Monthly Real Estate Statistical Update

Up-to-date data on crucial California real estate trends from first tuesday

February 2016 • Vol. 5 • Issue 2 • ***Bond market cycle impacts refinances, fixed mortgage rates***

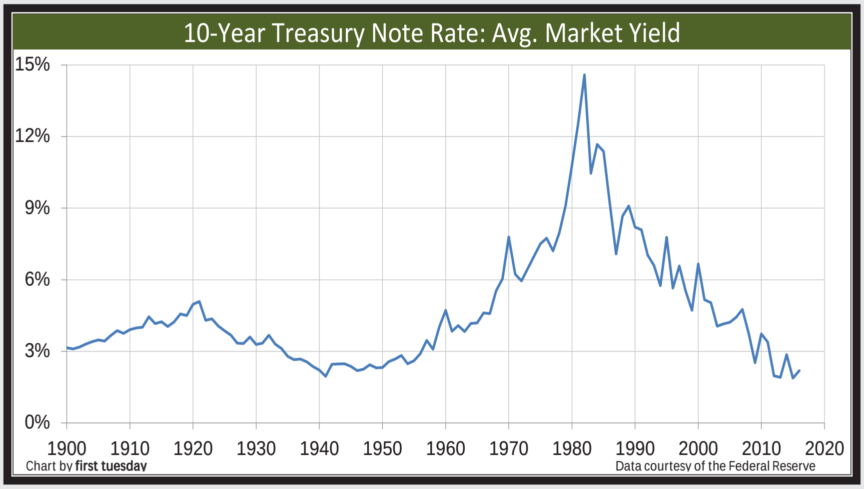
Presented by
Name
CalBRE License #
Phone
Email

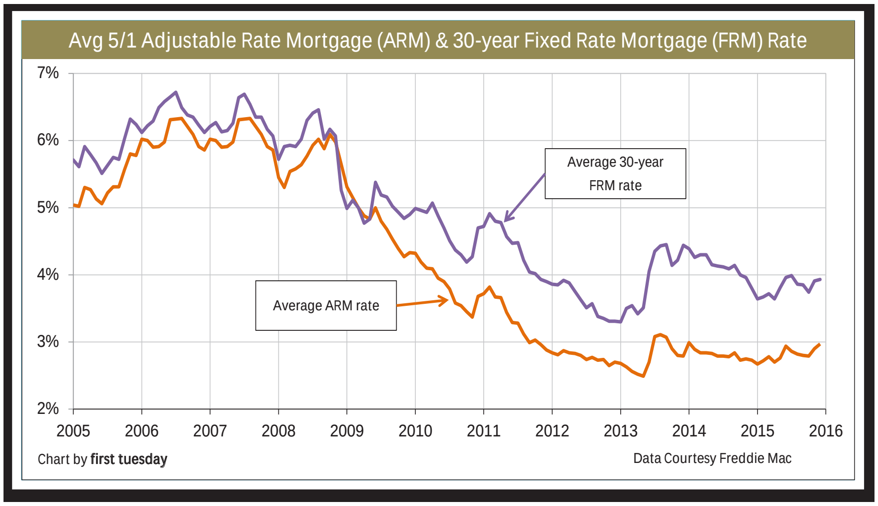
The interest rate cycle rises from bottom

This chart shows the **10-year Treasury Note (T-Note)** rate for each year since 1900. Interest rates rise and fall in a long **60-year cycle** of roughly 30 years of rising rates followed by 30 years of falling rates.

In the 2010s, we entered the upward swing of the cycle as rates bottomed. The 10-year T-Note rate fell from its peak last reached in 1982, hitting bottom in 2012. In January 2016, the rate was a low 2.2%.

The 10-year T-Note directly influences fixed rate mortgage (FRM) rates. The spread between the 10-year T-Note rate and the FRM rate is the **risk premium** paid to cover losses on defaults. Thus, when the 10-year T-Note rises, FRM rates rise as well.





The Fed increases the short-term rate

This chart displays the average **30-year fixed rate mortgage (FRM)** rate alongside the average 5/1 **adjustable rate mortgage (ARM)** rate. FRM and ARM rates move in tandem, with the **ARM rate** now enticingly lower as we head into an era of rising rates.

The average ARM rate was 3% at the close of 2015, hovering above its low point experienced in May 2013. The 30-year FRM rate was at 4% in December 2015.

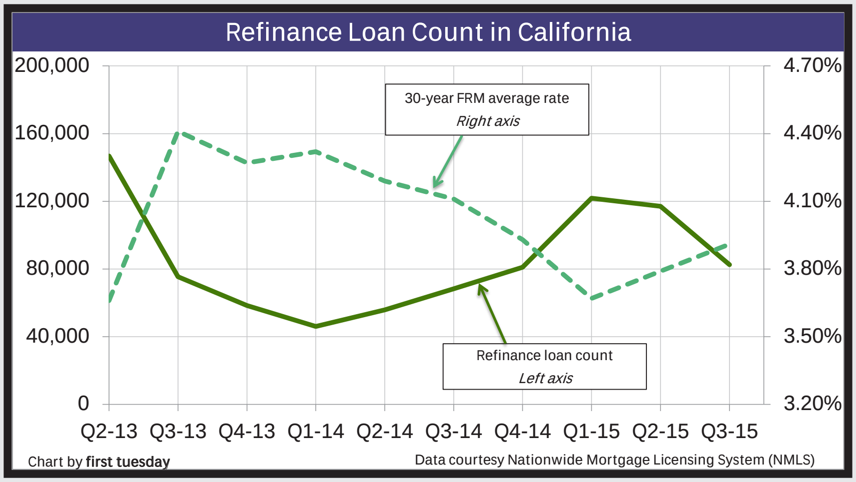
The Federal Reserve's (the Fed's) December 2015 increase in the short-term interest rate will cause ARM rates to rise proportionately — 0.25% — on their next adjustment. Rates on new FRMs will take longer to move upward. FRMs are tied to the 10-year Treasury Note (T-Note), and the suppressed **global economy** will cause the 10-year T-Note to remain low for now.

Refinancing has passed its peak

This chart shows the number of **refinances** in California and the average 30-year fixed rate mortgage (FRM) rate. These figures have an inverse relationship — when FRM rates fall, the number of refinances rises, and vice-versa.

The average 30-year FRM rate increased slightly in the second half of 2015, causing owners to be less likely to **refinance**. Still, Californians refinanced nearly 83,000 mortgages during the third quarter of 2015, higher than experienced for any quarter in 2014. In 2012, refinancing was popular with FRM rates at all-time lows.

Expect refinances to continue tapering off as FRM rates rise. 2012 was the bottom of the 60-year **interest rate cycle** ending 30 years of descending rates. What is to follow will be three decades of rising rates, and that has just begun.



Click on any chart for more information!

Click to Print