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The Mortgage Corner
Week of January 14, 2008

Mortgage Applications Surge

The Mortgage Bankers Association's (MBA) Weekly Mortgage Applications Survey surged for the second consecutive week, a good omen for real estate activity in 2008. Applications for the week ending January 11, 2008 increased 28.4 percent on a seasonally adjusted basis from one week earlier. On an unadjusted basis, the Index actually increased 64.8 percent compared with the previous week and was up 39.0 percent compared with the same week one year earlier.

It was the second straight week of strong growth in new applications. Seasonally adjusted applications had grown 32 percent in the prior week ending January 4. It was driven by falling interest rates as more signs of an economic slowdown emerge, and homeowners rush to refinance out of their negatively amortized Option ARMs.

The MBAs Refinance Index also increased 43.4 percent, and the seasonally adjusted Purchase Index increased 11.4 percent from one week earlier.

The Conventional Purchase Index increased 10.5 percent while the Government Purchase Index (largely FHA) jumped 17.6 percent. Greater purchase activity is a sign that lower interest rates may be spurring higher home sales. On an unadjusted basis, the Purchase Index actually increased 45.2 percent.

The surge in refinances, whose share of mortgage activity increased to 62.7 percent of total applications, is also a sign that home values are holding up in many areas. It means borrowers have adequate equity in their homes and lenders are again offering attractive loan programs, mainly with better fixed rates. In fact, the adjustable-rate mortgage (ARM) share of activity decreased to 9.2 from 9.3 percent of total applications from the previous week, a sign that borrowers are growing leery of variable rates that are at the heart of the credit problems.

An example is that the average contract interest rate for 30-year fixed-rate mortgages decreased to 5.62 percent from 5.73 percent, with points decreasing to 0.94 from 1.10 (including the origination fee) for 80 percent loan-to-value (LTV) ratio loans.

The average contract interest rate for 15-year fixed-rate mortgages decreased to 5.07 percent from 5.21 percent, with points decreasing to 1.09 from 1.18 (including the origination fee) for 80 percent LTV loans. We are now back to rate levels last seen in 2004-05, when the Fed was easing credit.

Adjustable rates are in fact higher these days, as the Federal Reserve has been slow to drop the short-term rates that determine ARM indexes. The average contract interest rate for one-year ARMs decreased to 5.77 percent from 6.04 percent, with points increasing to 1.00 from 0.99 (including the origination fee) for 80 percent LTV loans.

But Fed Chairman Bernanke has announced that the Federal Reserve will become more proactive in the weeks ahead, which will bring down ARM rates as well.