EDITOR'S NOTES

Let's Get Perspective

Last year one of the big stories was that rates are going up. Why was this a big story? Because with rising rates, refinance activity will slow. With refinances slowing, that means that lenders will have to work harder to get more purchase money in the door. How much harder will lenders have to work? That depends.

"Mortgage rates have settled over the last few days in January, as we're in-between market-moving events," said HSH.com vice president Keith Gumbinger. "The soft December employment report is behind us; the next Fed meeting, where we may or may not get another cut in Treasury and MBS purchases is coming up. Investors are watching the incoming data closely for signals that the Fed will or won't make a move, so interest rates are holding fairly steady at the moment."

The Federal Reserve trimmed QE purchases by $10 billion at its December meeting, and outgoing Fed Chairman Ben Bernanke left a strong impression that the Fed would like to reduce purchases of MBS and Treasuries at a like amount over the next seven Fed meetings. However, the Fed has noted that the decision to do so is dependent upon whether the economy is performing satisfactorily, that the risks to inflation aren't rising, and perhaps most important, that the program is still having the desired impact. With interest rates already well off their bottoms, it just may be that the program is no longer generating the economic heat that it once was, and there may not be much additional upward impact on mortgage rates if the taper continues at a measured pace.

"The Fed's QE program certainly provided key and needed support for the housing markets, fostering sales, firming prices and reducing the number of underwater homeowners," adds Gumbinger. "However, the economy may no longer need as much of this unusual support. Aside from refinancing, the housing market has done fairly well in the last half of 2013, even with mortgage rates a full percentage point or more above last May's lows."

So, let's take a deep breath and put things into perspective. Rates are going to rise. Refinance activity is going to lessen. Purchase business lenders will be successful. All of this is just our current and future reality. What confuses me is why this intimidates some lenders. Is it that they forgot how to do purchase loans? Of course not, even lenders that were heavy in refinances did some purchase lending. Doing purchase loans may not be as quick and easy as doing a refinance, but quick and easy isn't going to work anymore. As the old saying goes, slow and steady wins the race. ❖