



Freddie Mac October 2015 Insight & Outlook

October 27, 2015

MCLEAN, VA--(Marketwired - Oct 26, 2015) - [Freddie Mac](#) (OTCQB: FMCC) released today its monthly [Insight & Outlook](#) for October. This month's issue examines whether a Texas limit on homeowner's ability to extract equity from their homes may have blunted the impact of the Great Recession on Texas. A video preview, along with the complete monthly Insight & Outlook commentary is available [here](#).

Insight Highlights

- The Texas law capping home equity extraction appears to have reduced non-prime default rates in Texas by about 25 to 30 percent compared to rest of the U.S., based on recent research by the Dallas Federal Reserve.
- Analysis by Freddie Mac replicates these results using data from CoreLogic covering the same period. However this reduction is not apparent in the data on prime mortgages in Freddie Mac's portfolio.
- A limit on equity extraction seems to work through three complementary channels: first, by reducing the probability borrowers will be underwater in a downturn; second, by avoiding the creation of clusters of foreclosures that impact neighboring properties; and third, by limiting house price increases generally which prevents the creation of a house price bubble.
- It appears that a limit on equity extraction reduces mortgage defaults and may also insulate a state's economy from some of the ravages of a recession. However, it remains difficult to pin down whether this type of cap on equity is more or less impactful than other economic factors.

Outlook Highlights

- Recently-released HMDA data for 2014 indicates origination volume was \$100 billion higher than industry experts had estimated. Based on this new data, we estimate originations totaled \$1.35 trillion in 2014.
- Industry concentration is declining. In 2009, the peak year for concentration, the top five mortgage originators accounted for 62 percent of all mortgage loans. In 2014, the top five firms accounted for only 34 percent of the market.
- Interest rate projections for the last quarter of 2015 have been lowered. The project for the 10-year constant maturity Treasury projection has been lowered by 0.2 percentage points to 2.2 percent, and the projection for the 30-year fixed rate mortgage has dropped to 4.0 percent.
- The projected refinance share of originations in 2015 (share of dollar volume) has been lowered by 1 percentage point to 47 percent. The projected refinance share in 2016 has been lowered by 9 percentage points to 30 percent.
- Forecasts for home sales and housing starts in October remain unchanged from September.

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

"The great state of Texas withstood the housing crisis far better than most states. To quote just one comparison, house prices nationally fell over 20 percent, while in Texas house prices fell less than 4 percent. Some of the credit goes to the resilient energy sector in Texas, where good-paying jobs were plentiful. However, factors other than the luck of the economic draw may also have insulated Texas from the worst of the recession, namely, the law that caps borrowers from extracting more than 80 percent of their home equity. However, while this may have helped to curb default rates for non-prime borrowers, our preliminary research shows it had little effect, if any, on prime borrowers."

"After the release of the September employment report, with its surprisingly-low increase of 142,000 in nonfarm payroll employment, the FOMC may well have breathed a sigh of relief about its decision to not raise short-term interest rates. In the wake of the employment report, the market appears to believe the Fed will not act until 2016. Judging by Fed funds futures prices, the market thinks there is only a 6 percent chance of a rate hike in October and a 39 percent chance in December. Therefore mortgage rates are likely to remain near four percent for the remainder of this year helping to support homebuyer affordability."

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 one of the largest sources of financing for multifamily housing. Additional information is available at [FreddieMac.com](#), Twitter [@FreddieMac](#) and Freddie Mac's blog [FreddieMac.com/blog](#).

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