Mortgage Rates Stabilize After Hitting 2010 Highs. Floating Into Next Week

By: Victor Burek | Fri, Mar 26 2010, 4:20 PM

For most of yesterday's trading session it appeared mortgage rates were destined to move higher. Benchmark Treasury yields and mortgage-backed security prices opened lower and held near their weakest levels of the year all the way into the 7-year Treasury note auction. Many lenders actually repriced for the worse before and after the auction. This made floating a bit more stressful after the previous day when mortgage rates rose from the lows of 2010 all the way to the highs. However, as the day came to a close, benchmark Treasuries and mortgage-backed securities began to improve from their weakest levels and eventually closed unchanged on the day. This allowed a few lenders to reprice for the better, which helped mortgage rates recover from new 2010 highs. I was pretty nervous about my float recommendation for most of the day, so you can imagine how I felt after MBS prices recovered. :-D

We had a few economic data releases on the calendar today.

This morning the US Department of Commerce released the final reading of fourth quarter Gross Domestic Product(GDP). GDP is the broadest measure of total economic activity as it reports on output in every sector of the economy. It is basically our economy's score card. A rapidly growing economy usually leads to inflation, so the bond market prefers stable growth while the stock market generally benefits from a faster pace. We get three different releases on GDP: the Advance Read, the Preliminary Release, and the Final Report.

The advance read indicated our economy grew 5.7%. The first revision (preliminary) we received last month showed an even warmer growth rate of 5.9% (from the third quarter 2009).

Today's released showed that our economy grew less than both the advance and preliminary reports. Final Fourth Quarter Gross Domestic Product rose 5.6% compared to the Third Quarter of 2009. Economists had expected the final read to be unchanged at 5.9%. While this was worse than expected, this is still the fastest quarter over quarter growth we've seen in six years. When looking at 2009 in total, our economy contracted 2.4%, the worst single year performance since 1946. Included within this report is the Fed's favorite gauge of inflation, the Personal Consumption Expenditure(PCE). It continues to show inflation to be of no concern today but there was a slight uptick in the readings. The overall PCE index rose 2.5% versus the first reported increase in prices of 2.3%. The more important core rate which strips out food and energy posted an increase to 1.8% from the first reported 1.6% increase. AQ discussed the driving factors behind record 4th Quarter Growth. READ MORE

Our final economic report for the week came from the University of Michigan's Consumer Survey Center. They question 500 households each month on their personal financial conditions and attitudes about the economy. An optimistic consumer is more likely to spend which benefits stocks. A pessimistic consumer is more likely to save, which benefits the bond market. The initial report for March indicated consumers were becoming more pessimistic as the index slipped from 73.6 in February to a preliminary March read of 72.5. Economists expected March's final print to indicate an improvement in consumer attitudes with a read of 73.0. The actual number showed consumer sentiment improving more than expected with a read of 73.6.

While the GDP report was worse than expected, which usually benefits bonds, the report is considered "backward looking" and often times does not affect the market unless the market is much better or much worse than forecast. Today's report did not move the markets. However soon after the 8:30 am data was released the 10 year Treasury note and MBS prices began to rally. Even though the Consumer Sentiment survey was better than expected, which is usually bad for bond yields, benchmark Treasuries and MBS prices continued to rally after the 9:55am data came out. It looks like the massive sell off in the bond market over the past two days brought out some bargain buyers (buying at the lowest price/highest yield). This allowed lenders to reprice for the better. Improving mortgage rates a few basis points.

Reports from fellow mortgage professionals indicate lender rate sheets to be improved from yesterday. The par 30 year conventional mortgage rate has fallen into theholding in the 4.875% to 5.125% range for well qualified consumers. There are still a few lenders offering par at 4.75%, but that will cost more at closing. 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 costs but you will have to accept a higher interest rate.

If you can lock in today at 4.875% with acceptable fees, you should strongly consider locking. If your lender is offering 5.00% or higher, I feel it is worth the risk to float. Our "lock at the price highs, float the lows" strategy has worked well this year. I continue to believe 4.75% is the lowest rate we shall see this year. With the upcoming end of the Fed's MBS purchase program and the seemingly unending supply of treasuries coming to market, we may not see 4.75% again. However, I do feel there is a good chance benchmark Treasury yields will move lower in the next few days. This should help MBS prices rally and allow lenders to improve rate sheet pricing a few more basis points. If you can stomach the ride, let's cautiously float into next week.

If you are nervous that the huge bond market sell off was a factor of the end of the Fed's MBS Purchase Program. Your concerns were addressed in THIS POST.

Have a great weekend!

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