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engage in some quantitative tightening, which will cause interest rates to rise.

As I have mentioned many times before, the yield of return on treasury bonds sets the basis for mortgage interest rates and when those yields rise, mortgage rates rise immediately. When the Fed buys bonds and securities from the market, they artificially create more demand than there is supply, which causes bond yields to drop, thereby causing mortgage rates to drop. When the Fed sells bonds and securities back into the market, the opposite occurs where there is more supply than there is demand and bond yields rise, thereby causing mortgage rates to rise.

On the one hand, the Fed increasing the Fed Funds rate usually causes mortgage rates to fall in the short term because it shows the Fed is fighting inflation, which the bond market likes. This results in more demand in bonds than there is supply. On the other hand, the Fed unloading its balance sheet of bonds and securities causes more supply than demand and mortgage rates rise. Mortgage rates look to be very volatile as we work through this year of Fed actions. Currently, mortgage rates are well over 1% higher than they

were to end 2021. In some cases, and with some products, we are approaching 5% APR on 30-year fixed mortgages! We haven't seen those numbers since prior to the pandemic. The primary reason for rates to fall again significantly will be dependent on whether our economy goes into a recession, which could happen late this year or in 2023. And then there is the continuing wild card of the crisis in Ukraine, which could cause any kind of ripple effect in the markets that could help mortgage rates go up or down. Hold on for another bumpy ride and let's hope the conflict ends sooner than later, especially for the people of Ukraine.

*As always, your mortgage guy,
Viral (Vic) Joshi
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My mission is to help buyers qualify for the best loan available for their circumstance. I spend a generous amount of time with each client to educate them about how the mortgage industry works, through free "Mortgage 101" consultations, so they can make good decisions and get the best loan possible. I've revamped my website to give clients the best resources to supplement my consultations.

When I'm not doing loans, I'm an avid scuba diver and certified Rescue Diver. Eventually I'd like to become a dive instructor, so I can share the joys of this ocean sport with others.

I give back to the Monterey Bay Aquarium, Divers Alert Network (DAN), and the National Outdoor Leadership School (NOLS).



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Vic's Mortgage Report

"Home of REAL Mortgage Advice"

War Makes Rates Worse

Hi Friends,

A lot has happened since I penned the last installment of my newsletter. Continued rising inflation, historically high gas prices, the Federal Reserve's March meeting that resulted in a rate hike, a volatile stock market, faster rising mortgage rates, and the crisis in Ukraine that is helping to fuel many of these changes. Let's dive into some of this.



Inflation is hitting 10%, which is a forty year high. This level of inflation has been exacerbated by rising gas prices caused by the conflict in Ukraine and the reduction in the crude oil supply since we stopped taking oil from Russia. OPEC isn't interested in increasing their production of oil, so we will all just have to suffer with the higher oil prices as the conflict in Ukraine continues.

As predicted, the Fed increased their target interest rate, the Fed Funds, by .25% to start on a path of increasing that target rate 3 or more times this year to help fight rising inflation. The markets had already assumed the .25% increase and only one Fed voting member wanted to see a .5% increase at the March meeting. That is an indication that the Fed can and will accelerate the rate increases if they find it necessary to reduce inflation at a faster clip. It's a fine line between increasing rates to slow consumer consumption, which slows inflation, and slowing spending so much that the economy goes into a recession.

Mortgage rates would usually go

down, in the short term, with a Fed rate hike intended to lower inflation but at the same Fed meeting, the Fed announced that, at any time, they could start reducing their \$9 Trillion balance sheet of treasury bonds and mortgage-backed securities by selling them into the general markets. During the Great Recession and the Covid pandemic, the Fed was purchasing huge amounts of treasury bonds and mortgage-backed securities from the markets to suppress interest rates and artificially stimulate the economy. Now that it seems like we are almost out of the pandemic and employment is below 4%, the Fed will

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