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unwinding the current 3rd round of Quantitative Easing, QE3, that includes \$85 billion per month of bond purchasing by the Federal Reserve. The announcement and implementation of QE3 is the direct cause of the low rates we enjoyed in 2012. The fear of the Fed unwinding QE3 is the main reason that rates have suddenly increased until June 10th, the date that I am writing this update. To make matters worse, Ben Bernanke, the Fed chairman, also hinted at unwinding QE3, but never actually said he was in favor of doing so in the immediate future. These hints at unwinding QE3, without explicitly saying that it will happen and when it may happen, were enough to see the rate drop in April of this year, that took over 3 months to achieve, evaporate in a matter of a week and continue to erode until rates hit their highest levels seen in 13 months. Needless to say, refinance volume has plummeted and those borrowers, who were in process and lucky enough to close with me before the rate hike, may have been the last borrowers to get in on the very lowest of the low rates we have enjoyed for the past many years.

As long as the Fed keeps their target Fed Funds rate at the current historically low level of .25%, there is reason to believe that rates may again come back down for some period until the Fed starts to increase the Fed Funds rate.

Bernanke has tied the Fed Funds rate increase to the unemployment rate and he wants to see it hit 6.5% before he starts a path of increasing the Fed Funds. The most recent May jobs report released June 7th showed an increase of 175,000 jobs, again not a great number, but in line with the past 12 months. The unemployment rate actually increased to 7.6%. Of course, stocks improved on this less than stellar news and the bond market took another hit. With the unemployment

rate not moving much in the direction that Bernanke is looking for, before the Fed starts to increase the Fed Funds rate, I think we will not see the rate hike until 2015, which is in line with Bernanke's predictions. Once the Fed Funds rate starts increasing, we will have left these historically low levels for a while. With rates decreasing for the last 30 years and hitting bottom last year, don't be surprised if we don't see these levels again once the Fed starts the rate increase.

My prediction is that rates will see a few more improvements this year, the most recent one coming after the June 18th-19th Federal Open Market Committee Meeting. The Fed should give some explicit direction regarding QE3, and we should see money flow back into bonds once the market has some direction rather than the hints that have caused all of the recent turmoil in the bond market. Many borrowers have decided to take a wait-and-see approach to the rising rates. With only a few more opportunities to hit these historically low levels, it is important to get in process with a broker or lender to be ready to pull the trigger once the rate drop happens because it may happen for only a few weeks or days. Waiting to get the process started means not being able to capture the fleeting rate drop since the market moves day to day and sometimes in dramatic fashion. We have seen days when rates have increased 1% in one day!

*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,
Most of you know by now that interest rates have been on the rise this year compared

to last year. We went on our best run ever from November 2011 through December 2012, and then saw rates go up .5% in January of this year. It took three more months for rates to come back to the historically low levels in April of this year that we last saw in the first week in December 2012. That reprieve lasted for only one month and ended on May 2nd of this year. May 3rd saw the April 2013 jobs report number come in better than expected with 165,000 jobs created for the month and the unemployment rate fell to 7.5%. The April jobs number has since been revised to 149,000 jobs created, but the original figure released on May 3rd was enough to see stocks get a boost and investment dollars leave the bond market.

From May 3rd to June 7th of this year the 30-year bond has lost 463 basis points, which has translated in an increase in 30-year fixed rates of over .5% from the lows last seen on May 2nd. After the April jobs report took its toll on bonds, many of the Federal Reserve members, voting and non-voting members, began speaking in the media about the need to start

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