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but economists have been changing their forecasts for this year to include another rate hike. And so the benchmark 10-year yield surged to a 2.92% yield in February 2018, the highest it's been in years. As a reminder that it's not a rule that stocks and bonds move in opposite directions, even as yields moved up the stock market continued to gain. Adding to the situation is the Fed's action in reducing its balance sheet of \$4.5 Trillion in government bonds and mortgage-related securities. This move increases the supply of bonds and securities in the marketplace, which puts additional upward pressure on bond yields. Bond yields set the basis for mortgage interest rates with the 10-year Treasury Bond being a good barometer of where mortgage rates are going. In September of 2017, 10-year Treasury Bond yield was at 2.06%, which means we are heading for a 1% increase in less than six months.

With all of these factors in play, don't be surprised if mortgage rates go up an additional .5% by the end of 2018, which would be a 1% or more increase in 12 months. With the lofty home prices and large mortgage amounts we see regularly in California and the Bay Area in particular, these rate hikes could see real estate prices shift to the down side as potential buyers are forced to leave the market, especially if they are not willing to take an adjustable rate mortgage.

In addition, the new tax laws going into effect for 2018 will affect home owners, especially in high cost areas, like most of California. The \$10K cap on property tax deductions will hurt some as will lowering the amount of principal that mortgage

interest can be written off of from \$1 million to \$750K. More pain will be felt with Home Equity Lines of Credit, HELOCs, where the mortgage interest deduction will go away entirely.

Property values have been soaring for the last six years or so, but that may start to come to a halt with higher mortgage rates. Higher rates mean buyers on the fringes can no longer qualify and less buyers in the market could signal to potential sellers that we have hit the peak of the market and it's time to sell. The lack of inventory coupled with too many multiple offers has kept fueling these historical home price increases. Rates increasing should increase the supply of inventory for sale while reducing the supply of home buyers to start a reversal in home prices. Feel free to contact me for a *free consultation* if you want to check in on mortgages and your properties in particular. Buckle up for another bumpy ride!

*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.

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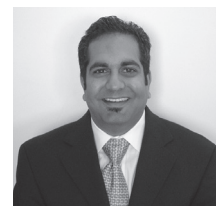
Vic's

Mortgage Report

"Home of Free Mortgage Consultation"

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Hello Friends,

It's been a while since I have chimed in regarding mortgage markets and interest rates

because most of you are set in your loans and were smart enough to capture the historically low interest rates from the last ten years, particularly in 2012 and four months in 2016, from the end of June to the end of September 2016. The interest rate party is officially over and we have seen a move upward of .5% or more since the first week of December 2017.

The U.S. economy is doing well, which by itself pushes rates higher. Inflation hasn't been a problem in decades, but recently the bond market was reminded that the Federal Reserve might really raise interest rates three or more times this year and several more times next year.

Higher wages are another indication that inflation is increasing and inflation causes the Fed to move faster on increasing their target interest rate, the Fed Funds, which all other rate indices eventually follow, including mortgage rates. The Fed has forecast three rate hikes for this year and another three for next year,

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