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## Will a Fed Rate Cut Affect Your Mortgage?

Today's pending rate decision by the Federal Reserve has been a hot topic in the news lately. If you are a home owner or you are looking to buy a home soon, here is what you need to know:

### What is the Fed?

The Federal Reserve is group of federal banks whose main task is to regulate the U.S. money supply. They do this by either buying up or selling off U.S. securities as appropriate and by adjusting the discount interest rate. The Fed has set an unofficial mission for themselves of keeping the economy healthy by holding inflation and unemployment rates at bay.

### What is the Federal Funds Rate?

This target rate is the rate at which federal bank will lend money to each other in overnight exchanges. It is highly influential on consumer loan interest rates, and also has trickle-down effects on other market rates.

The rate currently sits at 5.25 percent, where it has rested for over a year. Previous to that, the Fed had increased the rate for 17 consecutive meetings, in order to bridle inflation.

### Why Will They Consider a Rate Reduction?

Most economists are predicting that the Fed will lower this rate by at least 0.25 percent to 5.00 percent and at most 0.50 percent to 4.75 percent. Inflation concerns have eased as the economy has contracted due to mortgage and housing market troubles. Rising foreclosures among subprime or poor credit borrowers has created losses for many lenders and scared many investors out of the secondary market. The result has been a general credit crunch for any borrowers looking for subprime, jumbo, or home equity loans. In fact, there is plenty of talk about a possible economic recession if conditions are allowed to continue on their current course. The Fed will likely lower their rate to make borrowing and spending money more attractive to consumers, thereby stimulating the economy.

### How Will It Affect Mortgage Rates?

The general feeling among economists is that a quarter point rate drop will not have a very significant impact on the economy or on the mortgage market. Some analysts say the market has expected a rate cut for a few weeks and has already responded accordingly. This means it may not change much in the mortgage market either, yet a quarter point rate cut may be enough to infuse hope into investors and mortgage rates will be able to fall a little.

"If there is a clear indication that the Fed believes that inflation is off the table, the 30-year fixed rate will come down," said Lawrence Yun, senior economist for the National Association of Realtors.

While rates on prime or conventional loans backed by government enterprises Freddie Mac



and Fannie Mae may not fall too much, a Fed rate cut could mean good news for those looking for jumbo mortgages (loans over \$417,000.)

"Jumbo loans may come down a little if the rate cut makes consumers more confident," said Mark Zandi, chief economist for Moody's Economy.com.

A rate reduction would also let adjustable rate mortgage (ARM) borrowers breath a little easier, as a lower federal funds rate would probably mean lower resetting rates and therefore more affordable monthly mortgage payments.

Only time will tell what the Fed will decide and if it will be enough to keep the country out of a recession.