Mortgage Rate Rally Extends As Housing Demand Stumbles

By: Victor Burek | Wed, May 19 2010, 5:55 PM

Mortgage rates initially started to rise yesterday morning but were quick to reverse course as stocks lost recovery momentum. The stock market's reversal of fortune forced investors to reallocate their funds into risk averse assets like government guaranteed U.S. Treasuries . This sent benchmark yields lower and led mortgage-backed security prices higher which allowed lenders to reprice for the better. Mortgage rates ended the day at the newly set 2010 mortgage rate lows.

Early this morning, the Mortgage Bankers Association release their weekly Mortgage Applications Survey. The Mortgage Bankers' application survey covers over 50% 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. In a low mortgage rate environment, a trend of increasing refinance applications implies consumers are seeking out a lower monthly payments which can result in increased disposable income and consumer spending (or give consumers a chance to pay down other debts like credit cards). A rising trend of purchase applications indicates an increase in home buying interest, a positive for the housing industry and the economy as a whole.

Last week was the first survey released since the home buyer tax expired. The expected effects were obvious as demand for purchase loans fell 9.5%. Unfortunatley the reduction in purchase loan demand carried over into the most recent data, which covers the week ending May 14, 2010.

The Market Composite Index, a measure of mortgage loan application volume, decreased 1.5 percent from one week earlier. The Refinance Index increased 14.5 percent from the previous week. The refinance share of mortgage activity increased to 68.1 percent of total applications from 57.7 percent the previous week**. The Purchase Index decreased 27.1 percent from one week earlier. This is the lowest Purchase Index observed in the survey since May of 1997.....**

On the bright side, the average contract interest rate for 30-year fixed-rate mortgages decreased to 4.83% from 4.96%, with points increasing to 1.08 from 0.91 (including the origination fee) for 80 percent loan-to-value (LTV) ratio loans. We currently a little better priced than this level, the MBA's average 30 year fixed mortgage rate will probably fall a few more basis points in next week's release.

This data makes housing professionals very nervous. **Housing demand has noticeably declined since the tax credit expired.** AQ called it a "WAKE UP CALL". **READ MORE SEE CHARTS**

We also received an economic report on consumer inflation: **The Consumer Price Index**. The CPI measures price changes on a fixed basket of goods and services that consumers purchase. Inflation is a high ranking enemy of interest rates. The Federal Reserve has stated over and over that inflation is not a concern today and today's release supported that belief.

From MBS Commentary:

CPI: -0.1 % vs. CONSENSUS +0.1% **BETTER THAN EXPECTED**
CPI EX-FOOD & ENERGY: UNCH vs. CONS +0.1 % **BETTER THAN EXPECTED**
CPI YEAR-OVER-YEAR: +2.2 % vs. CONS +2.4 % **BETTER THAN EXPECTED**
CPI EX-FOOD & ENERGY YEAR OVER YEAR: +0.9 % vs. CONS +1.0 % **BETTER THAN EXPECTED**
UNADJUSTED CPI INDEX: 218.009 vs. CONS 218.10 vs. MARCH 217.631 **BETTER THAN EXPECTED**

I think the results are obvious. If you want to read more about another round of tame inflation data: **HERE IS A POST**

Last but not least, at 2pm the Federal Reserve released the minutes of the last FOMC meeting, which was held on April 27-28. The Federal Open Market Committee (FOMC) is the monetary policymaking body of the Federal Reserve System. It is responsible for formulation of a monetary policy designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments. The FOMC consists of twelve voting members: the seven members of the Board of Governors and five of the twelve Federal Reserve Bank presidents.

If you recall, the most recent Fed meeting was a total non-event. **READ MORE**. Here are some interesting quotes from the FOMC minutes:

"The staff **continued to anticipate that downward pressure on inflation** from the substantial amount of projected resource slack would be tempered by stable inflation expectations."

"The **recovery in the housing market appeared to have stalled in recent months despite various forms of government support**. Although residential real estate values seemed to be stabilizing and in some areas had reportedly moved higher, housing sales and starts had leveled off in recent months at depressed levels. Some participants saw the possibility of elevated foreclosures adding to the already very large inventory of vacant homes as posing a downside risk to home prices, thereby limiting the extent of the pickup in residential investment for a while."

Another bad omen for housing! Sadly it's nothing new to most housing professionals. But at least inflation is low. **That is a positive for mortgage rates!**

We might as well get all the housing specific bad news on the table at the same time....there was one more rather scary housing report released today: the MBA's First Quarter Delinquency Survey. Both delinquencies and foreclosure filings rose in Q1 2010, foreclosures were reported at a record pace. I won't get too into but I will say there was a statistical outlier observed by MBA economists so the data was discounted many market participants. **HERE IS THE STORY**

It was another volatile day for both stocks and interest rates. The ups and downs in the market forced lenders to reprice for the worse, and allowed lenders to reprice for the better. All in all mortgage rates are modestly improved again today.

Reports from fellow mortgage professionals indicate lender rate sheets to be holding at the most aggressive levels of 2010. The par 30 year conventional rate mortgage remains in the 4.75% to 5.00% range for well qualified consumers. There are a few lenders offering 4.625% but that rate will cost more at the closing table. To secure a par interest rate on a conventional mortgage 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 a par rate in the 4.125% to 4.375% range with similar costs but lower FICO score requirements.

LOCK OR FLOAT?

Nothing has changed since last Friday. I still favor locking but do see why some people would choose to float in this nervous investing environment. This is what I wrote last Friday:

It is very tempting to advise floating in this situation. Mortgage rates are literally at their best levels of the year. Consumer borrowing costs really are at the mercy of stocks right now. If investor sentiment on the global economic environment really has soured and stocks move continue to move lower, mortgage rates would fall a few more basis points but lenders would be slow to pass along improvements. On the other hand, if the recent downturn in stocks is just another "break", similar to what we've seen several times over the past 12 months, and stocks end up recovering and extending their rally, then the flight to safety in Treasuries that is preventing mortgage rates from rising will be reversed and consumer borrowing costs will go up as investor funds are reallocated to higher yielding assets.

Well, mortgage rates have slowly fallen since then, but....

I must remind: mortgage rates always rise faster than they fall! With that in mind, it seems like it is going to take another major headline news event to spook stocks enough to allow lenders to offer 4.500% mortgage rates on fixed rate conventional loans. If you think this is highly likely, then you should play the market and see if the "contagion" spreads around the financial markets a little more because it is possible that your mortgage rates could move lower. Me personally, I think it's a gamble. I am still advising my clients to take the aggressive pricing while its being offered.

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