Lower Rates Increase Government Loan Volumes

By: Jann Swanson | Wed, Aug 25 2021, 10:45 AM

Both **refinance and purchase applications increased slightly last week**, and the Mortgage Bankers Association (MBA) said its Market Composite Index, a measure of mortgage loan application volume, increased 1.6 percent on a seasonally adjusted basis and 1.0 percent on an unadjusted basis from one week earlier.

The **Refinance Index increased 1 percent** from the previous week and was 3 percent higher than the same week one year ago. The refinance share of mortgage activity remained unchanged from the previous week at 67.3 percent of total application

The seasonally adjusted Purchase Index increased 3 percent, 1 percent before adjustment, from one week earlier. The unadjusted index was 16 percent lower than the same week one year ago.

"Treasury yields fell last week, as investors continue to anxiously monitor if the rise in COVID-19 cases in several states starts to dampen economic activity. Mortgage rates slightly declined as a result, with the 30-year fixed rate decreasing for the first time in three weeks. Lower rates led to an increase in refinance applications, with government loan applications jumping 10 percent to the highest level since May 2021," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Purchase applications for both conventional and government loans also increased. The purchase index was at its highest level since early July, despite still continuing to lag 2020's pace. There was also some easing in average loan sizes, **which is potentially a sign that more first-time buyers looking for lower-priced homes** are being helped by the recent uptick in for-sale inventory for both newly built homes and existing homes."

The FHA share of total applications increased to 11.0 percent from 9.4 percent and the VA share dipped 0.3 point to 10.0 percent. The USDA share was unchanged at 0.4 percent. As Kan said, the size of mortgages declined again with the average at $333,300 compared to the previous week. The size of a purchase mortgage declined from $339,200 to $392,400.

The **average contract interest rate** for 30-year fixed-rate mortgages (FRM) with origination balances at or below the conforming limit of $548,250 decreased to 3.03 percent from 3.06 percent. Points moved to 0.29 from 0.34 and the effective rate fell to 3.11 percent.

Jumbo 30-year FRM, loans with balances that exceed the conforming limit, had an average rate of 3.13, down 6 basis points from the prior week. Points were unchanged at 0.26 and the effective rate declined to 3.21 percent.

The rate for 30-year FRM backed by the FHA decreased to 3.10 percent from 3.15 percent, with points decreasing to 0.29 from 0.31. The effective rate was 3.18 percent.

Fifteen-year FRM had an average rate of 2.38 percent with 0.29 point. The prior week the rate was 2.41 percent with 0.28 point. The effective rate decreased to 2.45 percent.

Rates for 5/1 adjustable rate mortgages (ARMs) averaged 2.68 percent, a 22 basis point decline. Points ticked up to 0.24 from 0.23 and the effective rate fell to 2.77 percent. The ARM share of activity decreased to 3.1 percent of total applications from 3.2 the prior 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 latest Forbearance and Call Volume Survey revealed that the total number of **loans now in forbearance decreased by 1 basis point** from 3.26 percent of servicers' portfolio volume in the prior week to 3.25 percent as of August 15, 2021. According to MBA's estimate, 1.6

million homeowners are in forbearance plans. Ten percent of those loans are in their initial terms while 82.3 percent have received one or more extensions. The remaining 7.7 percent are forbearance re-entries.

The share of Fannie Mae and Freddie Mac loans and Ginnie Mae (FHA and VA) loans in forbearance each dipped by 3 basis points to 1.66 percent and 3.92 percent of their respective portfolios. The decline was offset by a 10 basis point increase in the share of portfolio loans and private-label securities (PLS) to 7.15 percent.

The percentage of forborne loans serviced by independent mortgage bank (IMB) servicers increased 2 basis points to 3.48 percent, and those in depository servicers' portfolios declined 1 basis point to 3.35 percent.

"**The share of loans in forbearance was little changed**, as both new requests and exits were at a slower pace compared to the prior week. In fact, exits were at their slowest pace in over a year," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "There were more new forbearance requests and re-entries for portfolio and PLS loans, leading to a 10-basis-point increase in their share. Portfolio and PLS loans now account for almost 50 percent of all depository servicer loans in forbearance and almost 40 percent of IMB servicer loans in forbearance, which highlights the importance of this investor category."

MBA's latest Forbearance and Call Volume Survey covers the period from August 9 through August 15, 2021 and represents 74 percent of the first-mortgage servicing market (36.9 million loans).

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