Mortgage Rates Fall After Surprise Dip in Consumer Confidence

By: Victor Burek | Tue, Feb 23 2010, 5:49 PM

Lenders improved mortgage loan pricing by a few basis points early on yesterday, this helped mortgage rates end a three day losing streak. Although mortgage-backed securities prices improved throughout the course of the day, they did not rise enough in price to allow lenders to pass along another round of better loan pricing.

The economic calendar picked up today, at least compared to yesterday's empty schedule.

First out was the S&P/Case Shiller Home Price Index. The data tracks monthly changes in the value of residential real estate in 20 major U.S. cities. Many economists believe until home prices rebound, that the economy will be unable to gain recovery traction. Rising home values encourage home builders to begin new construction which leads to more jobs which adds strength to the overall economy. Recent reports have indicated home values to be generally stagnate to slightly weaker. This was a factor of the expiration of the First Time Home Buyer Tax Credit (now extended) and the normal seasonal slowdown that happens in the colder months. While this has been the main trend in housing prices, some cities such as my town, Dallas, are posting positive monthly gains.

Today's release indicated home values rose for the seventh consecutive month. The 10-city index showed home values increasing on a seasonally adjusted basis by 0.3% in December following the prior month's 0.2% gain (this data has a 2 month lag). Among the 20 city index, 14 posted monthly gains, while only 5 posted declining values. The largest month over month gain was seen in Los Angeles where prices rose 1.4%. On a year over year basis, home prices are down 3.1%. This is the smallest year over year decline since May 2007! To see how your city is doing, check out the **MND STORY**.

The only other economic data hitting the news wires this morning was the Consumer Confidence report. This is a survey conducted by the Conference Board of consumers regarding their present economic attitude and their expectations of future conditions. Since our economy is driven by consumer spending, market participants track this data to get a gauge on how the consumer is feeling. An optimistic consumer is much more likely to spend money while a pessimistic consumer is more likely to save or pay off debt. Like many other recent economic reports, this data has shown improving attitudes among consumers, indicating that our economy is doing better. After the last reading of 55.9, economists were expecting 55.0 this month.

The release indicated a huge decline in consumer confidence, the index was 46.0. This is a 10 month low! Pessimism regarding the outlook for the labor market was a major source or soreness. **READ MORE**. Following the release of this data, stocks sold off and the bond market rallied.

At 1 pm, the Department of Treasury released the results of the first auction of the week. Today they offered $44billion 2 year notes. Auction demand was strong thanks mostly to participating from overseas central banks. **HERE** is an explanation about why their bidding increased.

Now for what you've been waiting for....

Mortgage-backed security prices rose considerably this morning after the release of Consumer Confidence data. This allowed lenders to pass along lower mortgage rates today. We saw strong improvements today.

Reports from fellow mortgage professionals indicate lenders to be offering better mortgage pricing and lower rates today. The par 30 year conventional rate mortgage remains in the 4.875% to 5.125% range for well qualified consumers, I do have one lender quoting 4.75% at par, but, as always, that would require more discount points. 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. If you are looking to access equity in your home in the form of a cashout refinance, you should expect either a higher interest rate or increased costs.

Yesterday was the first day in awhile that I advised floating overnight. It paid off today. If you are being offered 4.75% costing 1 discount point, I would lock. If your rate moved lower by 0.125% (in rate, not points), I would consider locking. If your mortgage rate did not move lower today (same as yesterday), it is not likely to rise tomorrow even if MBS prices fall, so it is worth it for you to float overnight. I do think interest rates moved a long way in a short time today, with that in mind I am more nervous about letting these gains stay on the table for long. If this becomes a trend I will be more willing to let improvements ride out a few more days.

Since Consumer Confidence played such a big role in pushing mortgage rates lower today, I would like to hear from you. What is your outlook regarding present economic conditions? What are your future expectations?

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