Monthly Real Estate Statistical Update

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

December 2017 • Vol. 6 • Issue 12 • ***Interest rates signal the future of housing***

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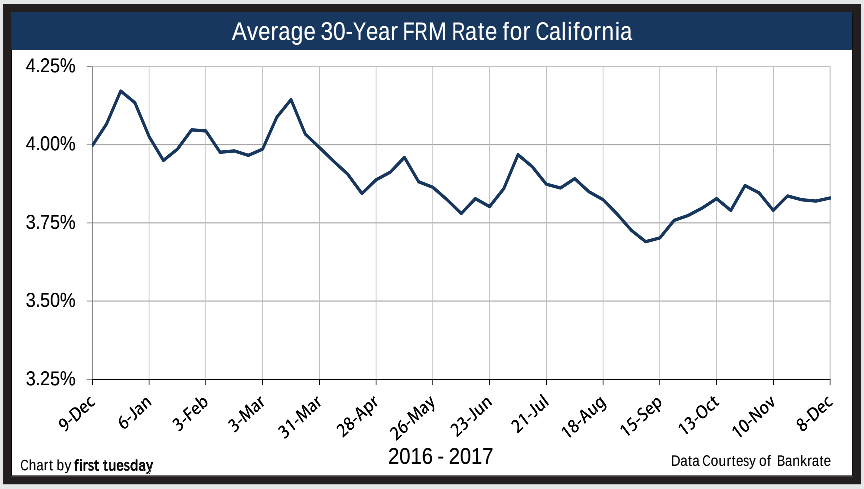
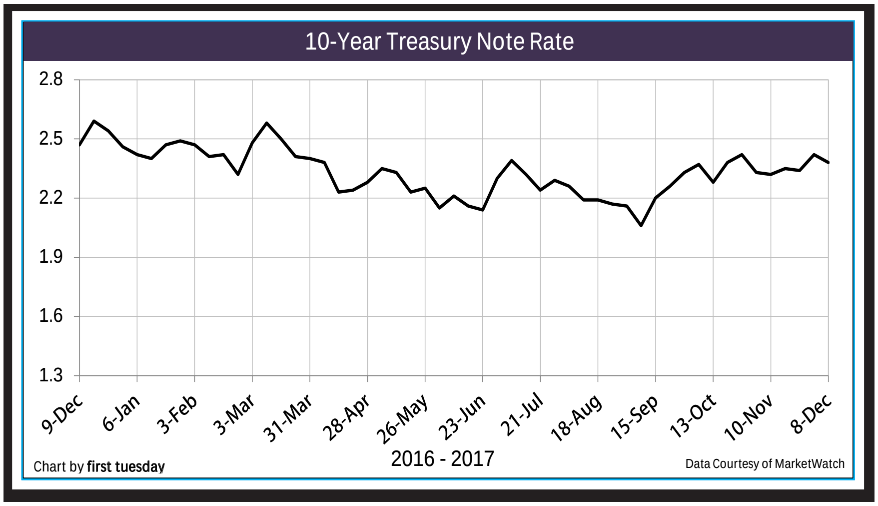
FRM rates set to rise in 2018

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

The 30-year FRM rate averaged 3.83% at the beginning of December 2017. This is down from 4.0% a year earlier. Interest rates jumped in November 2016 following the unexpected election results, which brought uncertainty to the **financial markets**. Since then, FRM interest rates have fallen back to their present level.

Looking forward into **2018**, FRM rates are likely to increase gradually in lock-step with the 10-year Treasury Note. Higher interest rates will reduce buyer purchasing power and slow sales, and in turn pull back home prices.





Lack of safe investments holds down 10-year T-Note

This chart displays the interest rate on the **10-year Treasury Note**.

Mortgage lenders use the 10-year T-Note to determine a homebuyer's FRM rate. The difference between the FRM note rate and the 10-year T-Note rate represents the mortgage lender's **risk premium**. The premium accounts for potential losses due to foreclosures which are not present within the safety of T-notes.

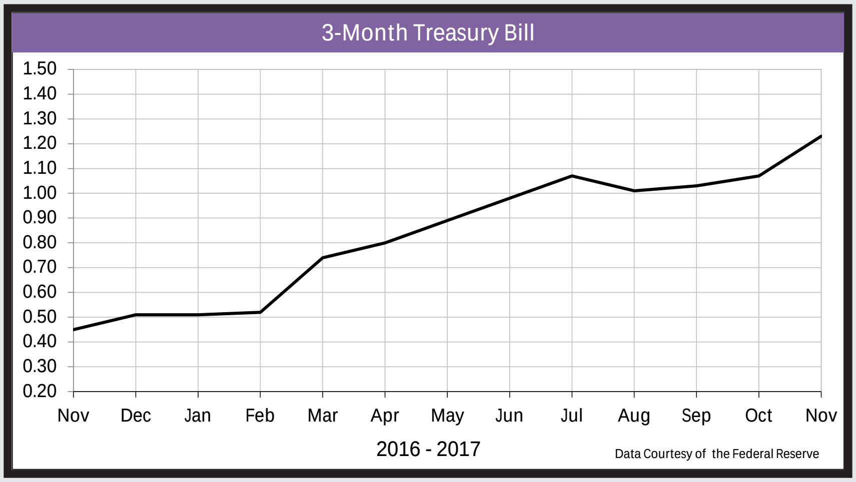
Interest rates on T-Notes are determined by a number of factors, including the 3-month Treasury Bill. In 2017, **bond market investors** poured money into the 10-year T-Note for lack of other safe investments. However, as global economic prospects improve in 2018, expect the 10-year T-Note to rise, then slip in 2019 nearing short-term rates as tax rate reductions set in.

The Fed raises short-term rates

This chart shows the interest rate on the **3-month Treasury Bill.** This rate is managed by the Federal Reserve's (the Fed's) Federal Funds rate, the base for borrowing money over the short term.

Fed action has increased the 3-month T-Bill several times since the end of 2015. As the economy improves, the Fed's mandate to maintain a **stable economy** induces it to increase its short-term rate to prevent a bubble from forming. This action has caused other short-term rates to rise in tandem.

The Fed has promised to continue increasing rates in 2018. Fed members estimate their short-term rate will be about **one percentage point higher** this time next year, and thus ARMs and HELCOs will be that much more expensive.



Click on any chart for more information!

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