HOUSING CONNECTION
Mortgage and Real Estate News That Matters

Refi Applications Highest Since March

It was a typical first-work-week-after-the holiday bounce for the mortgage indexes, although the surge was significantly more restrained than last year. Perhaps the nation was otherwise distracted.

The Mortgage Bankers Association (MBA) said its Market Composite Index, a measure of mortgage loan application volume, increased 16.7 percent on a seasonally adjusted basis during the week ended January 8. During the first week of 2020 the increase was over 30 percent. On an unadjusted basis, the index was up 69 percent.

The **Refinance Index increased 20 percent from the previous week**, less than half the 2020 post-holiday recovery. The Refinance Index is 93 percent higher than a year ago and the refinance share of total applications rose to 74.8 percent of total applications from 73.5 percent the previous week.

The seasonally adjusted **Purchase Index gained 8 percent from one week earlier** (versus 16 percent last year) and the unadjusted Index was up 60 percent week-over-week and was 10 percent higher than the same week in 2019.

The FHA **share of total applications** decreased to 9.6 percent from 10.1 percent the week prior while the VA share increased to 15.8 percent from 13.6 percent. The USDA share of total applications remained unchanged from 0.4 percent the week prior.

The average balance of a mortgage during the week declined from $320,300 from $322,800 the previous week. The balance of purchase mortgages was down from $378,500 to $374,700.

"Booming refinance activity in the first full week of 2021 caused mortgage applications to surge to their highest level since March 2020, despite most mortgage rates in the survey rising last week. The expectation of additional fiscal stimulus from the incoming administration, and the rollout of vaccines improving the outlook, drove Treasury yields and rates higher. The 30-year fixed mortgage rate climbed two basis points to 2.88 percent, but reversing the trend, the 15-year fixed rate ticked down to 2.39 percent - a record low," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "**Even with the rise in mortgage rates, refinancing did not slow to begin the year**, with the index hitting its highest level since last March. Both conventional and government refinance applications increased, with applications for government loans having their strongest week since June 2012."

Added Kan, "Sustained housing demand continued to support purchase growth, with activity up nearly 10 percent from a year ago. The lower average loan balance observed was partly due to a 9.2 percent increase in FHA applications, which is a positive sign of more lower-income and first-time buyers returning to the market."

The average contract interest rate for 30-year fixed-rate mortgages (FRM) with balances at or below the new conforming limit of $548,250 increased to 2.88 percent from 2.86 percent. Points decreased to 0.33 from 0.35 and the effective rate moved up to 2.97 percent.

The average contract interest rate for jumbo 30-year FRM, loans with balances exceeding the conforming limit, increased to 3.17 percent from 3.08 percent, with points decreasing to 0.28 from 0.32 The effective rate was 3.25 percent.

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The rate for FHA-backed 30-year FRM grew to 2.93 percent from 2.90 percent, while points declined to 0.32 from 0.33. The effective rate was 3.03 percent.

Fifteen-year FRM had a rate of 2.39 percent with 0.31 point. The prior week the average was 2.40 percent with 0.29 point. The effective rate was unchanged at 2.47 percent.

The average contract interest rate for 5/1 adjustable-rate mortgages (ARMs) increased to 2.66 percent from 2.63 percent, with points decreasing to 0.38 from 0.41. The effective rate moved up to 2.80 percent. The ARM share of activity shrunk from 2.0 percent to 1.6 percent.

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 Forbearance and Call Volume Survey for the week ended January 3 showed a **7-basis point decline in the share of forbearance plans** to 5.46 percent of loans in servicer portfolios. This translates to an estimated 2.7 million loans. By stage, 18.49 percent of total loans in forbearance are in their initial forbearance plan and 79.85 percent are in an extension. The remaining 1.66 percent are plan re-entries.

The share of Fannie Mae and Freddie Mac loans in forbearance decreased to 3.19 percent - a 5-basis-point improvement. The share of Ginnie Mae (FHA/VA) loans decreased 7 basis points to 7.85 percent, and the forbearance share for portfolio loans and private-label securities (PLS) fell 10 basis points to 8.77 percent. The percentage of forborne loans in independent mortgage bank (IMB) servicer portfolios declined by 9 basis points to 5.92 percent, and the forbearance share for depository servicers decreased 5 basis point to 5.39 percent.

"The share of loans in forbearance slightly declined for each investor category entering the new year, remaining within the narrow range observed for the last two months," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "The data show that those homeowners who remain in forbearance are more likely to be in distress, with fewer continuing to make any payments and fewer exiting forbearance each month. Those borrowers who do exit **are also more likely to require a modification** to their ongoing repayment plans."

Fratantoni continued, "Surging COVID-19 cases caused economic activity to stall in December, with a monthly job loss for the first time since April, and with those jobs mostly concentrated in the leisure and hospitality sector. We expect that this slowdown will prevent any rapid improvement in the forbearance numbers over the next few months." Total weekly forbearance requests as a percent of servicing portfolio volume (#) increased relative to the prior week from 0.06 percent to 0.07 percent.

Twenty-nine percent of the cumulative forbearance exits from June 1, 2020, through January 3, 2021 were borrowers who had continued to make monthly payments while in forbearance. Borrowers exited with a loan deferral or partial claim in 25.1 percent of cases and 15.9 percent reimbursed past-due amounts. Thirteen percent existed forbearance in delinquency and without a loss mitigation plan. Those with a modification or trial modification and those that paid of the loan through sale or refinance each represented 7.4 percent of total exits. The remaining 1.8 percent resulted in repayment plans, short sales, a deed-in-lieu, or other resolutions.

MBA's latest Forbearance and Call Volume Survey covers the period from December 28, 2020, through January 3, 2021, and represents 74 percent of the first-mortgage servicing market which is estimated at 37.1 million loans.