



THE MORTGAGE CORNER:

Why Record Low Mortgage Rates?

By Harlan Green / Special to Voice

MORTGAGE APPLICATIONS INCREASED 7.2 PERCENT FROM ONE WEEK EARLIER, according to data from the Mortgage Bankers Association's (MBA) Weekly Mortgage Applications Survey for the week ending July 8th. It's a result of mortgage rates dropping to historic lows.

The conforming 30-year fixed rate is now 3.0 percent, with a one point origination fee, and the Hi-Balance conforming fixed rate (with a maximum loan amount of \$625,500 in high cost areas) is now as low as 3.25 percent with a 1.25 point origination fee in California.

This is unheard of, with rates now the lowest since WWII, really, before there was even much of a housing market, and just one conventional GSE, the Federal National Mortgage Association, or Fannie Mae, created during the New Deal to offer 30-year fixed rate mortgages. This gave homebuyers longer payback terms, and helped to start the post-WWII housing boom.

Today's record low rates are mainly due to a flight to quality as some large investment funds such as Black Rock predict England will fall back into recession as a result of the Brexit vote. This is leading investors to put their money elsewhere, mainly the U.S. where bond and stock returns are still positive.

Britain will fall into recession over the coming year and growth in each of the next five years will be at least 0.5 percentage points lower as a result of Britain leaving the European Union, BlackRock Inc (BLK.N) said recently.

"Our base case is we will have a recession," Richard Turnill, chief investment strategist at the world's largest asset manager, told reporters at the firm's investment outlook briefing. There's likely to be a significant reduction of investment in the UK," he said, adding that Brexit will ensure political and economic uncertainty remains high, according to Reuters.

The Market Composite Index, a measure of mortgage loan application volume, increased 7.2 percent on a seasonally adjusted

basis from one week earlier. On an unadjusted basis, the Index decreased 14 percent compared with the previous week. The Refinance Index increased eleven percent from the previous week. The seasonally adjusted Purchase Index was unchanged from one week earlier. The unadjusted Purchase Index decreased 20 percent compared with the previous week and was five percent lower than the same week one year ago. Last year, the Fourth of July fell on the prior week.

The refinance share of mortgage activity increased to 64.0 percent of total applications from 61.6 percent the previous week. The adjustable-rate mortgage (ARM) share of activity decreased to 5.2 percent of total applications.

New York-based BlackRock oversaw \$4.7 trillion in assets globally as of March 31st. Of that, \$1.5 trillion was in fixed income assets, said the Reuters report. The Brexit fallout will result in "materially lower" growth in the euro zone as investment plans are deferred, and have a "moderately" negative impact on U.S. and Asian growth, Turnill said.

So we are now seeing early results of the possible breakup of not only Great Britain, with Northern Ireland and Scotland wanting to remain in the EU, but right wing parties in other EU members such as the Netherlands and France making noises about leaving the EU.

It is serious business, folks, with possible repercussions to U.S. growth. At least 20 percent of U.S. exports go to the EU, already teetering on the edge of a recession. Such low rates will give the US housing market another boost in the near term as we near full employment with rising wages reported in the latest U.S. employment report.

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