



AUGUST 2017

How Cash Sales Affect Mortgage Originations

The macroeconomic outlook remains remarkably stable. Real GDP grew 2.6 percent (SAAR) in the second quarter, but that jump in growth just compensated for the first quarter's anemic growth. For the first half of the year, real GDP growth averaged 1.9 percent, in line both with our forecast and recent experience. The unemployment rate continues to tick down, dropping to 4.3 percent in July, the lowest rate since 2001. Despite the tight labor market, wage growth has been subdued and inflation remains surprisingly weak. In the absence of any sign of inflationary pressure, most economists expect the Fed to delay the next increase in the Federal funds rate until December.

In the housing market, [lack of supply](#) continues to trump strong demand. Nationally, the inventory of houses for sale remains stubbornly below the six-month mark, and many hotter markets typically have less than two months of inventory. At the same time, mortgage rates hovering below four percent appear to put homeownership [tantalizingly within reach](#). The clash between the irresistible force of growing demand and the immovable object of limited supply drove house prices up at annual rate of 6.9 percent in June 2017. We expect home sales to reach 6.2 million units this year, a three percent increase over the 2016 pace. However, home sales would be much higher if inventory was not so tight.

Forecast Snapshot (August 2017)

Summary (annualized)	2016	2017	2018
30-year PMMS (%)	3.7	4.0	4.4
Total home sales (M)	6.01	6.20	6.30
House price growth (%)	6.4	6.3	4.9
Total originations (\$B)	2,125	1,800	1,695



Cash share of home purchases remains high

Historically about ten percent of home buyers pay cash. During the financial crisis, the combination of depressed house prices and tighter underwriting drove the share of cash sales as high as 35 percent (Exhibit 2). House prices have recovered and mortgage markets have stabilized, however the cash share remains significantly above the historical norm. In June, cash sales accounted for around 18 percent of all home sales according to a monthly survey of realtors by the [National Association of Realtors](#).

Usually, not many people like to invest a lot of cash into real estate, which is illiquid and has high transaction costs. However, in the current, highly-competitive housing market, a cash offer is an effective way to gain an advantage over other bidders. In a cash sale, the seller doesn't have to worry about the buyer's ability to obtain a mortgage or the chances that an appraisal will come in below the agreed sales price. Cash offers also are more common in purchases of investment property and second homes, where mortgage qualification requirements are stricter and mortgage terms are less attractive.

Exhibit 1

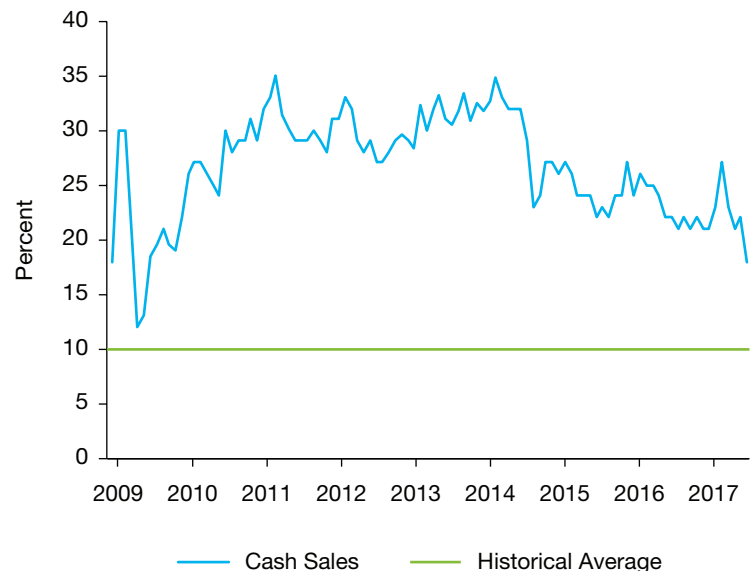
Macroeconomic indicators comparisons

	2015	2016	2017 (Forecast)
Real GDP growth (%)	2.0	1.8	2.1
Inflation (PCE % change)	.35	1.1	1.6
30-yr mortgage rate (PMMS)	3.9	3.7	4.0

Sources: Freddie Mac; US Bureau of Labor Statistics; US Bureau of Economic Analysis; Federal Open Market Committee.

Exhibit 2

Cash sales have been declining



Sources: National Association of Realtors – Realtors Confidence Index (June 2017)



Each cash sale means one less mortgage origination, so predicting the share of cash sales is an important part of predicting the volume of mortgage originations. Exhibit 3 provides an example of the impact of cash sales on mortgage originations. We're projecting 6.2 million home sales in 2017. Assume the average loan size is \$275,000. If the cash share of sales returned to its historical average of 10 percent, 6.2 million home sales would generate 5.6 million mortgages and \$1,547 billion of purchase mortgage originations. Recently the cash share has been nearer 20 percent, which suggests that 6.2 million sales is likely to produce 5.0 million mortgages and \$1,375 billion of originations. That's \$172 billion less in originations than would occur if the cash share returned to its historical norm. And if the cash share increased to its crisis era maximum of 35 percent, purchase originations would drop to \$1,117 billion.

Exhibit 3

Impact of cash sales on purchase originations

Cash share (%)	Mortgages (Millions)	Originations (\$ billions)
10	5.6	1,547
20	5.0	1,375
35	4.1	1,117

Note: Home sales computed on the assumption of 6.2 million units in 2017.



August 2017 Economic & Housing Market Forecast

Forecasted Figures

Historical Data

As of 8/9/2017

2016
2017
Annual Totals

Indicator	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018
Real GDP (%)	0.6	2.2	2.8	1.8	1.2	2.6	2.3	2.2	1.8	2.1	2.2
Consumer Prices (%) a.	0.1	2.3	1.8	3.0	3.1	-0.3	2.1	2.2	1.8	1.8	2.4
Unemployment Rate (%) b.	4.9	4.9	4.9	4.7	4.7	4.4	4.4	4.3	4.9	4.5	4.5
30-Year Fixed Mtg. Rate (%) b.	3.7	3.6	3.5	3.8	4.2	4.0	3.9	3.9	3.7	4.0	4.4
5/1 Hybrid Treas. Indexed ARM Rate (%) b.	2.9	2.8	2.8	3.0	3.2	3.1	3.1	3.1	2.9	3.1	3.7
10-Year Const. Mat. Treas. Rate (%) b.	1.9	1.8	1.6	2.1	2.4	2.3	2.2	2.2	1.9	2.3	2.6
1-Year Const. Mat. Treas. Rate (%) b.	0.6	0.6	0.6	0.8	0.9	1.1	1.3	1.4	0.7	1.2	1.7
Housing Starts c.	1.15	1.16	1.15	1.25	1.24	1.16	1.27	1.30	1.17	1.24	1.36
Total Home Sales d.	5.88	6.04	5.97	6.11	6.24	6.16	6.19	6.20	6.01	6.20	6.30
FMHPI House Price Appreciation (%) e.	1.5	1.4	1.6	1.7	1.7	1.7	1.3	1.3	6.4	6.3	4.9
1-4 Family Mortgage Originations f.											
- Conventional	\$295	\$432	\$466	\$458	\$290	\$377	\$388	\$321	\$1,651	\$1,376	\$1,327
- FHA & VA	\$95	\$113	\$134	\$132	\$107	\$113	\$112	\$92	\$474	\$424	\$368
- Total	\$390	\$545	\$600	\$590	\$397	\$490	\$500	\$413	\$2,125	\$1,800	\$1,695
Refinancing Share - Originations (%) g.	51	44	47	50	42	26	32	32	48	33	25
Residential Mortgage Debt (%) h.	1.1	3.3	4.1	3.6	2.5	4.0	4.2	4.3	3.1	3.8	4.7

Note: Quarterly and annual forecasts are shown in shaded areas; totals may not add due to rounding; quarterly data expressed as annual rates. Annual forecast data are averages of quarterly values; annual historical data are reported as Q4 over Q4.

- a. Calculations based on quarterly average of monthly index levels; index levels based on the seasonally-adjusted, all-urban consumer price index.
- b. Quarterly average of monthly unemployment rates (seasonally-adjusted); Quarterly average of monthly interest rates (not seasonally-adjusted).
- c. Millions of housing units; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- d. Millions of housing units; total sales are the sum of new and existing single-family homes; quarterly averages of monthly, seasonally-adjusted levels (reported at an annual rate).
- e. Quarterly growth rate of Freddie Mac's House Price Index; seasonally-adjusted; annual rates for yearly data.
- f. Billions of dollars (not seasonally-adjusted).
- g. Home Mortgage Disclosure Act for all single-family mortgages (not seasonally-adjusted); annual share is dollar-weighted average of quarterly shares (2014 estimated).
- h. Federal Reserve Board; growth rate of residential mortgage debt, the sum of single-family and multifamily mortgages (not seasonally-adjusted, annual rate).

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Economic & Housing Research **Outlook**

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