MORTGAGE ALARM HOW TO SURVIVE WITHOUT LOSSES

Ideally, given current market conditions, one would want to postpone as much as possible the stipulation of a mortgage loan. But for those who can't wait, there is a proceed-with-caution handbook to be followed scrupulously

by **Vito Lops**

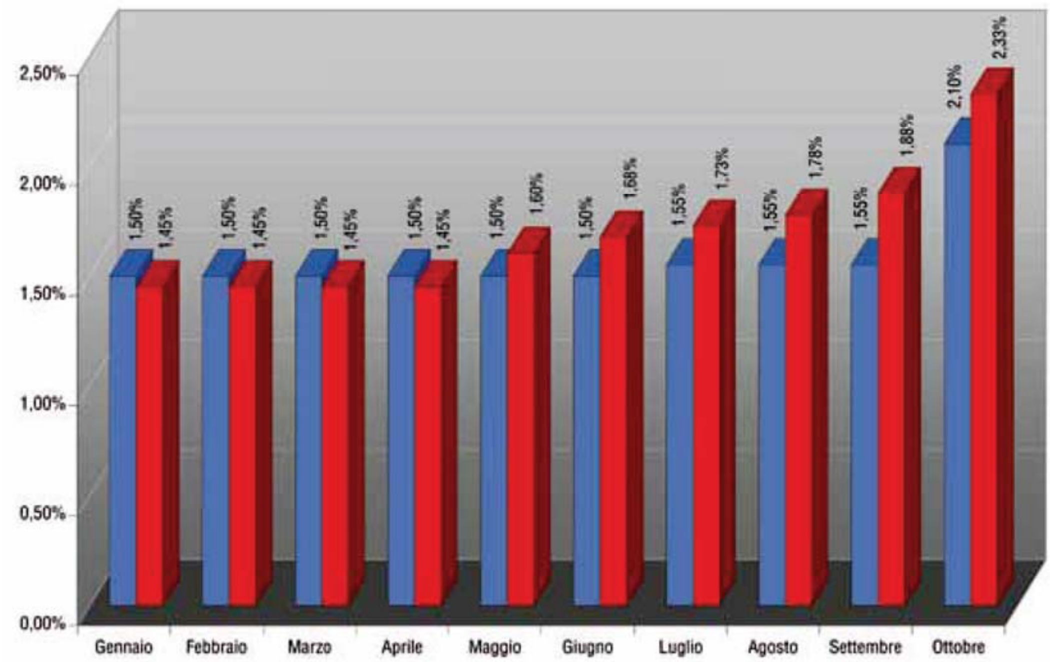
Yields on Italy's benchmark 10-year bond at record highs (with peaks above 6.5%.) Italian-German bonds spread around 500 basis points. Gold falling from USD 1900 to USD 1700. Trading always on a rollercoaster. In short, the newest phase of the financial crisis, which began in July and got progressively worse until the political crisis of the last few weeks, keeps investors awake at night – anxious that securities which appeared safe until not too long ago have become riskier – and also worries those who are trying to enter into a stipulation agreement for a mortgage loan, or are looking to refinance their existing mortgage that has become too expensive.

Why? When the spread between 10-year Italian and German government bonds increases, Italy's economic outlook worsens. As a consequence, Italian banks are forced to pay more in order to borrow money on the interbank market. They, in turn, impose higher interest rates on individual and business costumers when they lend to them. This vicious cycle helps us understand why, first in September then in October, banks raised mortgage loan rate spreads suddenly and steeply. According to MutuiSupermarket.it, this caused the average rate to spike to 2.33%, from 1.5% at the beginning of the year. If we consider not average rates, but the worst ones, we'll see that spreads have exceeded 4%. This means that certain mortgages are offered today at a final rate of 6.5- 7% (calculated by adding banks' spreads to the Euribor index for adjustable-rate mortgages and to the Eurirs index for fixed-rate mortgages). This affects demand, which, in October, fell 33% compared with the same month last year. One might say that this looks like a financial paradox, since Euribor and Eurirs, the European indexes used to calculate mortgage rates, are at historic lows. And they appear set to fall even further. It is no coincidence that, as he took office in November, Mario Draghi, the new president of the European Central

THE CAP, A MORTGAGE TRAP

Capped-rate mortgages became very popular between 2007 and 2009 and are still offered today by many lenders. How do they work? They are "protected" adjustable-rate mortgages. Interest rates can only rise to a threshold, known as the cap. Any rate hike above such threshold does not impact these mortgages. Are they convenient? Yes, in theory. In reality, they often come with spreads that are 40-to-50 basis points higher than regular adjustable-rate mortgages'. In such cases, excessive costs cancel out their benefits, since an overhead of 40-to-50 basis points is approximately equal to five- to six-thousand Euros of extra interest payments on a 150-thousand Euro, 20-year mortgage.

MORTGAGE LOANS' SPREAD PERFORMANCE



Source: MutuiSupermarket.it

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A HANDBOOK THAT WILL SAVE YOU 40K EUROS

"The Perfect Mortgage" is a book of practical suggestions for the more than 500 thousand families that stipulate a new mortgage loan each year and for all those who want to refinance an existing one. Following simple instructions from the book, it is possible to save up to 40-thousand Euros (between costs and smaller interest payments) on a standard 150-thousand Euros mortgage. Because the average borrower, the day he signs a mortgage agreement, unknowingly sentences himself to spend much more than it's needed.Practically it is as if he went to work for two-to-three years without a salary, that's how much borrowers often waste on more expensive-than-needed mortgages. The problem rests with the level of disinformation typical of contract clauses. But people don't even notice, because they experience a loan as a weighty burden to bear anyway. Instead, just by knowing and following a few simple financial rules, people can redefine the meaning of a loan: from heavy debt to a form of investment. By the end of this 160-page book, edited by Gruppo 24 Ore, you'll learn all the secrets on how to stipulate the perfect mortgage in place of the "lazy mortgage." Lowering both costs (inquests, appraisals, insurances, etc.) and interest rates (spreads, Euribor, rates that adjust over time). All you need is to invest three hours of your time in reading this book. Abiding by the philosophy, "the more you know, the more you save/earn". More information at: *www.iltuomutuoperfetto.it*

Bank, cut the cost of money from 1.5% to 1.25%. And experts believe that he might soon decide another 25-basis point cut. The ECB rate cut affects related Euribor indexes, which go into calculating rates for adjustable-rate mortgages. Eurirs indexes (used as a benchmark for fixed-rate mortgages) are also at a historic low. They tend to follow the German Bund yields, which are falling rapidly in response to the high demand for German government bonds. Against this backdrop, let's try to understand how individuals thinking of applying for a new mortgage loan, or of substituting an old one with a new one, should behave. The good news is that for those who are regularly making their mortgage payments, recent spikes in spreads have zero effect. The new spreads do not impact contracts signed with the bank in the past and on the basis of which mortgage payments are calculated.

HOW MUCH IS 150K EUROS OVER 20 YRS

THE BEST ADJUSTABLE-RATE OFFERS

Banca	SPREAD	TAN	TAEG	RATA
Gruppo UBI	1,65%	2,85%	3,08%	€ 820,68
ING Direct	2,10%	3,32%	3,40%	€ 856,13
BNL	2,10%	3,30%	3,54%	€ 854,60
CheBanca!	2,70%	3,92%	4,13%	€ 902,66
Barclays	2,55%	4,03%	4,29%	€ 910,44

...AND FIXED-RATES OFFERS

Banca	SPREAD	TAN	TAEG	RATA
BNL	-	4,90%	5,21%	€ 981,67
Gruppo UBI	1,95%	4,97%	5,29%	€ 987,45
BHW	-	4,95%	5,35%	€ 985,80
Barclays	2,70%	5,59%	5,93%	€ 1.039,47
IW Bank	3,00%	5,89%	6,08%	€ 1.065,15

Source: MutuiSupermarket.it

Instead, people looking to apply for a new mortgage today must be very careful. The effects of out-of-control spreads are somewhat mitigated by the fact, highlighted above, that benchmark European indexes (Euribor and Eurirs) are at historic lows. Overall, it is still possible to be approved for final interest rates of around 5% (relatively low from a historical viewpoint.) However, it is also true that stipulating a mortgage at a time of very high spreads is not the wisest financial strategy. A reason why, while we wait to understand what happens with the recapitalization of European banks and with the Eurozone sovereign debt crisis, it might be worth delaying one's appointment with a mortgage, if at all possible.

Things are more complicated for people who have been preapproved over the spring or summer and who have yet to sign a final agreement, but who have already started the bureaucratic process – potentially signing a preliminary contract for the purchase of property – on the basis of old spreads, which have since then spiked. What to do in this case? Can one dispute the new spread applied by the bank? In order to answer this question, we must understand the difference between quoted interest rates and real ones. Very rarely are these the same, because lenders reserve the right to change conditions on the go. But not everybody operates in the same fashion. Cariparma, for example, freezes quoted interest rates for eight months. Unfortunately, this is only a drop in the ocean because, although other lenders (for example, Ing direct, Chebanca!, Webank) include a spread's period of validity in their quotes, rarely does this last more than a month and never does it come close to Cariparma's eight months. This is basically the same as saying that banks, albeit indirectly, reserve for themselves the right to change, before a final stipulation, whatever spread previously agreed upon.

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