Home Loan Demand Plunges

Interest-Rate Jump Puts Mortgages At 14-Year Low

BY NICK TIMIRAOS

Mortgage lending declined to the lowest level in 14 years in the first quarter as homeowners pulled back sharply from refinancing and house hunters showed little appetite for new loans, the latest sign of how rising interest rates have dented the housing recovery.

Lenders originated $335 billion in mortgage loans during the January-March quarter, down 58% from the comparable period a year ago and down 23% from the fourth quarter of 2013, according to industry newsletter Inside Mortgage Finance.

The decline shows how the mortgage market is experiencing its largest shift in more than a decade as an era of generally falling interest rates that began in 2000 appears to have run its course. The average 30-year fixed-rate mortgage stood at 4.5% last week, up from 3.5% last May, when interest rates shot up in reaction to the Federal Reserve's initial indication that it might reduce a bond-buying campaign that was, in part, designed to keep a lid on long-term rates like mortgages.

The decline in mortgage lending last quarter stemmed almost entirely from the slide in refinancing. Loans for home purchases were basically flat from a year earlier and down from the fourth quarter.

The lending news could disappoint economists looking for a pickup in housing construction and new-home sales this year that could drive growth as other segments of the economy are showing signs of rebounding after a winter lull.

"A strong housing rebound is an important component of most forecasts that suggest that GDP growth will be stronger than the economy's 'potential' rate over the next two years," Eric Rosengren, president of the Boston Fed, said in a speech last week.

Softness in the housing market, if it deepens and undermines the broader economic outlook, could complicate the Fed's efforts to dial back easy-money policies designed to support the recovery.

Applications for purchase mortgages last week ran nearly 18% below the level of a year ago, even as the average loan amount...
The Growth Engine That Hasn’t

Suggestiveness in the mortgage-loan market reflects a residential-housing sector that has been only a small contributor to economic growth ...

possibly limiting housing’s contribution to growth.

Charges of gross domestic product ...

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Mortgage Lending Falls to 14-Year Low

on new applications hit a record of $280,500,000, according to the Mortgage Bankers Association.

The numbers raise questions over whether wage and job growth is strong enough for American consumers to shift the housing rebound that began two years ago into second gear. Some investors, who have played an outsized role whittling down an oversupply of homes, have begun to retreat from certain markets where prices have risen sharply. The degree to which traditional buyers, especially at the entry level, are able to pick up the baton could determine the shape of the recovery going forward.

"Housing has become less of a drag, but I don’t think it’s going to be that easy," said Stan Humphries, chief economist at real-estate data company Zillow Inc.

While mortgage rates are still low by historical standards, they’re less useful to traditional buyers because home prices have risen swiftly, offsetting any benefit that low rates provide to reduce housing costs. As a result, "housing is becoming a less effective transmission belt for the Fed’s stimulus," said Mr. Humphries.

Mark Morrison had considered selling his Waukesha, Wis.

home later this year in order to downsize, but he decided to stay put because he didn’t want to give up the 4.13% mortgage rate that he locked in two years ago. "All of a sudden the condo or the much smaller house—it’s not that much cheaper," said Mr. Morrison, 37 years old. "I’m better off keeping this low rate.

The rise in mortgage rates has also slammed refinancing, which fell 75% during the first quarter from the year-earlier period, according to Inside Mortgage Fi.

Guy Cecala, publisher of Inside Mortgage Finance. When mortgage rates jumped nearly two percentage points in 1994, refinancing fell to 11% that June, from 63% the prior October.

Meanwhile, there are some signs that lenders have begun to gradually ease the conservative standards they adopted five years ago in a bid to boost volumes. More lenders have reported accepting borrowers with slightly lower credit scores and with lower down payments.

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"With volume going down, everyone is looking to tweak, if not loosen, the underwriting in certain areas," said Mr. Cecala. But he added, "you don’t see anybody lowering all the standards across the board. It’s going to be much slower." Some economists say a bigger problem facing the economy is that consumers are too weak. Too many can’t borrow because they have high levels of debt, damaged credit from the recession or insufficient incomes to become home buyers, and looser credit standards aren’t likely to easily address those challenges.

The mortgage industry’s long winter has been many years in the making. The drop in volumes should have happened around a decade ago, said Doug Duncan, chief economist at mortgage-finance firm Fannie Mae. In 2003, the average 30-year fixed rate mortgage fell to 5.6% down from a peak of 8.3% in 2000 and 18.3% in 1981.

But two developments allowed the mortgage industry to keep production humming even after rates began to rise. First came the expansion of the subprime market from 2004 to 2006. Lenders relaxed standards, triggering a boom in so-called cash-out refinancing in which rising home prices and aggressive lenders enabled borrowers to take out larger loans on their homes.

Then in late 2007, the Fed embarked on the first of its bond purchases, known as "quantitative easing," which brought rates back to their 2003 lows—only later, below those levels to their lowest in nearly 60 years. The latest boom was also fueled by a revamped government initiative that made it easier for more homeowners to refinance even if they owed more than their homes were worth.

—Eric Morath

contribution to this article.