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that the Fed can remain patient for at least a “few” meetings and defined that as two meetings. That would mean the Fed would not increase the Fed Funds interest rate for at least three months into 2015. As a result, the stock market took off and we saw two consecutive days of the bond market taking hits, which resulted in a slight increase in mortgage interest rates.

The Fed Funds interest rate is important because mortgage interest rates closely mirror what the Fed Funds is doing. Once the Fed starts to increase the Fed Funds, mortgage rates will start to rise as well.

A polling of the Federal Reserve members shows that the Fed is predicting that the Fed Funds will start to increase in 2015 somewhere between .625% and 1.875%, which means they think the Fed Funds will increase at least .5% in 2015 to .75%. The Fed Funds is currently at .25%, which is the historic low, so the only place for it to go is up.

The one metric that the Fed usually bases rate increases on is inflation. With rising inflation, the Fed is forced to increase the Fed Funds rate but inflation continues to be tame, below 2%, which means that there is little pressure on the Fed to increase the Fed Funds rate. Even though the Fed members are forecasting a Fed Funds rate increase, continuing tame inflation numbers should prevent the Fed from actually taking action in regards to increasing rates. Previous polls saw the Fed predict that the Fed Funds would be at 1% in 2014, and that did not happen due to low inflation numbers. Again, we have

no definitive direction from the Fed in regards to increasing interest rates, but all indications are that the Fed is ready to act once inflation starts to rise.

Also, as the economy continues to show stability through the improving job numbers, the Fed will see no reason to keep the Fed Funds interest rate where it is to help support the economy.

So to recap, it seems likely that interest rates will start to increase in 2015 with a healthier economy and an improving job market, but inflation will be the ultimate key to when the Fed will take action.

Mortgage rates continue to be close to the lowest levels last seen in May of 2013, but we have not yet seen rates fall to the all-time lows last seen in 2012. It seems likely that mortgage rates will have their last hurrah in 2015. We should see some increased activity in mortgage applications in 2015 compared to 2014 with the current low rate environment and with folks trying to purchase or refinance before interest rates start to rise.

Feel free to contact me for a free consultation early in 2015 to avoid missing the boat if you have mortgage needs.

*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 would like to
wish you all
a healthy and
prosperous New
Year.*

*Let's start with
an update on*

*interest rates and predictions for the
coming year.*

The conclusion of the December Federal Reserve Open Market Committee meetings resulted in the Fed removing “considerable time” language from their statement and replacing it with “can remain patient.” The Fed had been putting off increasing their target interest rate, the Fed Funds, as seen in the statements issued at each previous Fed meeting in 2014, where the Fed has stated that they will leave the Fed Funds rate where it is for a considerable amount of time. The statement issued at the conclusion of the recent December meeting saw a change in the Fed’s thinking regarding increasing the Fed Funds interest rate by removing the considerable time verbiage and replacing it with the statement that the Fed can remain patient in increasing the Fed Funds.

Fed chair Janet Yellen said that the Fed’s statement is consistent with their previous statement, but also said

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