

Fed's cut will help, experts say

But not all kinds of debt will carry lower rates

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Lower short-term interest rates should mean immediate relief on credit card, consumer and home-equity loans, area mortgage experts and economists said this week. But fixed-rate home loans are a different animal and are tied to a different set of complicated, long-term investments.

The Federal Reserve cut a key interest rate one-half percentage point this week to much fanfare. The action, taken to ease a credit crunch that began with troubles in the subprime home-loan industry, led to a nearly 336-point spike on the New York Stock Exchange.

"When the Fed cuts its basic rate, it has a short-term effect on short-term money," said Bill McNamee, president of the Illinois Association of Mortgage Professionals. "It's going to really help a lot with consumers who find the interest rate on their home-equity line was getting to be more than they could handle."

Fixed-rate mortgages, in contrast, typically are tied to rates on 10-year Treasury notes and are much slower to change. In fact, the rate on 10-year notes went up a bit this week because of investor concerns the Federal Reserve's half-point cut could aggravate inflation.

"If they had just gone a quarter of a point, there might have been a more favorable reaction in the long-term market," said McNamee.

University of Illinois economists David Merriman and J. Fred Giertz also released an analysis this week cautioning that the half-point rate cut was primarily aimed at avoiding an economic slowdown.

"The question is not so much whether consumers will notice, but rather whether mortgage creditors will notice," Merriman said. "I believe the Fed's intent is to encourage lenders to keep buying mortgage portfolios. If they do this, banks can keep lending and the residential housing market can be propped up."

Longtime Springfield banker Erich Bloxdorf, now chief executive officer of The Real Estate Group, said subprime loans represent only a small piece of the market in Springfield.

Local banks and mortgage companies traditionally are more conservative, he said.

But he said homebuyers also have turned more cautious about adjustable rates.

“What it has done for many consumers is just make them more aware of the potential rate increase that could be coming, and they want to make sure they can weather that type of storm,” Bloxdorf said.

Unease in the mortgage industry appears to have had an effect even on the traditionally steady Springfield market. The Capital Area Association of Realtors reported last month a record number of homes on the market, and home sales through the first six months of the year were down 5.1 percent from 2006.

Even so, Bloxdorf said once the Federal Reserve signals its intention to begin lowering rates, fixed-rate home loans eventually follow.

“It’s just not an instantaneous thing,” he said.

Mike Houston, president and CEO of Town & Country Bank of Springfield, said a couple had approached the bank for help recently after their adjustable-rate mortgage payment ballooned from \$900 to \$1,300 a month.

“They could make the \$900, but they couldn’t make the \$1,300,” he said.

The bank was unable to intervene because the home already was in foreclosure, he said.

Although the couple was well-educated, he said, “I assume they really didn’t understand what they were getting into.”

Houston said Town & Country has steered borrowers away from even conventional adjustable rates unless they plan to be in a home only a very short time.

“We’ve encouraged people to refinance (to long-term fixed rates), given the kind of interest rates we’ve had,” he said.

McNamee said problems in the subprime market forced some of his members out of business this year, but that isn’t all bad.

“It’s a healthy cleansing of the market. There were some people getting into our business who were not all that serious about staying the long term,” he said.

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What happened

- The Federal Reserve cut short-term interest rates by one-half percent Tuesday to 4.75 percent.
- A 30-year fixed-rate mortgage averaged 6.34 percent as of Thursday, up from 6.31 percent a week earlier but still at the lowest level since May.

- 15-year, fixed-rate mortgages averaged 5.98 percent compared to 5.97 percent a week earlier.
- Five-year adjustable-rate mortgages averaged 6.21 percent, up from 6.17 percent, while the one-year adjustable-rate of 5.65 percent was down from 5.66 percent.
- Rates a year ago were 6.40 percent for a 30-year fixed, 6.06 for a 15-year fixed, 6.08 for a five-year adjustable and 5.54 for a one-year adjustable.

— Source: Freddie Mac (Note: Rates do not include add-on fees.)