Monthly Real Estate Statistical Update

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

April 2019 • Vol. 8 • Issue 4 • ***Cooling interest rates to help refinancing recover in 2019***

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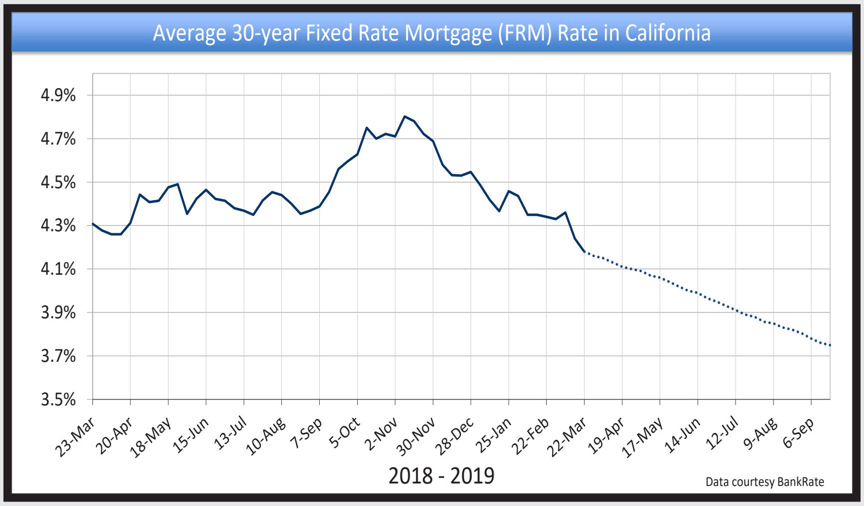
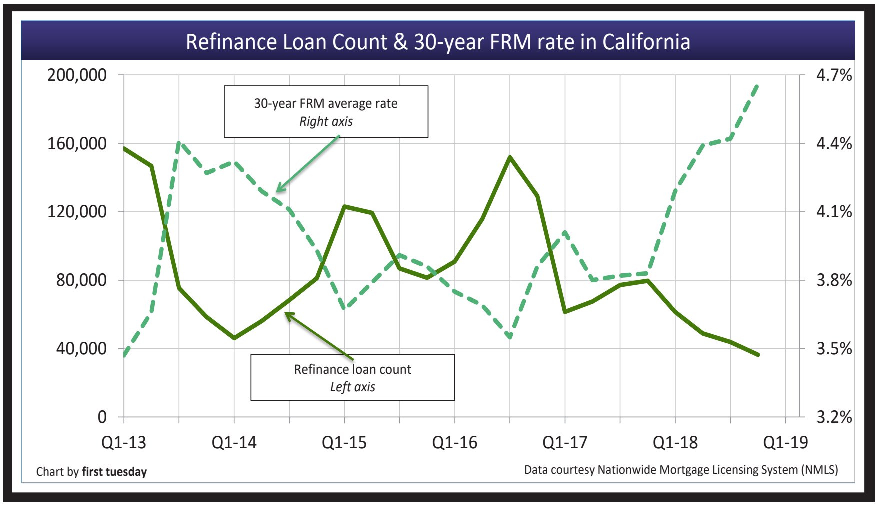
FRM rates fall from 2018 upturn

This chart shows the average interest rate on a new 30-year **fixed rate mortgage (FRM)** in California.

The average 30-year FRM rate dropped to 4.11% in the week ending March 29, 2019, below a year earlier, when rates were still rising. FRM rates rose significantly in 2018 but have fallen back since peaking in November. The long-term trend of gradually rising rates has **briefly stalled** as the Federal Reserve (the Fed) stops rate increases as we head into the coming recession, forecasted for 2020.

Expect FRM rates to continue to decrease in 2019, a natural occurrence in the year leading up to an **economic recession**. After a year of rising rates and slowing real estate sale volumes, falling mortgage rates ought to encourage homebuyers to return to the market in 2019. But this return will be dampened by falling home prices. Sensing a downturn, homebuyers won't be eager to buy again until prices have bottomed, expected one-to-two years after the end of the recession.





Refinancing's inverse relationship with interest rates

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

Just 36,400 mortgages were refinanced in the fourth quarter (Q4) of 2018. This was less than half of the 79,700 refinances closed one year earlier. The decline is due solely to **higher interest rates**, which peaked in Q4 2018.

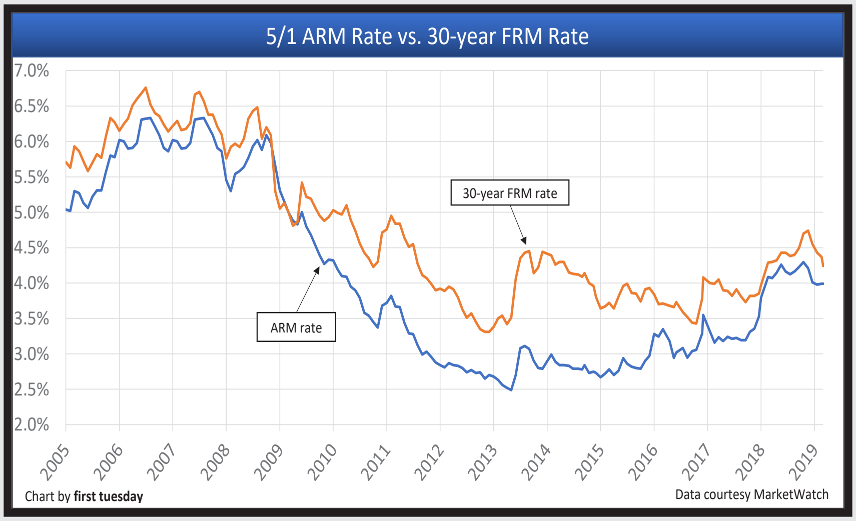
However, the Fed has signaled they are finished raising rates in 2019, which will keep mortgage rates low for the next three-to-four years before they resume their upward march. The long-term outlook for interest rates is another two decades of gradually rising interest rates, with momentary reprieves as the Fed manipulates rates to **stabilize the economy**, as in 2019-2022. As interest rates decline in 2019, expect to see another uptick in refinancing.

ARMs become less attractive when FRM rates fall

This chart shows the average interest rate on a **5/1 adjustable rate mortgage (ARM)** compared to the average 30-year FRM rate in California.

Both rates peaked in late-2018, and the average 5/1 ARM rate fell to 3.99% in March 2019, while the 30-year FRM averaged 4.24%. ARMs are a riskier mortgage product, since future **mortgage payments** are somewhat unpredictable due to rate adjustments. But ARMs maintain their attractiveness as they allow homebuyers to access a lower rate, extending their purchasing power and qualifying for higher home prices than under a 30-year FRM.

As interest rates cool in 2019, ARMs continue to lose their allure. The difference between the average ARM and FRM rate has shrunk, making a riskier ARM less appealing. Further, as **home prices** began falling in late-2018, homebuyers are no longer worried about lowering their interest rate to keep up with rising home prices.



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