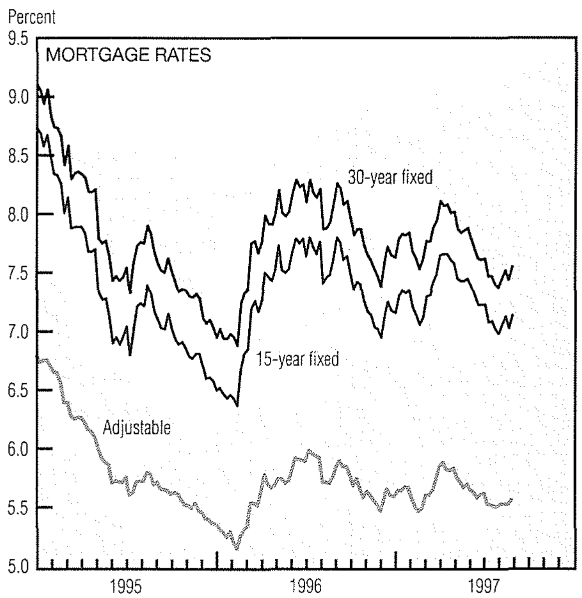
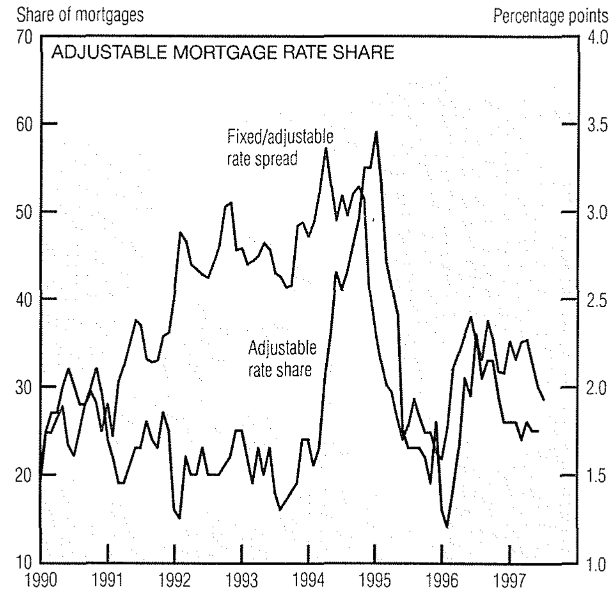
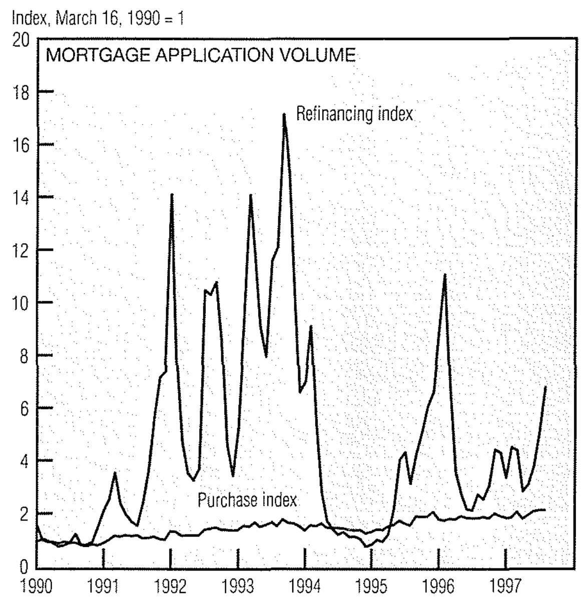
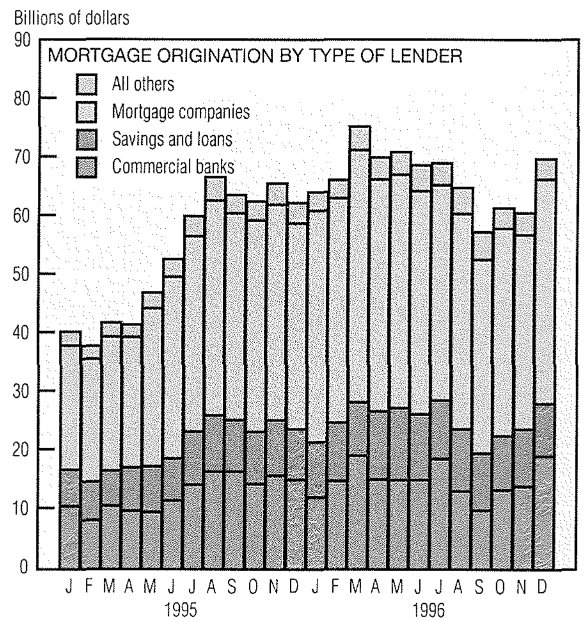
Housing Finance









SOURCES: U.S. Department of Housing and Urban Development; Federal Home Loan Mortgage Corporation; Office of Thrift Supervision; Mortgage Bankers Association of America; and *Bank Rate Monitor*, various issues.

Until recent weeks, mortgage interest rates had been on a steady downward trend, with 30-year rates falling to 7.37% at the end of July (their lowest level since March 1996). Combined with the relatively small spread between fixed and adjustable rate mortgages, these consumer-friendly rates have kept the share of new mortgages with adjustable rates at relatively low levels (25% in June).

The recent drop in fixed mortgage rates has also led to an uptick in mortgage refinancing activity, with many borrowers who missed out on previous rate drops attempting to lock in what they believe are favorable mortgage terms. August's 6.78 refinancing index was the highest posting since the refinancing "boomlet" of late 1995.

Mortgage originations through the last quarter of 1996 (the latest available data) appear to have rebounded from their third-quarter decline, with commercial banks and mortgage companies picking up the bulk of the new business. The relatively weaker performance of the nation's savings and loans can be explained by two factors. First, savings banks typically originate more adjustable rate loans, holding them in their portfolios rather than selling them on the secondary market. Thus, we would expect the declining fraction of originations with adjustable rates to adversely affect these institutions' market share. Second, mortgage banks are often the lender of choice for refinancings, which were fairly brisk at the end of 1996.