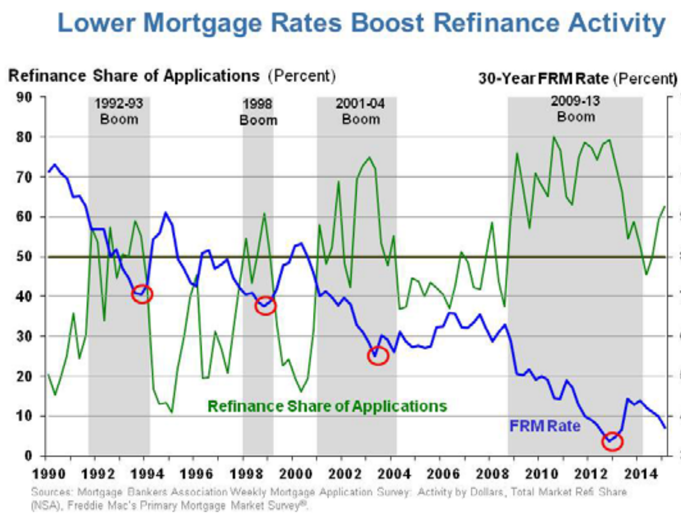
Office of the Chief Economist

2015 First Quarter Refinance Report

Lower Mortgage Rates Boost Refinance Activity

Refinancing activities increased in the first quarter of 2015 as homeowners took advantage of low interest rates. Refinances made up approximately 63 percent of single-family applications in the first quarter of this year, according to the Mortgage Bankers Association Weekly Mortgage Application Survey. Refinance volume will likely remain high as long as mortgage rates remain low, but we expect rates to rise gradually throughout the remainder of the year.



Once mortgage rates start to increase, refinance booms end quickly as we saw in 2013 when the refinance share dipped below 50 percent following rate increases in May and June of that year. Low rates and strong refinance activity has persisted through the first four months of this year, and we anticipate rates to remain low through at least the second quarter of 2015. Low mortgage rates and surging refinance activity will allow American households to save billions of dollars in interest savings.

Borrowers who refinanced in the first quarter will save on net over $1.4 billion in interest over the first 12 months of their new loan. Over the course of the first quarter, borrowers took advantage of near record low mortgage rates to lower their monthly payments, shorten their loan terms and overwhelmingly choose the safety of long-term fixed-rate mortgages - more than 95 percent of refinancing borrowers chose a fixed-rate loan. Fixed-rate loans were preferred regardless of what the original loan product had been.

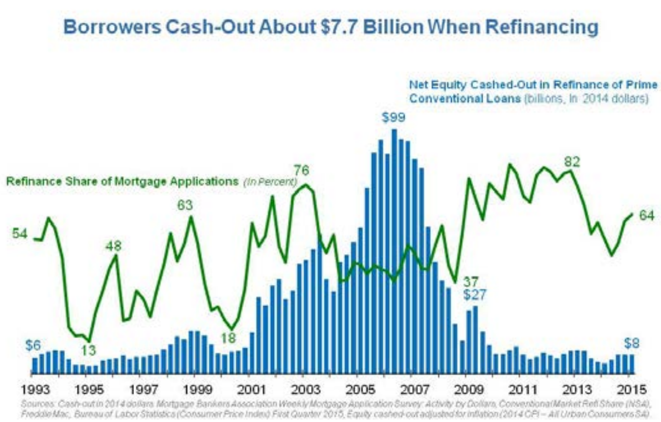
And when they refinanced, borrowers significantly reduced their mortgage interest payments during the first quarter and often chose products that quickened their pay down of principal. During the first quarter of 2015, borrowers cut their mortgage rate by almost one-fourth, or an average interest-rate reduction of 1.2 percentage points, through refinancing. Further, 34 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 as the equity in their homes increases.

According to the Freddie Mac Primary Mortgage Market Survey® (PMMS) from January to March, 15-year fixed-rate mortgages had a rate that was about 0.71 percentage points less than the rate on a 30-year fixed-rate loan (3.01 percent versus 3.72 percent). Thus, the relatively large share of borrowers who shorten their mortgage loan term when refinancing has helped to lower the total interest paid on mortgage debt outstanding.

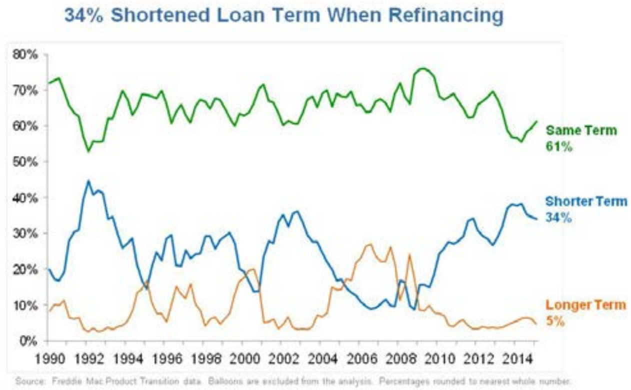
We estimate that borrowers who refinanced in the first quarter will save on net more than $1.4 billion in interest payments over the first 12 months of their new loan. The average interest rate reduction was about 1.2 percentage points -- a reduction of about 24 percent. On a $200,000 loan, that translates into mortgage interest savings on average of almost $2,500 during the next 12 months.

Homeowners who refinanced through the Home Affordable Refinance Program (HARP) benefited from an average interest rate reduction of 1.8 percentage points. For a $200,000 loan this means saving an average of more than $3,500 in mortgage interest payments during their first 12 months or about $290 every month.

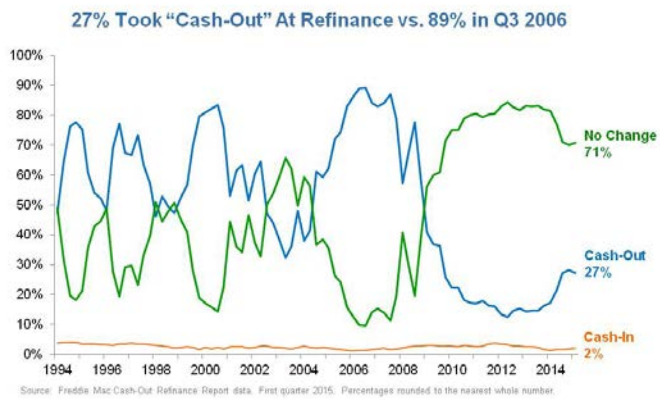
With mortgage rates dropping, many borrowers have had an increased incentive to refinance. Consequently, the median age of the original loan outstanding before refinance fell to 5.6 years during the first quarter, the lowest level since the fourth quarter of 2012. Amongst non-HARP refinances the median age of the original loan outstanding before refinance fell 1.1 years (from 5.8 to 4.7 years).



In the first quarter, an estimated $7.7 billion in net home equity was cashed out during refinances of conventional prime-credit home mortgages compared to the revised fourth quarter estimate of $7.6 billion (in 2014 dollars). This remains low compared to historical volumes. The peak in cash-out refinance volume was $84 billion during the second quarter of 2006 ($99 billion in 2014 dollars).



Of borrowers who refinanced during the first quarter of 2015, 34 percent shortened their loan term, down slightly from the previous quarter. The difference between 30-year and 15-year fixed-rate loans averaged 0.71 percentage points during the first quarter in our PMMS. Many borrowers have taken advantage of this difference to shorten their loan term.



About 73 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, about the same as last quarter. Roughly 27 percent took cash-out at the time of refinancing versus 17 percent from the same time last year. The peak cash-out share was 89 percent was in the second and third quarters of 2006.

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 3.3 million refinancing borrowers since its inception through February 2015. HARP loans made up about 6 percent of refinance loans purchased by Freddie Mac and Fannie Mae during the first 2 months of 2015.

For loans refinanced during the first quarter of 2015 through HARP, the median depreciation in property value was 22 percent, the prior loan had a median age of 7.8 years (to be eligible for HARP, the prior loan had to be originated on or before May 31, 2009) and 36 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, more than 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 HARP participants.

For all other (non-HARP) refinances during the first quarter, the median property value was up 5 percent between the dates of placement of the old loan and the new refinance loan. The prior loan had a median age of 4.7 years and 34 percent of borrowers shortened their loan term.

Leonard Kiefer, Deputy Chief Economist
Penka Trentcheva, Statistician
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www.freddiemac.com/news/finance **chief_economist@freddiemac.com**

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.

- First Quarter 2015 Refinance Statistics