Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from **RPI (Realty Publications, Inc.)**

September 2021 • Vol. 11 • Issue 09 • ***Interest rates set to rise***

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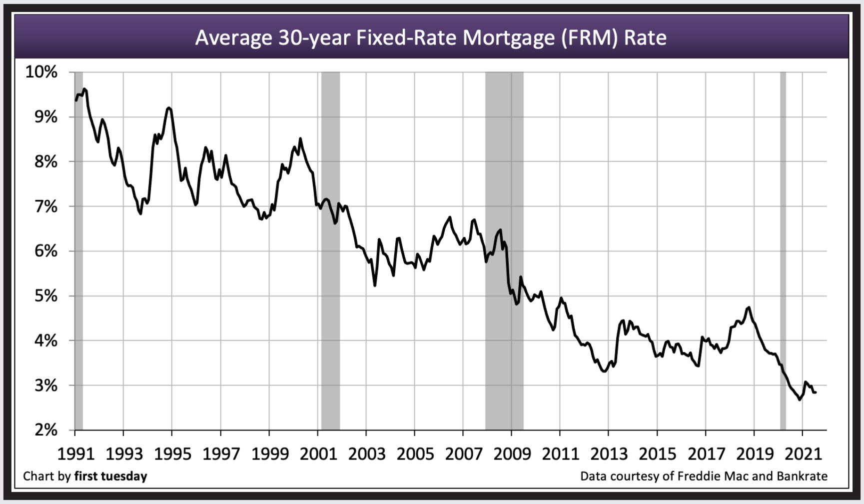
30-year FRM rates have a story to tell

This chart shows the average monthly interest rate on a 30-year **fixed rate mortgage (FRM)**. The gray columns indicate economic recessions.

The average 30-year FRM rate decreased to 2.84% in August 2021, down from 2.94% a year earlier. Today, FRM rates are just above record lows. These lows were achieved due to Federal Reserve (Fed) purchases of **mortgage-backed securities (MBS)** issued to fund home mortgage originations to stimulate the economy.

As the 2021 home sales market hits milestones in pricing and sales volume, any amount of **bond taper** by the Fed will cause FRM rates to rise. In response, buyer purchasing power will decline to reduce sales volume, then home prices. Expect to see higher FRM rates to arrive in the coming months.

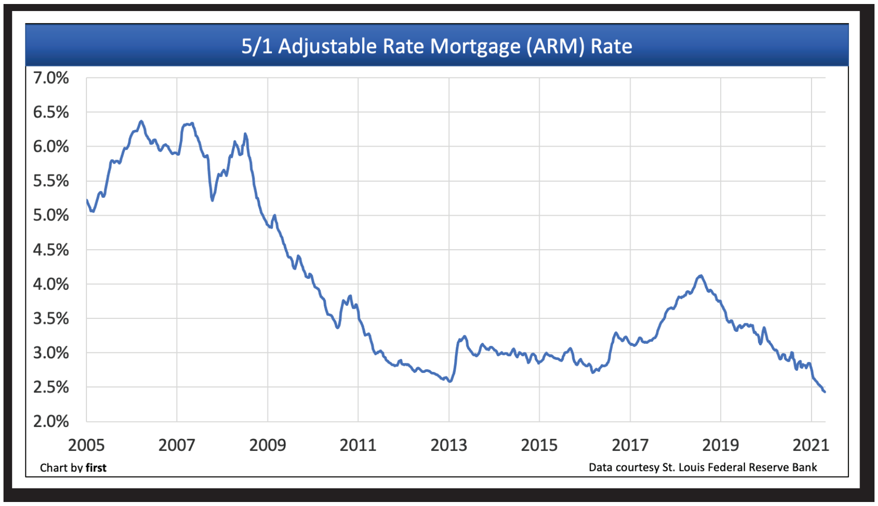


ARMs poised to shift lender risks to buyers

This chart shows the average interest rate on a 5/1 **adjustable rate mortgage (ARM)**.

The average monthly rate on ARMs declined to 2.42% in August 2021, a record low. In February 2021, the 30-year FRM rate rose above the average ARM rate making these **riskier ARM products** more appealing to homebuyers.

When the Fed reduces its MBS purchases in the coming months, FRM rates will rise and **ARM use** will inch higher. ARMs, unlike FRMs, are not stable. Going forward, an ARM's inevitable rate reset will result in increased interest and payment shock, unlike the ARM pattern over the past 40 years. As ARM originations become common in the face of rising FRM rates, watch for the real estate market to slowly destabilize. The last ARMs event occurred during the Millennium Boom, ending in disaster with the **Great Recession** and foreclosure crisis.

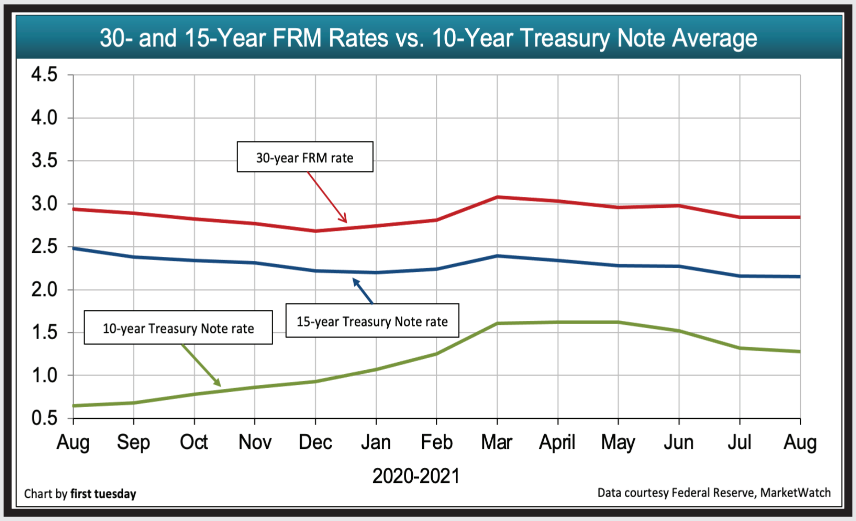


The 10-year Treasuries and FRM rate spread suggests rates will rise

This chart shows the average **10-year Treasury Note** rate, alongside the 15- and 30-year FRM rate averages.

FRM rates are tied to the bond market, running in tandem with the 10-year T-Note. When the pandemic set in, **investors** foresaw a decline in business activity and moved funds into Treasuries as a **safe harbor**. This pushed the 10-year T-Note rate to new low. Today, the only player able to keep FRM rates near historic lows is the Fed, with its MBS purchases.

The **rate spread** between the 10-year T-Note and 30-year FRM is 1.56 percentage points as of September 1, 2021, a margin just above the historical difference of 1.5%. However, these rate spreads are below investor demands before the pandemic. This indicates mortgage rates are unable to drop further or even remain the same without Fed intervention. As the Fed begins its bond taper, expect FRM rates to rise.



Click on any chart for more information!

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