

US Mortgage Applications Drop as Loan Rates Trek Up

By Lynn Adler

NEW YORK, June 6 (Reuters) - U.S. mortgage applications declined last week, dragged down by sinking demand for home refinancing as long-term interest rates hit their highest level since October, an industry group said on Wednesday.

The Mortgage Bankers Association's loan application index slipped 1.7 percent to a seasonally adjusted 625.3 in the week ended June 1. A rise in applications to buy homes was overshadowed by the drop in refinancing demand last week.

Neither purchase nor refinancing loans are likely to see escalating demand anytime soon, especially now that expectations for Federal Reserve rate cuts this year have been waning, analysts said.

"Loan applications and buyer demand -- and I'm on the front lines -- is very weak," said Phil Immel, real estate broker at Prudential California Realty in Dana Point, California. "They're very cautious and they seem to be in no rush to purchase a home. There's too much inventory."

Rising mortgage rates are squeezing affordability, which had already shriveled after five years of double-digit annual home price surges earlier this decade.

"If the Fed lowers rates, which doesn't appear will happen until potentially next year, there will be a six-month lag period after that before consumers really catch up to it," said Immel, who also founded RealEstateGuru.com. Consumers then should have "a sense of stabilizing prices and confidence that the home they might buy won't depreciate another 10 percent after they buy it this year."

Borrowing costs on 30-year fixed-rate mortgages, excluding fees, rose 0.03 percentage point to average 6.35 percent in the June 1 week. This was the highest since the 6.36 percent recorded in the Oct. 20 week, according to the Mortgage Bankers Association.

With loan rates trekking higher, refinancings dipped to 38 percent of total mortgage applications. That share is down from 39.7 percent the prior week and is the lowest since July. The MBA's seasonally adjusted purchase index rose 1.5 percent to 433.6, but the refinancing gauge fell 6.1 percent to 1,757.1 in the June 1 week. The refinancing measure has not been lower since 1,640.4 at the end of last year. On a four-week moving average, which smooths out volatility, all three of the MBA's seasonally adjusted indexes have fallen. The mortgage applications index, also called the market index, is down 2.1 percent; the purchase index is off 0.3 percent and refinance index is down 4.3 percent.

The past week's blip up in purchase applications will be short-lived and refinancing demand will fade further, Nancy Vanden Houten, analyst at Stone & McCarthy Research Associates in Princeton, New Jersey, said in a report.

"Given the combination of tighter lending standards and higher mortgage rates, we don't look for any meaningful pick-up in home buying activity," she said. "As with purchase applications, we expect refi applications to continue to be under pressure from higher rates and tighter lending standards. The combination of factors will also make it harder for borrowers with resetting adjustable-rate mortgages to refinance."