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Pending Home Sales Index Hits Record Low

MoneyNews

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WASHINGTON -- An index that forecasts near-term home sales fell in August to a record low as would-be homebuyers had difficulty getting mortgages.

The National Association of Realtors said Tuesday its seasonally adjusted index of pending sales for existing homes fell 6.5 percent from July and 21.5 percent from a year ago.

August's reading of 85.5 was below analysts' expectations and the lowest ever for the index, which started in January 2001. Analysts surveyed by Briefing.com had predicted the index would fall by 2 percent from July.

The pending home sales index is designed to predict sales levels over the following two months. An index reading of 100 is equal to the average level of sales activity in 2001.

With defaults rising among borrowers with weak credit, lenders in August backed off from all but the safest mortgages.

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The problems, experts say, were seen especially in expensive areas where borrowers need to take out "jumbo" home loans above \$417,000 that can't be sold to government-sponsored mortgage companies Fannie Mae and Freddie Mac

In late August, the gap in mortgage rates between jumbo loans and "conforming" loans below the \$417,000 limit widened to 0.93 percentage points, up from a typical level of 0.2 percentage points, according to financial publisher HSH Associates.

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That difference makes it harder for prospective buyers — particularly in the pricey Northeast and West Coast markets — to afford more expensive homes.

"This is probably the most challenging credit market environment that's faced the housing market in 10 years," said Keith Gumbinger, vice president of HSH.

As of last week, the gap had narrowed to a difference of 0.76 percentage points, with 30-year fixed rate jumbo home loans nationwide averaging 7.22 percent and conforming loans averaging 6.46 percent, according to HSH's weekly survey.

While that's an improvement, Gumbinger said, it could take months for the situation to improve.

In some areas, up to 30 percent of signed contracts fell through in August, said Lawrence Yun, senior economist at the real estate trade group.

"Some creditworthy people are trying to buy homes but can't," Yun said in a prepared statement.

The realtors' index is based on a sample representing about 20 percent of existing home sales nationwide.

Last week the group said that sales of existing single-family homes dropped by 4.3 percent in August to the lowest point in five years. Sales dropped to 5.5 million units that month, the slowest pace since August 2002.

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