

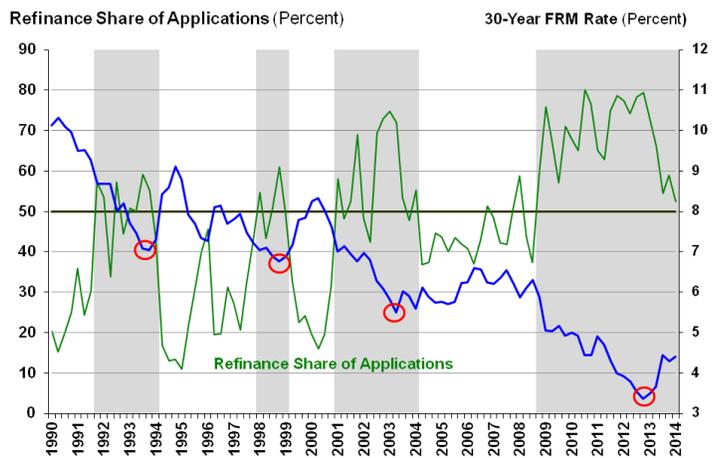


2014 First Quarter Refinance Report

Low Cash-Out Share, Shorter Terms Point to Equity Build-Up

Freddie Mac’s latest Refinance Report shows that borrowers continue to choose products that strengthen their home equity when they refinance. During the first quarter of 2014, 83 percent of homeowners that refinanced either left their loan balance unchanged or paid down their balance at or before refinancing. Further, 39 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 year, both of these characteristics assure that homeowners are building wealth through home equity acquisition.

Refi Booms End Quickly As Rates Come Off Lows



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

Indeed, the Federal Reserve Board’s Flow of Funds data confirmed the growth in home equity in its recent report for year-end 2013. In aggregate, across the U.S., home equity grew by an estimated \$2.1 trillion during 2013. Much of this gain was attributable to home value gains. For instance, the Freddie Mac House Price Index rose 9 percent from December 2012 to December 2013. 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 wealth.

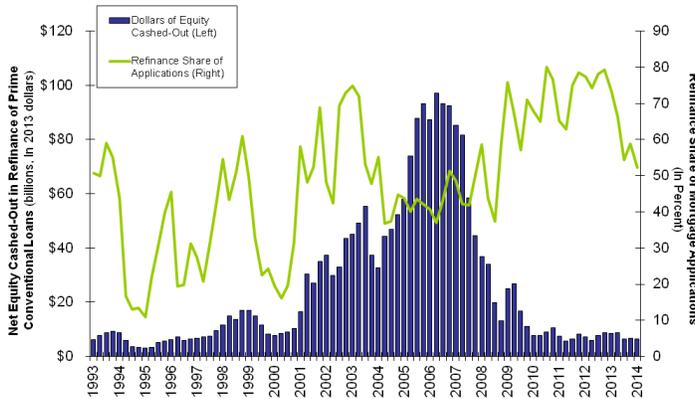
Freddie Mac’s Primary Mortgage Market Survey® (PMMS) has documented that shorter-term loans have a lower interest rate than longer-term loans. For example, during the first quarter of 2014, 15-year fixed-rate mortgages had a rate that was nearly a full percentage point less than the rate on a 30-year fixed-rate loan (3.40 percent versus 4.36 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. The Bureau of Economic Analysis estimated that the amount of mortgage interest paid on home mortgage debt fell by \$33 billion between 2012 and 2013, and by about \$200 billion since 2008.

Based on the analysis contained in Freddie Mac’s Refinance Report, we estimate that borrowers who refinanced in the first 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 first 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 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 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 7.3 years during the first quarter, the most since our analysis began in 1985.

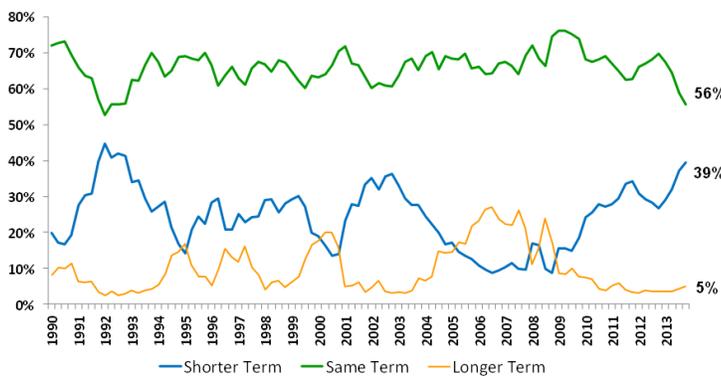
Borrowers Cash-Out About \$6.5 Billion When Refinancing



Sources: Mortgage Bankers Association Weekly Mortgage Application Survey; Activity by Dollars, Total Market Refi Share (NSA), Freddie Mac; Bureau of Labor Statistics (Consumer Price Index) First Quarter 2014. 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 first quarter, an estimated \$6.5 billion in net home equity was cashed out during refinances 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.

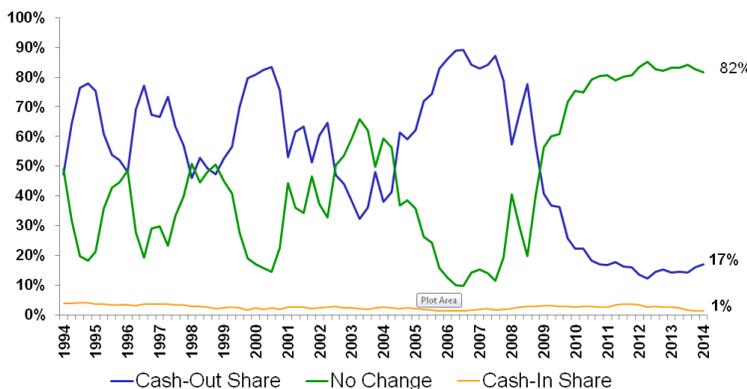
39% Shortened Loan Term When Refinancing



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

Of borrowers who refinanced during the first quarter of 2014, 39 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 0.96 percentage points during the first quarter of 2014 in our PMMS the largest quarterly 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. First quarter 2014. 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. Roughly 17 percent took cash-out at the time of refinancing versus 14 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 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 more than 3.1 million refinancing borrowers since its inception through February 2014. HARP loans made up about 21 percent of refinance loans purchased by Freddie Mac and Fannie Mae during the first two months of 2014.

For loans refinanced during the first quarter of 2014 through HARP, the median depreciation in property value was 24 percent, the prior loan had a median age of 7.0 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 33 percent of borrowers used HARP shortened their loan term.

For all other (non-HARP) refinances during the first quarter, the median property value was up almost 3 percent between the dates of placement of the old loan and the new refinance loan. The prior loan had a median age of 7.7 years and 41 percent of borrowers shortened their loan term.

Frank E. Nothaft
Chief Economist
April 30, 2014

Leonard Kiefer
Deputy Chief Economist

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 2014 Refinance Statistics](#)

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