

WESTPORT~NEWS

On the Home Front

Bi-monthly column by: Linda Skolnick

Rate Cuts

We've all heard that Alan Greenspan, Chairman of the Federal Reserve, cut rates again on Tuesday, October 2, 2001, but why haven't mortgage interest rates gone down immediately? And, more importantly, will they eventually follow suit?

According to Michael Daversa, owner of Atlantic National Mortgage in Westport, "Greenspan and his policy makers reduced the benchmark U.S. interest for the ninth time this year to its lowest level in 40 years (since John F. Kennedy was president) in order to boost business and consumer spending after last month's terrorist attacks. These rate cuts work by lowering the cost of borrowing, making money more readily available to consumers. This, in turn, is usually good news for the stock markets because it means corporate profits will get a boost from additional consumer spending."

"In short", says Daversa, "The Fed's most potent tool for carrying out monetary policy is the rate banks pay for borrowing money overnight. When the news is out of a "rate cut", it is not mortgage rates that are being cut or reduced, but The Fed Funds rate which in turn leads to the prime rate, which is the rate banks give to its best customers."

"With nine rates this year," continues Daversa, "most consumers would think that mortgage rates are plummeting. Though mortgage rates have declined this year, The Fed cuts are aimed at short term interest rates."

"In 1962," reminds Daversa, "a long term mortgage rate was about 5.8%, nearly a percentage point below today's 6.7% average for 30 year financing. The reason for this is home lending is a different business today than it was in the 60's. Lenders now typically bundle mortgages they originate, and sell the debt to bond investors, in what is called "the secondary mortgage market." As a result, bond investors effectively set the rate at which bankers will lend. In the 1960's, the secondary market was still in its infancy. Homes were typically financed by a banking institution lending money it brought in from depositors. Nowadays, bond investors demand greater return on their investments, partly to guard against inflation and also hedge against the boom in consumer refinancing.

Although long term mortgage rates haven't fallen fast, they are still a good deal. The current 30 year fixed rate mortgage is less than 7% for only the 15th time in the past 30 years. Mortgage rates are currently near 40 year lows. For this reason, the opportunity to refinance or purchase a new home has rarely been better."

Even with the funds rate at its lowest level in nearly four decades, analysts predict more rate cuts to come, with many looking for half-point reductions at the Fed's final two

meetings of the year on November 6th and December 11th. Whether these cuts will really come is unknown.

Whichever way you add it up, it's been a very long time since rates have looked this good. And they are affecting mortgage rates. For additional information, Michael Daversa can be reached at Atlantic National Mortgage at 227-7100.