

Mortgage rate spike shutteres refinance boom

By Carolyn Duren and Zach Fox

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Mortgage rates have spiked since Donald Trump won the presidential election Nov. 8, making housing less affordable and dampening refinance activity. Interest rates have historically had little impact on home prices, meaning the purchase market might not be affected as much as refinancing activity.

SNL data shows mortgage rates for 30-year fixed-rate mortgages jumped 38 basis points between Nov. 11 and Dec. 9. Rates on 15-year mortgages showed a similar spike. Among the 20 largest banks that provide no-fee mortgage rates, M&T Bank Corp. stands out with a 3.63% mortgage rate. With large banks such as JPMorgan Chase & Co. and Wells Fargo & Co. above 4.25%, the superregional could win some share, especially in the refinancing market.

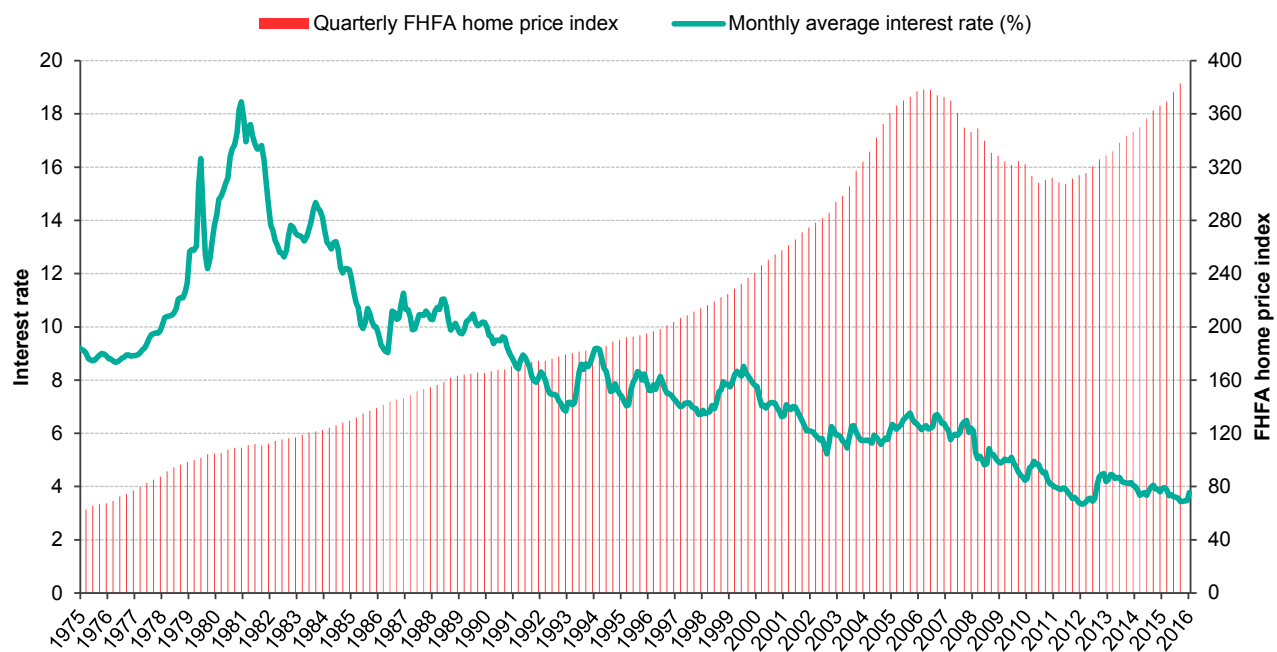
Further upward pressure on rates could come this week as the Federal Open Market Committee meets Dec. 13 and

Dec. 14. Future markets have put a 95% probability that the committee hikes the federal funds rate by 25 basis points. While higher mortgage rates will make home purchases less affordable, a key driver of the rate rise — inflation driven by greater demand throughout the economy — should similarly support home prices.

“The housing market is going to respond to the strength of the broader economy. So if you’re in a rising-rate environment where there’s strong economic growth and wages are rising, all those are going to contribute to a stronger housing market,” said Michael Fratantoni, chief economist for the Mortgage Bankers Association, or MBA.

MBA data shows higher rates have had little effect on home purchase applications. Since Trump’s election, volume for home purchase applications is up 12%. But refinancing activity is another story, falling 28%.

Interest rates vs. home prices



Data compiled Dec. 12, 2016.

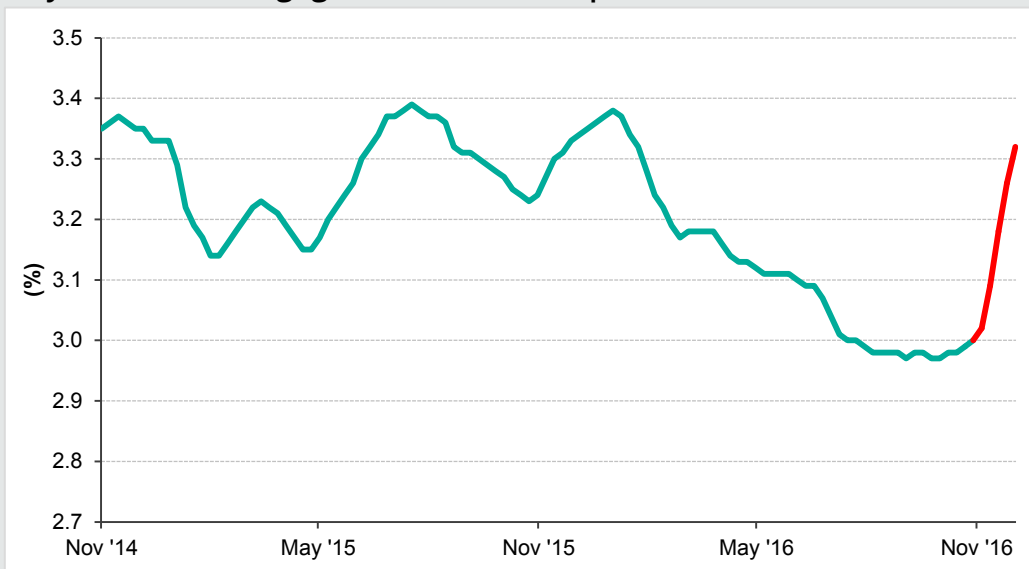
The FHFA home price index starts at 100 as of Jan. 1, 1980, and is reported on a quarterly basis on the first day of the quarter.

Interest rates represent the monthly average commitment rates on 30-year fixed-rate mortgages as reported by Freddie Mac.

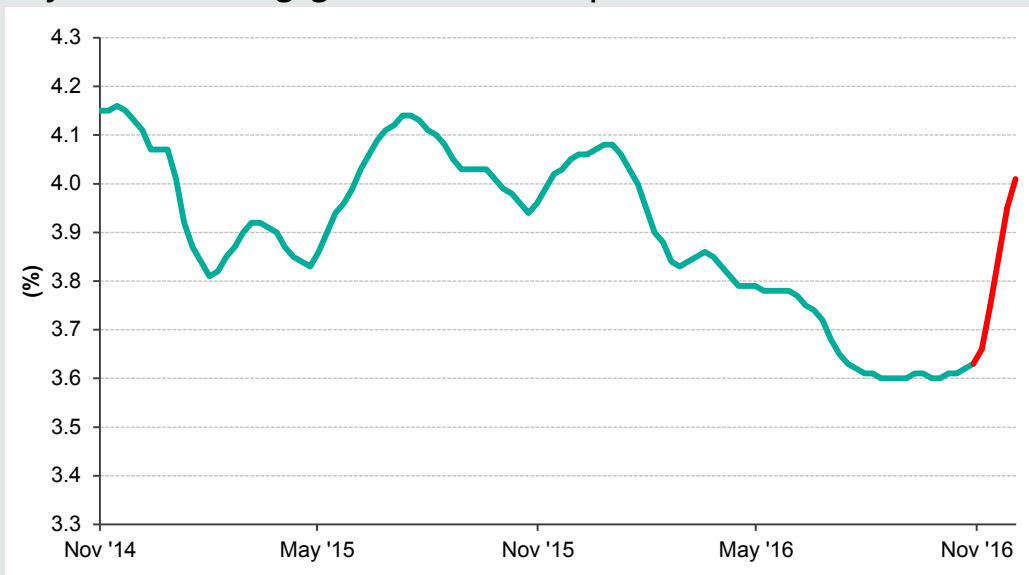
FHFA = Federal Housing Finance Agency

Sources: Federal Home Loan Mortgage Co. (Freddie Mac); U.S. Federal Housing Finance Agency, retrieved from FRED, Federal Reserve Bank of St. Louis

15-year fixed mortgage rate since Trump's election



30-year fixed mortgage rate since Trump's election



Data compiled Dec. 12, 2016.

The red portion of the line represents the rate since Nov. 11, 2016, the Friday after Donald Trump's election.

Represents the U.S. national average interest rate, regardless of reported mortgage points.

Source: SNL Financial, an offering of S&P Global Market Intelligence

Black Knight Financial Services calculates how many borrowers could save money by refinancing. The company reported Dec. 12 that the population of refinance-able borrowers has shrunk by 5 million borrowers since the beginning of November.

Researchers at Urban Institute came to a similar conclusion. On Dec. 12, the think tank's Housing Finance Policy Cen-

ter reported that less than 20% of outstanding mortgages would benefit from a refinance, down from almost 50% earlier in the year. The analysts wrote that the spike in rates will lead to "significantly fewer mortgages."

"The effect [of higher rates] on refinance activity is immediate and direct. For many, it reduces the benefit of refinancing," said Frank Nothaft, chief economist for CoreLogic. He

30-year direct fixed mortgage rates at 20 largest US banks and thrifts*

Company (top-level ticker)	Total assets (\$B)	Average current rate (%) ¹	Change in average rate (bps)						
			1-week	1-month	3-month	6-month	1-year	2-year	3-year
JPMorgan Chase Bank NA (JPM)	2,118.50	4.28	5	52	78	61	33	34	-22
Wells Fargo Bank NA (WFC)	1,740.82	4.32	7	55	72	60	18	28	-31
U.S. Bank NA (USB)	448.40	4.38	0	38	75	63	25	25	-25
PNC Bank NA (PNC)	357.86	4.00	-13	38	63	63	13	-7	-50
Capital One NA (COF)	279.26	4.19	0	38	73	63	26	34	-32
TD Bank NA (TD)	264.53	4.25	9	46	60	46	-5	12	-18
Branch Banking and Trust Co. (BBT)	217.38	4.25	0	63	75	75	25	25	-13
HSBC Bank USA NA (HSBA)	203.71	4.18	13	43	56	47	4	13	-48
Fifth Third Bank (FITB)	140.77	4.25	13	63	88	63	-25	-11	-75
Manufacturers and Traders Trust Co. (MTB)	126.24	3.63	0	13	0	-38	-49	-45	-104
Regions Bank (RF)	124.20	4.18	5	36	52	37	11	4	-45
MUFG Union Bank NA (8306)	116.91	4.63	0	50	50	50	NA	NA	NA
Citizens Bank NA (CFG)	114.60	4.21	2	33	44	39	-3	8	-29
BMO Harris Bank NA (BMO)	106.68	4.11	0	49	61	48	20	21	-39
Capital One Bank (USA) NA (COF)	105.93	3.88	0	38	50	25	0	0	-63
Huntington National Bank (HBAN)	100.42	4.23	0	68	74	59	12	8	-41
Santander Bank NA (SAN)	85.47	4.13	0	38	38	50	14	14	-25
Compass Bank (BBVA)	84.98	4.00	0	50	63	50	0	0	-50
Bank of the West (BNP)	82.57	4.38	7	47	75	57	30	30	-7
Comerica Bank (CMA)	74.28	4.28	-22	22	60	57	10	22	NA
Industry average²		4.09	4	38	51	36	2	0	-44

Data compiled Dec. 12, 2016.

* Analysis limited to U.S. bank and thrift branches that provided a 30-year direct fixed mortgage rate with zero discount points, a fee that lowers a borrower's interest rate, for all selected periods. Excludes branches that did not report 30-year direct fixed mortgage rates for Dec. 9, 2016. Only includes active and de novo branches as of Dec. 12, 2016.

¹ Average current rate is the average 30-year direct fixed mortgage rate across U.S. bank and thrift branches as of Dec. 9, 2016.

² Industry average is calculated as the average rate among U.S. bank and thrift branches that provided a mortgage rate with zero discount points. Top-level ticker based on company's home country stock exchange.

NA = not available

Source: SNL Financial, an offering of S&P Global Market Intelligence

said CoreLogic expects refinancing activity to decline by one-third to one-half in 2017 relative to 2016 volumes.

While higher interest rates spell trouble for mortgage banking revenue by sapping refinance activity, the home purchase market might continue to show strength. Home purchases, especially of new-construction homes, is widely considered a driver of economic growth.

Historically, mortgage rates have had little effect on home prices and purchase activity. Rates spiked in the 1980s, reaching a peak of more than 18% in 1981. But home prices did not suffer, continuing to grow through the period of hyperinflation. Urban Institute's analysts predict higher home prices in the rising-rate environment, buoyed by many of the inflationary pressures that are pushing up rates.

"We have a glass-half-full perspective because the rising-rate environment means the American consumers' financial picture is improving," said Ben Graboske, an executive vice president for Black Knight.

And CoreLogic's Nothaft said the bump in rates could actually increase home sales as buyers who had been "on the fence" feel a need to take advantage before rates move even higher. But Nothaft said higher rates will have a small negative effect on home sales by the summer of 2017, potentially offset by income and job growth.

There could be offsets in refinancing volume, too. While there are millions of borrowers who no longer save money with a refinancing, some will continue to see value. Nothaft pointed to borrowers with loans insured by the Federal

Housing Administration, which require expensive insurance premiums. Once a borrower earns enough equity, a refinance into a higher-rate mortgage can make sense since the insurance premium disappears. And Black Knight's Graboske noted that a certain percentage of borrowers will continue to pursue cash-out refinances to finance renovation projects or other needs.

As for the trajectory of rates following the FOMC's decision Wednesday, Graboske said the market has likely already priced in a 25-basis-point increase. Nothaft agreed, saying

mortgage rates are unlikely to react to the expected uptick in the fed funds rate. Both analysts said the job market and related inflationary pressures on incomes will play a larger role on mortgage rates. MBA's Fratantoni highlighted those factors, as well as tightening monetary policy abroad. The European Central Bank recently announced a pullback in its quantitative easing program.

"A weak global economy and lower rates outside of the U.S. ... [have] been an anchor on U.S. rates until now," Fratantoni said. "And that anchor is slipping."