Mortgage Rates Improve on ADP Data. Lose Gains as Fed Exits MBS Market

By: Victor Burek | Wed, Mar 31 2010, 4:14 PM

Early morning weakness in the bond market yesterday forced lenders to move mortgage rates slightly higher at the open. Several lenders did decide to delay the release of their rate sheets until interest rate volatility died down. Treasury yields and MBS prices then began to recover from their weakest levels which allowed lenders who released pricing early in the day to reprice for the better. Overall, mortgage rates were a few basis points higher yesterday.

The economic data calendar was busy today....

First up was the Mortgage Bankers Association's Weekly Mortgage 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.

See Rates from Lenders in Your Area

Recent reports from the MBA have indicated refinance loan demand continues to stagnate, regardless of mortgage rates below 5.00%. On the other hand, purchase loan applications have begun to show signs of life. Today's release extended these trends. The purchase index rose 6.8%, while the refinance activity declined by 1.3%. Home buying demand is rising thanks to the soon to expire homebuyer tax credit. For more commentary and charts READ THE MND STORY

As a reminder to all potential homebuyers…the homebuyer tax credit that gives first time home buyers up to an $8000 tax credit and repeat buyers up to $6500 is set to expire the end of April. You must be under contract by April 30th and close by June 30th to qualify. Any contracts or closings after those dates, whether your fault or the lenders fault, do not qualify. With the expiration fast approaching, I expect to see increased demand at lenders which will slow down loan approvals. If you plan to take advantage of this program, get out there and find your new home as soon as possible.

The next set of gives us a sneak peek into the health of the labor market ahead of the official government data, which is due out this Friday....the ADP Employment Report. Historically, the ADP report has varied greatly from the official report, however its accuracy has been improving more recently. The biggest difference between the two jobs report is the ADP numbers do not take into account government hiring, only the private sector. Since our economy is driven by consumer spending, higher unemployment would indicate less consumer demand and spending, a negative for corporate profits. Investors tend to sell stocks when unemployment is high in favor of the safety of risk free Treasuries.

Today's release gave us disappointing numbers. Economists expected ADP to show 40,000 new jobs were created, instead we lost 23,000. This was a good thing for mortgage rates though. Immediately following the release of this data, both benchmark Treasury yields and MBS prices improved. Looking ahead, all eyes are focused on the official Employment Situation Report, due out Friday morning. Economists are expecting payrolls to gain 190,000 jobs and the unemployment rate holding steady at 9.7%. The 190,000 increase in jobs is mostly a function of government Census hiring. For a more in-depth look, check out AQ's commentary. READ MORE

The final two reports on the day gives us a look into the strength of the manufacturing sector of our economy. First out was the Chicago PMI. This data measures the strength of business conditions in the Chicago region. The Institute of Supply Management surveys both manufacturing and non-manufacturing firms, readings above 50 indicate an expanding conditions while readings below 50 indicate contraction. Recent surveys have shown conditions improving with last month's report registering a 62.6 print. This was the highest reading in over 3 years and the fifth consecutive monthly gain. Economists expected today's report to take a small step back to a read of 61.0. The release indicated business conditions in the Chicago region took a larger step backward than expected, coming in at 58.8.

The final report on the day was Factory Orders. This data represents the dollar amount of new orders for both durable and non-durable goods. Durable goods are products that have a life expectancy of at least three years such as autos, computers, machinery. Non-durable goods are products that can only be used one time or a product with less than a three year life expectancy. If orders are increasing, it indicates manufactures will be busier in the months ahead as they ramp up production to meet the demand. Busier factories can lead to additional hiring which is good for the overall economy and the equities market. To remind readers, as a general rule positive economic data benefits the stock market while negative economic data benefits the bond market and low mortgage rates.

Last month’s report posted a very strong increase of 1.7%. Economists surveyed prior to this report anticipated an increase of 0.4%, however they underestimated. Factory Orders in February rose more than expected by 0.6%.

Reports from fellow mortgage professionals did indicate lender rate sheets to be improved this morning, however several lenders repriced for the worse around mid-day as traders began to prepare for the Fed's exit from the MBS market (profit taking). This keeps the best par 30 year conventional mortgage 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. If you are seeking a 15 year term, you should expect par in the 4.25% to 4.50% range with similar costs but a lower FICO score requirement.

I continue to favor locking over floating. There are too many unknowns in the near term. We have the end of the MBS purchase program by the Fed today, more treasury supply coming tomorrow and non farm payrolls on Friday. Even if all these events go in our favor, at best mortgage rates might dip 0.125%. If these events go against us, mortgage rates could rise very quickly. Way too much to risk with very little to gain. The only loans I would consider floating would be ones that are a day away from locking on a shorter time frame which does give better pricing but I am a little reluctant to even float those.

The Federal Reserve ends the MBS Purchase Program today. AQ wrote an explanation of what to expect in the days and weeks ahead. It's a must read.

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