

Title:

Federal Reserve Bank - Controlling Mortgage Interest Rates

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Summary:

Homeowners often become very interested in the Federal Reserve Bank system. Every time the board of directors meets, mortgage interest rates are at risk.

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Article Body:

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Federal Reserve Bank

The Federal Reserve System acts as the central bank of the United States. Created in 1913, the Federal Reserve sets monetary and financial policies for the financial industry and trades currency with foreign countries. The Federal Reserve also acts as the bank for the federal government. When you send a check in with your tax return, it ends up in the Federal Reserve.

The Federal Reserve System is made up of 12 branch offices. The New York office is the primary office with other branches located across the country.

The primary job of the Federal Reserve is to manipulate fiscal policy. The goal is to fine-tune the economy to create a stable, predictable situation in which businesses can function. Wildly fluctuating economic keys, such as interest rates, can lead to chaos. In the late 1970's, for instance, interest rates shot up into the high teens, causing a major economic slow down.

The Federal Reserve effectively controls mortgage interest rates in a unique manner. Many people mistakenly believe interest rates are actually set by the Federal Reserve. They clearly are not. Instead, the Federal Reserve directly dictates the rates at which one bank can loan money to another. Let's take a closer look.

Every bank in the United States must hold back a percentage of its monetary

assets. Put another way, the bank is forced to maintain a savings account. While this money cannot be loaned to consumers, it can be loaned to other banks. In exchange for the loan, a bank agrees to pay back the loan at an interest rate known as the federal funds rate. The Federal Reserve determines the federal funds rate. When you here Alan Greenspan has increase the rate a quarter point, this is what they are talking about.

You are probably wondering how the federal funds rate could possible impact mortgage rates. While there is no direct link, there is a practical one. Banks universally react to the federal funds rate, particularly whether it was raised or lowered. If the federal funds rate is raised a quarter point, you can expect mortgage rates to move up a bit. The bond market also impacts mortgage rates, which is why you will not see the exact same movement as occurs with the federal funds rate.

The Federal Reserve System makes a major effort to maintain a low profile. Most people, however, feel it is the real power behind the economy, not politicians.