



Alaska REAL ESTATE BY DAVE WINDSOR

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FREE MONEY COMING TO A TOWN NEAR YOU

Since the Novel Coronavirus (Covid-19) appeared, business worldwide has started to slow down. The world economy was already showing signs of weakness late last year but when illness, or the fear of illness, slows down the business world then production and consumption of goods and services is reduced. We all share this pain even if we don't catch the virus.

In order to encourage businesses and individuals to keep spending, and to keep 'doing stuff', the Federal Government of a country engineers lower interest rates. Every country has a central bank (we call it the Fed) which can control the amount of money that the

bank community has and the cost of that money. When the Fed cuts rates, it is cutting the rates at which banks can obtain or exchange money. In turn, the banks, who simply operate to make profit, can lend money or hold customer deposits at a lower rate.

You may be surprised to know that France, Germany, Italy, Spain, Netherlands, Greece and Ireland have interest rates at Zero - i.e. Free Money for banks to lend.

Incredible as it may seem, in Denmark and Switzerland their Fed pays interest to the bank if it borrows money from them! That is, a negative interest rate of 0.75% means you owe less than you borrowed! The banks will never lend

money to individuals like you and me for zero percent because they need some profit, but they will come incredibly close to zero in lending and, unfortunately, in offering CD's and Savings accounts to depositors.



We live in interesting times. In the USA the Fed recently cut rates and this is flowing through to mortgage lending for real estate.

As of 10th March 2020 the 30 year conventional fixed rate for a homebuyer was 3.125% (FHA 2.875%) but likely these will come down into the low 2's this year. The 15 year rate is already as low as 2.625% and likely to go below 2%.

The net effect to you is - Savers Lose, Borrowers

Win. Seniors who depend on fixed income from bank deposits will suffer while people who want to finance real estate or other investments will benefit.

While I have until now been a strong advocate for zero debt in your family I would have to say that you should re-visit your savings strategy immediately. Money invested in simple CD's or other savings is useless. It will lose value. Money invested in Stocks and, to a lesser degree Bonds, will have a better rate of return.

If you are, however, needing a new or better home you must take advantage of these miniature interest rates as they approach zero. Many analysts are now saying the outbreak's impact on global economies will be serious but the duration of the impact will be short. So the

feeding frenzy can only last a year or two.

I predict a boom in home buying and you should not miss out, because this is a temporary status. You can also be sure that property values will appreciate in the slipstream of the current momentum.

Currently, the Fed rate (benchmark for interbank lending) just went to 1.75%. Each quarter of a percent is called one basis point. In other words, 5 more basis points down and you reach zero. Many observers think this could happen by next year.

The net effect to you is - Savers Lose, Borrowers Win.

What you will hear in the months ahead is that there is a significant pullback in the world economy. The word 'Recession' will be used in a mild manner. The United States will fare much better than other countries but, even here, there will be some stress in maintaining jobs. Yours could be affected.

However, if you and/or your spouse have solid forward employment in Alaska, now

is the time to reduce cash savings, re-invest it in wisely allocated investments, and borrow as much as you can for solid investments, especially real estate. Call me, or your Financial Advisor, for further guidance.

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