Market Scan

Bottom In Sight For Housing Market?

Ruthie Ackerman, 09.10.08, 3:10 PM ET

Things are looking up for the housing market. On Wednesday, the Mortgage Bankers Association said the average 30-year loan rates slid 0.33%, to 6.06%, in the week ending Sept. 5, prior to Sunday's government bailout of Fannie Mae and Freddie Mac, the two largest U.S. home funding companies.

The lower mortgage rates in turn boosted demand for mortgage applications last week, especially for homeowners looking to refinance existing loans. Refinance applications jumped 15.4%, to 1222.9 the previous week.

Lower rates could make mortgages easier to get and in turn boost the number of purchases--good news for the housing market, which has been reeling because of a 12-month inventory supply, large volumes of foreclosed homes that banks have discounted in order to sell quickly, and tightening credit markets that have made it difficult to get mortgages. But it still seems like a bottom in the market is a ways off.

Just ask Michael A. Feder, president and chief executive of Radar Logic, a real estate data and analytics company. Feder says the biggest problem is the "psychology of the housing market." "We're in that time of year in which we expect there to be more mortgage applications because seasonally it's the natural time for people to buy homes," he said. So the fact that there were more mortgage applications last week than the previous week is not necessarily an indication of a recovery.

Feder said that the summer is already the strong home buying season, with the most recent data for June and early July showing a seasonal improvement in transactions over May, as some of the discounted inventory is being absorbed. Although he did point out that transactions for June and July are still lower than in 2007 and significantly lower than 2006.

Home loan rates sank as much as a half percentage point the day after the bailout of Fannie Mae and Freddie Mac. (See "A Failed Business Model" and "U.S. Bails Out Mortgage Giants.")

The MBA's seasonally adjusted index of total mortgage application activity rose 9.5% last week to 496.2, the highest level since mid-July. The past week's results include an adjustment for the Labor Day holiday, which shut U.S. financial markets.

Reuters contributed to this article.