Interest Rates are not the problem, housing costs are

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When I bought my first home in 1984, a three-bedroom house for $47,000, the interest rate on the 30-year mortgage was 14%.

My husband and I bought our home in Dillon, Montana in 2005. We moved here to teach at the University of Montana Western, a wonderful college in which to finish our long careers in education. My husband chose to move to Dillon because it is a small, northern town in the mountains. I chose to move here seeking a warmer climate after living in Alaska!

In 2005, the interest rate on our 30-year mortgage was 5.75%, on a 4-bedroom house that cost $125,000. We thought this was an excellent interest rate and an amazing housing cost! We were even more excited when interest rates kept going down. We eventually refinanced our house in 2009 with a 15-year mortgage at 4.75%, and again in 2012, at the incredibly low interest rate of 3.125% on a 15-year mortgage. Choosing a shorter mortgage time from 30-years to 15 years or ten years saves a lot of money over time, and also gives you lower interest rates. And we have always avoided those ARM (adjustable rate) mortgages, within which you face the possibility of your mortgage interest rate increasing over the life of the loan. For those of you who have forgotten, those ARM rates caused many families to lose their homes when interest rates rose. This resulted in the housing crash of 2008.

Now, in 2022, the American public, and the media, appear to be freaking out over the recent increase in interest rates set by the Federal Reserve from near zero in March to 3.25% in October, with the likelihood that it will rise even higher. In response to the Federal rate hike and increased demand for housing, the average mortgage interest rates rose from 3.05% a year ago, to close to 7% today.

But in my opinion, the real problem is the high cost of homes. In the past few decades, it was common for housing costs to rise and then drop, in a rather rapid cyclical pattern. I remember when some dear friends of mine bought a condominium in Texas for $80,000 in the 1980s, and a few years later, when they needed to sell it, housing costs had dropped precipitously, and they were forced to sell it at about $60,000, leaving them in serious debt.

But that cyclical trend in housing costs has not recurred for several decades. Since 2000, the cost of housing has gone up and up (going down for a short time after the 2008 housing crash), so much so that my own children cannot afford to buy a house. And during the pandemic, as global shipping slowed down and then the costs of goods and services rose drastically, housing costs doubled or tripled in the last three years. For a long-term look at housing prices, check out https://www.longtermtrends.net/home-price-vs-inflation/.

The US Central Bank Federal Reserve sets a base interest rate. Their role is to reduce the likelihood of increased inflation, to reduce the likelihood of even higher costs of living for Americans. For more information, https://www.federalreserve.gov/monetarypolicy/reserve-balances.htm. The big commercial banks that hold large reserves (money) at the Federal Reserve are constrained by the interest rates and regulations set by the Federal Reserve. Rest assured that if Federal regulations were removed, those banks would set much higher interest rates. Those banks can charge a slightly higher mortgage interest rate than the interest rate set by the Federal Reserve. And banks that do not

participate in the Federal Reserve can charge even more. Take a look at https://www.federalreserve.gov/aboutthefed.htm.

Fortunately for the everyday American, who have not been able to afford to buy a house for several decades, when mortgage interest rates rise, housing costs go down. Maybe my grandchildren will someday be able to buy a house!

Dr. Delena Norris-Tull