REAL ESTATE NEWS

Low interest rates hit mortgage-backed bond market

(AP) — A welcome trend for homeowners is giving investors in mortgage-backed securities a bad case of hearthum. Spurred by last month's drop in rates to the lowest levels in 19 years, Americans are rushing to re-finance, taking out new low-interest finance, taking out new low-interest home loans to prepay old mort-

The savings can be substantial - by trading in a 30-year fixed mortgage loan at 10 percent for an 8 percent one, the average homeowner saves about \$200 a month on a \$100,000 loan, not counting extra

But for owners of mortgage-backed bonds, the prepayments spell trouble. When a homeowner

prepays a mortgage, investors in the securities that finance the loans get back their principals prior to matu-rity — and are forced to reinvest at today's lower interest rates.

The result is that investors fearing an unexpected return of princi-pal have been dumping their mort-gage-backed securities, flooding the market with excess supply and driving down prices.

The decline in mortgage-backed band prices is even more precipi-tous than in the previous rush to pay off mortgages early this year, just after the Federal Reserve lowered short-term interest rates in December. The most recent Fed

Bred-income securities at the First Boston Corp. Back in January, many bond investors underestimated the volume of mortgage prepayments and were stuck holding the securities when the actual flood occurred in the spring, said Patruno. Banka usually take at least one mont to approve a mortgage application. This time sround, however, the market remembers "its wake-upcall in the spring," said Patruno. Worst-bit by today's prepayment fears are the derivative mortgage accurities called "interest-only" strips, which separate interest and

their securities.

Prices of these securities plummeted 30 percent in July alono—one of their biggest one-month drops ever.

The sharp decline isn't that surprising considering how risky these securities can be. When homeowners pay back their loans early, all interest payments to the investors disappear, and holders lose their investment.

vestment.
For investors in mutual funds, the plunging prices of mortgage-backed bonds can mean negative returns at a time when other bond

"There seems to be a mad rush for the exits this time around," said for the exits this time around," said foregr Pairunn, Nice president in fixed-income securities at the First each investors underestimated the volume of mortgage prepayments and were stuck holding the securities when the actual flood occurred in when the actual flood occurred in the securities when the actual flood occurred in the securities is a securities in the securities when the actual flood occurred in the securities one-month flood occurred in the securities when the actual flood occurred in the securities when the actual flood occurred in the securities of the securities when the actual flood occurred in the securities of the securities when the securities when the securities when the securities are research firm that takes much securities and the securities and cago research firm that tracks mu-

Losses were lower for funds invested in fixed mortgages, which generally include fewer interest-only strips.

Three of these mortgage health?

ony strips.

Three of these mortgage-backed funds had negative returns in July, said Morningstar: Fidelity Mortgage Securities lost 0.23 percent, Fi-

delity Spartan Ginnie Mae was down 0.13 percent and Cardinal Government Obligations lost 0.11 percent.

In contrast, the average Treasury fund was up 3.3 percent in July, boosted by falling interest rates that made existing government

bonds worth more.

Despite problems, experts say the worst may be over for mortgage-

Until now, "Mortgages performed very well relative to Treasuries," said John Rekenthaler, editor of the morningstar Mutual Funds newsletter. "I don't think everyone should necessarily bail out of mort-gage securities."

Court notes 'racial preference' in advertising campaign

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I am in the process of devel-oping a long-range condomi-nium project and will be advertis-ing the development over a per rlod of years. I have heard have heard about a case where a develop-er was sued for

using white models in his ad-

vertisements even though the advertisements included the Equal Housing Opportunity logo, they contained no discriminatory language, and there was no intrinsic vidence of discriminatory intent. I was told that the developer had instituted affirmative housing plans to obtain FHA financing, but still the court held that there was an issue of fact the three was an issue of fact, in a metropolitan area where the black population was 26 percent, on the issue of potential liability to the developer. Do you have now the black population was 26 percent. to the developer. Do you have any knowledge of that?

The court determined that while the developer had not demonstrated

discriminatory practice in its business, the developer may be held lis-ble for punitive damages, where a defendant acted with knowledge and disregard of a federally protect-ed right.

Since the court was unable to determine the developer's degree of knowledge of the law, it held that there was an issue of fact precluding summary disposition by the developer on the issue of punitive lishility requiring a trial. Under these circumstances, I would strongly rec-

I recently bought a quad-level home built in 1965, is there any way I can get a floor plan of the

house?
You may wish to check with the building department of your municipality to determine if they have a copy of the plan and specifications that presumably would be filed by the builder. Try to find out who the builder was to see If he is still in

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Robert M. Meisner is a Birmin Robert M. Meisner is a Birming-ham attorney concentrating his practice in the areas of candomini-ums, real estate and corporate law. You are incited to submit topic you would like to see discussed in this real 30200 Telegraph Road. Suite, 487, Bingham Farms 48025 This, column provides general informa-tion and should not be construit as tigal opinion.

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