Mortgage Rates Hit New 2010 Lows as Stocks Sell

By: Victor Burek | Thu, Jan 21 2010, 4:20 PM

Yesterday, mortgage backed securities closed at their highest prices since early December which allowed lenders to offer the best mortgage rates seen in 2010. These improvements have extended over into today after some unexpected news from the Obama Administration.

But first a recap of morning economic data…

First to be released was weekly jobless claims. This report gives us several readings on the number of Americans who filed for unemployment benefits in the previous week:

1. Initial claims totals the number of first time filers.
2. Continued claims totals the number of Americans who continue to file for unemployment benefits due to an inability to find a new job.
3. Extended benefits totals the number of Americans who are receiving emergency benefits beyond the traditional time allowed to collect. Under a recent government stimulus program, benefits can be extended up to 20 additional weeks and another 13 additional weeks in states with higher levels of unemployment.

To help you better understand the flow of claims. When a American first files for benefits, they are counted in initial claims. If that American files in the following week, they are now counted in continuing claims. They will continue to be counted in this category until they find a job or they use up their traditional benefits. If they continue to file after traditional benefits are used up, they leave that category and are now counted as an extended benefits recipient. They will be counted in that category until they find a job or until those benefits run out and they are no longer counted.

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The report indicated initial jobless claims rose 36,000 last week to 482,000, much worse than the 440,000 that was expected. This was the third straight week of higher claims and the highest level in two months, which doesn't point to an improving jobs sector. Continuing claims fell 18,000 to 4.599 million. Offsetting the positive continuing claims reading was the substantial increase in the extended benefits category which posted an increase of 613,000 to 5.92million! What we see from this report is the improvement in continuing claims is simply people leaving that category and moving into extended benefits. There was an interesting debate this morning regarding seasonal adjustments. AQ EXPLAINED

The next report of the day came from the Conference Board: Leading Indicators. This is a composite index of 10 economic indicators that are expected to provide a forward looking indication of economic activity. If the month over month change is positive, it indicates the economy is improving. Most of the components of this report have already been released so this doesn't give us much new information.

The release indicated that Leading Indicators continue to indicate that our economy is stabilizing from record low levels of output. The index increased 1.1%, beating estimates for a 0.7% rise.

The final economic release of the day and the week gives us a measure of the strength of manufacturing in the Philadelphia region. Readings above 0 indicate improving conditions while readings below 0 indicate contraction. Recent readings have shown manufacturing conditions improving with last month's report jumping from 16.7 in November to 20.4 in December. Economists surveyed expect a slight pull back with this month's report to 18.4.

The release indicated manufacturing conditions took a step back coming in lower than expectations at 15.2.

The most important event of the day, besides the unexpected announcement from President Obama which I will explain in a moment, was the U.S. Department of Treasury announcement on the size of next week's debt offering. When our government does not have the cash to pay for spending, they borrow money by issuing Treasuries. The added supply of debt on the market can pressure both treasury and mortgage yields higher. Today the Treasury announced new supply totaling $118 billion. The breakdown is as follows: $44billion 2 year notes, $42billion 5 year notes, and $32billion 7 year notes.These amounts are unchanged from the previous auction cycle, the bond market did not react negatively to these terms. That is a function of President Obama's press conference though...

This morning President Obama announced that he was planning on getting more involved in the financial markets, this time with a proposal to limit the size of banks and their risk taking/profit making strategies. While details have yet to be provided, the stock market did not react well to this news. Bank stocks sold off rapidly as market participants scrambled to make sense of the regulatory proposal. This event turned out to be very supportive of interest rates. We call this a "flight to safety" rally. This occurs when investors are nervous or in a panic and need to re-allocate their funds to safe assets. There are no safer assets than US Treasury debt, which are backed by the US government's ability to raise money from taxpayers. This "flight to safety" rally was beneficial to the mortgage market. CAVEAT:THIS WAS FORCED BUYING AND IS NOT NECESSARILY A SIGN OF FURTHER IMPROVEMENTS TO COME...READ MORE

Reports from fellow mortgage professionals indicate lender rate sheets to be improved from yesterday. While the par 30 year conventional mortgage rate remains in the 4.75% to 5.00% range, it is less expensive to get those rates today. These rates are the most aggressive in the mortgage market, only very well qualified consumers will have access to these borrowing costs. To secure a par rate you must have a FICO credit score of 740 or higher, a loan to value at 80% or less. These quotes also assume the borrower is willing to pay all closing costs including an estimated one point loan origination/discount/broker fee. If you are seeking a 15 year term, you should expect a par rate in the 4.25% to 4.50% range with similar costs.

With lenders still offering the best rates we've seen in over a month and further progress unknown in the rates market, I think most should consider locking in their mortgage rate. As I said yesterday, we have picked up significant gains this week, by locking you take advantage of those gains and remove risks. At this point, without a fundamental shift in investor sentiment or the economy, it is going to be very difficult for mortgage rates to move much lower. In my opinion you do not have much to gain by floating. Also like yesterday, I am not totally against floating into tomorrow, but do feel the recent price gains warrant locking in loans. If you do decide to continue floating, you should be re-evaluating your stance on a daily basis.

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