Mortgage Rates Steady as Stocks Set New Highs

By: Victor Burek | Tue, Aug 25 2009, 12:44 PM

Mortgage rates are holding steady even as stocks continue to make new 2009 highs. After some early morning selling pressure yesterday, prices of mortgage backed securities managed to regain much of the losses they suffered on Friday. So far this morning we've managed to hold onto about 2/3rds of those gains, weathering a storm of better than expected economic data and rallying stock markets. Our next hurdle: the 2 yr note auction at 1pm eastern.

Today's scheduled auction of 2yr notes is the largest on record at $42 bln, versus a previous high of $40 bln. Because this auction was announced last week the markets have already adjusted prices accordingly. Why would they be adjusting prices? As we've discussed here in the past, Treasuries are like any other investment with respect to supply and demand. High levels of supply force sellers to lower prices in order to attract willing buyers. Think of it like a supermarket that received an unexpectedly large shipment of lettuce. If they want to sell all the lettuce, they'll probably have to lower the price unless everyone goes crazy for lettuce all of a sudden. From the consumer's perspective, since the price of lettuce is dropping, their RETURN is rising since because the buyer is now receiving more lettuce for their money. This "return" or YIELD is proportional to changes in interest rates. In other words, if the US Treasury is forced to issue high levels of treasuries in order to finance spending, the price may need to be lower in order to generate enough demand.

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Since we're talking so much about the Treasury auction, you might be wondering what all this has to do with mortgages... For many reasons, the US Treasury is the definitive benchmark for the fixed income market. This means that our various Treasury securities act as a yard stick or reference point against which similar duration (actual or estimated length of time before the bond is repaid) fixed income investments are judged and valued. So if Treasury prices fall, MBS will look more and more overpriced by comparison if they do not keep some sort of pace with the price declines in treasuries. And of course, if MBS prices are FALLING, mortgage rates are RISING. Matt and AQ will cover the auction on the MBS Commentary blog. This is fairly advanced stuff, if you're new to the topic and want to gain a deeper understanding of the factors that effect mortgage mortage...the previously stated information is a good paragraph to go back and reread slowly.

In other data this AM, not one, but TWO reports came out on home prices. Both reports showed improvements over previous readings which continues to build the case that the lowest points are behind us. The Case Shiller Home Price Index showed a year over year price drop of 15.4% marking the smallest decline since April 2008. Last month's report indicated a year over year decline of 17%. To read more on this report, click here. The second report cpmes from the FHFA (Federal Housing Finance Agency) with their version of the Home Price Index. This report shows a month over month increase of 0.5% and a year over year decline of -5.0%.

The final report on the day is the Consumer Confidence report which came out much better than expected. This comes after several months of mixed signals from the report where it was improving from March to May and then deteriorating in June and July. Despite that sort of "tie breaking" vote in favor of stocks, bond markets (which have a general tendency to operate inversely from stocks), have not reacted negatively, MBS included. The focus is definitely on the auction today.

Departing from markets for the day and moving on to other mortgage related topics, let's talk again about HVCC (you know, the recent legislation with all the appraisal restrictions?). As a consumer, you can no longer decide who appraises your home if you wish to secure a conventional mortgage. With the passing of this law, you are required to provide the lender up front, information for how you intend to pay for the appraisal. The lender then picks one of several Appraisal Management Companies that they have preapproved to complete the appraisal. Once the AMC is selected, they contact the consumer to arrange the appraisal by randomly picking an appraiser that is supposed to be familiar with the subject property's area. This law has not applied to FHA loans, but there was some concern as to whether or not it would be adopted. In a very positive sign, the commissioner for FHA announced yesterday that they do not intend to apply HVCC to any FHA loans. In his statement he says that FHA is aware of the problems that HVCC is causing. This is a huge positive for the consumer as HVCC has been nothing but a sharp poke in the eye to almost all consumers who have experienced its downsides.

If you have any stories on HVCC please share them in the comments section. I'll relate a great one now from a fellow mortgage professional: This loan officer placed the order with the lender following the rules of HVCC. The consumer was contacted and paid for the appraisal. About a week or so later, the appraisal was sent to the lender. It turns out that the appraiser appraised the home next to the subject property!! To make matters even worse, it took a couple weeks to get the issued resolved.

Another example of the low quality of HVCC appraisals comes from one of my clients:We had submitted the loan to Taylor Bean but due to their demise, we transferred the loan to another bank who would accept appraisals ordered through HVCC protocol. We were contacted by that bank yesterday with them saying that they are denying the loan due to the appraisal. The lender informed us that the quality of the appraisal that was performed was well below their standards and unacceptable.

Bottom line, if you see HVCC out and about, shoot first and ask questions later. Here's hoping to it going the way of the old gray mare, and soon!

To wrap it up, reports from fellow mortgage professionals are indicating that the par 30 year conventional rate mortgage remains in a ange. Currently our par rate is between 4.875% to 5.125% range for well qualified consumers. In order to secure a par interest rate you must pay all closing costs including one point loan origination/discount/broker fee, have a FICO credit score of 740 or higher and a loan to value at 80% or less. You can always elect to pay less in closing costs and secure a higher rate or you can pay additional discount points and buy a lower interest rate.

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