



The Federal Reserve Rate Cut and Its Effect on VA Home Loans

LowVARates.com has dedicated itself to educating and assisting Veteran Home Owners through its state of the art website and ongoing relationships with some of the most trusted VA Lenders in the nation. This press release includes a unique look into one of LowVARates.com most trusted partners, Flagship Financial Group's Government Loan Pro Division.

Provo, UT, September 20, 2007 --(PR.com)-- Ben Bernanke, the chairman of the Federal Reserve, lowered the Fed Rate by 1/2 point or by .50 bps. There is no doubt about it, that our economy was in great need of a rate cut and the Fed knew this and acted appropriately.

The main issue of concern for veteran home owners however, is how this effects interest rates and how it effects their loans. Of course any sort of "rate cut" is a good thing for anyone borrowing money, especially [VA mortgage](#) holders.

When the Fed cuts rates, they are not directly cutting VA mortgage rates or any mortgage rate for that matter. What the fed is doing is cutting the rate for which individual banks can lend each other money. The FED Funds Rate is also known as the over-night rate. First is a detailed example and then an easy to understand example.

1. A particular U.S. depository institution, in the normal course of business, issues a loan, which dispenses money, reducing that bank's reserves. If its reserve level falls below the legally required level, it must add to its reserves to remain compliant with Federal Reserve regulations. The bank will borrow the requisite funds from another bank that has a surplus in its Fed reserves. The interest rate that the first bank will pay to the second bank in return for borrowing the funds is negotiated between the two banks, and the weighted average of this rate across all banks is the effective federal funds rate.

2. Basically banks make money by lending it out to every day normal people, also know as borrowers. When the bank can borrower money from other banks for a cheap rate, then in return they can lend that money to banking customers, home owners etc for a lower rate also. Of course the rate at which the bank will lend out money will be at a higher rate than what they can borrow it for.

So, one of the biggest misconceptions is that if the FED rate is cut, then interest rates will immediately drop that same day. This is almost always false however. Normally as soon as the FED cuts rates, there is an almost immediate increase in mortgage rates on VA loans. Why would this be? We interviewed Mr. Kandell, Owner of Flagship VA Pro and he had some very interesting information for veteran home owners.

LOWVA: Mr. Kandell, do interest rates on VA loans fall as soon as the FED cuts rates?

Mr. Kandell: As a matter of fact no. Historically the market and mortgage lenders know weeks to months in advance that the FED will be cutting rates. It is then, (the weeks to months prior) that interest rates fall the most. As a matter of fact we struggle in our industry (VA Loans) to help veteran home



owners understand that just because the FED cut rates, does not mean that all of the sudden our VA rates are now .5% lower. To tell you the truth, recently the FED cut rates and believe it or not, those that locked in a few weeks before actually got lower rates than those that locked after the rate cut.

LOWVA: So what rate can a veteran get right now at your company?

Mr. Kandell: Quoting exact rates is very hard to do because rates vary depending on whether you are buying a home, refinancing, whether you want to pay points or not, etc. However, a ball park for our office at this time would be about 5.0-5.5% on refis if you want no cash out (streamline). Our cashout refis are at about 6.25-6.5% and our purchase loans are around 6.5%. Feel free to [contact us](#) for more info on rates.

LOWVA: Do you think the FED will cut rates again anytime soon and if any veteran is thinking to refinance should they wait or do it now?

Mr. Kandell: The FED has not made any remarks indicating whether it will or will not cut rates again, but I personally think rates are at a bottom right now and if you want to refinance your VA mortgage you should do it as soon as you can.

For more information on VA loans or VA mortgage rates, please visit LowVARates.com

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