



THE TREND!

California	
Median Price-SFH	Date
\$306,820	12/09
\$304,520	11/09
\$283,060	12/08
Sales change Prior Month 4.0%	
Sales change Prior Year 1.7%	
Sacramento	
Median Price - SFH	Date
\$174,833	01/10
\$189,145	12/09
\$169,666	01/09
Sales change Prior Month -29.5%	
Sales change Prior Year -24.9%	
Source C.A.R. Research Dept.	

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Residential Home Financing Trend

The year began with optimism that the real estate market will somehow find its bearing, and one of the most essential variable that affects this outlook is financing.

Meanwhile, most home mortgage refinancing, that is those with equity in their homes, have chosen overwhelmingly to use fixed-rate loans. According to Freddie Mac, more than 95% of those refinancing in the fourth quarter chose fixed-rates. While most of these are 30-year products, 15-year mortgages have also gained favor due to the lower home prices. Of the 95% fixed loans, for instance those with balloon loans, 28% chose 15-year fixed, while 4% chose 20-year fixed, and 63% converted to 30-year fixed. Only 5% stayed with balloon loans.

This was in the midst of record low interest rates for the 39-year history of Freddie Mac's Primary Mortgage Market Survey. However, the trend looks upward for the rest of the year in interest rates. On February 19, 2010, the Federal Reserve increased the Primary Discount Rate from .50 to .75, the first increase since December 16, 2008, while leaving the Federal Funds Rate at .25. The Discount Rate is the interest rate the Fed charges banks for borrowing money from the institution, while the Federal Funds Rate is the interest rate that banks charge each other for the use of Federal funds. It is pertinent to note that while the Discount Rate has less an impact on mortgages, it has the indirect effect of trending its trajectory.

It was therefore no coincidence when Freddie Mac announced on February 25th that long-term rates rose for the first time above 5% in the past three weeks, barely a week after the discount rate increase. In that report, the agency stated that 30-year fixed-rate mortgage averaged 5.05% for the week ending February 25, 2010, up from the week before when it averaged 4.93%.

For those with equity in their homes who can benefit from refinancing, interest rates over 5.375 and longer duration, this is probably the best time to make that leap. And for those looking to purchase, the historic low interest rates, lower home prices, and incredible government incentives in tax credits (see [December 2009](#) issue), you have the best opportunity to act. *Al Som-Any, MBA, Broker*

Real Estate Update..Renting or Owning

In the current real estate malaise, most of our clients has asked the question, do I rent or own. It really depends on individual situation, and no one answer applies to all, however some generalities may be apt. For instance, if you are currently renting, consider the following pros;

1. There are no additional obligations beyond your rent.

2. The landlord pays the taxes, utilities, insurance and repairs.

3. You can choose to move after the lease is up.

However, here are the cons;

1. You cannot make any modifications to the house.

2. You may lose out of building equity once real estate prices picks up, inevitably.

3. Your house expense is

only fixed for the duration of the lease, like an ARM loan.

4. The favorable tax consequences, especially for high income people is lost.

For those currently owning a home we shall analyze your options in our next article, as there are quite varied paths to take in this situation.

Al Som-Any

