

How do Rising Rates Affect Loan Performance?

By: Jann Swanson | Fri, Dec 20 2019, 10:21 AM

Mortgage rates rose in October for the first time this year and **that increase, while small, is reflected in loans that closed in November** according to Ellie Mae's *Origination Insight Report*. The average interest rate of loans originated during the month increased to 3.97 percent from 3.94 percent among the October crop. Most likely in response, the percentage of adjustable rate mortgages also increased for the first time in 2019, and the share of refinance loans fell.

Adjustable rate mortgages increased from 5.0 percent of all loans in October to 5.3 percent in November and refinancing fell 2 percentage points to 49 percent of loans. Conventional refinancing accounted for all of that decline; that share dropped from 58 to 55 percent while the refinancing shares of FHA and VA loans were unchanged at 27 percent and 33 percent respectively.

The **share of all loans** originated during the month for FHA was **unchanged at 16 percent** while the conventional loan share declined from 73 percent in October to 71 percent and the VA share dipped from 9 to 8 percent. Lending by "others" gained 1 point to 4.0 percent.

The **time to close** refinances increased to 43 days from 42 and the time to close purchases held at 47 days for the second straight month. The average closing time for all loans was 45 days, one day longer than in October.

The **closing rate** for all loans was at the highest level of the year at 78.6 percent. Closing rates on refinances increased to 77.1 percent while the rate for purchase loans held at 80.6 percent for the second month. Ellie Mae calculates the closing or pull-through rate based on a sample of loan applications initiated 90 days earlier, in this case those submitted in July.

"Interest rates rose for the first time in 2019, and as expected we are seeing the percentage of adjustable rate mortgages rise and the percentage of refinances taper off," said Jonathan Corr, President and CEO of Ellie Mae. "Simultaneously, closing rates have reached the highest point in 2019 at 78.6 percent. We will watch to determine the impacts of holiday seasonality on the homebuying market as we close out 2019."

The *Origination Insight Report* mines data from a sample of approximately 80 percent of all mortgage applications initiated on Ellie Mae's mortgage management system. The company says its report is a strong proxy for the underwriting standards employed by lenders across the country.

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