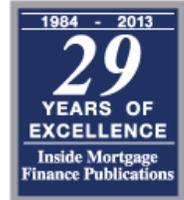




What the Mortgage Market Reads



INSIDE MORTGAGE FINANCE®

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Rising Interest Rates Having Mixed Effects on Home Purchases, Affordability Remains High

The recent sharp increase in mortgage interest rates has priced some borrowers out of the market and motivated others to complete home purchases, according to industry participants. If interest rates stay near current levels, home affordability is expected to remain strong, encouraging home purchases.

The market for non-distressed properties is still healthy, according to results from the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*. Average time on market for non-distressed properties is declining, the average number of offers is increasing and sales-to-list price ratios are at elevated levels.

The trends have been driven by demand from buyers, particularly non-investors that rely on mortgage financing. The non-cash share of home-purchase financing increased from 67.4 percent in February to 71.0 percent in June, based on the three-month moving average.

Real estate agents participating in the survey reported that the jump in interest rates has had a mixed impact on borrowers. "Rising interest rates are both motivating buyers and knocking some out of being able to buy," according to a real estate agent in Washington state.

Analysts at CoreLogic said even with recent home price gains, affordability remains near record levels for many markets across the country. "For housing price affordability to return to the average level that we saw between 2000 and 2004, either home prices would have to rise an additional 47 percent or interest rates rise to 6.75 percent," CoreLogic said.

Sam Khater, senior economist at CoreLogic, predicted that rising interest rates won't deter a significant number of potential homebuyers. "Given the very high home affordability levels and more supply on the market, CoreLogic remains optimistic that rising rates and home prices will not dissuade the more traditional buyer from entering the market and financing a home purchase," he said.

Economists at Freddie Mac this week predicted that interest rates on 30-year fixed-rate mortgages will increase to an average of about 4.6 percent or 4.7 percent by the end of this year. They said the rising rates won't be enough to stall the recovery of the housing market.

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The purchase share of mortgage activity continues to increase, according to the Mortgage Bankers Association. The unadjusted purchase-mortgage application index increased by 26 percent for the week ending July 12 compared with the previous week and was 5 percent higher than the same week one year ago. The MBA said the purchase share is at levels last seen in April 2011.

The Campbell/Inside Mortgage Finance HousingPulse Tracking Survey is based on a national survey of more than 2,000 real estate agents each month and provides up-to-date intelligence on home sales and mortgage usage patterns. For more information, go to www.housingpulse.com. ♦