

Money

Mortgage Picture Seen Hopeful

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Part of the miracle of this country has been its ability to generate capital, money to provide homes for its people. It's easy to lose sight of that fact, especially in times when the money situation tightens and it becomes harder for the average person to finance a home. The tendency is to start pointing the finger of blame. It's usually leveled at the place where the money came from when it was available — the banks. After all, they had it to offer before, why not now? And there's the rub. They did offer it before. Why wouldn't they now if they had it? Home loans are good business for banks and the reason it's not available so readily now lies partly in the fact that the banks themselves do not have that high level of loanable money available to them. Inflation is at the foot of the matter. When the general level of interest rates rise in such times, people can find more lucrative places to invest or save their money than in banks. And banks can only lend what people entrust to them, mostly in the form of savings. Over the past few years, for example, people have been putting less of their money in savings banks, and S & L's, which are the primary sources of home mortgages in this state. Is it any wonder, there's a lack of mortgage money around?

The tide seems to be turning. Since November of 1974, there has been an in flow deposit trend in savings banks. The general level of interest rates has come down and the rates on savings accounts are again quite attractive to the saving public. If it keeps up, things will be much brighter for the home buyer this summer as banks improve their liquidity positions. It takes time to correct a liquidity imbalance because savings banks borrow short (which is what they're doing when depositors put money in regular savings accounts) and invest most of these funds in fixed-rate mortgages or other relatively long-term, non-liquid assets. During inflation, though, banks must be ready to offer competitive interest rates on deposits. But the banks' money is already tied up long-term at fixed rates to the bank. So earnings suffer and liquidity is reduced. The problem is made worse when people put less of their savings into banks. When a turn around comes, it takes time to rebuild liquidity. More than a few months of high levels of new deposits are needed. That's why it will be later this spring before there's any substantial improvement in the mortgage

market, unless other factors take over like the government.

Of course, the forces affecting the availability of mortgage money are more complex than the picture just described indicates. The government already gets into the act as a secondary mortgage market, for example. In this State, there's the State of New York Mortgage Agency, which was authorized to raise \$750 million through the sale of bonds. The money was to be used to buy old mortgages from banks, giving them fresh money to invest in new mortgages. So far the state has issued only \$393 million of the total. Also in New York the ceiling on interest rates (8.5%) for mortgages prohibits banks from obtaining money for New York State homes from the national mortgage market, because the current national average residential mortgage rate is over 9%.

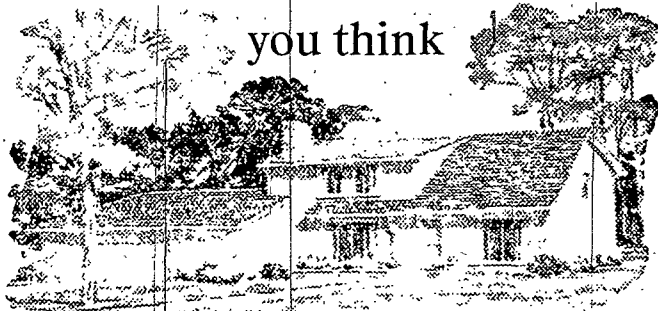
This 8.5% mortgage ceiling

also works against the market in the state, because New York is surrounded by states whose ceiling is higher. Without the ceiling, the state could attract more out of state money to help finance mortgages. Currently, the state legislature is looking at what to do about that ceiling.

Federally, steps are afoot to relieve the housing problems through government programs. Tax credits are being considered as is an emergency housing measure as well as federal interest rate subsidies which would bring down the cost of home ownership.

While it's a complicated picture, the outlook is improving for the home buyer insofar as the availability of financing is concerned. The last half of the year should show an upswing in activity in the Rochester area. And after all, the summer is the best time to move anyway, isn't it?

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