

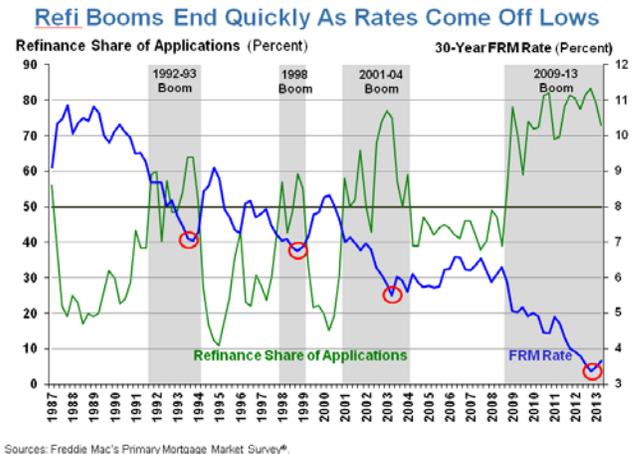


2013 Second Quarter Refinance Report

## Term-Shortening Trend Continued with Low Mortgage Rates

Refinancing homeowners continued to strengthen their fiscal house in the second 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 of the past three years has peaked and the market is slowing shifting toward more purchase activity. We estimate that refinances will make up approximately 60 to 65 percent of single-family originations this year and about 40 percent in 2014, compared to about 70 to 75 percent in 2012.

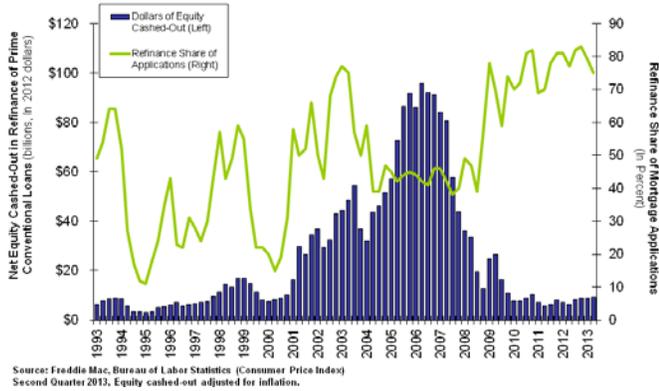
Many homeowners have locked in low rates over the past year and have little financial incentive to refinance again. Further, with interest rates projected to be at or above 5 percent a year from now, refinance activity is forecasted to decline. We've witnessed this occurrence in the past as mortgage rates rose after a prolonged refinance boom. Since 1986 there have been four periods where refinances accounted for more than 50 percent of all originations for an extended period and then fell back as rates began to rise.



Similar to the first quarter, more than 95 percent of refinancing borrowers chose a fixed-rate loan in the second quarter. Fixed-rate loans were preferred, regardless of the original loan product. For example, 79 percent of refinancing borrowers who had a hybrid ARM refinanced into a fixed-rate loan during the second quarter. Whereas, 2 percent who had a fixed-rate mortgage chose a hybrid ARM, well below the peak of 24 percent in the third quarter of 2004.

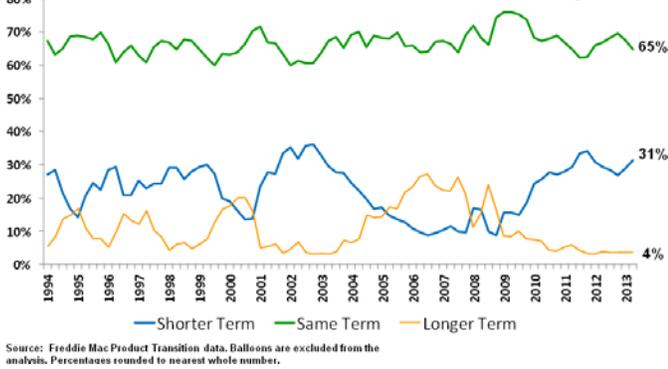
To provide greater context and clarity around refinance behavior, in the first quarter of 2013, we transitioned to a new consolidated quarterly refinance report that combines Freddie Mac's Cash-Out and Product Transition refinance analysis. The new report provides enhanced analysis conducted to differentiate 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 About \$9 Billion When Refinancing**



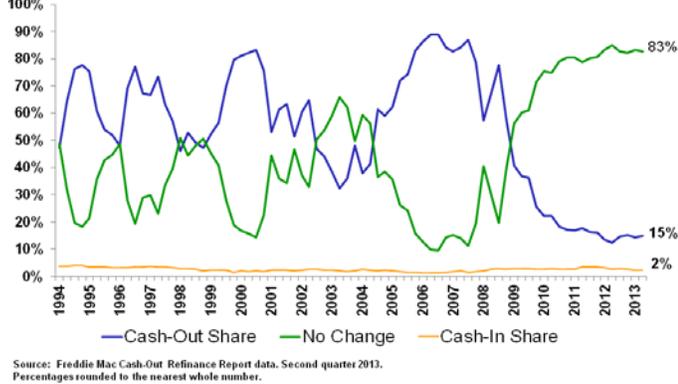
The net dollars of home equity converted to cash as part of a refinance remained low in the second quarter. An estimated \$9.5 billion in net home equity of conventional prime-credit home mortgages was cashed-out in the second quarter, slightly up from an estimated \$9.1 billion in the first quarter 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.

**31% Shortened Loan Term When Refinancing**



Of borrowers who refinanced during the second quarter, 31 percent (a 3 percent increase from the previous quarter) shortened their loan term, while 65 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.

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



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 2 percent reduced their principal balance.

Fixed mortgage rates remained near their record lows, with 30-year product averaging 3.67 percent and 15-year averaging 2.84 percent in the second quarter of 2013, according to our Primary Mortgage Market Survey®. On net, borrowers who refinanced in the second 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 1.9 percentage points--a savings of about 35 percent. On a \$200,000 loan, that translates into saving about \$3,700 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 2.7 million refinancing borrowers since its inception through June 2013. HARP loans made up over 20 percent of second quarter refinance loans purchased by Freddie Mac and Fannie Mae.

For loans refinanced during the second quarter through HARP, the median depreciation in property value was 26 percent, the prior loan had a median age of about 6 years (to be eligible for HARP, the prior loan had to be delivered to Freddie Mac or Fannie Mae 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 2.0 percentage points. Homeowners who refinanced through HARP during the second quarter of 2013 will save an average of \$4,300 in interest during the first 12 months, or about \$358 every month.

For all other (non-HARP) refinances during the second quarter, the median property had very little change in value between the dates of placement of the old loan and the new refinance loan, the prior loan had a median age of 5.2 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.

As the refinance boom comes to a close we should start to see a noticeable shift in activity during the second half of the year, as mortgage rates have increased a full percentage point since mid-May. The impact should result in a smaller refinance share of originations (projected to be less than 50 percent by the fourth quarter) as well as refinance savings to borrowers, and an increase in the share of refinance originations completed under HARP.

Frank E. Nothaft  
Chief Economist  
August 13, 2013

Leonard Kiefer  
Deputy Chief Economist

[www.freddiemac.com/news/finance](http://www.freddiemac.com/news/finance)

[chief\\_economist@freddiemac.com](mailto: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. During the second quarter of 2013, the refinance share of applications averaged 73 percent in Freddie Mac's monthly refinance survey, and the ARM share of applications was 6 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.

- [Second Quarter 2013 Refinance Statistics](#)

*Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Office of the Chief Economist, do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac's business prospects or expected results, and are subject to change without notice. Although the Office of the Chief Economist attempts to provide reliable, useful information, it does not guarantee that the information is accurate, current or suitable for any particular purpose. The information is therefore provided on an "as is" basis, with no warranties of any kind whatsoever. Information from this document may be used with proper attribution. Alteration of this document is strictly prohibited.*  
© 2013 by Freddie Mac.