Monthly Real Estate Statistical Update

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

October 2017 • Vol. 6 • Issue 10 • ***Interest rates to rise, refinances fall***

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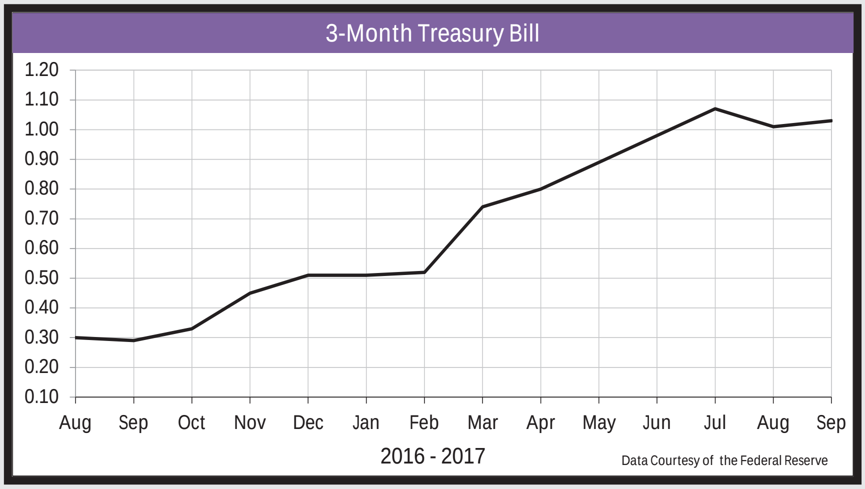
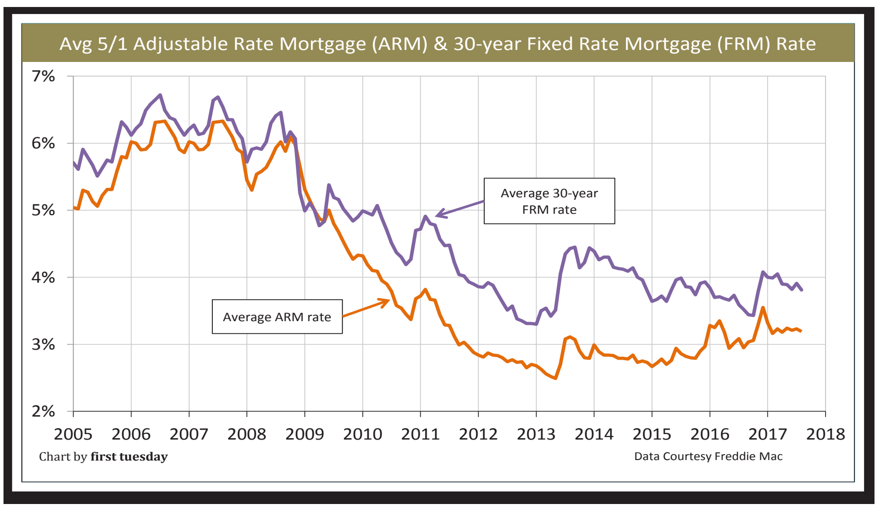
The Fed's key interest rate rises

This chart displays the **3-month Treasury bill** rate.

The 3-month rate was 1.03% in September 2017, up from 0.30% one year earlier. The **Federal Reserve** (the Fed) manages this rate through the Federal Funds rate as the base price of short-term borrowing.

As the Fed pursues its monetary policy agenda to **cool off the economy**, it will keep increasing the short-term rate and reducing its balance sheet holdings. These combined actions will push longer-term mortgage rates to increase. Higher rates mean lower purchasing power for homebuyers, and a slowdown for home sales volume (with prices moving in tandem).





ARMs and FRMs inch higher

This chart shows the monthly average 30-year **fixed rate mortgage (FRM)** rate and the average **adjustable rate mortgage (ARM)** rate on a 5/1 ARM.

FRM and ARM rates rise and fall in a similar fashion. FRM rates remain slightly higher than ARM rates until a recession sets in. Lower ARM rates increase **homebuyer purchasing power** versus FRMs, but ignore the eventual upward rate adjustments. The lower ARM rate makes ARMs more attractive to homebuyers when FRM rates rise, despite their danger of upward adjustment.

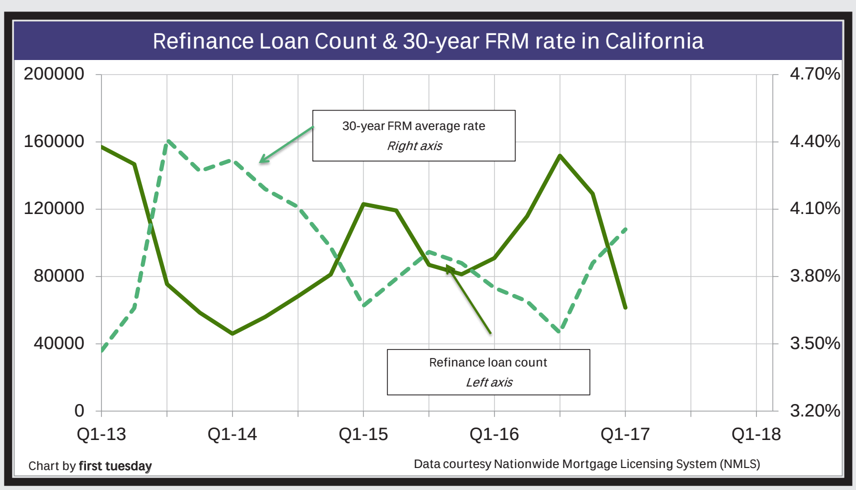
FRM rates have fallen back slightly during 2017, while ARM rates have remained mostly flat. As the Fed decreases its balance sheet and increases the 3-month Treasury bill, look for **higher interest rates** on both FRMs and ARMs in 2018.

Refinances fall with higher interest rates

This chart shows the number of **refinances** closing in California each quarter alongside the average 30-year FRM interest rate.

61,500 refinances occurred in California during the first quarter (Q1) of 2017. This is down from 90,900 refinances one year earlier. During the same time, the average 30-year FRM rate was 4.01%, up from 3.75% a year earlier. **Refinance activity** and **interest rates** have an inverse relationship, with rising rates corresponding with fewer refinances.

Expect refinance reports for the remainder of 2017 to come in a bit higher, as interest rates have fallen back slightly since the start of the year. But as interest rates are soon set to rise, refinances will again struggle in 2018, a problem for **mortgage professionals** who are already seeing fewer home sales close in 2017.



Click on any chart for more information!

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