U.S. mortgage demand withers as loan rates spike

On Wednesday June 10, 2009, 9:45 am EDT

By Lynn Adler

NEW YORK (Reuters) - Spiking U.S. mortgage rates drove down total home loan applications last week as demand for refinancing shriveled to the lowest level since November, the Mortgage Bankers Association said on Wednesday.

The swift rate rise crimps affordability, likely cutting offer prices on home sales and prolonging a housing turnaround.

Borrowing costs have soared as bond yields have risen, even as the Federal Reserve has sopped up hundreds of billions of dollars in bonds to keep rates low and stimulate the housing market.

The average 30-year fixed mortgage rate jumped 0.32 percentage point in the June 5 week to 5.57 percent. That was nearly a full point, about 100 basis points, above the record low rate of 4.61 percent in March, the trade group said.

"Clearly, 50 or 100 basis points more on mortgage rates is enough to matter. It effects what people can afford to buy," said Bill Cheney, chief economist at John Hancock Financial Services in Boston.

The vast majority of mortgage activity this year has been from homeowners cutting costs with new loans at rock-bottom rates.

The Mortgage Bankers Association's seasonally adjusted index of total applications dropped 7.2 percent to a four-month low of 611.0 in the latest week.

The refinancing index slumped 11.8 percent to a nearly seven-month low of 2,605.7 last week, and refinancing accounted for about 59 percent of all applications, the lowest share since November. As recently as April, refinancings accounted for almost 80 percent of all home loan applications.

Purchasers have been slower to act in the current housing market, with some waiting in hopes that prices will fall further and others paralyzed by unemployment or wage cuts.

"The more you get people making low-ball offers because they can't afford to offer any more, the less willing conventional sellers are to sell at all," Cheney said. "It tends to freeze the housing market for a bit longer."

Demand for loans to buy homes was little changed last week, rising 1.1 percent to 270.7, having basically been stuck in neutral throughout the important spring sales season.

"I'm not optimistic for 2009 or 2010," Mark Goldman, real estate lecturer at San Diego State University and mortgage broker, said on Tuesday.

The swift percentage point rise in mortgage rates cuts the purchasing power of a borrower by about 10 percent, he estimated.

"Employment is still bad, wages are still low, interest rates are up. That's going to hurt the housing market," Goldman added.

The number of U.S. jobs cut in May was the lowest level since September, but the unemployment rate rose to 9.4 percent, the highest since July 1983.

First-time buyers taking advantage of new tax credits and investors snapping up foreclosed properties at distressed levels have in recent months buttressed the hardest-hit housing market since the Great Depression.

But borrowers will foreclose in record numbers at least for another year, several industry sources, including the Mortgage Bankers Association, predict. Those homes will add to the already large supply of unsold properties and will keep pressuring prices.

Home prices on a national level have tumbled more than 32 percent from the peak three years ago, according to Standard & Poor's/Case-Shiller indexes.

"Prices continue to erode on a national level, and with the rest of the economy not doing well either and the jobless rate constantly increasing, we don't see a recovery in housing on a national level coming soon," Kevin Marshall, president of Clear Capital, based in Truckee, California, said this week.

"That doesn't mean there aren't values to be had out there," he added.