Title:
Federal Reserve's Balancing Act Creates Unique Situattion

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718

Summary:
The Federal Reserve's consistent increasing of rates since June 2004, and recent statements by new Federal Reserve Chairman Ben Bernanke, have created a unique opportunity for consumers. Normally, the difference between rates for fixed and adjustable rate mortgages can be more than 1%, with the ARMs having the lower rate, but now, for most consumers, the rate is almost the same on both.

Keywords:
Federal Reserve,Ben Bernanke,Florida Mortgage Rates,Florida mortgage Brokers,Federal Reserve Chairman,Interest Rates

Article Body:
Tampa, Florida, February 21, 2006 - The Federal Reserve's consistent increasing of rates since June 2004, and recent statements by new Federal Reserve Chairman Ben Bernanke, have created a unique opportunity for consumers. During a Senate Banking Committee hearing on Thursday, Bernanke refused to say how high interest rates would need to climb in order to balance the economy, but economists predicted at least one more increase at the end of March, when he has his first meeting as Fed chief.

"There are two possible mistakes. One is to go on too long and one is not to go on long enough," Bernanke said during the hearing. "And, it's a very difficult balancing act."

On the future course of interest rates, Bernanke made a statement Wednesday before the House Financial Services Committee saying that he agreed with an assessment made by his Federal Reserve colleagues in January, and that interest rates would probably need to move higher. Because of this gradual increase in the Fed rate, the available rates on fixed and adjustable rate mortgages have converged, and in some cases, inverted.

"For the first time in 5 years, many lenders have rates on fixed rate mortgages that are almost the same as an adjustable rate mortgage (ARM)," said Karen C. Pooley, President of Star Mortgage, Inc. "This means that many people who shied away from refinancing because the best rates were only available on ARMs, can now get a fixed rate that is much better than what they have now. And even people who have seen the rate on their ARM shoot up in the last year can usually refinance at a lower fixed rate."

In a speech to the Credit Union National Association early in 2004, Federal Reserve Chairman Alan Greenspan had stated that American's preference for fixed rate mortgages means many are paying more than necessary for their homes, and suggested consumers might benefit from considering ARMs as an alternative. In fact, a Federal Reserve study at the time concluded homeowners could have saved tens of thousands of dollars in the last decade if they had ARMs. But the Federal Reserve's policy of raising rates 14 times since June 2004 has challenged the validity of that position today. Normally, the difference between rates for fixed and adjustable rate mortgages can be more than 1%, with the ARMs having the lower rate, but now, for most consumers, the rate is almost the same on both.

There are still millions of homeowners with fixed rate mortgages that have interest rates of 8% or more, and they could save thousands of dollars a year by refinancing before the Federal Reserve's next meeting on March 27-28. Many homeowners may think they have already waited too long, and that rates are now too high, but that isn't the case. There are still many programs available from Licensed Mortgage Brokers, who deal with wholesale lenders, that have fixed rates that are in the 6%-7% range, and actually less than the Prime Rate.

"A drop of just 1% in the rate on a $200,000.00 loan can lower your payment over $1500.00 a year," said Ms. Pooley, "and many times we can actually lower people's rates by 2% or more."

"They can normally save back the total cost of the new loan in 2-3 years or less," she continued, "and pay little or nothing out of pocket to do it."

Economists are predicting the Fed will boost rates by another quarter percentage point to 4.75 percent at their next meeting, and that the average rate on home loans will increase by another one-half of a percent or more by the end of the year. Although economists, and Fed officials, disagree on how many more rate increases may be coming, most agree that the Fed's rate-raising campaign may be coming to an end soon.

According to Ms. Pooley, "The current situation is something that probably won't last very long, and anyone who wants to get these below Prime fixed rates on a mortgage needs to act now, before the opportunity is gone."

Star Mortgage, Inc., is a licensed mortgage broker based in Tampa, Florida, and offers prospective clients a free mortgage analysis and consultation. They specialize in mortgages for the Florida market. Further information and a short on-line application are available on their web site at http://www.starmortgagebroker.com. You can also contact them by calling 813-882-8878.