Weekly Real Estate Statistical Update

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

November 11, 2013 • Vol. 2 • Issue 43 • *Pricing and FRM rates promote ARM usage*

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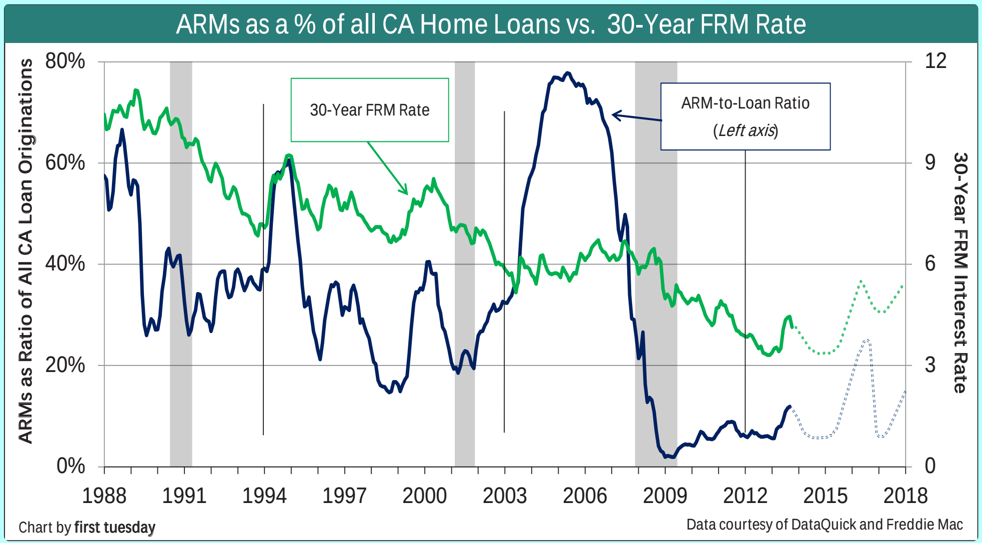
ARM-to-loan ratio tracks rising FRM rates and prices

This chart portrays **adjustable rate mortgages (ARM)** as a percentage of all mortgages recorded in California, called the **ARM-to-loan ratio**. It compares California's ARM-to-loan ratio with the 30-year fixed rate mortgage (FRM) rate.

ARMs made up 12% of all mortgages recorded in California in September 2013. This was double the 6% share one year earlier. This upward trend in ARM purchase-assist funding is driven by rising FRM rates and prices. However, ARM use remains below the historical ARM-to-loan ratio, and well below the 77% ratio seen at the chaotic climax of the **Millennium Boom**.

Typically, ARM use remains low until home prices rise faster than the **rate of inflation**, a trend now playing out. Also, prices do not quickly drop in response to FRM rate increases. Thus, to fund the gap created by today's sticky prices, ARM use temporarily increases as buyers unwittingly take on more risk.

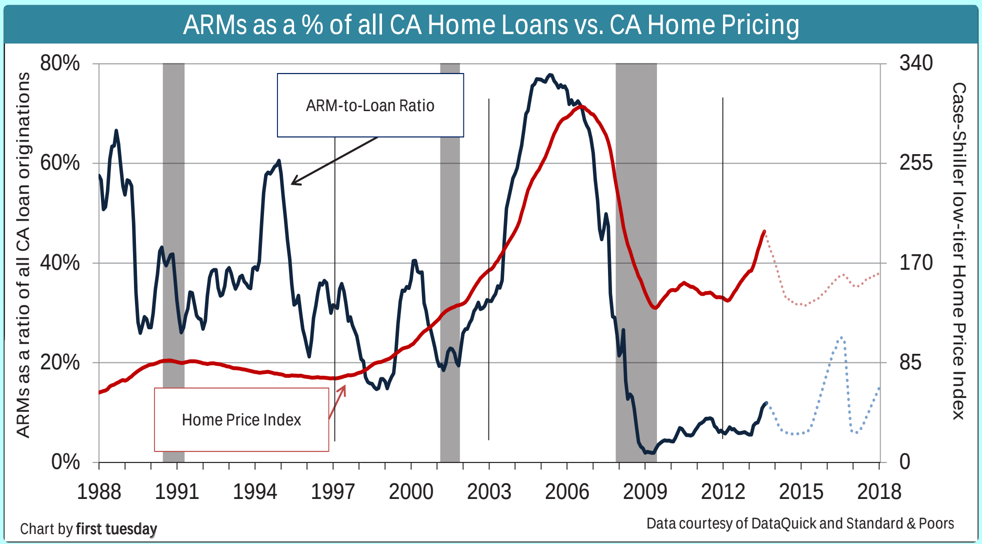


ARM-to-loan ratio rises as buyers overreach

This chart couples the ARM-to-loan ratio with the monthly average of low-tier **home pricing** in California's three major cities. Movement in the ARM-to-loan ratio forecasts a contrary movement in sales volume 12 months forward and prices within 24 months.

Home prices fluctuate primarily due to prior changes in sales volume. When sales volume is in a consistent decline, as began in December 2012, the sympathetic decline in prices occurs around 12 months later. As FRM rates and ARM use trend higher, buyers of all types retreat, first bringing down sales volume, then prices.

Looking beyond today's prices, neither a significant **increase** nor **decrease** will take place in pricing in the next two years.

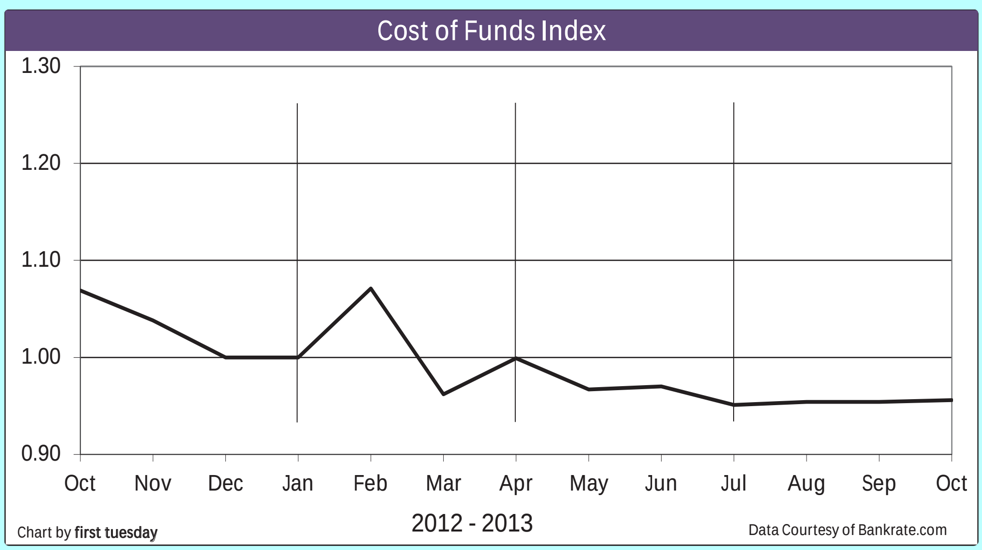


Cost of Funds Index sputters below 1%

This chart tracks the **Cost of Funds Index (COFI)** over a one-year period. This index is one of several used by lenders to periodically adjust the interest rate on an ARM note.

The COFI remained at 0.96% in October, down from 1.07% one year ago. The COFI has consistently lingered below 1% since March of 2013. It will likely remain there until 2015-2016 when the **Federal Reserve** is expected to raise short-term rates to stabilize an uptick in employment and consumer prices.

ARM use has already begun to pick up due to home prices rising faster than the rate of inflation. This increase in ARM use indicates buyers are taking on additional risks of loss in exchange for **enhanced purchasing power**.



Click on any chart for more information!

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