Monthly Real Estate Statistical Update

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

January 2022 • Vol. 12 • Issue 1 • ***Mortgage rates enter 2022 in a risky crossover***

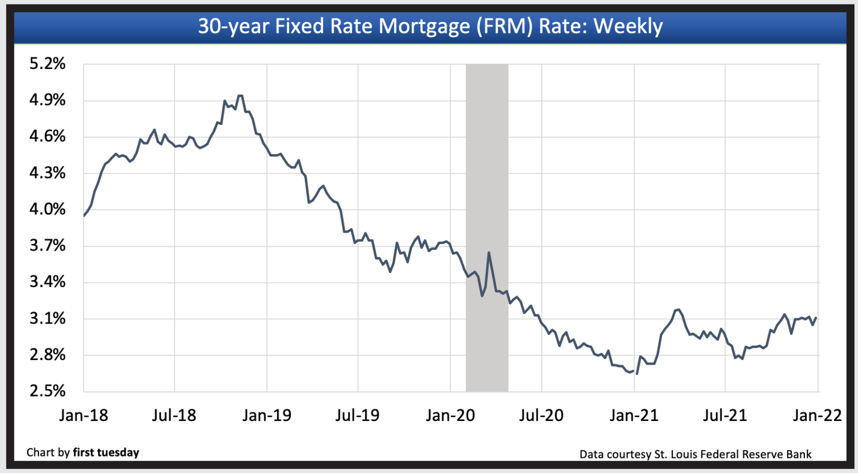
Presented by
Name
DRE #
Phone
Email

Fixed rate mortgage (FRM) rates look flat to up

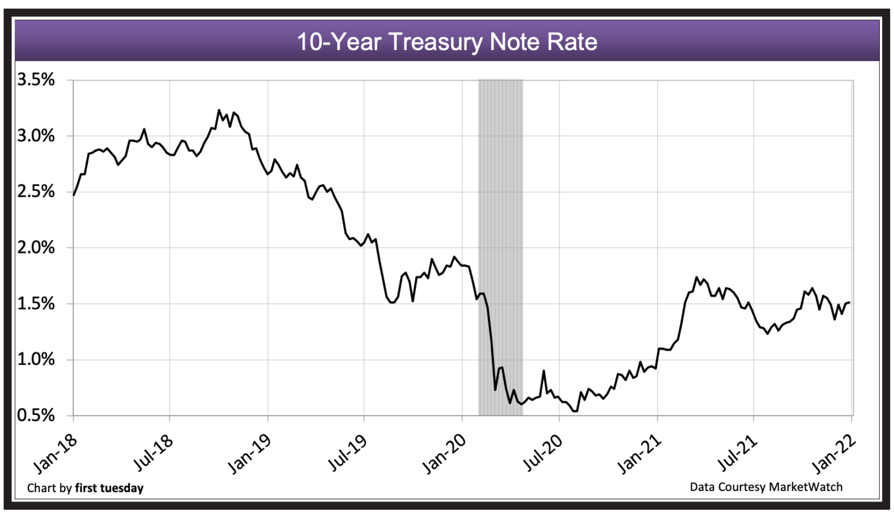
This chart shows the average interest rate on a 30-year **fixed rate mortgage (FRM)**. The gray column displays the 2020 recession.

The FRM rate averaged 3.10% in December 2021, up from 2.68% a year earlier — a record low. The low interest rates of 2021, produced by Federal Reserve (Fed) action, induced increased mortgage borrowing during the ongoing **hangover from the 2020 recession**.

These lower interest rates fueled **buyer purchasing power**, enabling home sales volume and prices to escalate in 2021. Homeowners quickly felt the added wealth and refinanced. But as the Fed removes their support for below-market mortgage rates, a process called **bond taper**, higher mortgage rates in 2022 are not a given. As current mortgage rates take root in 2022, expect the pace of home sales and refinancing to slow. Prices will drop in the following years.



Bond market investors subdued as the Fed fights inflation



This chart shows the average **10-year Treasury (T-) Note** interest rate.

In December 2021, the 10-year T-Note averaged 1.46%, up from 0.93% a year earlier. Bond market mortgage rates are set by factoring in expectations for future consumer inflation and by comparing the risks of foreclosure losses against risks and rates in other long-term investments — specifically the risk-free 10-year T-Note.

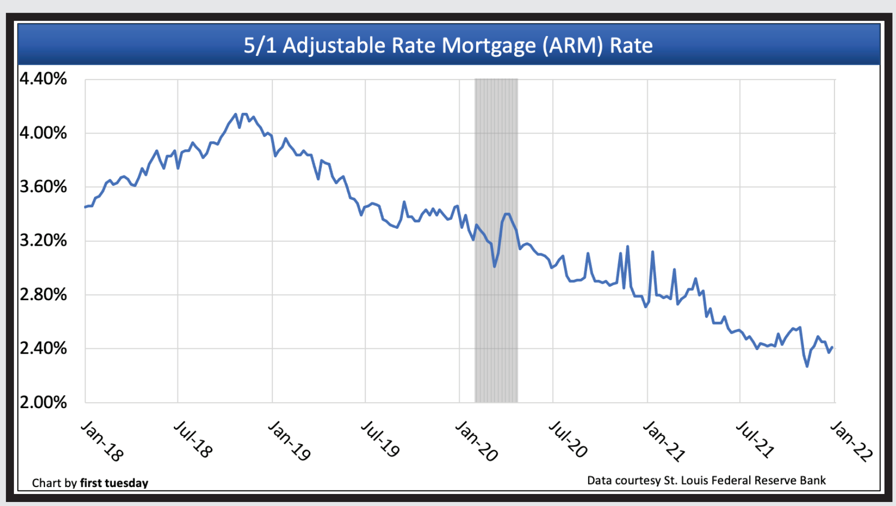
The Fed's current policy is to fight **future inflation** by reducing its bond market purchases. As the Fed fights inflation and bond market concerns about foreclosures pass, demands for a higher inflation and risk premiums on mortgage backed bonds will subside. Expect the 10-year T-Note to rise only slightly in 2022. In turn, FRM rates will rise slightly in 2022.

Homebuyers eye low rates on adjustable rate mortgages (ARM)

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

The average 5/1 ARM rate was 2.43% in December 2021, down from 2.77% a year earlier. In early 2021, the 30-year FRM rate rose above the ARM rate. This **crossover** sweetened the ARM's appeal and will attract the attention of MLOs, homebuyers and owner refinancing.

On the Fed's 2022 exit from the bond markets, FRM rates will not decline and ARM rates will not rise. Thus, ARM use by homebuyers will increase. Any jump in ARM use introduces a **breakdown in the housing market** since ARMs reset, which increases their risk of default. For the same monthly payment, an ARM allows homebuyers to overreach by providing a greater loan amount than an FRM with a higher rate. Expect ARM use to temporarily buoy home sales and prices in 2022.



Click on any chart for more information!

Click to Print