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The Mortgage Corner
Week of February 4, 2008

Purchase Mortgages Surge

The buying season may already have begun for housing, spurred by a rising affordability for home buyers, according to mortgage data from the Mortgage Bankers Association (MBA). Dare we say there is a light at the end of the tunnel? The combination of falling interest rates with lower home prices is bringing home buyers back into the market.

For starters, the National Association of Realtors' Housing Affordability Index has risen 16.4 percent from its low last June, when fixed mortgage rates were about one percent higher. This is while the national median existing single-family home price has fallen 10 percent from June to December, according to the NAR.

This is while the MBA Weekly Mortgage Applications Market Composite Index for the week ending February 1, 2008, a measure of mortgage loan application volume, increased 3.0 percent on a seasonally adjusted basis from one week earlier. On an unadjusted basis, the Index increased 4.4 percent compared with the previous week and was **up an unprecedented 73.2 percent** compared with the same week one year earlier.

Most notable was the seasonally adjusted **Purchase Index increase of 12.0 percent** from the previous week, though the Refinance Index decreased 1.0 percent. This may be because housing prices are finally reaching an affordable level, at the same time that interest rates are down to 40-year lows.

Both so-called conventional and government-insured mortgage applications surged. The Conventional Purchase Index increased 10.4 percent while the Government Purchase Index (largely FHA) increased 20.9 percent in the week ending February 1.

The NAR's composite Affordability Index (for both fixed and ARM loans) was 122 in December, up from 104.9 in June. This means a family earning the median family income ($52,992 in 2007) has about 122 percent of the income necessary to qualify for a conventional loan covering 80 percent of a median-priced existing sing-family home.

Mortgage interest rates edged up slightly in the latest survey, but remain near 40-year lows. **Conforming 30-year fixed rates have fluctuated from 5.0** to 5.375 percent in recent weeks, with points decreasing to 0.98 from 1.06 (including the origination fee) for 80 percent loan-to-value (LTV) ratio loans.

The average contract interest rate for **15-year fixed-rate mortgages has fluctuated form 4.50 to 4.875 percent**, with points decreasing to 0.92 from 1.12 (including the origination fee) for 80 percent LTV loans.

Jumbo adjustable rate mortgages **decreased to 5.62 percent from 5.70 percent**, with points remaining unchanged at 0.97 (including the origination fee) for 80 percent LTV loans. **Jumbo 3 to 10-year fixed rate ARMs have fallen as low as 5.50 percent**.

Here are the MBA's predictions for the rest of 2008:

- We expect housing starts and home sales to continue to trend down and reach bottom around the second half of 2008.

- Total existing home sales for 2008 will decline by about 13 percent from 2007 to 4.94 million units. Sales will pick up by about four percent in 2009.

- New home sales will decline by about 15 percent in 2008 from 2007 to 666,000 units. We expect sales to increase about seven percent in 2009.

- Median home prices for new and existing homes are expected to continue to decline this year, with median prices falling about two percent. Prices should increase by between one and two percent in 2009.

- Residential purchase mortgage originations will decline about 18 percent in 2008 to $955 billion from a projected $1.16 trillion in 2007. Given a recovery in sales and prices in 2009, purchase originations should be up by five percent to one trillion in 2009.