preferred lenders do not see this ever becoming the new normal for mortgages. A 40-year term has been around for quite some time and has never been mainstream. Most lenders do not offer the 40-year products, as it is a riskier loan and is therefore priced accordingly. If a borrower does find a 40-year product, the payment may be lower each month, but in the long run, the interest he will pay will exceed the savings.

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