BERKSHIRE HATHAWAY
HomeServices
California Properties

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YOUR MARKET UPDATE | AT-A-GLANCE

The Fed raised its key interest rate by ¼ percent

The good news: Adjustables are low and it's a seller's market

The Federal Reserve Bank's decision to raise its benchmark interest rate by .25 percent has been the talk of the financial and real estate world since it was announced last Dec. 16.

To gain some insight, we asked David M. Cabot, President and CEO of Berkshire Hathaway HomeServices California Properties, for his take on the situation.

Q: Why did the Federal Reserve Bank raise the rate?

A: The Fed was waiting for the economy to be stronger, and they believe it is now. The rate determines what the banks pay to borrow money from the Fed. But the banks can set their own rates for consumers, and they do. This is the first rate increase in seven years.

It's interesting that they made a decision to do it now because they've been wanting to for over a year. I'm not an economist, but 2 percent economic growth is very, very modest. If we were growing at 3 or 4 percent, an interest rate hike would be a welcome thing in the business world. But at 2 percent, we're not really certain. If we don't start at a point where we have some growth, we're never going to get above zero. It's probably a wise thing from a macroeconomic point of view.

Q: When will the new rates be implemented?

A: Most lenders changed their mortgage rates around the first of the year.

Q: What will the immediate effect of the rate hike be?

A: The biggest short-term impact this is going to have will be on people's psychology. Those who want to buy will see a rate increase and make a decision to buy now rather than waiting, in anticipation of that rate increase or another one. But in real dollar terms, it's not significant yet. If it gets to a half or three-quarters percent, that will be a notable difference in mortgage rates, no doubt about it.

Q: How will a rate increase affect the market?

A: This rate increase is so minimal, I don't believe it will have a large effect on the mortgage market. The homeowners it will likely affect sooner than later are those with adjustable-rate mortgages. Those mortgages are tied to Treasury securities and other indexes that fluctuate regularly. For those who want to buy a home with a 30-year fixed-rate mortgage, I think we'll see a quarter of a percent increase by the end of the first quarter, if not before then. So if you want to avoid even a small increase in your monthly payment, this is probably a good time to get into a fixed-rate.

Q: What do you anticipate the new rate range will be going forward?

A: Most people believe the Fed will raise the rate by one-quarter of a point again one, two, or three more times in 2016. By year-end, it might be one whole point higher. It all will depend on how the economy absorbs this first increase in seven years. If we continue at 2 percent growth, then we might see another rate increase.

ADVICE FOR **SELLERS**

This is a great time to sell because housing inventory is so low and lots of people want to buy. Spring is coming, and it's the season when many potential buyers decide they want to make a move. If you are selling, make sure your home is priced competitively. If it's above the market, it will sit that much longer.

ADVICE FOR **BUYERS**

The best time to buy is when it meets your needs. If you are not in a position to move up, down, or sideways, the interest rate is not going to be a concern to you. But if this is a time when you want to buy or sell, the interest rate will certainly have some impact, although it's fairly small at this moment. Adjustable-rate loans are very, very low – 2 to 2.5 percent. Even if the Fed raised them by 1 percent, adjustables are still a good deal right now. Five years from now, who knows?