



How and Why the FED Doesn't Control Mortgage Rates

Everybody is always talking about "THE FED". "Rates are coming down more...aren't they? OR Rates are supposed to go up aren't they?" These are common questions I get.

THIS IS THE WAY IT WORKS. The FED sets "overnight" (16 hours!) lending rates to its "member banks" and a slightly different rate for similar loans between those banks, so these banks can borrow for the evening to maintain required cash balances in relation to their total deposits. You are typically interested in borrowing money for 30 years with a fixed rate, right? The FED doesn't control that rate at all. Pure market forces dictate "long term" (1 year - 30 year) rates during trading hours. All the "fixed income securities" (Treasury Bonds, Corporate Bonds, Municipal Bonds, "MORTGAGE-BACKED SECURITIES" {your 30 year loans}, etc.) "compete for investor's attention" on exchanges daily. The "price" or "rate" is arrived at through daily market negotiation (trading) based on all sorts of economic influences and expectations including what they expect THE FED to do in THE FUTURE. The FED doesn't control the interest rates you're interested in, THE MARKET or INVESTORS do!

THE MORAL OF THE STORY... DON'T WATCH THE FED! Consult with a loan professional about current market conditions to PLAN for your next mortgage loan.