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Low rates boost economy More residents buying, refinancing and paying down debt

By **PAT FERRIER**
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Kacey Parker's 7-year-old son, Ryan, can't wait to move into a new home this month so he can finally get a dog.

With interest rates well below 6 percent, the 28-year-old single mother said she can now buy a home for about the same money she's paying in rent.

Kacey and Ryan Parker are among the millions of Americans taking advantage of record-low interest rates and trading monthly rents for a 30-year mortgage.

It's about the only thing buttressing an economy struggling back from the grips of recession.

The dips weren't as low; the recovery a little more vigorous, thanks to the vibrant housing market, according to the Homeownership Alliance, a national coalition of consumer, banking, real estate and insurance professionals, including Freddie Mac, the National Bankers Association and National Association of Home Builders.



Sherri Barber/The Coloradoan

EXCITED: Kacey Parker listens as her son Ryan, 7, tells her what kind of dog he'd like now that they are purchasing a townhome.

How much can you save by refinancing?

(Based on a 30-year, \$150,000 mortgage, principal and interest only)

- 7 percent -- \$997.95
- 6 percent -- \$899.33
- 5 percent -- \$805.23
- 4 percent -- \$716.12



Homeowners refinanced \$1.6 trillion last year and \$3 trillion through the first quarter of 2003, according to a study released in December by the Alliance.

Refinancing from 2001 through 2002 was responsible for 20 percent of the real growth in the nation's gross domestic product, according to the study written by Mark Zandi, chief economist and co-founder of Economy.com.

In many areas, including Northern Colorado, commercial and residential real estate helped soften the blow caused by the high-tech crash and stock market dip, said Gerard Nalezny, president of Community First Bank, 1075 W. Horsetooth Road.

As homeowners refinance, more have been willing to tap the rising equity in their homes to reduce monthly payments, pay off higher-interest credit card debt, take a vacation or make a high-dollar purchase, the Homeownership Alliance reported.

Even those who are using the equity to buy down consumer debt are freeing up cash that supports other spending.

Nearly one-third of all homeowners pulled out their equity, according to the survey.

Property owners in the Denver-metro area, took about \$2 billion in cash-out refinancings last year, more than triple the \$600 million each in 1998 and 1999 and \$500 million in 2000.

While the refinancing market contributed 20 percent of the real gross product growth in the country in 2001, it accounted for 86 percent of the Denver area's gross product growth, Zandi said.

The rate was so high because Denver barely grew last year while the refi market continued to boom, he said.

"These are historical times as far as low interest rates keeping the economy going," said Eric Holsapple, interim director of the Center for Investments and Real Estate Finance at Colorado State University.

"The housing market has been defying gravity," even as the region has suffered significant layoffs in the high-tech sector.

As refinancing soared, it provided about \$143 billion in cash last year that helped stabilize the economy.

Refinancing in the first three months of this year has already raised \$224 billion in cash nationwide.

"The amount of cash households are raising via cash-out refinancing is literally going through the roof," Zandi said.

While interest rates have remained lower longer than anyone would have predicted, those in the real estate business expect rates might go even lower prompting a new wave of refinancing and purchases.

"Conceivably, and it sounds crazy, we could have 30-year rates of maybe 4 percent," said Dave Pettigrew of Prime Prudential Properties in Fort Collins.

When the rate drops as much as one point, it makes sense to refinance, he said.

That means some homeowners might have refinanced once or twice already in the last couple years and could benefit from doing so again.

Nationally, an estimated \$1.25 trillion in mortgages were refinanced last year; \$1.2 trillion in 2001, according to Homeownership Alliance.

Refinancing households are saving about \$10 billion in annual interest payments on mortgages and consumer installment payments, the study said.

Refinancing a \$150,000 mortgage with 7 percent interest rate to 5 percent can save about \$200 per month, Pettigrew said.

Fixed rates are 5.26 percent for a 30-year fixed mortgage, and 4.66 for a 15-year loan, according to Freddie Mac.

Last year at this time, rates were 6.71 and 6.18 respectively.

Adjustable rates are down as low as 3.5 percent, making ARMS particularly attractive in this market, he said.

Most ARMS can adjust only one point per year and five points over the life of the loan.

"Even if it maxes out at 8.5 percent, that's still pretty good," Pettigrew said.

The Homeowner's Alliance, however, cautions that the refinancing boom could crash if mortgage interest rates begin to rise.

As rates go up, the advantages of refinancing are nullified.

With rates at 6.5 percent, fewer than one-third of borrowers can profitably refinance, the survey said. "And, at a 7 percent fixed rate, the pool of available refiers largely evaporates."

Mark Driscoll, president of First National Bank, said he expects mortgage activity might drop as much as 25 percent if interest rates rise from 5 to 6 percent.

But, rising mortgage rates could be a sign that other segments of the economy are rebounding, creating a wash as far as the economy is concerned.

"Presumably, when interest rates start to rise, it means the economy is starting to recover," said Ronnie Phillips, dean of the economics department at CSU.

"That's not necessarily bad news, but we will see refinancing and other things start to slow down."

Higher interest rates will reverse what's been happening and will slow things down, but it will only happen if there are other offsets in the economy," Holsapple said.

And, there is some concern that rising home prices and lower interest rates are putting people on the edge of financial stability as they carry a higher debt load.

Foreclosures and mortgage delinquencies are up, a sign that "people are skating on fairly thin ice," buying the most expensive home they could afford, said CSU economist Stephan Weiler.

More than 20 percent of mortgages last year were for 90 percent of the purchase price, "an all-time high," Weiler said.

There is a lot of stress out there despite record low interest rates because of all the borrowing, Zandi added.

"Some people have overdone it and taken on too much debt. Given the economy is weak and people are still losing jobs, we are seeing a rise in foreclosures and credit problems."

Given that real estate has proven to be a better investment than the stock market lately, "people want to buy the most home they can afford."

But what happens if home prices start falling? Weiler said.

Quickly, a homeowner could be carrying a bigger mortgage than their home is worth.

An informal survey of local real estate agents showed local residents are being conservative with their home purchases, said Larry Kendall, broker/manager of The Group Inc. real estate, with offices in Fort Collins, Loveland, Windsor and Greeley.

"The consensus is they're not buying to the max. They could be buying more expensive homes or be paying more."

Kendall said of perhaps 300 loans in the last month 99 percent were fairly conservative.

"There is still a little bit of cushion there in the local market for rates to go up" without knocking people out of the market, he said.

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