

Monthly Press Release

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FEDERAL HOUSING FINANCE BOARD REPORTS LOWER MORTGAGE INTEREST RATES

Washington, D.C. – The Federal Housing Finance Board today reported that the average interest rate on conventional 30-year, fixed-rate mortgage loans decreased 12 basis points to 6.09 percent during January. The average interest rate on 15-year, fixed-rate loans remained the same at 5.88 percent during January.

The contract rate on the composite of all mortgage loans (fixed- and adjustable-rate) decreased 10 basis points to 5.93 percent. The effective interest rate, which reflects the amortization of initial fees and charges, decreased 11 basis points to 5.98 percent. The average contract rate on fixed-rate mortgages decreased 9 basis points to 6.05 percent, while the average contract rate on adjustable-rate mortgages (ARMs) decreased 4 basis points to 5.22 percent.

Initial fees and charges were 0.37 percent of the loan balance in January, down from 0.39 percent in December. Sixty-one percent of the purchase-money mortgage loans originated in January were "no-point" mortgages, up from 53 percent in December. The average term was 26.7 years in January, up from 26.6 years in December. The average loan-to-price ratio in January was 73.2 percent, down from 74 percent in December.

Beginning with the data for January 2003, the Finance Board is implementing several methodological changes to this survey. Lenders will be sampled and individual loan weights will be determined on the basis of lender type and lender size. Previously, weights were determined on the basis of lender type and region. With the increasing nationalization of the primary mortgage market, it is no longer necessary to sample lenders by region to obtain an adequate geographic dispersion of loans. Secondly, the Finance Board is collapsing the "savings and loan associations" and "mutual savings banks" categories into a single "savings institutions" category for both weighting and reporting purposes. Finally, the Finance Board is making some adjustments to the specific metropolitan areas reported in the quarterly table of mortgage rates and terms by metropolitan area.

The Finance Board estimates that these changes have the effect of increasing average house prices by \$1,647, contract mortgage rates by 0.03 percent, average fees by 0.01 percent of the loan balance, effective mortgage rates by 0.04 percent, loan amounts by \$1,474, loan-to-value ratios by 0.10 percent, and the mortgage term by 0.16 years.

It is possible, though unlikely, that a discontinued interest-rate series is used as an adjustable-rate mortgage index for some non-standard loans. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 specifically requires that the chairman of the Finance Board designate successor index rates should an index no longer be made available. The notice designating successor index rates may be found in the Federal Register of December 27, 2002.

Table VIII is the special annual table of mortgage rates and terms for a larger group of metropolitan areas than reported each quarter. Table IX is the special annual table of mortgage rates and terms for states. The user is cautioned about small sample sizes in some of the smaller metropolitan areas and states.

The National Average Contract Mortgage Rate for the Purchase of Previously Occupied Homes by Combined Lenders, a popular ARM index, was 5.91 percent based on loans closed in January. This is a decrease of 0.13 percent from the previous month.

Recorded information on this index is available by calling (202) 408-2940. The February index value will be announced on March 27, 2003.

The Federal Housing Finance Board maintains telephone lines that give recorded information on the current value of many of the interest rates reported in this release. That phone number is (202) 408-2624. This

recording will be next updated on March 27, 2003.

Technical note: The data is based on a monthly survey of major lenders that are asked to report the terms and conditions on all conventional, single-family, fully amortized, purchase- money loans closed the last five working days of the month. The data thus excludes FHA- insured and VA-guaranteed mortgages, refinancing loans, and balloon loans. This month's data is based on 30,973 reported loans from 95 lenders, representing savings associations, mortgage companies, commercial banks, and mutual savings banks. The effective interest rate includes the amortization of initial fees and charges over a 10-year period, which is the historical assumption of the average life of a mortgage loan. The data is weighted to reflect the shares of mortgage lending by lender size and lender type as reported in the latest release of the Federal Reserve Board's Home Mortgage Disclosure Act data.