

The Mortgage Corner

MORTGAGE APPLICATIONS TOP ESTIMATES

The Mortgage Bankers Association (MBA) today released its Weekly Mortgage Applications Survey for the week ending January 5. This week's results include an adjustment to account for the New Year's Day holiday. The Market Composite Index, a measure of mortgage loan application volume, increased 16.6 percent on a seasonally adjusted basis. On an unadjusted basis, the Index increased 33.2 percent compared with the previous week and was up 12 percent compared with the same week one year earlier.

This is mainly due to the sharp drop in interest rates since December, which has raised the volume of mortgage applications 30 percent from its July low, according to the New York Times. It was mainly a surge in refinances of borrowers attempting to escape from their negatively-amortized Option ARMs with the very low teaser rates.

The Refinance Index increased by 17.3 percent and the seasonally adjusted Purchase Index increased by 16.2 percent from one week earlier. Purchase applications are still down 3 percent from one year ago. The seasonally adjusted Conventional Index increased by 16.8 percent, and the seasonally adjusted Government Index increased 13.5 percent from the previous week.

Option ARMs and interest-only loans have made affordability possible for more people. Interest-only loans accounted for 37 percent of adjustable-rate loans in 2005, while so-called Option ARMs with very low initial teaser rates accounted for nearly 10 percent of all 2005 loan originations. Federal guidelines may limit the use of interest-only and Option ARMs in the future, however. Some of the guidelines' provisions, such as requiring income verification, could make it both more difficult and more expensive for borrowers to qualify.

The refinance share of mortgage activity increased to 48.4 percent of total applications from 48.1 percent the previous week. The adjustable-rate mortgage (ARM) share of activity decreased to 20.1 from 20.4 percent of total applications from the previous week. The ARM share is at its lowest level since July 2003.

The average contract interest rate for **30-year fixed-rate mortgages decreased to 6.13 from 6.22 percent**, with points increasing to 0.94 from 0.92 (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 5.85 percent from 5.93 percent**, with points decreasing to 0.98 from 1 (including the origination fee) for 80 percent LTV loans.

The average contract interest rate for **one-year ARMs decreased to 5.79 percent from 5.84**, with points remaining unchanged at 0.83 (including the origination fee) for 80 percent LTV loans.