



Freddie Mac January 2016 Insight & Outlook

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MCLEAN, VA--(Marketwired - Jan 29, 2016) - [Freddie Mac](#) (OTCQB: FMCC) released today its monthly [Insight & Outlook](#) for January. This month's Insight examines how the large investors', backed by private equity, business model of buy-to-rent (B2R) operations stands in contrast to that of the more-familiar, professionally-managed apartment complexes. And the Outlook looks at the recent activity around the many underwater borrowers who chose to take advantage of the Home Affordable Refinance Program (HARP) whom are now choosing to "UnHARP" and refinance into a conventional mortgage loan as a result of rising home prices and declining mortgage rates.

Insight Highlights

- In 2012, a new type of single-family rental business appeared. A few large investors, backed by private equity, started accumulating portfolios of single-family homes with the intention of renting and managing them.
- The single-family rental market [expanded](#) during the Great Recession, and, as of 2013, represented 35 percent of all rented housing units in the U.S.
- Although buy-to-rent has attracted a great deal of attention, a recent [paper pdf](#) finds that it remains a small part of the single-family housing market. Purchases by the eight firms studied totaled \$16 billion from 2012 through 2014 and never exceeded 2 percent of the market in any of these three years.
- The same paper finds that houses purchased by B2R firms tended to be newer, larger, and on smaller lots than houses purchased by other large investors consistent with the view that B2R firms intend to rent these houses for an extended period rather than resell them.

Outlook Highlights

- Tracking data for fourth quarter 2015 growth has been negative and we've revised down our forecast for full-year 2015 real GDP growth a tenth of a percentage point to 1.9 percent. According to our forecast, 2016 will mark the sixth full year of sub-3-percent economic growth.
- We've lowered our 2016 and 2017 forecast for headline consumer price inflation to 1.9 percent in both years. And core inflation is likely to remain well below the Federal Reserve's target of two percent for the next two years.
- Despite slow economic growth, general weakness in the overall economy, and turmoil in financial markets, housing and mortgage markets should sustain their momentum from last year.
- Total home sales in 2015 were the highest since 2007, and we expect sales to rise another 3.7 percent in 2016. We're expecting house price gains of 4.4 percent and 3.5 percent in 2016 and 2017, respectively.
- "UnHARP" trends among borrowers who refinanced their HARP loan for a conventional loan:
 - **Shorter Terms.** Borrowers who UnHARPed prefer the 30-year fixed rate mortgage, but about 43 percent choose a 20-year or 15-year product, up from 25 percent in HARP loans.
 - **Higher Home Values.** The median appreciation of an UnHARPed borrower's property is 24.6 percent in third quarter of 2015, up from just 9.5 percent in 2011.
 - **Interest Rate Reduction.** Borrowers who UnHARPed lower their interest rates between 0.6 and 1.5 percentage points.
 - **Less Cash In.** Early in our sample, nearly one-quarter of all UnHARPed borrowers had to bring cash to closing to refinance. Now, less than 1 in 20 UnHARPed borrowers bring cash to closing.

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

"Single family rental is a significant component of the rental market. Historically -- and currently -- it is dominated by individuals and small partnerships. The emergence of large-scale buy-to-rent investors in recent years potentially represents a new feature of this market sector. Undoubtedly, the house price collapse following 2006 provided large-scale operators with an extraordinary opportunity to launch their operations. But, while the data is mixed, there are some signs that large-scale firms intend to manage their large portfolios of single-family rentals as an on-going business."

"The HARP program allowed millions of underwater borrowers with good payment history to refinance without paying down the balance of their current mortgage. Many borrowers who took advantage of HARP over the past five years now have built sufficient equity so they can UnHARP to a conventional refinance with little or no cash brought to closing. This is yet another indicator of the effectiveness of the HARP program. And yet there remains many [thousands](#) more who can still take advantage of the HARP program that are currently underwater on their mortgage that should be utilizing this highly successful program."

Freddie Mac was established by Congress in 1970 to provide liquidity, stability and affordability to the nation's residential mortgage markets. Freddie

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