Mortgage Rates Rise Ahead of Treasury Auction. Fail to Recover Afterward

By: Victor Burek | Wed, Mar 10 2010, 4:48 PM

Much like Monday, yesterday was a data-less day in the marketplace, leaving me at a loss for words and new guidance. Mortgage-backed securities prices did managed to move higher following a very strong 3 year Treasury debt auction, unfortunately MBS price appreciations were not strong enough to warrant reprices for the better and lenders left mortgage rates unchanged on the day.

The economic calendar picked up today, but not much.

This morning the Mortgage Bankers Association released their 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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Following several disappointing reports, the most recent report (prior to today's release) indicated an increase in demand for both purchase and refinance mortgage loans. Purchase applications rose 9% while refinance applications jumped over 17%.

Today's report offered mixed results. Purchase applications rose 5.7% while refinance activity fell 1.5%, in the week ending March 5th. With last week's huge 17.2% increase in refinance activity, it isn't surprising to see a modest pull back. For charts and more insight on the Fed's eventual exit from the MBS market, READ THE MND STORY

Yesterday I informed you that the most significant threat to mortgage rates was today's 10 year Treasury note auction and the 30 year bond auction scheduled to happen tomorrow. Well, benchmark yields started rising before the auction even occurred! This forced MBS prices lower and resulted in lenders raising mortgage rates early in the day. Higher rates did not reverse course after the auction either, regardless of strong demand. READ MORE ABOUT WHY RATES ROSE TODAY

Reports from fellow mortgage professionals indicate lender rate sheets to be worse than yesterday. The par 30 year conventional rate mortgage remains in the 4.75% to 5.00% range for well qualified consumers, but those quotes will cost about .125% more (as a percentage of your loan amount) at closing. 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.

I still favor locking loans over floating with the same exception as yesterday. If you can float overnight and lock on a shorter lock term tomorrow, I would float. Otherwise, locking now is the wise call. Lenders continue to offer the best rates of 2010, but do not show much willingness by to drive mortgage rates lower. If you plan to float, AQ shared some insight on acceptable time frames in THIS POST.

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