

[Created on March 10, 2005. Updated November 3, 2006.]

For immediate release November 9, 2006

**Short-Term Interest Rates on the Rise**

# Adjustable Rate Mortgage Holders Prepare for Increase in Interest Rates

By Matthew S. Biggins, Financial Consultant  
Connecticut Home Mortgage

SHELTON, CT – In 2004, the Federal Reserve made it clear that short-term interest rates would be increased at a “measured pace” because of a fluctuating US Dollar, unstable oil prices and an evaluation of other economic indicators. In an effort to curb inflation, the Federal Reserve has kept its word and continued to raise rates, including one incredible streak of 17 consecutive hike announcements following meetings of the FOMC.



As a result of these interest rate increases, millions of homeowners with adjustable rate mortgages will feel the sting of corresponding increases in their annual adjustments. Consumers with revolving debt accounts tied to the prime rate have already felt the impact, as the prime rate always rides 3% above the current Fed Funds Rate.

And although an increase in the Fed Funds Rate does have a direct impact on financial markets as a whole, mortgage rates are affected rather indirectly, and may go up or down based on the prevailing perception investors have of current economic statistics and their reaction to the Federal Reserve’s after-meeting statements.

In general, when economic data indicates we have a slow-down occurring in our economy, investors tend to sell off stocks and reallocate that money to the safe haven of bonds and mortgage-backed securities. The purchase of mortgage-backed securities drives interest rates down. When economic data indicates growth in the economy, the stock market typically rallies and mortgage-backed securities sell off to fuel that stock market rally. This drives mortgage interest rates up.

Our current market reflects the reaction of investors having read between the lines on comments made by the Fed. This will continue to have an affect on homeowners with adjustable rate mortgages (ARMs) tied to indexes that are based on short-term interest rates. This includes the 11<sup>th</sup> District Cost of Funds, 12-Month Treasury Average (MTA), London Inter Bank Offering Rates (LIBOR) and others.

This doesn’t mean that everyone with an adjustable mortgage is in immediate danger. Some indexes are more volatile than others. COFI moves much slower than other adjustable rate indexes, while the LIBOR fluctuates with more volatility. But remember, when an ARM adjusts, the new interest rate is a sum of the borrower’s fixed margin *plus* the current rate of

the index the mortgage is tied to. In addition, slower moving indexes, like COFI and MTA, are still likely to reach the levels of their volatile counterparts in a market where interest rates are rapidly climbing. It may just take them longer to do so.

Consumers who foresee paying an interest rate that is significantly higher may want to consider refinancing to take advantage of the stability of a fixed-rate mortgage.

This is also a good time for borrowers who -- due to a poor credit score -- started out in an adjustable rate loan to transition into a fixed-rate loan if they can. If a positive track record of making mortgage payments on time and in full can be established, there's a very good chance the borrower may now qualify for a loan with a lower interest rate.

However, as with any decision to refinance, it is important to take the terms of the existing loan, the cost of the new loan, and the borrower's long-term needs into consideration. A qualified mortgage professional should help weigh out the options by providing a clear assessment of available loan programs for the consumer.

---

*Matthew S. Biggins is affiliated with Connecticut Home Mortgage, a Licensed Broker, Connecticut Department of Real Estate. Free consultation and a 10-Year History of ARM Indexes are available by calling 860-334-3876.*

###