Mortgage Rates Move Higher Again. Stocks Influencing Lock/Float Decisions

By: Victor Burek | Thu, Jan 28 2010, 4:31 PM

Mortgage rates rose after the release of the FOMC statement yesterday. Whiel the interest rate sell off wasn't substantial, MBS prices declined enough to force lenders to reprice for the worse.

Overall there were only small adjustements made to the FOMC statement. The vote on whether to raise or hold steady the Fed Fund rate was not unanimous though. Thomas Hoenig, the Kansas City Fed Bank President, voted to raise short term interest rates while all others voted to leave rates unchanged. He believes the current 0 to 0.25% range for the Fed Fund rate was no longer warranted due to an improving economy. He also believes that inflation is a bigger concern than many believe. To slow inflation Hoenig believes interest rates need to be moved higher. For more on the FOMC statement and President Obama's State of the Union address, check out what AQ wrote on the MBS Commentary blog.

See Rates from Lenders in Your Area

The economic data calendar had a few items of interest on it today.

First out was weekly jobless claims. This report gives us three measures of the number of Americans that filed for first time unemployment benefits in the prior 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.

The released indicated jobless claims fell by 8,000 last week to 470,000. While the number of claims fell, the market was expecting only 450,000 initial claims, so this was worse than anticipated. Continued claims declined to 4.602 million from 4.659million in the prior week. Americans receiving extended benefits declined 305,100 to 5.6million.

Here is a table summarizing the data:

Week Ended	Initial Claims	4-Week Avg.	Continued Claims	Insured Uemployment rate (pct)
01/23/10	470,000	456,250	Unavailable	Unavailable
01/16/10	478,000-R	446,750-R	4,602,000	3.5
01/09/10	444,000-R	440,750-R	4,659,000-R	3.6-R
01/02/10	433,000	449,750	4,609,000-R	3.5
12/26/09	432,000	460,250	4,807,000	3.6
12/19/09	454,000	465,750	4,979,000	3.8
12/12/09	480,000	468,000	5,038,000	3.8
12/05/09	475,000	473,250	5,202,000	3.9

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Released at the same time was the Durable Goods Orders report. This release measures new orders at U.S. factories for products that are expected to last at least three years. Basically, this report tells market participants how busy manufacturers will be as they rush to meet the new orders. The report indicated durable orders improving but less than expectations. New orders for December increased only 0.3% when economists had expected a 2.0% increase. When excluding transportation orders, the report came in better than expected at an increase of 0.9%, expectations was for only a 0.5% rise.

Today at 1pm eastern, the Department of Treasury auctioned $32billion 7 year notes. Just like yesterday's 5 year note auction, today's issuance went very well. Unfortunately, even though demand was strong at today's auction, we could see better pricing from lenders later today or tomorrow. AQ covered the results on the MBS Commentary blog.

Reports from fellow mortgage professionals indicate lender rate sheets to be worse today. The par 30 year conventional rate mortgage has risen to the 4.875% to 5.125% range for well qualified consumers. To secure a par 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. You may elect to pay less in fees, but you will have to accept a higher interest rate.

I have been advising LOCK all week. If you locked, way to go! Good timing. If you did not lock, we have some deep thinking to do. I think the easiest way to gauge that decision is: DO YOU THINK STOCKS ARE GOING TO CONTINUE TO SELL OFF or DO YOU THINK STOCKS WILL CORRECT FROM RECENT WEAKNESS.

Given the relentless rally we saw in stocks from March until just recently, and the marginally more optimistic FOMC statement, I would think stocks would be looking to recover from recent weakness. This would put added pressure on interest rates to rise.

Tomorrow, we get several economic reports to influence our decision: the first read on Q4 2009 GDP, Chicago PMI and Consumer Sentiment. We know 4th quarter GDP was strong, combine that with the fact that stocks are searching for a reason to rally, and the outlook for interest rates is not so consumer friendly. I think mortgage rates are still super aggressive. I would still be locking.

Every consumer has different loan characteristic though. If you're rolling the dice and still floating, let us know. Let's see if we can get some convesation going about your decision.

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