Mortgage Application Volume Fell Sharply at the End of 2020

The Mortgage Bankers Association (MBA) resumed reporting on mortgage applications today after a two-week holiday hiatus. Information on mortgage volume during the week ended December 31 is reported relative to the previous report covering the week ended December 18 but information on mortgage rates and application shares by loan types are compared to the week ended December 25.

MBA's Market Composite Index, a measure of mortgage loan application volume, **decreased 4.2 percent** on a seasonally adjusted basis from two weeks earlier. On an unadjusted basis, the Index decreased 33 percent compared with two weeks ago.

The refinancing appeared to bounce back from a big loss during the first week of the holiday season. The Refinancing Index, with an adjustment to account for the holiday, finished last week down 6.0 percent from its level during the week ended December 18 and was 100 percent higher than the same week in 2019. During the first week of the holiday period it had dropped 34 percent. Refinancing applications accounted for a 72.9 percent share of the week's activity.

The seasonally adjusted Purchase Index decreased 0.8 percent from two weeks ago although it was down 30 percent on an unadjusted basis. **The index was 3 percent higher than the same week one year ago.**

"Mortgage rates started 2021 close to record lows, most notably with the 30-year fixed rate at 2.86 percent, and the 15-year fixed rate at a survey low of 2.40 percent. The record-low rates for fixed-rate mortgages is good news for borrowers looking to refinance or buy a home, as around 98 percent of all applications are for fixed-rate loans," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Despite these low rates, **overall application activity fell sharply during the holiday period** - which is typical every year. Refinance applications were 6 percent lower than two weeks ago, and purchase activity less than 1 percent from its pre-holiday level."

Jason Wood
Mortgage Advisor & VA Loan Specialist, VA Loan Guy
www.valoanguyusa.com
P: (760) 350-3989
M: (760) 217-0820
2714 Loker Ave. W.
Carlsbad CA 92010___
317293

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Added Kan, "The steady demand for home buying throughout most of 2020 should continue in 2021. MBA's is forecasting for purchase originations to rise to $1.59 trillion this year - an all-time high."

The FHA share of applications was unchanged from the previous week at 10.1 percent while the VA share rose to 13.6 percent from 12.1 percent. USDA applications accounted for 0.4 percent of the total, up from 0.3 percent 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 decreased to 2.86 percent from 2.90 percent, with points increasing to 0.35 from 0.31. The effective rate declined to 2.99 percent.

The average contract interest rate for jumbo 30-year FRM, loans with balances below the conforming rate, dipped 1 basis point to 3.08 percent while points increased to 0.32 from 0.30. The effective rate decreased to 3.18 percent

Thirty-year FRM with FHA backing had a rate of 2.90, down from 2.95 percent the previous week. Points increased to 0.33 from 0.28, putting the effective rate at 3.03 percent.

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The rate for 15-year FRM was 2.40 percent with 0.29 point. The prior week the average was 2.42 percent with 0.28 point. The effective rate decreased to 2.49 percent.

The average contract interest rate for 5/1 adjustable-rate mortgages (ARMs) increased to 2.63 percent from 2.57 percent, with points decreasing to 0.41 from 0.50. The effective rate increased to 2.75 percent. Two percent of applications during the week we for ARMs.

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 also reported that the **percentage of mortgages in active forbearance plans remained at 5.53 percent** as of December 27. It estimates that this translates to about 2.7 million loans.

The share of both Fannie Mae and Freddie Mac (GSE) and portfolio and private label security (PLS) loans in forbearance dipped 2 basis points to 3.24 percent and 8.87 percent, respectively. However, the share of Ginnie Mae (FHA and VA) loans rose 5 basis points to 7.92 percent. The percentage of loans served by independent mortgage banks (IMB) decreased 3 basis points from the previous week to 6.01 percent, and the percentage of loans in forbearance under depository servicers increased 1 basis point to 5.44 percent. By stage, 18.27 percent of total loans in forbearance are in the initial forbearance plan stage, while 79.61 percent are in a forbearance extension. The remaining 2.11 percent are forbearance re-entries.

"The share of loans in forbearance remained **relatively unchanged in the final two weeks of 2020**, maintaining the trend of hovering around 5.5 percent for the last two months. However, the share for Ginnie Mae loans continues to inch up and is now at its highest level since the week of November 1st," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "Forbearance requests and exits both slowed markedly, and servicer call volume dropped sharply over the holidays."

Fratantoni continued, "While the increasing number of COVID-19 cases continues to slow economic activity, the passed stimulus legislation should provide financial support for many households as the vaccine rollout commences."

MBA's latest Forbearance and Call Volume Survey covers the period from December 21 through December 27, 2020 and represents 74 percent of the first-mortgage servicing market (37.2 million loans).

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