Mortgage Rates Hold at Higher Levels After Last Auction of Week

By: Victor Burek | Thu, Feb 11 2010, 5:10 PM

Mortgage rates moved higher for the second day in a row yesterday following another weaker than anticipated Treasury note auction. Less investor demand for 3 year and 10 year Treasury notes combined with what seems to be the beginnings of a recovery rally in stocks both contributed to rising consumer borrowing costs. Mortgage backed securities prices moved considerably lower on the day, forcing the majority of lenders to reissue rate sheets for the worse. This pushed the par 30 year mortgage rate up to 4.875% at best. To remind readers, as MBS price moves lower lenders are forced to increase consumer borrowing costs.

There were two eocnomic reports on the calendar today: Retail Sales and Jobless Claims. The Retail Sales report was postponed until tomorrow after another blizzard hit the DC metro region. AQ says the wind was so heavy that he actually thought his bedroom windows were going to break. He reports 18 more inches on top of the 30 they already had on the ground. READ how this affected the local economy.

See Rates from Lenders in Your Area

Now for the other report, Initial Jobless Claims. Recent reports have shown an increasing number of Americans are filing for unemployment benefits. Higher levels of unemployment lead to less spending, because our economy is driven by consumer spending, a weak labor market is generally good for bonds and bad for stocks.

This report does give us three measures of unemployment claims:

1. Initial Jobless Claims: totals the number of Americans who filed for first time unemployment benefits
2. Continued Claims: totals the number of Americans who continue to file due to lack of finding a new job
3. Extended Claims: totals the number of Americans who have exhausted their traditional benefits and our now receiving emergency benefits.

The release indicated that first time claims fell 43,000 last week to 440,000. This was much better than economist estimates for 465,000 new claims and the lowest number of first time claims in five weeks. Continued claims also fell more than expected to 4.54 million from 4.602 million last week. Those receiving emergency benefits declined to 5.68million from 5.86million in the prior week. Despite the better than expected news, the bond market did not react. READ MORE

At 1pm eastern, the Department of Treasury held its final auction of the week, offering $16 billion30 year bonds. Just as the first two auctions of the week were lacking investor demand, so too was todays. Benchmark interest rates were already on the rise before the auction, so there was little no reaction in the market after the results were released. READ MORE

The damage had already been done, it wasn't huge though.

Reports from fellow mortgage professionals indicate lender rate sheets to be about the same as rates yesterday morning. This puts the par 30 year conventional rate mortgage in the 4.875% to 5.00% range for well qualified consumers, there are however a few lenders offering 4.75% at par again, but that quote will require about 1 point paid by the consumer. 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. You may elect to pay less in closing costs, but you will have to accept a higher interest rate.

If you have a lower FICO score, you can still get the best rates offered but you will have to pay additional fees thanks to the Loan Level Price Adjustments(LLPA). These new fees were announced in 2008 where consumers with lower FICO scores are charged additional fees. These price adjustments makes it more important than ever to maintain the best possible credit.

Here is an example:

A consumer doing a conventional, rate and term refinance at 80% of the appraised value with a 680 score would have to pay an additional fee of 1.5% of the loan amount. If today's par rate is 4.875%, this consumer would have to pay the closing costs, one point loan origination and the 1.5% fee to secure that rate. On a $200,000 loan, the loan origination would be $2000 and the LLPA fee would be an additional $3000 while a consumer with a 740 score would not have to pay the extra $3000 in fees.

Lock/float guidance is unchanged. While mortgage rates have risen over the past two days, lenders are still offering rates near what I believe will be the lowest rates of the year. Lock.

AQ wrote an explanation of what will drive mortgage rates over the next three months. It is a must READ.

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