

Falling interest rates to spark home sales

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Special to The Telegraph

Recent drops in national lending rates will send home buyers into the markets and savers into long-term investments.

Area bankers and investors agree on one simple truth these days: Interest rates are falling and will continue to slope downward for several months to come.

And cheaper lending will affect home owners and buyers in a variety of ways, according to Paul Utterback, chief executive officer of the Bank of Alton.

"Home loan rates have fallen about 1 percent from what they were a year ago, and I think they will continue to decline for at least the next six months," he said.

Utterback said the current 30-year fixed-rate mortgage is 10.5 percent but he also expects that to fall in the months to come.

Utterback explained that a person who obtained a 30-year fixed-rate mortgage on a \$50,000 home a year ago would have a monthly payment of about \$30 more than the buyer who

can borrow at the lower rate today.

"I think this is a significant savings that will spark more home sales in the months to come," he said.

Gene Frizzo, senior vice president of Roosevelt Bank in Alton, said the national drops in the discount rate and the prime rate have a trickle-down effect rather than a direct effect on interest rates here.

In December, the Federal Reserve Board dropped the discount rate from 7 to 6.5 percent and several of the nation's largest banks dropped their prime rate ½ percentage point to 9.5.

"Because the prime and other things in the financial market are generally trending down, the adjustable rate mortgages are generally trending down also," Frizzo said.

He added that one year ago, the adjustable lending rates at his bank were about 1 ½ percentage points higher than they are now. Currently, a 1-year adjustable loan is originated at 9.7 percent, he said.

And Frizzo said all these downward trends create an "exceptionally good market" for

home buyers. "Activity in the real estate market hasn't been at a high, so real estate prices might be lower," he said.

"Couple that with a reduction in interest rates across the board and I think you have an opportune time to buy a home."

Donna Hartsock, president of the Alton-Wood River Board of Realtors, agreed. "We're happy to see interest rates dropping," she said. "I think lower rates will increase home sales in our area."

However, while home sales through the Board of Realtors increased from 814 homes sold in 1989 to 901 in 1990, Charlie Bertels, a member of the board, said that increase was mostly concentrated in Bethalto and Godfrey.

"We're seeing a lot more potential buyers now that the rates are falling, and I think areas like Alton and Wood River that were somewhat left out of the increase last year will pick up in the next few months," he said.

Although some Realtors saw an increase in home sales in 1990, the construction business saw a decline, according to Ralph Paslay, owner of Ralph G. Paslay Custom Homes. He

said he hopes the falling interest rates will reverse that trend.

"We were down about 25 percent in 1990 compared to 1989," Paslay said. "But I anticipate growth in the next few months with the news of lower rates that will offset the decline from last year."

Lower interest rates are not good news for everyone, however. Utterback said the lower rates are causing the elderly to lose a little income because their investments are paying less.

"Their savings rates will drop a little based on the drop in prime, as well as rates paid on various other investments," he said. "But I think the effect will be minimal and not a cause for panic."

Dave Hunter of A.G. Edwards in Alton said he is telling investors, young and old, to lock in on long-term investments if they can afford it.

"We've got a lot of conservative customers buying long-term investment CDs (certificates of deposits) in order to lock in on the interest rates before they fall any further," he said.