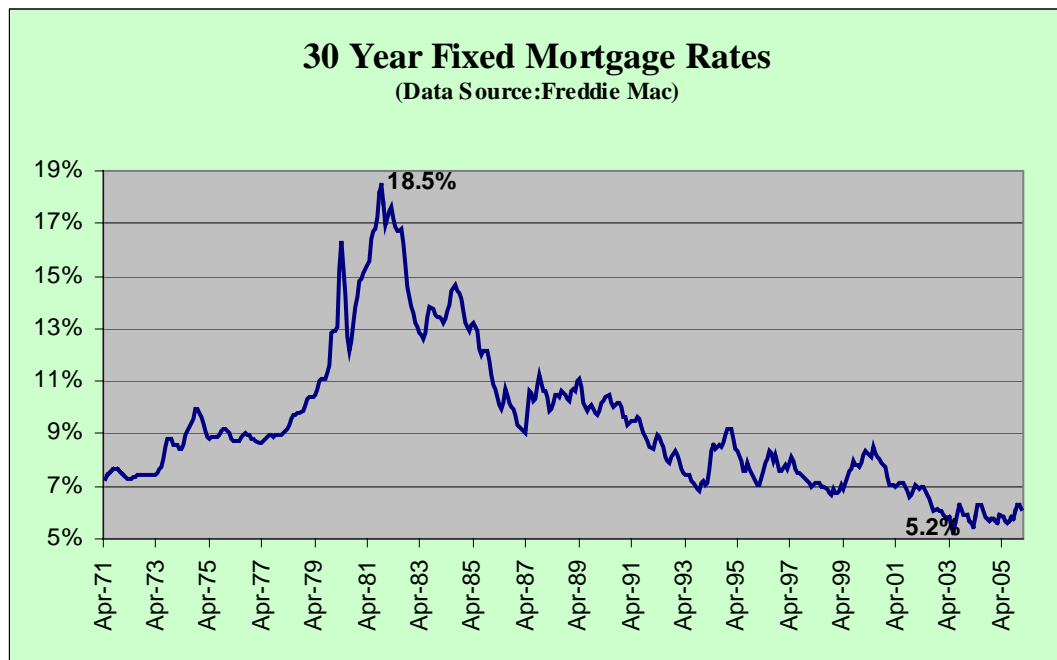




## 10: Interest Rates Are Rising

As most people are aware, the last few years have seen very low long-term mortgage rates. Rates bottomed out in June of 2003 when fixed 30-year mortgage rates hit a low of 5.2 percent. This low rate expanded the amount of potential buyers who could buy homes at even more expensive prices and further fueled the real estate market upwards

However, rates have risen in the past few years in response to Greenspan's raising of the Federal Funds rate. The following chart shows the long-term picture of interest rates, and that they bottomed out in June of 2003 and have been rising since then.



Currently, some economists are predicting that interest rates could top seven percent by the end of 2006.<sup>76</sup>

Higher rates makes buying a home harder, so banks responded by creating exotic mortgages with adjustable mortgage rates to make homes more affordable in the beginning. Many people that didn't qualify for a traditional mortgage loan took advantage of these new exotic loans. These homeowners probably used an adjustable mortgage to buy a bigger house and when their payments go up, they will be in trouble.

An option adjustable rate mortgage (ARM) was among the fastest growing mortgages used in 2005, and is the most risky. This product allows the buyer to make payments that include interest and principal, interest only, or they can even pay less than the interest due each month. This is a negative amortization loan because if payments are not made it adds to the principal owed on the loan each month. These loans could also start out with a low, introductory interest rate that is