Mortgage Rate Range Still in Play

By: Victor Burek | Mon, Sep 27 2010, 5:00 PM

Although mortgage rates went into the weekend on a sour note, consumer borrowing costs were still improved on the week.

The best rates of the week were offered on Wednesday, following the release of the FOMC's monetary policy statement. Loan pricing improvements led mortgage rates to within just a few basis points of record lows. Unfortunately this borrower friendly interest rate behavior reversed course and mortgage rates ended up ticking higher on Thursday and Friday.

There were no major economic reports published today, but benchmark Treasury yields still fell, which helped push mortgage-backed securities prices higher and allowed lenders to move consumer borrowing costs lower. Reprices for the better were seen this afternoon following a **strong 2-year Treasury note auction**, but only a handful of lenders repriced. AQ outlined a few reasons why interest rates rallied: **READ MORE**

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The par 30 year conventional rate mortgage remains in the 4.25% to 4.50% range for well qualified consumers. 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. You may elect to pay less in costs but you will have to accept a higher interest rate. Either way, as a consumer you end up paying the costs. You either pay them upfront by rolling into the new mortgage or you pay them over time with a higher interest rate.

As for the rest of the week, economic data is sparse until Thursday when we get three reports.

Of highest importance will be the final read on second quarter Gross Domestic Product. This will be followed with the weekly Jobless Claims, which are expected to have declined from the prior week. We also get data on the strength of business conditions in the Chicago region with the Chicago Purchasers Manager Index (PMI).

On Friday we get the most important releases of the week. First out will be Personal Income and Outlays, which measures the monthly change in amount of money made and spent by consumers. It also contains a gauge on inflation… the Personal Consumption Expenditure. The report is expected to show gains in both income and spending while inflation is expected to remain tame. This report will be followed by Consumer Sentiment. We also get a report on the strength of the national manufacturing sector with the release of the ISM Manufacturing Index. Last month's ISM index came in stronger than expected and this month's report is expected to show a slight drop. Bonds and mortgage rates would benefit from weak reads on consumer sentiment and manufacturing conditions.

HERE is the full economic data and events calendar. Also on tap are two more Treasury auctions and plenty of Federal Reserve speakers.

Our "float at the MBS price lows, lock at the MBS price highs" strategy has held up quite well this year. MBS prices rallied higher in our range today, but there is still room for MBS prices to rally further and for mortgage rates to decline. While we do feel that mortgage rates will rise at some point this week, unless you are closing in the next 10 days, floating is acceptable.

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