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markets accepted this without too much of a reaction because of the gradual nature of this implementation.

Despite the muted response in the markets, be sure that these changes will cause mortgage interest rates to rise again because they will cause there to be more supply than demand in the bond market, which will cause bond yields to rise and bond yields set the basis for mortgage rates. Increases to the Fed Funds will also keep upward pressure on mortgage rates.

We have been very fortunate to have mortgage rates stay in this historically low area for the past seven years, but that cannot last forever and these recent changes by the Fed will have an impact over the next twelve months. One positive I see with further rate hikes is that the pool of home buyers will reduce, especially at the current, lofty property price level. A reduction in multiple offers and slowing in price appreciation may get more potential sellers to jump into the market and list their properties, especially if the market perceives itself to be at it's highest point price-wise.

In California, we are facing a crisis in real estate with the lack of inventory and too many multiple offers. First-time home buyers are especially having a hard time in the current market because they can't compete with cash buyers and buyers with large down payments. First-time home buyers typically have limited down payment, lower incomes, and lower credit scores than experienced home owners. We need more

inventory to be able to get real estate back into a more regular cycle, which will help more of the population achieve the dream of home ownership, which will, in turn, help stimulate our economy.

On a personal note, my daughter, Savita, graduated college in June from UC Santa Cruz. She graduated with a degree in Environmental Studies. The ceremony took place on the Farm at UCSC, one of the oldest organic farms in the country. What a beautiful campus and graduation ceremony location on their farm coupled with perfect coastal California weather. I couldn't be more proud. Congratulations to all graduates from all levels of education. I hope everyone has a great summer.

*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.

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Vic's

Mortgage Report

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Viral (Vic) Joshi

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Hello Friends,

Mortgage interest rates have been hovering near their lowest levels since the Presidential

Election starting the end of May and continuing until the middle of June. There is about a ten-day delay between the time I write this content and the time it gets to you. The reason I mention this is that despite the current low-rate environment, the Federal Reserve increased their target rate, the Fed Funds, by another .25% on Wednesday, June 14th. This is the fourth rate hike since December 2015 with the Fed Funds rate now at 1.25% and the Prime Rate at 4.25%. The Fed said they would like to increase the Fed Funds one more time this year depending on the economic data. They also said they will begin unwinding their portfolio of Mortgage Bonds and Treasuries that they purchased during the recession. They did this at the time to help suppress interest rates as a tool to stimulate the economy. The Fed will reduce their balance sheets to the tune of \$4 Billion per month of Mortgage Bonds and \$6 Billion per month of Treasuries. The

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