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The Mortgage Corner

REFINANCE ACTIVITY ON RISE

The Mortgage Bankers Association (MBA) today released its Weekly Mortgage Applications Survey for the week ending November 10, a week shortened in observance of Veteran's Day. The Market Composite Index, a measure of mortgage loan application volume had an increase of 4.3 percent on a seasonally adjusted basis. On an unadjusted basis, the Index decreased 7.6 percent compared with the previous week and was down 0.1 percent compared with the same week one year earlier.

The seasonally-adjusted Refinance Index increased by 6.5 percent from the previous week and the Purchase Index increased by 2.7 percent. The Refinance Index is at its highest level since October 2005. The seasonally-adjusted Conventional Index also increased by 4.3 percent and the seasonally-adjusted Government Index increased 3.4 percent from the previous week.

The increase in applications can be partially attributed to falling interest rates, with the conforming 30-year fixed mortgage rate as low as 5.75 percent, and jumbo fixed rates 6.0 percent in California markets. But it is also due to surging refinancings of adjustable rate mortgages, whose indexes are still rising.

The refinance share of mortgage activity increased to 48 percent of total applications from 46.3 percent the previous week. The refinance share is at its highest level since February 2005. The adjustable-rate mortgage (ARM) share of activity decreased to 25.5 percent of total applications from 26.4 percent the previous week.

All eyes are on the Federal Reserve's next move, as rising short-term interest rates have exacerbated the inverted treasury yield curve, usually the sign of an oncoming recession. The 5.25 percent fed funds rate set by the Fed is now almost 0.75 percent higher than the 10-year benchmark Treasury bond. And lending institutions must borrow at the short end of the yield curve, while lending at the long end.

There are many signs of an economic slowdown, from falling Gross Domestic Product growth and industrial production, to fewer payroll jobs being added, even though the unemployment rate is at 4.4 percent. (It includes the self-employed.) Fed officials have also signaled that they are worried about the housing slowdown that Merrill Lynch chief economist David Rosenberg already says is in recession.