

# Local banks follow Fed with interest cuts

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MANCHESTER – Banks responded immediately to the Fed's rate cut yesterday by lowering their own prime rates from 6.5 to 6 percent.

The prime rate, which is offered to banks' best customers, has a wider impact because many other lending rates, from adjustable home equity loans to credit cards, are tied to it.

"The immediate impact is that any customers who have any lending relationship that's tied to prime, their costs just went down, which can help ease the pain of fuel costs and other inflationary pressures that they're feeling," said Cathleen Schmidt, president of Citizens Bank New Hampshire. James M. Dunphy, chief executive officer of Hampshire First Bank, said loans can be prime-minus or prime-plus depending on the type of deal, the risk of the deal and the credit quality of the customer.

> [MSNBC: Fed stays aggressive, cuts rates a half-point](#)

The Fed lowered its overnight lending rate to banks by three-quarters of a percent Jan. 22 and a half of a percent yesterday, bringing the prime rate down from 7.25 percent.

"If the overall funds rate drops, typically the banks follow suit within 24 hours," said Steve Andrews, vice president of capital markets for Sovereign Bank, who is based in Boston.

Local lenders have already felt the impact of economic slowdown that prompted the Fed to act.

"We do a fair amount of commercial lending and some is in the residential development market," said Ronald H. Covey Jr., executive vice president, commercial banking, for Ocean Bank. "And a lot of our customers are tied into that whether they are subcontractors or suppliers of goods and services, such as carpeting and appliances, and they've all seen a slowdown."

Ocean lowered its rate to 6 percent by the end of the day yesterday, he said.

Falling rates have customers pushing to lock in earlier on new loans and have stimulated interest in refinancing as well.

"On a lot of the larger loans, they can take a couple months to get in place because of the documentation and such, but with rates falling over the last 60 days or so, it's made people want to lock in things quicker," Andrews said. "You want to get everything done before rates go against you."

"What the market may turn into is more of a refinancing of deals versus new activity," Dunphy, at Hampshire First Bank, said.

If there's a downside to the Fed's movement, it's that falling loan rates tend to pull down interest paid on deposits with them, because banks have to maintain a profit margin.

"While the cost of money is going down, it gets tougher to try to maintain the deposit rates that consumers want," New Hampshire Bankers Association president Gerald H. Little said. "That's a bit of a bind that banks find themselves in."

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Thanks a lot, Fed Reserve. Cut rates to stimulate the economy,prop up a housing market that young folks are pretty much priced out of unless they borrow more than they can afford. As long as it is helping the "economy" (read big business). I guess I'm just one of the silly savers who borrow reasonably, not trying to afford more than I can afford. The difference I try to save - well, I will never get anywhere with rates going down, but thanks a lot, my home will be worth more on paper and my tax assessment will be higher than it should be. If the Fed really was concerned about the future of our economy, they would let the market shake itself out, experience the pain now, rather than postpone it in the form of increasing inflation onto the next generation. Keep up the good work, Federal Reserve, and the Republicrats. The next presidential election really won't matter - both major parties are doing the same thing with only minor differences in how they spend more than we are taxed and how fast they increase inflation.

- **Ann C, Manchester, NH**

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