



2014 Fourth Quarter & Full Year Refinance Report

Borrowers Who Refinanced in 2014 to Save Approximately \$5 Billion in Interest Payments

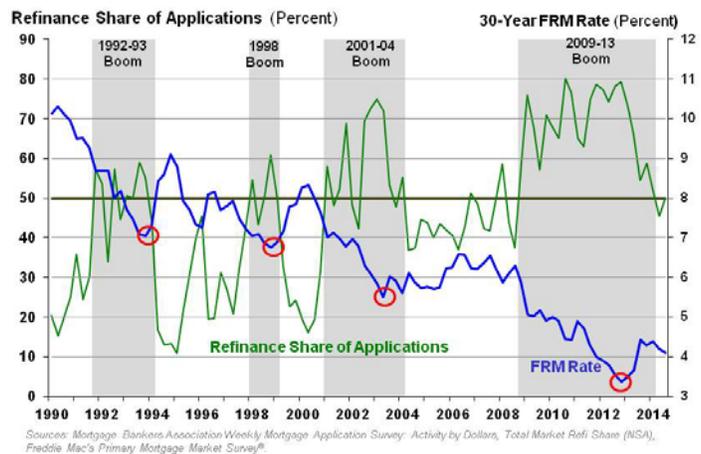
As the origination market evolves from a refinance boom to a purchase-money dominated mix, refinances made up approximately 52 percent of single-family originations in 2014, according to the Mortgage Bankers Association Weekly Mortgage Application Survey. We forecast the refinance share to be about 40 percent in 2015, compared to 63 percent in 2013.

But unlike the fourth quarter of 2013, mortgage rates dropped sharply at the end of 2014 breathing new life into the refinance market. At the same time, house prices continued to rise increasing by about 4.5 percent on a year-over-year basis in the fourth quarter. With housing markets getting closer to normal, we're starting to see stabilization in refinance activity. For the first time since 2009, the median appreciation of a refinanced property has turned positive, meaning that over half of all borrowers who refinanced saw their home equity increase since taking out their original loan.

Borrowers who refinanced in 2014 will save on net approximately \$5 billion in interest over the first 12 months of their new loan compared to \$20 billion in 2013. 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.

And when they refinanced, borrowers significantly reduced their mortgage interest payments during the fourth quarter and often chose products that quickened their pay down of principal. During the fourth quarter of 2014, borrowers cut their mortgage rate by almost one-fourth, or an average interest-rate reduction of 1.3 percentage points, through refinancing. Further, 34

Refi Booms End Quickly As Rates Come Off Lows



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 October to December, 15-year fixed-rate mortgages had a rate that was about 0.8 percentage points less than the rate on a 30-year fixed-rate loan (3.17 percent versus 3.96 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.

Based on the analysis contained in Freddie Mac’s Refinance Report, we estimate that borrowers who refinanced in the fourth quarter will save on net more than \$1.4 billion in interest payments over the first 12 months of their new loan. For those refinancing in the fourth quarter, the average interest rate reduction was about 1.3 percentage points -- a savings of about 23 percent. On a \$200,000 loan, that translates into mortgage interest savings on average of about \$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 1.6 percentage points. For a \$200,000 loan this means saving an average of more than \$3,300 in mortgage interest payments during their first 12 months or about \$275 every month.

With mortgage rates dropping, many borrowers have had an increased incentive to refinance. Consequently, the median age the original loan outstanding before refinance fell to 6.8 years during the fourth quarter, the lowest level since the third quarter of 2013. Amongst non-HARP refinances the median age of the original loan outstanding before refinance fell 0.8 years (from 6.6 to 5.8 years).

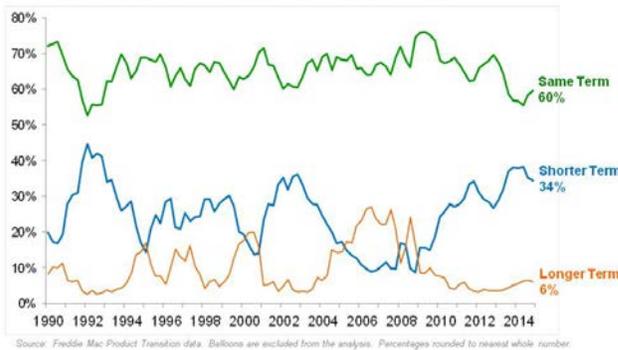
Borrowers Cash-Out About \$6.7 Billion (in 2014 dollars) When Refinancing



Sources: Mortgage Bankers Association Weekly Mortgage Application Survey: Activity by Dollars, Conventional Market Refi Share (CMA); Freddie Mac; Bureau of Labor Statistics (Consumer Price Index) Fourth Quarter 2014, Equity-cashed-out, adjusted for inflation (2014 CPI - All Urban Consumers SA)

In the fourth quarter, an estimated \$6.7 billion in net home equity was cashed out during refinances of conventional prime-credit home mortgages compared to the revised third 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). Adjusted for inflation, annual cash-out volumes during 2010 through 2014 have been the smallest since 1997.

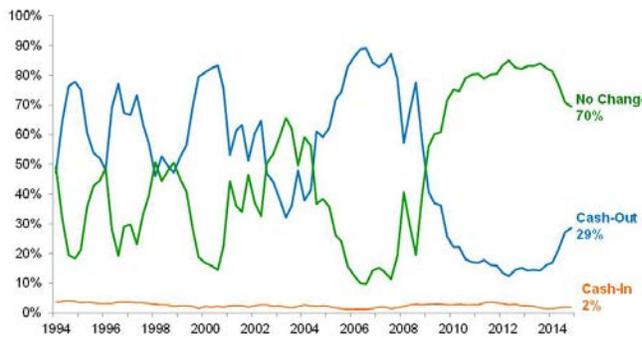
34% Shortened Loan Term When Refinancing



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 2014, 34 percent shortened their loan term, down slightly from the previous quarter. The difference between 30-year and 15-year fixed-rate loans averaged 0.88 percentage points during 2014 in our PMMS, the largest annual average difference we have ever recorded. Many borrowers have taken advantage of this difference to shorten their loan term.

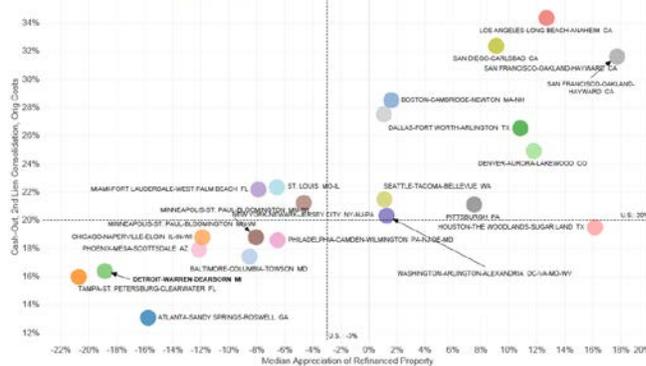
29% Took "Cash-Out" At Refinance vs. 89% in Q3 2006



Source: Freddie Mac Cash-Out Refinance Report data. Fourth quarter 2014. Percentages rounded to the nearest whole number.

About 72 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 29 percent took cash-out at the time of refinancing versus 16 percent from the same time last year. The peak cash-out share was 89 percent was in the second and third quarters of 2006.

As the Median Property Appreciation Increases, Cash-Out Shares Rise



In metro areas where house price declines were more severe, the share of "cash-out" borrowers was smaller. Median house values on refinance loans have declined in eleven of the 22 large metro areas included in the report, with the sharpest declines in Detroit and Tampa. Of the 22 areas, San Francisco and Houston were the metro areas where median house prices increased the most.

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 2 and 10 percent of all borrowers by year; since then about 15 to 20 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 over 3.3 million refinancing borrowers since its inception through November 2014. HARP loans made up about 15 percent of refinance loans purchased by Freddie Mac and Fannie Mae during the first 11 months of 2014.

For loans refinanced during the fourth quarter of 2014 through HARP, the median depreciation in property value was 22 percent, the prior loan had a median age of 7.7 years (to be eligible for HARP, the prior loan had to be originated on or before May 31, 2009) and 33 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, 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 fourth 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 5.8 years and 35 percent of borrowers shortened their loan term.

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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.

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 2014 Refinance Statistics](#)

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