

# Mortgage Rates Appear Ready to Rebound

(Reprinted from Sun-Sentinel Business Section, Thursday, July 17, 2003)

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If you're looking to buy a house or refinance your mortgage, you may want to do so soon because some experts believe mortgage rates may increase following optimistic testimony

about the economy's direction by Federal Reserve Chairman Alan Greenspan.

"If you find a house you like, lock in the mortgage rate and buy it," said A.W. Pickel, president of the National Association of Mortgage Brokers in McLean, Va. "Rates will go up."

While still hovering near historic lows, rates are already on an upswing. On Wednesday, the average rate of a 30-year fixed mortgage was 5.88, but could climb as high as 6.25 percent by September if the U.S. economy strengthens as Greenspan hinted, Pickel

said. In June, 30-year fixed mortgages were as low as 5.25 percent.

David R. Kotok, chief investment officer of **Cumberland Advisors** in Vineland, N.J., agrees. He said Greenspan's testimony this week

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has given investors reason to believe that the economy is recovering. As a result, investors have less incentive to invest in fixed-income securities such as 10-year treasury notes unless interest yields rise, Kotok said.

"The bond market loves gloom and doom," he said.

Amid an improving economy, investors will demand higher yields, which will have a ripple effect across all interest-sensitive investments including mortgages, Kotok said.

Mortgage activity is extremely sensitive to rates. Last week, Americans looking to

buy homes or refinance filed more applications than the week before because of a slight dip in mortgage rates, according to a survey released Wednesday by the Mortgage Bankers Association of America.

If mortgage rates rise, it could cool the boom in refinancing, which has lifted the fortunes of consumers and the economy. On average, homeowners who have refinanced saved \$100 a month on their mortgage payments, according to Frank Nothaft, chief economist for Freddie Mac. And Economy.com, a research firm on economic trends, estimates that \$172.1 billion was freed up last year by refinancing.

While many people believe mortgage rates are tied to short-term interest rates set by the Federal Reserve Board, the reality is that they more closely track shifts in Treasury securities. More specifically, when the Treasury bond yield — the long-term interest rate on bonds — rises, mortgage rates increase as well.

In the bond market, Greenspan's two-day testimony through Wednesday touched off a flurry of activity. On Tuesday, U.S. Treasury 10-year notes rose 23 basis points to 3.96 percent, its biggest one-day surge since 1996, following Greenspan's testimony, which included remarks that the Fed probably wouldn't purchase

Treasuries to lower yields. On Wednesday, Greenspan said such measures were still possible.

Also on Wednesday, Greenspan said that "substantial and excessive" federal budget deficits — if not reduced — will hurt the economy's ability to grow strongly enough to reduce unemployment.

*Information from Reuters, Bloomberg News and the Chicago Tribune contributed to this report.*

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