

Advancing
the open road.



You know there's traffic. You just
don't know where it is. Now you
do. Acura's available Navigation
System with Real-Time Traffic.



TURBOCHARGED SH-AWD™ REAL-TIME TRAFFIC SOUND SYSTEM

CNNMoney.com

 **PRINT THIS**

Powered by  **Clickability**

Fed cut's impact on housing seen low

A quarter of the way home: Small drop in Fed fund rate may offer little help to besieged housing market.

By Les Christie, CNNMoney.com staff writer

September 18 2007: 11:36 AM EDT

NEW YORK CNNMoney.com -- If Federal Reserve Chairman Ben Bernanke announces a 0.25 percent drop in the Fed fund rate Tuesday afternoon, the impact on housing may be very slight.

A rate drop to 5 percent from 5.25 percent will likely not prompt the national housing market to do an about-face. One reason: the market has been anticipating such a move for many weeks.

According to Richard DeKaser, chief economist for National City Corp., a quarter point drop has already been priced into the market for Treasury bills and other instruments tied to mortgage rates.

Only a half point rise would have a strong impact on mortgage rates and, by extension, housing markets.

Dean Baker, an economist and co-director of the Center for Economic and Policy, doubts that Bernanke will take that bold a step.

"I think he's worried it would be signaling panic if he [dropped the rate a half point] and he's not going to want to do anything that will create more fear," said Baker.

Most observers expect the Fed to make some cut in the federal funds rate in response to the liquidity squeeze brought on by the subprime mortgage crisis that has roiled financial markets the past few months. The closely-watched funds rate affects a range of consumer loans, including home equity and mortgages.

[Greenspan: I didn't recognize subprime threat.](#)

The credit squeeze has made it more difficult for many home buyers to obtain financing as lenders tightened up standards and cut back on many types of loans.

Even though a quarter point reduction would have little practical effect, it could carry the hope of future decreases and dispel some of the gloom in housing markets.

According to Lawrence Yun, senior economist with the National Association of Realtors, while a Fed rate cut will have a slight positive impact on home-equity loan rates, the real importance of the Fed rate cut announcement may be in the language that accompanies it.

"If there is a clear indication that the Fed believes that inflation is off the table, the 30-year fixed rate will come down," he said.

Mark Zandi, chief economist for Moody's Economy.com, said a cut should boost consumer confidence but the "mortgage financing plumbing is broken right now. Lower rates will not work the same magic as they did in the past."

[A Fed cut could make adjustable rate mortgage resets a bit more affordable.](#)

If mortgage rates fall, more home buyers will be able to afford to make purchases, increasing demand for properties and buoying home prices. Buyers generally care less about the actual purchase price than they do about the size of their payments. If rates drop, so will monthly debt obligations.

But interest rates for conforming loans - those of no more than \$417,000 - are already quite low. They averaged 6.31 percent on a 30-year fixed rate last week, according to Freddie Mac, the government sponsored enterprise created to maintain liquidity in mortgage markets. They are not likely to fall much further.

An important class of loans that might benefit from a cut: the high-ticket home mortgages known as non-conforming or jumbo loans. These loans have

the 7th annual
BATTLE OF THE BANDS
2007 Battle of the Bands Finalists
Make your voice heard! Cast your vote for the best corporate band.

Roll Over. Listen. Vote!

sponsored by
SYNC
Powered by **Microsoft**

no guaranteed secondary market because they exceed the \$417,000 cap and Freddie Mac and Fannie Mae will not buy them.

With investors wary about any loan perceived as carrying the least bit of risk, jumbo rates have risen recently. A Fed fund cut could ease that.

"Jumbo loans may come down a little if the rate cut makes consumers more confident," said Zandi.

But problems in the housing market problems are too entrenched for a Fed rate drop to have an immediate impact.

According to Keith Gumbinger, a vice president at HSH Associates, a mortgage industry publisher, the issue right now isn't the price of money, but the perception of creditworthiness and a broken trust between buyers and sellers of debt.

In addition, home prices in many parts of the country remain out of reach for average Americans. That has led to slow sales and [lengthening inventories of houses on the market](#). Also adding to listings is a [flood of new foreclosures](#) hitting the market.

That inventory is weighing heavily on housing markets, according to Zandi, and much of it will have to sell through before prices start to rise again.

It didn't help market confidence that venerated ex-Fed head Alan Greenspan came out and opined on the possibility of double-digit housing price declines, according to Dean Baker.

"That has to be very worrisome for anyone lending into these markets," said Baker. "Lowering the rate [a quarter point] can't have too much impact." ■

[Home prices are expected to slump through 2008](#)

[Couple caught in a toxic mortgage](#)

[Find mortgage rates in your area.](#)

Find this article at:

http://money.cnn.com/2007/09/18/real_estate/low_impact_rate_drop/?postversion=2007091811

Check the box to include the list of links referenced in the article.