

A Federal Reserve World, And We're All Living in It

**MARKET RECAP from Arlin Shepard, Branch Manager
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When the conversation turns to monetary policy and the Federal Reserve, the natural reaction is for eyes to glaze over. This is understandable. In the past, monetary policy and the Fed were supporting players who impinged little on the day-to-day activity in the housing and mortgage markets.

That's hardly the case today. Over the past few years, since the 2009 recession, the Fed has morphed into a leading player. Therefore, we have no choice but to follow the Fed. "You might not be interested in war, but war is interested in you," is a quote attributed to Russian revolutionary Leon Trosky. We can modify Trosky's quote to say, "We might not be interested in the Federal Reserve, but the Federal Reserve is interested in us."

For this reason, we need to be interested in the Fed, which is why we spend considerable space on Fed commentary. Its policies directly influence home prices and mortgage rates.

Now, it appears the Fed is backing off raising interest rates sooner than later. A couple weeks ago, we mentioned that new Fed Chair Janet Yellen had overtly hinted that interest rates would begin rising sometime in 2015. We speculated by mid-July. We were even more confident that 5% on the 30-year fixed rate loan was likely by end of this year.

Indeed, mortgage rates rose – in fits and spurts – through most of March. The latest survey from Bankrate.com shows the national average on the 30-year loan at 4.54%. [Freddie Mac's](#)

survey has the 30-year loan at 4.41%. Both are the highest they've been since late January.

That said, we're rethinking our position. This past week, the Fed had what you could call a ["wait-a-minute"](#) moment. Fed Chair Yellen hedged her previous commentary, adding we will need stimulus for "some time." This suggests that the economy has yet to gain sufficient traction, and appears unlikely to do so in the near future. In other words, 5% on the 30-year loan isn't quite the done deal that it seemed a couple weeks back.

Since the recession ended, economic growth and job growth have remained stubbornly sluggish. A recent commentary from the Cleveland Branch of the Federal Reserve offers some insight into why this is: insufficient investment.

Many economists focus on consumption as the main driver of the economy. Unfortunately, they under-weigh the importance of production. The fact is that we all have to produce in order to consume. We work first (produce), get paid, and then consume (credit not withstanding). Production is predicated on investment: We need tools (or capital) to produce.

With the Fed pushing back raising interest rates, lower mortgage rates could prevail longer than we initially expected at the beginning of the year. Of course, the one caveat is that if job growth, investment, and consumption unexpectedly pick up, the Fed could signal a new direction, which would again alter interest-rate expectations.



A More Accommodating Market Than We Think

One of the more prevalent complaints since the housing-market bubble burst in 2009 is how difficult it has become to get a mortgage loan. Compared to the early-to-mid-2000s, you could say that's true.

The reality is – from a historical perspective – that the mortgage markets is more accommodating than many people think. This point was driven home in a recent [Wall Street Journal](#) article, which basically stated that getting a loan really isn't so tough.

This is a point worth driving home to our clients. To be sure, the additional paperwork and verification required today compared to the recent past isn't something anyone particularly enjoys, but it's not unreasonable either.

Last week, we explicated the upside of a housing market lead by mortgage-financed purchases. The good news is that the reality of obtaining a mortgage is easier than the wide-spread perception, which is why it's important to change the wide-spread perception.

We're likely preaching to the choir on these points, but sometimes its worthwhile to do a little preaching to drive home an obvious point that isn't obvious to everyone.

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