Mortgage Rates See Small Rise. Safe Decision is Lock

By: Victor Burek | Tue, Mar 30 2010, 6:27 PM

Mortgage rates made marginal improvements in a slow trading environment yesterday. After some morning volatility, both Treasury yields and mortgage-backed security prices held to a tight range for the rest of the day. All lenders left rate sheets unchanged on the day.

At 9:00am, S&P released the Case-Shiller Home Price Index. This data tracks monthly changes in the value of residential real estate in 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 and adds strength to the overall economy.

Today's release indicated home values unexpectedly rose in January. The 20 city index was up 0.3% while the 10-city index rose 0.4%, on a seasonally adjusted basis. 12 of 20 cities posted month over month home price gains. The largest gain was seen in Los Angeles where home prices rose 1.8% from the prior month. This is the second month in a row with LA posting the largest monthly increase. Year over year, home prices have improved from last month's -3.1% to -2.5%.

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On a seasonally adjusted basis, this was the 7th consecutive month of improving home prices for the 10 and 20 city indexes.

The other report released today was Consumer Confidence. This is a survey conducted by the Conference Board of consumers regarding their present economic attitude and their expectations of future economic conditions. Since our economy is driven by consumer spending, market participants track consumer confidence 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.

Last month's report showed a huge decline in confidence with the index falling from 55.9 in January to 46.0 in February, a ten month low. Today's survey results indicated consumer confidence is improving with a read of 52.5. The market had no reaction following the release.

Reports from fellow mortgage professionals indicate lender rate sheets to be worse than yesterday due to morning weakness in the bond market today. The par 30 year conventional rate mortgage is holding in 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 costs, but you will have to accept a higher interest rate which is the best option for consumers not planning on keeping their home for more than 3 years. A mortgage rate is like buying anything else, you can pay more and get a better(lower) rate, or pay less and get a higher rate.

I favor locking over floating at this point. There are just too many unknowns to deal with in the near term. The Fed stops buying MBS tomorrow, more Treasury debt supply is announced on Thursday, and then we get the all important Employment Situation Report on Friday. When the Fed stops buying MBS, the largest supporter of low mortgage rates will be removed from the market. While we do anticipate investor demand to remain strong, it may take some time for the secondary mortgage market to get comfortable without the Federal Reserve. This should present itself via added price volatility and the potential for larger movements in mortgage rates.

While I still favor locking over floating for loans closing in 30 days, I understand why some folks might be consider waiting it out a few more weeks. Benchmark yields have risen significantly over the past week. Considering the big picture economic outlook has not changed (slow growth at best) since benchmark yields moved higher, it is very tempting to float through Non-Farm Payrolls on Friday. I caution though, this is a risky move, especially because the reward you will receive is not so great. There isn't much more room for rates to move lower, 0.25% at most. The safe move is to lock.

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