Monthly Buzz & Hot Topics

April 2017

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Old Town
703-739-0100

Arlington
703-237-1100

Burke
703-913-8080

Fair Oaks
703-279-1500

Fredericksburg
540-373-1300

Front Royal
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Gainesville
703-468-2020

Kingstowne
703-417-5000

Lake Ridge
703-492-7900

Leesburg
703-840-2000

Manassas
703-393-0333

McLean
703-734-8900

Reston
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Stafford
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Vienna
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Warrenton
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The Impact of the Federal Reserve Rate Hike on Mortgage Rates

Eight times each year a sub-committee of the Federal Reserve convenes to discuss the open market operations portion of the United States' monetary policy used to achieve the nation's economic goals. Technically called the Federal Open Market Committee, or FOMC, they are commonly referred to as "the" Federal Reserve by most of the general population.

Contrary to popular belief, the Federal Reserve does not directly set the mortgage rates. Rather, the federal funds rate (the rate at which banks lend money to one another) influences the price of Wall Street's mortgage backed securities (MBS), which is what impacts the mortgage rates.

As the FOMC headed into their March 13-15th meetings, there was speculation about the data in the economic projections the bankers were taking with them. If the statistics backed a positive report on the state of the U.S. economy, rates would undoubtedly rise. But if the contents held negative news, the rates would likely fall. With mixed messages being sent by members in advance of the meeting – the economy is improving but the inflation rates are low and growth obstacles remain – no one could predict the outcome.

> COMBINE THE RISING HOME PRICES WITH THE INCREASING MORTAGE RATES, POTENTIAL HOMEBUYERS SHOULD BE ADVISED THAT THE TIME TO PURCHASE IS SOONER THAN LATER

When the meetings ended on March 15, 2017, and the Federal Reserve Chair Janet Yellen held her press conference we learned the rate was increased by a quarter of a percentage point. In the week before they met the average interest on a 30 year mortgage was 4.21%. The announcement could take that to 4.5% in the next few weeks. Chairwoman Yellen indicated they anticipate two more rate hikes in 2017, both of which will be conservative like this one.

Buyers should be mindful that the next gradual hike will likely come at the June meeting. If they are serious about purchasing property, they should try to do so before mortgage rates climb again. A property economist for Capital Economics forecasts conventional mortgage rates as high as 5.5% by the end of 2018. Some lenders began factoring a hike into their rates in anticipation of the Fed's announcement.

Borrowers in the Federal Housing Administration (FHA) and Veterans Affairs (VA) loan programs have traditionally had a rate of about 0.25% lower than conventional loans. But when conventional loan rates rise, FHA and VA rates do so, too, at a proportional level.

Home prices have appreciated by 6.9% over the last 12 months and are predicted to escalate another 4.8% in the upcoming 12 months. Combine the rising home prices with increasing mortgage rates, *potential buyers should be advised that the time to purchase is sooner rather than later.*

Freddie Mac *creates automated option for homebuyers without credit score*

Freddie Mac has expanded homeownership opportunities and access to credit for many Americans who do not have credit scores.

"We're committed to supporting responsible lending and improving access to credit for all borrowers, including first-time home buyers, low- and moderate-income buyers and underserved populations," said David Lowman, executive vice president of Freddie Mac's Single-Family Business. "It's important that we keep pace with the evolving needs of the U.S. market and help support sustainable homeownership."

Borrowers without credit scores will be eligible for purchase mortgages or no-cash-out refinances at one-unit owner-occupied loans starting in June.

Freddie Mac will use its Loan Product Advisor to evaluate loans based on the company's credit requirements and provide feedback on the credit risk of each loan.

"By allowing lenders to more easily assess their overall underwriting risk, we encourage them to take advantage of our entire credit box to originate more loans in a safe and secure manner," Lowman said.

See you at the settlement table!