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U.S. Mortgage Applications Driven up by Refinancings

By Lynn Adler
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NEW YORK (Reuters) - Demand for U.S. home loans rose last week to the highest level in about two months, mostly from borrowers taking advantage of low mortgage rates to refinance, the Mortgage Bankers Association said on Wednesday.

Nearly three of every four loan requests was for a refinancing rather than a purchase, pointing to caution with unemployment at a double-digit rate and fear of job loss prevalent.

Total mortgage applications, based on the group's seasonally adjusted market index, rose 8.5 percent to 665.6 last week to the highest since early October.

Demand for loans to buy a home increased by 4.0 percent to 241.5, the highest since the last week of October, while refinancing applications jumped 11.1 percent to 3,185.9 last week to a two-month high, the industry group's indexes showed.

Home purchasing has been slowly accelerating as affordability improves and government incentives broaden.

Average 30-year mortgage rates rose 0.09 percentage point last week to 4.88 percent but haven't strayed far from all-time lows.

The rate was down from 5.44 percent a year ago and compared with a record low of 4.61 percent set in March, according to the Mortgage Bankers Association.

For a related chart of mortgage rates, right click on the code: and select "Related Graph."

In addition to historically low borrowing costs, home prices have been slashed about 30 percent, on average, from their 2006 peaks and starting to rise in many areas.

Potential buyers are expected to show up in larger numbers through the usually slow winter months to take advantage of a tax credit that the Obama administration extended.

An $8,000 credit that was set to end November 30 for first-time buyers was extended, with contract signings now due by April 30 and loan closings by June 30. A new $6,500 tax credit to lure move-up buyers was added.

Sherry Chris, chief executive of Better Homes and Gardens Real Estate in Parsippany, New Jersey, said the typical spring season will start this year in January because of the tax credit but cautions that another wave of foreclosures could burden the market with more inventory later next year.

"The move-up buyer needs to start moving, and it can't just be a first-time home buyer's market" if there is to be a sustained rebound she said.

The housing market is starting to stabilize after a three-year dive into the deepest slump since the Great Depression, Chris said.

"What you have now is what you should expect for the next few years," she added. "We're warning our brokers and agents not to be overly optimistic and not to necessarily see this as a huge potential upswing in 2010."

The unemployment rates remains at double-digits, despite some improvement in November, which will keep many buyers inactive.

Sellers are also being less aggressive in discounting home prices to lure buyers, who have more time to shop now that the tax incentive was extended, a new study found on Wednesday.

The new tax credit deadline and shrinking competing inventory have reduced the urgency for sellers to cut listing prices, real estate website Trulia.com said.

At the same time, rents have also gotten cheaper and more people are shunning the purchase market altogether, said Peggy Abkemeier, president of Ebay Inc unit Rent.com, in a recent interview.

Abkemeier said the rental market has been boosted by falling prices, high inventory and a reticence by some to lock in a purchase so they can stay mobile for job opportunities.

"When you combine that situation with the fact that a lot of people were burned by this housing crisis, it's really creating this population of people who, even if they can afford it, would rather not buy," she said.