Mortgage Rates Move Lower. Discussing FICO Scores

By: Victor Burek | Mon, Aug 17 2009, 12:22 PM

Mortgage rates are inching lower as prices of mortgage backed securities continue to move higher today. To remind readers, mortgage rates are set by the trading of mortgage backed securities. As MBS prices increase lenders are able to offer lower mortgage rates. Contributing to move lower in rates this morning is strength in bonds (like MBS) as stock markets sell off. This weakness began overnight in Asia and Europe and carried over into US trading. Already this morning, investor demand for safer securities is helping MBS post healthy gains.

The only scheduled report today was the Empire State Manufacturing Survey, which measures the strength of manufacturing around the New York region. Readings below 0 indicate contracting business conditions while readings above 0 indicate growth. Recent indications from this survey have pointed towards an easing of the current economic contraction. Last month's reading rose to -0.55 from -9.41 in June. Today's numbers not only showed more improvement, but actually turned positive to the tune of 12.08--the best reading since late 2007! Because this data is relatively low on the spectrum of importance, it has done little to phase stock weakness and bond strength. READ MND STORY

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In addition to normally scheduled economic releases, on Wednesday the U.S. Department of Treasury will announce next week's auctions of 2yr, 5yr and 7yr notes. In recent months the market has reacted more to the actual announcements rather than the auctions themselves. Though treasuries to not dictate mortgage rates, they are the benchmark for the rest of the fixed income world like MBS. So if treasuries suffer, MBS generally begin to look overpriced by comparison unless they too weaken in price (higher yield). It is the different PACE of these movements that accounts for so much historical difference between treasury movements and mortgage rates. In other words, RELATIVE demand for MBS might increase if treasuries fall as investors look to sacrifice some safety in order to earn a higher yield. This is why we often see MBS outperform treasuries when both are moving significantly down in price. There can also be differences in how MBS move even relative to each other since there are three distinct agencies that "turn mortgages into MBS" (securitize): Fannie Mae, Freddie Mac, and GNMA. The first two are relatively similar in the sense that they securitize the traditional conforming, conventional loans whereas GNMA securitizes FHA and VA.

Because FHA loans are perceived to have more lenient qualifying standards than Fannie and Freddie, their popularity has rapidly increased. Even though their guidlines have tightened in concert with the other agencies, many believe FHA's comparatively lax standards not only contributed to meltdown, but given their increased market share, are also inviting unforseen problems in the present market. During the height of the mortgage boom, FHA had no minimum credit score to qualify. Borrowers with 500 credit scores were still getting approved for 97% financing of a primary residence. And even then, Down Payment Assistance programs effectively turned this into 100% financing.

Though I agree that it was far too easy for people to qualify for an FHA loan throughout 2004 to 2007 (and every other loan for that matter!), it now seems that the pendulum has swung the other way. Last week, one major lender made it even harder for consumers to qualify for FHA financing by increasing their minimum credit score from 620 to 640. Typically, when one major lender makes a move like this, it is very common to see additional lenders follow. Even if some lenders continue to allow 620, this is yet another suggestion that credit scores continue to become more important for borrowers.

If you are considering buying or refinancing a home, make sure you get a copy of your credit report and review it for its accuracy as many have multiple errors. Each year as a consumer, you can request a free copy of your credit report from each of the credit reporting agencies. You can contact them via phone to request or on line by visiting www.Experian.com, www.Equifax.com and www.Transunion.com. Please note, these reports will NOT provide a credit score for free. Still, simply correcting any errors in your report, or updating balances to reflect more payments can go a long way. To be absolutely sure of where you stand, you CAN obtain your score from each agency for a small fee.

Reports from fellow mortgage professionals indicate that mortgage rates are improving. The par 30 year conventional rate mortgage is now in the 4.875% to 5.125% range for the most qualified consumers. In order to secure a par interest rate you must have a FICO credit score of 740 or higher, a loan to value at 80% or less and pay all closing costs including one point loan origination/discount/broker fee. If you are looking to secure FHA financing, expect the rate to be .125% to .25% higher than conventional financing.

This morning, we are seeing the best mortgage rates of the last several weeks. Each time rates fall below 5%, they have not remained there for very long. The last time we saw 4.875%, it was available for all of one day! This has been a very consistent pattern since early Summer. As such, I will caution you to not get too greedy. Can rates move lower? Absolutely, but there is much more room above for rates to go higher. In addition, rates move higher much faster than they move lower as lenders are reluctant to pass along lower rates. If you can lock a rate today under 5% you might want to take advantage.

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