



## Lansner on Real Estate

### [Insider Q&A hears Fed likely can't help housing](#)

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*It will be a spooky Halloween for housing well before nightfall. Wednesday morning, Federal Reserve bigwigs meet to decide interest-rate policy. Is another cut in the rates the Fed controls in the works? Will it help housing at all. Insider Q&A decided to check in with seven folks who watch the Fed and see what they're thinking.*

**Anil Puri, Cal State Fullerton's business school dean ...** "My personal view is that Fed should not lower the rates at this time. Keep your powder dry in case the economy gets into serious trouble towards the end of the year (December). But the market seers are predicting a reduction. Will lowering the rates help housing? I doubt it. The credit problems require a structural solution. Lowering short term rates will not necessarily lower mortgage rates which are tied to long-term bond yields."

**Chris Thornberg at Beacon Economics ...** "Cut a quarter point. Real estate looks worse and worse ... they can't do much directly about housing, but they will try to maintain confidence in the financial markets and keep credit cheap to encourage consumers to spend, when they are starting to pull back. Cutting will also keep the dollar down, helping exports grow. "

**Bond trader Ryan Kelly at Spectrum Management ...** "Cut quarter point. Why? Because once they embark on an easing cycle they continue on it. They have a concern about the banking system, more so than the value of the stock market. A Fed cut will not even mildly help housing. Housing has structural oversupply issues, over \$700 billion of ARMs that are resetting over the next 14 months and substantially higher credit lending standards than what we had even 8 months ago. The fall out from the subprime 'blowup' is that no one is willing to lend to the subprime or alt-A area, because of the damage that has happened down the food chain. In essence the Wall Street machine that manufactured all of the marginal mortgages and their off-shoots is now broken and closed. The Fed can lower rates, but the same Wall Street Machine that was a willing lender over the past few years is no longer there to lend money."

**Lender and talk-show host Norm Bour ...** "Quarter point. ... The juggernaut that is under way is NOT interest rate sensitive to any great degree and the tide CANNOT be turned until it runs its

course. With all the (adjustable mortgages) coming due, current degradation of the real estate sales and a host of other issues, this huge section of the population is rippling into others. With over 40% of first time buyers doing 100% financing over the past few years virtually ALL Of them are now over encumbered. Banks in trouble, LOTS of people in the industry and related industries laid off, it'll be a while before the dust settles.”

**Lender Rich Simmons at Nationwide ...** “Rates have gotten much better the last 7 days or so. The mortgage market has already factored the cut into current rates. Usually, when the cut actually happens, the rates creep up a little. The facts are that the Fed rate cuts are not going to effect the mortgage market as much as the Fed would like, since the collateral (home values) is still not stable.” And he adds, “It’s still very, very tough to get loans through.”

**Alan Nevin, economist for California Building Industry Association ...** The odds are with quarter point. Theoretically, it will result in a decline in the 10-year T-bill (which determines the rate of the 30-year, fixed-rate mortgage). Therefore, any drop in the Fed rate is good for what remains of the California housing market. For the record, you can now get a conforming 30-year fixed loan for under 6% and the housing market is largely unaware of the low rates. Within the next 30 days, you will see refi’s increase substantially.

**Investment adviser Charles Rother at American Strategic Capital ...** “The weakening employment market, rising mortgage defaults, increasing loan loses at banks and investment banks, and growing spillover effect from the housing slowdown have increased the likelihood of a recession. However, it has also increased the probability that the Federal Reserve Board will lower interest rates next week. Given the declining inflation risk, the Federal Reserve Board is likely to reduce the Federal Funds target by 0.25%. If there is a surprise, it will be a larger than expected decrease in the Federal Funds rate of 0.50%. The housing market will benefit from any interest rate decline. Since housing prices and sales are driven by both national, as well as local factors, various markets will react differently. Housing markets that have strong employment growth, reasonable housing affordability and very low reliance on subprime borrowers will be the primary beneficiaries of any Federal Reserve interest rate cut. In housing markets with very unfavorable economic fundamentals, a 0.50% drop in the Federal Funds rate would likely only slow down the coming home price declines.”