



Viral (Vic) Joshi
Branch Manager/
Mortgage Consultant
(510) 655-2868
DRE #01242935
NMLS #244388

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by increasing their target interest rate, the Fed Funds, to slow the economy. The Fed has begun taking action on this front by increasing the Fed Funds by .5% on May 4th, 2022, which was the largest increase since May 2000. Chair Jerome Powell has said that additional .5% rate hikes at the next two Fed meetings are possible. The Fed Funds directly impacts the Prime Rate, which is 3% more than the Fed Funds rate, currently at 1%, which means Prime is at 4%. The Prime Rate directly impacts revolving lines of credit like credit cards and Home Equity Lines of Credit or HELOCs.

After a steep 2.375% rise in mortgage interest rates since December 2021, the bond market has started to trade in a more sideways pattern, which has caused mortgage rates to remain relatively flat through the first few weeks in May. The damage has been done and now we are just waiting on further actions from the Fed to see whether mortgage rates can stabilize at the current levels. If the Fed can get a handle on inflation and we can see inflation numbers slow down or even start decreasing, that would be good for the bond market and good for mortgage rates. If inflation

keeps rising, look for mortgage rates to keep rising as well.

In the meanwhile, we need more housing inventory to slow down home prices. At current home prices and higher mortgage rates, a lot of home buyers are simply priced out of the market. According to *CoreLogic*, rents increased at a whopping 13.6% year over year in March 2022. Freddie Mac thinks we are short 3.8 million homes to meet the current demand. If that is true, it seems like it could take 19 years to meet the demand! More turbulence ahead.

*As always, your mortgage guy,
Viral (Vic) Joshi
Home of Real Mortgage Advice*

Office: (510) 655-2868
Cell: (510) 853-2407
Fax: (510) 291-2824
Email: viral@vicjoshi.com
Website: vicjoshi.com



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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Website: vicjoshi.com

Vic’s Mortgage Report

“Home of REAL Mortgage Advice”

More Turbulence Ahead

Hi Friends,

Mortgage rates keep rising at a very brisk pace. May 2022 saw mortgage interest rates rise up 2.375% higher than they were in December of 2021. Refinances were down over 75% month over year in May, and purchase volume was also down 15% month over year in May. While rising mortgage rates should start to have an impact on housing prices, we are still seeing a severe lack of inventory, which is continuing to push home prices up. This year may not see another 20%+ appreciation in home values as we experienced in 2020 and 2021, but we are likely to still see single digit appreciation figures due to the historically low inventory levels.

Inflation continues to be the main driving force in rising mortgage rates. During less volatile times in the markets, the interplay between investor dollars flowing from stocks to bonds or bonds to stocks moves mortgage interest rates down and up. Usually when investors sell off in the stock market those investment dollars will flow into the safe haven of the bond market, which will cause more demand than supply for treasury bonds. The more demand there is for treasury bonds causes mortgage rates to fall. In the current environment, we are not seeing investor dollars flow into the bond market, despite the steep sell-offs in the stock market.



While investors perceive inflation to still be on the rise, investors will stay away from longer term treasuries whose returns will be impacted by rising bond prices. Despite investor dollars leaving the stock market, the bond market is still not benefitting as those dollars are going to shorter term investments.

Until inflation reverses from the current rising trend, mortgage rates will continue to rise even as the country heads towards a recession and the stock market remains volatile. The Federal Reserve can reduce inflation

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“Is a 15-year fixed-rate mortgage the right loan for me?”

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- How to TELL If Your Home is RIGHT for Your Family?

...And More Stuff Every Homeowner Should Know