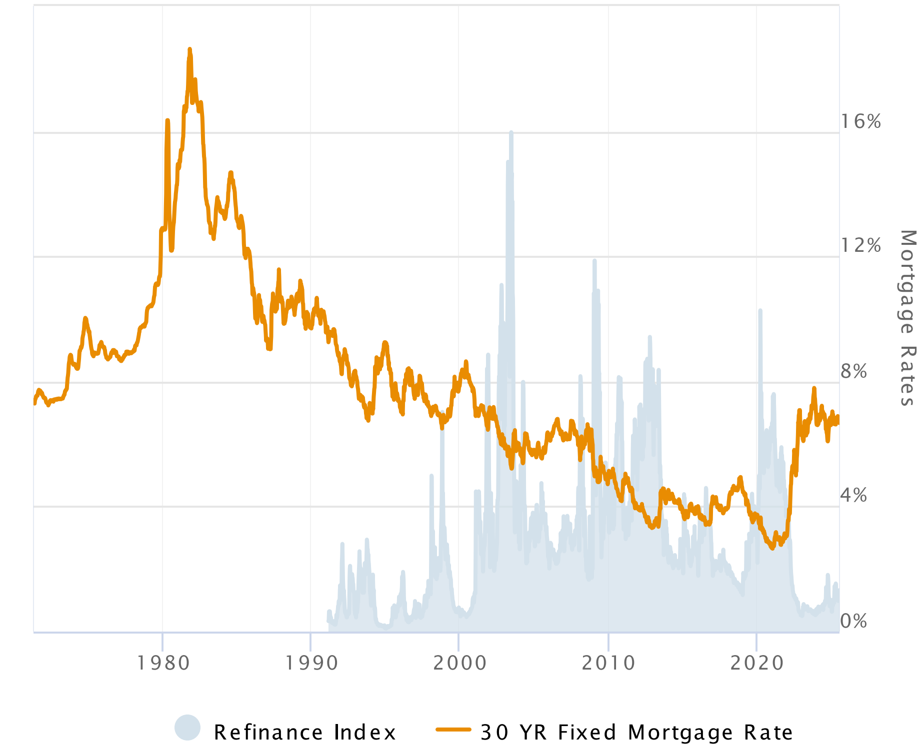
Mortgage Application Gains Resumed Post-Labor Day, Forbearances at Recent Lows

Mortgage application activity rebounded last week from the previous week's Labor Day holiday lull. The Mortgage Bankers Association's (MBA's) Market Composite Index, a measure of mortgage loan application volume, **increased 6.8 percent on a seasonally adjusted basis and 18 percent unadjusted during the week ended September 18.** The prior week's results included an adjustment to account for the holiday-shortened work week.

Both refinancing and purchasing application volumes were strong. **The Refinance Index increased 9 percent** from the previous week and was 86 percent higher than the same week one year ago. The refinance share of applications constituted 64.3 percent of the total, up from 62.8 percent a week earlier.

The seasonally adjusted **Purchase Index added 3 percent** and the unadjusted index was up 13 percent. Volume was 25 percent higher than the same week one year ago. The last time the Purchase Index did not post a year-over-year gain was during the week ended May 15.



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"Mortgage applications activity remained strong last week, even as the 30-year fixed-rate mortgage and 15-year fixed-rate mortgage increased to their highest levels since late August. Purchase applications were up over 25 percent from a year ago, and the demand for higher-balance loans pushed the average purchase loan size to another record high. The strong interest in homebuying observed this summer has carried over to the fall," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Despite the uptick in rates, refinance applications increased around 9 percent and were almost 86 percent higher than last year. Both conventional and government refinance activity, and **in particular FHA refinances, picked up last week.**"

The FHA share of total applications increased to 10.1 percent from 9.7 percent the prior week and the VA share dipped to 12.0 percent from 12.3 percent. The USDA share rose to 0.6 percent from 0.5 percent. The average size of a purchase loan was $371,000 compared to $370,200 but the average of all loans fell to $324,000 from $325,000.

The average contract interest rate for 30-year fixed-rate mortgages (FRM) with origination balances at or below the conforming limit of $510,400 increased to 3.10 percent from 3.07 percent, with points increasing to 0.46 from 0.32. The effective rate was higher than the prior week.

The rate for jumbo 30-year FRM, loans with balances exceeding the conforming limit, decreased to 3.35 percent from 3.41 percent, with points increasing to 0.42 from 0.27. The effective rate moved lower.

The rate for 30-year FRM backed by the FHA averaged 3.23 percent with 0.37 point. The prior week the average was 3.16 percent, with 0.35 point. The effective rate increased.

The rate for 15-year FRM increased to 2.64 percent from 2.61 percent. Points grew to 0.47 from 0.35 and the effective rate also rose.

The average contract interest rate for 5/1 adjustable rate mortgages (ARM)s ticked down 1 basis point (bp) to 3.19 percent but points rose to 0.64 from 0.58. increasing the effective rate. The ARM share of activity decreased to 2.2 percent of total applications from 23 percent 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 says the volume of **loans in forbearance has now declined below 7 percent of the total being serviced.** There was another 8-bp reduction during the past week, to 6.93 percent, a five-month low. There are an estimated 3.5 million loans still in plans. Of those, 31.65 percent are in the initial plan stage, while 67.01 percent are in a plan extension, and 1.34 percent are re-entries into the program.

The share of GSE (Fannie Mae and Freddie Mac) loans in forbearance dropped for the 15th week in a row to 4.55 percent, a 10-bps improvement. The share of Ginnie Mae (FHA/VA) loans rose 3 bps to 9.15 percent and there was a 19 bps drop in the percentage of loans being serviced for bank portfolios and private label securities (PLS) to 10.52 percent. Depository servicers had 7.26 percent of their portfolios in forbearance plans, a 7-bp decline, and the percentage of loans in forbearance for independent mortgage bank (IMB) servicers decreased 3 bps to 7.18 percent.

"The share of loans in forbearance has **dropped to its lowest level in five months**, driven by a consistent decline in the GSE share in forbearance," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "However, not only the did the share of Ginnie Mae loans in forbearance increase, new requests for forbearance for these loans have increased for two consecutive weeks. While housing market data continue to show a quite strong recovery, the job market recovery appears to have slowed, and we are seeing the impact of this slowdown on FHA and VA borrowers in the Ginnie Mae portfolio."

MBA's latest Forbearance and Call Volume Survey covers the period from September 7 through September 13, 2020 and represents 74 percent of the first-mortgage servicing market (37.2 million loans).

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