



Low Mortgage Rates Fail to Get Broker Phones Ringing (Update1)

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By John Gittelsohn and Brian Louis



Oct. 8 (Bloomberg) -- Real estate broker R. Gilliam Kittrell III in Raleigh, North Carolina, answers the phone these days on the first ring. That's when it rings at all.

Mortgage **rates** near historic lows aren't producing more buyers, said Kittrell, who recited terms on a rate sheet on his desk which he said were almost unprecedented in his 30 years as a broker: A 30-year fixed mortgage for 4.75 percent, a 15-year fixed for 4.25 percent, a 5-year adjustable at 3.5 percent.

"These rates may stimulate the market but they haven't yet," said Kittrell, principal broker of **Hodge & Kittrell Inc.**

A U.S. unemployment rate of 9.8 percent in September, the highest in 26 years, and expectations that home prices have further to fall is discouraging buyers. So are forecasts that foreclosures will continue rising, said **Jack McCabe**, a real estate consultant in Deerfield Beach, Florida.

"The low rates are a good sign, but you look at everything else and this is like no other real estate downturn in history," said McCabe, whose clients have included Pulte Homes Inc., the nation's largest homebuilder, and Credit Suisse. "People who thought they were taking advantage of deals a year ago have lost 20 or 30 percent. They were what you call knife catchers."

The average U.S. **30-year mortgage** rate dropped to 4.87 percent from 4.94 percent last week and home-loan applications last week rose to the highest since May, according to mortgage buyer **Freddie Mac** of McLean, Virginia, and The Mortgage Bankers Association.

Lost Jobs

The U.S. has lost 7.2 million jobs since the recession began in December 2007.

Housing markets, which spurred the recession, are showing "broad signs" of improvement even though they haven't yet healed, Treasury Secretary Timothy Geithner said today.

"We're still living with some risk that housing is going to be a source of weakness for the broader economy," Geithner told reporters on a conference call.

The median price of an existing home was \$177,700 in August, down 12.5 percent from a year earlier, the National Association of Realtors reported Sept. 24. Falling interest rates help support prices from declining more, said **Scott Buchta**, a mortgage strategist at Guggenheim Securities LLC in Chicago. For example, a \$100,000 mortgage at 5.25 percent costs the same -- \$552 a month -- as a \$106,000 mortgage at 4.75 percent.

Economic Concern

"It lets people pay more for a house," Buchta said.

Low interest rates do little to attract home buyers, who are mostly concerned about home prices or the health of the overall economy, said Marta Borsanyi, founding partner of the Concord Group, a real estate consulting firm in Newport Beach, California.

"We have clear evidence at the top of the scale when interest rates hit 13 percent, people stop buying," Borsanyi said in a phone interview. "But there's no pure data that when it goes to 4 percent people start buying."

Sales of existing **single-family homes** fell 2.7 percent in August to an average annual pace of 5.1 million, the National Association of Realtors reported Sept. 24. Sales of **new homes** rose 0.7 percent to an annual pace of 429,000 in August, the Commerce Department reported Sept. 25.

The **Federal Reserve** set out last year to encourage lower mortgage rates by pledging to buy bonds backed by home loans. It increased the size of the program to \$1.25 trillion in March.

Tax Credit

The purchases by federally backed mortgage buyers **Fannie Mae**, Freddie Mac and **Ginnie Mae** brought down yields on mortgage-backed securities and allowed lenders to reduce rates on new loans while still selling the securities backed by them at a profit. The plan helped drive home loan rates to a record low of 4.78 percent twice in April.

The Obama administration also tried to stimulate the housing market by offering first-time buyers an \$8,000 tax credit. U.S. House Speaker Nancy Pelosi said today Congress will consider extending the measure, which expires Dec. 1. The news pushed shares of the largest homebuilders up the most in about two months.

A Standard & Poor's **index** of 12 home construction companies climbed 6.3 percent today. **Standard Pacific Corp.**, an Irvine, California-based homebuilder, led the index with a gain of 11 percent to \$3.51 at 4:30 p.m. in New York Stock Exchange composite trading. Miami-based **Lennar Corp.**, the third-largest homebuilder, rose \$1.21, or 9.2 percent, to \$14.39.

Slow Time

Mortgage rates are "fantastic" though the \$8,000 first-time credit has been more responsible for an increase in purchase applications, said Jorge Gomez, branch manager in Chicago for 1st Advantage Mortgage, a Lombard, Illinois-based company.

Strict underwriting standards by lenders even with customers with high credit scores is hurting housing, he said.

"Unless there's a loosening of the guidelines it's going to continue to be slow regardless of what rates are doing," Gomez said. "They over-tightened and if they don't loosen it up it's going to take a lot longer to get out of the mess we're in."

In North Carolina, Kittrell's firm specializes in homes ranging from \$400,000 to \$2 million. His brokerage sold 23 properties this September, down from 50 or 60 a month when the market peaked in the Raleigh-Durham area. The federal tax credit hasn't trickled up to his customers.

Negative News

"All the traction in our market is from the homebuyer tax credit," Kittrell said. "Anything beyond \$300,000 is slow."

The rising federal deficit, the health care debate and unemployment are undermining consumer confidence, Kittrell said.

"There's a lot of negative news," he said.

When consumer confidence rebounds, Kittrell expects his market to follow, because the population is growing and the economy in the area called "the Research Triangle" is powered by technology and academic research at the University of North Carolina Chapel Hill, North Carolina State University and

Duke University.

"People are moving here with good jobs," he said. "These people aren't going to rent forever. They're going to buy."

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