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# Rates hit all-time lows, sales suffer

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Never has the real estate market seen such a case of good news-bad news as experienced during the past few months.

The good news? In order to help stimulate the economy, the Fed continues to keep the Federal Funds Rate at historic lows. The Federal Funds Rate is the interest rate banks and lending institutions are charged by the government to borrow money. When those rates are low, banks generally provide loans to consumers and businesses at lower rates. As a result, everywhere one turns today, advertisements for low interest rate mortgages can be seen.

The bad news? The current historically low Federal Funds Rate has not spurred quick economic recovery as anticipated. Never has there been a better time to buy a house than today. So why are home sales at all-time lows?

We must look deeper into the economic picture to find the answer. Readers may recall that the housing bubble burst in 2008 when the effect of years of subprime mortgage lending finally reached the breaking point. The defaults on hundreds of thousands of subprime mortgages eventually led to the infamous government bailout program.

Along with the money given to the banks, the government also implemented new regulations. As mortgage rates began to drop, the number of people who qualified for the new rates also decreased. Many buyers who would have qualified easily for loans in the past were forced out of the market. With increased restrictions and qualifications for lending, banks and mortgage companies struggled to find programs for homebuyers.

Seeking a resolution to the declining availability of qualified borrowers, the federal government offered a tax credit to first-time and, eventually, repeat homebuyers. Extended for a full year, the tax credit program assisted thousands of homebuyers and boosted stagnant home sales. The credit applied to contracts signed prior to May 1, 2010, but it has not been renewed by Congress.

The tax credit program was very successful during its term and increased mortgage activity through the end of June and into July. Realtors started to see a significant drop in business after April 30, however, and the decline extended throughout the summer, resulting in the lowest home sale numbers since data collection began in the mid-1960s. The mortgage industry is now reaping the benefits of the low rates, and a high volume of refinancing that is taking place once again, however.

Many experts believe the job market holds the key to increased home sales. Consumers are unsure of the fate of their jobs, and are hesitant to make a big investment such as that required to purchase a home.

Other economists argue that the volatility of the stock market has hampered the housing market. Many investors are seeing 401(k) and other pension plans grow at much slower rates. In some cases, they have seen significant declines, leaving their home's equity as their largest liquid asset. Consumers are reluctant to purchase a new home and take on additional debt as a result.

Some reports have blamed the housing and mortgage industry for today's tough economic times, and it is becoming increasingly clear that, until the housing market returns, our economy will continue to suffer.

The upcoming elections are the first step in the process of shifting government focus back on the economy. Voters will get their say on the country's economic situation at the ballot box this fall, and we may see policy changes that will impact the housing market and mortgage industry.

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