

## FINANCIAL FAQs

### MORTGAGE ACTIVITY RECOVERS

Former Federal Reserve Chairman Alan Greenspan may be right. He has been predicting for months that the real estate market will recover from its recent doldrums. Why? The volume of mortgage applications have been rising from a July low.

The Mortgage Bankers Association (MBA) reports that for the week ending December 1, its Market Composite Index, a measure of mortgage loan application volume increased 8.1 percent on a seasonally adjusted basis from the prior week. On an unadjusted basis, the Index increased 52 percent compared with the previous week and was up 1.9 percent compared with the same week one year earlier.

The seasonally adjusted Refinance Index increased by 13.7 percent from the previous week and the Purchase Index increased by 4.9 percent from the week earlier. The seasonally adjusted Conventional Index increased by 8.6 percent, and the seasonally adjusted Government Index increased 2.5 percent from the previous week. Application volume this week is back up to the level observed two weeks before Thanksgiving.

Dr. Greenspan had been using mortgage volumes as an indicator of real estate's health, and was the first to note the stabilization of mortgage volumes, which has been falling precipitously for several months, in line with falling sales. This is mainly due to falling interest rates, as conventional fixed mortgage rates are the lowest since October 2005. Conforming 30-year fixed rates are down to 5.5 percent with a 1 point origination fee in California, for example.

A major reason for the increased volume has been a surge in refinancings, with borrowers scrambling to get out of their negatively-amortized so-called Option ARMs into fixed rates. The refinance share of mortgage activity increased to 50.1 percent of total applications from 46.9 percent the previous week. The refinance share is at its highest level since April 2004. The adjustable-rate mortgage (ARM) share of activity decreased to 23.9 from 24.5 percent of total applications from the previous week. The ARM share is at its lowest level since October 2003.

Dr. Greenspan may be right, as existing-home sales have also risen the past 2 months, after falling more than 15 percent year-over-year.

The average contract interest rate for 30-year fixed-rate mortgages decreased to 5.98 from 6.13 percent, with points decreasing to 0.91 from 0.97 (including the origination fee) for 80 percent loan-to-value (LTV) ratio loans. The 30 year rate is at its lowest level since October 2005.

The average contract interest rate for 15-year fixed-rate mortgages decreased to 5.66 percent from 5.86 percent, with points increasing to 1.01 from 0.87 (including the origination fee) for 80 percent LTV loans. The 15 year rate is at its lowest level since January 2006.

The average contract interest rate for one-year ARMs decreased to 5.79 percent from 5.87, with points decreasing to 0.77 from 0.81 (including the origination fee) for 80 percent LTV loans. The one year rate is at its lowest level since March 2006.