Mortgage Rates Rise Ahead of FOMC Meeting and Treasury Auctions

By: Victor Burek | Mon, Jan 25 2010, 3:52 PM

For mortgage rate watchers and interest rate shoppers, last week was rewarding. Lenders were able to offer progressively lower mortgage rates as prices of mortgage backed securities moved higher and higher over the course of the week. By Friday lenders had passed along the best rates of 2010.

Improvements to consumer borrowing costs were partially a function of weakness in the equities market. Stock selling was sparked by political headlines including the Massachusetts Senate election, the announcement of new bank reforms, and growing debate surrounding the renomination of Ben Bernanke, the Chairman of the Federal Reserve. All of these events combined to create a great deal of uncertainty in financial markets which forced investors to sell risky assets and re-allocate funds into risk free assets like of US Treasuries and Agency MBS. By week's end, most lenders were offering 4.75% as par for a 30 year conventional rate mortgage.

The week ahead is filled with influential data points and noteworthy events. There is an FOMC meeting, $118 billion in Treasury auctions, several housing market indicators, and a read on Gross Domestic Product as the week comes to a close. All very influential events!

See Rates from Lenders in Your Area

The week did start slow, the only report released today was Existing Home Sales. This data set totals the number of existing homes, not new construction, in which a sale closed in the prior month. Recent reports have shown existing home sales moving higher thanks to near record low mortgage rates and government stimulus for home buyers. Last month's report surged 7.4% higher to an annual sales rate of 6.54 million units. Economists surveyed were expecting the pace of existing home sales to slow down in December. This was a factor of many buyers rushing to beat the expiration of the first time home buyer tax credit in November (which has been extended). Consesus was for an annualized pace of 5.90 million existing home sales.

At 10am the NAR reported that existing home sales fell more than expected in December to an annualized pace of 5.45million. This is the largest monthly decline since 1968! More bad news from the report was the rise in supply of homes from a 6.5 months in November to 7.2 months in December. READ THE MND STORY

Following the release, there was not much reaction in the marketplace as most investors are on the sidelines, waiting for an action packed week of data and events...

Tomorrow brings us another look at the housing sector with the S&P Case-Shiller Home Price Index. This data tracks the monthly change in the value of single family residences across the country. Many economists believe that until home prices stabilize and start to increase, it will be very difficult for our economy to sustain growth. This makes tracking home sales data much more important. In addition to this data, we also get Consumer Confidence, a 2 year note auction totaling $44billion, and the beginning of the Federal Open Market Committee's two day meeting where our nation's monetary policy is set.

Wednesday brings us MORE home sales data with the weekly Mortgage Bankers' Associations Application index and New Home Sales. This data will be followed by testimony from Treasury Secretary Tim Geithner to the House Oversight Committee and an auction $42billion 5 year treasury notes. At 2:15pm eastern, the Fed Statement will be released. This statement sets the Federal Fund rate and gives an economic outlook and announces any changes to quantitative easing programs such as the MBS buying program. Later in the evening, President Obama delivers the State of the Union address to Congress.

Thursday brings us

- Durable Goods Orders
- Jobless Claims
- $32billion of 7 year notes to be auctioned

Friday we get…

- GDP, the initial estimate of fourth quarter growth
- Chicago PMI
- Consumer Sentiment

For more on the week ahead, check out the MND STORY. AQ also wrote an outlook. READ MORE

Reports from fellow mortgage professionals indicate lender rate sheets to be worse than Friday. The par 30 year conventional rate mortgage has risen to the 4.875% to 5.125% range for well qualified consumers.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. Your mortgage professional should be able to provide you with a breakeven analysis to determine the optimal fee vs interest rate.

If you didn't follow our LOCK advice from last week, that means you are still floating today. While lenders were likely conservative today, we are feeling extra defensive of last week's improvements. I am still favoring locking in loans. If you decide to float, keep a watchful eye on stocks. If they start to recover from last week's losses, mortgage rates should increase.

On a side note, I would like to wish Matt Graham a happy 30th birthday.

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