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market will breathe a sigh of relief that the Fed is finally fighting inflation, and inflation is the killer of bonds. Bond yields, in turn, set the basis for mortgage rates. We should see some robust trading in the bond market after the Fed rate hike that will give mortgage rates a temporary breather.

I think we are on the verge of the current real estate bubble breaking. The Fed rate increase will start this process as there may be a panic from buyers to get in before they are priced out. Property prices in many areas of California are now higher than they were at the last high point, prior to the Great Recession of 2008. We all know what happened when that bubble broke. As prices continue to rise on the fumes of this last frenzy and interest rates rise, buyers will eventually flee the market and the sellers who were waiting to squeeze out every last penny may all come to market at once. If that happens, a lack of buyers and an increase in inventory may cause the real estate bubble to break and we could see sellers who waited too long start to chase the market downwards. When rates are up and prices are falling the monthly mortgage payments will be much the same as when rates are down and prices

are rising. This shift will hopefully be the beginning of a healthier real estate market with up and down cycles more in the two to three year range as they were prior to the early 2000s. Rate increases should see more mortgage product come to market, as we are already seeing, and this acceleration of available credit will spark the next buy cycle. More mortgage credit will see more first-time homebuyers get into the market and that, coupled with falling property prices, will see our economy get healthier, finally, after a really choppy ride these past 8 years or so. If the Fed doesn't increase rates in September, the futures for an October or December rate hike will go well over 50%; December futures are currently at a 72% chance of a rate hike.

Get ready for a market shift, coming to you soon with help from your Federal Reserve.

*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,

The Fed is still in a holding pattern on increasing their target

rate, the Fed Funds, with no increase at the last Federal Reserve Open Market Committee meeting, FOMC, which was at the end of July. The next FOMC meeting is in mid-September and the futures for a rate hike are now showing a 45% chance of a rate increase. Prior to the July FOMC meeting, the futures for a rate hike were at 0%. This is big shift in the market's take on when the Fed is going to start on a path of increasing. I believe the market has already incorporated the next .25% rate hike into current mortgage rates. Once the Fed finally increases the Fed Funds rate, likely by .25%, look for mortgage rates to dip slightly for a short period of time before starting to move firmly upwards. The reason for this is that the

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