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competition. When rates are up but prices are down, it's time to act and then refinance once the rates fall again within a relatively short period of time.

There are some short-term solutions to the current rate environment that may allow for buyers to buy time for one to two years before the rates fall significantly. Some lenders are offering products that allow the buyers to take a lower interest rate on their new mortgage in the 1st year and also potentially in the 2nd and 3rd years of a 30-year mortgage. We call this feature a "Buydown," where the seller pays a portion of the first one to three years of mortgage payments for the buyer at closing, thereby giving the buyer an effectively lower interest rate at the beginning of the mortgage. There are three common forms of a buydown currently in the market: 1-to-1, 2-to-1, and 3-to-1 buydowns.

- A 1-to-1 buydown means the mortgage payment on a 30-year fixed mortgage is 1% lower in year one and then goes to the normal rate in years 2 to 30.
- A 2-to-1 buydown means the mortgage payment is 1% lower in year one, 2% lower in year two, and normal rate from years 3 to 30.
- A 3-to-1 buydown means the rate is 3% lower in year one,

2% lower in year two, and 1% lower in year three, then at the normal rate from years 4 to 30.

With mortgage rates likely to fall in 2023 and into 2024, a 1-to-1 or 2-to-1 buydown seems the most reasonable and will reduce the seller's costs at closing compared to a 3-to-1 buydown. Just to reiterate, the buyer cannot pay the payment difference of the buydown feature at closing, only the seller can pay for it on the buyer's behalf. With property prices flattening/falling and much lower numbers of buyers in the market, negotiating with the seller to pay for a buydown may be possible in the current buyer's market. Feel free to reach out to me to learn more about this solution and some others that may help mitigate the costs of the high-rate environment.

*As always, your mortgage guy,
Viral (Vic) Joshi
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Vic's Mortgage Report

"Home of REAL Mortgage Advice"



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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The Cycle Continues

Hi Friends,

Mortgage interest rates continue to be high due to the hottest inflation readings in over 40 years. The effects of the Federal Reserve's rate hikes are not yet making a significant impact on reducing inflation, but there is a normal delay from when the Fed hikes their target rate, the Fed Funds, to when the rate hikes impact inflation. We are first seeing the impact of the Fed rate hikes in the GDP numbers with the last two quarters showing negative GDP. The accepted definition of an economic recession in the U.S. is two consecutive months of negative GDP, which we have achieved so far this year. Next year, we will likely see economists agree that we were in a recession in 2022.

The markets are anticipating additional Fed rate hikes in November and December of this year, maybe an additional .75% hike at each of the next two Fed meetings. If so, that would mean the Fed will have hiked the Fed Funds rate a total of 5% in this year alone. Very soon, we will see the effects of all these rate hikes and inflation should start to head back down again, towards the Fed's 2% target.

I think we will start to see inflation relief beginning in November 2022 and continuing into 2023 with mortgage rates following the downward trend. The Fed rate hikes that will reduce inflation and the slowing in the economy, also created by these rate hikes, will push more money into the bond market, which sets the basis of mortgage interest



rates. Reduced inflation makes purchasing treasury bonds more attractive to investors, as does a recession, since bonds are a safe haven for investor dollars when the economy slows and stocks take a hit. Mortgage rates should start falling in December of 2022 with my prediction that June of 2023 will see mortgage rates down over 2% from where they are today.

We will likely see another small run on refinances in 2023, which will result in refinancing most of the loans written in 2022. Reduced mortgage rates will also cause more buyers to come back into the market. Predictions for a strong housing market in 2024 remain despite the currently low buyer activity, which was caused by the doubling of mortgage interest rates from December of 2023 to the present.

Now is a great time to get into a property, whether primary residence, second home, or investment property while rates are up and there is far less

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