

**10:28 25Mar2003 RTRS-U.S. Mortgage Bonds Rise Early on Safe-Haven Bids**

NEW YORK, March 25 (Reuters) - Prices of U.S. mortgage bonds rose early on Tuesday, extending Monday's gains tied to buying of low-risk bonds by investors nervous over a prolonged U.S.-led war with Iraq.

"I like securities that give me protection on the downside," said Mark MacQueen, director of fixed-income at Sage Advisory Services in Austin, Texas, which manages \$2.7 billion in bonds.

Active 15- and 30-year mortgage bonds rose 2/32 to 9/32. Their risk premiums or yield spreads over comparable Treasuries shrank one to five basis points from Monday's close.

MacQueen said he has been adding 15-year and older 30-year Ginnie Mae mortgage securities in addition to U.S. government inflation indexed bonds to his portfolio.

Some analysts recommended that last week's selloff in MBS offers buying opportunities for investors who had considered the mortgage sector too expensive.

"While we have been negative on the sector for a while and the recent performance makes us feel better, we think it is an opportune time to add allocation to MBS," Lehman Brothers analyst in a Monday research report.

On Monday, financial markets grappled with news of U.S.-led forces facing stiffer than expected Iraqi resistance, whittling confidence of a swift end in deposing Saddam Hussein's regime. Also, the weekend development spurred worries of the costs for the U.S. to mount a protracted war campaign in the region.

After gaining more than a full point on Monday, the 10-year Treasury note <US10YT=RR> rose 9/32 early Tuesday to yield 3.93 percent, down from 3.97 percent late Monday.

Monday's decline in Treasury yields, which influence mortgage rates, also sparked buying by mortgage servicers to hedge their book in case of further pickup in refinancing demand in the coming weeks.

U.S. refinancing application volume hit an all-time high for the week ended March 14. The Mortgage Bankers Association of America, an industry group, said its weekly gauge of refinancing request volume hit 9,387 for that week, surpassing the previous high of 8,920 set for the week of March 7.

The refinancing boom, while good for consumers, has been a

bane for mortgage bondholders, whose expected returns on the bonds have been hurt by rapid prepayments on them from the heavy refinancings.

"The market is still nervous around the horrifyingly high print on the (refinancing) Index," Lehman analysts said.

The Mortgage Bankers Association is scheduled to released its latest reading on mortgage application volume for last week on Wednesday.

Meanwhile, there were more signs that the strong housing market may be cooling. Sales of existing homes fell 4.3 percent in February from January to an annualized rate of 5.84 million units, the National Association of Realtors said on Tuesday.