



## The Mortgage Corner

### Builder Confidence Continues Decline

Highly visible problems in the housing finance system are contributing to a wait-and-see attitude among prospective home buyers and reducing builder confidence in the single-family housing market, according to the latest National Association of Home Builders/Wells Fargo Housing Market Index (HMI), released today. The HMI declined two points to 22 in August, its lowest level since January 1991.

"Builders realize that issues related to mortgage credit cost and availability have become more acute, filtering some prospective buyers out of the market and prompting others to delay their decision to purchase a new home," said NAHB President Brian Catalde. "Builders are responding by trimming prices and stepping up non-price incentives to bolster sales and limit cancellations, although we're dealing in a difficult market environment."

This is while the volume of mortgage applications increased at a seasonally adjusted 3.4 percent last week compared to the prior week, according to the Mortgage Bankers Association's weekly survey. Applications were up 20.6 percent last week, compared with the same week in 2006, according to the survey.

However, this uptick may be misleading: The industry group's chief economist said "recent upheavals" that have hit the mortgage industry may be contributing to that boost.

In particular, the industry's turmoil "may be temporarily increasing the level of retail application activity at the large lenders that participate in the MBA survey rather than representing a systemwide increase," said Doug Duncan, the MBA's chief economist and senior vice president of research and business development, in a news release.

"There is no question that problems in the subprime mortgage sector have spilled over to other components of housing finance, including the Alt.-A and jumbo markets, delaying a revival of the single-family housing market," added NAHB Chief Economist David Seiders. "However, the government-related parts of the mortgage market still are functioning well and the underlying economic fundamentals promise to remain solid for some time – providing support to the longer-run housing outlook. We now expect to see home sales return to an upward path by early next year and we expect housing starts to begin a gradual recovery process by mid-2008. From there, the market will have plenty of room to grow in 2009 and beyond."

All three component indexes declined in August. The index gauging current single-family home sales fell a single point, to 23, while the index gauging sales expectations for the next six months declined two points to 32 and the index gauging traffic of prospective buyers declined three points to 16.

Three out of four regions of the country posted declines in the August HMI. While the South's HMI reading remained unchanged at 25, the West recorded a one-point decline to 23, the Northeast posted a two-point decline to 30 and the Midwest posted a five-point decline to 14.

The 30-year fixed-rate mortgage averaged 6.45 percent last week, up from 6.41 percent the week before, while the 15-year fixed-rate mortgage averaged 6.19 percent last week, up from 6.16 percent the week before. The 1-year ARM averaged 5.81 percent last week, up from 5.69 percent the previous week.

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