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mortgage rates follow suit. The Fed has said in prior meetings this year that it will likely look to start increasing the Fed Funds Rate within six months after ending QE3. That doesn't bode well for mortgage interest rates heading into 2015, but it does signal a return to a more normal monetary policy from the Fed and a normalization of how mortgage rates fluctuate, after a seven year spell where the Fed suppressed mortgage rates to a 50-year low.

While mortgage rates have been flat for most of this year, we can all expect interest rates to continue on an upward path that started back in June of 2013 and should continue for the next few years. This may be a good time to buy a property, whether primary residence or investment property, just due to where rates are currently and where they are headed, but we may see a better opportunity once interest rates actually do go up, as I have mentioned in earlier reports from this year.

The next major shift in real estate markets will be dictated by when the Fed increases the Fed Funds Rate and how quickly that rate rises. Once the Fed Funds Rate starts increasing, there may be a quick rise in mortgage rates for other factors that the increased rate will influence. One of the factors that may influence an upward rate environment is that banks may not borrow as much money from the Fed overnight as they were borrowing when getting it on the cheap at .25%. Many banks are borrowing from the Fed overnight and then

using those funds to buy treasury bonds, which was helping to keep a lid on mortgage rates along with the Fed's own QE3.

With the Fed and banks purchasing less treasury bonds, the bond market will lose two big buyers and the bond yields will start to rise. The bond yields set the basis for mortgage rates so as they rise, so will mortgage rates.

Maybe in the next three to five years the mortgage landscape will feel more normal like it did right before the turn of the century, before these crazy real estate and mortgage cycles that we have experienced in the last 14 years.

On the other hand, all it will take to shake things up again is another round of crazy mortgage products like stated income loans. I have learned in my 20 years in lending that anything is possible as long as there is profit to be made by the big fish at the top, who control the availability of capital for things like mortgage loans. After a relatively calm year, I am predicting turbulence for 2015. Let the bumpy ride continue!

*As always, your loan guy,
Viral (Vic) Joshi*

P.S. If you want to get more timely market updates, I have a weekly newsletter that goes out via e-mail. E-mail me, **viral@vicjoshi.com**, so that I can put you on the mailing list.

Vic's

Mortgage Report

"Home of Free Mortgage Consultation"

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Hello Friends,
This is the big month that the Federal Reserve ends round three of their quantitative

easing policy, popularly known as QE3, which consisted of the Fed purchasing bonds from the market. This means that mortgage interest rates will no longer be supported by the Federal Reserve outside of the Fed's setting of the Fed Funds Rate.

The Fed Funds is the rate of interest that the Fed charges banks when lending to them overnight and that rate is currently at .25%. Fed Funds directly affects the Prime Rate, which determines the rate in interest charged by lenders who offer revolving credit such as credit cards or Home Equity Lines of Credit (HELOCs). Even though the Fed Funds Rate doesn't directly affect mortgage rates, other than for HELOCs, we can see historically that all mortgage rates tend to follow the Fed Funds.

This means when the Fed Funds Rate increases, mortgage rates increase and when it decreases,

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