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Funds Rate, the rate of interest that the Fed charges on overnight borrowing from the Federal Reserve, is already as low as it can go (0% - .25%), the Fed has to come up with more creative means to pressure down interest rates. Operation Twist calls for the Fed to sell the medium term treasury bonds that they purchase from the market in QE2 and use those funds to purchase longer range bonds to help suppress long term mortgage interest rates in a more direct fashion. The Fed is still banking on even lower interest rates as the stimulus to getting people to borrow more for home purchases and mortgage refinances. Unfortunately, the jobs market and the continued softness in home prices seem, to me, to be more of a reason that consumers are not jumping in to buy. Refinancing, in most cases, requires equity in one's property and so many of us have little to negative equity these days.

Rounds QE1 and QE2, Quantitative Easing 1 and Quantitative Easing 2, were the Fed's previous attempts to suppress interest rates after the Fed's Fund Rate had dropped to near 0%. QE1 saw the Fed purchase mortgages, in the form of mortgage-backed securities, from Fannie Mae and Freddie Mac in an attempt to create more liquidity for both Fannie and Freddie with an idea that they would lend to more consumers. While QE1 did help support the bond market and thereby suppress interest rates, it didn't translate into looser lending from either Fannie or Freddie. Instead, we saw a tightening of lending guidelines. The banks tightened their requirements more by adding their dreaded guideline overlays to all Fannie and Freddie loan products. These overlays increased lending requirements above and beyond what Fannie and Freddie are requiring to fund a mortgage loan. Banks don't need to add

these overlays as long as they can sell the loan that they originate to Fannie and Freddie, but most banks have just decided they want to limit how much they lend, even though what we need right now is easier access to lending.

The current consensus is that interest rates will remain in this generally low area for one to two years. We know that Operation Twist is targeting the purchase of \$400 Billion worth of longer term treasury bonds from the market that will run through the middle of 2013. This will add support to longer term interest rates such as 30-year fixed mortgage. Just don't be surprised if rates go up once China pulls out of supporting our debt as a backlash to congress's attempt to force China into increasing the value of their currency. My point being, the Fed cannot counteract all of the reasons that rates want to go up, so even though it may look like low rates for a while, anything can happen in these volatile economic times.

My next print newsletter comes out in December so I just want to take this opportunity to wish you all a happy and safe Thanksgiving. For those of you that are in Orange County, I will be in Irvine over Thanksgiving and would love to say hello to any of you while I am there. If you have any questions or need me to educate you more on how mortgage banking is working, or not working, these days, please don't hesitate to call me.

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,
Rates continue to be at an all-time low through the middle of October. The Federal Reserve announced

Operation Twist at their Open Market Committee Meeting in September and rates fell to the newest low on 9/22/11. This low mark offered rates below 4% on 30-year fixed at no-points and no-fee options. The low lasted for about two hours on the morning of 9/22/11 and then rates started marching upwards over the subsequent two weeks. 15-year fixed fell into the low 3s! Adjustable rate mortgages fell into the high 2s! Rates are about .5% up from the low of 9/22/11 as of 10/10/11, the date that I write this update.

In other news, the media reported in the first week of October that 30-year rates had fallen down below 4%. This was true, but be aware that the media is two weeks late on their reporting because they report Freddie Mac's previous weeks average rate and that rate includes points to get to that below-4% rate environment. The reality is that you could get a no-point loan around 3.75% (3.85% APR) or a no-cost loan at around 3.99% (3.99% APR) around 9/22/11 only. Who knows, by the time you are reading this update, rates may have moved back down.

Operation Twist is another Fed move to help suppress interest rates even lower than the current 50-year low. This seems to be the only major tool the Fed has left to try and kick start the economy, putting continued downward pressure on interest rates. Since the Fed

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