

## Monthly Press Release

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### **FEDERAL HOUSING FINANCE BOARD REPORTS LOWER MORTGAGE INTEREST RATES DURING 2002**

Washington, D.C. — The Federal Housing Finance Board today reported that mortgage interest rates declined during 2002, with most of the decline occurring in the second half of the year. By June 2002, the average contract interest rate on 30-year, fixed-rate mortgage loans was only 2 basis points lower than at December 2001. However, by December 2002, this rate had declined to 6.21 percent, a 68 basis point drop from December 2001. The contract rate on fixed-rate mortgages (with all terms to maturity) was actually 6 basis points higher midway through 2002, but finished the year 65 basis points lower than at December 2001.

The percent of loans with adjustable-rates rose to 21 percent by June 2002, before declining to 13 percent at year-end. The average initial fees and charges declined to 0.39 percent of the loan amount in December 2002 from 0.52 percent in December 2001. The average term to maturity increased by 15 months to 27.9 years at June 2002 before declining to 26.6 years at December, the same as December 2001. The average loan-to-price ratio declined to 74.0 percent at December 2002 from 74.6 percent one year earlier.

The Mortgage Market in December - The average interest rate on conventional 30-year, fixed-rate mortgage loans increased 1 basis point to 6.21 percent during December. The average interest rate on 15-year, fixed-rate loans decreased 5 basis points to 5.88 percent during December.

The contract rate on the composite of all mortgage loans (fixed- and adjustable-rate) increased 1 basis point to 6.03 percent. The effective interest rate, which reflects the amortization of initial fees and charges, also increased 1 basis point to 6.09 percent. The average contract rate on fixed-rate mortgages remained the same at 6.14 percent, while the average contract rate on adjustable-rate mortgages (ARMs) decreased eight basis points to 5.26 percent.

Initial fees and charges were 0.39 percent of the loan balance in December, up from 0.37 percent in November. Fifty-three percent of the purchase-money mortgage loans originated in December were "no-point" mortgages, down from 55 percent in November. The average term was 26.6 years in December, up from 26.5 years in November. The average loan-to-price ratio in December was 74.0 percent, up from 73.3 percent in November. The average loan amount decreased by \$1,100 to \$162,400 in December, while the average house purchase price decreased by \$5,500 to \$233,000.

Table IV is the regular quarterly table of mortgage rates and terms for selected metropolitan areas.

The National Average Contract Mortgage Rate for the Purchase of Previously Occupied Homes by Combined Lenders, a popular ARM index, was 6.04 percent based on loans closed in December. This is an increase of 0.01 percent from the previous month.

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

The Federal Housing Finance Board maintains telephone lines that give recorded information on the current value of many of the interest rates reported in this release. That phone number is (202) 408-2624. This recording will be next updated on February 27, 2003.

*Technical note: The data is based on a monthly survey of major lenders that are asked to report the terms and conditions on all conventional, single-family, fully amortized, purchase-money loans closed the last five working days of the month. The data thus excludes FHA-insured and VA-guaranteed mortgages, refinancing loans, and balloon loans. This month's data is based on 30,607 reported loans from 98 lenders, representing savings associations, mortgage companies, commercial banks, and mutual savings banks. The effective interest rate includes the amortization of initial fees and charges over a 10-year period, which is the historical assumption of the average life of a mortgage loan. The data is weighted to reflect the shares of mortgage lending by lender type as reported in the latest release of the Federal Reserve Board's Home Mortgage Disclosure Act data.*