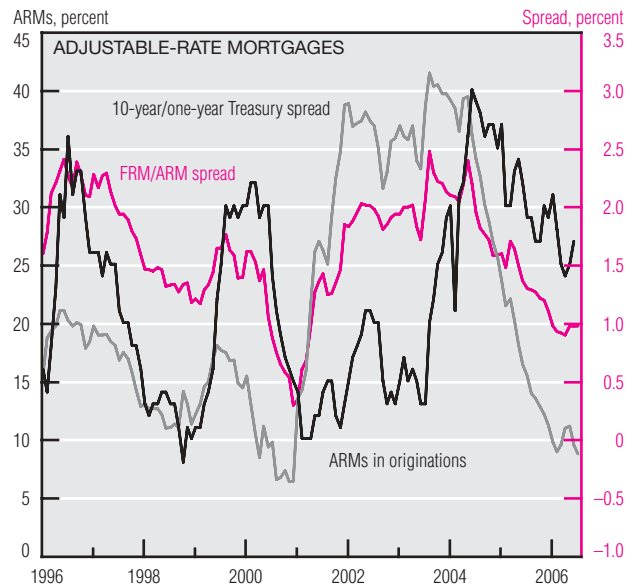
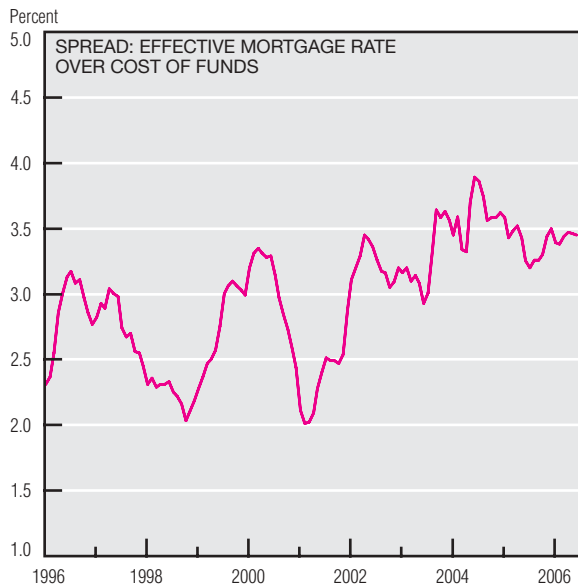
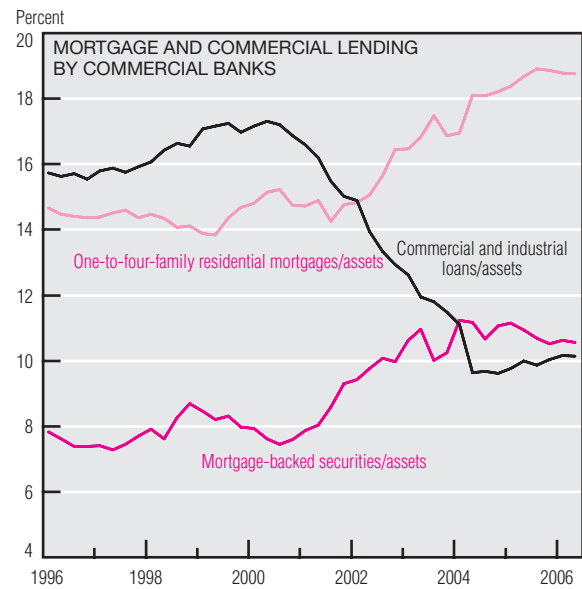
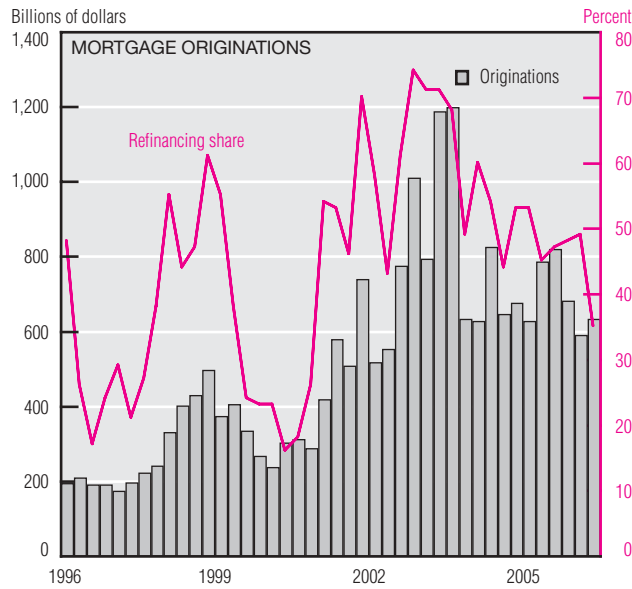


Mortgage Lending



SOURCES: U.S. Department of the Treasury, Office of Thrift Supervision; Federal Housing Finance Board; Federal Financial Institutions Examination Council, *Quarterly Bank Reports on Condition and Income*; Federal Home Loan Mortgage Corporation; and Mortgage Bankers Association.

Mortgage bankers originated \$590 billion of new mortgages in 2006:IQ and \$633 billion in 2006:IIQ, the lowest first- and second-quarter increases since 2002. Rising mortgage rates left little incentive for new refinancings, which constituted 35% of originations in 2006:IIQ, a significant drop from their peak share of 74% in 2002:IVQ.

The share of mortgage-related assets (mortgages and mortgage-backed securities) on banks' balance sheets has tapered off in recent quarters but

is still at historically high levels. Currently, mortgage-related assets make up 29% of commercial banks' assets.

Mortgage loan profitability, as approximated by the spread of the effective mortgage rate (interest plus fees) over savings banks' cost of funds, has been stable at about 3.44% since fall 2003. The cost of funds has risen in step with the increase in the federal funds rate, but banks were able to maintain their lending margins on these loans.

Since their peak in popularity, the share of adjustable-rate mortgages (ARMs) in total originations has decreased steadily from 40% in June 2004 to 27% in June 2006. ARMs depend on short-term rates, whereas fixed-rate mortgages (FRMs) depend on long-term rates. ARMs' drop in popularity resulted primarily from the rise in short-term rates and the decrease in the spread between fixed and adjustable mortgage rates.