

Understanding How Market Forces Affect Mortgage Rates Isn't That Easy

As you may know, my first love is journalism, hence this method of marketing my real estate business.

Journalism is, essentially, a teaching profession, because it entails learning everything I can about a topic — whether simple or complex — and then succinctly conveying to others what I have learned in a way that makes sense to them.

I wish I could say that I have taken the assignment I gave my-

self for this week, fully mastered the subject and am about to make it fully understandable for you.

Alas, that is not possible. If it were possible, I certainly couldn't do it in such a small space!

Regrettably, I have found that

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even those with financial expertise have difficulty understanding how their industry works. Nevertheless,

here's what I have learned on this topic, with much help from my mortgage professional, Shelley Ervin (303-722-7345):

When the FOMC (Federal Open Market Committee) lowers the prime rate as it did a couple weeks ago, it typically stimulates the economy by making money and credit

more available. A good example is the Home Equity Line of Credit, whose rates are typically tied to the prime rate. HELOC's are like credit cards in that they allow consumers to borrow against the equity in their homes to purchase cars, pay off higher-interest credit card debt, and make improvements to their homes. The availability of such money at attractive

rates has the effect of stimulating the economy.

If, as a result, the economy grows and improves, then the stock market goes up, and investor money flows away from bonds (lowering their prices and resulting in higher mortgage rates). This is why there is frequently an *increase* in conforming mortgage rates immediately after a lowering of the prime rate. While the economy is in recovery, the prime rate *and* the conforming interest rates could both be low, as was the case a few years ago, when the prime rate and mortgage rates were simultaneously at historic lows.

If the economy remains sluggish even with continued lower prime rates, mortgage rates tend to get lower, too. But if the lower prime rate serves to stimulate the economy, the prime will remain the same and possibly increase, and mortgage rates will follow—not in direct correlation to the prime, but due to other economic factors.

REAL ESTATE TODAY



By **JIM SMITH,**
Realtor®

This Week's Featured New Listing:

Unique Floor Plan & Outstanding View from Deck

I've listed and sold many homes in Golden's Village at Mountain Ridge, and it's common to see the same floor plan in home after home, but this floor plan is different. As the owner of this home, you won't have neighbors saying, "I have the same house!" Then there's the view — as good as any other home in the neighborhood, taking in Golden, the Table Mountains, Lookout Mountain, and even Denver and DIA in the distance. Inclusions are extensive: home theatre and all A/V equipment, including Bose speakers. There are 4 fireplaces, including one in the master. A professional billiards table and hot tub are included too! You'll be hard pressed to find anything you don't like about this house!



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