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Inside Story on Interest Rates: False Illusions and What You Need to Know

The Fed's been at it again, offering words that sound encouraging at first blush, confirming that their buying program of Mortgage Backed Securities is in full swing and will continue as needed. Of course, the media will pick this up and offer their own interpretation, saying "Good news, the Fed's words on continuing their purchasing program mean that rates will continue to drop lower, and remain low into the summer..." But is this really what that means? Not so.

Here's the truth.

Yes, the Fed has been buying Mortgage Bonds, but if you look at what they are purchasing, they are buying a lot of FNMA 30-yr 5.5% and 5.0% Bonds...which won't have much of an impact on present interest rates. Why? First, see the Fed's purchases for yourself by hitting this link: [Direct Link to View Fed Mortgage Bond Buying - http://www.newyorkfed.org/markets/mbs/index.html](http://www.newyorkfed.org/markets/mbs/index.html).

So why is the Fed buying these Bonds? Well if you think about it, it's very smart of the Fed...and maybe even a little sneaky...because 5.5% Bonds actually represent outstanding mortgages with rates of 6 - 6.50%, which are precisely the loans being refinanced at today's great interest rates.

Stay with me here...

With rates at present low levels, many of the mortgages in these FNMA 5.5% pools being bought up by the Fed will be refinanced and paid, thus giving the Fed a quick recoup on some of their investment. And this is likely a big reason why the Fed said they could continue this purchasing program beyond June, if necessary. Bottom line, the Fed buying these higher rate coupons will not necessarily help rates to move lower, as their actions do not impact the loans being originated at today's low rates.

Here's the most important part.

Sometimes I talk to clients who are in a situation where it makes sense to refinance right now, and save \$250 per month for example. But when they hear the media throwing around teases of lower rates ahead, they decide to hold off on making the decision to save the \$250 per month right now, in the hopes of gaining another \$30 per month in additional savings with a lower rate than where we stand presently. Now clearly, rates could turn higher, and this window of opportunity could pass them by entirely.

The clincher is this:

Even if those clients ultimately are correct in timing the market, and eventually grab that lower rate and save another \$30 per month - think of what they have lost by waiting. While they delayed, they lost the savings they could have gained by taking action sooner - or in the example used, \$250 - for every single month they waited. So even if they got lucky and obtained the rate they were looking for, it could take years to make up what they lost by waiting.

I don't want anyone to miss an opportunity by either waiting, or not understanding what is at stake. Let's talk further on this - call or email me and let's discuss what this might mean for you.

Warm Regards,


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