Freddie Mac September 2015 Insight & Outlook

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MCLEAN, VA--(Marketwired - Sep 30, 2015) - Freddie Mac (OTCQB: FMCC) released today its monthly Insight & Outlook for September looking at the challenges faced by three types of student loan borrowers, and how loan down payment mortgage loans could help, or not help, make homeownership possible. A video preview, along with the complete monthly Insight & Outlook commentary is available here.

Insight Highlights

- Is the student debt overhang holding back home ownership among Millennials?
- While the home ownership rate has been declining for all age groups, the rate among Millennials is particularly low.
- Student debt tripled over the past 10 years, reaching $1.2 trillion in the fourth quarter of 2014. Aggregate student debt expanded for all age groups, however the balances are concentrated among those under 30 years old and those between 30 and 39 years old.
- Before the crisis, homeownership rates of 27-to-30-year-olds with student loans (evidence of at least some college education) were 2 to 3 percent higher than homeownership rates of those with no student loans. That gap began to close during the recession and reversed in 2011. By 2014 the homeownership rate of borrowers was about one percentage point *lower* than the rate of non-borrowers.
- Recent findings suggest that it may be useful to think of student loan borrowers as being divided into three groups: Successful investors, Disappointed earners, and At-risk borrowers.
- The At-risk Borrowers group is a particular focus for Freddie Mac's efforts to support prudent, affordable lending to low-and-moderate income borrowers. The impact on credit scores of poor repayment performance may make it particularly difficult to assist some members of this group.
- For the Disappointed Earners -- and even some of the Successful Investors -- Freddie Mac's Home Possible Advantage(SM) program, with its option to pay as little as 3 percent down, may provide help in purchasing that first home.

Outlook Highlights

- At the current pace, home sales this year are expected to be the highest since 2007. Existing home sales in August fell a little short of expectations, but the inventory of existing homes for sale remained below the 6-month mark.
- The faster-than-expected decline in the unemployment rate is boosting demand for homes. However, a more significant contributor is likely the continued low level of mortgage rates, which has kept affordability high despite impressive gains in house prices. The interest rate on 30-year fixed rate mortgages averaged 3.90 percent in August, and the rate on 15-year fixed rate mortgages averaged 3.12 percent.
- Based on upward revisions of the 2014 Home Mortgage Disclosure Act (HMDA) data on mortgage origination, and stronger-than-expected housing activity in the first half of 2015, Freddie Mac has increased its estimate of 2015 mortgage originations to $1.53 trillion and 2016 originations to $1.40 trillion.

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

"The low homeownership rate among Millennials is still something of a puzzle -- it cannot be explained solely by the increase in student loan debt. However student debt plays a role -- higher balances are associated with a lower probability of homeownership at every level of college and graduate education. And recent data has confirmed that not all student debt is created equal. Students who attended schools with less-certain educational benefits have not fared well. Borrowers who did not complete their studies have fared worst of all. These groups are likely to continue to affect the pattern of homeownership among Millennials. Moreover, a change just this month in Federal Housing Administration policy will make it more difficult for some student loan borrowers to qualify for a mortgage."

"Our Outlook this month shows the economy has not kicked into gear yet, and the Fed's recent decision to defer increasing short-term interest rates suggests they share this view. At the same time, the housing market is on its way to having the best year since the recovery began. Keep in mind. Though. that the housing sector is coming back from rock bottom and housing activity remains weak compared to historical norms. At the same time, Fed watchers must feel they are watching a revival of *Waiting for Godot*. Approaching every meeting of the Federal Open Market Committee, the market braces itself for a Fed tightening, only to watch the Committee delay any action for at least one more meeting."

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.