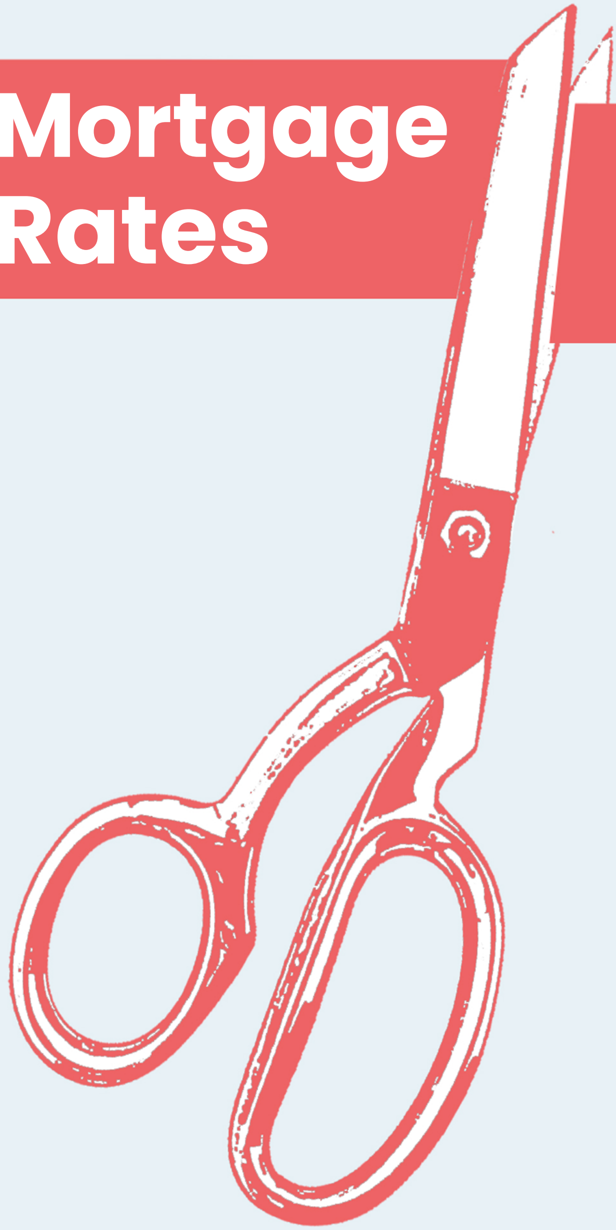
The Fed & Mortgage Rates



The Federal Reserve has taken emergency action to cut rates to zero. While 0% interest rates sound great to anyone who owns a home or is planning to buy, it's important to slow down and talk through a few things.

The Fed does not control mortgage rates. Their cuts apply to rates for loans between the Fed and banks or from one bank to another.

The Fed's actions most quickly impact the rates on U.S. Treasury Securities. These markets can influence Mortgage Backed Securities, which will then influence mortgage rates.

However, in times of uncertainty, other factors can overrule the norm. This happened in 2008. Despite aggressive cuts by the Fed, mortgage rates hit a floor and never fell further. The same is happening now.

Why?

The volume of business.
Demand for mortgage loans is stretching the industry's capacity to serve. To slow demand, rates may hover at higher levels.

Reduced investment.
When investors know borrowers will refinance early, they'll lose income. This risk means fewer investors will buy new mortgage backed securities. Less demand equals higher rates.

Extra costs to lenders.
When loans are refinanced quickly, lenders often pay back their earnings. Similarly, additional expenses can occur when rates shift too quickly for in-process loans. These costs are reflected in higher rates.

The Bottom Line
A 0% Fed funds rate will not lead to a 0% mortgage loan rate. Mortgage bonds will always have a level under which investors simply will not purchase them and mortgage rates reflect that.

The Good News
Mortgage **rates ARE at or near their lowest levels EVER.** That spells **OPPORTUNITY to SAVE significantly** by refinancing or locking in a great rate on a purchase.

Reach out and we'll be happy to review exactly what this can mean for you.