

Banking Analysis

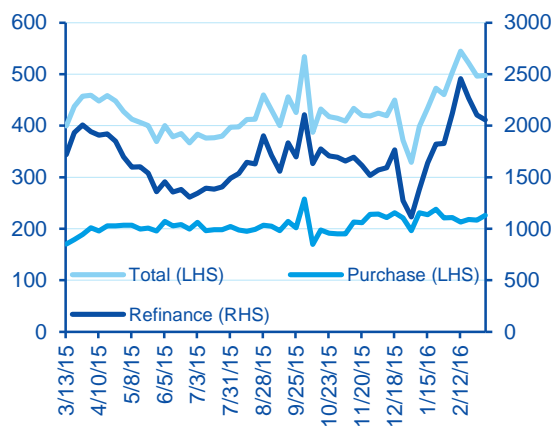
# Mortgage Applications Rise in Early March

Filip Blazheski

- Mortgage applications posted strong year-on-year gains, despite some slowdown in refinancing
- The average contract 30-year conforming loan fixed interest rate increased from 3.83% to 3.89%
- We expect the positive trend in mortgage applications for purchase to continue

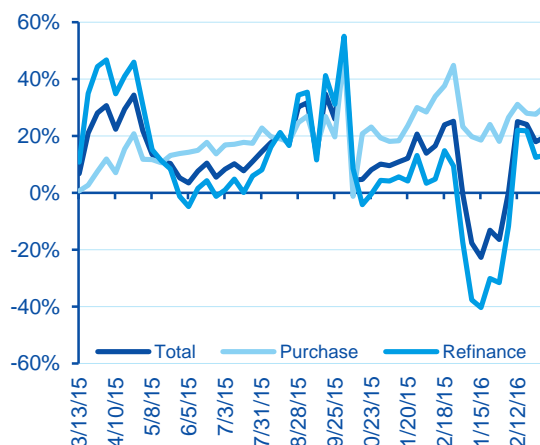
The Mortgage Bankers Association’s survey for the week ending March 4<sup>1</sup> showed that mortgage applications increased 0.2% on a seasonally adjusted basis (Chart 1). The Purchase Index (seasonally adjusted) went up by 4%, while the Refinance Index (seasonally adjusted) went down by 2%. This divergence resulted in a decrease in the share of refinance applications from 58.6% to 56.7%. On a year-on-year basis, purchase applications increased by 30%, while refinance applications went up by 13% (Chart 2).

Chart 1  
MBA Mortgage Applications Indexes  
Index, SA



Source: MBA and BBVA Research

Chart 2  
MBA Mortgage Applications Indexes  
% YoY



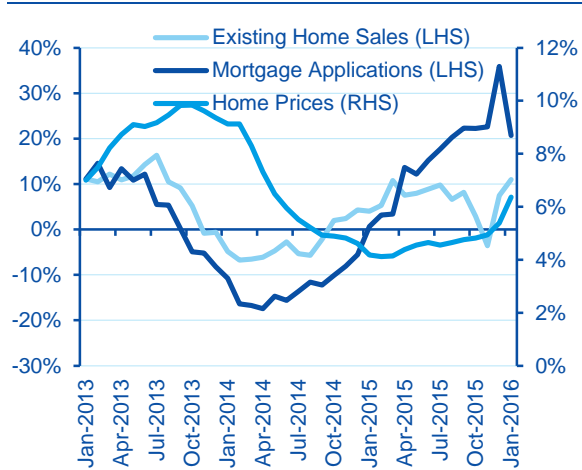
Source: MBA and BBVA Research

The growth in mortgage applications for purchase has been driven by a rise in homebuyer demand that started at the beginning of last year, as well as the acceleration in home prices that began last April (Chart 3). Mortgage applications for purchase have been growing at above 10% YoY since April (on average), reaching a record of 36% YoY in December. The strong growth in December’s applications was likely a result of homebuyers rushing to lock in interest rates before the Federal Reserve increased the federal funds rate. The growth rate of 20% YoY in January is in line with the trend from July to November last year and our expectations for growth in home

<sup>1</sup> The survey covers 75% of all U.S. retail residential mortgage applications

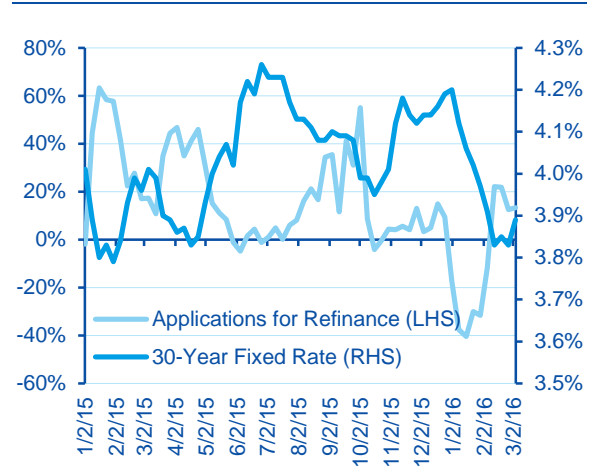
sales and home prices in February and March of this year. The applications for refinance are inversely correlated with interest rates, and have reacted to rates inching up since the middle of February (Chart 4).

**Chart 3**  
**Purchase Mortgage Applications, Home Sales and Home Prices**  
% YoY



Source: NAR, CoreLogic, MBA and BBVA Research

**Chart 4**  
**Refinance Applications and Interest Rates**  
% YoY and % Rate



Source: MBA, FHLMC and BBVA Research

Looking forward, we expect home sales and home prices to continue growing at a solid rate year-on-year, despite a slowdown in growth as the year progresses and homebuyers start reacting to the increasing home prices. This will support mortgage applications for purchase. We expect interest rates to continue to increase slowly, which will negatively affect applications for refinance. That said, rising home prices will continue to lift homeowners who are still underwater into positive territory, enabling them to refinance, which should provide some steam for additional refinance applications.

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