Mortgage Rates Higher After Retail Sales Data. Floating into Monday

By: Victor Burek | Fri, Mar 12 2010, 4:20 PM

While benchmark Treasury yields moved slowly higher throughout the course of the week as our government auctioned debt to raise spending money, mortgage-backed securities managed to maintain a pretty consistent price range. After all was said and done and the auctions were behind us, mortgage rates were left basically unharmed, near the best levels of 2010. There was one more test to pass though: RETAIL SALES DATA.

The Commerce Department released Retail Sales data at 8:30 am eastern this morning This report shows the monthly change in the total receipts at retail stores. Since consumer spending accounts for a large majority of GDP, market participants track retail sales to gauge economic growth.

Last month’s report posted a 0.5% increase, a notable improvement from December’s disappointing 0.1% decline. Today's report indicated that Retail Sales improved again in February.

Overall, retail sales posted a 0.3% increase. When excluding auto sales, the gain was even bigger at +0.8%. On the downside, January's report was scaled back to +0.1% from the previously reported +0.5% improvement. Economists had expected a -0.2% decline in February, so this data was much better than expected. For a more indepth look at this report, check out AQ's post here.

See Rates from Lenders in Your Area

Next came the release of the Reuter’s/University of Michigan’s Survey of Consumer Sentiment , a survey of 500 households on 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 supports the bond market.

The report indicated that consumers are not as optimistic as expected. The Consumer Sentiment index came in at 72.5, this follows last month's survey print of 73.6. This is the second month in a row consumer sentiment has declined. Consumers are losing confidence because of continued weakness in the labor market.

Following the release of the Retail Sales report, benchmark yields rose and MBS prices plummeted. Many lenders released rate sheets at the lows of the day, thus mortgage rates moved higher out of the gates. However, shortly thereafter, benchmark rates began to recover as bargain buyers entered the market at the price lows. Then momentum was added to the relief rally following the worse than expected read on Consumer Sentiment. All MBS prices losses were eventually recovered. This allowed a few lenders to reprice for the better, but not all.

Reports from fellow mortgage professionals indicate the par 30 year conventional rate mortgage has risen to the 4.875% to 5.125% range for well qualified consumers. The lenders who repriced for the better are still offering 4.75%. 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 your lender has increased your rate by 0.125% from yesterday and you did not get a reprice for the better, I would float until Monday. If your lender continues to offer 4.75% (or whatever the lowest rate you've been quoted) I would lock. I continue to believe 4.75% is the lowest rate we are going to see this year, so if you can lock at that rate, lock and move on.

Have a great weekend, be back to you on Monday. Don't forget to set your clocks ahead by one hour on Sunday.

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