Freddie Mac March 2016 Insight

March 31, 2016

Improving America's Housing Stock, One Loan at a time

MCLEAN, VA--(Marketwired - Mar 31, 2016) - Freddie Mac (OTCQB: FMCC) released today its monthly Insight for March with a focus on the prospects for home improvement lending in the coming year. Home improvement spending keeps the U.S. housing stock up-to-date and adequate to the needs of a changing population. Many home improvement and maintenance expenditures are small and paid for out-of-pocket, but large projects tend to be financed through cash-out refinances or home equity loans.

Insight Highlights

- According to a 2015 American Communities Survey, 40 percent of all households and 55 percent of owner-households said they were either very likely or somewhat likely to undergo a home improvement project in the next three years.
- According to Harvard's JCHS LIRA index, home improvement in 2016 is projected to increase over 7 percent on a year-over-year basis topping the previous peak in the mid-2000s. In contrast, while lending for home improvements also will increase, it should remain well below the mid-2000 levels.
- Based on analysis of the 2014 Home Mortgage Disclosure Act (HMDA) and Freddie Mac internal data, home improvement loans consist of:
  - Unsecured loans making up 41 percent (by loan count) of all home improvement lending. These loans tend to be small in size, with a median loan amount of just $8,000, and thus represent only 6 percent of all home improvement lending by loan dollar amount;
  - First lien loans making up 38 percent by loan count, and 83 percent of home improvement lending by dollar amount. The median loan size for these loans was $110,000;
  - Junior liens making up 20 percent by loan count and just 11 percent by dollar amount. The median loan size for home improvement loans secured with a junior line was $29,000 in 2014. Many of these loans would be home equity lines of credit.

Quote: Attributed to Sean Becketti, Chief Economist, Freddie Mac.

"Trading up -- and down -- is a time-honored feature of homeownership. However, in the today's market, demand for houses outstrips the supply of existing homes for sale. Growing families may find themselves stuck in houses that are too small, and older homeowners may not be able, or willing, to downsize. In these circumstances, home improvement projects may provide a solution. Cramped families may be able to add a room or two, while retrofitting may allow seniors to age in place.

"Many home improvement and maintenance expenditures are small and paid for out-of-pocket, but about 20 percent of the spending is financed through home loans. Large projects tend to be financed through cash-out refinances or home equity loans. With many millions of homeowners 'underwater,' this source of credit has been limited, but as house prices rise, home improvement lending should rise in tandem. Given strong house price appreciation this year, we expect home improvement lending to increase by at least $5 billion in 2016 relative to 2014, or on net to about $37 billion."

Freddie Mac was established by Congress in 1970 to provide liquidity, stability and affordability to the nation's residential mortgage markets. Freddie Mac supports communities across the nation by providing mortgage capital to lenders. Today Freddie Mac is making home possible for one in four home borrowers and is the largest source of financing for multifamily housing. Additional information is available at FreddieMac.com, Twitter @FreddieMac and Freddie Mac's blog FreddieMac.com/blog.