



2013 Third Quarter Refinance Report

TWO-IN-FIVE BORROWERS SHORTEN TERM WHEN REFINANCING

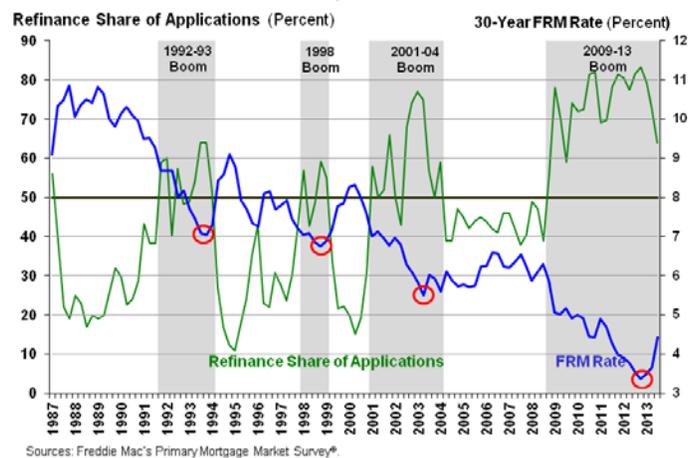
Last quarter we estimated that refinances would make up approximately 60 to 65 percent of single-family originations this year and about 40 percent in 2014, compared to about 70 percent in 2012. We're maintaining this projection as we see a fairly consistent pattern among borrowers from the previous quarter.

Those homeowners who did refinance continued to strengthen their fiscal house in the third 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.

One noticeable difference this quarter was the impact of higher mortgage rates. The refinance burnout was exacerbated this summer when markets were sent reeling over "Taper Talk" speculating that the Federal Reserve would begin to wind down its bond and mortgage-backed security purchasing program. This resulted in nearly a full percentage point increase in the 30-year fixed-rate mortgage. However, based on our analysis the spike in fixed mortgage rates didn't drive a noticeable increase of borrowers to adjustable-rate mortgages. In fact, similar to the second quarter, more than 95 percent of refinancing borrowers chose a fixed-rate loan in the third quarter. Fixed-rate loans were preferred, regardless of the original loan product. For example, 86 percent of borrowers who had a hybrid ARM refinanced into a fixed-rate loan during the second quarter. In contrast, only 3 percent of borrowers who had a fixed-rate loan chose an ARM.

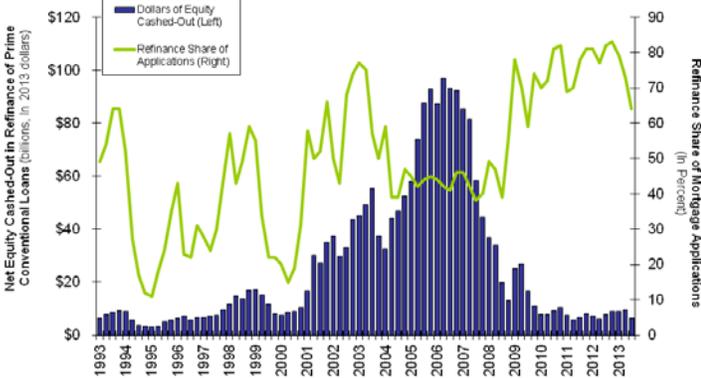
With mortgage rates remaining below 5 percent for most of the past four years, relatively few homeowners with loans taken in this time would have much incentive to refinance. Consequently, the median age of the original loan that was outstanding before refinancing increased to 6.7 years during the third quarter, the most since the analysis began in 1985.

Refi Booms End Quickly As Rates Come Off Lows



Sources: Freddie Mac's Primary Mortgage Market Survey®.

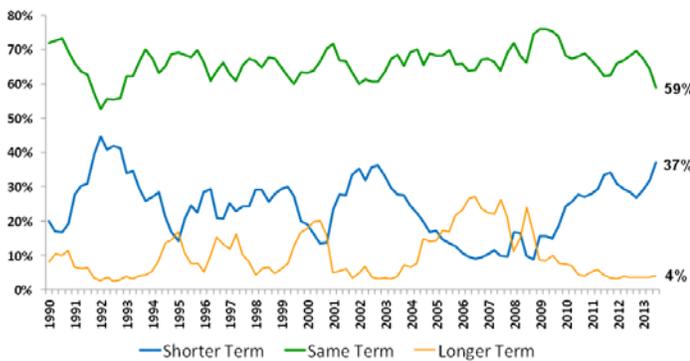
Borrowers Cash-Out About \$6 Billion When Refinancing



Source: Freddie Mac, Bureau of Labor Statistics (Consumer Price Index) Third Quarter 2013, Equity cashed-out adjusted for inflation (2013 CPI – All Urban Consumers SA, data through September)

The net dollars of home equity converted to cash as part of a refinance remained low in the third quarter. An estimated \$6 billion in net home equity of conventional prime-credit home mortgages was cashed-out in the third quarter, almost \$3 billion less than in the second quarter and substantially less than the peak cash-out refinance volume of \$84 billion during the second quarter of 2006. Adjusting for inflation, annual cash-out volumes from 2010 through 2012 have not been this low since 1997.

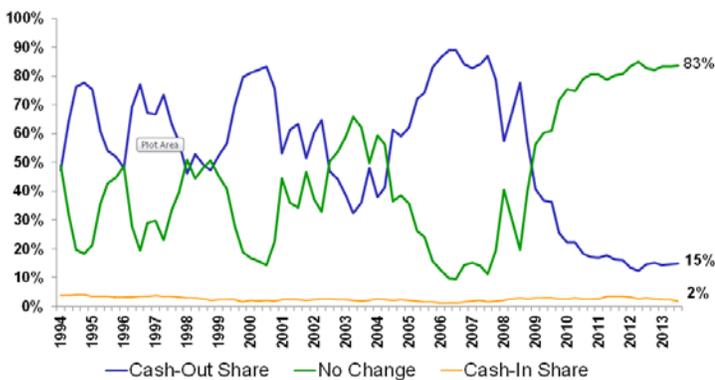
37% Shortened Loan Term When Refinancing



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

Of borrowers who refinanced during the third quarter, 37 percent (a 6 percent increase from the previous quarter) shortened their loan term, while 59 percent of borrowers kept the same term as the loan that they had paid off; 4 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: contract rates on 15-year loans were nearly a percentage point below 30-year loans during the third quarter, the largest difference ever recorded in our Primary Mortgage Market Survey®.

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



Source: Freddie Mac Cash-Out Refinance Report data. Third 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 third quarter of 2012. Of these borrowers, 83 percent maintained about the same loan amount and 2 percent reduced their principal balance--nearly identical to the previous quarter.

Fixed mortgage rates remained low albeit above their record lows, with the 30-year product averaging 4.44 percent and 15-year averaging 3.48 percent in the third quarter of 2013, according to our Primary Mortgage Market Survey®. On net, borrowers who refinanced in the third quarter of 2013 will save more than \$6 billion in interest over the next 12 months. For the individual borrower, the average interest rate reduction was about 1.8 percentage points--a savings of about 30 percent. On a \$200,000 loan, that translates into saving about \$3,500 in interest during the next 12 months.

Our analysis also shows that more borrowers are paying their principal down faster than the scheduled amortization prior to refinancing. Traditionally, this has reflected those borrowers who make an extra payment toward principal whenever possible. 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 refinancing. This could reflect the decision of some borrowers to pay down their principal further to avoid paying mortgage insurance.

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 2.9 million refinancing borrowers since its inception through August 2013. HARP loans made up over 20 percent of third quarter refinance loans purchased by Freddie Mac and Fannie Mae.

For loans refinanced during the third quarter through HARP, the median depreciation in property value was 25 percent, the prior loan had a median age of 6.5 years (to be eligible for HARP, the prior loan had to be delivered to Freddie Mac or Fannie Mae with a note date on or before May 31, 2009) and HARP borrowers with a 30-year fixed-rate refinance (no product change) had an average interest-rate reduction of 1.75 percentage points. Further, 32 percent of borrowers using HARP shortened their loan term. Homeowners who refinanced through HARP during the third quarter of 2013 will save an average of \$3,850 in interest during the first 12 months, or about \$320 every month.

For all other (non-HARP) refinances during the third quarter, the median property had very little change in value (up 1 percent) between the dates of placement of the old loan and the new refinance loan, the prior loan had a median age of 7.0 years, borrowers who refinanced a 30-year fixed-rate into the same product had an average interest-rate decline of 1.4 percentage points, and 40 percent of borrowers shortened their loan term.

The housing market should continue to see a noticeable shift from refinance to purchase-money activity during the remainder of this year with the refinance share of originations projected to be less than 50 percent by the fourth quarter.

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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 third quarter of 2013, the refinance share of applications averaged 64 percent in Freddie Mac's monthly refinance survey, and the ARM share of applications was 7 percent in Freddie Mac's monthly ARM survey, which includes purchase-money as well as refinance applications.

Starting 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.

- [Third quarter 2013 Refinance Statistics](#)

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