

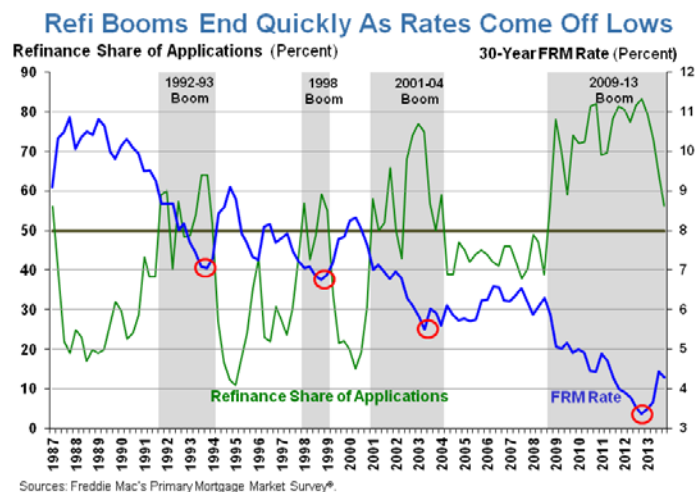


Office of the Chief Economist

2013 Fourth Quarter Refinance Report

BORROWERS WHO REFINANCED IN 2013 SAVING OVER \$21 BILLION IN INTEREST PAYMENTS OVER THE COMING YEAR

In our January 2014 Outlook we estimated that refinances made up approximately 60 percent of single-family originations in 2013 and are forecast to be about 38 percent in 2014, compared to about 70 percent in 2012. As the origination market evolves from a refinance boom to a purchase-money dominated mix, borrowers who refinance late in the 'boom' have some characteristics that differ from those who refinanced early in the boom: nationally, we see that many borrowers are shortening their term. This release of the report also contains annual statistics on refinances for over 20 of the largest metropolitan areas and four regions of the U.S.

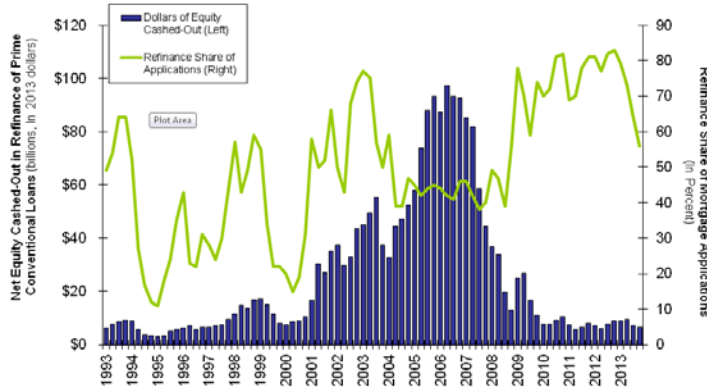


Borrowers who refinanced in 2013 will save on net approximately \$21 billion in interest over the first 12 months of their new loan. Over the course of last year, borrowers continued to take advantage of near record low mortgage rates to lower their monthly payments, shorten their loan terms and overwhelmingly choosing 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. For example, 94 percent of borrowers who had a hybrid ARM refinanced into a fixed-rate loan during the fourth quarter. In contrast, only 3 percent of borrowers who had a fixed-rate loan chose an ARM.

Those homeowners who did refinance continued to strengthen their fiscal house during 2013. Fixed mortgage rates remained low historically, although they trended higher in the second half of 2013. For 2013 as a whole, the 30-year fixed-rate product averaged 3.98 percent and 15-year averaged 3.11 percent, according to our Primary Mortgage Market Survey®. The average interest rate reduction was about 1.9 percentage points -- a savings of about 33 percent. On a \$200,000 loan, that translates into savings on average of \$3,600 in interest during the next 12 months. Homeowners who refinanced through HARP during 2013 benefited from an average rate reduction of 2.1 percentage points and will save an average of more than \$4,100 in interest during their first 12 months, or about \$345 every month.

With mortgage rates remaining below 5 percent for most of 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 increased to 7.0 years during the fourth quarter, the most since our analysis began in 1985.

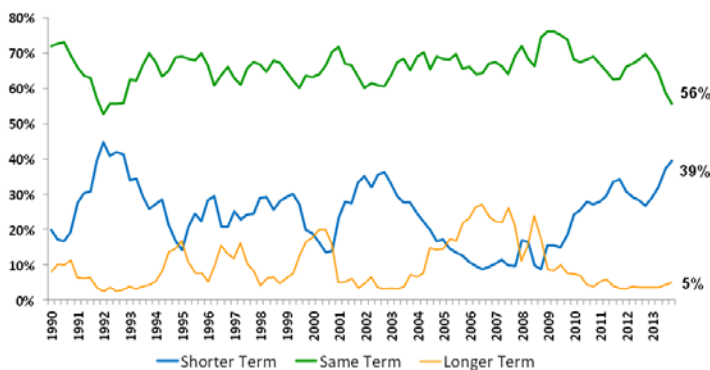
Borrowers Cash-Out About \$6.5 Billion When Refinancing



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

The net dollars of home equity converted to cash as part of a refinance remained low compared to historical volumes. In the fourth quarter, an estimated \$6.5 billion in net home equity was cashed out during a refinance of conventional prime-credit home mortgages. The peak in cash-out refinance volume was \$84 billion during the second quarter of 2006. Adjusted for inflation, annual cash-out volumes during 2010 through 2013 have been the smallest since 1997.

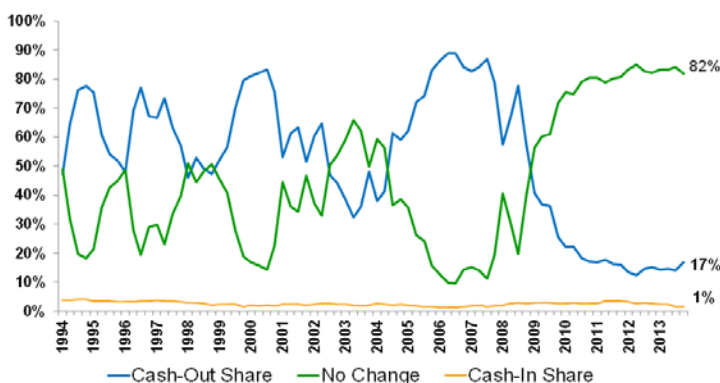
39% Shortened Loan Term When Refinancing



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

Of borrowers who refinanced during the fourth quarter of 2013, 39 percent shortened their loan term, up 2 percent from the previous quarter and the highest since 1992. The difference between 30-year and 15-year fixed-rate loans averaged 0.87 percentage points during 2013 in our Primary Mortgage Market Survey®, the largest average difference we have ever recorded. Many borrowers have taken advantage of this difference to shorten their loan term.

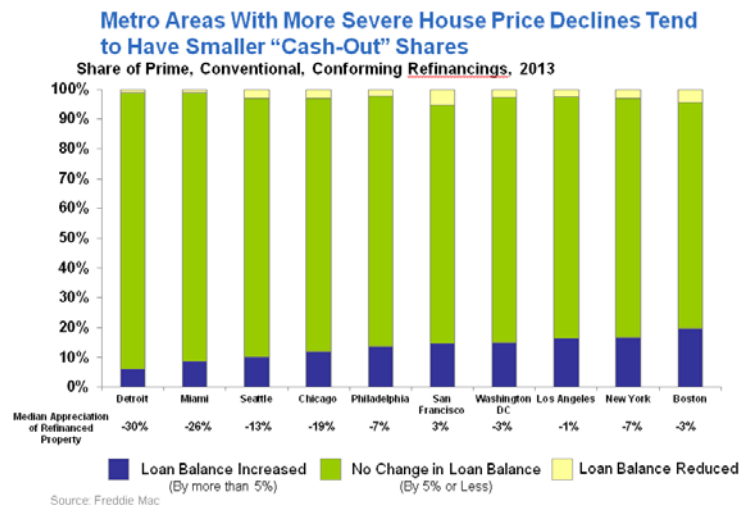
17% Took "Cash-Out" At Refinance vs. 89% in Q3 2006



Source: Freddie Mac Cash-Out Refinance Report data, Fourth quarter 2013. Percentages rounded to the nearest whole number.

About 83 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. That's just shy of the 88 percent peak during the second quarter of 2012.

In metro areas where house price declines were more severe, the share of “cash-out” borrowers was smaller and the median age of loans were older. Median house values on refinance loans have declined in nine of the ten areas, with the sharpest declines in Miami and Detroit. Of the ten, San Francisco was the metro area where median house values increased. The share of borrowers who maintained the same loan amount or lowered their principal balance was above 80 percent in all ten large metropolitan areas.



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 3 million refinancing borrowers since its inception through October 2013. HARP loans made up about 22 percent of refinance loans purchased by Freddie Mac and Fannie Mae during 2013 through October.

For loans refinanced during the fourth quarter of 2013 through HARP, the median depreciation in property value was 24 percent, the prior loan had a median age of 6.8 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 35 percent of borrowers using HARP shortened their loan term.

For all other (non-HARP) refinances during the fourth quarter, the median property was up two percent in value between the dates of placement of the old loan and the new refinance loan. The prior loan had a median age of 7.5 years and 42 percent of borrowers shortened their loan term.

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February 4, 2013

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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 fourth quarter of 2013, the refinance share of applications averaged 56 percent in Freddie Mac's monthly refinance survey, and the ARM share of applications was 10 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.

- [Fourth Quarter & Full Year 2013 Refinance Statistics](#)

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