

Little Impact Now, Maybe More Later

Jim Buchta
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Jan. 23--By trimming the federal funds rate three-quarters of a point, the Federal Reserve is offering immediate relief to homeowners with certain kinds of debt -- including "piggyback" second mortgages and home equity loans -- just enough, perhaps, to park a minor surge in refinancings.

But with credit markets still in turmoil and consumers still skittish, some observers say Tuesday's move may not offer the housing market enough momentum to recover from the slump they say could last another 12 to 18 months. Others, however, are hopeful the announcement will provide a critical psychological boost at a time when home prices are falling two-figure amounts and inventory levels are at record levels. "It was an appropriate move, given all the uncertainty in the economy right now," said Frank Nothaft, Freddie Mac's chief economist in Washington. "This will be a big help to consumers." The federal funds rate doesn't directly influence most mortgage interest rates.

However, on Tuesday, mortgage rates continued a decline that has brought them to their lowest level in more than two years; recession fears have been a strong factor, and the Fed announcement heightened concerns about the economy. Investors are shifting their money into safer investment vehicles, including 10-year Treasury bonds, which are tied closely to long-term mortgage rates. On Tuesday, Bankrate.com reported that the average 30-year fixed-rate mortgage had dipped to 5.42 percent. "If rates hold reasonably near these levels as we get closer to spring, there is a reasonable possibility that the housing market could show some signs of improvement, and that would give us reason to cheer," said Keith Gumbinger, an analyst with HSH Associates in New Jersey.

Doug Winter, a senior vice president with Countrywide Financial Corp. in Plymouth, said Tuesday's move by the Fed sparked a flurry of activity, although loan origination volume already was up more than 39 percent compared with the same period of January 2007. "It's been a great day to hear the phones ringing," Winter said. "It's been a long time since we've experienced anything like this." Robin Peterson, president of Coldwell Banker Burnet in Edina, said she supports the Fed's decision and is optimistic that buyers will feel more emboldened to take advantage of falling home prices and low rates.

"It's positive economic news," she said. "It will stimulate consumer confidence." The decision comes none too soon, Wells Fargo senior economist Scott Anderson said. He said that on the basis of the widely watched Case-Shiller home price index, nationwide home prices are expected to fall another 10 to 15 percent over the next 12 months. Those losses could double if the economy moves into a recession, he said. The situation could get worse as an unprecedented number of adjustable-rate mortgages reset in the coming months, causing payments -- and mortgage defaults -- to increase. But Tuesday's Fed rate cut, coupled with anticipated future cuts, could reduce the size of the average reset from what it has been, Anderson said.

And while the Fed can't set long-term mortgage rates, its action could boost the market by encouraging lenders to relax their credit standards. "What we're going through is a classic credit crunch," Anderson said. "What the Fed is fighting here is reluctance to lend and reluctance of consumers to borrow." Long term, however, the Fed's move could lead to higher mortgage rates if recession fears fade and investors regain their confidence in the stock market; in that case, the long-term bonds could lose their appeal, putting upward pressure on mortgage rate. "But I don't think the fears of a recession have faded over what the Fed did today," Anderson said.

Alex Stenback, a mortgage banker with CTX Mortgage in Plymouth, agrees. And that's why he tells prospective borrowers to be cautious about trying to time the market by waiting for a better rate, particularly when prices are falling. The risk is greater, he said, for those who are contemplating refinancing and already owe close to the appraised value of their house. "If house values are trending downward," he said, "you have equity that's evaporating."