

Why Fed Rate Cuts Do Not Equal Lower Mortgage Rates

The Federal Reserve has been on a rate cutting spree once more. Many mortgage applicants are calling their mortgage representative and expecting a lower interest rate. Others who have been waiting to refinance are puzzled as to why mortgage rates have not moved lower during the recent five Fed rate cuts. This is difficult to explain to consumers who have watched a 2.25% reduction by the Fed with very little benefit in mortgage rates.

Is a Fed rate cut really good news for mortgage rates? The facts may be surprising. The Fed can only control the Discount Rate and the Fed Funds Rate. This is very different from mortgage rates. A mortgage rate can be in effect for 30-

years,
continued on next page

PUSH HOME BUYERS OFF THE FENCE NOW Capitalizing on New Market Conditions

Written by Bernice Ross, CEO of RealEstateCoach.com

Many agents are lamenting about how bad the market is. Most people who were in business in 1998 will remember that it was a pretty good year. The National Association of Realtors is projecting that in 2008 there will be more than 5 million home sales or 10 million transaction "sides," the same number as in 1998. Assuming that there are approximately 1 million active Realtors today, that's 10 sides per agent.

The question is how can you capitalize on today's market conditions to increase your income in 2008?

1. Target active market areas. Regardless of where you work, there are some locations and price ranges that are more active than others. Watch the sales board in your office as well as the MLS statistics. Focus your marketing efforts on those areas that have the most business. If you do face-to-face prospecting such as door knocking, calling on for-sale-by-owners, prospecting owners of expired listings, or holding open houses, make active areas your first priority.

If you normally work the \$400,000+ area and the sales are currently active in the \$250,000 to \$300,000 price range, shift your efforts there. Also, be sure to carefully monitor activity each month. If you observe a shift, follow it.

2. Put pressure on buyers who are negotiating by doing a simultaneous price reduction. Whenever you issue a counteroffer with a lower price, ask the seller to reduce the list price. When the buyers realize that the seller is lowering the price, it places additional pressure on the buyers to take action.

3. The best buyer's market in 35 years: If you use print or Web marketing, use your marketing pieces to proclaim, "2008—the Best Year to Buy a Home in 35 Years!"

Here's how to back up this claim: In April of 1973, mortgage rates were about the same as they are today. Since that time, we have only had mortgage rates this low during 2001 and 2002, the height of the seller's markets where there was little inventory. In the last two major buyer's markets, one in the early 1980s and the other in the early 1990s, the

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Push Home Buyers Off The Fence Now, continued from previous page

rates were much higher. When I started in the business in 1978, interest rates were at 9.75 percent, en route to 18 to 21 percent in 1980. In the early 1990s, the rates were hovering in the 11 to 12 percent range. Thus, today's buyer's market, with exceptionally low mortgage rates plus a substantial supply of inventory, is the best time in decades to purchase.

4. Show first-time buyers the cost of waiting. There are several different ways that first time buyers lose money by waiting to purchase. The first is loss of tax deductions. In most cases, people who lack a mortgage pay more federal and state income taxes than those who qualify for a mortgage deduction. You can use a mortgage calculator to illustrate this point. For example, assume that a buyer is currently paying \$1,500 per month on a rental. If the buyer purchases a \$300,000 property with \$30,000 down and a fixed-rate 30-year mortgage of \$270,000 at 6.25 percent, the buyer actually nets \$24,262 more, assuming that appreciation keeps pace with inflation, the buyer owns the property for eight years, and is in the 28 percent bracket.

Another way renters lose money is through wealth accumulation, generally in the form of creating equity by paying down the loan and through appreciation. According to the Federal Reserve, the average homeowner between 1995 and 2004 had a net worth of \$184,400, of which approximately \$60,000 was due to home ownership appreciation. To account for the difference of \$60,000 of wealth accumulation, a \$200,000 house would have to decline by 30 percent. Thus, each year a buyer waits to purchase a median-priced home, they lose \$6,000 in potential wealth accumulation.

An additional way that renters lose money is through increased interest rates. For example, on a \$200,000 mortgage, assume that interest rates increase from six to seven percent. By waiting, the buyer's payments increase by \$1,578 each year causing a total loss (in payments and wealth accumulation) of \$7,578. If interest rates increase from six to eight percent on that same loan, they will pay an extra \$3,221 per year resulting in a total loss of \$9,221.

Using the numbers that clearly illustrate the costs of waiting to purchase will help to get many reluctant buyers to take action. ♦

Why Fed cuts don't equal lower mortgage rates, continued from previous page

a rate cut that is set by the Fed can change from one day to another.

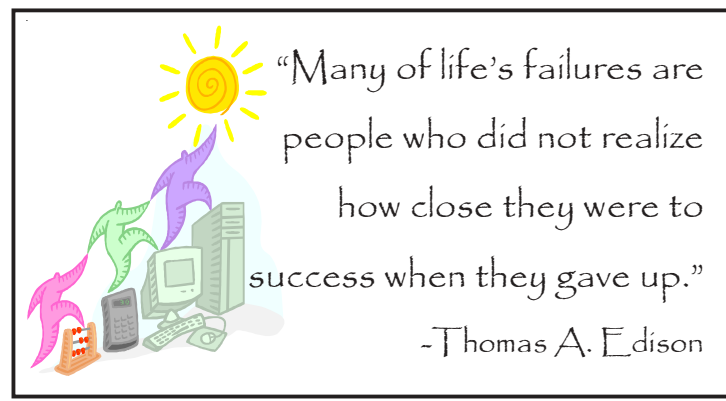
Another common mistake is in thinking that 30-year Treasury bonds or 10-year Treasury notes are directly pegged to mortgage rates. These are government securities that are backed by the full faith and credit of the U.S. Government and have no direct effect on mortgage rates.

So what are the mortgage rates based on? As it turns out the answer is mortgage-backed bonds known as Mortgage Backed Securities (MBS). Bonds issued by Fannie Mae and Freddie Mac (MBS) and the trading performance of those bonds will determine the direction of mortgage rates. Finding the catalyst that causes mortgage bonds to move will give you the keys to finding out what makes mortgage rates rise or fall.

We know that inflation will always be a negative for any long-term bond because it eats away at the future returns. Since the bond will pay a set amount over a long period of time, that amount will be less valuable if inflation is high. Over the past several years, one catalyst that seems to be working in the opposite direction of MBS prices is the Nasdaq and broader stock market.

As bond prices rise, interest rates fall. As bond prices fall, interest rates rise. As the Nasdaq moves higher, bond prices move lower causing interest rates to rise. As the Nasdaq declines, mortgage bonds benefit, causing mortgage rates to fall. Additionally, and unlike common opinion, Fed rate cuts have had virtually no direct effect on mortgage rates. Moreover, it appears that since Fed rate cuts act to stimulate the Nasdaq, they have a negative effect on mortgage rates. ♦

*Article written by Barry Habib,
Contributing editor to CNBC.com*



TAURUS

April 21



May 21

Taurus is the second sign of the zodiac representing growth and development. Taureans show a great interest in all physical matters, from sex to food to sports. Taureans often become teachers and leaders in business because they are naturals at providing guidance and creating order. Although setting up and giving shape to projects is one of their strengths, Taureans do not crave constant activity, like Aries do; indeed they greatly enjoy repose and comfort. They can also function as acute observers - valuable advisors who are insightful where the activities of others are concerned. Taureans may be accused of selfishness; fair enough, they will protect their own interests first. Ultimately, Taureans have the best interests of those around them at heart. Because of their warm-hearted nature, they are successful in marriage and have a particular fondness for children. They live for the people they love.

GEMINI

May 21



June 21

Gemini is the third sign of the Zodiac, representing quickness of thought and facile communication. Gemini's are attracted to those activities that give them a lift, a sense of exaltation - if any sign could actually fly, this would be the one. Many forms of travel appeal to Gemini's, from bikes to skates to cars and motorcycles. Gemini's like being part of a group. They tend to liven up any social situation with their flow of ideas and verbal facility. However, they may not accept the responsibilities of group membership. They are often accused of being fickle and even superficial, but in their view, changing one's mind is no sin. The importance of non-attachment is something a Gemini usually takes to heart.

Presidential Trivia

1. Who was the youngest President-elect at the time of his inauguration?
2. When was the first televised inauguration?
3. Who became president as a result of the Compromise of 1877?
4. Whose inaugural address contained the phrase, "the torch has been passed to a new generation of Americans...?"
5. Who was the first president inaugurated on January 20th?
6. Following whose inauguration was the first inaugural ball held?
7. Which President wore a ring to his inauguration that contained a lock of hair cut from Lincoln's head after he was shot?
8. Whose was the Bicentennial inauguration?
9. Who was the first person to report an inauguration by telegraph in 1845?
10. Whose inauguration was the earliest to have been photographed?
11. Whose inauguration was the first recorded on movie film and gramophone record?
12. Whose inauguration was the first broadcast by radio?
13. Whose inauguration was the first broadcast by sound newsreel?
14. What president was inaugurated more than a month later than the March deadline, on April 30th?
15. What president was sworn in at his home in New York?
16. Whose inauguration came only 82 days after he became Vice President?



**DEVELOP GREATER VALUE
IN YOUR PRODUCT
WITH HOW YOU TREAT THE CUSTOMER**

- You and your employees need to LISTEN to the customer and find ways to say YES, solve problems and provide alternatives.
- You must COMMUNICATE effectively with the customer, never assuming that they know your policies, practices or business.
- Always bring a POSITIVE ATTITUDE to the office as every days is GRAND OPENING.
- Review your overall process and determine how to make it EASY while providing the customer with a UNIQUE experience.
- STOP selling and start COACHING the customer.
- FIRST impressions are lasting and can make you or break you as a company.
- SERVICE the customer, ANSWER their questions and UNDERSTAND their concerns.
- BE real; tell the TRUTH, be your BEST, be COMPELLING.
- Be RESPONSIBLE and take ownership of their problems and get them resolved.
- Create an atmosphere of HELPFULLNESS and PROFESSIONALISM
- Always DIFFERENTIATE yourself from the competition. Make the customer feel SPECIAL.

- Adapted from The Bornstein Group

Answers to the Presidential Quiz

- | | |
|---------------------------|------------------------|
| 1. Dwight Eisenhower; | 2. 1949, Harry Truman; |
| 3. Rutherford B. Hayes; | 4. John F. Kennedy; |
| 5. Franklin D. Roosevelt; | 6. James Madison; |
| 7. Theodore Roosevelt; | 8. George Bush; |
| 9. Samuel Morse; | 10. James Buchanan; |
| 11. William McKinley; | 12. Calvin Coolidge; |
| 13. Herbert Hoover; | 14. George Washington; |
| 15. Chester Arthur; | 16. Harry Truman; |

Sudoku Puzzle

Fill in the grid so that every row, every column, and every 3x3 box contains the numbers 1 through 9. There is only one solution to the puzzle.

7			5	8	3			6
		6			1	4		5
	5	2			6		8	3
3			2			9	5	8
5				7	8		6	
6	4	8		1		3		
	6		8		2	5		
		3	1	5			7	2
2	1	5	6				3	



**Remember Mom!
Mother's Day
May 11th**

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