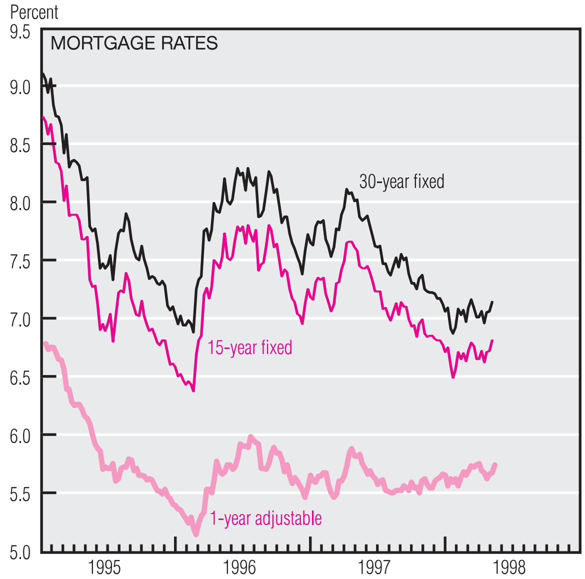
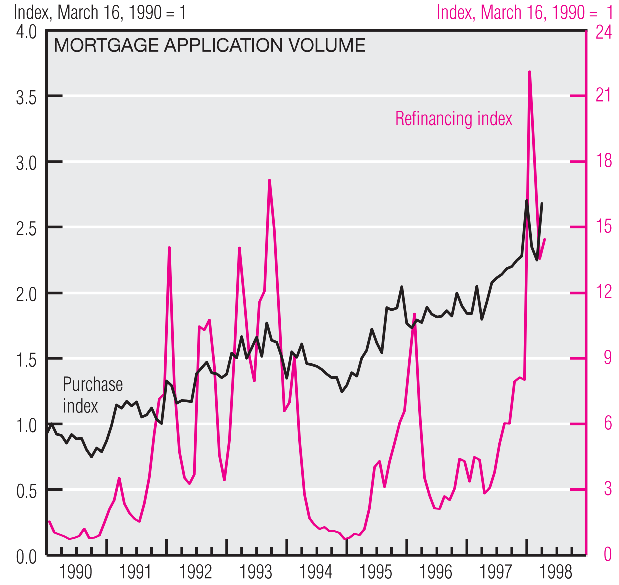
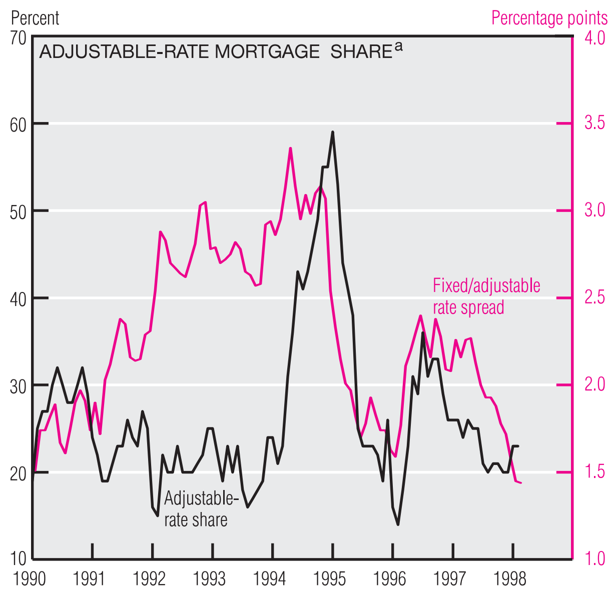
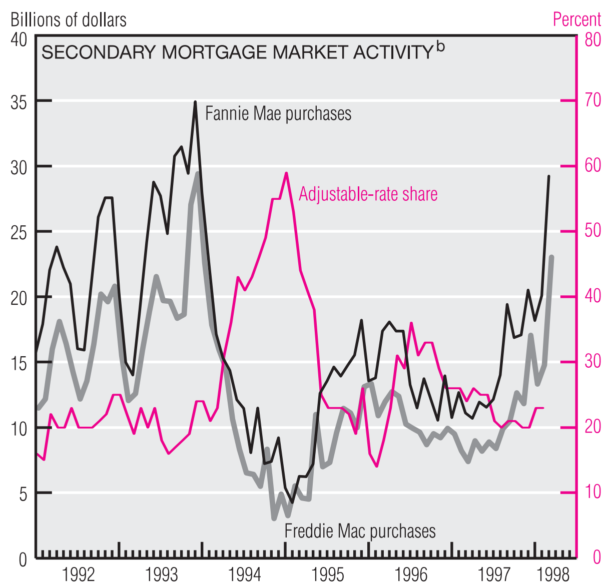
Housing Finance









a. Percent of new conventional mortgage originations with adjustable rates.
b. Purchase data include conventional and government-insured mortgages.
SOURCES: U.S. Department of the Treasury, Office of Thrift Supervision; Federal National Mortgage Association; Federal Home Loan Mortgage Corporation; Mortgage Bankers Association of America; and *Bank Rate Monitor*, various issues.

After dropping more than 100 basis points through the last three quarters of 1997, long-term mortgage rates have remained relatively steady at around 7% since January. The stabilization may be due in part to factors external to the mortgage market. With the effects of the Asian financial crisis becoming clearer, there appears to be a general market perception that short-term interest rates will not decline again in the near future.

Mortgage market factors are also important, however. Indeed, recent rises in application volumes may have mitigated any remaining downward pressure on long-term mortgage rates. Last January, the refinancing index hit 22.13, its highest level since the index was created and 29% above its peak during the 1993 refinancing boom. Similarly, the purchase index was up 47% over the course of 1997, confirming anecdotal reports of strong housing markets.

In contrast to long-term mortgage rates, one-year adjustable rates have risen at a moderate pace since the middle of last year, up just 25 basis points since July. As a consequence, the spread between fixed- and adjustable-rate mortgages has dropped to its lowest level this decade. This in turn has led to a sharp reduction in the share of mortgage loans with adjustable rates. As has been true when the adjustable-rate share has declined in the past, secondary mortgage market activity picked up substantially over the last part of 1997.

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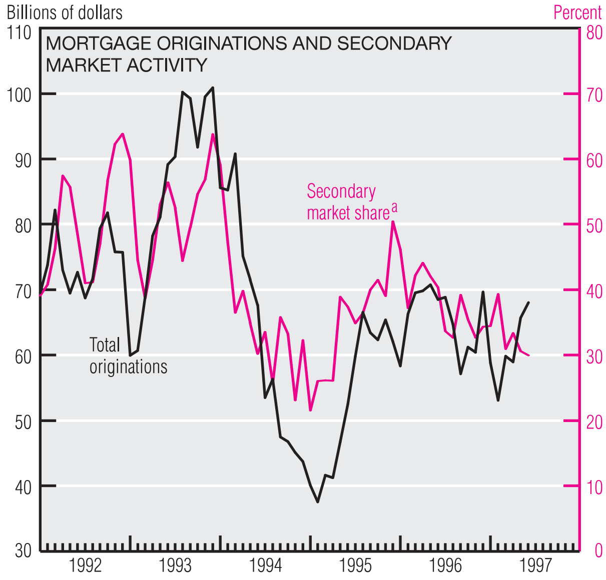
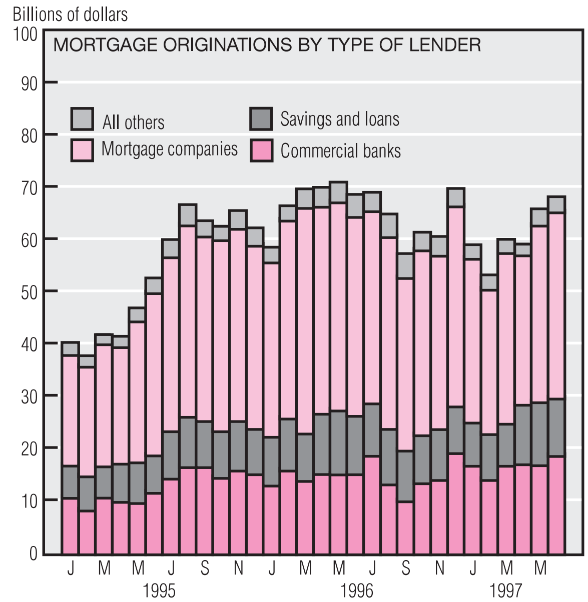
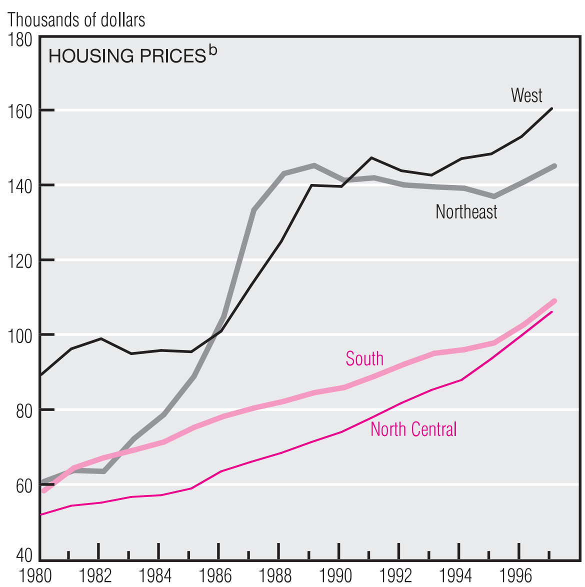
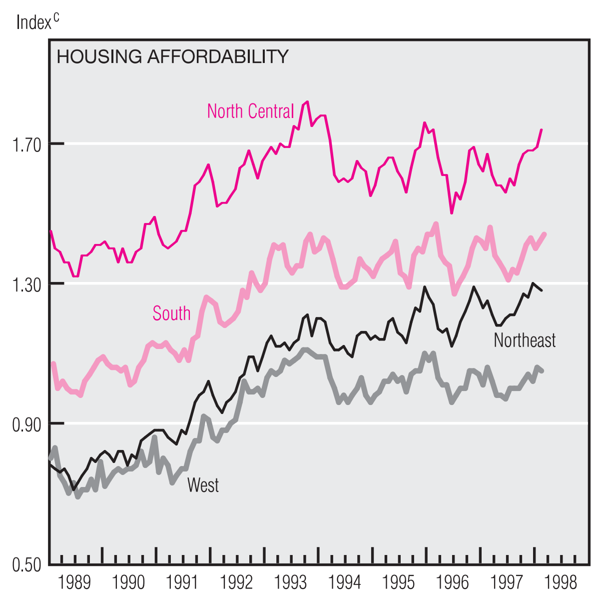
Housing Finance (cont.)









a. Secondary market purchases by Fannie Mae and Freddie Mac as a fraction of total mortgage originations.

b. Median sale price of existing single-family homes.

c. Measures whether a family with the median family income can qualify for a 20%-down-payment mortgage on an existing, median-priced, single-family home.

SOURCES: U.S. Department of Housing and Urban Development; National Association of Realtors; Federal National Mortgage Association; and Federal Home Loan Mortgage Corporation.

The most recent data on mortgage originations cover only the first two quarters of last year. Nevertheless, past trends may give us some insight into how mortgage originations will play out over the final half of the year. Historically, the secondary market's total share of mortgage originations has risen in tandem with overall mortgage market activity. This has been particularly true during periods when the fraction of loans with adjustable rates was relatively low. As a consequence, third- and fourth-quarter data should reveal a marked uptick in the secondary market share of total origination activity. At the same time, the fraction of total mortgages originated by mortgage banks will likely have risen substantially in the last half of 1997.

Consistent with the underlying strength of the mortgage market, housing prices rose steadily throughout the country in 1997, with median home prices climbing more than 6% in the South and North Central regions. Although the West and Northeast did not see the dramatic increases posted in the mid-1980s, last year's appreciation stands in marked contrast to the sluggishness of the past several years. Despite this rise in prices, housing affordability remained relatively steady throughout most of the country in 1997, with the strongest gains in the North Central region—the area with the steepest growth in housing prices. This suggests that overall income growth may be responsible for much of the acceleration in median home prices over the course of last year.