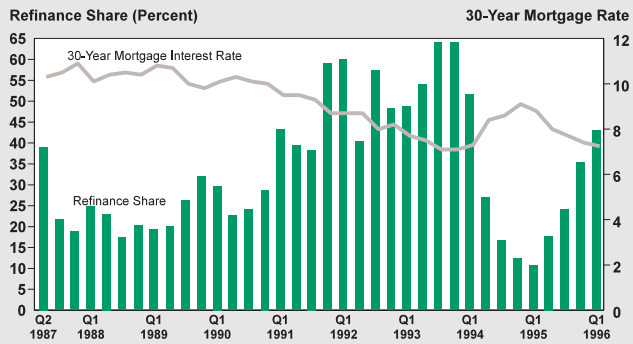


Refinances Rebound with Short-Lived Rate Drop

The two-percentage point drop in 30-year mortgage interest rates during the second half of 1995 set off a burst of refinancing activity. Compared to the 1992–1993 refinancing boom, borrowers during this latest refi wave unloaded newer mortgages, opted primarily for 30-year loans and split evenly between cash-out and no-cash-out transactions.

The declining interest rates in late 1995 provided a refinancing opportunity for borrowers who purchased homes when rates topped 8 percent and then 9

FIGURE 1: Lower Interest Rates Spur Refinances



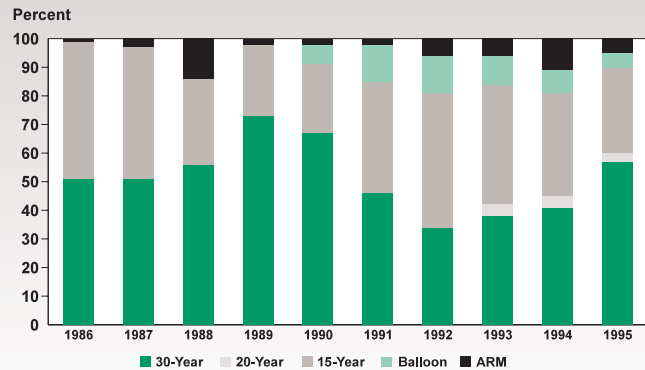
Source: Freddie Mac Primary Mortgage Market Survey (PMMS)

percent in late 1994 and early 1995 (Figure 1). Interest rates hovered just above 7 percent toward year's end, quadrupling the refinancing share of mortgage applications to 40 percent from 10 percent. Unless rates slide closer to the 20-year low of 6.83 percent

recorded in October 1993, however, refinancing volume in 1996 will not return to record levels.

—Vassilis Lekkas, senior economist

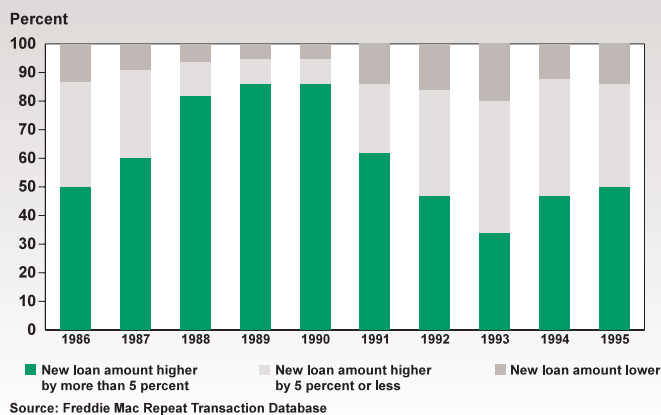
FIGURE 2: Interest Rates Drive Borrower Loan Choices



Note: Freddie Mac purchases of 20-year mortgages prior to 1993 were categorized as 30-year fixed-rate mortgages.
Source: Freddie Mac Repeat Transaction Database

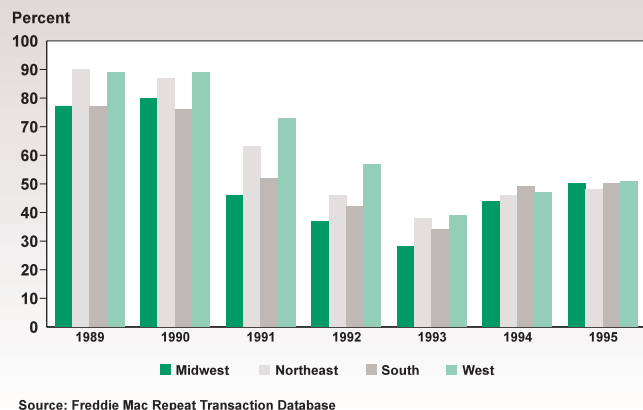
The majority of borrowers refinancing in 1995 selected 30-year mortgages over other loan products. Higher medium-term interest rates relative to recent years largely propelled the product choices made by borrowers. During periods of lower interest rates, many refinancers choose 15-year loans.

FIGURE 3: Cash-Out Loans Drop When House-Price Appreciation Slows



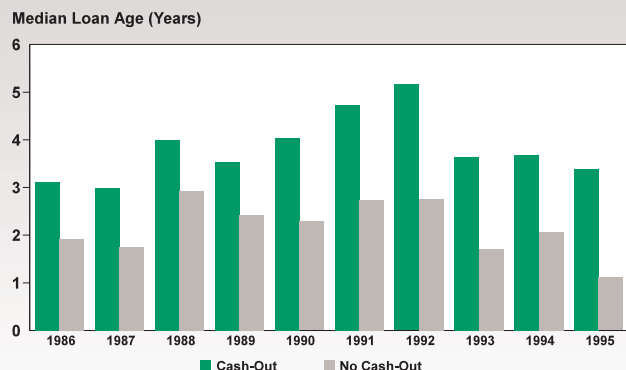
Only 50 percent of borrowers who refinanced in 1995 took cash out of the deal, signaled by loan amount increases of more than 5 percent. Modest house-price growth in 1994 and 1995 prevented many borrowers from accumulating enough equity to convert to cash. On the other hand, the 14 percent of borrowers who refinanced into lower loan balances last year lacked sufficient equity to refinance without bringing more cash to the table. Alternatively, they simply wanted to reduce their debt loads. When mortgage interest rates are relatively high and house-price growth is robust, most refinances occur because borrowers want to cash in some of the equity in their homes, as was the case in 1989 and 1990.

FIGURE 4: Regional Differences in Cash-Out Activity Narrow



Cash-out refinancing was uniformly modest across the four census regions in 1995, largely due to moderate house-price growth across the nation. Cash-out refinancing activity last year ranged from 48 percent in the Northeast to 51 percent in the West. In previous years, wider differences in house-price appreciation rates led to more significant differences in cash-out activity among regions.

FIGURE 5: Borrowers Refinance Younger Loans



Note: Cash-out refinancings resulted in new loan amounts that were higher by more than 5 percent.
Source: Freddie Mac Repeat Transaction Database

The median age of no-cash-out loans dropped to 1.1 years in 1995 from 2.1 years in 1994. This indicates that many borrowers last year refinanced loans made just one year earlier in order to take advantage of lower interest rates. Borrowers seeking a lower interest rate generally swap out of younger loans than borrowers who refinance to take cash out of their properties. Those who take cash out are trading in older loans with accumulated equity. The median age of cash-out refinance loans last year was 3.4 years. At the onset of the 1992–1993 refi boom, the median age of such loans reached a decade high of 5.2 years.