Mortgage Rates Move Higher After First of Three Treasury Auctions

By: Victor Burek | Tue, Feb 9 2010, 6:38 PM

Mortgage rates held steady yesterday. An overall lack of economic data and influential news contributed to what turned out to be a very slow day in the interest rate marketplace. After hitting new price highs on Friday, mortgage backed securities prices lost some ground in yesterdays session. Price losses were not substantial enough to force lenders to reprice for the worse though, lender rate sheets were left unchanged on the day.

There were a few off-radar reports released that deserve some attention:

Wholesale inventories: U.S. wholesale inventories unexpectedly fell 0.8 percent in December, while sales rose 0.8 percent. **READ MORE**. A very relevant commentary was just published on MND about this release. Here is a comment from the post.

From MBS OPEN: Inventories Account for 59% of GDP Gains. Rates Still Contained in Range

See Rates from Lenders in Your Area

> When consumer demand is falling, like it has been over the course of the last two years, businesses cut back on production of goods to align their supply with consumer demand. This afffects the entire supply chain as purchase managers stop ordering the raw materials necessary to complete their finished product.
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> This affects consumers in a few ways, the most obvious being LESS JOBS. Why? When firms slow production, they need less labor to fill orders, so they stop hiring and cut hours and positions. The more businesses are cutting inventory, the worse it is for GDP. Once businesses stop cutting and start adding to inventories, it will be a big contributor to month over month percentage GDP gains.
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> LESS CONTRACTION IN BUSINESS INVENTORIES ACCOUNTED FOR 59.5% OF GDP GAINS!!!

The second report was the Index of Small Business Optimism, released by the National Federation of Independent Business. Small businesses account for a large source of employment for America, so it is important that small businesses keep up in the economic recovery, especially if jobs are to restored. The NFIB Small Business Optimism index rose 1.3 points to 89.3 in January. It is up 8.3 points from March, the index's low since the recession began and its second-lowest reading in history. READ MORE

Yesterday, I titled my blog post:Short Term Direction of Mortgage Rates Dependent Upon Auctions and Stocks.

Mortgage rates moved higher this morning ahead of the first of three auctions. After a relatively weak auction, benchmark interest rates continued to move higher. Consequently, mortgage-backed security prices fell. While mortgage rates did increase early on the day, MBS price weakness was not large enought to force most lenders to reprice for the worse.

Matt and AQ will covered the results of today's auction on the MBS Commentary blog. The charts used show how much MBS prices fell today. To remind readers, as mortgage-backed securities prices move higher in price lenders are able to pass along better rates.

Reports from fellow mortgage professionals indicate lender rate sheets to be worse this morning., mortgage rates are higher. While the par 30 year conventional mortgage rate does remain in the 4.75% to 5.00% range (for well qualified consumers), it will cost more to get that rate today. 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. If you are seeking a 15 year term, you should expect par in the 4.25% to 4.50% with similar fees.

I would like to take a moment to clarify rate quotes.

There are many variables that are come into play when one is asking for mortgage rate quotes. These variables include your FICO score, your loan to value, the type of property, your loan size, and the amount of closing costs you are paying. Even the state you live in has an effect on mortgage rates and borrowing costs. Just because you have a 800 FICO score doesn't imply you will qualify for the best rates. Many factors are involved in mortgage rate pricing.

Last year, I advised readers to lock at 4.50% as I felt that was the lowest rate we would see. With the exception of a few lenders offering incentives to high FICO, low loan to value consumers, rates were unable to move lower. Many readers didn't lock in hopes that mortgage rates would continue to decline. They missed that boat.

In 2010, mortgage rates have proven unable to push lower than 4.75%. I continue to believe that 4.75% is the lowest we will see this year unless there is a major shift in investor sentiment and economic outlooks. This highlights why I continue to advise locking at the present rates…RISK GREATLY OUTWEIGHS REWARD in this environment.

Please share your comments below regarding your mortgage rate outlook. Do you feel rates will move lower or are we hitting a floor?

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