

# THE LAMPPOST

*Lighting the way in Finances and Life*

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## Mortgage Myth Busters 2008

### The Federal Reserve and How Mortgage Rates are Affected

There is a lot of misleading information from the media and mortgage marketing companies regarding interest rates. One of the misconceptions I have to address every time the Federal Reserve announces a rate change is how these actions affect mortgage interest rates.

**MYTH:** Fed rate cuts equal lower mortgage rates.

The Federal Reserve regulates federally chartered banks. Fed rate cuts are designed to encourage member banks to lower short-term interest rates for consumers and business. The types of consumer loans that are immediately affected are credit cards, auto loans and home equity lines of credit.

Mortgage rates are determined by the demand for mortgage-backed securities which are long-term debt instruments (packaged mortgage loans). When economic trouble appears on the horizon, investors flock to these guaranteed interest rate investments. If the economy is strong, or if there seems to be signs of inflation, investors sell these securities and purchase investment products (i.e. stocks) that they hope will give a greater return than fixed rate mortgage-backed securities.

Recently, both recession and inflation have made headlines. Although the Fed has lowered short term rates dramatically, mortgage rates have wildly fluctuated - bouncing between 5.5% and 6.5%. Since late December rates have risen or fallen as much as .375% in a day.

You may remember back in 2000, the Fed began a dramatic series of rate cuts that dropped the Federal Reserve Rate from 6.5% to 1% over a period of 3 years. They stayed at 1% for about a year and then began to rise in 2004. Fixed mortgage interest rates did not drop 5.5%. There was no direct correlation between what the Fed did and how mortgage rates responded. In most cases rates went up for a few days and then settled back to where they were before. Mortgage rates started that

time period at around 8.0% and did bottom out over a period of 3 years at 5.0% for a few days, but mostly roller-coasted between 5.75 and 6.75%.

Last September mortgage interest rates were hovering around 6.25% to 6.5%. Since then, the Fed has cut their rate 2.25%. Interest rates have fluctuated wildly, but not because of what the Fed has done. As of the first week of March, 30-year fixed mortgage rates are still above 6.00%.

**FACT:** The Federal Reserve's short-term rate cuts have some brief incidental effects on mortgage rates, but do not have a "drop-for-drop" effect on mortgage interest rates.

### *Business Feature*

Occasionally I highlight a business I have personally worked with or someone I know who has a unique business. Some businesses I look forward to working with. Others, like a mortuary, are ones that I never want to do business with, but know that they provide a valuable service. This business is the latter. Our family had the privilege of visiting this business last year on three separate occasions when our vehicles were in accidents. So if you have a damaged vehicle, this is the place to go. City Collision & Glass in Fridley is owned by Jeremy Peterson, a friend I have known for many years.

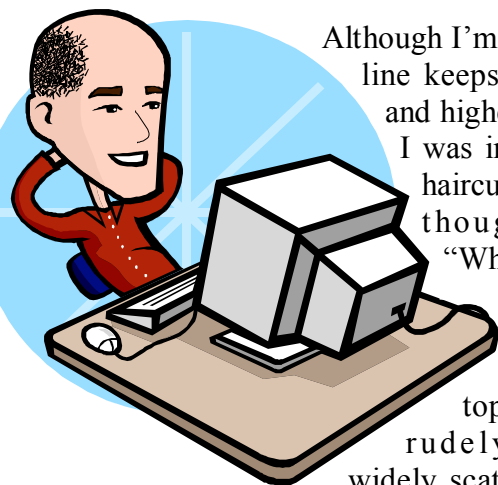
Jeremy handled all of our insurance work, arranged for a rental car, and took care of all our paperwork. All we had to do was call our insurance company and pay the deductible. Jeremy and his wonderful staff handled the rest. They even had a rental car delivered to us. After recently adding a third teenage driver, I just increased the odds that I may be visiting City Collision & Glass again. But, if I do, I know I'm in good hands.

If you need auto body repairs you can expect these benefits from City Collision & Glass: Free Pick up and Delivery, Free Rental Cars, Free Car Cleanup after the repairs, and a Lifetime Warranty. Jeremy can be reached at 763-571-1600 or you can visit him at [www.citycollisionandglass.com](http://www.citycollisionandglass.com).

# Middle Age and the Not-So-Modern Man

When I was a young handsome lad in my early 20s I worked as a waiter at a wild and crazy Mexican restaurant. I would sing and dance, take turns running around in a gorilla mask and occasionally, I would take a cloth napkin and shine a few bald heads. A silly attempt at humor that would come back to haunt me.

Twenty plus years later, the curse of shining bald spots has worked its way onto my head.



Although I'm not bald, the hair line keeps creeping higher and higher every year. As I was in the middle of a haircut last December I thought to myself, "Who am I kidding? This thinning patch of hair smack dab at the top of my forehead rudely exposed the widely scattered follicles of middle age. I opted to buzz it off.

I felt naked, old and vulnerable. Over the next few days my joints felt more creaky. The lines on my face became deeper. My beard grew grayer. The spare tire seemed to be a little larger. I had to come face-to-face with the cold stark fact that I am not the young man I used to be.

To add insult to injury my Christmas present last December was 12 training sessions with Bob "The Butt Kicker" personal trainer at our local gym. Even my family was telling me I am old and out of shape.

At 44, I play basketball once or twice a week. I also work out at the gym once or twice a week. Up to this point, I felt pretty good about myself. I could smugly say, "Not bad for an old guy."

But to Bob the trainer, I was just another slacker. By the end of my third session I was pleading for mercy. My upper body was trembling and trau-

matized. I wasn't in the shape I thought I was.

After the sting of this painful reality wore off, I looked at myself in the mirror (a terrifying thing to do these days) and I said to myself, "Self, you can't change your age, you can't do much to change your looks, but you can change your attitude." So I decided to take on Bob the Butt Kicker as a personal challenge to lose weight and feel better. My goal is to lose 15 to 20 pounds.

What Bob can do for the body, he can't do for my hair. I haven't heard of a personal hair trainer so I'm going to face this lonely struggle with the reality of my receding hair line. I'm too cheap for Rogaine or "plugs". What's next? Liposuction, Botox, or plastic surgery? There are just some things a man shouldn't do.

What's the point of all this? Getting old is a process and not an event. I'm learning to count my blessings and not take things for granted. I am learning to listen and not worry so much about being heard. I am learning to observe and enjoy. I especially enjoy watching my children interact with each other. Who needs television with four teenagers!

I can make some physical changes to my life, but if my attitude doesn't take shape and have the right perspective, none of these bodily transformations matter. I now have a new proverb, "He who shines the bald one, may one day be shined!"



**Here is my ultimate goal:**

**A fit body...**

**HAIR...**

**And the fountain of youth.**

**Hey, a guy can dream can't he?!**