

## Why Interest Rates Moved Up Recently

November 2010

The Federal Reserve Board made the announcement a couple of weeks ago that they were going to continue buying U.S. Treasuries after ceasing the program in March. They are purchasing an additional \$600 billion of government debt (this is in addition to the \$2 trillion plus already purchased!).

Two weeks ago the Feds began the purchase program and acquired \$7.92 billion and again a week later another \$7.23 billion. One would have expected interest rates to go down, but quite the opposite happened. Interest rates for home loans shot up by over ½ percent and you may wonder how this could be?

Home loan interest rates have traditionally tracked the 10 year Treasury yield. What does this have to do with the Fed purchasing government debt? Many economists in the U.S. fear this new move by the Feds will create overheated inflation down the road. More importantly, the largest of bondholders have taken the position that now is a great time to sell off their bond holdings while there is someone to buy them all; that being the Federal Reserve Board. When bonds sell off it causes the yields to rise and that is exactly what we have seen over the last few weeks. The yields are now the highest they have been since May of this year. In October the yield on the 10 year Treasury had bottomed at 2.3%. Last week the yield had risen to 2.91%. That 50 basis point increase took home loan rates up by ½ percent very quickly (from the lows at 3.875% to 4.375% for 30 yr fixed purchase loan).

The cost of financing adds a tremendous amount to the long term cost of the home. Buyers wanting to refinance or purchase who have been waiting for lower prices or bottoming out of rates will most likely see this as a time to “get off the fence” and jump in. If you have any questions regarding rates, we can refer to you a lender who has been in the business for many years and can answer your questions. Our lender quoted his very best rates as of today as follows: Refi = 3.875 for 15 yr fixed and 4.625 for 30 yr fixed Purchase: 3.75 for 15 yr fixed and 4.375 for 30 yr fixed – all with no points (based on best case scenario with high credit score, at least 20% down, and qualifying income)

### Source of Down Payment for First Time Home Buyers

A recent study shows that the average age for first time home buyers has fallen from 32 to 28 over the past four years. It isn't surprising that many look to their parents/family to help out. The survey shows the sources as : 76% - own savings; 25% - gift from family; 4% - 401K savings; 3% - stocks or other investments; 3% - down payment assistance programs; 3% - grants from city/county/state; 6% - other. We just thought this was interesting news to share. Until next month,

***We wish you and your families a VERY HAPPY THANKSGIVING!!***

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