Trade War Sparks Another Refinance Boom

By: Jann Swanson | Wed, Aug 7 2019, 8:08 AM

A sharp drop in mortgage rates helped the Market Composite Index break a 5-time losing streak during the week ended August 2. The Mortgage Bankers Association (MBA) said its Index, a measure of mortgage application volume, rose 5.3 percent on a seasonally adjusted basis compared to the previous week and was up 5.0 percent unadjusted.

The **increased volume was totally on the side of refinancing.** The Refinance Index was **up 12 percent** from the previous week and was a staggering 116 percent higher than during the same week in 2018. Refinancing applications constituted 53.9 percent of the total, up from 50.5 percent during the week ended July 26.

Purchase applications moved lower for the fourth straight week. Both the seasonally adjusted and the adjusted Purchase Indices declined 2 percent from the previous week but remained 7 percent higher on a year-over-year basis.

Refi Index vs 30yr Fixed

Purchase Index vs 30yr Fixed

"The Federal Reserve cut rates as expected last week, but the bigger influence on the financial markets was the **beginning of a trade war with China.** The result was a sharp drop in mortgage rates, which will likely draw many refinance borrowers into the market in the coming weeks," said Mike Fratantoni, MBA Senior Vice President and Chief Economist. "The 30-year fixed rate mortgage fell to its lowest level since November 2016, and the drop resulted in an almost 12 percent increase in refinance application volume, bringing the index to a reading over 2,000 - its highest over the same time period. We fully expect that refinance volume will jump even higher this week given the further drop in rates."

Added Fratantoni, "Lower mortgage rates did not pull more homebuyers into the market, as purchase volume slipped a bit last week, but still remains around 7 percent ahead of last year's pace."

The average balance of a loan sought during the week was $321,600. Loans for home purchase averaged $318,300.

The FHA **share of total applications** decreased to 11.0 percent from 11.3 percent the week before and the VA share gained 0.2 percentage point to 12.8 percent. The USDA share was unchanged at 0.6 percent.

As Fratantoni said, mortgage rates moved lower for all loan types on both a contract and an effective basis. The average contract interest rate for 30-year fixed-rate mortgages (FRM) with origination balances at or below the conforming limit of $484,350 decreased to 4.01 percent from 4.08 percent. Points rose to 0.37 from 0.34.

The average contract interest rate for 30-year FRM with **jumbo** loan balances exceeding the conforming limit declined by 8 basis points. Points increased to 0.26 from 0.22.

Rates for 30-year FRM backed by the **FHA** averaged 3.86 percent with 0.38 point. The prior week the average was 3.94 percent, with 0.29 point.

The average contract interest rate for **15-year FRM** decreased to 3.37 percent from 3.48 percent. Points rose to 0.37 from 0.26.

The average contract interest rate for **5/1 adjustable rate mortgages** (ARMs) decreased to 3.36 percent from 3.52 percent, with points increasing to 0.36 from 0.31. Applications for ARMs accounted for 4.7 percent of the total, the same share as during the previous two weeks.

MBA's Weekly Mortgage Applications Survey been conducted since 1990 and covers over 75 percent of all U.S. retail residential applications Respondents include mortgage bankers, commercial banks and thrifts. Base period and value for all indexes is March 16, 1990=100 and interest rate information is based on loans with an 80 percent loan-to-value ratio and points that include the origination fee.

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