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third week in August 2013, it is more around 4.75% APR or higher!

The Federal Reserve committee members continue to talk about unwinding QE3, the \$85 billion in monthly bond purchases, as soon as September 2013. QE3 is one of the major reasons that there has been a lid on interest rates and continued talk of unwinding QE3 is the main reason rates have jumped up this year. The market is anticipating direction in the September Federal Open Market Committee meeting, which is the next time the Fed will set its monetary policy. This next meeting, September 17th-18th, could result in a clear time table on when QE3 will either taper or end entirely. The uncertainty surrounding this decision is the main reason we have seen a massive selloff in the bond market, which has seen rates increase around 1.25% - 1.5% since May 2nd, 2013. If you want a simple and quick indicator on what direction mortgage interest rates are going, keep an eye on the 10-year treasury yield. 5/2/13, the 10-year treasury yield was around 1.6% and as of 8/19/13 it was around 2.85%, a 1.25% jump and in line with the overall increase in mortgage interest rates.

The unemployment numbers in this country are starting to improve, ever so slowly, and this is also putting more money into the stock market which is pressuring the bond market and causing interest rates to increase. Americans who applied for unemployment benefits in July 2013 fell to its lowest level in almost six years, signaling fewer layoffs. The unemployment rate fell to 7.4%, which is still above the accepted norm of 5% - 6%, but down from the previous month's 7.6%. The Fed has said the unemployment rate will help dictate the Fed's monetary policy with 7% unemployment needed to stop any more quantitative easing and 6.5% unemployment needed to start increasing the Fed Funds rate of interest, currently at .25%. The Fed Funds rate has been at an all-time low of .25% for the past 4.5 years,

and this is the main reason interest rates have been historically low for the past 4.5 years. Once that target rate starts to increase, all mortgage rates will start to balloon upwards. I anticipate a 1.5% - 2% correction over 1.5 to 2 years from the point that the Fed changes its rate policy and starts on a path to increase this target rate. While ARM products may be a good solution for those people who know they will own a property for a short period of time, getting a fixed rate before the Fed Funds starts increasing, is prudent if the long term plan is to continue to own the property beyond ten years.

The news continues to highlight the government's desire to eliminate Fannie Mae and Freddie Mac, the largest current investors in residential mortgages. The government wants the private sector to fill the gap and provide more residential mortgage loans to replace these two giant investors. This may actually happen as rates increase because an increase in the rate environment will make mortgages a more attractive place for private investors to put their money.

A positive in the current rate hikes is that we are seeing more private money come to market. We call these loans Jumbo loans. Prior to the mortgage meltdown of 8/2/2007, Jumbo loans provided a substantial percentage of mortgages, especially in California. With more private financing options, we are likely to see some of the less conventional loan products come back to market, such as stated income loans for self-employed borrowers. Don't be surprised if the cycle starts to repeat itself after the Fed Funds rate increase, maybe around 2017!

*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

*Branch Manager/
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Hello Friends,
I have recently been bombarded by a fair amount of mortgage refinance marketing, especially for Adjustable Rate

Mortgages (ARMs), due to the recent jump up in interest rates. Lenders are now pricing the ARM products aggressively, especially the 5/1 ARM. The first digit, in this case 5, designates the fixed interest period on an ARM where the payment is usually amortized over 30 years. The second digit, in this case 1, designates the frequency at which the interest rate will adjust after the fixed interest period. In this case, the loan will have fixed interest for five years and then will adjust once per year for each of the following years until year 30, at which time the loan will be paid off. I have seen rates below 3.5% APR for 5/1 ARMs on confirming loan amounts, \$417,000 or less for single family residence, condo, or townhouse. This is still a very attractive option if you know you will be in your home for less than 5 years. The standard fixed interest period options on a 30-year amortization ARM product are 3, 5, 7, and 10 years. The longer the fixed rate period, the higher the introductory rate that is fixed in before the adjustments begin. Please be aware that any marketing that you receive for rates below 3.5% APR, these days, will be for ARM products or for 15-or 10-year fixed rate options. The 30-year fixed is now firmly above 4.5% APR and, as of the

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