



How much should you worry about “The Fed?”

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The next meeting of the Federal Open Market Committee, more commonly known as “the Fed,” will be held March 27-28. Potential clients often call me in a panic saying, “I’ve got to finalize my mortgage

before the Fed raises rates.” Should you rush to lock in a fixed rate mortgage before the end of March?

You can spare yourself unnecessary anxiety if you learn about the relationship between Fed actions and the rates charged on mortgages.

The Fed meets regularly to set targets for two kinds of **short-term** interest rates:

1. The “Fed Funds Rate” is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.
2. The “Discount Rate” is the interest rate charged to commercial banks and other depository institutions on loans they receive from their regional Federal Reserve Bank’s lending facility (“the discount window”).

The key phrase here is “short-term.”

When the Fed makes a policy pronouncement, it’s more likely to influence short-term rates like these.

If you’ve got an adjustable rate mortgage or home equity line of credit that’s priced at the prime rate plus a margin (portion above the base rate) then yes, you’re likely to feel the impact of fluctuations in the short term rates. Banks change their prime rate - the rate they charge for loans to their best corporate customers - *immediately* following a Fed rate change. (Note that not all ARMs are tied to the prime rate.)

If, on the other hand, you’re looking for a 15-year or 30-year mortgage, you’ll likely feel no impact at all by the Fed meeting. Long term mortgage rates are set off the 10-year Treasury - a rate that’s *not* based on short-term rates influenced by the Fed.

So before you jump to any conclusions, make sure you’re clear on how the next Fed meeting will impact the mortgage you decide to purchase.



Got questions about real estate financing?

Contact Debbie@westchester-mortgage.com or 617-965-1236. She’ll consider them for inclusion in a future column. Debbie Siegel is president of Westchester Mortgage in Newton, Massachusetts. She is licensed in several Northeastern states.