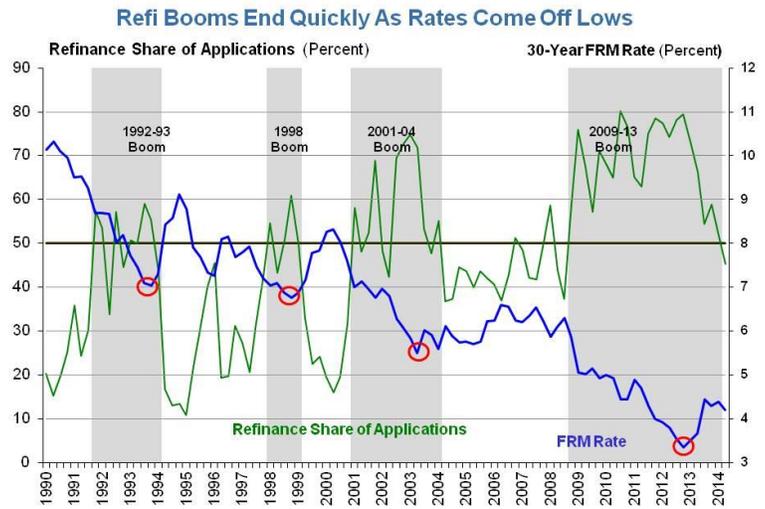




2014 Second Quarter Refinance Report

Cash-Out Refinancing Ticks Higher As Boom Ends

The refinance boom is over. Freddie Mac's latest Refinance Report shows that the refinance boom the industry has seen since the onset of the Great Recession ended in the second quarter of 2014. The share of borrowers refinancing fell below 50 percent for the first time since the third quarter of 2008. This represents the longest boom since Freddie Mac started its quarterly report in 1990.



Sources: Mortgage Bankers Association Weekly Mortgage Application Survey: Activity by Dollars, Total Market Refi Share (NSA), Freddie Mac's Primary Mortgage Market Survey®.

Borrowers significantly reduced their mortgage interest payments during the second quarter and increasingly chose products that quicken their pay down of principal. During the second quarter of 2014, borrowers cut their mortgage rate by about one-fourth, or an average interest-rate reduction of 1.4 percentage points, through refinance. Further, 40 percent of homeowners refinanced into a shorter-term fully amortizing loan, to pay down principal and build home equity faster than on their previous loan. In light of the geographically broad house-price appreciation over the past two years, both of these characteristics assure that homeowners are building wealth through home equity acquisition.

The Federal Reserve Board's Flow of Funds report has documented the growth in home equity. In aggregate across the U.S., home equity grew by an estimated \$4.1 trillion during the two-year period through March 31, 2014. Much of this gain was attributable to home value gains. For instance, the Freddie Mac House Price Index for the U.S. rose 17 percent over this same period. Nonetheless, the minimal level of cash-out refinance activity coupled with the shorter terms homeowners have taken out through refinance over the past couple years have accelerated principal pay down and contributed to the rebound in home-equity accumulation.

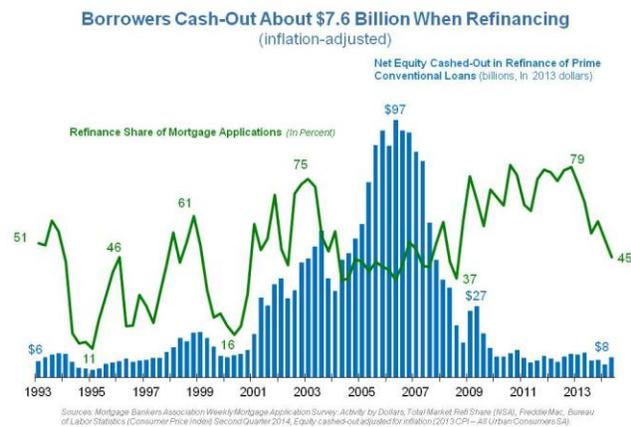
Freddie Mac's Primary Mortgage Market Survey® (PMMS) has documented that shorter-term loans have a lower interest rate than longer-term loans. For example, during the first six months of 2014, 15-year fixed-rate mortgages had a rate that was nearly a full percentage point less than the rate on a 30-year fixed-rate loan (3.36 percent versus 4.30 percent). Thus, the

relatively large share of borrowers who shorten their term when refinancing has helped to lower the total interest paid on mortgage debt outstanding.

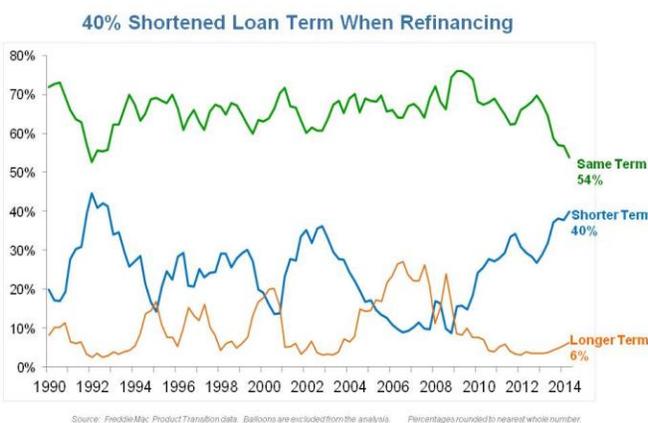
Based on the analysis contained in Freddie Mac’s Refinance Report, we estimate that borrowers who refinanced in the second quarter will save on net more than \$1 billion in interest payments over the first 12 months of their new loan. For those refinancing in the second quarter, the average interest rate reduction was about 1.4 percentage points -- a savings of about 24 percent. On a \$200,000 loan, that translates into mortgage interest savings on average of about \$2,800 during the next 12 months.

Homeowners who refinanced through the Home Affordable Refinance Program (HARP) benefited from an average interest rate reduction of 1.6 percentage points. For a \$200,000 loan this means saving an average of more than \$3,200 in mortgage interest payments during their first 12 months or about \$260 every month.

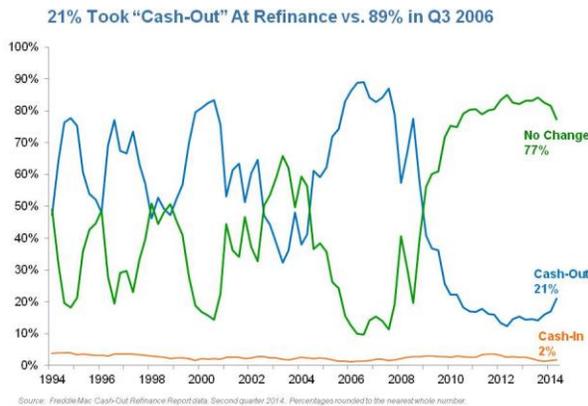
With mortgage rates remaining below 5 percent for the past four years, relatively few homeowners with loans taken in this period would have much incentive to refinance. Consequently, the median age the original loan was outstanding before refinance remained at 7.3 years during the second quarter, the most since our analysis began in 1985.



In the second quarter, an estimated \$7.8 billion in net home equity was cashed out during refinances of conventional prime-credit home mortgages compared to the revised first quarter estimate of \$5.0 billion. This remains low compared to historical volumes. The peak in cash-out refinance volume was \$84 billion during the second quarter of 2006. Adjusted for inflation (see chart to the left) annual cash-out volumes during 2010 through 2013 have been the smallest since 1997.



Of borrowers who refinanced during the second quarter of 2014, 40 percent shortened their loan term, up slightly from the previous quarter and the highest since 1992. The difference between 30-year and 15-year fixed-rate loans averaged 0.94 percentage points during January-to-June 2014 in our PMMS, the largest semi-annual average difference we have ever recorded. Many borrowers have taken advantage of this difference to shorten their loan term.



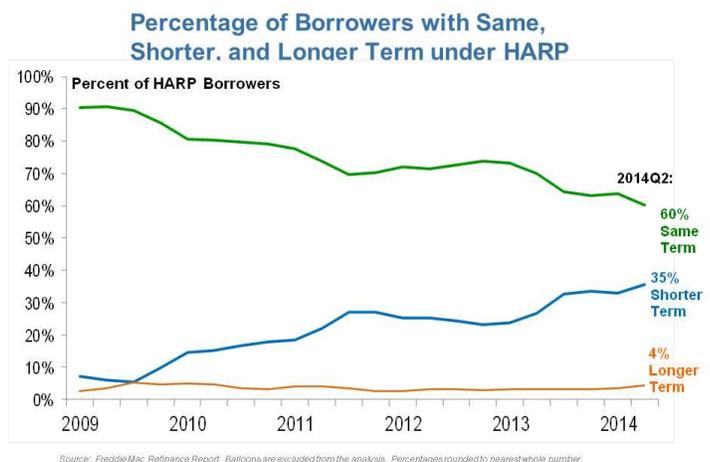
About 79 percent of those who refinanced their first-lien home mortgage maintained about the same loan amount or lowered their principal balance by paying in additional money at the closing table, a 4 percent decline from last quarter. Roughly 21 percent took cash-out at the time of refinancing versus 17 percent from last quarter and 15 percent from the same time last year. The peak cash-out share was 89 percent in the third quarter of 2006.

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 2 and 10 percent of all borrowers by year; since then about 16 to 20 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 3.2 million refinancing borrowers since its inception through May 2014. HARP loans made up about 19 percent of refinance loans purchased by Freddie Mac and Fannie Mae during the first five months of 2014.

For loans refinanced during the second quarter of 2014 through HARP, the median depreciation in property value was 22 percent, the prior loan had a median age of 7.3 years (to be eligible for HARP, the prior loan had to be originated on or before May 31, 2009) and 35 percent of borrowers shortened their loan term.

Since late 2011, borrowers who shorten their loan term when obtaining a HARP refinance have some of their fees waived, providing an additional incentive to shorten their term. During the first year of HARP (the Federal Housing Finance Agency authorized the program on February 18, 2009), less than 10 percent of HARP borrowers shortened their term; during the past four quarters, one-third of HARP borrowers shortened their term. Significantly lower interest rates and shorter terms have been two



features of the program that have been very important to program participants.

For all other (non-HARP) refinances during the second quarter, the median property value was up 4 percent between the dates of placement of the old loan and the new refinance loan. The prior loan had a median age of 7.4 years and 42 percent of borrowers shortened their loan term.

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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.

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.

- [Second Quarter 2014 Refinance Statistics](#)

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