

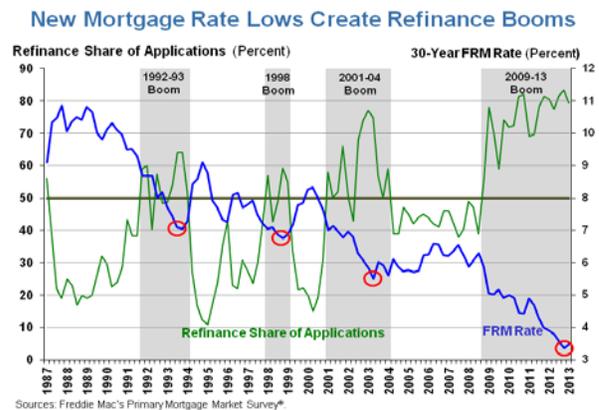


2013 First Quarter Refinance Report

FEW CASH-OUT EQUITY WHEN REFINANCING, MORE SHORTEN TERM

Refinancing homeowners continued to strengthen their fiscal house in the first quarter of this year. Taking advantage of near record low mortgage rates, these homeowners are lowering their monthly payments, shortening their loan terms, and overwhelmingly choosing the safety of long-term fixed-rate mortgages. This trend has remained fairly consistent throughout the Great Recession and into the nascent housing recovery. However, the refinance boom that has occurred over the past three years has peaked and the market is slowing shifting toward more purchase activity. We estimate that refinances will make up approximately two-thirds of single-family originations this year and about one-half in 2014, compared to about 70 to 75 percent in 2012.

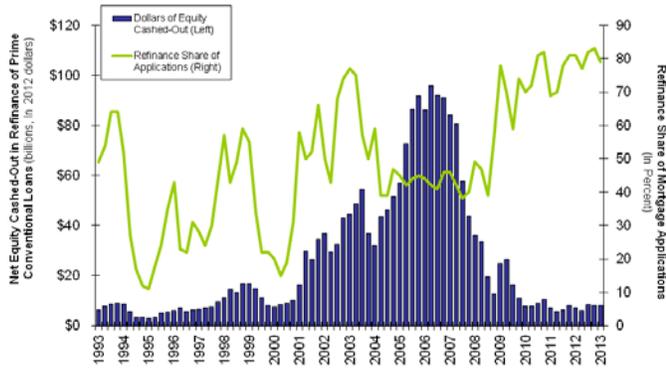
Many homeowners have locked in low rates over the past year and have little financial incentive to refinance again. Further, with interest rates likely to be a bit higher a year from now than they are today, refinance activity is forecasted to decline. We've witnessed this occurrence in the past as mortgage rates rise after a prolonged refinance boom. Since 1986 there have been five periods where the refinances accounted for more than 50 percent of all originations for an extended period and then fell back as rates began to rise.



One trend that has been consistent and notable over the past several years is the move to fixed-rate mortgages. More than 95 percent of refinancing borrowers chose a fixed-rate loan in the first quarter. Fixed-rate loans were preferred regardless what the original loan product had been. For example, 87 percent of borrowers who had a hybrid ARM chose a fixed-rate loan during the first quarter, the highest share since the first quarter of 2010.

To provide greater context and clarity around refinance behavior, starting this quarter we're transitioning to a new consolidated quarterly refinance report that combines Freddie Mac's Cash-Out and Product Transition refinance analysis. The new report provides enhanced analysis conducted to differentiate between refinancing borrowers who pay cash-in at closing to lower their unpaid principal balance (UPB) from those who lowered their UPB prior to closing. Regardless, the focus has always been on various refinance attributes including the 'cash-out' volume, a metric closely watched by those gauging the wealth effect of rising home prices.

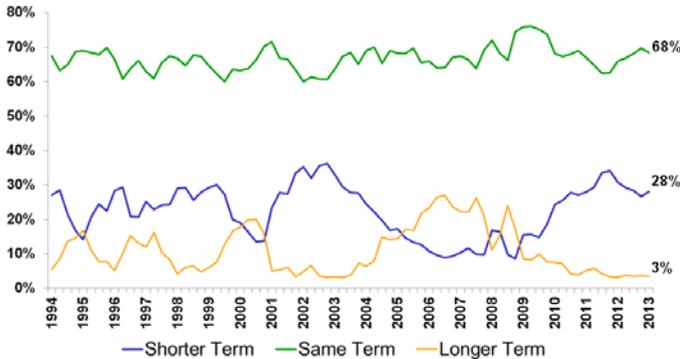
Borrowers Cash-Out Just \$8 Billion When Refinancing



Source: Freddie Mac, Bureau of Labor Statistics (Consumer Price Index) First Quarter 2013, Equity cashed-out adjusted for inflation.

When we look at the net dollars of home equity converted to cash as part of a refinance, adjusted for consumer-price inflation, it remained at a low volume in the first quarter. An estimated \$8.1 billion in net home equity was cashed-out in the first quarter of conventional prime-credit home mortgages, down from an estimated \$8.2 billion in the fourth quarter and substantially less than during the peak cash-out refinance volume of \$84 billion during the second quarter of 2006.

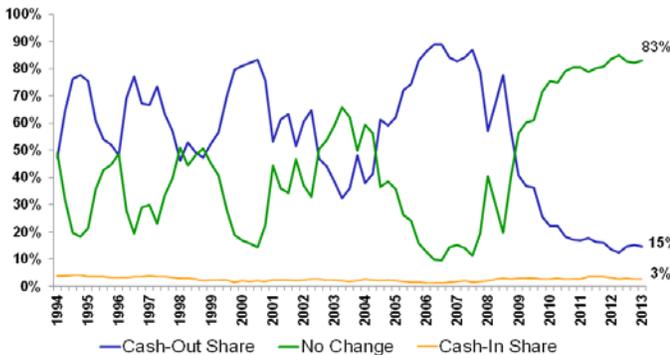
28% Shortened Loan Term When Refinancing



Source: Freddie Mac Product Transition data. Balloons are excluded from the analysis. Percentages rounded to nearest whole number.

Of borrowers who refinanced during the first quarter, 28 percent shortened their loan term, while 68 percent of borrowers kept the same term as the loan that they had paid off; 3 percent chose to lengthen their loan term. Those shortening their loan term largely reflect those taking advantage of the 15-year fixed-rate mortgage, a popular option for those looking to pay off their home sooner, while saving considerably on interest payments over the life of the loan.

15% Took "Cash-Out" At Refinance vs. 89% in Q3 2006



Source: Freddie Mac Cash-Out Refinance Report data. First quarter 2013. Percentages rounded to the nearest whole number.

Likewise, 85 percent of those who refinanced their first-lien home mortgage either maintained about the same loan amount or lowered their principal balance by paying-in additional money at the closing table. That's just shy of the 88 percent peak during the second quarter of 2012. Of these borrowers, 83 percent maintained about the same loan amount, and 3 percent reduced their principal balance (percentages do not sum to 100 percent due to rounding).

Fixed mortgage rates remained near their record lows with 30-year product averaging 3.50 percent and 15-year averaging 2.74 percent in the first quarter of 2013, according to our Primary Mortgage Market Survey®. On net, borrowers who refinanced in the first quarter of 2013 will save approximately \$7 billion in interest savings over the next 12 months. For the individual borrower the average interest rate reduction was about 1.9 percentage points--a savings of about 35 percent, and the largest percent reduction recorded in the 27 years of analysis. On a \$200,000 loan, that translates into saving about \$3,800 in interest during the next 12 months.

As we noted above, our analysis also shows that more borrowers are paying their principal down faster than the scheduled amortization prior to refinancing. Before the Great Recession this segment represented between 3 and 9 percent of all borrowers by year; since then about 11 to 19 percent have paid down additional principal prior to refinance. This could reflect the choice by borrowers to pay down the principal to avoid paying mortgage insurance, needing to meet a desired loan-to-value threshold in order to refinance. Additionally, this reflects those borrowers who make an extra payment toward principal whenever possible.

While all borrowers have benefited from refinancing, HARP has enabled many borrowers that traditionally would not have had access to refinance to obtain low rates and significantly reduce their interest rate and monthly payment. The program has helped about 2.5 million refinancing borrowers since its inception through March 2013. HARP loans made up just over 20 percent of first quarter refinance loans purchased by Freddie Mac and Fannie Mae.

For loans refinanced during the first quarter through HARP, the median depreciation in property value was 28 percent, the prior loan had a median age of about 6 years (to be eligible for HARP, the prior loan had to be originated before June 1, 2009), and the HARP borrower with a 30-year fixed-rate refinance (no product change) had an average interest-rate reduction of 2.1 percentage points. Homeowners who refinanced through HARP during the first quarter of 2013 will save an average of \$4,300 in interest payments during the first 12 months, or about \$358 every month.

For all other (non-HARP) refinances during the first quarter, the median property had very little change in property value between the dates of placement of the old loan and the new refinance loan, the prior loan had a median age of 4.1 years, and borrowers who refinanced a 30-year fixed-rate into the same product had an average interest-rate decline of 1.6 percentage points.

With the extension of the HARP program through 2015, now even more underwater borrowers can benefit increasing the likelihood they'll continue to perform on their loan and remain homeowners.

Borrowers everywhere have welcomed the prolonged period of low interest rates. It has enabled more borrowers to obtain refinancing to strengthen their fiscal house while at the same time helped boost home sales and strengthen the housing recovery.

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June 6, 2013

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About the Quarterly Refinance Report

These estimates come from a sample of properties on which Freddie Mac has funded two successive conventional, first-mortgage loans, and the latest loan is for refinance rather than for purchase. The analysis does not track the use of funds made available from these refinances. The analysis also does not track loans paid off in entirety, with no new loan placed. Some loan products, such as 1-year ARMs and balloons, are based on a small number of transactions. During the first quarter of 2013, the refinance share of applications averaged 79 percent in Freddie Mac's monthly refinance survey, and the ARM share of applications was 5 percent in Freddie Mac's monthly ARM survey, which includes purchase-money as well as refinance applications.

With the report for the first quarter of 2013, the calculation of the principal balance at payoff of the previous loan has been modified. Previously, the payoff balance was calculated as the amount due based on the loan's amortization schedule, and "cash-in" was defined as a new loan amount that was less than the scheduled amortization amount. Data for 1994 to current have been recalculated using the actual payoff amount of the old loan, with an allowance for rounding down the principal at refinance; thus, from 1994 to present, "cash-in" is defined as a new loan amount that is at least \$1,000 less than the payoff principal balance of the old loan. Data are presented under both methods for 1994 for comparison purposes.

- [First Quarter 2013 Refinance Statistics](#)

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