Mortgage Rates End Choppy Week Near Best Levels

By: Victor Burek | Fri, Jan 29 2010, 5:22 PM

Mortgage rates ended last week at their best levels since early December. Then rates rose on Monday, gained back lost ground on Tuesday only to give back those improvements after the FOMC statement on Wednesday, weakness then extend over into Thursday. This left the par 30 year fixed mortgage rate in the 4.875 to 5.125 range. Today, all eyes were on the release of Advance 4th Quarter GDP.

At 8:30 am the US Department of Commerce released the advance read on 4th quarter Gross Domestic Product. This is the first of three 4th Quarter GDP release, today's report will be revised in February and March. GDP is the broadest measure of total economic activity and includes every sector of our economy. It is basically our economy's score card. A rapidly growing economy usually leads to inflation, so the bond market prefers slower growth while the stock market generally benefits from faster growth.

The report showed that our economy grew much more than expected last quarter. Economists were anticipating growth to expand at a rate of 4.6%, the actual increase was 5.7%. This is the fastest growth we've seen in six years. On the flip side, in 2009, our economy contracted at a rate of 2.4%. Included within this report is the Fed's favorite gauge of inflation, the Personal Consumption Expenditure. The core PCE, which strips out food and energy, rose 1.4% well within the Fed's target range indicating once again that inflation is not an immediate concern. Overall PCE rose 2.7% following last quarter's 2.6% increase. There were a few caveats to this report though. READ THE DETAILS HERE

See Rates from Lenders in Your Area

The next report to be released was the Chicago PMI. This data measures the strength of business conditions in the Chicago region. The Institute of Supply Management surveys both manufacturing and non-manufacturing firms, readings above 50 indicate an expanding conditions while readings below 50 indicate contraction. Recent surveys have shown conditions improving with last month's report coming in at 60.0, the highest reading in over 2 years and the third consecutive monthly gain. Expectations for today's report were for a slight pull back to 57.2. The release indicated that business conditions in Chicagoland improved for the fourth consecutive month, beating expectations with a reading of 61.5.

Our final economic report of this busy week was a read on how consumers are feeling. The University of Michigan's Consumer Survey Center questions 500 households each month on their personal financial conditions and attitudes about the economy. An optimistic consumer is more likely to spend which benefits stocks. A pessimistic consumer is more likely to save, which benefits the bond market. Economists expected January's final print to indicate an improvement in consumer attitudes with a read of 73.0. The actual number: 74.4, consumer sentiment continues to improve.

Following the release of much better than expected 4th Quarter GDP, mortgage-backed security prices fell. This forced lenders to move mortgage rates slightly higher early on in the day. That didn't last long though. Around lunch time MBS prices began to improve. After the lunch hour, momentum picked up and lenders started repricing for the better. The par 30 year conventional rate mortgage rate ends the week in the 4.75% to 5.125% range for well qualified consumers. 4.75% is the best rate you will get in this market without paying several points. To secure these rates you must have a FICO credit score of 740 or higher, a loan to value at 80% or less and be willing to pay all closing costs including an estimated one point loan origination/discount/broker fee. You may elect to pay additional points to buy the interest rate lower or pay less in fees and accept a higher interest rate. Your mortgage professional should be able to help you figure out the most optimal fee/rate structure for you based on your credit and how long you intend to keep the property.

To lock or float is still the question. I have been saying LOCK all week, which would have worked out great for you, but I am willing to explore the possibility of floating over the weekend.Lets see...

In my opinion, 4.75% is probably the lowest rate we are going to see in the near future. For rates to move lower, we will need a fundamental shift in economic outlooks. This seems unlikely. Do you think the economy is going to take another nosedive this year? Combine that with the Fed's March exit from the MBS purchase program and mortgage rates appear to only have one direction to head: HIGHER

While I am not totally against floating over the weekend, I still can't provide enough justification to ignore currently aggressive mortgage rates, especially after lenders repriced for the better this afternoon. Think of this in terms of your payment over the next 30 years, unless you are floating a 729,000 loan, the marginal improvements we could see over the next week would not justify gambling against the growing risk of rising mortgage rates. LOCK WHILE YOU CAN STILL GET THESE AGGRESSIVE RATES.

The economic data calendar is busy next week, with the most important release, the Employment Situation report, due out Friday morning. Should make for an interesting week.

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