Monthly Real Estate Statistical Update

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

January 2021 • Vol. 11 • Issue 01 • ***Interest rates at their historic bottom and looking ahead to the LIBOR's retirement***

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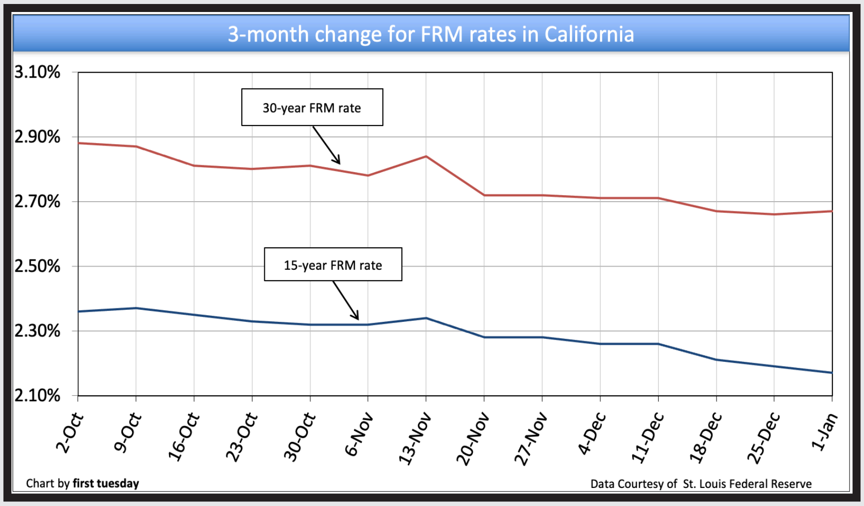
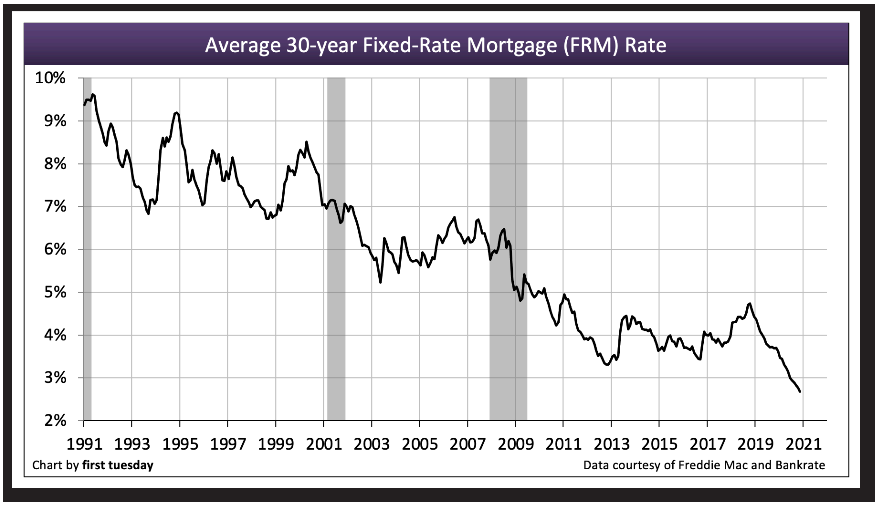
Fixed rate mortgages continue on toward new lows

This chart shows the average 30-year and 15-year **fixed rate mortgage (FRM)** rates as observed over the past quarter.

The average 30-year FRM rate was 2.22% and the 15-year FRM rate was 2.68% in December 2020. FRM rates have descended to these record lows due to the **Federal Reserve's** (the Fed's) role as the lender of last resort during our 2020 recession. This has enabled homebuyers and especially refinancers to take advantage of record-low rates, buoying the mortgage market despite the reduced sales volume experienced in 2020.

The Fed recently announced their intention to keep their **benchmark rate at zero** through at least 2023. Thus, expect FRM rates to remain near their present lows in 2021 and 2022.





Interest rates hold onto their cyclical bottom

This chart provides greater perspective, displaying the average interest rate on a **30-year fixed rate mortgage (FRM)** since 1991.

For some historical perspective, FRM rates have never been this low. Today, the average FRM rate is a full percentage point below a year earlier. This drop translates to a 10% increase in **buyer purchasing power**, giving homebuyers 10% more mortgage money than a year earlier. The result is a boost to home prices and a boon to sellers but not necessarily buyers.

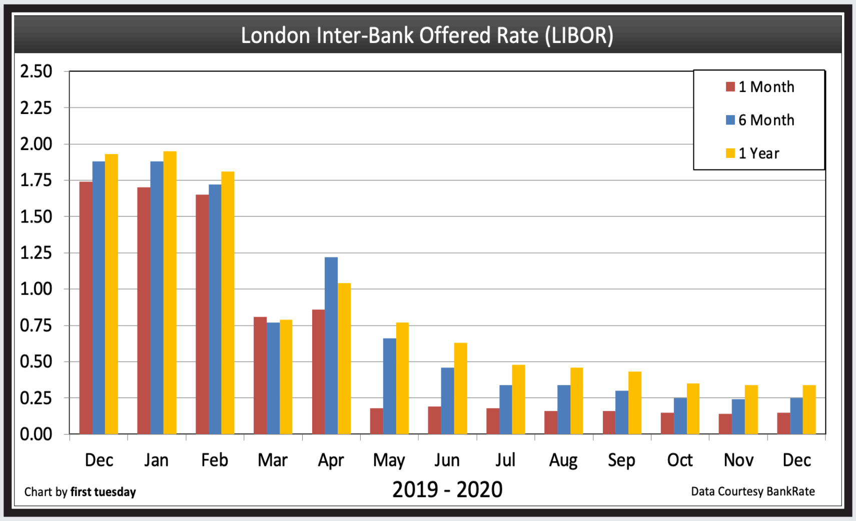
We are at the bottom of a **60-year rate cycle**: roughly three decades of rising rates followed by three decades of falling rates. The coming decade will see interest rates rise gradually, a rise slowed by the pandemic-distorted 2020 recession. As homeowner turnover increases in 2021 and 2022, real estate professionals can encourage clients to take advantage of historically low mortgage rates. These rates will become history after the next couple of years.

The LIBOR is going, going…

This chart shows the interest rates on the 1-month, 6-month and 1-year **London Inter-Bank Offered Rate (LIBOR)**.

For years, the LIBOR was the benchmark rate of choice, used by lenders to set rates for **adjustable rate mortgages (ARMs)**. But the way the LIBOR is set — untethered from actual transactions — makes it especially vulnerable to lender manipulation, which infamously occurred leading into the 2008 recession. Thus, to protect consumers, the LIBOR expires at the end of 2021.

The most likely replacement for the LIBOR is the **Secured Overnight Rate (SOFR)**, which is based on actual transactions and reported by the Federal Reserve. Institutions are already transitioning away from the LIBOR to the SOFR. For real estate professionals, educate yourself about the new benchmark rate. Look to next month's **Monthly Statistical Update** for a look at the SOFR for ARMs.



Click on any chart for more information!

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