The New York Sun

Mortgage Rates Plunge After Federal Takeover of Fannie and Freddie

A Boost for New York Real Estate Market Is Predicted

By CANDACE TAYLOR, Staff Reporter of the Sun | September 9, 2008

The drop in mortgage rates by as much as half a percentage point following news of the federal takeover of Fannie Mae and Freddie Mac will provide a boost to the New York City housing market.

The national average interest rate on a 30-year fixed mortgage dropped to 6.08% yesterday, from 6.26% last week, according to Florida-based research firm Bankrate Inc. In New York, mortgage brokers were offering a rate of 6.125% on a 30-year $600,000 mortgage, down from 6.625% Friday.

The drop-off in mortgage rates is "huge," the owner of New York-based Apple Mortgage, Eric Appelbaum, said. While mortgage rates sometimes shoot up, it's unusual for them to fall so quickly, he said. Mr. Appelbaum predicts that rates could fall another half a percent over the next three to six months.

During the credit crisis, confidence in mortgages backed by Fannie Mae and Freddie Mac plummeted, and investors demanded higher rates for owning these mortgage bonds. Now that the Treasury Department has guaranteed loans made by Fannie and Freddie, which own or guarantee about half of the country's $12 trillion of home loans, investors view the mortgages as less risky and are no longer charging such a high premium for owning them.

The slide in interest rates could be particularly helpful to the real estate market in New York City, where mortgages tend to be larger. A $600,000 mortgage, for example, generates a "big chunk of interest," the chief economist at research firm Global Insight, Brian Bethune, said. The drop yesterday of half a percentage point in rates for a 30-year mortgage could translate into a monthly savings of nearly $200 a month, or $2,378 a year, and roughly $70,000 over the life of the $600,000 loan.

The combined slowdown in mortgage rates with a drop in prices could translate into significant savings. The Manhattan market, while still stronger than those of many other parts of the country, has begun to show price declines as the number of apartment sales has slowed. The number of co-op and condo sales in Manhattan fell 21.8% in the second quarter of 2008 from the same period last year, according to the appraisal firm Miller Samuel. This is leading to lower home prices, with some listings now selling for less than they were purchased for.

The Fannie and Freddie takeover also will be important in New York because a federal housing bill passed this summer increased the size of mortgages that the government-sponsored entities can back to $729,750 from $417,000. "It really could have an impact in that zone," Mr. Bethune said.

Rates on loans larger than $729,750, known as jumbo loans, remain high, and are unlikely to see the interest-rate declines experienced by the smaller loans, which are known as "conforming," the principal of Commodore Mortgage Group, Richard Bouchner, said.

While plunging interest rates will provide temporary relief, they can't completely reverse the softening in the New York City real estate market, which is expected to see further financial sector job losses this fall, Mr. Bethune said.

"There's going to be pressure on New York City real estate simply because the financial sector is shrinking," he said. "Even though the mortgage rates could be lower, there may still be weak demand for housing simply because of unemployment."

Still, the rate drop should help, Mr. Appelbaum said. "This will make it easier for people to qualify for loans," he said. "As time goes on, the market will get strong and stronger."