Short Term Lock/Float Bias and the Week Ahead

By: Victor Burek | Mon, Feb 22 2010, 6:51 PM

Mortgage rates rose, stabilized, then rose again and again and again on Friday last week. That's a three day skid of rising rates. Economic data wasn't necessarily great, but it wasn't bad either. The Federal Reserve did hike the rate at which they lend emergency funds to banks in need. While this event did cause a commotion and alter market sentiment, the net effect was not seen as a reason behind increases in mortgage rates. The Federal Reserve's planned exit from the secondary mortgage market has also played a minimal role in rising rates. The general explanation behind rising mortgage rates has been a slow and steady uptick in benchmark Treasury yields. Because mortgage-backed security yields track the direction of benchmark Treasury yields, mortgage rates have been generally higher lately.

There are several technical and fundamental reasons behind rising government borrowing costs (benchmark Treasuries), but the all encompassing explanation is that economist outlooks are "less bad". A record economic contraction now appears to have stabilized. The record dip in stocks that came along with it has almost completely corrected, and benchmark Treasury yields are now rising from all-time record lows. 2009 was a year of extremes, something we all grew accustomed to, but something that is not expected to continue forever.

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As long as nothing drastically negative occurs economically or financially in the next few months, which global governments have been diligently responsive to, mortgage rates are expected to continue to gradually rise. Unless housing really falls flat on it's face when the Federal Reserve exits the secondary mortgage market, which we are not expecting.

Today was a very slow day in the rates marketplace but the week ahead is full of Fed speak and plenty of economic data.

Here are the highlights:

Tuesday

- S&P Case Shiller Home Price index (medium impact unless its really far from expectations)
- Consumer Confidence (medium impact)
- $44 billion 2 year notes will be auctioned by the US Treasury (more than medium impact less than big impact)
- St. Louis Federal Reserve Bank President James Bullard speaks in Virginia on regulatory reform (more than low impact less than medium, next guy overshadows)

Wednesday

- MBA Applications Index (low impact)
- New Home Sales (medium impact. high impact if S&P surprises in either direction)
- Ben Bernanke delivers his semiannual Monetary Policy Report to House Financial Services Committee (high impact)
- $42 billion 5 year notes will be auctioned by the US Treasury (more than medium impact less than big impact)

Thursday

- Durable Goods Orders (probably medium impact. potential for high impact)
- Initial Jobless Claims, Continued Jobless Claims, Emergency Benefits (medium impact. high impact if Bernanke says something like the labor market is weaker than anticipated)
- Ben Bernanke continues repeats his semiannual Monetary Policy Report to Senate Banking Committee. (Q&A will be high impact)
- James Bullard speaks again, this time in Texas regarding the economy. (low impact. Bernanke overshadows)
- $32billion 7 year notes will be auctioned by the US Treasury (high impact potential)

Friday

- Advance 4th Quarter GDP is revised to Preliminary 4th Quarter Real GDP read. One more revision after this revision. (medium impact if better. high impact if revision is down)
- Chicago Purchasing Managers Index (more than low impact. less than medium impact)
- Consumer Sentiment (medium impact)
- Existing Home Sales (medium impact if as expected. high impact if far from forecasts)

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For a more in-depth discussion, read MND's **The Week Ahead**

Reports from fellow mortgage professionals indicate lenders offered slightly improved mortgage rate pricing today. The par 30 year conventional rate mortgage has fallen back to the 4.875% to 5.125% range for well qualified consumers. 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 upfront costs, but you will have to accept a higher interest rate.

It will be a very busy week of economic data releases and headline news events. We have casually discussed the idea of a short term float position. This is a very risky move, but if you are approaching the 10 day window to lock your loan, and have a few days to watch, there might be an opportunity to pick up 0.125% in rate. That's really not much in the grand scheme of things unless you are floating a high-cost area loan amount.

With that said, if you are 20 days out of closing, I still I favor locking over floating.

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