Following a sharp spike in early March, long-term mortgage rates have edged back down in recent weeks, and 30-year rates are now lower than the 7.08% March average. Despite the jump earlier this year, the defining trend since early 1997 has been toward lower long-term mortgage rates.

Over the same period, adjustable-rate mortgages have changed little, making the spread between fixed- and adjustable-rate mortgages the lowest it has been in the 1990s. Not surprisingly, the share of new mortgage originations with adjustable rates is also at a decade-long low, having hit 8% last October.

This overall trend toward lower mortgage rates has led to steady increases in mortgage application volumes over the last several years. More dramatically, wide swings in refinancing activity have occurred around temporary drops in long-term mortgage rates. Indeed, the mortgage refinancing index reached an all-time high of 31.15 last October, just as 30-year mortgage rates dropped to 6.71%, their lowest level in the past two decades. If long-term mortgage rates were to continue falling throughout the summer, yet another refinancing boom could be right around the corner.

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Not coincidentally, secondary-mortgage-market activity has surged with this steady rise in originations. The low fraction of mortgages with adjustable rates—a specialty of savings banks that hold adjustable-rate mortgages on their books instead of selling them in the secondary market—has combined with these record application volumes to push purchases by Fannie Mae and Freddie Mac, the two major secondary-market institutions, to their highest levels this decade.

Record-low mortgage rates are also having an impact on the real side of the housing market. Over the last year, existing home sales have grown by 23%, with every state reporting an increase in the number of sales. Overall, the strongest growth has been in the central U.S. and the areas surrounding the nation’s capital. With the summer home-buying season kicking into high gear, this surge should continue unabated, barring an unexpected rise in mortgage rates.

The future looks bright for new home sales as well. Especially in the South, new building permits and new housing starts have skyrocketed in the last year and a half, suggesting that the stock of available housing will continue its expansion to meet burgeoning demand.

Given the strong turnover in the housing market, it should not be surprising to find that prices are continuing to rise. Between 1997 and 1998, the median sale price for

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existing single-family homes in the U.S. increased from $124,100 to $130,600. The West led all other regions of the country, with median home prices growing 7.2% to $172,000 in 1998.

Despite this run-up in housing prices, the overall affordability of owning a home has remained surprisingly stable. The National Association of Realtors’ Affordability Index compares the median family income in an area to the income required to qualify for a 20%-down-payment mortgage on an existing, median-priced, single-family home. From this measure, we see that income gains over the last two years have outpaced housing price increases. This is largely attributable to the continuing decline in mortgage rates, which enables households to purchase more expensive homes than they could otherwise.

Taken as a whole, trends in housing markets look very favorable. To sustain these real gains in American living standards, however, it is essential to maintain low interest rates. Should the Fed falter in its duty to restrain inflation, nominal interest rates could rise, once again putting the American dream of home ownership out of reach for many lower-income households.