Refinance Applications Bounce back to Winter Levels

By: Jann Swanson | Wed, Aug 11 2021, 10:40 AM

The Mortgage Bankers Association's (MBA) said its Market Composite Index, a measure of mortgage loan application volume, **rose 2.8 percent on a seasonally adjusted basis during the week ended August 8**. It was up 3 percent on an unadjusted basis.

The volume of both refinance and purchase mortgage applications gained ground from the prior week. The Refinance Index increased 3 percent although it was 8 percent lower than the same week in 2020. **The refinance share of mortgage activity increased to 68.0 percent** of total applications from 67.6 percent the previous week.

The Purchase Index was 2 percent higher on a seasonally adjusted basis and up 1 percent before adjustment. The unadjusted index, however, was 18 percent lower than the same week a year earlier, a number that has not changed in four weeks.

"Mortgage applications rebounded last week, including an increase in purchase applications for the first time in nearly a month. Rates slightly rose but remained below 3 percent, driven by an end-of-week increase in the 10-year Treasury yield following the positive July jobs report," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Homeowners continue to respond to lower rates, with refinance activity climbing to the highest level since February 2021. The refinance share of loan counts was at 68 percent, compared to a 63.4 percent share for refinances by dollar volume, as purchase loans continue to see significantly higher loan sizes."

Added Kan, "The higher level of purchase activity last week was driven by more government purchase applications, **including a 3.3 percent increase in FHA loans**. With low for-sale inventory keeping home price appreciation in many markets at record highs, the jump in FHA purchase applications is potentially a sign that more first-time buyers are finding purchase options despite the high prices."

The purchasing share of FHA loans may have increased, but the overall share of those loans declined to 8.9 percent from 9.0 percent the prior week. The VA share decreased to 9.6 percent from 9.9 percent while USDA share of total applications was unchanged at 0.5 percent. The average size of all loans was $346,200, up from $345,300 while loans for home purchases rose from $394,100 to $394,600.

The **average contract interest rate** for 30-year fixed-rate mortgages (FRM) with balances at or below the conforming limit of $548,250 increased to 2.99 percent from 2.97 percent. Points dipped to 0.30 from 0.33 and the effective rate increased to 3.08 percent.

Jumbo 30-year FRM, loans with balances exceeding the conforming limit, had an average rate of 3.15 percent with 0.29 point. The prior week the rate was 3.12 percent with 0.30 point. The effective rate increased to 3.23 percent.

The average rate for 30-year FRM backed by the FHA declined by 2 basis points to 3.06 percent and points decreased to 0.27 from 0.29. The effective rate was 3.14 percent.

Fifteen-year FRM rates rose to 2.35 percent from 2.33 percent. Points increased to 0.25 from 0.23 and the effective rate grew to 2.41 percent.

The average contract interest rate for 5/1 adjustable rate mortgages (ARMs) dropped to 2.52 percent from 2.93 percent and points fell to 0.15 from 0.20 bringing the effective rate down to 2.48 percent. The ARM share of activity decreased to 3.2 percent of total applications from 3.4 percent the previous week.

MBA's Weekly Mortgage Applications Survey has 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.

MBA's latest Forbearance and Call Volume Survey shows that the **total number of loans now in forbearance decreased by 7 basis points** from 3.47 percent of servicers' portfolio volume in the prior week to 3.40 percent as of August 1, 2021. According to MBA's estimate, 1.7 million homeowners are in forbearance plans. By stage, 9.7 percent of total loans in forbearance are in their initial term while 82.9 percent are in an extension. The remaining 7.4 percent are forbearance re-entries.

The share of all loan types in plans moved lower. Those serviced for the GSEs, Fannie Mae and Freddie Mac, declined by 5 basis points to 1.74 percent. The Ginnie Mae (FHA and VA) share also decreased by 5 basis points to 4.18 percent while the share for portfolio loans and private-label securities (PLS) decreased 7 basis points to 7.37 percent. The percentage of loans in forbearance serviced by independent mortgage bank (IMB) servicers decreased 4 basis points to 3.63 percent and the percentage of loans serviced by depository servicers decreased 10 basis points to 3.49 percent.

"Forbearance exits increased as August began and new forbearance requests declined, resulting in the largest decrease in the share of loans in forbearance in three weeks," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "1.7 million homeowners remain in forbearance, 13 percent of whom were current on their payments as of August 1st. **Of those who exited forbearance last week, more than 10.5 percent were current.** Forbearance has surely provided both insurance and assurance for many of these homeowners who worried about ongoing hardships, and it is positive to see so many continue to be able to make their payments while in forbearance."

Added Fratantoni, "Delinquency rates have increased slightly for borrowers who have exited forbearance and began repayment plans, deferral plans, or modifications over the course of the pandemic. However, July's strong job market report provides evidence of a rebounding economy, which should provide further support for homeowners exiting forbearance in the months ahead."

MBA's latest Forbearance and Call Volume Survey covers the period from July 26 through August 1, 2021 and represents 74 percent of the first-mortgage servicing market (36.9 million loans).

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