

Borrowers benefit from surprise cut

by: LAURIE WINSLOW World Staff Writer
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But the rate cut won't be so kind to fixed-income investors, Tulsa financial experts say.

Tuesday's surprise cut of a key interest rate could have a positive impact on consumers who borrow money to finance cars or homes, analysts say.

It may not be such great news, however, for fixed-income investors who depend on certificates of deposit or money-market fund income.

Faced with increased worries about a recession and a global stock selloff, the Federal Reserve on Tuesday slashed a key interest rate by three-quarters of a percentage point.

The federal funds target rate was cut from 4.25 percent to 3.5 percent. It was the biggest single reduction since 1990.

"The domino, ripple or synergistic effect felt throughout the economy will be widespread, deep, positive and powerful," said Fred Russell, principal of Fredric E. Russell Investment Management Co. in Tulsa.

As the Fed lowers the rate that banks must pay to borrow, those banks, in turn, will be able to pass the savings on to customers through lower interest on mortgages and auto loans, explained Russell.

A Fed rate cut usually takes some time to work its way through the economy, analysts said.

"I think ultimately from an investor and/or consumer standpoint, it probably doesn't mean anything immediately. The federal funds rate is sort of a rate that is tied to all rates -- the prime rate, credit card rates, mortgage rates, loan rates in general," said Jake Dollarhide, CEO of Longbow Asset Management Co.

"But it's a signal not only are all rates going lower in the near term, but a lot lower in the long term, I think."

Many commercial banks, however, immediately lowered their prime rates Tuesday from 7.25 percent down to 6.50 percent.

Before Tuesday's move, the Fed had cut interest rates three times, beginning with a half-point cut in September followed by smaller quarter-point moves in October and December.

Dollarhide said falling rates will be good for the mortgage market.

"Before today there was already record activity on refinancing mortgages. This will mean more refinancing," Dollarhide said.

Dollarhide said he knows mortgage bankers who already have been swamped by refinancing requests. Tuesday's action, coupled with lower rates projected for the future,

could portend another refinancing boom.

Bob Ball, economic research manager for the Tulsa Metro Chamber, said he thinks it could take awhile for people to begin refinancing, and it's not something that will happen immediately in the next month or so or even the first quarter.

Refinancing requires a lot of upfront costs, and some people will have to decide if those costs are worth it, Ball said.

Lower interest rates mean that businesses ought to be able to expand, as their capital and financing costs drop, said Ball. But any expansion plans would depend on what a company's expectations are for its industry and the world markets.

Tuesday's action could mean that people with above-average credit will be able to call up their credit card company and ask for a better rate, Dollarhide said.

The cut could benefit credit card holders in both the short term and long term -- especially for those with cards that have variable rates, according to Bill Hardekopf, CEO of LowCards.com.

The short-term effect is a lower interest rate and lower payment. If an individual's balance is \$5,000, then he or she will save \$3.13 per month.

"This is not a tremendous savings, but it will help. It will be more meaningful if you apply that savings to pay down your minimum balance," said Hardekopf, in e-mailed comments.

Long term, banks will be encouraged to pass lower rates along to consumers and expand their loan business.

"This cut may enable issuers to approve more credit card applications. Due to the economic climate over the past six months, they have tightened the approval process and it has been harder for consumers to get approved for a credit card. Now, this may help more applicants get approved," Hardekopf said.

Other national analysts said credit cards with fixed rates could be slow to change. Some lenders still are trying to make up for losses on subprime loans, industry observers have noted.

Tuesday's news was not particularly good for people living on fixed incomes. These individuals -- who have most of their assets in certificates of deposit, short-term Treasuries, short-term bonds and notes, or money-market accounts -- likely will receive lower interest rates, Russell said.

A one-year CD that matures at the end of March will be paying a much lower interest rate than it would have at the same time last year, he explained.

Echoed Dollarhide, "It's a big, big pay cut for fixed-income investors."

The Associated Press contributed to this story.

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Making sense of rates

Rate	Definition	Tuesday's action
Federal funds rate	Target rate for overnight lending between banks	Lowered from 4.25 percent to 3.5 percent
Discount rate	Rate Fed charges on direct loans to banks	Lowered from 4.75 percent to 4 percent
Prime rate	Rate offered by banks to their best customers	Lowered from 7.25 percent to 6.50 percent

Source: Associated Press

Impact on consumers

Mortgages: Rates should decline over time. Could spur refinancing.

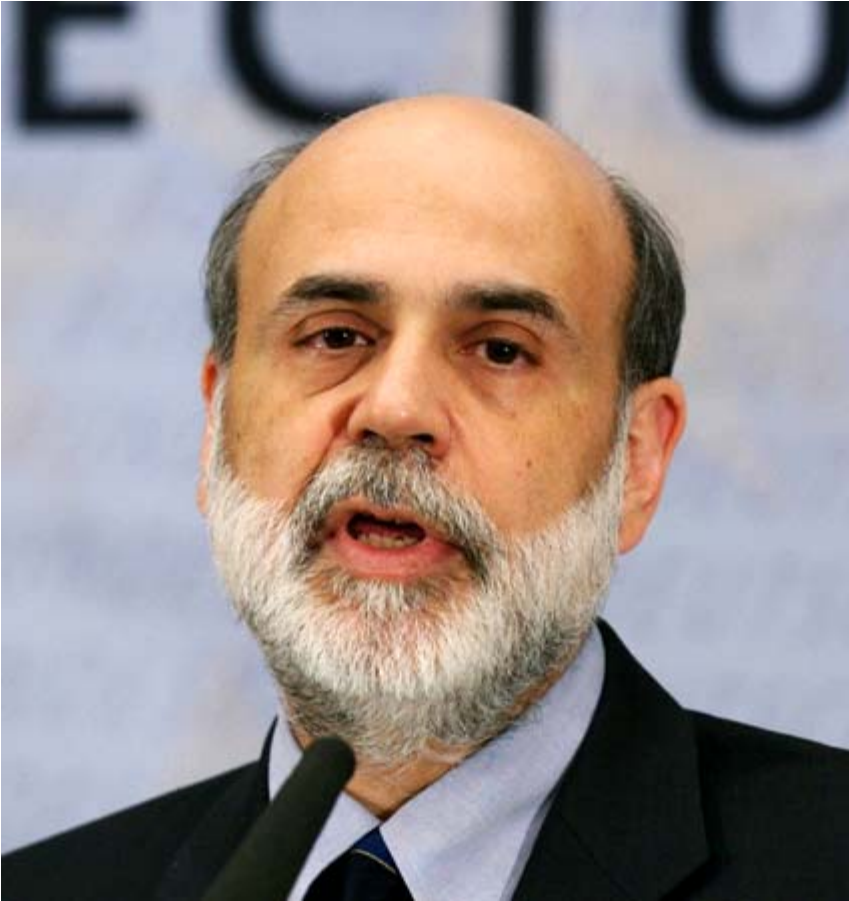
Credit cards: Good customers might be able to negotiate better rates, but otherwise many cards with fixed rates may not move much.

Car loans: Rates likely will drop.

Savings (including certificates of deposit and Treasuries): Rates will go down, a negative for those on a fixed income.

Source: Local and national analysts

Associate Images:



Fed Chairman Ben Bernanke

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