Mortgage Rates Move Lower. Favor Locking over Floating

By: Victor Burek | Wed, Jan 20 2010, 3:57 PM

After making noticeable improvements toward the end of last week, mortgage rates failed to extend positive progress yesterday. After a weak open, mortgage backed securities prices traded in a narrow range for most of the day. Despite MBS prices moving lower at the open, lenders were still able to offer aggressive mortgage rates, they were actually at their most aggressive levels since early December.

Economic data picked up today...

First out was the Mortgage Bankers Association Mortgage Application Activity report. This MBA survey covers over 50 percent of all US residential mortgage loan applications taken by mortgage bankers, commercial banks, and thrifts. The data gives economists a look into consumer demand for mortgage loans. A rising trend of mortgage applications indicates an increase in home buying interest, a positive for the housing industry and economy as a whole. Furthermore, in a low mortgage rate environment, such a trend implies consumers are seeking out lower monthly payments which can result in increased disposable income and therefore more money to spend on discretionary items or to pay down other debt.

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The release indicated purchase activity increased 4.4% last week while refinance demand moved 10.7% higher. READ MORE ON THE MBA SURVEY RESULTS. This is positive news following yesterday's home builders index which took a step back falling from 16 to 15 in January after peaking at a 19 in September. The Home Builders' Index is a survey of home builder optimism. To read more on the home builder survey, check out the MND STORY.

Of much more importance today was the Producer Price Index

PPI measures the changes in prices that manufacturers and wholesalers pay for goods during different stages of production. If businesses have to pay more for the materials they use to produce their widgets …they may be forced to pass along those additional costs to you…the consumer. Although inflation at the producer level does not always lead to higher prices paid by consumers, this report is high impact in the bond trader community. If the PPI data implies rising price pressure, generally the bond market reacts by pushing prices lower and yields higher to compensate for the expected lost value of the dollar. Lower bond prices generally imply higher mortgage rates.

Last month the PPI report indicated the prices paid by producers increased 1.8%, which helped spark inflationary fears and put pressure on mortgage rates to rise. However, with unemployment hovering around 10%, producers are finding it difficult to pass along higher prices to the end consumer, who has less income to spend. The CPI report which we received last week continues to show inflation at the consumer level to be at very acceptable levels. Additionally, the Fed has continued to state that they feel inflation is not a worry today.

The release indicated overall prices paid by producers increased 0.2%, which was slightly above the consensus of no change. When you strip out volatile food and energy, the core rate, prices paid by producers held unchanged beating expectations of a 0.1% increase. So, we have another report indicating inflation is not a concern today, which should allow the Fed to maintain their current accommodative stance regarding our nation's monetary policy.

The final report of the day gave us another look into the housing sector: Building Permits and Housing Starts.

Housing Starts data estimates how much new residential real estate construction occurred in the previous month. New construction means digging has begun. Adding rooms or renovating old ones does not count, the builder must be constructing a new home (can be on old foundation if re-building). Although the report offers up single family housing, 2-4 unit housing, and 5 unit and above housing data...single family housing is by far the most important as it accounts for the majority of total home building.

Building Permits data provides an estimate on the number of homes planning on being built. The number of permits issued gauges how much construction activity we can expect to take place in the future. This data is a part of Conference Board's Index of Leading Economic Indicators.

Housing starts in December fell 4.0%, more than the market expected, to an annualized pace of 557,000. This follows last month's revised reading of an annualized pace of 580,000. Building permits; however, posted a large increase from 584,000 last month to a better than expected total of 653,000. AQ wrote some color on the developing dynamic between home builders and home prices. He says he is concerned that if home builders are overly optimistic and start building new home before housing demand recovers...we may see added downward pressure put on home prices. READ MORE

Reports from fellow mortgage professionals indicate improved rate sheets this morning. The par 30 year conventional rate mortgage has dipped to the 4.75% to 5.00% range for well qualified consumers. 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 an estimated one point loan origination/discount/broker fee.

If you have been floating your rate for some time, you have picked up noticeable gains over the course of the week. With that in mind, there is nothing wrong with taking your chips off the table by locking your loan now. If you have been waiting to pull the trigger for mortgage rates to decline back to the low's of last year, I would suggest that you stop waiting...LOCK NOW. While I am not totally against floating into tomorrow, I think recent gains justify some profit taking. Consult with your mortgage professional at day's end and strongly consider locking at close of business ahead of the new supply of Treasury debt coming tomorrow.

HUD announced this morning the implementation of changes to FHA guidelines. These changes include an increase in the upfront mortgage insurance fee from 1.75% of the loan amount to 2.25%. On a $200,000 loan that is an increased cost to the consumer from $3500 to $4500. They also announced seller concessions decreasing from the current allowable 6% to only 3%. This means the seller can only pay 3% of the purchase price to the buyer to help offset closing costs and prepaids. Prepaids include the paying of 1 years insurance and setting up of an escrow account. To read more on these and other proposed changes, check out the MND STORY.

I would like to hear your opinion on these proposed changes by FHA. Do you feel this is a necessary move or a continuation of the over tightening of lender guidelines? Does the government-backed FHA need to be making credit harder to get?

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