HOUSING CONNECTION
Mortgage and Real Estate News That Matters


# COVID Concerns Drive Rates Lower, Refi Volume Rises

Refinancing continues to support mortgage application activity while purchase applications continued to weaken during the week ended July 23. The Mortgage Bankers Association (MBA) says its Market Composite Index, a measure of mortgage loan application volume, increased 5.7 percent on a seasonally adjusted basis from the prior week and the unadjusted index was up 6 percent.

**The Refinance Index rose by 9 percent** although it was down 10 percent from its level the same week one year ago. The refinance share of mortgage activity increased to 67.2 percent of total applications from 64.9 percent the previous week.

The seasonally adjusted **Purchase Index decreased 2 percent** and unadjusted Purchase Index ticked down 1 percent compared with the previous week. The latter was 18 percent lower than the same week in 2020.

**Refi Index vs 30yr Fixed**

**Purchase Index vs 30yr Fixed**

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"The 10-year Treasury yield fell last week, as investors grew concerned about increasing COVID-19 case counts and the downside risks to the current economic recovery. Refinance applications jumped, as the 30-year fixed mortgage rate declined to its lowest level since February 2021, and the 15-year rate fell to another record low dating back to 1990," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "Refinances for conventional loans increased over 11 percent. With over 95 percent of refinance applications for fixed rate mortgages, **borrowers are looking to secure a lower rate for the life of their loan.**"

Added Kan, "The purchase index decreased for the second week in a row to its lowest level since May 2020 and has now declined on an annual basis for the past three months. Potential buyers continue to be put off by extremely high home prices and increased competition. The FHFA reported yesterday that May home prices were 18 percent higher than a year ago, continuing a seven-month trend of unprecedented home-price growth."

The FHA **share of total applications** decreased to 9.1 percent from 9.6 percent and the VA share fell to 9.8 percent from 10.5 percent. The USDA share was unchanged at 0.5 percent. The average loan size increased from $343,800 to $357,700 and the purchase loan size rose from $401,300 to $404,200.

The **average contract interest rate** for 30-year fixed-rate mortgages (FRM) with conforming loan balances of $548,250 or less decreased to 3.01 percent from 3.11 percent, with points down to 0.34 from 0.43. The effective rate was 3.11 percent.

The rate for jumbo 30-year FRM, loans with balances above the conforming limit, declined to 3.11 percent from 3.13 percent, Points dropped to 0.27 from 0.32 and the effective rate decreased to 3.19 percent.

Thirty-year FRM with FHA backing had a rate of 3.03 percent with 0.35 point. The prior week the rate was 3.08 percent with 0.31 point. The effective rate dropped to 3.14 percent.

The average rate for 15-year FRM was 2.36 percent, the lowest level in the history of the survey, 10 basis points lower than the prior week. Points were unchanged at 0.30 and the effective rate was 2.44 percent.

The rate for 5/1 adjustable rate mortgages (ARMs) jumped to 2.81 percent from 2.74 percent, with points increasing to 0.23 from 0.19. The effective rate increased to 2.90 percent. The ARM share of activity increased to 3.6 percent of total applications from 3.3 percent the previous 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's latest Forbearance and Call Volume Survey shows a decline of 2 basis points in the number of loans in forbearance during the week ended July 18. There are now approximately 1.74 million homeowners in active plans, about 3.50 percent of the total number in servicer portfolios. By stage, 9.8 percent of those loans are in the initial forbearance plan stage, 83.2 percent are in an extension and 7 percent are forbearance re-entries.

The share of Fannie Mae and Freddie Mac **loans in forbearance decreased 2 basis points to 1.81 percent of those portfolios.** Ginnie Mae (FHA/VA) loans decreased 1 basis point to 4.35 percent, while the forbearance share for portfolio loans and private-label securities (PLS) increased 5 basis points to 7.38 percent. The percentage of forborne loans serviced by independent mortgage bank (IMB) servicers remained the same relative to the prior week at 3.68 percent and those in depository servicers' portfolios decreased 1 basis point to 3.61 percent.

"As is typical for mid-month reporting, forbearance exits slowed, and there was a slight increase in new requests. The net result was a small drop in the share of loans in forbearance - the 21st consecutive week of declines," said Mike Fratantoni, MBA's Senior Vice President and Chief Economist. "The forbearance share decreased for GSE and Ginnie Mae loans, but increased for portfolio and PLS loans, as new forbearance requests increased for this category."

MBA's latest Forbearance and Call Volume Survey covers the period from July 12 through July 18, 2021 and represents 74 percent of the 36.9 million loan first-mortgage servicing market.