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Mortgage Problems Continue to Hamper Pending Home Sales
WASHINGTON, October 02, 2007 -

Pending sales of existing-homes activity will be dampened near-term as mortgage disruptions continue to impact the housing market, according to the National Association of Realtors®.

The Pending Home Sales Index*, a forward-looking indicator, fell 6.5 percent to a reading of 85.5 from an upwardly revised 91.4 in July, based on contracts signed in August. It was 21.5 percent below the August 2006 index of 108.9.

Lawrence Yun, NAR senior economist, said the mortgage market impact is quantifiable. “Fewer contracts were being written because of mortgage availability issues, and a separate internal survey of our members shows more than 10 percent of sales contracts fell through at the last moment in August, primarily the result of canceled loan commitments,” he said. “The volume of activity we’re seeing today is below sustainable market fundamentals because some creditworthy people are trying to buy homes but can’t because of the credit crunch.

“The impact was greater in high-cost markets that are more dependent on jumbo mortgages. In some areas, as much as 30 percent of signed contracts were falling through in August when the credit crunch problem peaked,” Yun said. “The problem has since become less severe, though jumbo loan rates are still higher than they would be under normal conditions. Therefore, sales activity in late fall will better reflect market fundamentals.”

The index is a leading indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing.

Annual changes in the index are more closely related to actual market performance than are month-to-month comparisons. As

the relatively new index matures and seasonal adjustment factors are refined, the month-to-month comparisons will become more meaningful.

An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales.

The PHSI in the West was down 2.7 percent in August to 80.3 and was 27.1 percent below a year ago. In the Midwest, the index fell 2.9 percent from July to 78.1 and is 18.0 percent lower than August 2006. The index in the Northeast fell 8.3 percent in August to 77.3 and was 18.3 percent below a year ago. In the South, the index dropped 9.5 percent in August to 97.8 and was 21.3 percent below August 2006.

The National Association of Realtors®, “The Voice for Real Estate,” is America’s largest trade association, representing more than 1.3 million members involved in all aspects of the residential and commercial real estate industries.

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* The Pending Home Sales Index is based on a large national sample, typically representing about 20 percent of transactions for existing-home sales. In developing the model for the index, it was demonstrated that the level of monthly sales-contract activity from 2001 through 2004 parallels the level of closed existing-home sales in the following two months. There is a closer relationship between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than with month-to-month comparisons.

The forecast will be revised October 10, and existing-home sales for September will be released October 24. The next Pending Home Sales Index will be on November 1.