

This is a printer friendly version of an article from [www.heraldtribune.com](http://www.heraldtribune.com)  
To print this article open the file menu and choose Print.

Article published Jun 2, 2007



**Harold Bubil**

## **Market has plenty of room for rebound**

The local real estate market is showing signs of life, but economist and Sarasota resident John Tuccillo says it still has far to go.

Formerly the chief economist of the National Association of Realtors, Tuccillo says the uptick in property sales "shows the essential quality of the area."

Sarasota leads the state in sales improvement from 2006, according to the latest Realtor-reported figures.

"We are improving off of a base that was pretty low, so you have to take that into effect," said Tuccillo. "It looks like 2007 is starting out to be a better year than 2006. Is it the end of the struggle? No. The market still has a ways to go before it can recover completely. But it's going in the right direction. We are moving off of the bottom. How fast, how far? That's the question."

Tuccillo says the subprime loan mess will not be much of an anchor on the Sarasota real estate market.

"The folks who are overreaching in the market, folks who would get most hurt by that, are not subprime borrowers. They are good borrowers." He adds, "There was a lot of investment buying going on (in the Sarasota region), and investment buyers are not in that pool. You simply do not have the kind of ... subprime problems, that you do in other parts of the country.

"But you do have a problem with investors who are looking to flip (sell for a quick profit) and can't get out. I think that's an issue, but it's a different issue."

Tuccillo is more worried by problems outside the subprime market.

Frank Fontanetta of Wells Fargo Mortgage in Sarasota says one of them is the "option ARM" loan. During the real estate boom, with prices rising spectacularly, buyers could purchase properties with adjustable-rate mortgages that offered the option of making a minimum payment, rather than a principal-and-interest payment that would amortize (pay off) the loan. These option ARMs had "teaser rates" of 1 or 2 percent, but those rates were offered for just one to three months. After that, the mortgages became what is called "fully indexed." The teaser rate was gone, replaced by a rate that is the sum of the indexed rate (now about 5 percent) and the "margin" (about 3 percent).

"On a \$400,000 loan with a 2 percent teaser rate," says Fontanetta, "the payment is \$1,478. After three months, the loan becomes fully indexed, using one of various indexes, such as LIBOR, whose movements up or down are fairly slow. (With the preset margin of 3 or 4 percent), the rate is now 8 percent, and the payment jumps to \$3,375. But the majority of borrowers choose to make the minimum payment, which is not enough to cover the interest. That gets added back to the loan balance (negative amortization)."

On a \$400,000 loan, that could be \$18,000 per year. "So in three years, the balance would be \$460,000,"

said Fontanetta. And with no appreciation in the value of the house under current market conditions, the borrower is hopelessly under water.

"Every one of these loans has what is called a recast feature," said Fontanetta. "Once the balance of the loan exceeds more than 110 or 115 percent of the loan amount, typically in two or three years, the party is over. That loan is recast at the fully indexed payment. The option of interest-only or partial payment goes away. You are looking at a payment that is going to totally blow the socks off most people. They can't afford it."

And in the current market, often they can't sell or refinance, either, because the house won't appraise at a high-enough value. "You are going to have a situation in the next year or two where the impact of recasting of these loans is going to be so dramatic that you are going to see foreclosures go through the roof," said Fontanetta.

"Wells Fargo decided not to play in this sandbox," he added. "There was pressure for us to offer this (option ARM) product. I am proud we did not.

"Many of my peers in this industry were their own victims. There was a whole conglomeration of greed among the real estate speculators, the investors, the developers, the Realtors, the mortgage companies."

Some mortgage lenders are starting to offer loan-refinance products to help people escape the option-ARM quagmire. The costs are low; qualifications include that the borrower must not be "upside down" on the property (owing more than it's worth) and must be able to show the ability to make the payments.

Last modified: Jun 2, 2007

---