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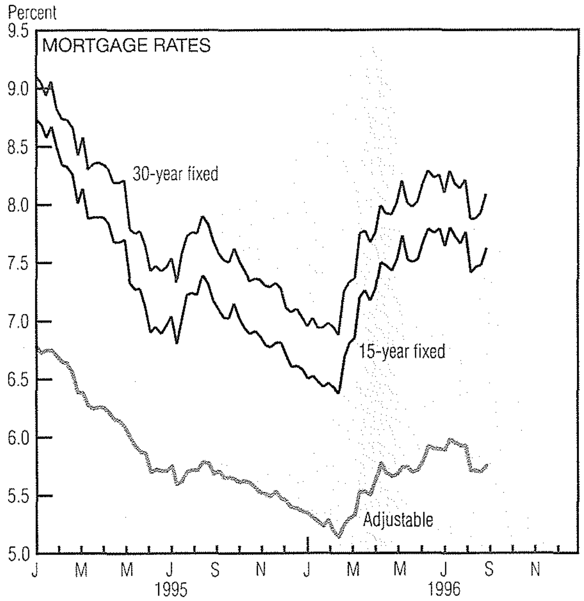
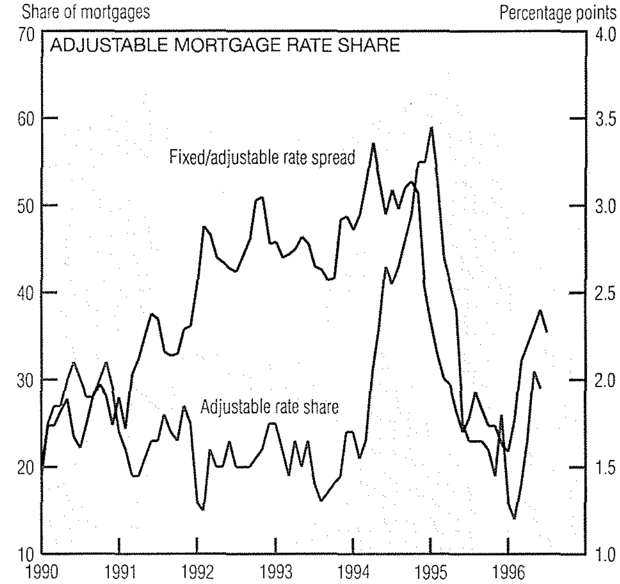
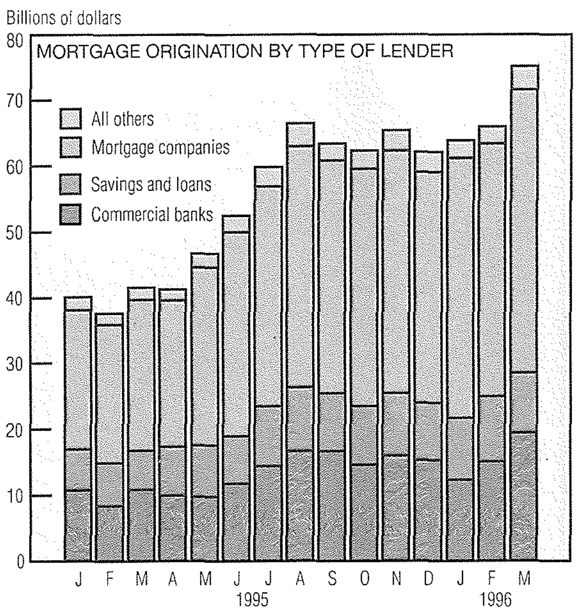
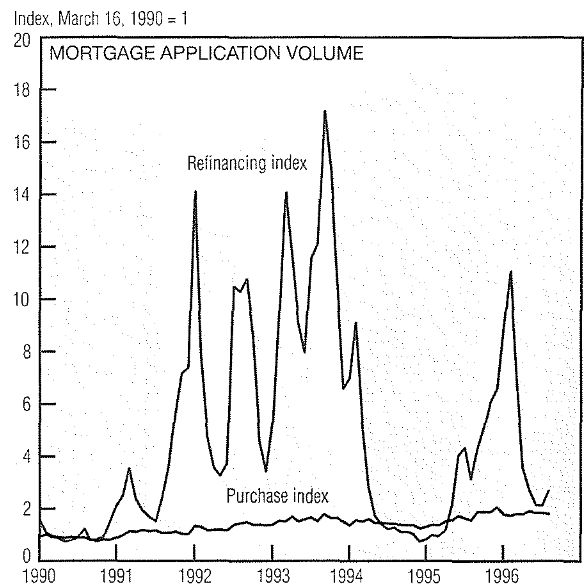
Housing Finance









SOURCES: U.S. Department of Housing and Urban Development; Mortgage Bankers Association of America; and *Bank Rate Monitor.*

Although one might expect the general rise in long-term mortgage rates (up over 100 basis points since the beginning of the year) to have dampened the demand for new home loans, mortgage originations have exhibited steady, if unspectacular, growth over the last several months. By contrast, mortgage refinancing activity has responded dramatically to the rate increase, dropping 70% since the beginning of the year.

Much of this may be explained by the fact that adjustable mortgage rates have risen more slowly than fixed rates (adjustable rates now stand at less than 6%) and thus are still fairly attractive to new home buyers. Although mortgage rates are not expected to drop significantly over the next several months, there is a general feeling in the market that rates will be somewhat lower in 1997. This expectation may make the risk of adjustable-rate mortgages seem more palatable and, if correct, could lead many recent borrowers to refinance and switch to fixed-rate mortgages next year.

Surprisingly, the increased attractiveness of adjustable-rate mortgages has had little effect on the composition of mortgage originations. Commercial banks have picked up only a slightly larger market share over the last few months, while savings and loans are holding steady.