

Monthly Real Estate Statistical Update

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

November 2019 • Vol. 8 • Issue 11 • *Interest rates at an unequal bottom*



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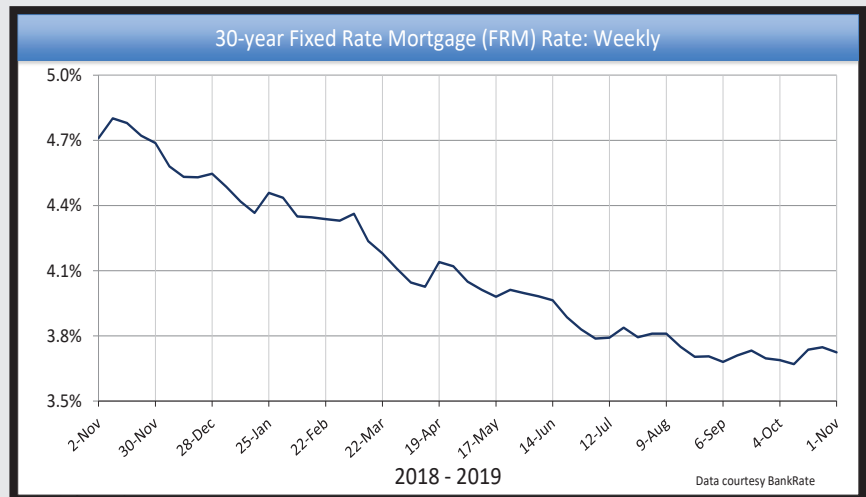
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Fixed rate mortgage (FRM) rates decline

This chart shows the average interest rate on **30-year fixed rate mortgages (FRMs)** over the past 12 months in California.

The 30-year FRM rate averaged 3.72% in October 2019, down from a year earlier when it was 4.70%. This full percentage point decrease follows two years of rising interest rates. But FRM rates have dropped throughout 2019 in anticipation of the Federal Reserve's (the Fed's) actions to temper the **next recession**, expected to arrive in 2020.

In 2018, rising interest rates discouraged homebuyers and decreased their **purchasing power**, causing sales volume and prices to slip going into 2019, buoyed briefly by lower FRM rates and credit standards. Now begun, the housing market's downward trajectory will continue in 2019-2020, not to recover until after the next recession is over, in 2021-2023.



Adjustable rate mortgage (ARM) rates decrease, not enough

This chart displays California's average interest rate on a **5/1 adjustable rate mortgage (ARM)**.

The average 5/1 ARM was 3.96% in October 2019, below 4.30% a year earlier. The 5/1 ARM interest rate shows the average rate for the first five years after origination. After the initial five-year period, the ARM rate is adjusted annually based on an index figure. The typically low **teaser rate** can be enticing to homebuyers seeking to extend their purchasing power.

While the ARM rate is down from the previous year, it remains higher than the average 30-year FRM rate in October 2019. This leaves homebuyers with little to no use for risky ARMs. **ARM use** won't likely increase until FRM rates begin to rise once more in the recovery from the next recession and buyers again overreach.

5/1 Adjustable Rate Mortgage (ARM) Average Rate



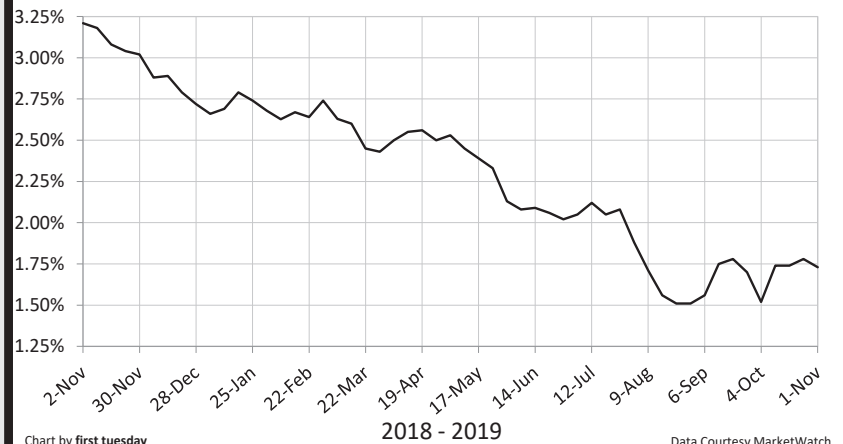
Economic expectations see Treasury rates bottom

This chart shows the average **10-year Treasury (T-) Note** rate over the past 12 months.

In October 2019, the 10-year T-Note averaged 1.70%. This is down significantly from a year earlier when it was 3.16%. Lenders set FRM rates by comparing the return offered by other long-term investments, like the 10-year T-Note. While the U.S. Treasury does not default on its T-notes, a percentage of mortgaged homeowners do **default**, so a higher return is needed to make the investment in mortgages worthwhile.

Historically, the spread between the 10-year T-Note and the 30-year FRM rate hovers around 1.5%. In October 2019, this spread was 2.0%. Today's high spread indicates lenders are seeking a larger safety net by padding their **risk premiums** as factors point to the coming recession.

10-Year Treasury Note Rate



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