



The Arizona Loan Baron
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Price Increases Muting Interest Rate Affordability

Any benefits to affordability delivered by recent improvements in interest rates have been **significantly downgraded** or even erased by home price increases. Black Knight Financial Services said in its March *Mortgage Monitor* that the interest rate declines the country enjoyed during the first months of 2016 could have saved a homebuyer \$44 per month on a mortgage used to purchase a median priced home. However, home price appreciation cut that back to just \$18 per month.

At the time the *Monitor's* data was compiled, in March 2016, mortgages interest rates had fallen year-to-date by about 35 basis points. Black Knight used those lower rates to calculate principal and interest payments to determine how lower rates impacted affordability of an 80 percent loan-to-value (LTV) 30-year fixed rate mortgage. All things being equal those declines would have saved borrowers "significant" money on a home purchase, but **rising home prices are muting the effect**. In some parts of the country home price gains could soon wipe out all the benefits from falling rates.

Black Knight Data & Analytics Senior Vice President Ben Graboske said Black Knight's Home Price Index for February showed an annual home price appreciation of 5.3 percent which would reduce that \$44 median savings appreciably. "The mortgage on a median-priced home is still more affordable than it was in December despite rising prices," Graboske said, **"just not as much** as one might expect given that rates are as low as they are. This isn't to say that interest rate reductions aren't beneficial to buyers - they almost certainly are. If rates hadn't dropped over the past four months, it would cost an additional \$28 to buy the median-priced home today as compared to December 2015.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00

Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00

Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

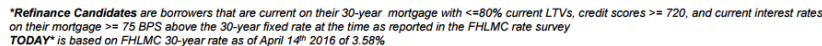
Rates as of: 5/17

Recent Housing Data

		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

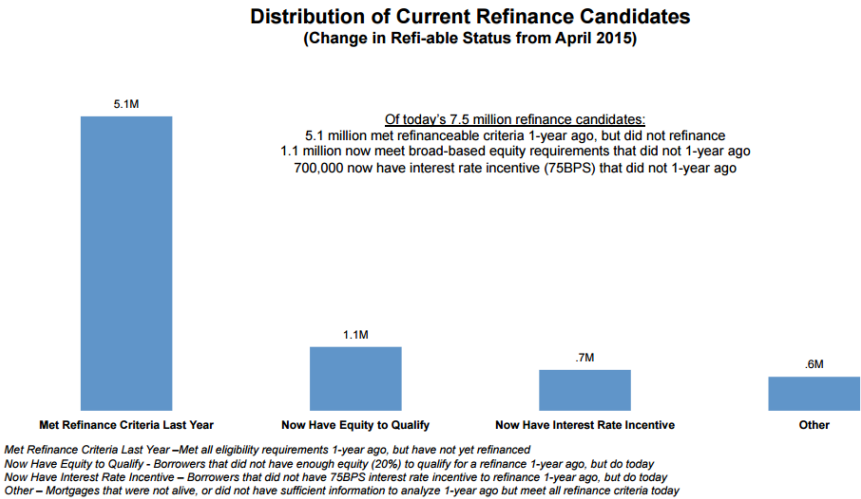


The company noted that the falling rates have also increased the population of homeowners who could qualify for as well as benefit from refinancing their 30-year mortgages by about 2.3 million in the two months since it last did this analysis. This would bring the pool of refinancable homeowners to 7.5 million borrowers, the largest since 2013.



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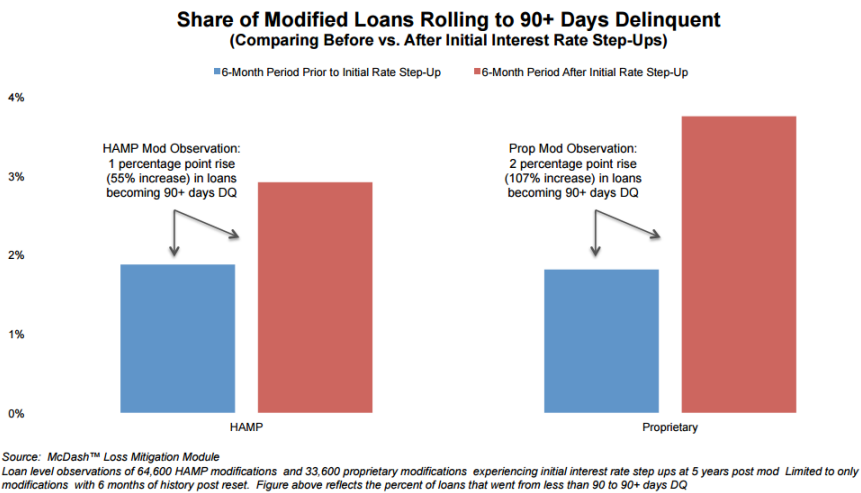
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In addition to reprising the delinquency data the company released earlier in its "first look" report, Black Knight also focused part of the Monitor on the status and recent performance of loans that were modified both by individual lenders and through the Home Affordable Modification Program (HAMP) run jointly by the Treasury Department and the Federal Housing Finance Agency.

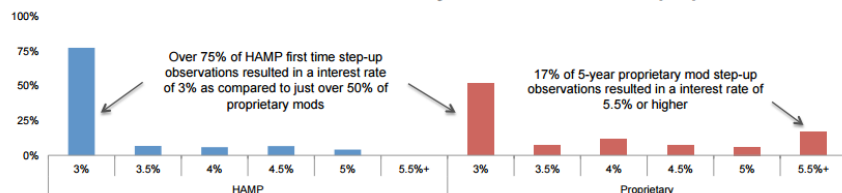
According to Treasury **96 percent of the HAMP modifications** included a rate reduction and 80 percent are scheduled for a rate step-up after five years and some will have subsequent resets as well. There were many variations to proprietary modifications and Black Knight looked only at those with interest step-ups at five years.

Looking at a sample of 64,600 HAMP and 33,600 proprietary modifications, all of which had received an initial rate and for which six-months of post reset performance data was available the company found that there was an increase in defaults post change but so far the impact has been **"relatively minimal."** Only about 1 percent of borrowers that have gone through the HAMP resets appear to have defaulted because of an increase in their mortgage payments. To put this in context, of the estimated 290,000 borrowers that faced those increases through the fourth quarter of 2015, only 2,900 would have become 90+ days delinquent as a result.

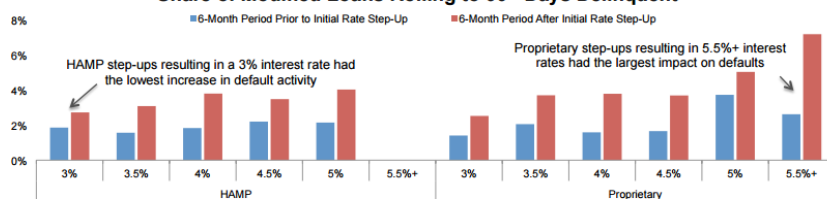


The **most pronounced impact** of proprietary step-ups on delinquencies appears to be due in part to higher resulting rates. Those step-ups that resulted in 3 percent rates had the lowest impact on the performance under both HAMP and proprietary modifications with the lowest among HAMP mods going from 2 percent to 3 percent, a 0.9 percent increase in delinquencies and a 46 percent increase in the roll rate to 90+ days delinquent.

Distribution of Observations by Interest Rate After Step-Up



Share of Modified Loans Rolling to 90+ Days Delinquent

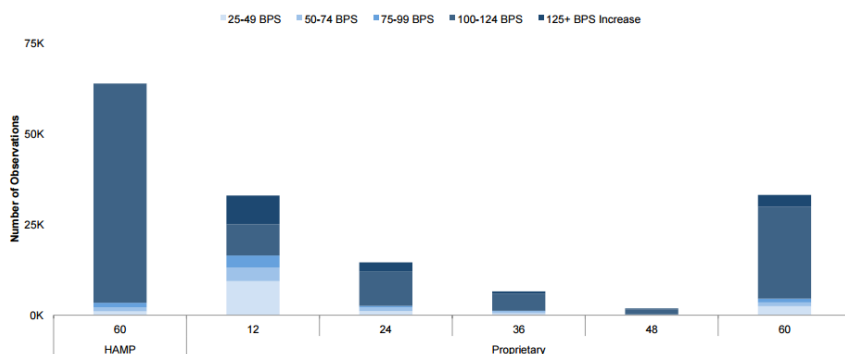


Loan level observations of 64,600 HAMP modifications and 33,600 proprietary modifications experiencing initial interest rate step ups at 5 years post mod. Limited to only modifications with 6 months of history post reset. Figure above reflects the percent of loans that went from less than 90 to 90+ days DQ

Proprietary modifications that rose to 5.5 percent or higher saw delinquencies increase by 4.6 percentage points and the roll rate **go up 174 percent**. On the HAMP side, another 1 percentage point increase in interest rate - to 4 percent, doubled the impact on delinquencies.

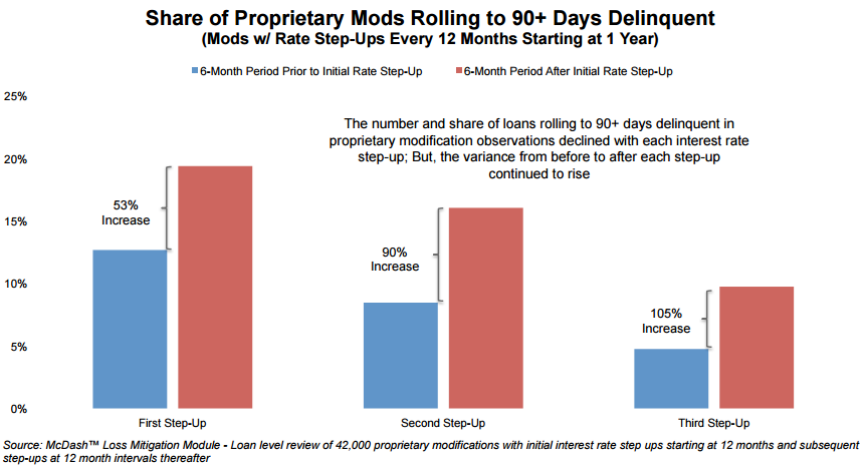
While HAMP modifications had a uniform 60-month timetable before the initial adjustment there were a wide variety of arrangements within the proprietary universe. Black Knight said those loans with early resets were a likely contributor to the high early recidivism rates in those modifications. Additionally, many early resets resulted in a significant rate increase; 24 percent saw rates increase by 125 basis points or more only one year after they were modified.

Distribution of Initial Interest Rate Step-Up Timing by Modification Type (w/ Splits on Interest Rate Increase Amount)



Figures above are based on initial rate step-up observations of 63,700 HAMP and 88,900 Proprietary Modifications completed during or prior to Q3 2010. Because the above figures are based on observed step-up activity and there is a decreased likelihood of a modified loan being alive at later initial step-up dates these figures may underestimate the share of later initial step-up intervals and should not be used to estimate the distribution of initial modification terms

Black Knight concludes that the further a borrower goes into a modification the more likely he is to perform both before and after a rate reset. However, the greater the increase in the rate the higher the percentage of loans rolling into delinquency.



If HAMP follows the proprietary pattern the number of defaults will likely be **lower** with each scheduled step up although the percentage difference will likely be greater. There will probably be fewer modified loans in existence at the second step-up as well.

The Arizona Loan Baron

The Arizona Loan Baron is at your service!

I would appreciate the opportunity to share with you my extensive mortgage lending experience. My client focused approach has allowed me to build long lasting relationships and partnerships throughout Arizona. I know this market. I live here and work here. Please allow me the opportunity to be your mortgage lending partner.

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