Mortgage Rates on a Roller Coaster Ride

By: Victor Burek | Wed, Mar 3 2010, 5:46 PM

Early morning weakness in the bond market led lenders to publish rate sheets with higher mortgage rates yesterday morning. However, just after lunch, the fixed income sector went on a mini rally and recaptured all the morning price losses. As the price gains held until close, most lenders did reprice for the better, bringing rates back to the best levels of the year.

Following yesterday's data free day, economic reports picked up today.

First out this morning was the Mortgage Bankers Association's Weekly Loan Applications Index. The MBA survey covers over 50 percent of all US residential mortgage loan applications taken by mortgage bankers, commercial banks, and thrifts. The data gives economists a look into consumer demand for mortgage loans. A rising trend of mortgage applications indicates an increase in home buying interest, a positive for the housing industry and economy as a whole. Furthermore, in a low mortgage rate environment, such a trend implies consumers are seeking out lower monthly payments which can result in increased disposable income and therefore more money to spend on discretionary items or to pay down other debt.

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Recent reports from the MBA have indicated demand for mortgages to be declining as many home owners have already refinanced and taken advantage of the low interest rates offered last year. Despite the continuance of government stimulus for home buyers, the purchase market has been slow as well. Today's release indicated demand rebounding during the week of February 26. Leading the way was refinance activity, which posted a week over week gain of 17.2% while purchase activity moved higher by 9%. AQ has a full write up on the results. READ MORE

Next out was the ADP Employment Report. This data gives us a sneak peek into the health of the labor market ahead of the official government data, which is due out this Friday. Historically, the ADP report has varied greatly from the official report but its accuracy has been improving lately. The biggest difference between the two jobs report is the ADP numbers do not take into account government hiring, only the private sector. Since our economy is driven by consumer spending, higher unemployment would indicate less consumer demand and spending, a negative for corporate profits. Investors tend to sell stocks when unemployment is high in favor of the safety of the fixed income sector.

The report indicated that private payrolls shed 20,000 jobs last month, matching economists expectations. Last month's report was revised worse from a first reported loss of 22,000 to a much larger loss of 60,000 jobs! With the preview over, market participants will await the official government report due out Friday morning. Economists are expecting a loss of 50,000 jobs following last month's report which indicated a loss of only 20,000. The unemployment rate is expected to move higher from 9.7% to 9.8%. In MBS OPEN the dynamics of where job losses are occuring was discussed. READ MORE

Also released today was a report on the strength of the servicing sector of our economy: ISM Non-Manufacturing Index. The Institute for Supply Management(ISM) surveys 400 firms including mining, construction, retail, etc… on the strength of business conditions. Readings above 50 indicate improving conditions while readings below 50 indicate contraction or worsening conditions. The last two reports have shown improving conditions with last month's report coming in at 50.5 but less than what economists had expected. Today's report indicated the service sector of our economy improved much more than expected registering a 53.0 reading.

Like yesterday, early morning weakness in the MBS market led to slightly worse rate sheets at the beginning of the day. However as the day progressed, MBS prices rallied enough to allow many lenders to reprice for the better. This brought us back to where we ended the day yesterday. Phew. This week has been a roller coaster ride!

The par 30 year conventional rate mortgage remains in the 4.75% to 5.00% range for well qualified consumers. To secure a par interest rate on a conventional mortgage 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% range with similar costs but lower FICO score requirements.

I still say you should be locking ahead of the employment report coming Friday. If the numbers are better than expected or even not as bad as expected, rates will likely move higher. FAST. If the report comes in as expected or worse, I do not feel lenders will be passing along much lower mortgage rates. Nothing to gain, much to lose in my opinion. Still locking.

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