



Washington, D.C. 20410

# News Release

HUD No. 89-125  
John N. Dickie (202) 755-7270  
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FOR RELEASE:  
Friday  
September 15, 1989

## MONITORING MORTGAGE INTEREST RATES WEEK ENDING FRIDAY, SEPTEMBER 15, 1989

FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 9.50 percent (reported as the dominant rate by 62 percent of the companies). Points on the 9.50 percent rate ranged from 2.00 to 2.50, with an average of 2.32. The effective rate this week was 9.84 percent, down from 9.93 percent the last survey. The second most popular quote was a 10.00 percent rate, with an average of .35 points.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.50 percent (plus 2.75 points) to 10.50 percent (with no points). The average effective rate was 10.14, or 30 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$307 million, compared to \$241 million in the prior survey. The largest volume of commitments was for 30-year 9.50 percent loans at an average price of \$97.37, or 2.63 points discount.

Supply of Funds. Average time to exhaust the supply of outstanding commitments for FHA/VA loans rose to over seven weeks.

Demand for Funds. Demand for FHA/VA loans increased. Thirty-one percent reported an increase in the volume of FHA loan applications (compared to 20 percent in that category the last survey). Fifty percent of the companies had an unchanged volume of FHA/VA applications, while 19 percent reported a lower volume. Demand for conventional fixed-rate loan showed 30 percent reporting a higher volume, while 48 percent reported a stationary and 22 percent a weaker volume.

## Mortgage Company Weekly Opinion Poll of Mortgage Market Conditions

Table A

	Week Ending 9/15/89	Week Ending 9/8/89	Week Ending 9/1/89	Week Ending 8/25/89	Week Ending 8/18/89	Week Ending 8/11/89	Week Ending 8/4/89	Week Ending 7/28/89
Number of Companies in Survey	30	30	Holiday	30	30	30	30	30
<b>A. Primary Market</b>								
1. FHA 203 Loans								
a) contract rate %	9.50	9.50	9.50E	9.50	9.50	9.50	9.50	9.50
b) range of discount points	2.00-2.50	2.25-3.25		2.50-3.75	2.50-3.75	1.50-2.88	.75-2.50	0-1.50
c) average points	2.32	2.88	3.25E	3.21	3.29	1.99	1.77	.94
d) effective rate or yield (%)	9.84	9.93	9.99E	9.98	9.99	9.79	9.76	9.64
2. FHA GPM loans								
a) contract rate %	9.75	9.75		9.75	9.75	9.75	9.75	9.75
b) range of points	2.25-3.75	2.50-4.25		2.50-4.75	2.50-5.00	1.75-3.25	1.00-3.50	0-2.50
c) average points	2.67	3.25		3.50	3.50	2.11	1.99	1.20
d) effective rate or yield (%)	10.15	10.24		10.28	10.28	10.07	10.05	9.93
3. VA loans								
a) contract rate %	9.50	9.50		9.50	9.50	9.50	9.50	9.50
b) range of points	1.88-3.00	2.25-4.13		1.50-3.75	2.00-4.00	1.00-2.88	.63-2.50	0-1.50
c) average points	2.40	3.01		3.20	3.32	1.93	1.73	.99
d) effective rate or yield (%)	9.86	9.95		9.98	10.00	9.79	9.76	9.65
4. Conventional 30% loans, 30 yrs								
a) range of interest rates	9.50-10.50	9.75-10.50		9.50-10.63	9.50-10.63	9.50-10.38	9.50-10.38	9.25-10.13
b) average effective rate	10.14	10.24		10.33	10.35	10.05	10.03	9.84
<b>B. Secondary Market - terms on commitments received for 2-4 month deliveries</b>								
1. FHA Section 203 loans								
a) contract rate	9.50	9.50	9.50E	9.50	9.50	9.50	9.50	9.50
b) range of prices	96.13-97.75	96.72-97.19		96.34-97.00	96.50-97.75	97.22-98.13	98.16-99.63	98.03-99.25
c) average GNMA price	97.37	96.96	96.75E	96.70	96.93	97.71	98.95	98.57
d) average composite price	97.37	96.96		96.70	96.93	97.71	98.95	98.57
e) average yield	9.89	9.95	9.99E	9.99	9.96	9.84	9.65	9.71
f) new commitments (millions)	\$307	\$241		\$275	\$262	\$244	\$285	\$223
g) most important buyers								
1)	GNMA	GNMA		GNMA	GNMA	GNMA	GNMA	GNMA
2)	—	—		—	—	—	—	—
3)	—	—		—	—	—	—	—
2. Conventional Loans (fixed rate mortgage)								
a) range of yields	9.43-10.63	9.43-10.50		9.90-11.00	9.54-10.78	9.66-10.93	9.47-10.53	9.47-10.59
b) average yield	10.11	10.18		10.29	10.18	10.14	9.87	9.96
c) new commitments (millions)	\$310	\$278		\$359	\$228	\$210	\$245	\$240
d) most important buyers								
1)	FNMA	FNMA		FNMA	FNMA	PHLMC	FNMA	FNMA
2)	PHLMC	PHLMC		PHLMC	PHLMC	FNMA	PHLMC	PHLMC
3. Conventional Loans (ARMs)								
a) new commitments (millions)	\$22	\$16		\$43	\$57	\$40	None	None
b) most important buyers	Private Source	Private Source		Private Source	Private Source	Private Source	—	—

E = Estimated based on daily GNMA telerate quotes

Table A (continued)

	Week Ending 9/15/89	Week Ending 9/8/89	Week Ending 9/1/89	Week Ending 8/25/89	Week Ending 8/18/89	Week Ending 8/11/89	Week Ending 8/4/89	Week Ending 7/28/89
<b>C. Adequacy of Funds (percent of firms reporting adequate supply of funds in relationship to current demand)</b>								
1. FHA Section 203								
a) adequacy percentage	100%	100%	Holiday	100%	100%	100%	100%	100%
b) commitment coverage (mos)	1.83	1.71		1.84	1.72	1.90	1.83	1.75
2. Conventional								
a) adequacy percent	100%	100%		100%	100%	100%	100%	100%
b) commitment coverage (mos)	1.81	1.76		1.85	1.72	1.90	1.82	1.74
<b>D. Trend in Supply of Mortgage Funds Compared to Last Week (percent distribution)</b>								
1. FHA Section 203								
a) Tightening	0%	0%		10%	85%	40%	85%	0%
b) Stationary	52	100		62	4	20	15	10
c) Loosening	48	0		28	11	40	0	90
2. FHA GM Loans								
a) Tightening	0%	0%		10%	85%	40%	85%	0%
b) Stationary	52	100		62	4	20	15	10
c) Loosening	48	0		28	11	40	0	90
3. Conventional Loans								
a) Tightening	0%	0%		10%	85%	42%	83%	0%
b) Stationary	54	100		62	4	23	17	10
c) Loosening	46	0		28	11	35	0	90
<b>E. Trends in Demand for Funds Compared to Last Week (percent distribution)</b>								
1. FHA Section 203								
a) weaker/lower applications	19%	24%		37%	62%	21%	16%	10%
b) stationary/about same as last wk	50	56		52	31	21	28	31
c) stronger/higher volume of appl.	31	20		11	7	58	56	59
2. Conventional Loans (Fixed Rate)								
a) weaker/lower applications	22%	27%		39%	56%	24%	18%	10%
b) stationary/abt. same as last wk	48	54		50	30	20	30	37
c) stronger/higher volume of appl.	30	19		11	14	56	52	63
3. Conventional Loans (ARMs)								
a) weaker/lower application	22%	31%		39%	59%	32%	33%	23%
b) stationary/abt. same as last wk	52	54		41	33	36	26	27
c) stronger/higher volume of appl.	26	11		14	4	28	33	47
d) no applications	0	4		4	4	4	8	3



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Robert E. Nipp (202) 755-6685

FOR RELEASE:  
Friday  
September 8, 1989

## MONITORING MORTGAGE INTEREST RATES WEEK ENDING FRIDAY, SEPTEMBER 8, 1989

FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 9.50 percent (reported as the dominant rate by 58 percent of the companies). Points on the 9.50 percent rate ranged from 2.25 to 3.25, with an average of 2.88. The effective rate this week was 9.93 percent, down from 9.98 percent the last survey. The second most popular quote was a 10.00 percent rate, with an average of .88 points.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.75 percent (plus 2.25 points) to 10.50 percent (with no points). The average effective rate was 10.24, or 31 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$241 million, compared to \$275 million in the prior survey. The largest volume of commitments was for 30-year 9.50 percent loans at an average price of \$96.96, or 3.04 points discount.

Supply of Funds. Average time to exhaust the supply of outstanding commitments for FHA/VA loans fell to under seven weeks.

Demand for Funds. Demand for FHA/VA loans edged up. Twenty percent reported an increase in the volume of FHA loan applications (compared to 11 percent in that category the last survey). Fifty-six percent of the companies had an unchanged volume of FHA/VA applications, while 24 percent reported a lower volume. Demand for conventional fixed-rate loan showed 19 percent reporting a higher volume, while 54 percent reported a stationary and 27 percent a weaker volume.

## Mortgage Company Weekly Opinion Poll of Mortgage Market Conditions

Table A

	Week Ending 9/8/89	Week Ending 9/1/89	Week Ending 8/25/89	Week Ending 8/18/89	Week Ending 8/11/89	Week Ending 8/4/89	Week Ending 7/28/89
Number of Companies in Survey	30	Holiday	30	30	30	30	30
<b>A. Primary Market</b>							
1. FHA 203 Loans							
a) contract rate %	9.50	9.50E	9.50	9.50	9.50	9.50	9.50
b) range of discount points	2.25-3.25		2.50-3.75	2.50-3.75	1.50-2.88	.75-2.50	0-1.50
c) average points	2.88	3.25E	3.21	3.29	1.99	1.77	.94
d) effective rate or yield (%)	9.93	9.99E	9.98	9.99	9.79	9.76	9.64
2. FHA GPM loans							
a) contract rate %	9.75		9.75	9.75	9.75	9.75	9.75
b) range of points	2.50-4.25		2.50-4.75	2.50-5.00	1.75-3.25	1.00-3.50	0-2.50
c) average points	3.25		3.50	3.50	2.11	1.99	1.20
d) effective rate or yield (%)	10.24		10.28	10.28	10.07	10.05	9.93
3. VA loans							
a) contract rate %	9.50		9.50	9.50	9.50	9.50	9.50
b) range of points	2.25-4.13		1.50-3.75	2.00-4.00	1.00-2.88	.63-2.50	0-1.50
c) average points	3.01		3.20	3.32	1.93	1.73	.99
d) effective rate or yield (%)	9.95		9.98	10.00	9.79	9.76	9.65
4. Conventional 80% loans, 30 yrs							
a) range of interest rates	9.75-10.50		9.50-10.63	9.50-10.63	9.50-10.38	9.50-10.38	9.25-10.13
b) average effective rate	10.24		10.33	10.35	10.05	10.03	9.84
<b>B. Secondary Market - terms on commitments received for 2-4 month deliveries</b>							
1. FHA Section 203 loans							
a) contract rate	9.50	9.50E	9.50	9.50	9.50	9.50	9.50
b) range of prices	96.72-97.19		96.34-97.00	96.50-97.75	97.22-98.13	98.16-99.63	98.03-99.25
c) average GMA price	96.96	96.75E	96.70	96.93	97.71	98.95	98.57
d) average composite price	96.96		96.70	96.93	97.71	98.95	98.57
e) average yield	9.95	9.99E	9.99	9.96	9.84	9.65	9.71
f) new commitments (millions)	\$241		\$275	\$262	\$244	\$285	\$223
g) most important buyers							
1)	GMA		GMA	GMA	GMA	GMA	GMA
2)	—		—	—	—	—	—
3)	—		—	—	—	—	—
2. Conventional Loans (fixed rate mortgage)							
a) range of yields	9.43-10.50		9.90-11.00	9.54-10.78	9.66-10.93	9.47-10.53	9.47-10.59
b) average yield	10.18		10.29	10.18	10.14	9.87	9.96
c) new commitments (millions)	\$278		\$359	\$228	\$210	\$245	\$240
d) most important buyers							
1)	FNMA		FNMA	FNMA	PHLMC	FNMA	FNMA
2)	PHLMC		PHLMC	PHLMC	FNMA	PHLMC	PHLMC
3. Conventional Loans (ARMs)							
a) new commitments (millions)	\$16		\$43	\$57	\$40	None	None
b) most important buyers	Private Source		Private Source	Private Source	Private Source	—	—

E = Estimated based on daily GMA telerate quotes

	Week Ending 9/8/89	Week Ending 9/1/89	Week Ending 8/25/89	Week Ending 8/18/89	Week Ending 8/11/89	Week Ending 8/4/89	Week Ending 7/28/89
Supply of Funds (percent of firms reporting adequate supply of funds in relationship to current demand)							
1. FHA Section 203							
a) adequacy percentage	100%	Holiday	100%	100%	100%	100%	100%
b) commitment coverage (mos)	1.71		1.84	1.72	1.90	1.83	1.75
2. Conventional							
a) adequacy percent	100%		100%	100%	100%	100%	100%
b) commitment coverage (mos)	1.76		1.85	1.72	1.90	1.82	1.74
D. Trend in Supply of Mortgage Funds Compared to Last Week (percent distribution)							
1. FHA Section 203							
a) Tightening	0%		10%	85%	40%	85%	0%
b) Stationary	100		62	4	20	15	10
c) Loosening	0		28	11	40	0	90
2. FHA GEM Loans							
a) Tightening	0%		10%	85%	40%	85%	0%
b) Stationary	100		62	4	20	15	10
c) Loosening	0		28	11	40	0	90
3. Conventional Loans							
a) Tightening	0%		10%	85%	42%	83%	0%
b) Stationary	100		62	4	23	17	10
c) Loosening	0		28	11	35	0	90
E. Trends in Demand for Funds Compared to Last Week (percent distribution)							
1. FHA Section 203							
a) weaker/lower applications	24%		37%	62%	21%	16%	10%
b) stationary/about same as last w	56		52	31	21	28	31
c) stronger/higher volume of appl.	20		11	7	58	56	59
2. Conventional Loans (Fixed Rate)							
a) weaker/lower applications	27%		39%	56%	24%	18%	10%
b) stationary/abt. same as last wk	54		50	30	20	30	37
c) stronger/higher volume of appl.	19		11	14	56	52	63
3. Conventional Loans (ARMs)							
a) weaker/lower application	31%		39%	59%	32%	33%	23%
b) stationary/abt. same as last wk	54		43	33	36	26	27
c) stronger/higher volume of appl.	11		14	4	28	33	47
d) no applications	4		4	4	4	8	3



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FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 9.50 percent (reported as the dominant rate by 58 percent of the companies). Points on the 9.50 percent rate ranged from 2.25 to 3.25, with an average of 2.88. The effective rate this week was 9.93 percent, down from 9.98 percent the last survey. The second most popular quote was a 10.00 percent rate, with an average of .88 points.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.75 percent (plus 2.25 points) to 10.50 percent (with no points). The average effective rate was 10.24, or 31 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$241 million, compared to \$275 million in the prior survey. The largest volume of commitments was for 30-year 9.50 percent loans at an average price of \$96.96, or 3.04 points discount.

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Table A

## Mortgage Company Weekly Opinion Poll of Mortgage Market Conditions

	Week Ending 9/8/89	Week Ending 9/1/89	Week Ending 8/25/89	Week Ending 8/18/89	Week Ending 8/11/89	Week Ending 8/4/89	Week Ending 7/28/89
Number of Companies in Survey	30	Holiday	30	30	30	30	30
<b>A. Primary Market</b>							
1. FHA 203 Loans							
a) contract rate %	9.50	9.50E	9.50	9.50	9.50	9.50	9.50
b) range of discount points	2.25-3.25		2.50-3.75	2.50-3.75	1.50-2.88	.75-2.50	0-1.50
c) average points	2.88	3.25E	3.21	3.29	1.99	1.77	.94
d) effective rate or yield (%)	9.93	9.99E	9.98	9.99	9.79	9.76	9.64
2. FHA GPM loans							
a) contract rate %	9.75		9.75	9.75	9.75	9.75	9.75
b) range of points	2.50-4.25		2.50-4.75	2.50-5.00	1.75-3.25	1.00-3.50	0-2.50
c) average points	3.25		3.50	3.50	2.11	1.99	1.20
d) effective rate or yield (%)	10.24		10.28	10.28	10.07	10.05	9.93
3. VA loans							
a) contract rate %	9.50		9.50	9.50	9.50	9.50	9.50
b) range of points	2.25-4.13		1.50-3.75	2.00-4.00	1.00-2.88	.63-2.50	0-1.50
c) average points	3.01		3.20	3.32	1.93	1.73	.99
d) effective rate or yield (%)	9.95		9.98	10.00	9.79	9.76	9.65
4. Conventional 80% loans, 30 yrs							
a) range of interest rates	9.75-10.50		9.50-10.63	9.50-10.63	9.50-10.38	9.50-10.38	9.25-10.13
b) average effective rate	10.24		10.33	10.35	10.05	10.03	9.84
<b>B. Secondary Market - terms on commitments received for 2-4 month deliveries</b>							
1. FHA Section 203 loans							
a) contract rate	9.50	9.50E	9.50	9.50	9.50	9.50	9.50
b) range of prices	96.72-97.19		96.34-97.00	96.50-97.75	97.22-98.13	98.16-99.63	98.03-99.25
c) average GMA price	96.96	96.75E	96.70	96.93	97.71	98.95	98.57
d) average composite price	96.96		96.70	96.93	97.71	98.95	98.57
e) average yield	9.95	9.99E	9.99	9.96	9.84	9.65	9.71
f) new commitments (millions)	\$241		\$275	\$262	\$244	\$285	\$223
g) most important buyers							
1)	GMA		GMA	GMA	GMA	GMA	GMA
2)	—		—	—	—	—	—
3)	—		—	—	—	—	—
2. Conventional Loans (fixed rate mortgage)							
a) range of yields	9.43-10.50		9.90-11.00	9.54-10.78	9.66-10.93	9.47-10.53	9.47-10.59
b) average yield	10.18		10.29	10.18	10.14	9.87	9.96
c) new commitments (millions)	\$278		\$359	\$228	\$210	\$245	\$240
d) most important buyers							
1)	FNMA		FNMA	FNMA	FHLMC	FNMA	FNMA
2)	FHLMC		FHLMC	FHLMC	FNMA	FHLMC	FHLMC
3. Conventional Loans (ARMs)							
a) new commitments (millions)	\$16		\$43	\$57	\$40	None	None
b) most important buyers	Private Source		Private Source	Private Source	Private Source	—	—

E = Estimated based on daily GMA tolerance quotes

Table A (continued)

	Week Ending 9/8/89	Week Ending 9/1/89	Week Ending 8/25/89	Week Ending 8/18/89	Week Ending 8/11/89	Week Ending 8/4/89	Week Ending 7/28/89
<b>C. Adequacy of Funds (percent of firms reporting adequate supply of funds in relationship to current demand)</b>							
1. FRA Section 203							
a) adequacy percentage	100%	Holiday	100%	100%	100%	100%	100%
b) commitment coverage (mos)	1.71		1.84	1.72	1.90	1.83	1.75
2. Conventional							
a) adequacy percent	100%		100%	100%	100%	100%	100%
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<b>D. Trend in Supply of Mortgage Funds Compared to Last Week (percent distribution)</b>							
1. FRA Section 203							
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b) Stationary	100		62	4	20	15	10
c) Loosening	0		28	11	40	0	90
2. FRA GEM Loans							
a) Tightening	0%		10%	85%	40%	85%	0%
b) Stationary	100		62	4	20	15	10
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3. Conventional Loans							
a) Tightening	0%		10%	85%	42%	83%	0%
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<b>E. Trends in Demand for Funds Compared to Last Week (percent distribution)</b>							
1. FRA Section 203							
a) weaker/lower applications	24%		37%	62%	21%	16%	10%
b) stationary/about same as last w	56		52	31	21	28	31
c) stronger/higher volume of appl.	20		11	7	58	56	59
2. Conventional Loans (Fixed Rate)							
a) weaker/lower applications	27%		39%	56%	24%	18%	10%
b) stationary/abt. same as last wk	54		50	30	20	30	37
c) stronger/higher volume of appl.	19		11	14	56	52	63
3. Conventional Loans (ARMs)							
a) weaker/lower application	31%		39%	59%	32%	33%	23%
b) stationary/abt. same as last wk	54		43	33	36	26	27
c) stronger/higher volume of appl.	11		14	4	28	33	47
d) no applications	4		4	4	4	8	3



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# News Release

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FOR RELEASE:  
Friday  
August 25, 1989

## MONITORING MORTGAGE INTEREST RATES WEEK ENDING FRIDAY, AUGUST 25, 1989

FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 9.50 percent (reported as the dominant rate by 52 percent of the companies). Points on the 9.50 percent rate ranged from 2.50 to 3.75, with an average of 3.21. The effective rate this week was 9.98 percent, down from 9.99 percent the last survey. The second most popular quote, with a majority of the companies, was a 10.00 percent rate, with an average of 1.14 points.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.50 percent (plus 4.75 points) to 10.63 percent (with no points). The average effective rate was 10.33, or 35 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$275 million, compared to \$262 million in the prior survey. The largest volume of commitments was for 30-year 9.50 percent loans at an average price of \$96.70, or 3.30 points discount.

Supply of Funds. Average time to exhaust the supply of outstanding commitments for FHA/VA loans increased to eight weeks.

Demand for Funds. Demand for FHA/VA loans increased. Eleven percent reported an increase in the volume of FHA loan applications (compared to 7 percent in that category the last survey). Fifty-two percent of the companies had an unchanged volume of FHA/VA applications, while 37 percent reported a lower volume. Demand for conventional fixed-rate loan also showed 11 percent reporting a higher volume, while 50 percent reported a stationary and 39 percent a weaker volume.



Washington, D.C. 20410

# News Release

HUD No. 89-115  
John N. Dickie (202) 755-7270  
Robert E. Nipp (202) 755-6685

FOR RELEASE:  
Friday  
August 18, 1989

## MONITORING MORTGAGE INTEREST RATES WEEK ENDING FRIDAY, AUGUST 18, 1989

FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 9.50 percent (reported as the dominant rate by 52 percent of the companies). Points on the 9.50 percent rate ranged from 2.50 to 3.75, with an average of 3.29. The effective rate this week was 9.99 percent, up from 9.79 percent the last survey. The second most popular quote, with a majority of the companies, was a 10.00 percent rate, with an average of 1.32 points.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.50 percent (plus 4.00 points) to 10.63 percent (with no points). The average effective rate was 10.35, or 36 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$262 million, compared to \$244 million in the prior survey. The largest volume of commitments was for 30-year 9.50 percent loans at an average price of \$96.93, or 3.07 points discount.

Supply of Funds. Average time to exhaust the supply of outstanding commitments for FHA/VA loans decreased to near seven weeks.

Demand for Funds. Demand for FHA/VA loans fell sharply. Seven percent reported an increase in the volume of FHA loan applications (compared to 58 percent in that category the last survey). Thirty-one percent of the companies had an unchanged volume of FHA/VA applications, while 62 percent reported a lower volume. Demand for conventional fixed-rate loan was similar.



Washington, D.C. 20410

# News Release

HUD No. 89-113  
John N. Dickie (202) 755-7270  
Robert E. Nipp (202) 755-6685

FOR RELEASE:  
Friday  
August 11, 1989

## MONITORING MORTGAGE INTEREST RATES WEEK ENDING FRIDAY, AUGUST 11, 1989

FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 9.50 percent (reported as the dominant rate by 96 percent of the companies). Points on the 9.50 percent rate ranged from 1.50 to 2.88, with an average of 1.99. The effective rate this week was 9.79 percent, up from 9.76 percent the last survey. The second most popular quote, with 83 percent of the companies, was a 10.00 percent rate, with an average of .15 points.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.50 percent (with 2.00 points) to 10.38 percent (with no points). The average effective rate was 10.05, or 26 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$244 million, compared to \$285 million in the prior survey. The largest volume of commitments was for 30-year 9.50 percent loans at an average price of \$97.71, or 2.29 points discount.

Supply of Funds. Average time to exhaust the supply of outstanding commitments for FHA/VA loans rose to near eight weeks.

Demand for Funds. Demand for FHA/VA loans remained fairly strong. Fifty-eight percent reported an increase in the volume of FHA loan applications (compared to 56 percent in that category the last survey). Twenty-one percent of the companies had an unchanged volume of FHA/VA applications. Demand for conventional fixed-rate loan was similar.



Washington, D.C. 20410

# News Release

HUD - No. 89-100  
John N. Dickie (202) 755-7270  
Robert E. Nipp (202) 755-6980

FOR RELEASE:  
July 21, 1989

## MONITORING MORTGAGE INTEREST RATES WEEK ENDING FRIDAY, JULY 21, 1989

FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 9.50 percent (reported as the dominant rate by 81 percent of the companies). Points on the 9.50 percent rate ranged from .13 to 2.50, with an average of 1.79. The effective rate this week was 9.76 percent, up from 9.70 percent the last survey. The second most popular quote, with 70 percent of the companies, was a 10.00 percent rate, with an average of .03 points.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.50 percent (with 2.00 points) to 10.25 percent (with no points). The average effective rate was 10.02 percent, or 26 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$266 million, compared to \$141 million in the prior survey. The largest volume of commitments was for 30-year 9.50 percent loans at an average price of \$98.28, or 1.72 points discount.

Supply of Funds. Average time to exhaust the supply of outstanding commitments for FHA/VA loans fell to seven weeks.

Demand for Funds. Demand for FHA/VA loans became somewhat stronger. Forty-three percent reported an increase in the volume of FHA loan applications (compared to 37 percent in that category the last survey). Thirty-six percent of the companies had an unchanged volume of FHA/VA applications. Demand for conventional fixed rate loans was similar.

The foregoing summary is based on a U. S. Department of Housing and Urban Development poll of 30 of the largest mortgage banking firms conducted on July 21, 1989.



Washington, D.C. 20410

# News Release

HUD - No. 89-93  
John N. Dickie (202) 755-7270  
Robert E. Nipp (202) 755-6980

FOR RELEASE:  
July 7, 1989

## MONITORING MORTGAGE INTEREST RATES WEEK ENDING FRIDAY, JULY 7, 1989

FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 10.00 percent (reported as the dominant rate by 89 percent of the companies). Points on the 10.00 percent rate ranged from zero to .50, with an average of .07. The effective rate this week was 10.01 percent, down from 10.08 percent the last survey. The second most popular quote, with 81 percent of the companies, was a 9.50 percent rate, with an average of 1.85 points.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.50 percent (with 2.00 points) to 10.50 percent (with no points). The average effective rate was 10.09 percent, or 8 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$152 million, compared to \$183 million in the prior survey. The largest volume of commitments was for 30-year 10.00 percent loans at an average price of \$99.80, or .20 points discount.

Supply of Funds. Average time to exhaust the supply of outstanding commitments for FHA/VA loans decline to under eight weeks.

Demand for Funds. Demand for FHA/VA loans strengthened compared to the previous week. Fifty-six percent reported a higher volume of FHA loan applications (compared to 44 percent in that category the last survey). Thirty-seven percent of the companies had a stable volume of FHA/VA applications. Demand for conventional fixed rate loans was similar.

The foregoing summary is based on a U. S. Department of Housing and Urban Development poll of 30 of the largest mortgage banking firms conducted on July 7, 1989.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY FOR  
HOUSING-FEDERAL HOUSING COMMISSIONER

July 7, 1989

MEMORANDUM FOR: James E. Schoenberger, General Deputy Assistant  
Secretary for Housing, HD

FROM: *John H. Dickie, for*  
James B. Mitchell, Director, Financial Policy Division, HPFP

SUBJECT: Monitoring Mortgage Interest Rates,  
Friday, July 7, 1989

I. Overview

Employment data released today (e.g., increase in the unemployment rate to 5.3 percent in June and gain in non-farm payroll of 180,000) were consistent with recent economic indicators showing a cooling off in the economy. Virtually all the respondents in today's survey are convinced that the Fed has begun another round of credit easing, with the key Federal funds rate dropping from the 9-1/2 to 9-1/4 percent range. Yields on shorter-term Treasuries have receded sufficiently to restore a positive yield curve, and Southwest Bank in St. Louis, Missouri has taken the lead with a prime rate cut, an action which other banks are expected to follow. Secondary market prices for 10.00 percent FHA/VA loans have increased over a half point the past two days so that these loans are selling at a premium through October delivery. Today, firm lock-in discount quotes for 60- to 90-day closings on 9.50 percent FHA/VA loans averaged 1.85 points, leading to very strong speculation that The Department of Veterans Affairs would soon lower the VA ceiling rate. Most of the leading mortgage bankers anticipate further decreases in interest rates, with the yield on long-term Treasuries falling to 7 percent, or lower, over the next several months. However, some think the bond/mortgage market has gotten ahead of itself and future interest rate declines will come gradually.

Some representative comments:

"Well, prices are back up to where they were in mid-June, but the levels did not hold up then. This time it looks like we may get a breakthrough, but it hasn't happened yet. The Treasury long bond is still over 8 percent, and we haven't gone much above \$98 on the futures

contracts. Sometimes it takes a while for things to happen. Further interest rate declines might happen gradually, or build up like a snowball then really go down hill. The employment/unemployment data released today represent more confirmation that the economy is leveling out and inflationary pressures are diminishing. Car sales were really off - about 20 percent, and the dollar is having less influence on the bond markets. I expect that interest rates will go down further - but I don't know how fast. Apparently, the Fed has begun to ease as the Federal funds rate has been in the 9-1/4 percent range for two consecutive days and the yield curve this week began to have a positive slope. Every maturity for Treasury securities is below 8 percent, until you reach 7-year paper. This is good as it makes CMO and REMIC structures possible."

"Obviously, the Fed is targeting the Federal funds rate at 9-1/4 percent, down from 9-1/2 percent. Economists have predicted that long bond rates will come down to 7 - 7-1/2 percent and the market seems to have accepted that forecast for the longer run. It would be nice if it happens, but I have to make my decisions on what I see today, and the 8 percent Treasury bond rate is holding pretty firm. Refinancing prospects have been ringing the phone at our branch offices, but have not come in the door yet. It seems that they need to read and hear about the market for awhile, before making up their minds."

"Would you believe that some people are thinking now that the Treasury long bond may fall to 6 or 6-1/2 percent by the end of the year. Since it hasn't broken 8.00 percent yet, this is wishful thinking. But, you can't help reflecting what implications such rates would have for refinancings. It would make it possible for those having existing mortgage rates over 10 percent, perhaps 9-1/2 percent, to refinance - and there are a whole bunch of such loans out there."

"With the upsurge in prices the past two days, we are quoting 10 percent FHA/VA loans at no points and 9-1/2 percent loans at two points. If these discounts hold up, which I am 90 percent positive they will, then we should see a VA rate change as early as next week. We could even get one today. I have seen rate changes when current coupon GNMA's were not even this strong."

"Applications are up about 15 to 20 percent from last month. Refinancings have risen also, but do not represent more than 10 percent of our new applications. It takes time for refinancings to build up a head of steam. However, there is a market for them, and particularly for ARMs with initial teaser rates and ARMs going on their second or third adjustments."

"We love the market now! And if the yield curve gets even better than it is now, we'll see even more business. It looks like a great summer. Our refinances have jumped up from 5 to 10 percent of our business volume. And, if the market keeps rising as it has, we'll open our 9 percent conventional window again!"

"Everything seems to be coming into place. Our Wall Street guru tells us that next week's numbers including the Producer Price Index will be unchanged. On one hand, we should be thankful that the market has been fairly orderly with gradual changes. I think it will keep nibbling at the 8 percent bond rate until it falls. That's better than a big dramatic change, which in turn will produce a major correction."

"The whole week was focused on the June unemployment number which came out this morning at 5.3 percent. It was good for the market, as was the non-farm payroll number showing an increase of only 180 thousand. So now we are getting close to a situation where the Fed Open Market Committee might decrease rates. The Fed funds rate dropped from the 9-1/2 percent range yesterday to the 9-1/4 percent range this morning — then the Fed stepped in with matched sales. In any case, the market is anticipating an easing situation. I suspect, however, that the VA will be in close touch with the Fed before the VA drops its rate from 10 percent. The VA could drop its rate this afternoon because we are definitely in rate change territory even though we haven't been there very long. I personally would be more comfortable to see them wait a week or so before making the change."

"The market is going crazy today, with figures jumping and dropping erratically. People are pulling out of deals because they think mortgage rates will fall even further, and the guy down the street may give them a better break."

## II. Findings

### A. Primary Mortgage Market

#### 1) FHA 30 year Loans

Eighty-nine percent of the companies reported that 10.00 percent was the most popular commitment rate for FHA 30-year level payment loans in the primary market. The range of points quoted for the 10.00 loans was zero to 0.50. The average was 0.07 points. The average effective rate this week was 10.01 percent, down 7 basis points from the previous survey.

Eighty-one percent of the companies reported an 9.50 percent commitment rate as their second most popular mortgage rate. Points on these 9.50 percent mortgages ranged from zero to 2.50, with an average effective rate of 9.77 percent, down 11 basis points from the last survey.

## 2) FHA 15 year Loans

Seventy-seven percent of the companies reported a commitment rate of 9.50 percent as the most popular rate for FHA level payment 15-year loans. The range of points quoted for these loans was zero to 1.00. The average was 0.26 points.

## 3) FHA GPM Loans

Ninety-two percent of the companies making quotes for FHA Section 245 GPM loan commitments reported 10.25 percent as the dominate rate for such loans. The range of discounts was zero to 1.75 points, with an average of 0.43 points. The average effective rate this week was 10.32 percent, down 7 basis points from the last survey.

## 4) FHA ARMs

The percentage of companies offering FHA ARMs this week was 55 percent, compared to 55 percent the previous survey. Quotes this week ranged from 8.50 percent plus 2.38 points to 9.63 percent plus 1.00 point. Of those offering ARMs, 44 percent quoted 9.50 percent as their most popular ARM mortgages and another 38 percent quoted 9.00 percent mortgages.

## 5) VA Loans

The average points in the primary market for commitments on VA guaranteed loans, subject to the 10.00 percent maximum rate, was 0.09 points. Quotes this week ranged from zero to 0.50 points. The effective rate on commitments to close loans at the administered ceiling rate averaged 10.01 percent, down 8 basis points from the previous survey.

## 6) Conventional 30 year Loans

The range of contract interest rates quoted on 80 percent loan-to-value conventional mortgages was 9.50 percent (plus 2.00 points) to 10.50 percent (and zero points). The average effective rate was 10.09 percent, down 12 basis points from the last report.

## 7) Conventional 15 year Loans

The range of contract interest rates quoted on 80 percent loan-to-value ratio 15-year conventional loan commitments was 9.25 percent (plus 2.00 points) to 10.25 percent (and 0 points). The average effective rate was 9.93 percent, down 8 basis points from the last survey.

## 8) Conventional ARMs

Eighty-six percent of the companies were offering conventional ARMs, compared to 83 percent the previous survey. Interest rates ranged between 7.88 percent (plus 2.00 points) and 10.75 percent (plus zero point). One year ARM loans were the predominant ARMs offered by the mortgage companies.

## B. Secondary Mortgage Market

### 1) FHA/VA Fixed Rate Loans

A total of \$151.6 million in FHA/VA fixed payment loan commitments was acquired by 21 companies, compared to \$182.5 million purchased by 20 companies from the last survey. All of the FHA/VA commitments negotiated were acquired in the GNMA market. Commitments obtained this week encompassed the following mortgage rates for 30-year loans: 9.00, 9.50, 10.00, 10.50, and 11.00 percent.

The largest volume of 30 year level payment commitments was for 10.00 percent loans (45 percent of the total). For the 10.00 percent loans, prices ranged from \$99.41 to \$100.00. The average was \$99.80 which results in a 10.03 percent yield. Major 30-year level payment transactions were:

<u>Contract Interest Rate</u>	<u>Volume (millions)</u>	<u>Percent of Total Transactions</u>	<u>Average Price</u>
9.50	\$ 40.6	27	\$97.72
10.00	68.5	45	99.80
10.50	34.0	22	101.60

Commitments of \$3.7 million were obtained for 15-year loans in the GNMA market.

### 2) FHA GPM Loans

No GPM loans were sold this week.

### 3) FHA ARM Loans

\$.5 million in FHA ARM loans were sold this week.

### 4) Conventional Loans

Twenty-one companies obtained a total of \$433.4 million in commitments for fixed-rate conventional loans this week. Of these commitments, \$110.9 million came from FNMA, and \$72.5 million from the Federal Home Loan Mortgage

Corporation, and \$250.0 million from private issue securities. The commitments under discussion include both 15- and 30-year fixed products. The average yield on 30-year loans was 10.24 percent. \$17.0 million in non-conforming ARM loans were sold by the respondents this week.

### C. Trends in the Supply and Demand for Funds

#### 1) Commitment Coverage

a) The average time it would take to exhaust the supply of outstanding commitments for FHA/VA loans at the current rate of production slipped to under eight weeks (1.92 months).

b) All of the companies indicated an adequate supply of conventional funds for level-payment mortgages, given current demand. Commitments would cover loan production for almost eight weeks (1.90 months).

c) An adequate supply of conventional ARM loan funds was affirmed by 100 percent of the companies. The average commitment coverage fell to between seven and eight weeks (1.86 months).

#### 2) Secondary Market Conditions

Ninety-three percent of the companies reported a loosening supply of FHA/VA funds, compared to only 61 percent reporting a such condition in the last survey. This week, 7 percent reported a stationary supply, and no company percent noted a tightening supply of funds for FHA/VA loans. The trend in the supply of conventional loans was the same.

#### 3) Application Volume

Stronger loan demand for 30-year fixed rate FHA/VA loans was reported by 56 percent of the respondents, up from 44 percent having the same situation the previous survey. Seven percent reported that the loan demand was down, while 37 percent had a stationary application volume this week. For FHA 15-year loans, applications were up for 50 percent, while 42 percent reported a stable volume. For FHA ARM loan applications, 30 percent of the companies reported a greater volume, while another 50 percent reported no change in the volume from the last survey. Fifty percent of the companies had an increase in application volume for conventional fixed rate loans from last week, while 28 percent noted a larger volume of ARM loans this week.

#### 4) Types of Loans in Pipeline

The current production product mix varied from company to company. A distribution of loan applications currently being processed by the respondents is presented below.

	Percent Distribution		Prior Survey "Average" 100%
	range	This Week "Average" 100%	
<u>Total</u>			
FHA/VA vs.	0-85	46	51
Conventional	15-100	54	49
<u>FHA/VA</u>			
FHA/VA 30 year Fixed Rate Loans	70-100	92%	92%
FHA/VA 15 year Fixed Rate Loans	0-20	6	7
FHA/ARMs	0-10	2	1
Subtotal		100	100
<u>Conventional</u>			
Conventional 30 year Fixed Rate Loans	20-100	78%	73%
Conventional 15 year Fixed Rate Loans	0-20	9	9
Conventional ARMs	0-80	13	18
Sub Total		100	100

The foregoing summary is based on a poll of 30 of the largest mortgage banking firms conducted on July 7, 1989.

Attachments

John Goodman  
 Keith Pedigo  
 Jim Sharera  
 Peggy Young  
 Richard Pickering  
 Jim Boland  
 Gerard Keffer  
 Charles Hanson  
 William J. Maroni  
 M. Schussheim  
 Barbara Miles  
 Angelo A. Vigna  
 Nina Shepherd  
 Edward Golding  
 Thomas Simpson  
 David Lund  
 D. Laufenberg  
 Ned Newland  
 Sylvia Lucas  
 David Pinson  
 Stephen Lumpkin  
 L. Rubin.  
 Michael Woolley  
 Laura Gorman

Federal Reserve  
 Veterans Administration  
 Treasury  
 OMB  
 FHLBB  
 FHLBB  
 Census Bureau  
 OMB  
 Old Executive Office Building  
 Congressional Research Office  
 Congressional Research Office  
 Federal Home Loan Bank of New York  
 Congressional Budget Office  
 FHLBB  
 Federal Reserve  
 Department of Commerce  
 Federal Reserve  
 Joint Committee on Taxation  
 Federal Reserve, Stop 89  
 Council of State Hsg. Agencies  
 Federal Reserve  
 Federal Reserve  
 Federal Reserve  
 Mortgage Bankers Association

**TABLE A ONLY**

Kathy Covell  
 Paul Van Valkenburg  
 Jerry Weingarten  
 FNMA  
 Mortgage Bankers Association  
 Mortgage Commentary  
 Mortgage Market Insight  
 Inside Mortgage Finance  
 Southmark Mortgage Corp.

CIMA (release and Table A only)  
 Drexel Burnham  
 New York Guardian Mortgage Co.

Katie Wojciechowski (Release and Table  
 A only)

## Money, Banking, and Credit

The Federal Reserve Open Market Committee finished its meeting this week, and signs of easing interest rates are abundant. While characterized by 3, 5, and 6 day matched sales, on Monday, Wednesday, and Friday, the respective stop rates of 9 1/2%, 9 7/16%, and 9 1/4% confirm the trend of gradual easing that was started by last Thursday's overnight system repo at 9 5/8%. This easing trend has already been picked up by at least one bank, SW of Missouri, which has reduced its prime rate from 11% to 10 1/2%, and the scent of a discount rate change can just about be caught.

Reference to the numbers themselves might suggest that it is far too early for a discount rate reduction. After all the 350 basis point increase in the federal funds rate that the fed engineered over the past year, has only been matched by a 100 basis point increase in the discount rate. The gap between a federal funds rate of say 9 3/8% and a discount rate of 7.00% is considerably larger than the 150 to 175 basis point gap that has been the historical norm between these two rates.

The unusually large gap between the federal funds rate and the discount rate resulted from the recognition that the macro-economic effects of discount rate changes, particularly in tightening moves, are largely psychological, and from a desire not to worsen an already desperate situation for many small banks. A steady policy of tightening the federal funds rate causes other interest rates to move upward, and economic activity slows. Such a policy will create a credible anti-inflation posture, and the added short run boost to this posture that could have been gained from a discount rate hike would probably not have been worth the additional risk to banks' solvency that would have been induced such an increase.

In an environment in which concern has, with almost startling rapidity, shifted from inflationary pressure to the possibility of a recession the psychological aspect of a change in the discount rate becomes more important and the possibility of discount rate reduction in the near future is likely. This is because the changes in loan demand are not symmetric with respect to changes in interest rates. While many plans may be cancelled as too expensive as a result of an increase in interest rates, a similar decline will not necessarily lead to a belief that now is a good time to borrow.

Fears of a recession, and the associated lack of sales and income, can create an uncongenial environment for borrowing and investing, regardless of the interest rate. In such an environment, reductions in the discount rate serve as a visible signal that measures are being taken to avert a recession. In this case the extra psychological boost is important, for the change in rates themselves might not be enough. Besides, the small banks still have a lot of problems, and a reduction in the discount rate would make their lives easier still.

HPFP: LASKY:mdl 7/7/89 775-7270 (Credit)

Table A

## Mortgage Company Weekly Opinion Poll of Mortgage Market Conditions

	Week Ending 7/7/89	Week Ending 6/30/89	Week Ending 6/23/89	Week Ending 6/16/89	Week Ending 6/9/89	Week Ending 6/2/89	Week Ending 5/26/89
Number of Companies in Survey							
A. Primary Market							
1. FHA 203 Loans							
a) contract rate %	10.00	10.00	10.00	10.00	10.00	10.50	10.50
b) range of discount points	0-.50	0-1.00	.25-1.88	.25-2.50	0-1.00	0-.25	0-1.00
c) average points	.07	.52	1.18	1.31	.45	.03	.51
d) effective rate or yield (%)	10.01	10.08	10.18	10.20	10.07	10.51	10.58
2. FHA GPM loans							
a) contract rate %	10.25	10.25	10.25	10.25	10.25	10.75	10.75
b) range of points	0-1.75	0-2.00	0-3.75	0-3.00	0-1.75	0-2.38	0-2.38
c) average points	.43	.89	1.62	1.65	.82	.31	.91
d) effective rate or yield (%)	10.32	10.39	10.50	10.50	10.37	10.80	10.89
3. VA loans							
a) contract rate %	10.00	10.00	10.00	10.00	10.00	10.50	10.50
b) range of points	0-0.50	0-2.13	.25-1.88	.25-2.25	0-1.00	0-1.13	0-1.00
c) average points	.09	.59	1.20	1.31	.42	.06	.49
d) effective rate or yield (%)	10.01	10.09	10.18	10.20	10.06	10.51	10.58
4. Conventional 80% loans, 30 yrs							
a) range of interest rates	9.50-10.50	9.75-10.50	9.88-10.50	9.63-10.75	9.63-10.38	9.75-10.75	10.00-10.88
b) average effective rate	10.09	10.21	10.33	10.32	10.19	10.43	10.63
B. Secondary Market - terms on commitments received for 2-4 month deliveries							
1. FHA Section 203 loans							
a) contract rate	10.00	10.00	10.00	10.00	10.00	10.50	10.50
b) range of prices	99.41-100.00	98.69-99.69	98.25-99.06	98.56-100.00	98.75-99.75	98.75-100.19	99.50-100.00
c) average GNMA price	99.80	99.32	98.72	99.24	99.24	99.61	99.71
d) average composite price	99.80	99.32	98.72	99.24	99.24	99.61	99.71
e) average yield	10.03	10.10	10.19	10.11	10.11	10.56	10.54
f) new commitments (millions)	\$152	\$183	\$241	\$207	\$142	\$253	\$139
g) most important buyers							
1)	GNMA	GNMA	GNMA	GNMA	GNMA	GNMA	GNMA
2)	--	--	--	--	--	--	--
3)	--	--	--	--	--	--	--
2. Conventional Loans (fixed rate mortgage)							
a) range of yields	9.85-10.94	9.93-11.34	9.90-10.77	9.74-11.00	9.75-11.00	10.38-10.92	10.19-11.17
b) average yield	10.24	10.27	10.29	10.26	10.31	10.61	10.58
c) new commitments (millions)	\$433	\$200	\$242	\$337	\$156	\$124	\$208
d) most important buyers							
1)	Private Securities	FNMA	FHLMC	FHLMC	FNMA	FNMA	FHLMC
2)	FNMA	FHLMC	FNMA	FNMA	FHLMC	FHLMC	FNMA
3. Conventional Loans (ARMs)							
a) new commitments (millions)	\$17	\$21	None	None	None	\$32	None
b) most important buyers	Private Source	Private Source				Private Source	

\* Less than \$500,000

Table A (continued)

	Week Ending 7/7/89	Week Ending 6/30/89	Week Ending 6/23/89	Week Ending 6/16/89	Week Ending 6/9/89	Week Ending 6/2/89	Week Ending 5/26/89
<b>C. Adequacy of Funds (percent of firms reporting adequate supply of funds in relationship to current demand)</b>							
1. FHA Section 203							
a) adequacy percentage	100%	100%	100%	100%	100%	100%	100%
b) commitment coverage (mos)	1.92	2.06	1.96	1.98	1.94	1.92	1.98
2. Conventional							
a) adequacy percent	100%	100%	100%	100%	100%	100%	100%
b) commitment coverage (mos)	1.90	2.03	1.94	1.95	2.01	1.90	1.98
<b>D. Trend in Supply of Mortgage Funds Compared to Last Week (% distribution)</b>							
1. FHA Section 203	0%						
a) Tightening	7	4%	34%	90%	0%	0%	41%
b) Stationary	93	35	63	7	4	11	35
c) Loosening		61	3	3	96	89	24
2. FHA GPM Loans							
a) Tightening	0%	4%	34%	90%	0%	0%	41%
b) Stationary	7	35	63	7	4	11	35
c) Loosening	93	61	3	3	96	89	24
3. Conventional Loans							
a) Tightening	0%	4%	29%	90%	0%	0%	43%
b) Stationary	7	35	67	7	3	11	33
c) Loosening	93	61	4	3	97	89	24
<b>E. Trends in Demand for Funds Compared to Last Week (percent distribution)</b>							
1. FHA Section 203							
a) weaker/lower applications	7%	15%	29%	4%	18%	11%	22%
b) stationary/about same as last wk	37	41	21	29	39	35	32
c) stronger/higher volume of appl.	56	44	50	67	43	54	46
2. Conventional Loans (Fixed Rate)							
a) weaker/lower applications	11%	15%	24%	7%	14%	11%	21%
b) stationary/abt. same as last wk	36	41	24	27	34	33	31
c) stronger/higher volume of appl.	53	44	52	66	52	56	48
3. Conventional Loans (ARMs)							
a) weaker/lower application	14%	18%	17%	7%	14%	11%	27%
b) stationary/abt. same as last wk	54	41	31	30	34	36	30
c) stronger/higher volume of appl.	28	37	48	56	48	46	37
d) no applications	4	4	4	7	4	7	6

## ECONOMIC INDICATORS

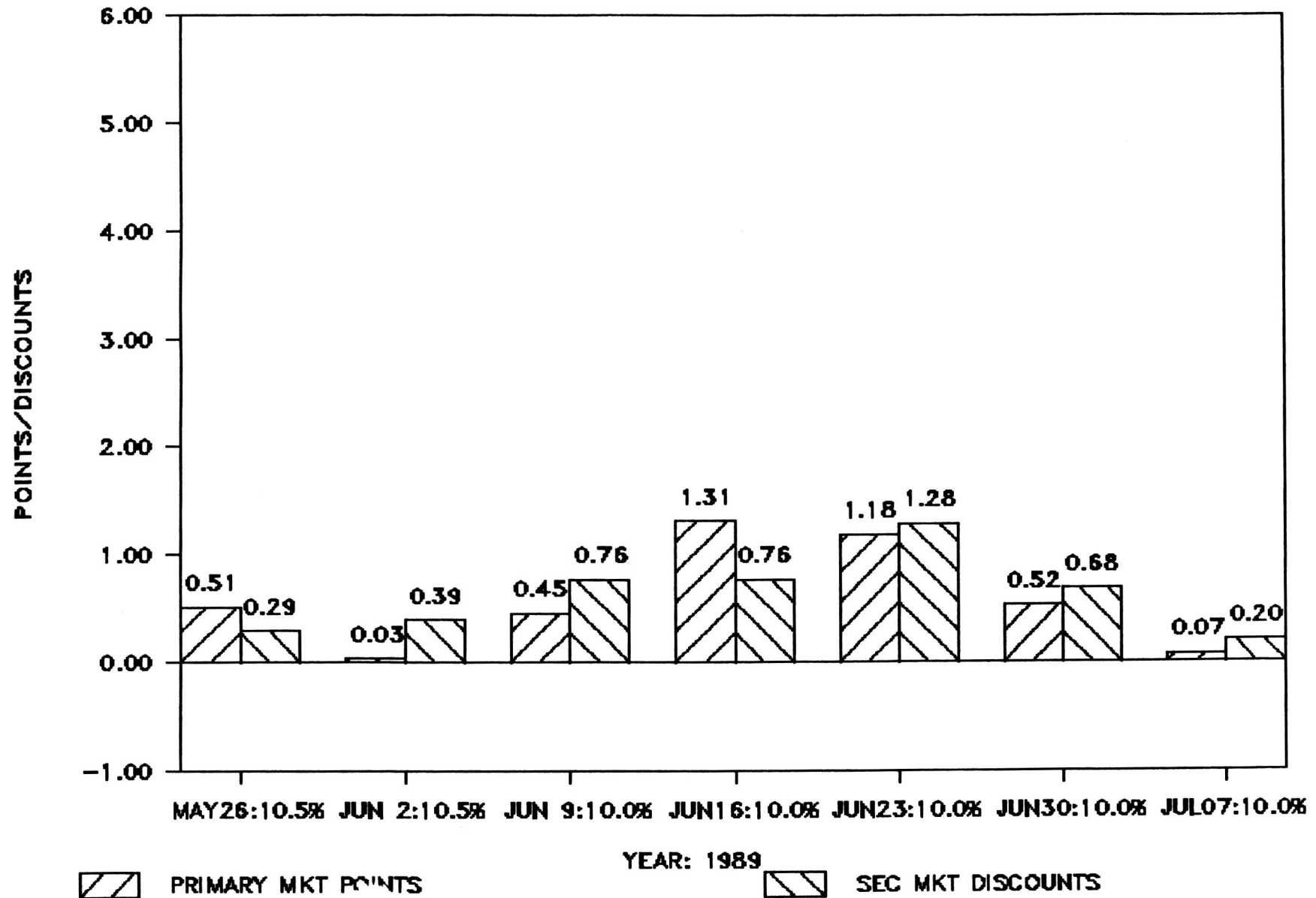
TELERATE PERCENT CHANGE -- UNLESS NOTED

	07-Jul-89 09:00 AM	JUN	MAY	APR	1989 MAR	FEB	JAN	DEC	NOV	OCT	SEP	1988 AUG	JUL	JUN
New this week:	\$													
LEADING INDICATORS.....			-1.2	0.6	-0.6	-0.3	0.8	0.6	-0.2	0.5	-0.3	0.5	-0.7	1.4
TRADE BALANCE (\$BLN).....				-8.3	-9.5	-9.8	-9.5	-11.0	-12.2	-10.3	-10.7	-12.3	-9.5	-13.2
UNEMPLOYMENT (% CIVILIAN)...%	5.3	5.2	5.3	5.0	5.1	5.4	5.3	5.4	5.3	5.4	5.4	5.6	5.4	5.3
NON FARM PAYROLL (000).....	+180	+207	+206	+171	+280	+415	+221	+404	+238	+304	+169	+200	+532	
PERSONAL INCOME.....		0.3	0.4	0.8	1.0	1.7	0.9	-0.2	1.7	0.5	0.3	0.7	0.6	
REAL EARNINGS.....		-1.3	0.5	-0.3	-0.9	0.2	-0.3	-0.8	0.7	0.5	-1.3	0.7	-0.2	
CONSUMER CREDIT (\$BLN).....			\$2.73	\$3.69	\$5.38	\$4.36	\$4.30	\$4.66	\$3.91	\$1.90	\$5.32	\$3.62	\$5.43	
RETAIL SALES.....		0.1	1.0	-0.0	-0.6	0.7	-0.1	0.9	1.6	-0.3	-0.1	0.1	0.6	
BUSINESS INVENTORIES.....			0.6	0.3	0.5	0.8	0.9	0.4	0.0	0.9	1.1	0.7	0.8	
FACTORY ORDERS.....		-2.5	3.0	0.7	-2.0	-1.2	4.7	0.3	2.0	-1.9	3.2	-3.6	5.4	
FACTORY INVENTORIES.....		0.6	0.6	0.6	0.4	0.9	0.7	0.6	0.5	0.6				
DURABLE GOODS ORDERS.....		-4.2	2.9	1.0	-3.4	-2.9	7.3	0.2	2.9	-2.9	5.7	-7.4	8.7	
INDUSTRIAL PRODUCTION.....		0.0	0.6	0.0	-0.3	0.3	0.5	0.3	0.5	0.2	0.3	1.2	0.3	
CAPACITY UTILIZATION (%)....		83.8	84.1	83.7	83.9	84.5	84.4	84.2	84.0	83.8	83.8	83.8	83.0	
CONSTRUCTION SPENDING.....%		1.3	-0.8	-0.3	0.0	0.4	2.1	1.0	0.2	0.7	-0.2	0.7	-1.5	
HOUSING STARTS.....		-2.1	-5.0	-4.5	-12.0	7.2	0.1	1.6	5.1	-0.8	-3.1	1.4	4.4	
NEW HOME SALES .....		2.7	9.1	-10.4	-10.5	2.5	2.0	-7.9	4.4	-1.4	2.1	-0.1	6.7	
EXISTING HOME SALES.....		-5.6	-1.2	N/A	-3.1	-9.4	11.4	1.1	-1.1	-1.1	2.2	-5.0	5.3	
PRODUCER PRICE INDEX.....		0.9	0.4	0.4	1.0	1.0	0.4	0.3	0.0	0.4	0.6	0.5	0.4	
CONSUMER PRICE INDEX.....		0.6	0.7	0.5	0.4	0.6	0.3	0.3	0.4	0.3	0.4	0.4	0.3	
GNP.....				1st Q 4.4			4th Q 2.4			3rd Q 2.5			2nd Q 3.0	
GNP DEFLATOR.....				1st Q 3.6			4th Q 5.3			3rd Q 4.7			2nd Q 5.5	

Due out next week: Consumer Credit (Mon 7/10), Retail Sales, Producer Price Index (Fri 7/14)

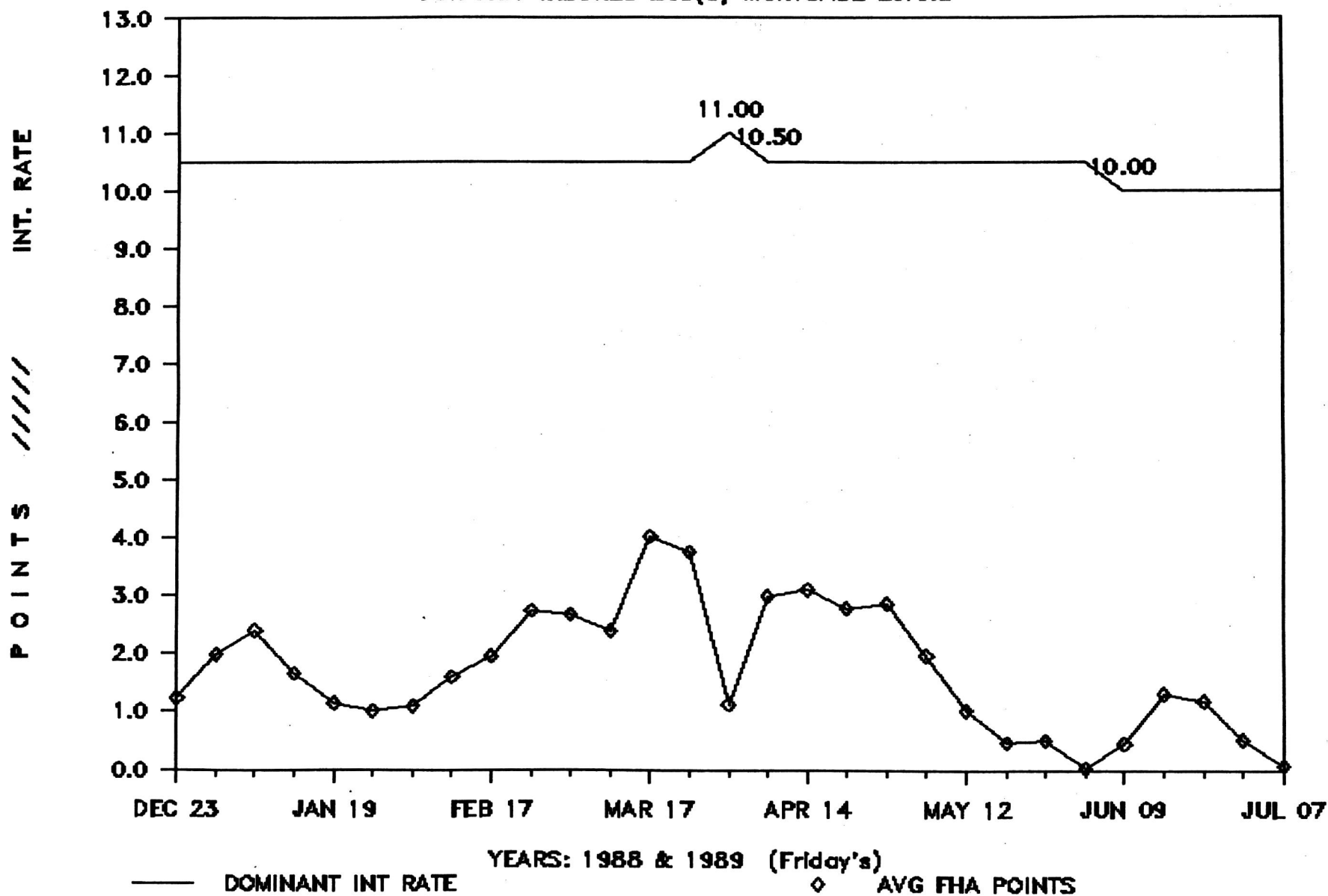
# COMPARISON OF FHA DISCOUNTS

IN PRIMARY AND SECONDARY MARKETS



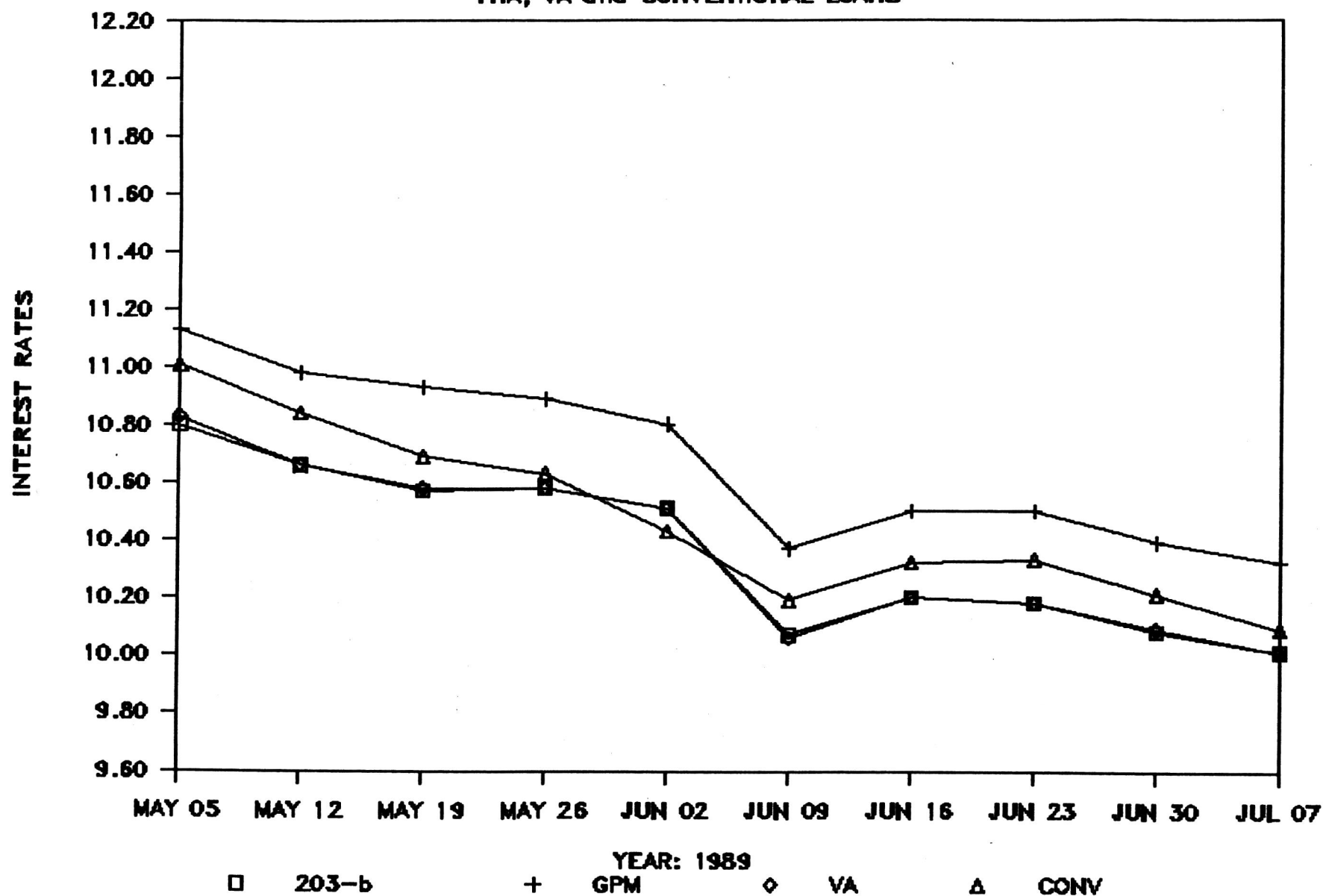
# AVG POINTS QUOTED BY MORTGAGE COMPANIES

FOR FHA-INSURED 203(b) MORTGAGE LOANS



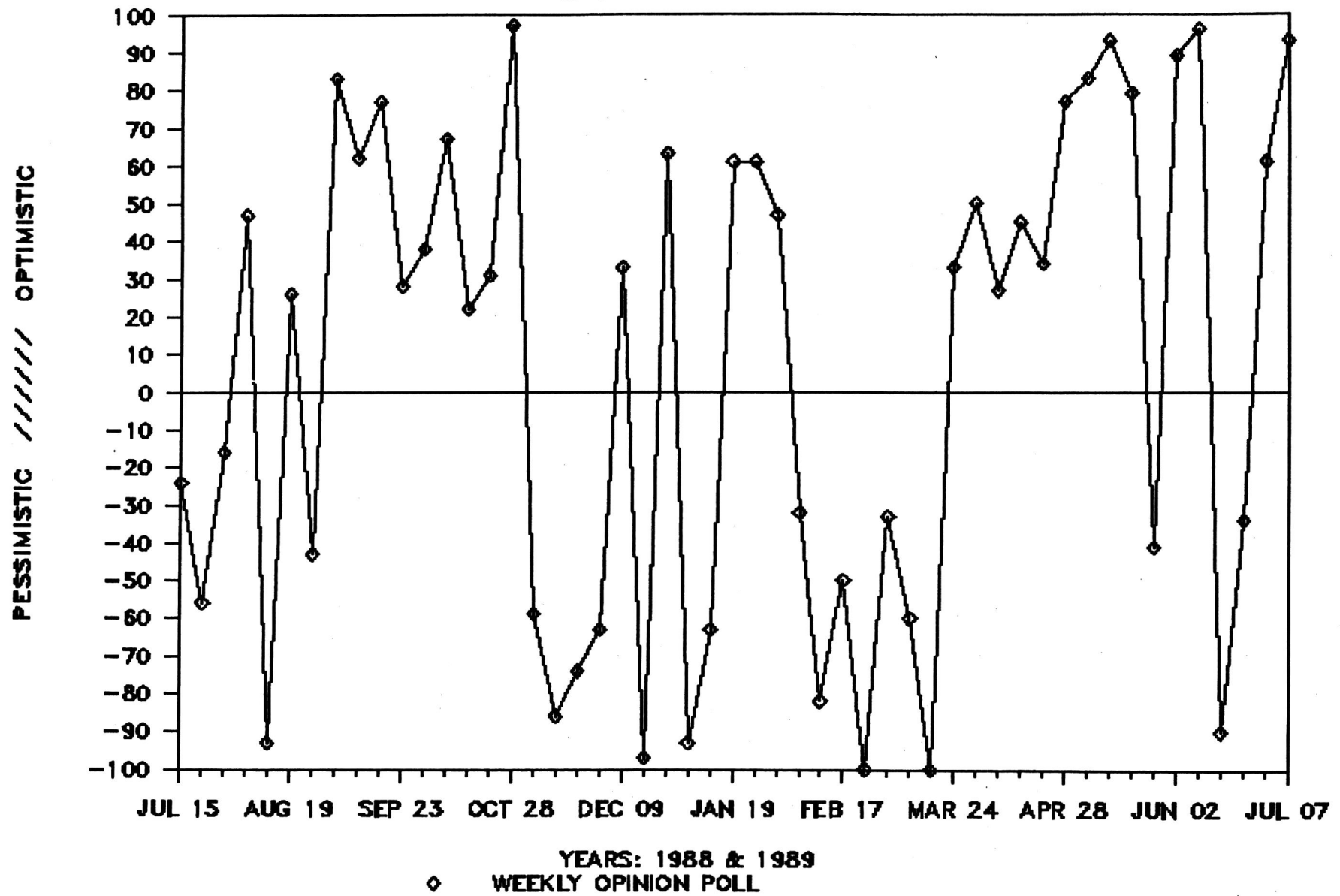
# AVG. EFFECTIVE MORTGAGE INTEREST RATES

FHA, VA and CONVENTIONAL LOANS



# IMPLIED NEAR-TERM PERCEPTION

OF MORTGAGE MARKET



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Washington, D.C. 20410-0000

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Washington, D.C. 20410

# News Release

HUD - No. 89-90  
John N. Dickie (202) 755-7270  
Robert E. Nipp (202) 755-6980

FOR RELEASE:  
June 30, 1989

## MONITORING MORTGAGE INTEREST RATES WEEK ENDING FRIDAY, JUNE 30, 1989

FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 10.00 percent (reported as the dominant rate by 86 percent of the companies). Points on the 10.00 percent rate ranged from zero to 1.00, with an average of .52. The effective rate this week was 10.08 percent, down from 10.18 percent the last survey. The second most popular quote, with 64 percent of the companies, was a 9.50 percent rate, with an average of 2.54 points.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.75 percent (with 2.00 points) to 10.50 percent (with no points). The average effective rate was 10.21 percent, or 13 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$183 million, compared to \$241 million in the prior survey. The largest volume of commitments was for 30-year 10.00 percent loans at an average price of \$98.32, or .68 points discount.

Supply of Funds. Average time to exhaust the supply of outstanding commitments for FHA/VA loans rose to over eight weeks.

Demand for Funds. Demand for FHA/VA loans stabilized compared to the previous week. Forty-one percent reported an unchanged volume of FHA loan applications (compared to 21 percent in that category the last survey). Forty-four percent of the companies had a higher volume of FHA/VA applications, compared to 50 percent the previous week. Demand for conventional fixed rate loans was similar.

The foregoing summary is based on a U. S. Department of Housing and Urban Development poll of 30 of the largest mortgage banking firms conducted on June 30, 1989.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY FOR  
HOUSING-FEDERAL HOUSING COMMISSIONER

June 30, 1989

MEMORANDUM FOR: James E. Schoenberger, General Deputy Assistant  
Secretary for Housing, HD

FROM: *JMM* James B. Mitchell, Director, Financial Policy Division, HPFP

SUBJECT: Monitoring Mortgage Interest Rates,  
Friday, June 30, 1989

I. Overview

With the exception of Wednesday when some profit-taking occurred, mortgage prices edged higher each day this week, with GNMA current coupon prices (10.00 percent mortgages) trading near par at mid-day, up a full point from last Friday. According to the leading mortgage bankers polled, the tone of the market is very favorable, exhibiting strong retail interest and solid support levels. Additional information released this week showing a weakening economy heightened the respondents' anticipation that interest rates will decline further. Some see the lower interest rate trend being stalled temporarily at current levels until further momentum is provided by the Fed (or perhaps weak employment data next week). Others believe that there is already ample evidence from a fundamental perspective to fuel the trend at a slow, but steady pace. Housing sales as measured by application volume ran flat to higher, with refinancings continuing to comprise a low proportion of new loan business.

Some representative comments:

"Bullish inclinations are growing stronger each day. In spite of higher interest rates abroad and Central Bank interventions, the dollar has remained strong. Here in the U. S. more economic data was released this week showing weak growth — leading economic indicators fell 1.2 percent, the biggest drop since the 1987 stock market crash; existing home sales fell 5.6 percent in May; and today it was announced that factory orders declined 2.5 percent. With all the negative fundamentals, people are starting to worry whether we are slipping into a recession. Secondary mortgage prices continued to edge up pretty much

throughout the week, but I think they, as well as the Treasury long bonds, are now against a very strong resistance level — top end of the current trading range. For rates on long-term Treasuries to fall below 8.00 percent and prices on futures contracts to go above \$98, we need some very strong impetuses such as a Fed statement, or a decline in the Federal funds rate, or very weak employment data next Friday, or something of that nature."

"Applications have been coming in at a steady clip. Activity is good, but not great. For the long weekend, we're putting quotes out below current costs — giving homebuyers a 10 percent quote on FHA/VA loans with zero points. It seems that the market is reacting like it wants to do better. Many expect to see a fairly dramatic breakthrough in prices, but who knows, the market may continue to trend upward in small choppy moves. It will not take much more improvement for us to cover our par quotes. With more and more evidence piling up that the economy is weakening, it is just a matter of time before the Fed relaxes monetary policy further. It could happen next week when Fed officials are scheduled to meet."

"Conditions in the mortgage market exhibit optimism. Current price levels are well supported and solid — not running away. Demand is good for fixed income products and in some cases there is a lack of supply. There is a lot of money out there to invest. One fear holding off some participation was the thrift crisis. But, so far liquidations and selling off of mortgage securities have been in an orderly manner and the market has had no absorption problems. If this continues it will bolster confidence and bring more investors into the longer-term end of the market."

"There is a lot of recession talk in the market now — the stock market has fallen by nearly 70 points in the last two days — but I think the Fed will be trying its best to avoid a recession. But the one thing I want to emphasize is that the mortgage business has picked up beautifully. Although the first half of the year was only average at best, it looks as if the second half is going to be great."

"It looks like we're getting into another trading range. Business is pretty good at this level. But I do have a word of warning: the government mortgage agencies could be in a lot of trouble, and GNMA is the most vulnerable. It has a very small asset base and a huge potential liability. Someone here said GNMA may be in for a \$100 million hit from Guardian alone. In addition, the new VA programs seem very short-sighted. If they don't change their underwriting standards, GNMA could be faced with big losses there. HUD's new PLAM mortgage I read about this week also has the potential for huge losses. The structure produces significant negative amortization, which greatly increases foreclosure risk."

## II. Findings

### A. Primary Mortgage Market

#### 1) FHA 30 year Loans

Eighty-six percent of the companies reported that 10.00 percent was the most popular commitment rate for FHA 30-year level payment loans in the primary market. The range of points quoted for the 10.00 loans was zero to 1.00. The average was 0.52 points. The average effective rate this week was 10.08 percent, down 10 basis points from the previous survey.

A majority of the companies reported an 9.50 percent commitment rate as their second most popular mortgage rate. Points on these 9.50 percent mortgages ranged from 2.00 to 2.75, with an average effective rate of 9.88 percent, down 10 basis points from the last survey.

#### 2) FHA 15 year Loans

Seventy-four percent of the companies reported a commitment rate of 9.50 percent as the most popular rate for FHA level payment 15-year loans. The range of points quoted for these loans was 0.25 to 1.38. The average was 0.74 points.

#### 3) FHA GPM Loans

Ninety-two percent of the companies making quotes for FHA Section 245 GPM loan commitments reported 10.25 percent as the dominate rate for such loans. The range of discounts was zero to 2.00 points, with an average of 0.89 points. The average effective rate this week was 10.39 percent, down 11 basis points from the last survey.

#### 4) FHA ARMs

The percentage of companies offering FHA ARMs this week was 55 percent, compared to 52 percent the previous survey. Quotes this week ranged from 8.50 percent plus 2.75 points to 9.75 percent plus 1.00 point. Of those offering ARMs, 50 percent quoted 9.50 percent as their most popular ARM mortgages and another 31 percent quoted 9.00 percent mortgages.

#### 5) VA Loans

The average points in the primary market for commitments on VA guaranteed loans, subject to the 10.00 percent maximum rate, was 0.59 points. Quotes this week ranged from zero to 2.13 points. The effective rate on commitments to close loans at the administered ceiling rate averaged 10.09 percent, down 9 basis points from the previous survey.

#### 6) Conventional 30 year Loans

The range of contract interest rates quoted on 80 percent loan-to-value conventional mortgages was 9.75 percent (plus 2.00 points) to 10.50 percent (and zero points). The average effective rate was 10.21 percent, down 12 basis points from the last report.

#### 7) Conventional 15 year Loans

The range of contract interest rates quoted on 80 percent loan-to-value ratio 15-year conventional loan commitments was 9.38 percent (plus 0.25 points) to 10.38 percent (and 0 points). The average effective rate was 10.01 percent, down 12 basis points from the last survey.

#### 8) Conventional ARMs

Eighty-three percent of the companies were offering conventional ARMs, compared to 87 percent the previous survey. Interest rates ranged between 7.88 percent (plus 1.38 points) and 10.63 percent (plus zero point). One year ARM loans were the predominant ARMs offered by the mortgage companies.

### B. Secondary Mortgage Market

#### 1) FHA/VA Fixed Rate Loans

A total of \$182.5 million in FHA/VA fixed payment loan commitments was acquired by 20 companies, compared to \$241.0 million purchased by 21 companies from the last survey. All of the FHA/VA commitments negotiated were acquired in the GNMA market. Commitments obtained this week encompassed the following mortgage rates for 30-year loans: 9.00, 9.50, 10.00, 10.50, 11.00, and 12.00 percent.

The largest volume of 30 year level payment commitments was for 10.00 percent loans (59 percent of the total). For the 10.00 percent loans, prices ranged from \$98.69 to \$99.69. The average was \$98.32 which results in a 10.10 percent yield. Major 30-year level payment transactions were:

<u>Contract Interest Rate</u>	<u>Volume (millions)</u>	<u>Percent of Total Transactions</u>	<u>Average Price</u>
9.50	\$ 51.6	28	\$97.26
10.00	108.4	59	99.32
10.50	13.8	8	101.04

Commitments of \$1.5 million were obtained for 15-year loans in the GNMA market.

2) FHA GPM Loans

No GPM loans were sold this week.

3) FHA ARM Loans

No FHA ARM loans were sold this week.

4) Conventional Loans

Twenty-two companies obtained a total of \$200.3 million in commitments for fixed-rate conventional loans this week. Of these commitments, \$102.3 million came from FNMA, and \$98.0 million from the Federal Home Loan Mortgage Corporation. The commitments under discussion include both 15- and 30-year fixed products. The average yield on 30-year loans was 10.27 percent. \$1.0 million in conforming conventional ARM loans and \$22.0 million in non-conforming ARM loans were sold by the respondents this week.

C. Trends in the Supply and Demand for Funds

1) Commitment Coverage

a) The average time it would take to exhaust the supply of outstanding commitments for FHA/VA loans at the current rate of production rose to over eight weeks (2.06 months).

b) All of the companies indicated an adequate supply of conventional funds for level-payment mortgages, given current demand. Commitments would cover loan production for more than eight weeks (2.03 months).

c) An adequate supply of conventional ARM loan funds was affirmed by 100 percent of the companies. The average commitment coverage remained near eight weeks (1.99 months).

2) Secondary Market Conditions

Sixty-one percent of the companies reported a loosening supply of FHA/VA funds, compared to only 3 percent reporting a such condition in the last survey. This week, 35 percent reported a stationary supply, and 4 percent noted a tightening supply of funds for FHA/VA loans. The trend in the supply of conventional loans was similar.

3) Application Volume

Stronger loan demand for 30-year fixed rate FHA/VA loans was reported by 44 percent of the respondents, down from 50 percent having the same situation the previous survey. Fifteen percent reported that the loan demand was down,

while 41 percent had a stationary application volume this week. For FHA 15-year loans, applications were up for 46 percent, while 39 percent reported a stable volume. For FHA ARM loan applications, 40 percent of the companies reported a greater volume, while another 40 percent reported no change in the volume from the last survey. Forty-four percent of the companies had an increase in application volume for conventional fixed rate loans from last week, while 37 percent noted a larger volume of ARM loans this week.

#### 4) Types of Loans in Pipeline

The current production product mix varied from company to company. A distribution of loan applications currently being processed by the respondents is presented below.

	<u>Percent Distribution</u>		<u>Prior Survey</u>
	<u>This Week</u>		
<u>Total</u>	range	"Average" 100%	"Average" 100%
FHA/VA vs.	3-85	51	46
Conventional	15-97	49	54
<u>FHA/VA</u>			
FHA/VA 30 year Fixed Rate Loans	70-100	92%	92%
FHA/VA 15 year Fixed Rate Loans	0-24	7	6
FHA/ARMs	0-10	1	2
Subtotal		100	100
<u>Conventional</u>			
Conventional 30 year Fixed Rate Loans	35-96	73%	72%
Conventional 15 year Fixed Rate Loans	0-25	9	12
Conventional ARMs	0-80	18	27
Sub Total		100	100

The foregoing summary is based on a poll of 30 of the largest mortgage banking firms conducted on June 30, 1989.

Attachments

John Goodman  
Keith Pedigo  
Jim Sharera  
Peggy Young  
Richard Pickering  
Jim Boland  
Gerard Keffer  
Charles Hanson  
William J. Maroni  
M. Schussheim  
Barbara Miles  
Angelo A. Vigna  
Nina Shepherd  
Edward Golding  
Thomas Simpson  
David Lund  
D. Laufenberg  
Ned Newland  
Sylvia Lucas  
David Pinson  
Stephen Lumpkin  
L. Rubin.  
Michael Woolley  
Laura Gorman

Federal Reserve  
Veterans Administration  
Treasury  
OMB  
FHLBB  
FHLBB  
Census Bureau  
OMB  
Old Executive Office Building  
Congressional Research Office  
Congressional Research Office  
Federal Home Loan Bank of New York  
Congressional Budget Office  
FHLBB  
Federal Reserve  
Department of Commerce  
Federal Reserve  
Joint Committee on Taxation  
Federal Reserve, Stop 89  
Council of State Hsg. Agencies  
Federal Reserve  
Federal Reserve  
Federal Reserve  
Mortgage Bankers Association

**TABLE A ONLY**

Kathy Covell  
Paul Van Valkenburg  
Jerry Weingarten  
FNMA

Mortgage Bankers Association  
Mortgage Commentary  
Mortgage Market Insight  
Inside Mortgage Finance  
Southmark Mortgage Corp.

CIMA (release and Table A only)  
Drexel Burnham  
New York Guardian Mortgage Co.

Katie Wojciechowski (Release and Table  
A only)

## Money, Banking, and Credit

This week's decline in the index of leading economic indicators, along with a 2.5% decline in factory orders and a .6% increase in business inventories seem to be final confirmation that an economic slowdown is well underway. With the "long and variable leads and lags" inherent in monetary policy, attempts to engineer a "soft landing" to the economic expansion are history. All that is left is to see how hard we actually hit. Now is the appropriate time for would be Cassandras to stake a claim to distinguishing landmarks of the coming economic scenery.

The Federal Funds rate has eased from its peak of around 9 7/8% to hover around 9 1/2% for the last two weeks. The continuing weakness shown by the economy has fueled widespread speculation that further easing will result from next week's meeting of the Federal Open Market Committee. Whether such easing actually occurs next week, or in the following weeks, a strict lower bound to declining interest rates is provided by the federal deficit.

Though the deficit has been out of the media spotlight of late, it has not gone away. The requirements of financing the deficit will inhibit any decline in interest rates past a certain point. This restriction will become tighter as inflationary pressure and foreign exchange issues cause interest rates abroad to increase (this week's increase by the Bundesbank being a case in point).

The necessity of maintaining high interest rates to finance the deficit during an economic slowdown is slightly ominous. While deficit induced crowding-out always happens to some extent, in such an environment it could reach a level sufficient to induce sustained stagnation. Even if such severe results do not occur, crowding-out related issues, particularly in housing, are likely to be prominent over the next few months.

Another dominant feature of the coming terrain will be the stability of the mountain of "high-yield high-risk" debt that has been issued by the takeover movement of the last few years. A concern throughout the course of the takeover movement has been whether corporations saddled with the amount of debt that takeovers generate would be able to weather an economic downturn. This month's default on \$955 million of such debt by Integrated Resources, at the start of the current slowdown, is inauspicious to say the least.

While it is too early to be sure that the house of cards represented by junk bonds will completely collapse in the coming slowdown, I do not think that Integrated Resources will be the last on such bonds in the next few months. It is also fun to remember that if such a collapse occurs, history will point and say, it started here.

HPFP: LASKY:mdl 6/30/89 775-7270 (Credit)

## ECONOMIC INDICATORS

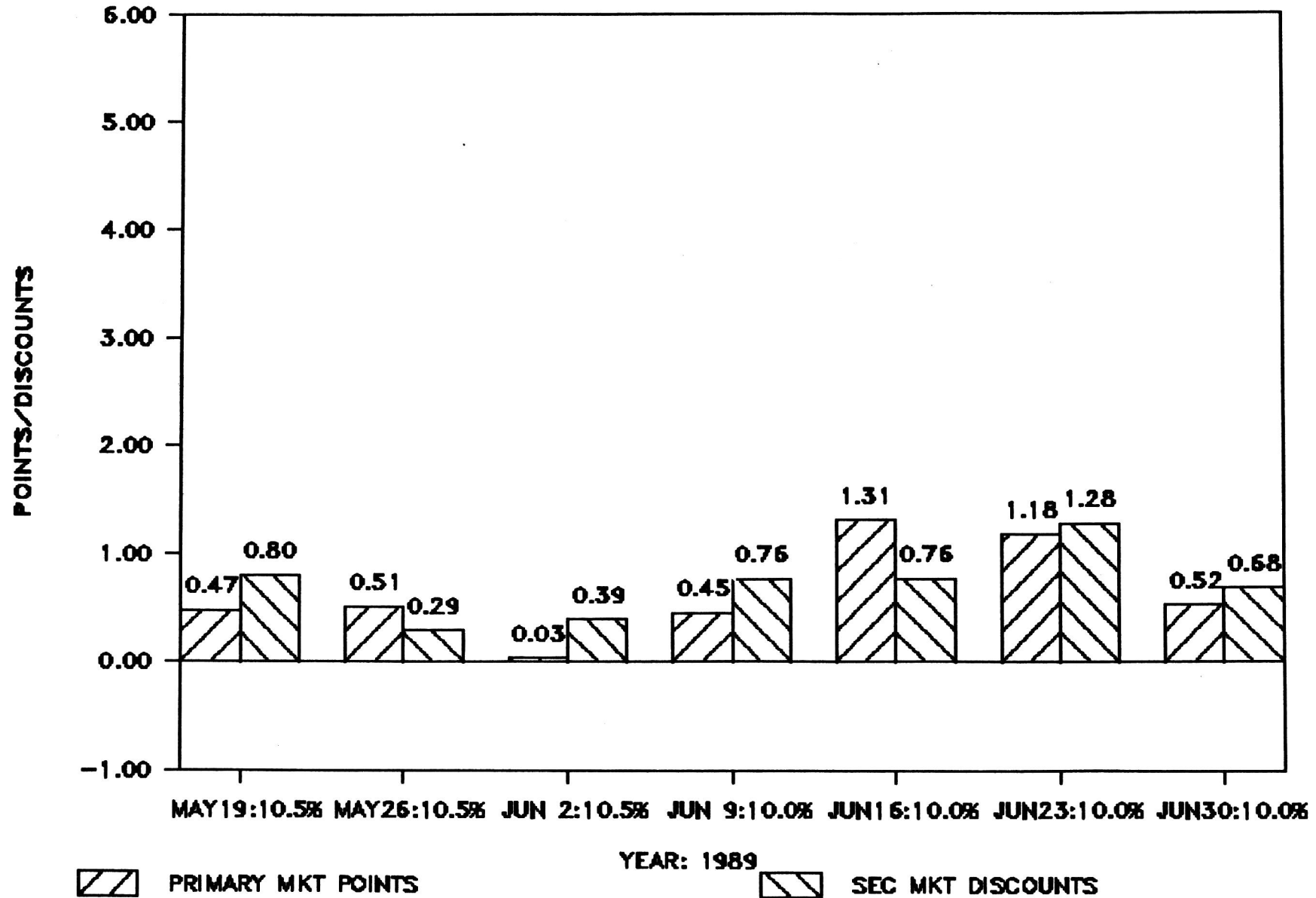
TELERATE PERCENT CHANGE -- UNLESS NOTED

	30-Jun-89 03:22 PM	MAY	APR	1989 MAR	FEB	JAN	DEC	NOV	OCT	SEP	1988 AUG	JUL	JUN	MAY
New this week:	\$													
LEADING INDICATORS.....\$	-1.2	0.6	-0.6	-0.3	0.8	0.6	-0.2	0.5	-0.3	0.5	-0.7	1.4	-0.8	
TRADE BALANCE (\$BLN).....		-8.3	-9.5	-9.9	-9.5	-11.0	-12.2	-10.3	-10.7	-12.3	-9.5	-13.2	-9.8	
UNEMPLOYMENT (% CIVILIAN)...	5.2	5.3	5.0	5.1	5.4	5.3	5.4	5.3	5.4	5.6	5.4	5.3	5.6	
NON FARM PAYROLL (000).....	+101	+206	+171	+280	+415	+221	+404	+238	+304	+169	+200	+532	+221	
PERSONAL INCOME.....	0.3	0.4	0.8	1.0	1.7	0.9	-0.2	1.7	0.5	0.3	0.7	0.6	0.5	
REAL EARNINGS.....	-1.3	0.5	-0.3	-0.9	0.2	-0.3	-0.8	0.7	0.5	-1.3	0.7	-0.2	-0.6	
CONSUMER CREDIT (\$BLN).....		\$2.73	\$3.69	\$5.38	\$4.36	\$4.30	\$4.66	\$3.91	\$1.90	\$5.32	\$3.62	\$5.43	\$2.98	
RETAIL SALES.....	0.1	1.0	0.0	-0.6	0.7	-0.1	0.9	1.6	-0.3	-0.1	0.1	0.6	0.3	
BUSINESS INVENTORIES.....		0.6	0.3	0.5	0.8	0.9	0.4	0.0	0.9	1.1	0.7	0.8	0.7	
FACTORY ORDERS.....\$	-2.5	3.0	0.7	-2.0	-1.2	4.7	0.3	2.0	-1.9	3.2	-3.6	5.4	-0.6	
FACTORY INVENTORIES.....\$	0.6	0.6	0.6	0.4	0.9	0.7	0.6	0.5	0.6					
DURABLE GOODS ORDERS.....	-4.2	2.9	1.0	-3.4	-2.9	7.3	0.2	2.9	-2.9	5.7	-7.4	8.7	-1.9	
INDUSTRIAL PRODUCTION.....	0.0	0.6	0.0	-0.3	0.3	0.5	0.3	0.5	0.2	0.3	1.2	0.3	0.5	
CAPACITY UTILIZATION (%)....	83.8	84.1	83.7	83.9	84.5	84.4	84.2	84.0	83.8	83.8	83.8	83.0	82.9	
CONSTRUCTION SPENDING.....		0.1	-0.3	0.0	0.4	2.1	1.0	0.2	0.7	-0.2	0.7	-1.5	0.8	
HOUSING STARTS.....	-2.1	-5.0	-4.5	-12.0	7.2	0.1	1.6	5.1	-0.8	-3.1	1.4	4.4	-12.6	
NEW HOME SALES .....\$	2.7	9.1	-10.4	-10.5	2.5	2.0	-7.9	4.4	-1.4	2.1	-0.1	6.7	-0.3	
EXISTING HOME SALES.....\$	-5.6	-1.2	N/A	-3.1	-9.4	11.4	1.1	-1.1	-1.1	2.2	-5.0	5.3	3.1	
PRODUCER PRICE INDEX.....	0.9	0.4	0.4	1.0	1.0	0.4	0.3	0.0	0.4	0.6	0.5	0.4	0.5	
CONSUMER PRICE INDEX.....	0.6	0.7	0.5	0.4	0.6	0.3	0.3	0.4	0.3	0.4	0.4	0.3	0.3	
GNP.....			1st Q 4.4			4th Q 2.4			3rd Q 2.5			2nd Q 3.0		
GNP DEFLATOR.....			1st Q 3.6			4th Q 5.3			3rd Q 4.7			2nd Q 5.5		

Due out next week: Construction Spending (Mon 7/3), Employment Data (Fri 7/7)

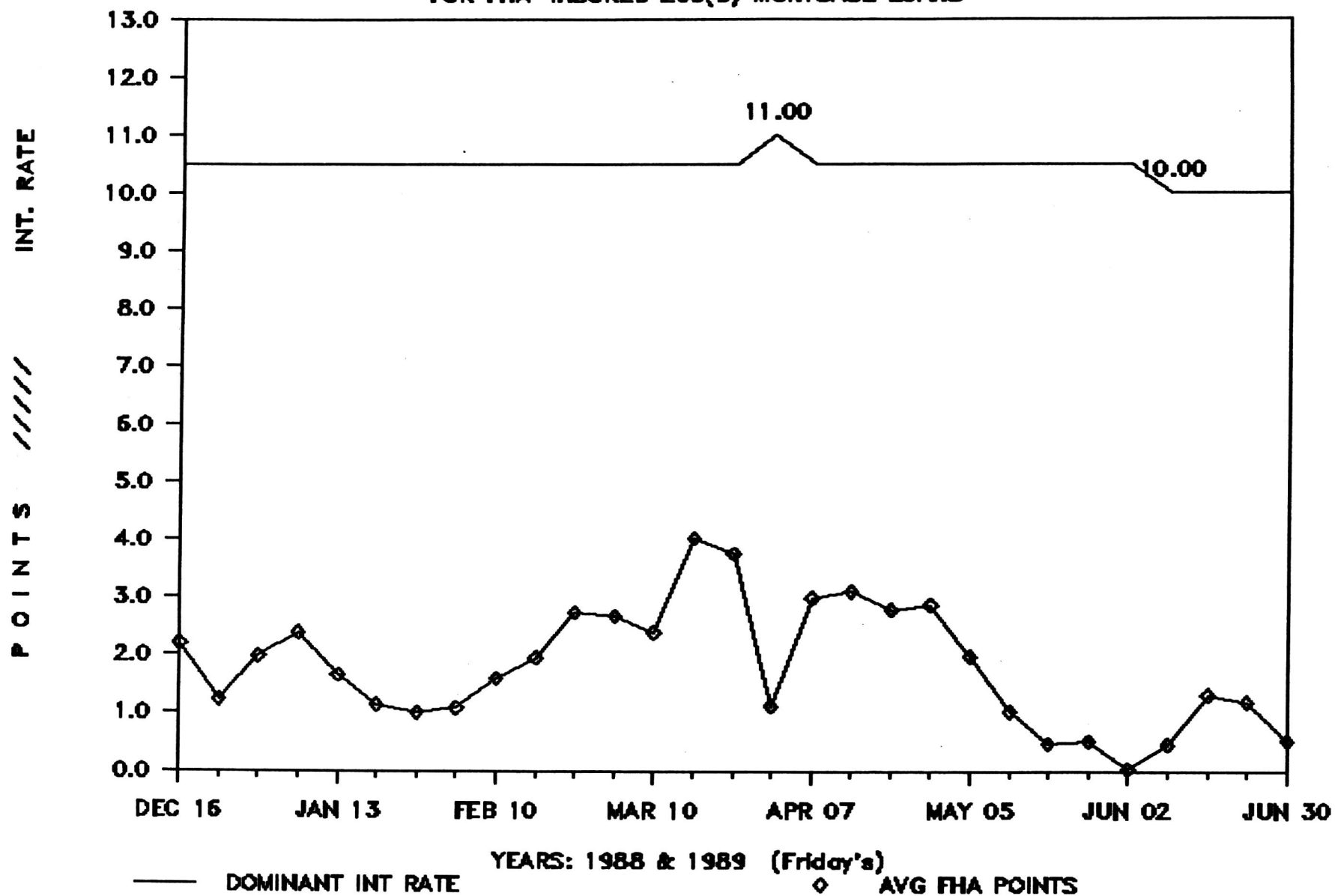
# COMPARISON OF FHA DISCOUNTS

IN PRIMARY AND SECONDARY MARKETS



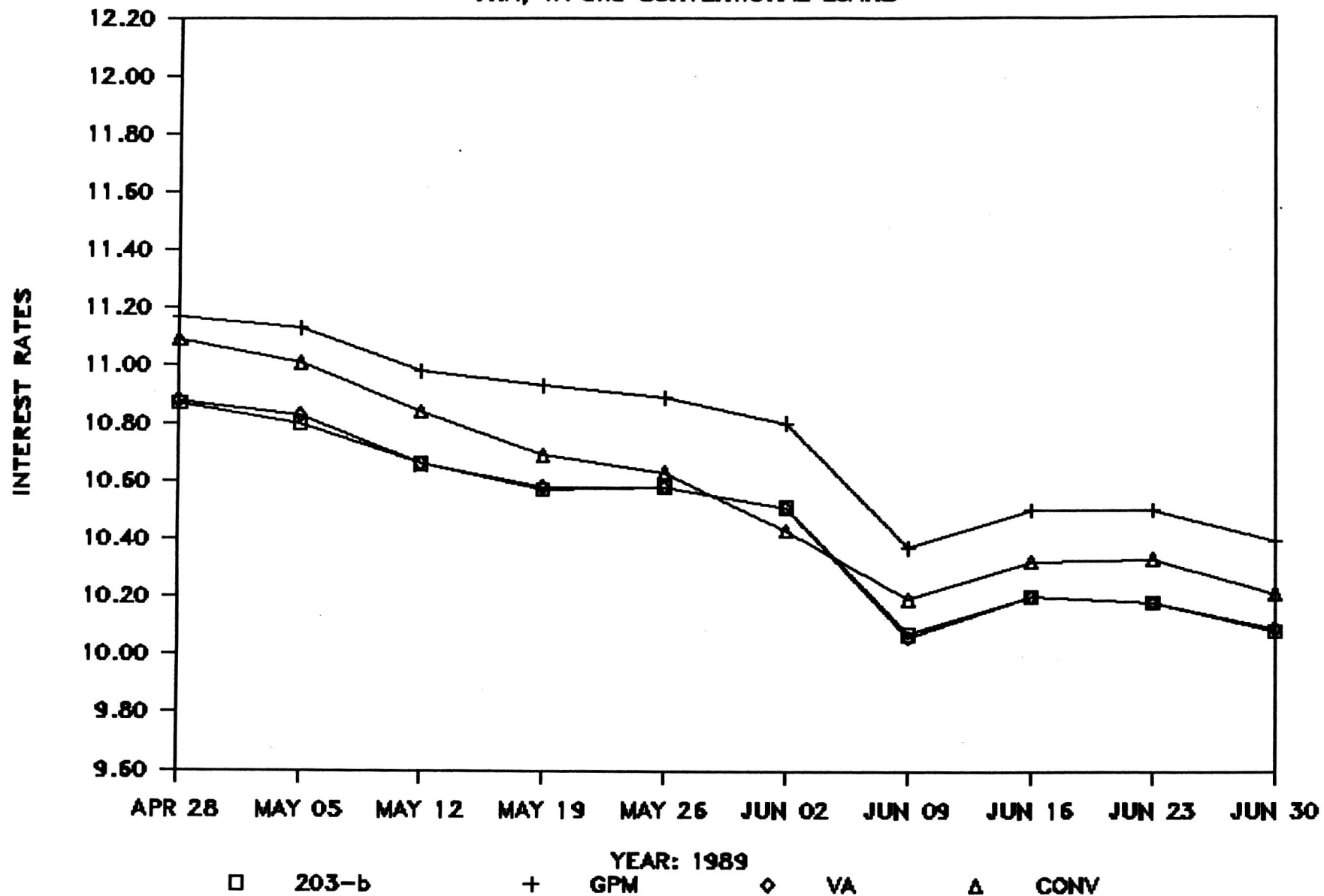
# AVG POINTS QUOTED BY MORTGAGE COMPANIES

FOR FHA-INSURED 203(b) MORTGAGE LOANS



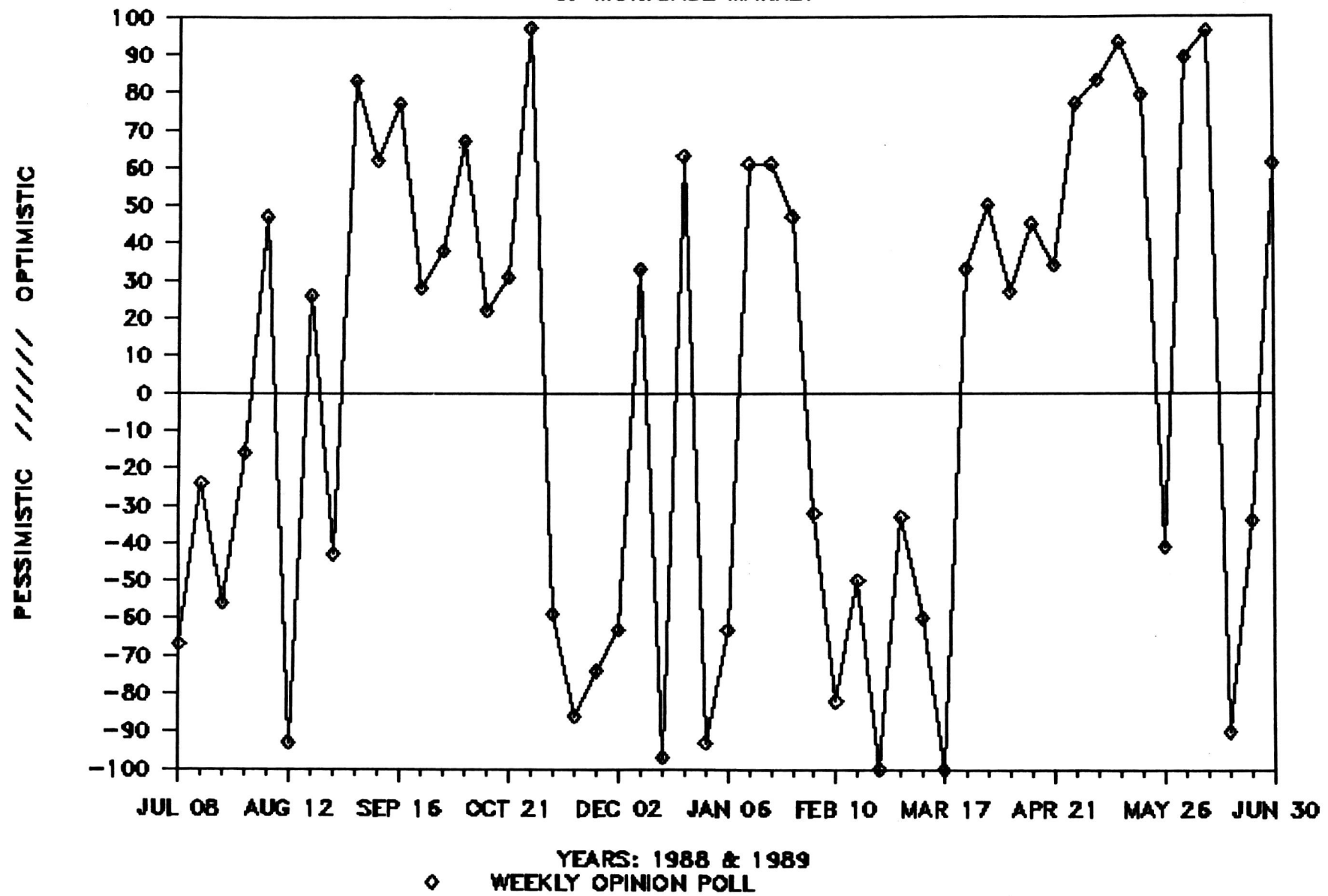
# AVG. EFFECTIVE MORTGAGE INTEREST RATES

FHA, VA and CONVENTIONAL LOANS



# IMPLIED NEAR-TERM PERCEPTION

OF MORTGAGE MARKET



## Mortgage Company Weekly Opinion Poll of Mortgage Market Conditions

Table A

	Week Ending 6/30/89	Week Ending 6/23/89	Week Ending 6/16/89	Week Ending 6/9/89	Week Ending 6/2/89	Week Ending 5/26/89	Week Ending 5/19/89
Number of Companies in Survey							
A. Primary Market							
1. FHA 203 Loans							
a) contract rate %	10.00	10.00	10.00	10.00	10.50	10.50	10.50
b) range of discount points	0-1.00	.25-1.88	.25-2.50	0-1.00	0-.25	0-1.00	0-1.25
c) average points	.52	1.18	1.31	.45	.03	.51	.47
d) effective rate or yield (%)	10.08	10.18	10.20	10.07	10.51	10.58	10.57
2. FHA GPM loans							
a) contract rate %	10.25	10.25	10.25	10.25	10.75	10.75	10.75
b) range of points	0-2.00	0-3.75	0-3.00	0-1.75	0-2.38	0-2.38	.25-3.00
c) average points	.89	1.62	1.65	.82	.31	.91	1.17
d) effective rate or yield (%)	10.39	10.50	10.50	10.37	10.80	10.89	10.93
3. VA loans							
a) contract rate %	10.00	10.00	10.00	10.00	10.50	10.50	10.50
b) range of points	0-2.13	.25-1.88	.25-2.25	0-1.00	0-1.13	0-1.00	0-1.25
c) average points	.59	1.20	1.31	.42	.06	.49	.50
d) effective rate or yield (%)	10.09	10.18	10.20	10.06	10.51	10.58	10.58
4. Conventional 80% loans, 30 yrs							
a) range of interest rates	9.75-10.50	9.88-10.50	9.63-10.75	9.63-10.38	9.75-10.75	10.00-10.88	10.13-11.00
b) average effective rate	10.21	10.33	10.32	10.19	10.43	10.63	10.69
B. Secondary Market - terms on commitments received for 2-4 month deliveries							
1. FHA Section 203 loans							
a) contract rate	10.00	10.00	10.00	10.00	10.50	10.50	10.50
b) range of prices	98.69-99.69	98.25-99.06	98.56-100.00	98.75-99.75	98.75-100.19	99.50-100.00	98.13-99.63
c) average GNMA price	99.32	98.72	99.24	99.24	99.61	99.71	99.20
d) average composite price	99.32	98.72	99.24	99.24	99.61	99.71	99.20
e) average yield	10.10	10.19	10.11	10.11	10.56	10.54	10.62
f) new commitments (millions)	\$183	\$241	\$207	\$142	\$253	\$139	\$164
g) most important buyers							
1)	GNMA	GNMA	GNMA	GNMA	GNMA	GNMA	GNMA
2)	--	--	--	--	--	--	--
3)	--	--	--	--	--	--	--
2. Conventional Loans (fixed rate mortgage)							
a) range of yields	9.93-11.34	9.90-10.77	9.74-11.00	9.75-11.00	10.38-10.92	10.19-11.17	10.42-11.24
b) average yield	10.27	10.29	10.26	10.31	10.61	10.58	10.91
c) new commitments (millions)	\$200	\$242	\$337	\$156	\$124	\$208	\$192
d) most important buyers							
1)	FNMA	FHLMC	FHLMC	FNMA	FNMA	FHLMC	FNMA
2)	FHLMC	FNMA	FNMA	FHLMC	FHLMC	FNMA	FHLMC
3. Conventional Loans (ARMs)							
a) new commitments (millions)	\$21	None	None	None	\$32	None	None
b) most important buyers	Private Source				Private Source		

\* Less than \$500,000

Table A (continued)

	Week Ending 6/30/89	Week Ending 6/23/89	Week Ending 6/16/89	Week Ending 6/9/89	Week Ending 6/2/89	Week Ending 5/26/89	Week Ending 5/19/89
<b>C. Adequacy of Funds (percent of firms reporting adequate supply of funds in relationship to current demand)</b>							
1. FHA Section 203							
a) adequacy percentage	100%	100%	100%	100%	100%	100%	100%
b) commitment coverage (mos)	2.06	1.96	1.98	1.94	1.92	1.98	1.94
2. Conventional							
a) adequacy percent	100%	100%	100%	100%	100%	100%	100%
b) commitment coverage (mos)	2.03	1.94	1.95	2.01	1.90	1.98	1.91
<b>D. Trend in Supply of Mortgage Funds Compared to Last Week (% distribution)</b>							
1. FHA Section 203							
a) Tightening	4%	34%	90%	0%	0%	41%	0%
b) Stationary	35	63	7	4	11	35	21
c) Loosening	61	3	3	96	89	24	79
2. FHA GPM Loans							
a) Tightening	4%	34%	90%	0%	0%	41%	0%
b) Stationary	35	63	7	4	11	35	21
c) Loosening	61	3	3	96	89	24	79
3. Conventional Loans							
a) Tightening	4%	29%	90%	0%	0%	43%	0%
b) Stationary	35	67	7	3	11	33	21
c) Loosening	61	4	3	97	89	24	7
<b>E. Trends in Demand for Funds Compared to Last Week (percent distribution)</b>							
1. FHA Section 203							
a) weaker/lower applications	15%	29%	4%	18%	11%	22%	4%
b) stationary/about same as last wk	41	21	29	39	35	32	38
c) stronger/higher volume of appl.	44	50	67	43	54	46	58
2. Conventional Loans (Fixed Rate)							
a) weaker/lower applications	15%	24%	7%	14%	11%	21%	7%
b) stationary/abt. same as last wk	41	24	27	34	33	31	37
c) stronger/higher volume of appl.	44	52	66	52	56	48	56
3. Conventional Loans (ARMs)							
a) weaker/lower application	18%	17%	7%	14%	11%	27%	13%
b) stationary/abt. same as last wk	41	31	30	34	36	30	30
c) stronger/higher volume of appl.	37	48	56	48	46	37	44
d) no applications	4	4	7	4	7	6	13

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Washington, D.C. 20410

# News Release

HUD - No. 89-85  
John N. Dickie (202) 755-7270  
Robert E. Nipp (202) 755-6980

FOR RELEASE:  
June 23, 1989

## MONITORING MORTGAGE INTEREST RATES WEEK ENDING FRIDAY, JUNE 23, 1989

FHA Loans. The most popular commitment rate for 30-year Section 203 loans was 10.00 percent (reported as the dominant rate by 93 percent of the companies). Points on the 10.00 percent rate ranged from .25 to 1.88, with an average of 1.18. The effective rate this week was 10.18 percent, down slightly from 10.20 percent the last survey. Tied for the second most popular quote, with 47 percent of the companies each, were 9.50 and 10.50 percent rates.

Conventional 30-Year Loans. Conventional mortgage loan quotes ranged from a contract rate of 9.88 percent (with 2.00 points) to 10.50 percent (with .50 points). The average effective rate was 10.33 percent, or 15 basis points higher than the average FHA rate.

Secondary Mortgage Market. Secondary market transactions in FHA/VA loans amounted to \$241 million, compared to \$207 million in the prior survey. The largest volume of commitments was for 30-year 10.00 percent loans at an average price of \$98.72, or 1.28 points discount.

Supply of Funds. Average time to exhaust the supply of outstanding commitments for FHA/VA loans remained near eight weeks.

Demand for Funds. Demand for FHA/VA loans weakened compared to the previous week. Fifty percent reported a higher volume of FHA loan applications (compared to 67 percent in that category the last survey). Twenty-nine percent of the companies had a lower volume of FHA/VA applications, compared to 4 percent the previous week. Demand for conventional fixed rate loans was similar.

The foregoing summary is based on a U. S. Department of Housing and Urban Development poll of 30 of the largest mortgage banking firms conducted on June 23, 1989.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY FOR  
HOUSING - FEDERAL HOUSING COMMISSIONER

June 23, 1989

MEMORANDUM FOR: James E. Schoenberger, General Deputy Assistant  
Secretary for Housing, HD

FROM: *JBM* James B. Mitchell, Director, Financial Policy Division, HPFP

SUBJECT: Monitoring Mortgage Interest Rates,  
Friday, June 23, 1989

I. Overview

After a period of moving in tandem, mortgage prices on Thursday resisted the plunge in the price of the dollar in foreign exchange markets. The divergence continued on Friday, as the dollar weakened further, while mortgage prices staged a rally. For the time being, fundamentals, namely further signs of economic weakness and moderation in the rate of inflation, have overpowered the dollar as the dominant influence on near-term bond and equity prices. Survey respondents believe that interest rates will eventually soften further, if evidence of economic anemia mounts.

Some representative comments:

"First quarter GNP, without the farm sector, rose only 1.9 percent, and GNP measured inflation was revised downward below 5 percent. Today's durable goods orders were much weaker than expected. Many expected these orders to be up slightly, but instead they plunged 4.2 percent. If more news comes out about the economy slowing, and there is no build up in inflationary pressure, then interest rates will eventually go lower. However, because of heavy selling of mortgage securities by thrifts — just yesterday one troubled S&L sold \$500 million in Freddie Macs — the movement in mortgage rates might be very erratic."

"According to yesterday's GNP data, the Fed is getting exactly what it wanted — an economic slowdown, and a moderation in inflation. The question is whether the economy will continue to chug along at this reduced pace, or slip into a recession, or have a resurgence. With housing starts down and durable goods orders plunging, the economy may need a shot in the arm. All this talk in the press about booming mortgage loan volume is overdone. Applications are up a little, but not like 1986. Refinancings presently comprise 10 to 15 percent of our business at best. Just about all the refinancings are ARMs — those on their second or third rolls. Back in 1986, there were months when the majority of our new applications represented refinancings."

"For about a week after the VA rate change, mortgage prices continued to trend upward. Since then, however, prices have been volatile — choppy, mirroring the market for the dollar. Beginning yesterday, mortgage securities seem to be trying to disassociate themselves from the dollar. For this to succeed, we must have further evidence of a lackluster economy, and a reduction in short-term rates, starting with the Federal funds rate."

"It appears there is a fence around the mortgage market — prices go up only so far then come back down and go down so far then go back up. It seems that when prices rise, investors back off, not wanting to get caught paying peak prices. Then they come in when prices dip, thus bringing prices back up. For a while, I think the market will move pretty much sideways. Eventually, weak economic growth will result in lower rates — but this might not happen until later in the year."

"Durable goods fell by 4.2% in May. Enough to slow down inflationary threats. That's why the mortgage market experienced a rise of over 1/2 a point today. For the first time in a long time today the market isn't watching the dollar. But we feel it is still the one to watch! My company is hedging seriously — we've made no secondary market trades this week."

"It's been a relatively quiet week in the bond and mortgage markets. There wasn't much in the way of economic news reported this week. The GNP number reported yesterday was sort of a non-event and the personal income reported this morning was about as expected. I believe, however, that the weak durable goods number, down by 4.2%, was instrumental in pushing prices significantly up today. We did see the value of the dollar fall considerably this week. Whatever the G-7 countries are doing to get the dollar down, they're succeeding. Our markets have fallen off a little bit because of that. I see a narrow range until we get into July when some more significant economic numbers will be announced. Those numbers may give the Fed some hints as to the strengths and weaknesses of the economy."

## II. Findings

### A. Primary Mortgage Market

#### 1) FHA 30 year Loans

Ninety-three percent of the companies reported that 10.00 percent was the most popular commitment rate for FHA 30-year level payment loans in the primary market. The range of points quoted for the 10.00 loans was 0.25 to 1.88. The average was 1.18 points. The average effective rate this week was 10.18 percent, down 2 basis points from the previous survey.

Near one-half of the companies reported an 9.50 percent commitment rate as their second most popular mortgage rate. Points on these 9.50 percent mortgages ranged from 2.25 to 3.63, with an average effective rate of 9.98 percent, the same as the last survey.

#### 2) FHA 15 year Loans

Seventy-one percent of the companies reported a commitment rate of 9.50 percent as the most popular rate for FHA level payment 15-year loans. The range of points quoted for these loans was 0.25 to 1.88. The average was 1.05 points.

#### 3) FHA GPM Loans

Eighty-six percent of the companies making quotes for FHA Section 245 GPM loan commitments reported 10.25 percent as the dominate rate for such loans. The range of discounts was zero to 3.75 points, with an average of 1.62 points. The average effective rate this week was 10.50 percent, the same as the last survey.

#### 4) FHA ARMs

The percentage of companies offering FHA ARMs this week was 52 percent, compared to 57 percent the previous survey. Quotes this week ranged from 8.50 percent plus 2.75 points to 10.13 percent plus 1.00 point. Of those offering ARMs, 50 percent quoted 9.50 percent as their most popular ARM mortgages and another 31 percent quoted 9.00 percent mortgages.

#### 5) VA Loans

The average points in the primary market for commitments on VA guaranteed loans, subject to the 10.00 percent maximum rate, was 1.20 points. Quotes this week ranged from 0.25 to 1.88 point. The effective rate on commitments to close loans at the administered ceiling rate averaged 10.18 percent, down 2 basis points from the previous survey.

#### 6) Conventional 30 year Loans

The range of contract interest rates quoted on 80 percent loan-to-value conventional mortgages was 9.88 percent (plus 2.00 points) to 10.50 percent (and 0.50 points). The average effective rate was 10.33 percent, up 1 basis point from the last report.

#### 7) Conventional 15 year Loans

The range of contract interest rates quoted on 80 percent loan-to-value ratio 15-year conventional loan commitments was 9.50 percent (plus 2.00 points) to 10.63 percent (and 0 points). The average effective rate was 10.13 percent, down 4 basis points from the last survey.

#### 8) Conventional ARMs

Eighty-seven percent of the companies were offering conventional ARMs, compared to 90 percent the previous survey. Interest rates ranged between 7.88 percent (plus 1.88 points) and 10.63 percent (plus zero point). One year ARM loans were the predominant ARMs offered by the mortgage companies.

### B. Secondary Mortgage Market

#### 1) FHA/VA Fixed Rate Loans

A total of \$241.0 million in FHA/VA fixed payment loan commitments was acquired by 21 companies, compared to \$207.0 million purchased by 18 companies from the last survey. All of the FHA/VA commitments negotiated were acquired in the GNMA market. Commitments obtained this week encompassed the following mortgage rates for 30-year loans: 9.00, 9.50, 10.00, 10.50, 11.00, and 11.50 percent.

The largest volume of 30 year level payment commitments was for 10.00 percent loans (48 percent of the total). For the 10.00 percent loans, prices ranged from \$98.25 to \$99.06. The average was \$98.72 which results in a 10.19 percent yield. Major 30-year level payment transactions were:

<u>Contract Interest Rate</u>	<u>Volume (millions)</u>	<u>Percent of Total Transactions</u>	<u>Average Price</u>
9.50	\$ 43.0	18	\$96.68
10.00	115.0	48	98.72
10.50	66.5	28	100.86

Commitments of \$6.0 million were obtained for 15-year loans in the GNMA market.

2) FHA GPM Loans

No GPM loans were sold this week.

3) FHA ARM Loans

\$1.6 million in FHA ARM loans were sold this week.

4) Conventional Loans

Twenty companies obtained a total of \$242.0 million in commitments for fixed-rate conventional loans this week. Of these commitments, \$56.0 million came from FNMA, and \$186.0 million from the Federal Home Loan Mortgage Corporation. The commitments under discussion include both 15- and 30-year fixed products. The average yield on 30-year loans was 10.29 percent. No conventional ARM loans were sold by the respondents this week.

**C. Trends in the Supply and Demand for Funds**

1) Commitment Coverage

a) The average time it would take to exhaust the supply of outstanding commitments for FHA/VA loans at the current rate of production stayed near eight weeks (1.96 months).

b) All of the companies indicated an adequate supply of conventional funds for level-payment mortgages, given current demand. Commitments would cover loan production for about eight weeks (1.94 months).

c) An adequate supply of conventional ARM loan funds was affirmed by 100 percent of the companies. The average commitment coverage remained near eight weeks (1.90 months).

2) Secondary Market Conditions

Thirty-four percent of the companies reported a tightening supply of FHA/VA funds, compared to 90 percent reporting a such condition in the last survey. This week, 63 percent reported a stationary supply, and 3 percent noted a loosening supply of funds for FHA/VA loans. The trend in the supply of conventional loans was similar.

3) Application Volume

Stronger loan demand for 30-year fixed rate FHA/VA loans was reported by 50 percent of the respondents, down from 67 percent having the same situation the previous survey. Twenty-nine percent reported that the loan demand was down, while 21 percent had a stationary application volume this week. For FHA 15-year loans, applications were up for 48 percent, while 30 percent reported a lower volume. For FHA ARM loan applications, 43 percent of the companies reported a greater volume, while 38 percent reported a decline in the volume

from the last survey. Fifty-two percent of the companies had an increase in application volume for conventional fixed rate loans from last week, while 48 percent noted a larger volume of ARM loans this week.

#### 4) Types of Loans in Pipeline

The current production product mix varied from company to company. A distribution of loan applications currently being processed by the respondents is presented below.

	<u>Percent Distribution</u>		<u>Prior Survey</u>
	<u>This Week</u>	<u>"Average"</u>	
<u>Total</u>	range	100%	"Average" 100%
FHA/VA vs.	0-85	46	47
Conventional	15-100	54	53
<u>FHA/VA</u>			
FHA/VA 30 year Fixed Rate Loans	67-100	92%	91%
FHA/VA 15 year Fixed Rate Loans	0-30	6	6
FHA/ARMs	0-6	2	3
Subtotal		100	100
<u>Conventional</u>			
Conventional 30 year Fixed Rate Loans	20-90	72%	69%
Conventional 15 year Fixed Rate Loans	0-40	11	10
Conventional ARMs	0-80	27	21
Sub Total		100	100

The foregoing summary is based on a poll of 30 of the largest mortgage banking firms conducted on June 23, 1989.

Attachments

John Goodman  
Keith Pedigo  
Jim Sharera  
Peggy Young  
Richard Pickering  
Jim Boland  
Gerard Keffer  
Charles Hanson  
William J. Maroni  
M. Schussheim  
Barbara Miles  
Angelo A. Vigna  
Nina Shepherd  
Edward Golding  
Thomas Simpson  
David Lund  
D. Laufenberg  
Ned Newland  
Sylvia Lucas  
David Pinson  
Stephen Lumpkin  
L. Rubin.  
Michael Woolley  
Laura Gorman

Federal Reserve  
Veterans Administration  
Treasury  
OMB  
FHLBB  
FHLBB  
Census Bureau  
OMB  
Old Executive Office Building  
Congressional Research Office  
Congressional Research Office  
Federal Home Loan Bank of New York  
Congressional Budget Office  
FHLBB  
Federal Reserve  
Department of Commerce  
Federal Reserve  
Joint Committee on Taxation  
Federal Reserve, Stop 89  
Council of State Hsg. Agencies  
Federal Reserve  
Federal Reserve  
Federal Reserve  
Mortgage Bankers Association

**TABLE A ONLY**

Kathy Covell  
Paul Van Valkenburg  
Jerry Weingarten  
FNMA  
Mortgage Bankers Association  
Mortgage Commentary  
Mortgage Market Insight  
Inside Mortgage Finance  
Southmark Mortgage Corp.

CIMA (release and Table A only)  
Drexel Burnham  
New York Guardian Mortgage Co.

Katie Wojciechowski (Release and Table  
A only)

## Money, Banking, and Credit

Information is a commodity. From monthly newsletters, to daily newspapers, to minute by minute update via modem lines an active market exists for information. This market is quite competitive with various services flaunting their speed, frequency or the accuracy of their product.

As is the case with any other commodity, information is purchased so long as the increased benefits derived from the information exceeds the increased expenditure. This implies that even that mythical beast from economic theory, the rational maximizer, will not obtain all of the information that is relevant to its decisions. The cost of acquiring information creates an opportunity by which even an optimizing individual can be defrauded.

The informational conditions can occur in many places, and while stories of product adulteration might leap to mind the focus today is on securities fraud. While boiler room scams and Florida land swindles might make one cluck their tongue at silly people who don't read prospectuses, how many know, to the penny, what the interest on their bank account each month is? If one cent was shaved from the reported payment would you notice? While many know the rate promised on a security, how many incur the expense to validate that the quarterly amount credited is correct?

The possibility for such shaving is perhaps greatest with mortgage backed securities. These securities represent an undivided interest in a pool of mortgages. Monthly payments on the loans in the pool are "passed through" to the security holders. The scheduled amortization and prepayment of principal along with interest payments generate a monthly payment that is both irregular, and extremely expensive for an individual investor to confirm.

For a small amount, even if an investor should notice, it would probably not be cost-efficient to attempt confirmation. However, a large quantity of small amounts can add up to a substantial amount for an issuer. Guardian Mortgage Co, an affiliate of Guardian Bank has issued over \$11 billion in GNMA securities. This Tuesday, Guardian Bank was declared insolvent by the FDIC due to accusations that Guardian Mortgage Corp had failed to pass through \$47 million of received payments (N.Y. Times, page D1, 6/2/89). GNMA is liable for this amount.

The opportunities for such fraud cast a menacing shadow on the entire securitization movement. While shaving will become apparent to investors in the long run, in the short run it provides an excess return to the issuer. To the extent that pursuit of this gain causes funds to be allocated away from loans that have a higher return, capital is misallocated to less than its most productive uses.

HPFP: LASKY:mdl 6/23/89 775-7270 (Credit)

Economic Survey  
Week Ending June 23

Money Supply Rediscovered

Quiz time. What famous British statesman and economist recently expounded thus: "Inflation is a disease of money; and monetary policy is its cure"? Nigel Lawson recited this monetarist catechism in the March budget message of the Chancellor of the Exchequer (a job combining elements of our Treasury, Federal Reserve Board, OMB, and Council Economic Advisers). He has pushed the U.K.'s bank base lending rate from 7 1/2% to 14% in the last year, sharply inverting the yield curve (long government bonds yield about 10 1/2%). Still, the broad M3 measure of money supply continues to grow at an annual rate near 20%, retail prices are up 8% year-over-year, and wage demands are soaring. The pound sterling has been pounded this year on foreign exchange markets. The U.K. also manages the trick of combining a government budget surplus with a deteriorating trade deficit, surely a confounding result for those who blame the U.S. trade deficit on the U.S. budget deficit ("twin towers," et al), or is it the other way around.

The current state of the U.K. economy, admittedly better than it has been for much of the post-war era, brings to mind another quote, anonymous, to the effect that the success of a nation's economy varies inversely with the quality of its economists. From Smith and Ricardo on, British economists have led the pack in reputation and eminence. Lawson used to be hailed as the first trained economist to head the Exchequer. Since the War, U.S. economists have come ever closer to the professional heights long occupied by the Mother Country. This has been accompanied by some unwelcome rumblings in the U.S. economy, such as persistent inflation, policy gyrations at the Fed, declining productivity, weakness in the banking system, not to mention the above fiscal and trade problems. The 1988 prize for sound and solid economic performance probably belongs to Japan, with real GNP growth of 5.8%, consumer price inflation of under 1%, a huge current account surplus, and rapidly shrinking budget deficit. How many Japanese economists can you name?

Fed Policy Raises Monetarist Hackles

While the U.K. continues to apply the monetary brakes, monetarists in the U.S. worry that the Fed has already clamped down too far for too long. Some predict a recession next year, contrasting from Wall Street's dominant mood of anticipatory congratulation to Chairman Greenspan for engineering a soft landing, i. e., disinflationary economic slowdown without a recession. Those who care about money supply, on the other hand, point out that total bank reserves in May experienced a record monthly decline, and year over year, a record contraction of \$2.2 billion; M2 has grown by only 1% this year, compared to 5% in 1988; M2 for May declined for the second time this year, something which had occurred only three times before since 1960. Fallout from the monetary squeeze is asserted in: May's decline in goods producing payrolls and in average hours worked; retail sales decreasing in real terms and personal consumption flat; productivity falling and business profits per unit of real output at lowest point since 1983; fading credit demand following

average annual debt growth of 11.7%, largest spread above nominal GNP of 7.5% since 1945; economy's only bright spot is producers' durables (from machine tools to airplanes), but this supplies only 9% of GNP.

According to Federal Reserve data, the demand for credit has hit something of a slump. At an 8.2 percent annual rate for the first quarter, total nonfinancial-sector domestic debt grew at its slowest quarterly pace since the 1981-82 recession. Slackening nonfinancial business borrowing, the state/local government trend to budget austerity, and a less ebullient consumer all contribute to the slowdown. Household borrowing for housing and autos has dropped off markedly, as the ratio of household debt to personal income reached 77 percent in 1988, compared to a stable long-term average of about 60 percent over the last three decades.

These trends are generally welcomed as inflation moderators by those without money supply hang-ups who accept the "easy landing" scenario. Non-monetarist krypto-Keynesians view M2's anemic state as purely technical and temporary, unconnected to the real economy. In part, they explain it as larger than expected tax payments in April, which drained reserves from the banking system into the Treasury. Also, they assert, cash and NOW account balances have declined sharply, because investors shifted to higher yields in CDs and money market accounts, as well as instruments not counted in M2, specifically Treasuries and off-shore deposits in banks which do not report to the Fed. Yet, this rebuttal appears to prove the monetarist case. Cash and demand deposits are spending money, whereas most M2-M3 components are savings. M1, the most transaction-oriented of the M2 components, declined by \$10 billion in May, a record for this decade. It takes more than portfolio shifts to account for a drop of this magnitude. The shift from transactions balances to savings mirrors the flattening of consumer spending in the real economy and record rise of the personal savings rate.

A private researcher has weighted U.K. broad monetary aggregates by spendability, assigning the lowest weight to the highest yielding/deposit components. By this measure, Britain's double-digit money growth rates tighten to roughly 7%. The failure so far of Chancellor Lawson's short-term rate hikes to flatten money growth and inflation points up an aberration of high interest rates -- they reduce money growth by curbing business and consumer borrowing from banks; they expand it by increasing earnings on bank deposits. The Chancellor last week reaffirmed reduction of inflation as an overriding policy goal and a tight monetary policy as the chief weapon, promising to keep short-term rates "at whatever level is necessary for as long as necessary." The use of monetary austerity as anti-inflation medicine brings to mind the observation by an early defector from the Thatcher cabinet: "Had monetarism been a drug, the Committee on the Safety of Medicines would not have allowed anybody to take it ... Many more tests would have been ordered before it could have been adjudged safe for the market. Until such tests had been concluded, its damaging side-effects would have been considered too certain and its alleged benefits too questionable for it to have gained a certificate of safety."

### Treasury Rally Intact

In any event, the U.S. monetary slowdown -- May decline in all three money aggregates -- has benefitted bond prices by defusing inflation alarms generated by the real economy. Treasuries and GNMA's would have dipped sharply on recent Producer and Consumer Price Index increases without the comfort of perceived monetary discipline. This is a far cry from the 1970's when inflation indices were escalating against a backdrop of burgeoning money growth. The Fed seems willing to let PPI/CPI be bygones and look to P\* incantations of future price levels. So, bond prices have escaped a major setback from inflation data and foreign exchange volatility. To use one more quote, as observed in this space on March 17, when bonds sold off after February's 1% jump in PPI: "Current fears of labor and production bottlenecks are grossly overdone. While today's PPI report may prompt the Fed to tighten the short end another notch, the economy is setting up bonds for a major rally by mid-year." In the following week, the Fed did nudge the Federal funds rate up by another 1/8%, but 30-year T-bond yields have since plummeted from 9 1/4% to 8 1/4%, a level not visited since April 1987.

HPFP:Mitchell:vct 426-4325 6/23/89 (Word Perfect-Economic)

## ECONOMIC INDICATORS

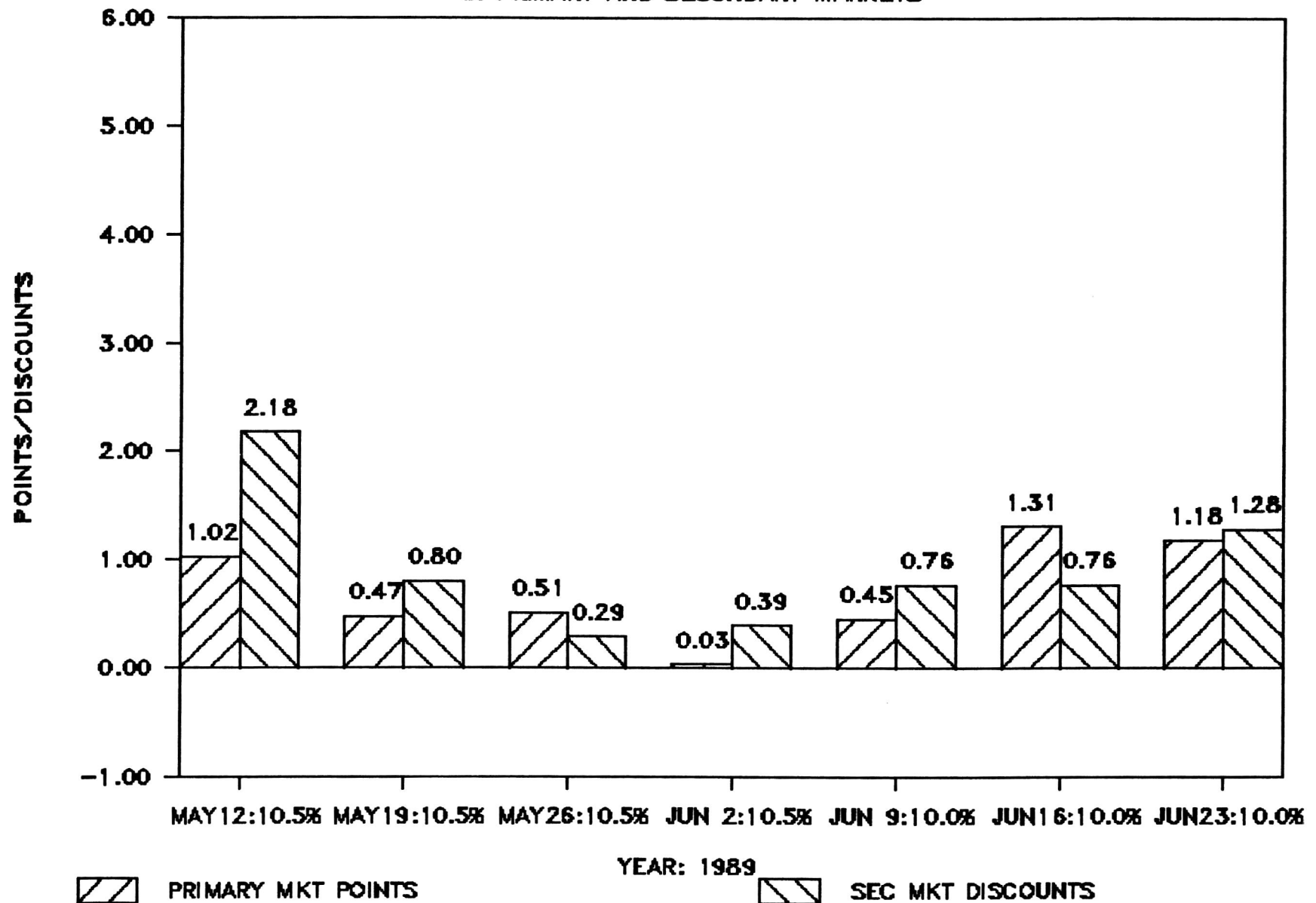
TELERATE PERCENT CHANGE -- UNLESS NOTED

	23-Jun-89 12:32 PM	MAY	APR	1989 MAR	FEB	JAN	DEC	NOV	OCT	SEP	1988 AUG	JUL	JUN	MAY
New this week:	†													
LEADING INDICATORS.....			0.8	-0.6	-0.3	0.8	0.6	-0.2	0.5	-0.3	0.5	-0.7	1.4	-0.8
TRADE BALANCE (\$BLN).....			-8.3	-9.5	-9.8	-9.5	-11.0	-12.2	-10.3	-10.7	-12.3	-9.5	-13.2	-9.8
UNEMPLOYMENT (% CIVILIAN)...	5.2	5.3	5.0	5.1	5.4	5.3	5.4	5.3	5.3	5.4	5.6	5.4	5.3	5.6
NON FARM PAYROLL (000).....	+101	+206	+171	+280	+415	+221	+404	+238	+304	+169	+200	+532	+221	
PERSONAL INCOME.....†	0.3	0.4	0.8	1.0	1.7	0.9	-0.2	1.7	0.5	0.3	0.7	0.6	0.5	
REAL EARNINGS.....	-1.3	0.5	-0.3	-0.9	0.2	-0.3	-0.8	0.7	0.5	-1.3	0.7	-0.2	-0.6	
CONSUMER CREDIT (\$BLN).....		\$2.73	\$3.69	\$5.38	\$4.36	\$4.30	\$4.66	\$3.91	\$1.90	\$5.32	\$3.62	\$5.43	\$2.98	
RETAIL SALES.....	0.1	1.0	0.0	-0.6	0.7	-0.1	0.9	1.6	-0.3	-0.1	0.1	0.6	0.3	
BUSINESS INVENTORIES.....		0.6	0.3	0.5	0.8	0.9	0.4	0.0	0.9	1.1	0.7	0.8	0.7	
FACTORY ORDERS.....		2.7	0.7	-2.0	-1.2	4.7	0.3	2.0	-1.9	3.2	-3.6	5.4	-0.6	
FACTORY INVENTORIES.....			0.5	0.4	0.9	0.7	0.6	0.5	0.6					
DURABLE GOODS ORDERS.....†	-4.2	2.9	1.0	-3.4	-2.9	7.3	0.2	2.9	-2.9	5.7	-7.4	8.7	-1.9	
INDUSTRIAL PRODUCTION.....	0.0	0.6	0.0	-0.3	0.3	0.5	0.3	0.5	0.2	0.3	1.2	0.3	0.5	
CAPACITY UTILIZATION (%)....	83.8	84.1	83.7	83.9	84.5	84.4	84.2	84.0	83.8	83.8	83.8	83.0	82.9	
CONSTRUCTION SPENDING.....		0.1	-0.3	0.0	0.4	2.1	1.0	0.2	0.7	-0.2	0.7	-1.5	0.8	
HOUSING STARTS.....	-2.1	-5.0	-4.5	-12.0	7.2	0.1	1.6	5.1	-0.8	-3.1	1.4	4.4	-12.6	
NEW HOME SALES .....		10.9	-10.4	-10.5	2.5	2.0	-7.9	4.4	-1.4	2.1	-0.1	6.7	-0.3	
EXISTING HOME SALES.....		-1.2	N/A	-3.1	-9.4	11.4	1.1	-1.1	-1.1	2.2	-5.0	5.3	3.1	
PRODUCER PRICE INDEX.....	0.9	0.4	0.4	1.0	1.0	0.4	0.3	0.0	0.4	0.6	0.5	0.4	0.5	
CONSUMER PRICE INDEX.....	0.6	0.7	0.5	0.4	0.6	0.3	0.3	0.4	0.3	0.4	0.4	0.3	0.3	
GNP.....R			1st Q 4.4			4th Q 2.4			3rd Q 2.5			2nd Q 3.0		
GNP DEFLATOR.....R			1st Q 3.6			4th Q 5.3			3rd Q 4.7			2nd Q 5.5		

Due out next week: Existing Home Sales (Mon 6/26), Leading Indicators (Wed 6/28), New Home Sales (Thu 6/29), Factory Orders (Fri 6/30)

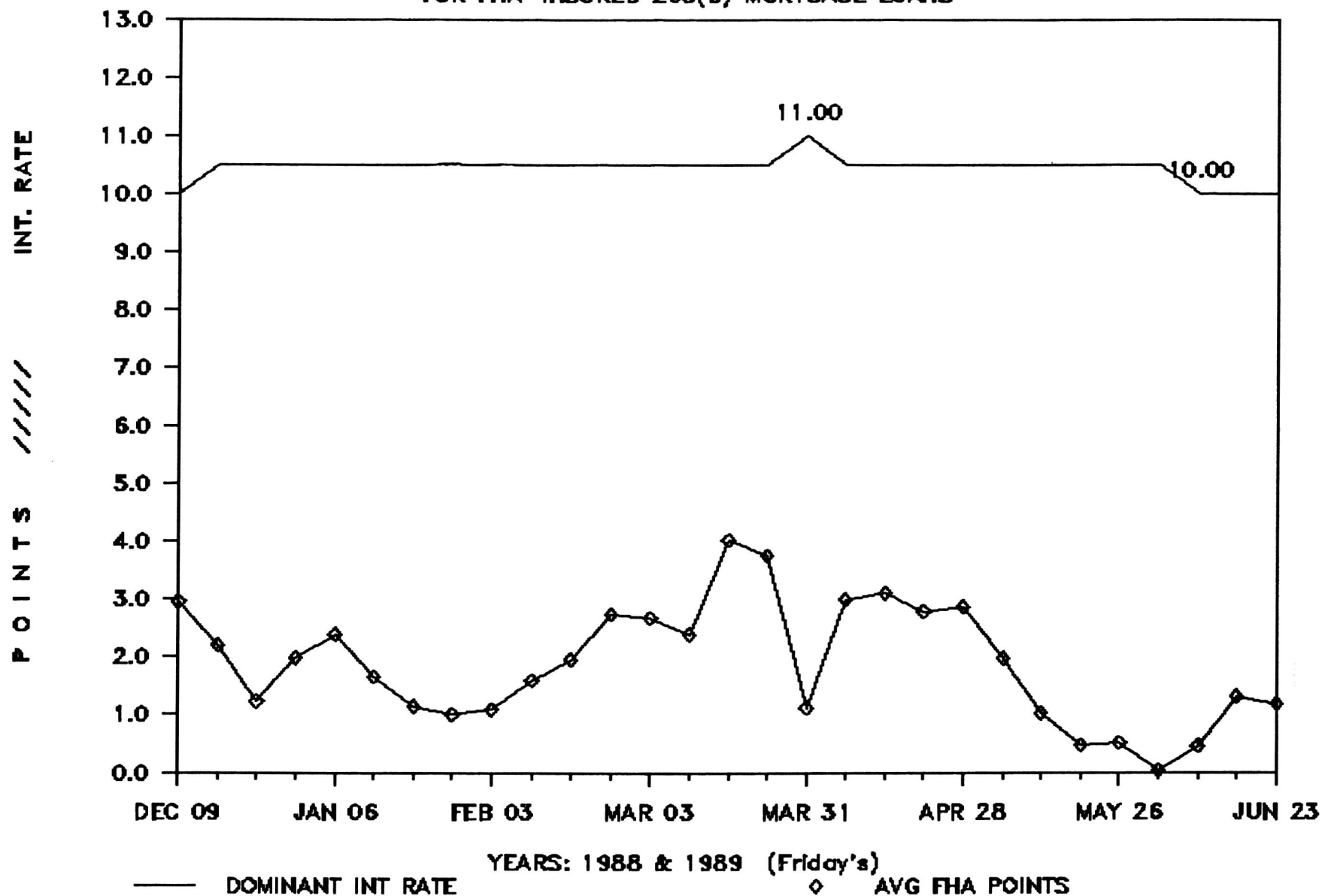
# COMPARISON OF FHA DISCOUNTS

IN PRIMARY AND SECONDARY MARKETS



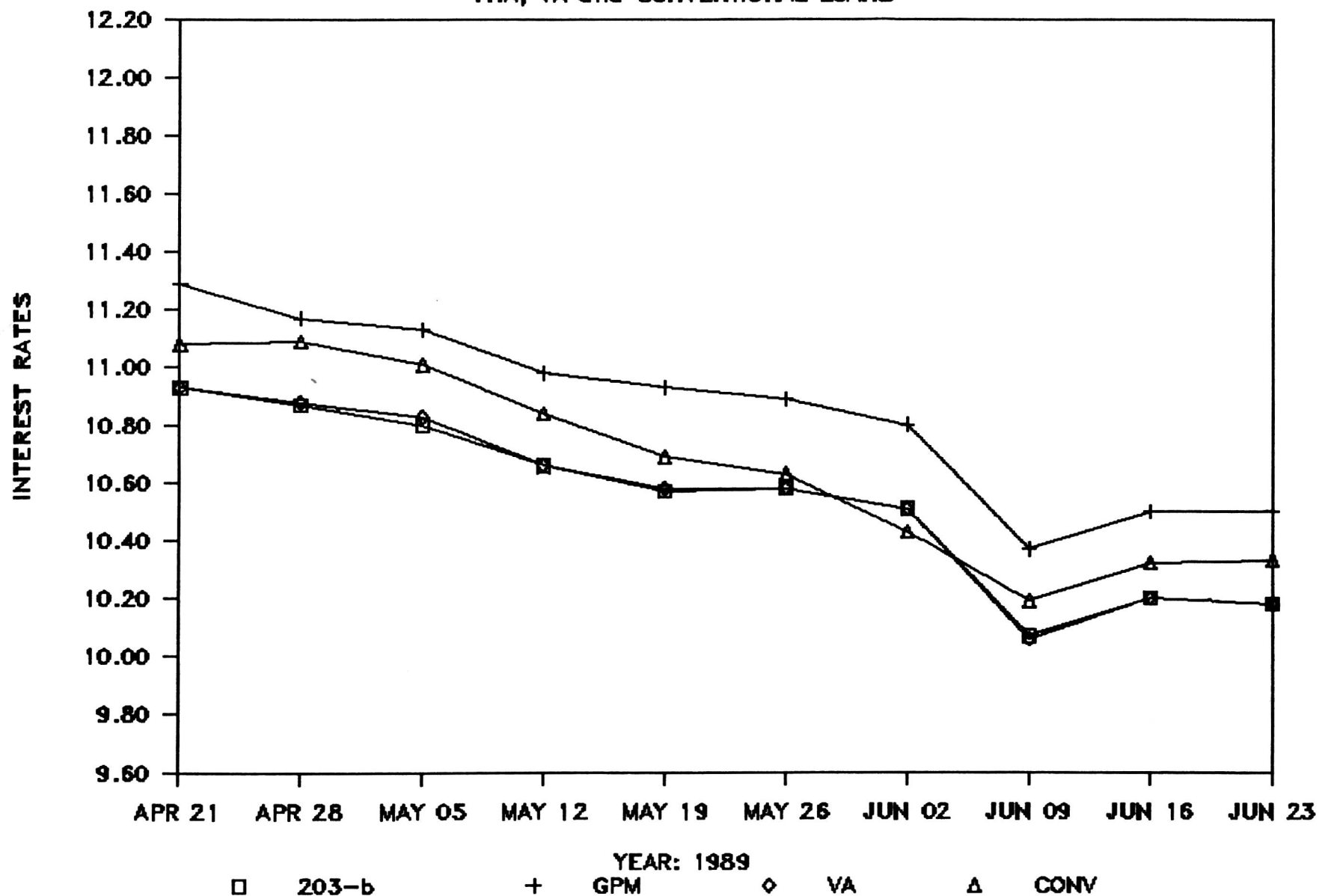
# AVG POINTS QUOTED BY MORTGAGE COMPANIES

FOR FHA-INSURED 203(b) MORTGAGE LOANS



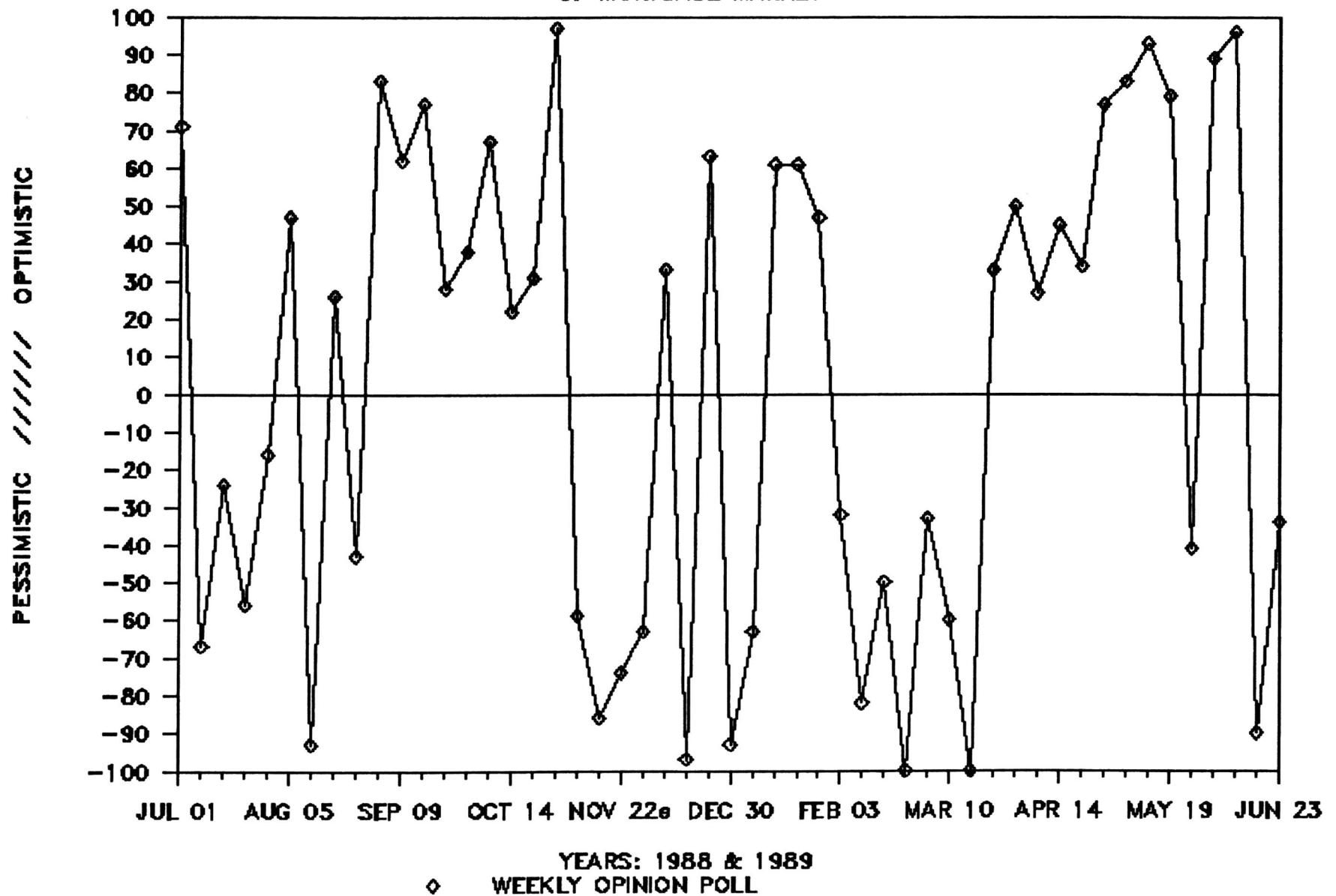
# AVG. EFFECTIVE MORTGAGE INTEREST RATES

FHA, VA and CONVENTIONAL LOANS



# IMPLIED NEAR-TERM PERCEPTION

OF MORTGAGE MARKET



## Mortgage Company Weekly Opinion Poll of Mortgage Market Conditions

Table A

	Week Ending 6/23/89	Week Ending 6/16/89	Week Ending 6/9/89	Week Ending 6/2/89	Week Ending 5/26/89	Week Ending 5/19/89	Week Ending 5/12/89
Number of Companies in Survey							
A. Primary Market							
1. FHA 203 Loans							
a) contract rate %	10.00	10.00	10.00	10.50	10.50	10.50	10.50
b) range of discount points	.25-1.88	.25-2.50	0-1.00	0-.25	0-1.00	0-1.25	0-2.50
c) average points	1.18	1.31	.45	.03	.51	.47	1.02
d) effective rate or yield (%)	10.18	10.20	10.07	10.51	10.58	10.57	10.66
2. FHA GPM loans							
a) contract rate %	10.25	10.25	10.25	10.75	10.75	10.75	10.75
b) range of points	0-3.75	0-3.00	0-1.75	0-2.38	0-2.38	.25-3.00	0-3.38
c) average points	1.62	1.65	.82	.31	.91	1.17	1.50
d) effective rate or yield (%)	10.50	10.50	10.37	10.80	10.89	10.93	10.98
3. VA loans							
a) contract rate %	10.00	10.00	10.00	10.50	10.50	10.50	10.50
b) range of points	.25-1.88	.25-2.25	0-1.00	0-1.13	0-1.00	0-1.25	0-2.50
c) average points	1.20	1.31	.42	.06	.49	.50	1.02
d) effective rate or yield (%)	10.18	10.20	10.06	10.51	10.58	10.58	10.66
4. Conventional 80% loans, 30 yrs							
a) range of interest rates	9.88-10.50	9.63-10.75	9.63-10.38	9.75-10.75	10.00-10.88	10.13-11.00	10.25-11.38
b) average effective rate	10.33	10.32	10.19	10.43	10.63	10.69	10.84
B. Secondary Market - terms on commitments received for 2-4 month deliveries							
1. FHA Section 203 loans							
a) contract rate	10.00	10.00	10.00	10.50	10.50	10.50	10.50
b) range of prices	98.25-99.06	98.56-100.00	98.75-99.75	98.75-100.19	99.50-100.00	98.13-99.63	97.31-98.19
c) average GNMA price	98.72	99.24	99.24	99.61	99.71	99.20	97.82
d) average composite price	98.72	99.24	99.24	99.61	99.71	99.20	97.82
e) average yield	10.19	10.11	10.11	10.56	10.54	10.62	10.84
f) new commitments (millions)	\$241	\$207	\$142	\$253	\$139	\$164	\$191
g) most important buyers							
1)	GNMA	GNMA	GNMA	GNMA	GNMA	GNMA	GNMA
2)	--	--	--	--	--	--	--
3)	--	--	--	--	--	--	--
2. Conventional Loans (fixed rate mortgage)							
a) range of yields	9.90-10.77	9.74-11.00	9.75-11.00	10.38-10.92	10.19-11.17	10.42-11.24	10.64-11.45
b) average yield	10.29	10.26	10.31	10.61	10.58	10.91	10.99
c) new commitments (millions)	\$242	\$337	\$156	\$124	\$208	\$192	\$169
d) most important buyers							
1)	FHLMC	FHLMC	FNMA	FNMA	FHLMC	FNMA	FNMA
2)	FNMA	FNMA	FHLMC	FHLMC	FNMA	FHLMC	FHLMC
3. Conventional Loans (ARMs)							
a) new commitments (millions)	None	None	None	\$32	None	None	\$26
b) most important buyers				Private Source			Mtg. Co.

\* Less than \$500,000

Table A (continued)

	Week Ending 6/23/89	Week Ending 6/16/89	Week Ending 6/9/89	Week Ending 6/2/89	Week Ending 5/26/89	Week Ending 5/19/89	Week Ending 5/12/89
<b>C. Adequacy of Funds (percent of firms reporting adequate supply of funds in relationship to current demand)</b>							
1. FHA Section 203							
a) adequacy percentage	100%	100%	100%	100%	100%	100%	100%
b) commitment coverage (mos)	1.96	1.98	1.94	1.92	1.98	1.94	1.88
2. Conventional							
a) adequacy percent	100%	100%	100%	100%	100%	100%	100%
b) commitment coverage (mos)	1.94	1.95	2.01	1.90	1.98	1.91	1.85
<b>D. Trend in Supply of Mortgage Funds Compared to Last Week (% distribution)</b>							
1. FHA Section 203							
a) Tightening	34%	90%	0%	0%	41%	0%	0%
b) Stationary	63	7	4	11	35	21	7
c) Loosening	3	3	96	89	24	79	93
2. FHA GPM Loans							
a) Tightening	34%	90%	0%	0%	41%	0%	0%
b) Stationary	63	7	4	11	35	21	7
c) Loosening	3	3	96	89	24	79	93
3. Conventional Loans							
a) Tightening	29%	90%	0%	0%	43%	0%	0%
b) Stationary	67	7	3	11	33	21	7
c) Loosening	4	3	97	89	24	79	93
<b>E. Trends in Demand for Funds Compared to Last Week (percent distribution)</b>							
1. FHA Section 203							
a) weaker/lower applications	29%	4%	18%	11%	22%	4%	21%
b) stationary/about same as last wk	21	29	39	35	32	38	32
c) stronger/higher volume of appl.	50	67	43	54	46	58	47
2. Conventional Loans (Fixed Rate)							
a) weaker/lower applications	24%	7%	14%	11%	21%	7%	21%
b) stationary/abt. same as last wk	24	27	34	33	31	37	34
c) stronger/higher volume of appl.	52	66	52	56	48	56	45
3. Conventional Loans (ARMs)							
a) weaker/lower application	17%	7%	14%	11%	27%	13%	20%
b) stationary/abt. same as last wk	31	30	34	36	30	30	30
c) stronger/higher volume of appl.	48	56	48	46	37	44	43
d) no applications	4	7	4	7	6	13	7

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