



Sub-3% Mortgages

Actions by the Federal Reserve to stimulate the economy under the unprecedented contraction in Gross Domestic Product (GDP) have lowered interest rates. To combat the effects of the pandemic on the economy, these lower rates are an attempt to spur investment and consumption. One area that has a significant impact on GDP growth in the United States is housing. Here the government is hoping to jump start that market to maintain jobs. The 30-year mortgage hit another all-time low recently and now stands below 3% in certain markets. Fannie Mae, a quasi-government program in residential mortgage lending, recently put out its 2021 forecast and sub-3% mortgages are expected nationally next year. If this prediction is true, those who are not ready to apply for a mortgage today would have the opportunity to lock in these low rates well into next year.

The decline in rates has broken the 2012 record for the 30-year, when mortgages achieved a sub-3.5% level. The savings that are generated on a \$200,000 loan are significant for 2.9% rates versus 4%. In this example, the monthly payment would be approximately \$120 less. This allows the younger generation, which has struggled to buy its first home with the higher than normal housing prices, to get into a starter home. Lower borrowing costs also allow individuals to buy more expensive homes than they normally could. This should induce more housing starts to create new supply, positively affecting the economy.

The one dark cloud for a stimulative housing market could be tightening lending standards, another consequence of the pandemic. It's hard for a bank to lend out to someone who has lost their job or had their hours cut. Those with lower credit scores and unstable sources of income will find it hard to take advantage of today's low rates. For those who have saved up a down payment and have a stable source of income, this could be the opportunity of a lifetime.

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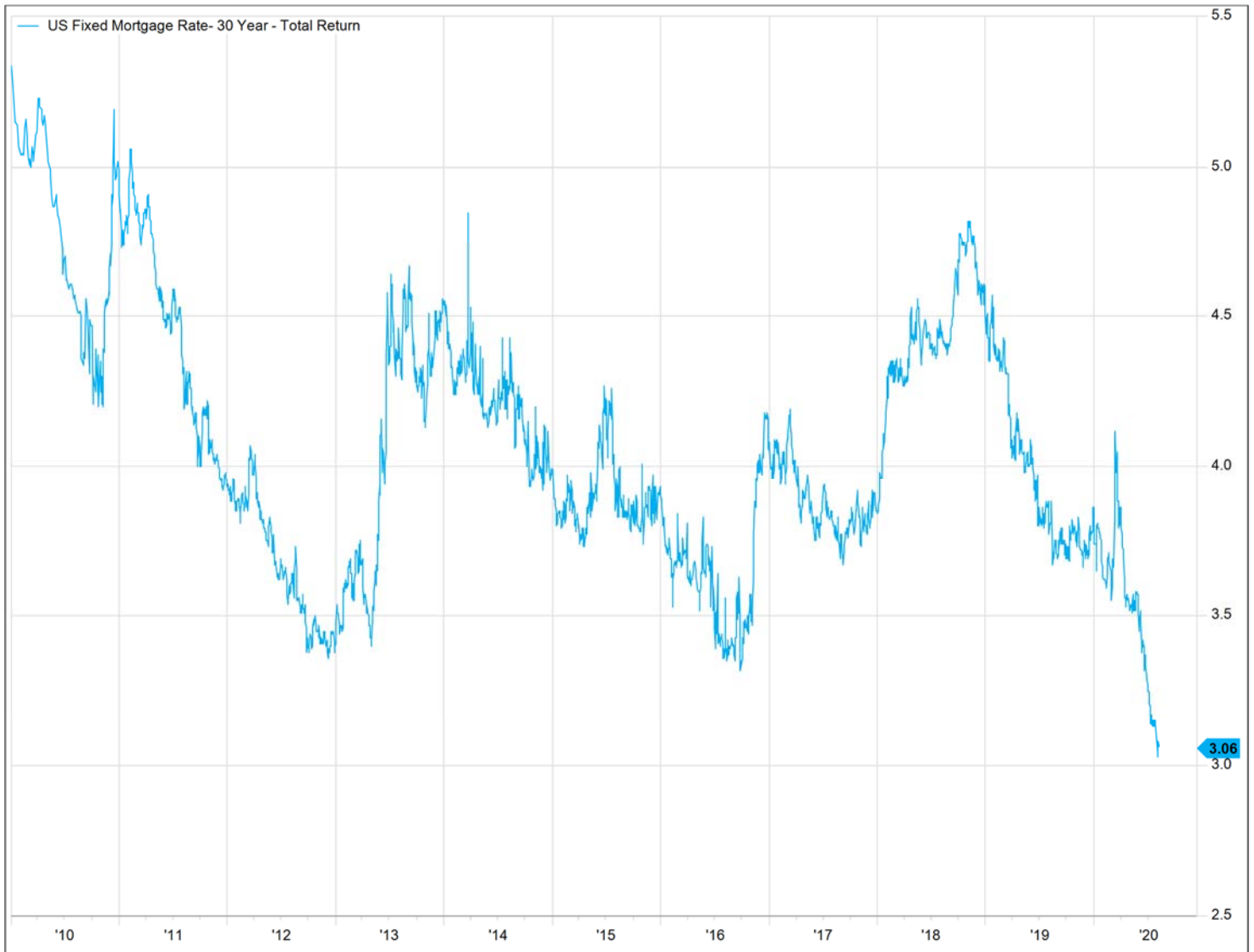
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