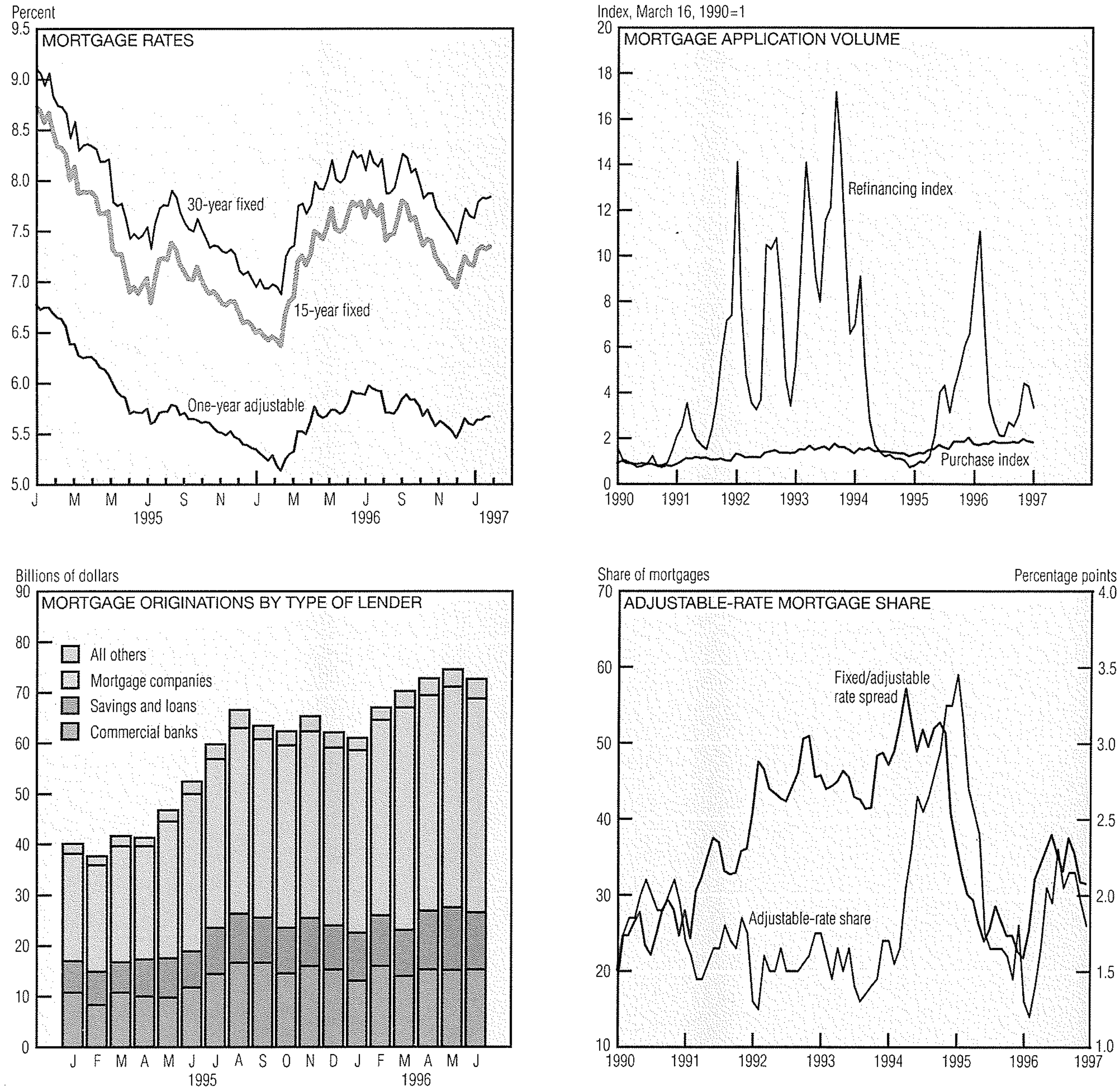
Housing Finance



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*.

After declining steadily since September 1996, 30-year fixed mortgage rates have jumped 40 basis points from December's low of 7.38%. Fifteen-year fixed rates have followed a similar pattern, while one-year adjustable rates have risen somewhat less. Nonetheless, analysts generally agree that this recent upward trend will not continue indefinitely if economic growth remains relatively stable and inflation moderates.

Although these rates are still low compared to those of the last 20 years, the 1993 refinancing boom and the boomlet at the end of 1995 left many mortgage holders with even lower rates than those prevailing today. Thus, while the volume of home-purchase applications has continued to grow steadily, refinancing activity is less pronounced. Nevertheless, mortgage originations remained strong through the first half of 1996.

The reduced refinancing demand also helps to explain why the share of adjustable-rate mortgage originations is once again moving in tandem with the spread between fixed- and adjustable-rate mortgages. When long-term rates were at historically low levels in 1993, many borrowers locked in those favorable terms, even though the spread between fixed and adjustable rates was unusually wide.