Despite the recent jump in 30-year fixed mortgage rates—45 basis points during the last half of February (not shown in chart)—housing finance activity has demonstrated strong growth over the last year. Indeed, the recent rate jumps have generally been viewed as a short-term correction, and most analysts expect rates to continue their downward trend during the next several months. Overall, long-term mortgage rates fell 200 basis points between December 1994 and December 1995, while one-year adjustable rates (ARMs) dropped 49 basis points over the same period.

With these lower rates, mortgage originations increased during the second and third quarters of 1995, reaching levels not seen since the last refinancing boom ended in April 1994. Not surprisingly, the vast majority of these originations were refinancings; the volume of conventional home purchases has been less affected by recent rate movements. With this increased emphasis on refinancings, mortgage companies have seen their market share increase to the level of early 1994.

Continued low 30-year mortgage rates, as well as the narrower spread between fixed and adjustable rates, have spurred most borrowers to select fixed-rate mortgages (74% of the market in December 1995). Unless fixed mortgage rates rise dramatically or, alternatively, ARM rates drop low enough to widen the fixed/adjustable rate spread considerably, this trend should continue in the near future.