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The year over year Consumer Price Index, CPI, inflation reading from 12/18/2025 came in much lower than anticipated at 2.7% compared to 3% this time last year. The markets were predicting this number to come in at 3% and the lower reading did help the bond market and lower mortgage rates slightly. The main component that caused CPI to beat market expectations was a big reduction in shelter costs. The shelter numbers are slower to decline and slower to increase. I am anticipating lower shelter costs to continue keeping inflation in check as we head into the new year.

I am predicting a lower mortgage rate environment continuing into 2026, even though another January 2026 Fed rate cut is not guaranteed. With lower inflation and anemic jobs market, the Fed will be pressured into a January rate cut. Combined with the Fed buying \$40B/month in treasuries, mortgage rates should stay in the current 6%

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APR range for 30 year fixed mortgages and may even fall into the high 5% APR range.

Wishing you all a very prosperous and Happy New Year!

If you are curious to see how you can use the current market conditions to your benefit, please reach out for a free consultation. Stay tuned here for future updates and feel free to reach out for a free consultation if you want to understand more about interest rates and mortgage products.

As always, your mortgage guy,
Viral (Vic) Joshi
Home of Real Mortgage Advice®

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Vic's Mortgage Report

“Home of REAL Mortgage Advice®”



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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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Mortgage Rates fall, but not for the reasons you are led to believe.

Hi Friends,

Mortgage rates remain volatile but are slowly heading downwards. The Federal Reserve cut their target rate, the Fed Funds, for the third time this year on 12/10/25. This recent .25% cut to the Fed Funds has now reduced the Fed Funds rate to 3.625%, with the target at 3.5% to 3.75%. The Fed Funds only directly impacts on one consumer interest rate, the Prime Rate, which fell to 6.75%. The Prime rate is 3% more than the highest target Fed Funds rate, currently at 3.75%.

The Fed Funds rate has an indirect impact on mortgage rates since moves by the Fed can influence trading in US Treasury Bonds. Bond yields have a direct impact on mortgage rates. When bond yields increase, mortgage rates go up and vice versa. After each of the prior two Fed rate cuts, mortgage rates increased after comments by Fed Chair Jerome Powell that spooked the bond market and caused less appetite for treasury bonds, which increased bond yields and mortgage rates.

We did not see an upward trend in mortgage rates after the 12/10 rate cut because the Fed also announced they would stop selling off treasuries from their balance sheet into the bond market and will instead start purchasing \$40B/

month of treasuries from the markets. By changing their stance from a seller to a buyer of treasuries, the Fed can manipulate the supply and demand of bonds, which reduces the bond yield and mortgage rates.

More demand than supply causes bond yields to decrease and directly lowers mortgage rates.

When the Fed is a seller and not a buyer of treasuries, the opposite happens with bond yields and mortgage rates rising.

At each of the last two Fed rate cuts, on 9/17/25 and 10/29/25, comments from Powell caused less investment in US treasury bonds which caused bond yields to increase and mortgage rates to increase in step with bond yields. Mortgage rates are now very near to where they were prior to the 9/17/25 Fed rate cut, but still roughly 1% lower than they were this time last year.

If you want an easy way to see where mortgage rates are going, follow the 10 year treasury bond yield, currently at 4.12%. When the 10 year bond yield falls below 4% and stays there for more than a few days, we could be heading in the high 5% APR range on 30 year fixed mortgages. Since September of 2025, the 10 year bond yield peeked below 4% a half dozen times for a few hours on those trading days and then went back above 4%.

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