



BUSINESS

Mortgage Refinancing Applications Fall Sharply

BY BONNIE HARRIS AND JESUS SANCHEZ

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TIMES STAFF WRITERS

As home loan rates continued to sneak up to their highest levels of the year, an industry survey reported Wednesday that demand for mortgage refinancings slid by 33% last week -- the steepest weekly decline since January 2002.

Experts say the drop may signal a changing climate for what has been the biggest refinancing boom in decades, activity that has buoyed an otherwise droopy economy, especially in real-estate-rich California.

The Mortgage Bankers Assn. of America said new applications nationwide for refinancing deals for the week ended Saturday fell to their lowest level since December. The group's Refinance Index -- a seasonally adjusted measure of new applications for refinancings -- dropped by about one-third from the previous week to 4,145.8.

The decline was not unexpected, given that the average rate for a 30-year fixed-rate mortgage bottomed out in mid-June at 5.21% and has since climbed to an average of 5.94% last week, according to the giant mortgage lender Freddie Mac.

"It was unavoidable," said David C. Haithcock, executive director of the California Mortgage Bankers Assn., noting that refinancings account for as much as 75% of a mortgage company's business these days.

“It has been a feeding frenzy much longer than we thought,” he added, “but everyone knew it wouldn’t last forever.”

Haithcock and other industry experts said it was too early to be alarmed by the decline, particularly because volume had been as much as four times the norm for the mortgage business.

At Washington Mutual Inc., one of the state’s largest home lenders, officials said application activity for refinancings had been dropping over the last two weeks. Still, compared with the month of June -- in which loan production set a record -- the decline hardly registered.

“The market has been overcapacity for some time, maybe three or four times over,” said Greg Sayegh, Washington Mutual Bank’s senior vice president of mortgage lending in Irvine. “So now it may be just three times over capacity.... There’s still a strong demand out there and plenty of deals to do.”

Although applications for loans on home purchases, as measured by the Purchase Index, also fell, it was at a more modest 2.4% to 426.9, keeping demand at historically high levels, the association said.

Mortgage refinancings are much more sensitive to increases in interest rates than are purchase loans, which explains in part why refinancing applications have dropped so dramatically. Mortgage experts said the rate on a refinancing usually must be at least a half-percentage point below the rate on an existing loan before consumers truly benefit.

“There’s still a high number of people who were sitting on the fence before and will now, most likely, decide to refinance before the rates go up even higher,” Sayegh said.

Such was the case for Frank Lehman, a mortgage broker with First American Home Loans in Costa Mesa, who said Wednesday that business was picking up even more

since rates began to inch back up.

“Suddenly I have clients calling me who had been holding off saying, ‘Hurry up and lock me in before it gets worse,’ ” Lehman said. “They’re not getting in at the best time, but they’re still getting in.”

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