



The Business Booster *Collection*

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The Federal Reserve and Mortgage Rates

Understanding What Causes Interest Rate Movement

Consumers are often misled when it comes to the subject of the Federal Reserve and how it affects mortgage interest rates. Often the media is the culprit causing the confusion. In the last few years, the Fed has taken action that caused mortgage interest rates to move in a direction other than what consumers expected, because the media provided weak reporting on the subject.

The Federal Reserve affects short-term interest rate maturities, the Fed Funds rate, and the Overnight Lending rate. These factors have a direct impact on the Prime rate. If you took only this into consideration, you may mistakenly conclude that changes made by the Fed will cause a similar movement in mortgage interest rates. However, mortgage interest rates are dictated by the trading of mortgage-backed securities, which trade on a daily basis. The real dynamic at the heart of interest rate movement is the relationship between stocks and bonds.



Stocks and bonds compete for the same investment dollar on a daily basis. There is literally only so much money to be invested. When the Federal Reserve feels that interest rates need to be *decreased* in an effort to stimulate the economy, this reduction in rates can often cause a stock market rally. When the market becomes bullish, the money to invest in stocks comes from the selling of mortgage-backed securities.

Unfortunately, selling mortgage-backed securities to fuel stock market rallies causes interest rates to *go up*, not down.

Historically, there have been many times when the Federal Reserve has *increased* interest rates. Stocks then sell off in fear that the increase will affect corporate profit margins, and the liquidated stock assets need a place to park until the next rally comes along. The safe haven is found in mortgage-backed securities which cause mortgage rates to *drop*.

The daily ebb and flow of money is what matters most when it comes to the movement of mortgage interest rates. I make it a point to continuously monitor interest rates for my clients, and advise them of opportunities to manage their mortgage debt at a better rate. This is the foundation of my business model as a Trusted Advisor.

Let's discuss how we can better educate our clients on the largest purchase they'll ever make!

