Refi Booms, Loan Limits, and Mortgage Rate Misdirection

'Tis the season for things to be something other than what they appear to be, apparently. Lenders are talking about new loan limits, but they haven't officially changed. News stories are saying rates went lower this week, but they're higher. And there's even talk of a big refi boom, but as you may have guessed, that's also not exactly right.

Rates.

Rates continued to move slightly higher (yes, higher), while remaining close enough to long-term lows. This chart of 10yr Treasury yields (a proxy for longer-term rates like mortgages) does a good job of capturing all of the positive momentum seen in recent months as well as the mild correction that began after last week's Fed rate cut.

Things look even milder if we focus on mortgage rates. In fact, one measure of mortgage rates (Freddie Mac's weekly survey) is so mild that it actually went LOWER this week.

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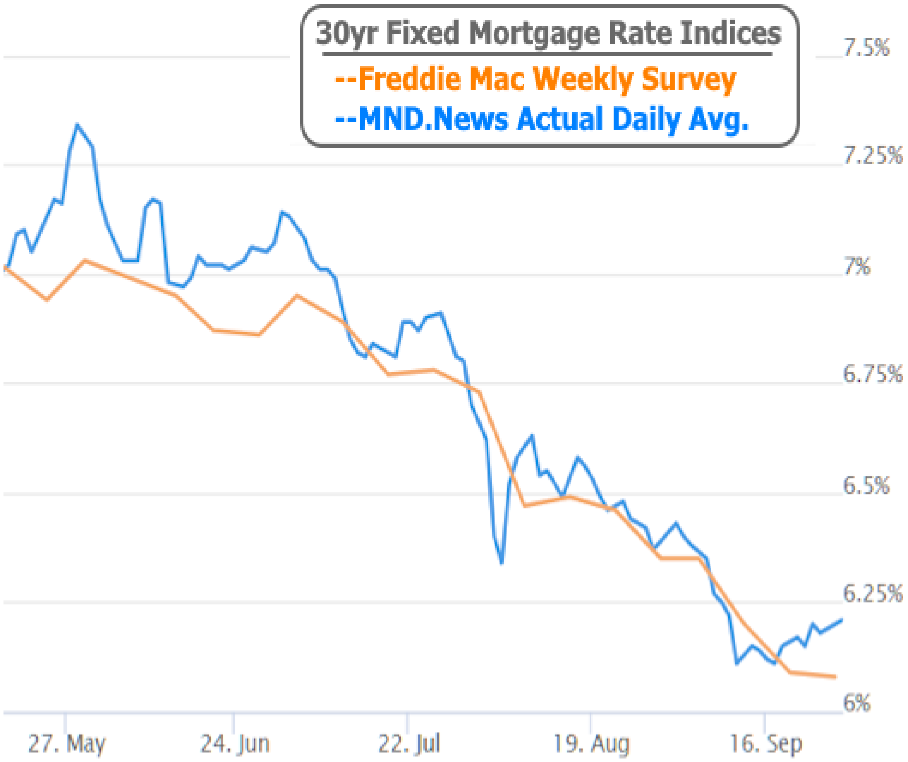


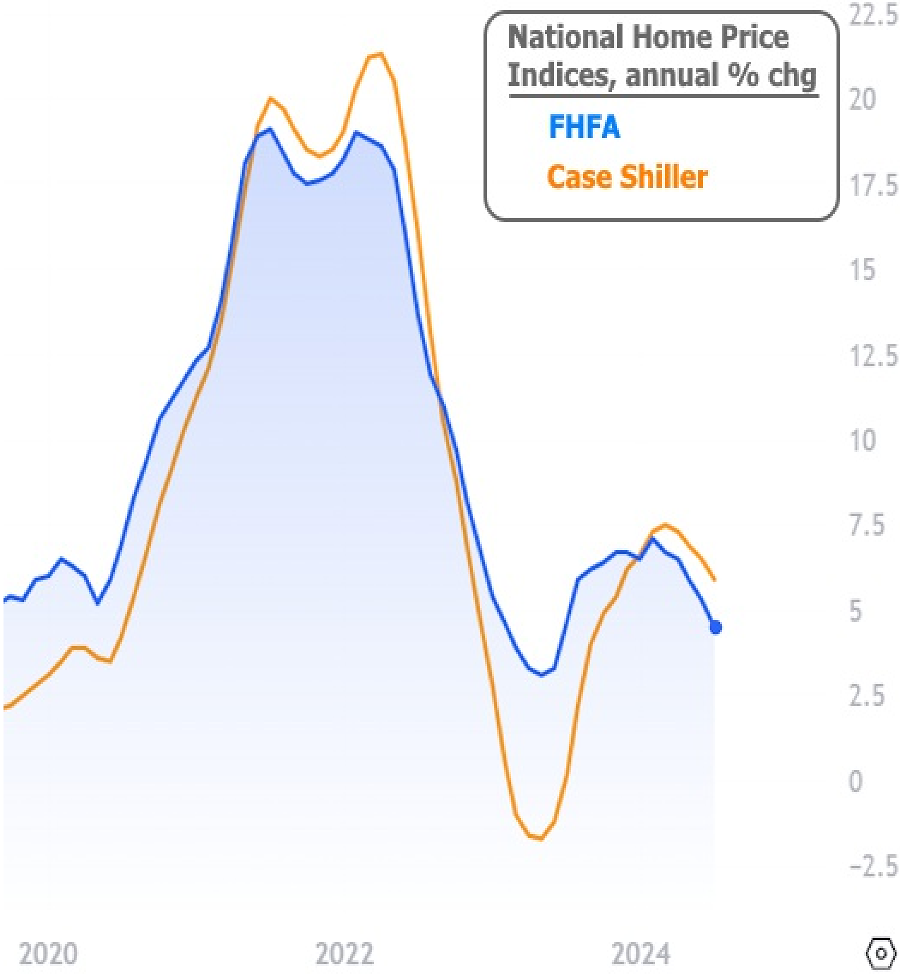
Sadly, Freddie's numbers don't align with reality this week. We are normally able to use the objective daily numbers from MND to reconcile such discrepancies, but it's not possible in this case. If you want a deeper dive on this phenomenon, here you go: Mortgage Rates are 100% NOT Lower This Week.

Loan Limits and Home Prices

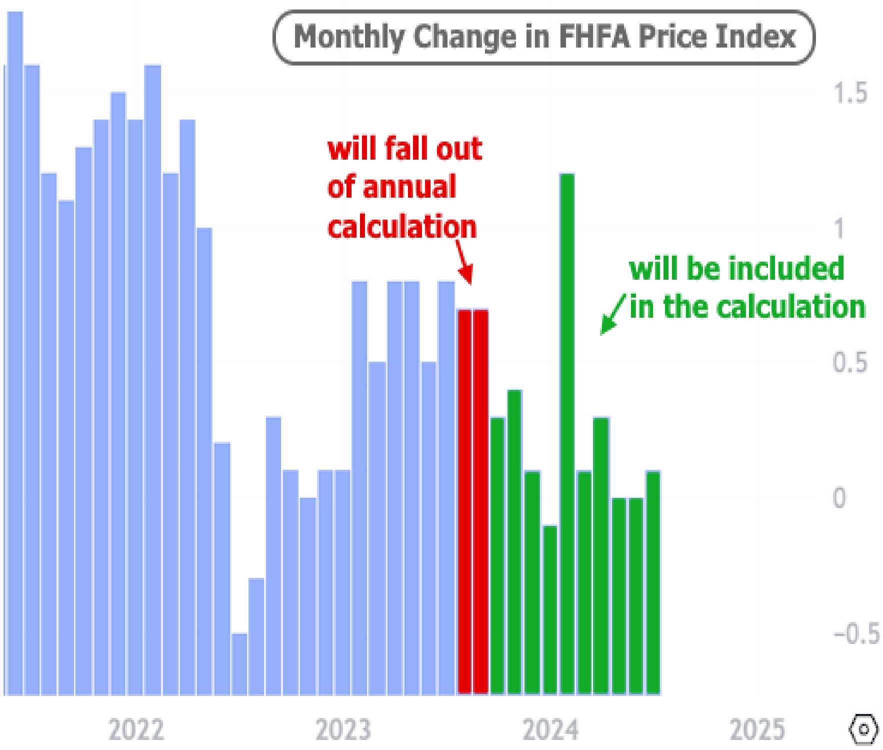
Other misdirection plays are much easier to explain. For instance, you may see some lenders advertising new conforming loan limits that are near, or over $800k. Official conforming loan limits are announced at the very end of November. So who's lying?

No one... In recent years, a handful of lenders have adopted their own loan limits a few months before the official announcement. They cannot know with 100% certainty what the new limits will be, but calculation is the same every year and all but 2 months of the data are already available.

The data in question is the FHFA's house price index. Technically, it's the "seasonally adjusted, expanded, quarterly" data set, but that data tends to change at about the same pace as the FHFA price index reported in the news each month. This week brought the latest numbers, showing continued cooling in price appreciation.



It seems like a safe enough bet that the blue line will still be well above zero 2 months from now. To understand how close some of these lenders might be with their guesses, we can combine what we already know about the expanded quarterly data with the trends that have emerged in month to month price data. Here's the month to month chart:



In other words, price appreciation has averaged less than 1/2 of 1% over the past 3 months. Moreover, two of the 3 highest months will fall out of the annual calculation before the loan limits are determined. If the same pace continues, and if we apply it to the quarterly data that's already available, the new conforming loan limit would be $800,950. Several lenders are already higher than that, but expect them to pull back to the official number when it's released in 2 months.

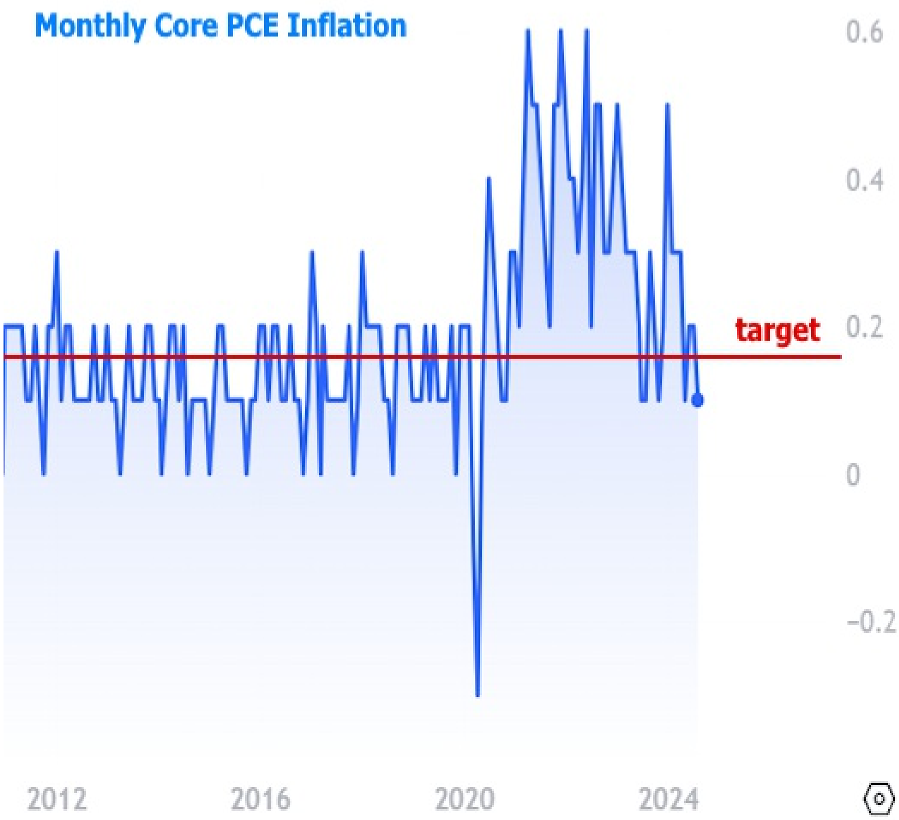
Refi Boom

Is there or will there be a refi boom? The answer depends on your frame of reference. We can assure you that this chart of the Mortgage Bankers Associations refinance index is accurate:

We can also assure you this chart is accurate:

In other words, there's been a massive surge up from utterly depressed levels of refi activity such that we're now in line with what had previously been considered the doldrums. Things can certainly pick up from here although certainly not to historic highs any time this decade. Those highs were marked by opportunities for every eligible mortgage holder to save money by refinancing. Now that a large proportion of homeowners has rates in the 2s and 3s, they won't have a refi incentive for the foreseeable future apart from debt consolidation or other non-mortgage-related motivations.

On a final note, this week's economic data was mostly forgettable. Inflation continued to support the Fed's increased focus on the labor market. Core PCE prices--The Fed's favorite inflation metric--have been very well behaved indeed, coming in below target yet again.



As for the increased focus on the labor market, next Friday brings the all-important Employment Situation (aka "the jobs report"). It has more power than any other piece of monthly economic data to give rates a push, for better or worse.