Mortgage Applications Indicate Shift Toward First-Time Buyers

By: Jann Swanson | Wed, Aug 18 2021, 8:09 AM

Mortgage application volume was lower over the last week, continuing the up-one-week, down-the-next pattern it has displayed since late June. The Mortgage Bankers Association (MBA) says its Market Composite Index, a measure of mortgage loan application volume, dropped 3.9 percent on a seasonally adjusted basis during the week ended August 13 and was 4 percent lower on an unadjusted basis.

Most of the downturn was on the refinancing side of originations. **The Refinance Index decreased 5 percent** from the previous week and was 8 percent lower than the same week one year ago. The refinance share of mortgage activity accounted to 67.3 percent of total applications, down from 68.0 percent the previous week.

The seasonally adjusted **Purchase Index decreased 1 percent** from one week earlier and 2 percent before adjustment. It was 19 percent lower than the same week in 2020.

"Mortgage rates were at their highest levels in around a month, with the 30-year fixed rate increasing above 3 percent to 3.06 percent. Mortgage rates followed an overall increase in Treasury yields last week, which started higher from the strong July jobs report before slowing because of weaker consumer sentiment and concerns about rising COVID-19 cases," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "The increase in mortgage rates caused a 5 percent decrease in refinancing, driven by a 7 percent drop in conventional refinance applications. Even though rates are 7 basis points lower than the same week a year ago, the refinance index is around 8 percent lower. The eligible pool of homeowners who stand to benefit from a refinance is smaller now."

Added Kan, "Purchase applications also saw a mixed results, **with conventional purchase applications down and government purchases up.** Government purchase loans, such as FHA loans, are typically popular with first-time buyers. Despite a second-straight weekly decrease, average loan sizes remain close to record highs. This is a continuing sign that sales prices are still elevated, driven by stiff competition leading to accelerating home-price growth."

The FHA **share of total applications** increased to 9.4 percent from 8.9 percent the prior week while the VA share rose to 10.3 percent from 9.6 percent. The USDA applications accounted for 0.4 percent of the total, down from 0.5 percent the previous week. The overage loan size dipped to $339,200 from $346,200 and purchase loans averaged $393,700 compared to $394,600 the previous week,

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 3.06 percent from 2.99 percent. Points rose to 0.34 from 0.30 and the effective rate increased to 3.16 percent.

Jumbo 30-year FRMs, loans with balances that exceed the conforming limit, had a rate averaging 3.19 percent with 0.26 point. The prior week's rate was 3.15 percent with 0.29 point. The effective rate rose to 3.27 percent.

Thirty-year FRM with FHA backing averaged a rate of 3.15 percent, 9 basis points higher than during the week ended August 6. Points increased to 0.31 from 0.27 and the effective rate increased to 3.24 percent.

Rates for 15-year FRM rose from 2.35 percent with 0.25 percent to an average of 2.41 percent with 0.28 point. The effective rate was 2.48 percent.

The average contract interest rate for 5/1 adjustable rate mortgages (ARMs) jumped 38 basis points to 2.90 percent and points rose to 0.23 from 0.15. The effective rate was 2.98 percent. The adjustable-rate mortgage (ARM) share of activity was unchanged at 3.2 percent.

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 found a **14 basis point reduction in the number of loans in forbearance** during the week ended August 8. MBA estimates that 1.6 million homeowners remain in active plans, 3.40 percent of all loans being serviced. By stage, 9.7 percent of total loans in forbearance are in their initial term while 82.8 percent are in a forbearance extension. The remaining 7.5 percent are forbearance re-entries.

The share of Fannie Mae and Freddie Mac loans in forbearance decreased 5 basis points to 1.69 percent. Ginnie Mae (FHA and VA) loans declined 23 basis points to 3.95 percent, while the forbearance share for portfolio loans and private-label securities (PLS) dropped by 32 basis points to 7.05 percent. Independent mortgage bank (IMB) servicers had 3.46 percent of their portfolios in plans, a 17 basis point decline and those serviced by depository services fell 13 basis points to 3.36 percent.

"The largest decrease in a month in the share of loans in forbearance came from a jump in forbearance exits, **as many homeowners are nearing the end of their forbearance terms.** The forbearance share declined for all investor and servicer categories," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "New forbearance requests picked up slightly this week, particularly for Ginnie Mae loans, but overall trends remain positive. Incoming data continues to support our forecast of an improving job market in the months ahead."

MBA's latest Forbearance and Call Volume Survey covers the period from August 2 through August 8, 2021 and represents 74 percent of the first-mortgage servicing market (36.9 million loans).

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