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to the more supply than demand equation, which puts pressure on domestic oil production since domestic oil producers need higher oil prices to be profitable. As domestic oil producers become less profitable, it causes a ripple effect in the economy by putting pressure on the job market, which affects the overall health of the economy. When the economy is suffering and there is anxiety in the global markets, investors put more money into our bonds as a safe haven, which suppresses bond yields, which are the basis of mortgage rates, thus mortgage rates fall.

If we follow oil prices over time and compare them to mortgage interest rates, we see that mortgage rates tend to follow oil prices, for the most part. Recently, we are seeing exactly why that happens.

Another key reason for the recent rate drop is the falling Euro. Today, 1/16/2015, the Euro is almost at a one to one exchange value with the U.S. Dollar. As the Euro drops in value, bonds in the EU become less attractive and bonds in the U.S. become more attractive. More money invested in our bonds results in lower mortgage interest rates. Some of the reasons for the drop in the Euro are centered on the fact that the European Central Bank (ECB) recently approved their own version of Quantitative Easing that they are calling Outright Monetary Transactions (OMT). This is their bond purchasing program that is similar, but different than the programs our Federal Reserve recently completed. The ECB is using the OMT to prevent the breakup of the Euro and is facing some stiff challenges from some of their member countries. Germany has been opposed to the OMT and

is actively trying to unpeg itself from the Euro. On 1/15/15, Switzerland did unpeg itself from the Euro and this caused our stock market to take hits, which pushed investment dollars back into the safe haven of our bond market, which caused mortgage rates to fall back to the lows last seen in May of 2013.

As if all of the turmoil in the global markets weren't helping mortgage rates enough, the Consumer Price Index (CPI), which measures inflation, saw consumer prices increase a very meager .8% year over year, which is the second smallest calendar year increase in the last five decades. The Fed's inflation target to start increasing rates is between 2% - 2.5%. Currently, inflation is well below 2%. While most of the media is reporting that the Fed will start increasing interest rates as soon as the end of the first quarter of this year, I believe we have a good shot at seeing no increase this year based on how low inflation is and the continued safe haven that our bonds present to domestic and global investors.

As you can imagine, the refinance machine has started rolling again. If you need to review your current mortgage situation to see if you can benefit from the current low rate environment, now is the time to contact me for a free consultation.

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

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Hello Friends,
The New Year started out favorably for interest rates and by the time I am writing this update, on

January 16th, we have seen mortgage rates come within .25% - .50% of the 50-year lows last seen in 2012. This trend seems like it will continue and not evaporate in a few days or even hours, as it has done in the recent past.

Some of the reasons for this lower rate environment include the fact that the Federal Reserve has yet to start increasing their target Fed Funds interest rate, but there are many other factors in play to start the year that are worth reviewing. The biggest recent headline in the news that is affecting interest rates is the decline in oil prices. As the demand for oil has lessened recently, OPEC has continued to pump oil out at the same pace and this is putting pressure on domestic oil producers who have to spend much more to produce oil extracted from shale. When you have wells that can just pump the stuff out of the ground, it's a lot cheaper to produce. When OPEC decides to not slow production of oil despite a lesser demand in the marketplace, it will continue to drop oil prices due

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