

Home Forum

REAL ESTATE DEBT CAUTIONARY TALE

By Elizabeth Rhodes
Seattle Times staff reporter

Q: I'm hearing that a lot of people are getting into mountains of debt because of the rush toward home buying and the practice of lenders offering ever-more tempting, but riskier loans. Is there a cautionary tale here?

A: Certified Financial Planner Robert Frey thinks there is. "If the manic home-price appreciation were powered by a corresponding income growth, one might have little cause for concern, but it is not," said Frey, who's with Lakeside Advisors in Seattle. "Instead, home prices are booming on the back of a related boom in high-risk mortgage lending, especially interest-only mortgage lending."

These loans require the borrower to pay only the interest — not the underlying debt — in the early years of the loan. But at some point, the debt, or principal, is not just added. It's accelerated, requiring the borrower to pay off the mortgage amount in a shorter time frame.

"What happens," asks Frey, "when millions of homeowners must begin making much larger monthly mortgage payments or lose their homes — at a time when real wages are perhaps diminishing?"

His prediction: Consumption will slow as homeowners are forced to devote a larger portion of their income to house payments. Or home prices will fall if enough of them can't make the payments and the market is flooded with for-sale homes.

Home Forum answers readers' real-estate questions. Send questions to Home Forum, Seattle Times, P.O. Box 1845, Seattle, WA 98111, or call 206-464-8510 to leave a question on a recorded line.