From the June 18, 2004 print edition

Who has an interest in possibly higher rates?

Stacey Higginbotham
Austin Business Journal staff

The economy is looking up, which means interest rates could soon be on the rise.

For a consumer trying to buy a home, this news may be met with groans, but for several areas of the local economy, rising interest rates mean a golden opportunity for profit.

On June 29, the Federal Open Market Committee will meet to determine whether it is time to raise interest rates above 1 percent, where it has hovered for a year. It's the lowest rate in 46 years and many believe that sometime before the election, Greenspan and the board of governors will raise the rate again.

Latest News
» TAB, PAC indicted in fundraising case
» QT Six film lineup released
» QuickArrow, New Orleans firm extend help to out-of-work consultants
» Introgen product offers additional therapeutic effect
» ACC approves academy move, firm for master plan

More
» Companies in the News
» People in the News

In the commercial real estate market, rising rates can mean higher prices for sellers and quicker turnarounds on properties. Tom Stacy, owner of Austin-based developer T. Stacy & Associates Inc., says the potential for rising rates is one reason there are higher prices on his properties. He says it's partly because buyers have more purchasing power with lower interest rates, but it's also because they want to close deals before rates rise again.

"We're selling properties at 10 percent to 20 percent higher than we thought we would," Stacy says. "Interest rates are a small factor, but we are getting more per square foot than we could if people thought interest rates were stable or going down."

However, rising interest rates aren't entirely beneficial to building owners -- particulary to those who have floating rate debt on their properties and who are barely making their debt payments. As interest rates rise, the floating rate debt, which is tied to interest rates, will become more expensive.

Stacy says if those landlords cannot increase rates or occupancies, they might not be able to afford the debt payments as they rise. He says he has his eye on about 12 properties in Texas, owned by other office management firms, which he thinks might not be able to make it.

Eric Holt, senior vice president and banking analyst with San Antonio-based Frost Bank, says smaller banks and those that have large deposit bases should walk away with higher profits due to rising interest rates.

Typically, half of a bank's profits come from the difference between the interest they can charge on loans and the interest they pay out on deposits. Holt says most banks will react quickly to reprice loans, but "if Alan Greenspan raises the Fed Funds rate 50 basis points, you're not going to see that percent increase in your checking account."

Small banks should float through, Holt says, but large banks that borrow money to make their loans might find themselves pinched because the cost of their money will go up.

« Continued from previous page

Banks that purchased mortgage-backed securities in the low-interest-rate environment also face a challenge, according to Holt. He says now that interest rates are rising, the mortgage-backed securities will be paying back interest at lower levels than securities purchased under the new rates. When that happens, the banks either will have to sell those securities at a loss or keep them on the books as a crummy investment.

"This is a time bomb on balance sheets and we are trying to keep an eye on what banks will do with that," Holt says.

However, the increase in money to be made from loans is fueling the hope of some entrepreneurs that banks will be ready to lend again. Joe Jones, president and CEO of Austin-based semiconductor test and assembly firm BridgePoint Technical Manufacturing Inc., says he's anticipating an increase in lending, which will, in turn, drive customers to his business.

Latest News
- » TAB, PAC indicted in fundraising case
- » QT Six film lineup released
- » QuickArrow, New Orleans firm extend help to out-of-work consultants
- » Introgen product offers additional therapeutic effect
- » ACC approves academy move, firm for master plan

More
- » Companies in the News
- » People in the News

"If more of our customers have access to capital, then things should spiral up again," Jones says. "Indirectly, as banks start to lend ... my customers would buy more products."

Up until this point, consumers have borne the brunt of the spending that has kept the economy on a roll, both locally and nationally, says Diane Swonk, chief economist of Bank One Corp. She believes they will continue to help, despite interest rates rising. However, instead of buying houses and cars, consumers will spend money on furniture and entertainment expenses, such as travel and dining out.

Thanks to the burst of refinancings in the last few years, she says as interest rates hit record lows, consumers will still have credit to put toward their wants and desires.

"Consumers have more credit than we've ever seen before, and that will cushion the blow of more expensive interest rates for them," Swonk says. "And there will be more paychecks coming online [as businesses spend in response to rates] and consumers will no longer be the Atlas holding up the economy."