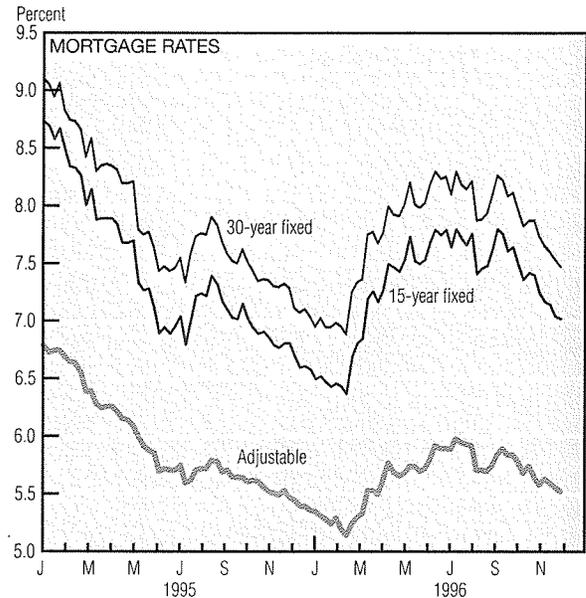
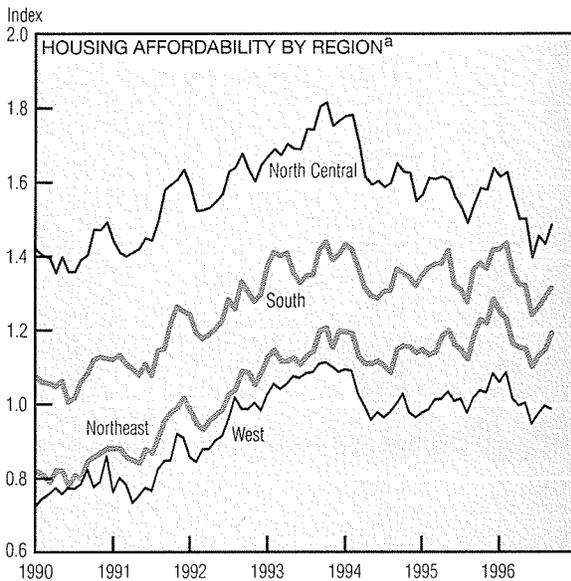
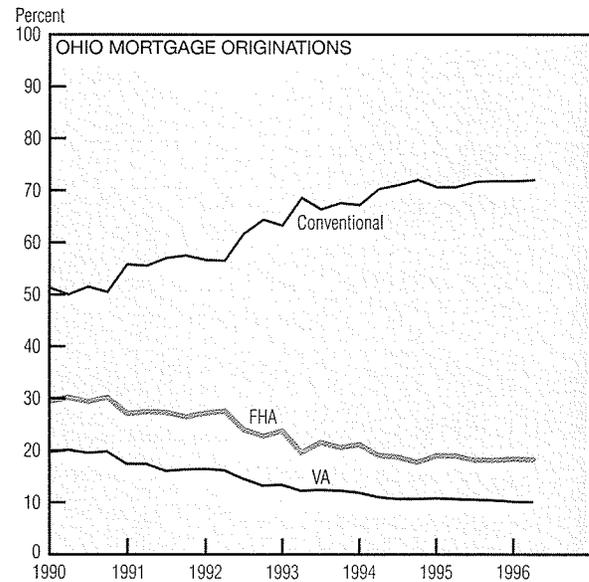
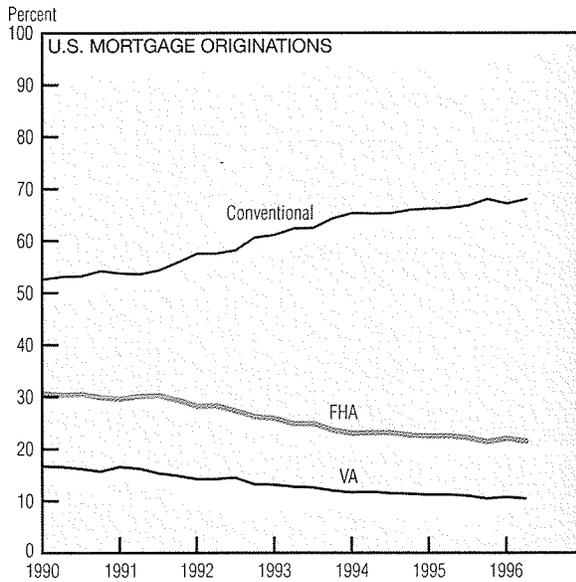


Housing Finance



a. The housing affordability index considers median income, median home prices, and interest rates. When the index is at 100, a family earning the median income can afford a medium-priced home with a conventional financial arrangement. A higher index indicates a more affordable housing market.

SOURCES: *Bank Rate Monitor*, various issues; National Association of Realtors, *Real Estate Outlook, Market Trends, and Insights*; and Mortgage Bankers Association of America, National Delinquency Survey.

One of the most interesting trends in housing finance throughout the 1990s has been the declining importance of government insurance in the mortgage market. Early in the decade, the Federal Housing Authority (FHA) and the Veterans Administration (VA), by far the largest two federal programs, guaranteed loans in nearly half of all U.S. mortgage originations. By the second quarter of this year, however, federally insured mortgages constituted

only 31.9% of new originations. This general trend has been even more pronounced in Ohio.

The change is attributable to several factors. First, private mortgage insurance has become much more flexible over the last several years. For example, loan-to-value ratios of 95%, once unthinkable without federal guarantees, are now regularly approved by private insurers. Second, the combination of low mortgage rates and increasingly affordable

housing in the U.S. has enabled more borrowers to forgo federal programs for less costly private insurance. Finally, the recent explosion of banks offering special loan programs for low- and moderate-income borrowers (often with special rates and terms) has probably helped reduce the volume of federally guaranteed loans, because these bank programs offer such borrowers a private, more attractive, alternative.