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As I have mentioned in my earlier postings, the Fed is tying the unwinding of QE3 and increasing the Fed Funds rate of interest to the unemployment rate. The Fed wants to see the unemployment rate hit 7%, from the current 7.3%, to start unwinding QE3. Based on the latest data, the Fed said that the economy is growing moderately and that some indicators of the job market have improved. But it noted that rising mortgage rates and government spending cuts are restraining growth. With the Fed's policymakers expecting the unemployment rate to fall to between 7.1 percent and 7.3 percent by the end of 2013, it looks like QE3 will be here through this year.

Hopefully that means interest rates will have a chance to recover. The fast increase in rates going up 1.25% in the weeks and months following May 3rd of this year has caused the Fed to pause, as this was apparently an unexpected consequence of all of the talk about unwinding QE3. You would think the Fed members would know by now that the markets react violently to anything they say in the media, even if no actions result from their musings.

The Fed is still on a path to start increasing the Fed Funds rate, currently at .25%, once the unemployment rate hits 6.5%. In the Fed's most recent forecast, unemployment could reach that level as soon as late 2014. Look for a fast increase in rates from that point. The rise in the Fed Funds rate will not only impact fixed interest rates, but it will affect adjustable rates as well since all adjustable rate indices follow the Fed Funds rate.

People who have adjustable rate mortgages should start thinking

about getting a fixed rate while we have this brief reprieve in rates. I don't believe the latest Fed policy regarding QE3 will allow rates to fall back to the all-time low from May 3rd of this year, but we may get close to it sometime before the start of 2014. Rates will likely stay in the current range well into 2014 because of a few factors. Even though the unemployment rate is now at 7.3 percent, the lowest since 2008, this figure is misleading. The unemployment rate has dropped mostly because many people have stopped looking for work and are no longer counted as unemployed, not because hiring has accelerated. Additionally, inflation has been running below the Fed's two percent target. We are in a slowly growing economy with effective unemployment still at a high rate and inflation continues to be low. The Fed really has no reason to start moving aggressively to reduce economic stimulus based on these trends. The market had a knee-jerk reaction to the Fed's statements over the past four months that it is time to start thinking about unwinding the stimulus programs. Now let's see how the market reacts to the Fed clearly tempering its plan to unwind QE3 and look for some sweet spots, rate-wise.

With two other issues coming to bear in the next few months, resolving the looming debt ceiling and selecting a new Federal Reserve chairperson, look for more rate volatility. It continues to be a bumpy ride!

*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"

Viral (Vic) Joshi

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Hello Friends,

The last Federal Open Market Committee meeting took place on September

17th and 18th with some surprising results. The Fed decided against reducing QE3, Quantitative Easing round 3, including the current \$85 billion of monthly bond purchases, which has been helping to keep a lid on interest rates for the past two years. The reasoning for this is that the Fed's outlook for economic growth has dimmed in the past three months with many economic indicators falling short of where the Fed had indicated they should be for the Fed to be more aggressive in unwinding QE3.

The immediate result was the best day, September 18th, in the bond market since late 2011. Interest rates fell .25% on this one day, but mortgage rates were still 1% higher than the lows last seen on May 3rd of this year. Specifically, the Fed said it will continue to buy \$85 billion a month in bonds while it awaits conclusive evidence that the economy is strengthening. "Conditions in the job market today are still far from what all of us would like to see," Chairman Ben Bernanke said at a news conference shortly after the statement was released.

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