Lenders Reprice for Worse. Mortgage Rates Still Improve

By: Victor Burek | Wed, Jul 7 2010, 5:43 PM

Consumer borrowing costs moved higher yesterday morning but were able to recover from weakness later in the day after stocks experienced a late session sell-off that pushed investor funds back into the bond market. A decline in bond yields led mortgage-backed securities prices higher and allowed lenders to reprice for the better.

A flight to safety happens when investors are nervous about owning risky assets like stocks, but do not want to miss out on earning a return on their funds, so they allocate money into risk-free U.S Treasury debt to provide a safe-haven AND an investment return. To remind readers, as benchmark Treasury yields fall, prices of mortgage-backed securities move higher, which allows lenders to offer lower mortgage rates. As Treasury yields rise, mortgage-backed security prices are led lower, which generally forces lenders to push mortgage rates higher.

We only received one economic report today: the Mortgage Bankers Association Weekly Applications Survey.

See Rates from Lenders in Your Area

The MBA loan applications survey covers over 50% of all US residential mortgage apps taken by mortgage bankers, commercial banks, and thrifts. Survey data gives economists a sample of consumer demand for mortgage loans. In a low mortgage rate environment, a trend of increasing refinance applications could imply more consumers are seeking out lower monthly payments. If more homeowners are able to qualify for lower payments, their disposable income would increase which could lead to a rise in consumer spending (or give consumers a chance to pay down other debts like credit cards). A falling trend of purchase applications indicates consumer demand for new and existing homes is on the decline, a negative for the housing industry and the economy as a whole.

Purchase applications have steadily plummeted since the homebuyer tax credit expired on April 30, but that was to be expected. On the other hand, a "flight to safety" into government bonds has been supportive of low mortgage rates. As consumer borrowing costs have declined, more consumers have been able to refinance their home loan, and the MBA's refinance index has reflected it! This trend continued again in the previous week...

The Refinance Index increased 9.2% from the previous week and is the highest Refinance Index observed in the survey since the week ending May 15, 2009. The Purchase Index decreased 2.0% from one week earlier. The Purchase Index has decreased eight of the last nine weeks and the refinance share of mortgage activity is the highest percentage observed since April 2009.

Michael Fratantoni, MBA's Vice President of Research and Economics said, "Mortgage rates remained near record lows last week, as incoming data on the job and housing markets were weaker than anticipated. As more homeowners locked in to these low rates, the level of refinance applications increased to a new 13-month high...For the month of June, purchase applications declined almost 15 percent relative to the prior month, and were down more than 30 percent compared to April, the last month in which buyers were eligible for the tax credit."

MND ASKS: Is the rise in the refi index a factor of new borrowers entering the refi market or is it a factor of borrowers re-locking at another lender for a lower rate/cheaper cost? Originators, did you lose a deal or two last week?

From my post yesterday: Typically, in weeks like this, the bond market and mortgage rates take their directional guidance from the general sentiment of the market. Stock market sentiment is highly negative and low bond yields continue to reflect weak investor appetites for risky assets. This week is also a popular summer vacation time slot, so investor participation will be below average. Because the scheduled release calendar is thin and many investors have moved to the sidelines, we do not expect a major shift in consumer borrowing costs this week.

Stocks started the session today trading slightly in the red, which helped keep benchmark bond yields low and allowed lenders to improve mortgage rates. Loan pricing looked so aggressive this morning that we checked our database and it looks like lenders were offering the best rate sheets of our lifetime...breaking a "record" that was **set just last Tuesday**! Unfortunately those good fortunes didn't last all day. Stocks rallied from overnight lows around mid-morning and benchmark interest rates began to rise. Although MBS prices were able to withstand some selling, they eventually caved to the pressure and lenders were forced to reprice for the worse. No big deal though, even after the "reprices for the worse", mortgage rates are still improved vs. yesterday!

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The best par 30 year fixed conventional mortgage rates remain in a range between 4.375% to 4.625% ranges. There are a few lenders offering 4.25% but that rate will cost up to 2 points at the closing table. To secure a mortgage rate in the best rates range, 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 have a lower FICO score or a higher loan to value, you should consider a FHA loan. They offer similar rates but with lower FICO score requirements and higher loan to values, but the closing costs will be higher.

Rates are holding at lifetime lows and I continue to advise my personal clients to lock as soon as possible as the risk of losing loan pricing far outweighs the rewards one might see from floating. Let me repeat, **rates are once again at the best level of your lifetime!**

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