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**Stag-Deflation Threatens, Fed's 0% Rate Beckons Homeowners**

Ann Arbor, MI December 18, 2008 – “Stag-deflation is probably the single largest outside threat to homeowners and consumers today,” said Gibran Nicholas, Chairman of the CMPS Institute, an organization that certifies mortgage bankers and brokers. “A stagnating economy erodes jobs, income and spending power, while deflating home and investment values erode wealth and make debt burdens even heavier. This toxic mix of deflation and economic stagnation is known as stag-deflation.”

Stag-deflation is the reason why the Federal Reserve lowered their target interest rate this week to a range of 0% - 0.25%. The thinking goes that lower interest rates give banks, businesses, homeowners, and consumers smaller debt payments and more spending power to help make up for the decline in their incomes and asset values. “The 0% Fed Funds rate has a direct impact on the LIBOR and Prime rates,” Nicholas said. LIBOR is the base rate that is used on most adjustable rate mortgages in the US as well as large corporate and commercial loans. Prime is the base rate that is used on most home equity lines of credit and small business loans.

The one month LIBOR has dropped to below 1%. “This means that a homeowner with an adjustable rate LIBOR mortgage could potentially see their rate go down to the 2.5% - 4% range” Nicholas said. “The Prime has dropped to 3.25%, meaning that rates on many home equity lines of credit and small business loans have dropped to the 3.25% - 5.25% range. Although fixed rate mortgages are not affected at all by the Fed's 0% interest rate, interest rates on fixed mortgages have dropped significantly in recent weeks due to the Fed's recent announcement that they will purchase over \$600 billion of mortgage-backed bonds from Fannie Mae, Freddie Mac and other sources.”

The Fed's moves will mostly be felt by those with existing loans and those who have the financial strength to qualify for new loans. “This is the silver lining out there for all those credit-worthy borrowers who were wondering ‘what's in it for me’ when it comes to all this government intervention in the markets,” Nicholas said. “What a perfect opportunity for homeowners, investors or business owners to borrow at very low rates and invest the funds back into their business or otherwise make a profit. Additionally, homeowners who are in the ‘jumbo’ loan category may consider choosing an adjustable rate tied to LIBOR or a home equity line of credit tied to Prime as an alternative to many of the high jumbo mortgage rates that are out there.”

The main problem that has not yet successfully been addressed by the Fed is the fact that many consumers and small businesses may not qualify for the low rates as banks have tightened their lending guidelines due to the recession and credit crisis.

“We expect to see a bit of a thawing process in lending guidelines throughout 2009,” Nicholas said. “This is when the Fed’s Term Asset-Backed Securities Loan Facility (also known as TALF) will go into effect along with a few other programs. In the meantime, those who do qualify for the low rates should act now before either their situation or market conditions change.”

**About CMPS Institute:** CMPS is a training, examination, certification and ongoing membership program for financial professionals who provide mortgage and real estate equity advice. Recognized for its preeminence within the industry, the CMPS curriculum represents the core knowledge expected of residential mortgage advisors regardless of the diversity of specializations within the industry. Over 5,500 financial professionals have gone through the program since its launch in 2005. For more information or to find a certified professional near you, please visit [www.CMPSInstitute.org](http://www.CMPSInstitute.org) or call 888.608.9800.

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