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Mortgage market sees drop in refinance share of activity

By SAMANTHA HENRY, The Daily Transcript
Wednesday, May 7, 2014

Mortgage applications have returned to a "majority purchase market" for the first time since 2009, according to the Mortgage Bankers Association's Weekly Mortgage Applications Survey, and San Diego seems to be following the nationwide trend.

The refinance share of mortgage activity decreased to 49 percent of total applications from 50 percent the previous week, according to the MBA. The adjustable-rate mortgage (ARM) share of activity increased to 9 percent of total applications.

Ken Bates, branch manager at Military Home Loans, said most mortgage brokers in the San Diego area are down to an 80-20 ratio, and the people who are refinancing aren't doing to because of interest rates. The main reason is because they're starting to use equity to put kids through college or for other expenses, which Bates said hasn't been seen since the peak of the market in 2006.

"It is official: we are in a majority purchase market for the first time since 2009," said Mike Fratantoni, MBA's Chief Economist, in a statement. "A sizeable increase in purchase applications last week likely reflected the impact of somewhat lower mortgage rates as well as continued growth in the job market, as confirmed by Friday's employment report from the BLS. Despite the strong increase in the purchase market last week, volume continues to run 16 percent behind last year's pace."

Mark Goldman, professor at San Diego State University and a senior loan officer with **C2 Financial Corp**., said his office is seeing more purchase activity, and the majority of people who wanted to refinance did so last year.
"The rates have increased. They're still fantastically low, just not as good as last year," Goldman said.

The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($417,000 or less) decreased to 4.43 percent, the lowest rates since November 2013, according to MBA. The average rate on a 15-year loan was 3.52 percent compared with 3.53 percent a week earlier.

Those who had been upside down on their mortgages and couldn't meet the loan-to-value requirements were able to do so last year as values increased. Home value increases have slowed down since last year and thus the number of those refinancing their loans has also tapered off, Goldman said.

"Buyers are active and so purchases are picking up," Goldman said.

Interest rates climbed up in the 60 days following the bottom in May of last year, Bates said, and have been sitting where they topped out.

Bates agreed that everyone who is a refinance candidate has dropped down and can't get a better rate.
"The people sitting on higher rates and could be refinancing didn't at 4.5, or when it dropped to 4, or when it dropped to 3.5 and now it's back up to the 4-4.5 range. These are people just not interested in refinancing, period," Bates said.

The MBA's mortgage finance forecast as of April 8 predicts the refinance share of mortgage originations will continue to drop through the end of 2014, ending the year below 40 percent.

Goldman has also seen an increased interest in adjustable rate mortgages (ARMs). The interest isn’t significantly more, and Goldman said people are coming into the market on a more long-term basis and are more inclined to consider the 30-year fixed mortgage.

People are starting to ask about the ARMs because the 5-year fixed rate mortgages and the 7-year fixed-rate mortgages are lower than the 30-year, he said.

Since interest rates are virtually at historic lows, Bates said it's more than likely that they'll adjust up and not down - so most people are still opting for the 30-year fixed loan.

Overall, Goldman is seeing the market pick up. A colleague recently increased his staff to accommodate the increased number of transactions, he said. The first quarter of 2014 was off to a slow start, but production is picking up as San Diego enters into the buying season, Goldman said.