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Mortgage Rates

IT COULD BE WORSE

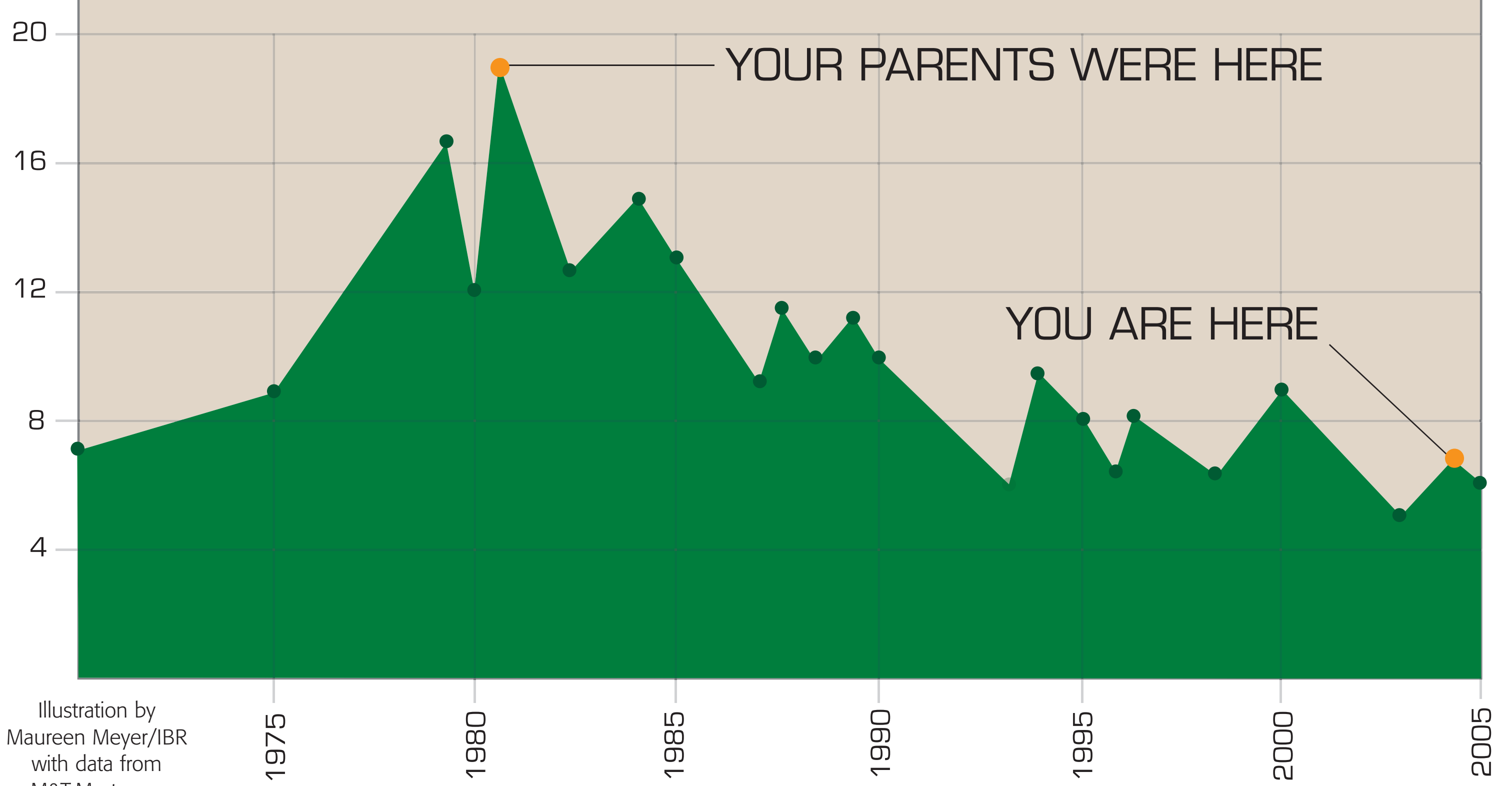

Illustration by Maureen Meyer/IBR with data from M&T Mortgage.

Home loan rates went up in recent weeks, but it's a minor spike compared to the 70s

By Brad Carlson
IDAHO BUSINESS REVIEW

If you're too young to remember the double-digit interest rates of the late 1970s and early '80s, it's probably time to calm down.

Yes, rates are higher than they were one year ago. But the increase has been moderate, and has had a limited impact on mortgage demand in the Treasure Valley, mortgage bankers and an economist said.

"My peers and I have seen mortgage applications rise as rates maintain their historic lows, and as the Treasure Valley real estate market has stabilized," said Brett Adler, mortgage loan officer with M&T Mortgage Corp. in Boise.

Rates on 30-year, fixed mortgages averaged 6.36 percent for the week ending Oct. 19, compared to 6.10 percent a year earlier, according to Freddie Mac's Primary Mortgage Market Survey. "Freddie Mac" is the nickname for the Federal Home Loan Mortgage Corp., a federally chartered entity that buys mortgages in the resale market.

Adler said the recent average rate is at a six-month low.

"While rates are approximately one percentage point higher than their all-time lows in 2003 and 2004, 5.21 percent and 5.38 percent, respectively, they are very low from a historical perspective," he said.

The Freddie Mac survey shows that current rates are lower now than at any time between April 1971 through June 2003.

Carole Brawley, mortgage originator with Banner Bank in Boise, said mortgage rate increases from a year ago are having some impact.

"At this point, the first-time homebuyers are hit the hardest because it is harder to qualify for a loan with the prices having gone up, and rates at the same time," she said.

The Idaho Housing and Finance Association recently announced a 5.47 percent fixed interest rate on 30-year mortgages. Borrowers also may qualify for up to $10,000 in down payment or closing-cost assistance.

Kelly Matthews, executive vice president and economist with Wells Fargo Bank in Salt Lake City, said long-term interest rates haven't moved up much this year, and probably will stay flat into the middle of next year.

The yield on the 10-year Treasury Bond, to which mortgage rates are tied, got up to 5.25 percent around July, then dropped to 4.6 percent in late September. The yield was around 4.82 percent last week — compared to 4.5 percent a year ago — and probably will head down to 4.5 percent by mid-2007, Matthews said.

"That suggests that rates will continue to be a positive factor in the mortgage market," he said.

Matthews expects 2.5 percent growth in real, inflation-adjusted, Gross Domestic Product in the next four quarters, a percentage point below the year-earlier period.

Factors in that forecast, he said, include that consumers continue to recover from a prolonged period of high fuel prices, gains in worker productivity limit businesses' need to raise prices to cover higher wages, and U.S. home starts and sales remain about 10 percent below year-ago levels.

The Federal Reserve Board, which sets short-term interest rates, ended a long series of hikes recently. These hikes bumped rates on adjustable-rate mortgages, but the worst appears to be over, Matthews said.

Adler said that recently more clients have selected interest-only loans instead of adjustable-rate loans as a more predictable way to reduce the monthly payment.

Matthews, who writes the monthly Wells Fargo Idaho Construction Report, said his biggest concern remains Idaho home prices — which increased by 20 percent in the second quarter from a year earlier.

Through July, the number of single-family housing permits was down 12 percent overall in 56 Idaho municipalities, but total valuation was down by only 5 percent, he said.

"I'd rather have slower appreciation and not as much reduction in physical construction," Matthews said. "I don't think we are building too many homes based on the amount of population and jobs, but with values going up 20 percent, it makes it difficult for people to buy these homes."

Jacob Nordby, president of North City Mortgage in Boise, said home values have increased so much that some clients are taking out new loans just so they can invest the big equity gains in something that figures to earn a more reliable return.

Refinance activity increased recently, after slowing down earlier this year, he said.

Home purchases by investors are way down from last year, and demand among first-time homebuyers has softened, Nordby said.

Demand for loans to buy homes remains solid overall, as people move to the Treasure Valley and as existing residents relocate within the community, he said.

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Banks report earnings

IDAHO BUSINESS REVIEW

Idaho-based banks reported strong results in the third quarter.

Syringa Bancorp

Boise-based Syringa's loan portfolio totaled $172,460,682 through Sept. 30, up 19.4 percent from a year earlier.

Assets increased from $158,802,000 to $189,401,000, the bank's quarterly financial statement said. Net interest margin increased from 5.28 percent to 5.43 percent.

Non-performing loans represented 0.3 percent of gross loans, past-due balances were 0.2 percent of gross loans, and the loan-loss allowance equaled 1.51 percent of total outstanding loans.

Idaho Banking Co.

Idaho Bancorp, Boise parent of decade-old Idaho Banking Co., reported record net income of $978,000 through the third quarter, up 15 percent from a year earlier. Diluted earnings per share increased from 47 cents to 53 cents.

Key to the earnings gain was a 26 percent increase in net interest income, on a 26 percent growth in the average loan portfolio and an improvement in net interest margin, President and CEO Mike Johnston said.

Year-to-date net interest margin improved from 4.13 percent in 2005 to 4.45 percent in 2006.

Third-quarter earnings set a record, $362,000, and amounted to 20 cents per share, up from 18 cents a year earlier.

Idaho Independent Bank

Net income for the quarter ended September 30 was $2.94 million, up 41.2 percent from the third quarter of 2005, Jack Gustavel, chairman and CEO of Coeur d'Alene-based Idaho Independent Bank, said in a statement.