HOUSING CONNECTION

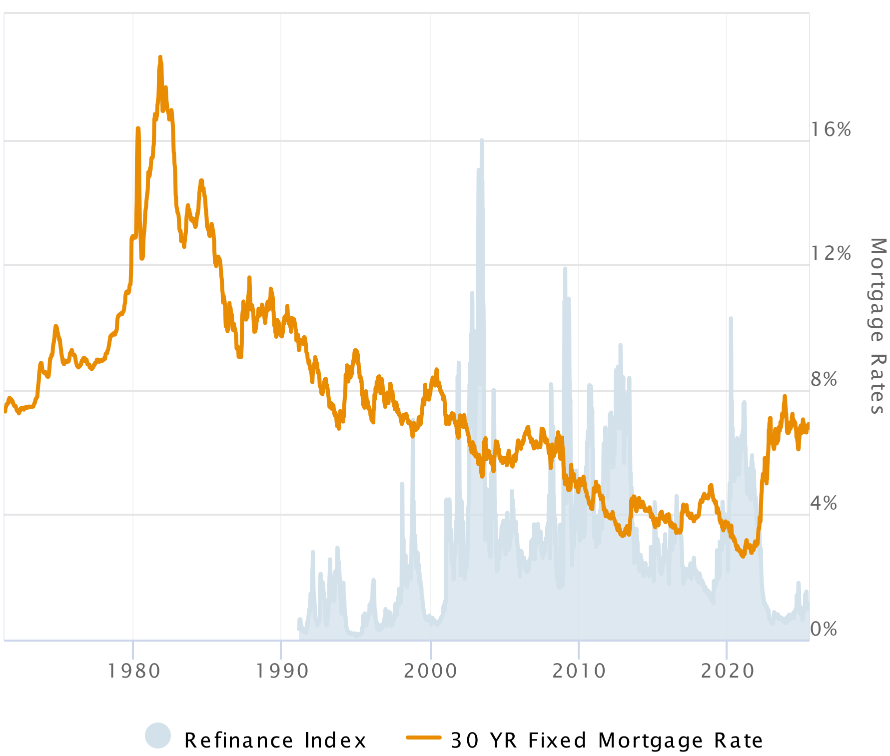
Mortgage and Real Estate News That Matters

Refis Continue to Dominate Mortgage Apps

In its last report of 2020, the Mortgage Bankers Association (MBA) said **refinancing represented nearly three-quarters of application activity** during the week ended December 18 while purchase applications declined. MBA's Market Composite Index, a measure of mortgage loan application volume, increased 0.8 percent on a seasonally adjusted basis from one week earlier and was up 1 percent on an unadjusted basis.

The **Refinance Index increased 4 percent** from the previous week and was 124 percent higher than the same week one year ago. The refinance share of mortgage activity increased to 74.8 percent of total applications from 72.7 percent the previous week.

The seasonally adjusted **Purchase Index dropped by 5 percent** from the previous week and was 7 percent lower unadjusted. Purchase activity was 26 percent higher than during the same week one year ago.



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"Mortgage rates are closing the year at record lows. The 30-year fixed rate - at 2.86 percent - is a full percentage point below a year ago," Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting said. "Last week's increase in refinance applications was driven by FHA and VA activity, while conventional refinances saw a slight decline. **Overall refinance activity was 124 percent higher than in 2019,** as borrowers continue to seek lower monthly payments or different loan terms.

"Purchase applications decreased for the second time in three weeks, as both conventional and government applications saw a drop-off. Despite the decline, purchase applications remained 26 percent higher than the same week a year ago, and the average loan balance reached another record high."

"There are still signs of relative strength in the housing market as 2020 ends," he added. "However, housing affordability will be worth monitoring next year. The lower loan size segment of the market - particularly for entry-level and first-time buyers - continues to be impacted by rapidly increasing home prices and tight inventory."

Those **rising home prices were evident in the week's numbers.** The average balance of all loans increased from $320,600 to $327,100 and the purchase loan size rose to $376,800 from $374,700.

The FHA share of total applications increased to 11.5 percent from 11.0 percent the previous week and the VA share rose to 13.8 percent from 12.1 percent. USDA applications accounted for the same 0.4 percent share as the previous week.

The average contract interest rate for 30-year fixed-rate mortgages (FRM) with balances at or below the conforming limit of $510,400 increased to 2.86 percent from 2.85 percent, with points unchanged at 0.33. The effective rate was 2.95 percent.

The rate for jumbo 30-year FRM, loans with balances exceeding the conforming limit, decreased to 3.10 percent from 3.12 percent, and points fell 0.29 from 0.33. The effective rate was 3.19 percent.

Thirty-year FRM backed by the FHA had an average rate of 2.90 percent with 0.32 point. The prior week the rate was 2.96 percent with 0.42 point. The effective rate was 2.99 point.

The 15-year FRM had an average rate of 2.43 percent, down from 2.49 percent the prior week. Points ticked down to 0.28 from 0.29 putting the effective rate at 2.50 percent.

Five/one adjustable-rate mortgages (ARMs) had a rate of 2.71 percent, up from 2.58 percent and points increased to 0.48 from 0.36. The effective rate was 2.89 percent. The ARM share of activity rose from 1.8 percent to 1.9 percent of total applications.

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's latest Forbearance and Call Volume Survey revealed that the total number of loans in forbearance as of December 13 i**ncreased slightly, from 5.48 percent of servicers' portfolio volume in the prior week to 5.49 percent.** MBA estimates that 2.7 million homeowners remain in forbearance plans. By stage, 18.78 percent of loans are in the initial forbearance plan stage, 78.54 percent are in an extension and 2.69 percent are forbearance re-entries.

The share of Fannie Mae and Freddie Mac loans in forbearance decreased to 3.25 percent - a 1-basis-point improvement while Ginnie Mae (FHA/VA) forborne loans increased 11 basis points to 7.79 percent. The share for portfolio loans and private-label securities (PLS) decreased 13 basis points to 8.76 percent. The percentage of loans in forbearance for independent mortgage bank (IMB) servicers decreased 3 basis points from the previous week to 5.95 percent and for depository servicers there was a 3 basis point increase to 5.41 percent.

"The share of loans in forbearance has stayed fairly level since early November, often **with small decreases in the GSE loan share and increases for Ginnie Mae loans.** That was the case last week. Additionally, forbearance requests from Ginnie Mae borrowers reached the highest level since the week ending June 14," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "Additional restrictions on businesses and rising COVID-19 cases are causing a renewed increase in layoffs and other signs of slowing economic activity. These troubling trends will likely result in more homeowners seeking relief."

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

MBA's offices will be closed over the holiday period, December 24, 2020 through January 4. Application volume results for that two-week period will be released on January 6, 2021. We assume forbearance survey results will be similarly delayed.