The interest rate see-saw: When we thought loans would be cheaper…- by Daniel Calano

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Back in August, it seemed like the whole real estate industry was waiting /hoping that the Fed would lower the short-term borrowing rate. Daily financial news kept us on edge. What would the Fed do? When would it do it? Would it be too little, too late, and maybe create a recession? Whew!! Not only did the Fed come through, on Sept 18, they reduced the rate by.5%, instead of the minimum.25% we had hoped for. We rejoiced! Borrowing would be much cheaper. Commercial projects could move ahead. We could better afford those expensive first homes. The news was full of better, cheaper borrowing in the future. Shortly thereafter, the 30-year fixed home mortgage responded and came down to under 6%, and quick-on-their-feet buyers scored some relatively great mortgage deals! But wait, just a few weeks ago into October, the long-term mortgage rate started to go up again, moving back up to 6.3%... and more. The benefits of recent Fed cuts were essentially erased. The pundits were perplexed. There were no Fed announcements to warn us. How could we be whip-lashed back to higher rates? Even the Fed, who obviously did understand, was surprised by the up-tic in long-term lending costs. The causes were many, but mostly under the aegis of uncertainty:

First, there is a lot of uncertainty from Middle East war, suggesting oil/energy fluctuations and inflationary costs from our military support. Different circumstances, but the war in Ukraine will have similar financial impacts to budgets, debts, and ultimately to interest rates.

Second, getting to the ever closer presidential election, politicians finally, and I emphasize, finally recognized the significance of our growing national deficit and debt. On the presidential race, both candidates have proposed platforms that could cost somewhere “above” $10 trillion per year. To put this in context, our annual deficit is usually above $1 trillion, and debt currently is around $30 trillion. The annual interest cost on our debt exceeds our total military defense budget. Plenty of uncertainty here.

Third, regardless of presidential platforms, there is much worry about the uncertainty and lack of clarity of each, also impacted by congressional elections, and even further impacted by delayed certification of who won. Some would suggest that the presidency would be unclear for at least a few months after election day.

Fourth, as data has become visible, it has also become more evident that our U.S. economy had been doing very well, with high employment, steady consumer activity, certain higher incomes. Our annual growth has been estimated at 3%. While this is what we strive to do, ie have a vibrant economy, it ironically looked like it might re-fire inflation, the area where the Fed had been working hard and successfully to tamp down.

Finally, recently, other countries have increased their rates to generate income, to pay debt, to entice investors, and to curb inflation. We may join those actions, simply to compete, or at least stay comparable. Given all of this discussion, we know that long-term borrowing rates do not necessarily follow short-term Fed cuts. As discussed. the short-term rate is an overnight rate, ie not necessarily lasting past the next day. While we dote on Fed decisions, assume that the long-term rate has a life of its own, uncontrolled by the President, Congress, Fed, or anybody else. While we may not fully understand the complexities, the facts are that borrowing rates have gone back up, from carefully considered recent cuts, when real estate projects had recently started up again, and now may stop again. At the very least, we all should consider the complexity and uncertainty in real estate funding, and move forward with caution!!

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