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Low Interest Rates to Drive Record '02 Home Sales, Economists Say

NEW YORK, May 9 (LendingIntelligence.com) — Expecting the [Federal Reserve Board](#) to continue nurturing economic recovery by keeping a lid on interest rates, many economists are ratcheting up their home sales projections.

"The housing market is still very strong, due mostly to continued favorable mortgage rates," said Lawrence Yun, senior economist with the [National Association of Realtors](#). "Last year was a record year, and this year is shaping up to be a new record as sales to date have been phenomenal."

The association is forecasting 5.38 million existing-home sales this year, a 1.5% increase from the record 5.30 million sales set a year ago.

Yun anticipates that the interest rates on 30-year fixed-rate mortgages will rise through the second half of the year to 7.2%. In recent weeks, the rate has remained below 6.9%, according to surveys.

As for home prices, Sung Won Sohn, the chief economist at [Wells Fargo & Co.](#) said that while house prices are not rising as quickly as last year, the rise is in line with expectations.

The median new-home price is projected to be \$185,000 this year, up 5.6% from 2001, according to NAR estimates. The association is projecting new-home sales to drop 2.7% to 885,000 units this year from the 2001 record of 909,000 sales.

"We are beginning to see more multiple offers in some markets, such as the [San Francisco] Bay area, and more offers over the list prices," Sohn said. "But we are also seeing is that higher-priced homes are now not selling as well as some of the affordable homes, which tells me that people are still cautious."

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Most predictions, though, are contingent on the Fed keeping interest rates low to help stimulate economic recovery. Currently, the Fed funds target, the rate at which the federal government lends money to banks, stands at 1.75%, one of the lowest rates in the last four decades.

"Interest rates are dependent upon many facts," said Geoffrey Brown, Mid-Atlantic regional sales manager for [Sovereign Bank](#). "Perhaps during the second or third quarters we'll see enough positive economic news that will cause the Fed to spike rates upward. Either way, I don't think we'll see a dramatic increase, maybe a quarter to a half of a percent."

Alex Doce, president of [Baron Mortgage Corp.](#), also predicts between a 25 and 50-point rise in interest rates, but he bases his estimates on a recovering stock market, which jumped 305 points yesterday, on the strength of positive earnings results from [Cisco Systems](#).

"If we continue to see such activity, as we did yesterday on the strength of Cisco, many investors will move their money from bonds to stocks, which is just one of the things that could trigger rates higher," Doce said.

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