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## Another Dim Outlook for Refinancing

Refinancing activity has probably held up better than expected as interest rates have risen. Refinance applications accounted for more than 40 percent of the total in each of the Mortgage Bankers Association's weekly application volume summaries in December, **aided by an unexpected dip in rates**. But CoreLogic's chief economic Frank Nothaft is predicting a dim future for that part of the business.

In his *Economic Outlook* for January, Nothaft says he expects mortgage rates to reach their highest levels in a decade this year, affecting home buyers' monthly payments and lessening the impact of new conforming loan limits. But the larger effect will be on refinancing. Millions of homeowners have already refinanced into the record low rates over the last few years, and they, as well as those who have purchased during the same period, are unlikely to refinance unless they need to cash out some of their home equity.

He used CoreLogic data to calculate the distribution of outstanding single-family mortgage debt by interest rate and found only 3 percent of the total in mortgages with a rate of 6 percent or more, a total outstanding debt of about \$300 billion. He speculates that these homeowners have not refinanced because of **insufficient equity, credit problems, or small balances**; the average loan size was about \$100,000.

## National Average Mortgage Rates



	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

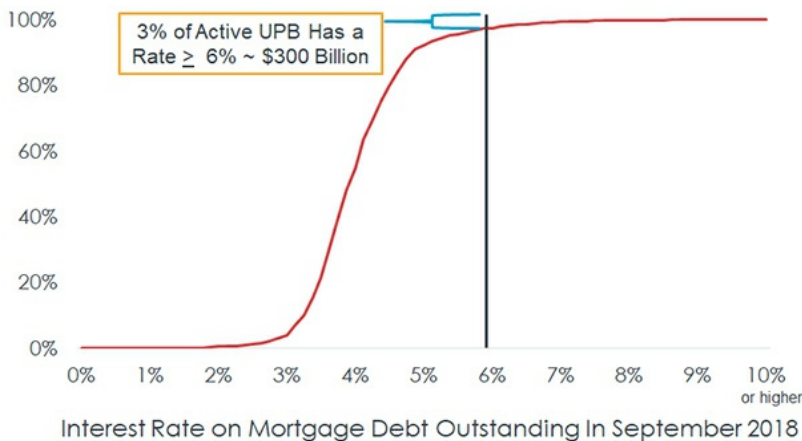
Rates as of: 8/30

## Recent Housing Data

		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%

### Figure 1: "In the Money" To Refinance Falls As Rates Rise

Cumulative Share of Active Balance by Interest Rate



Source: CoreLogic TrueStandings

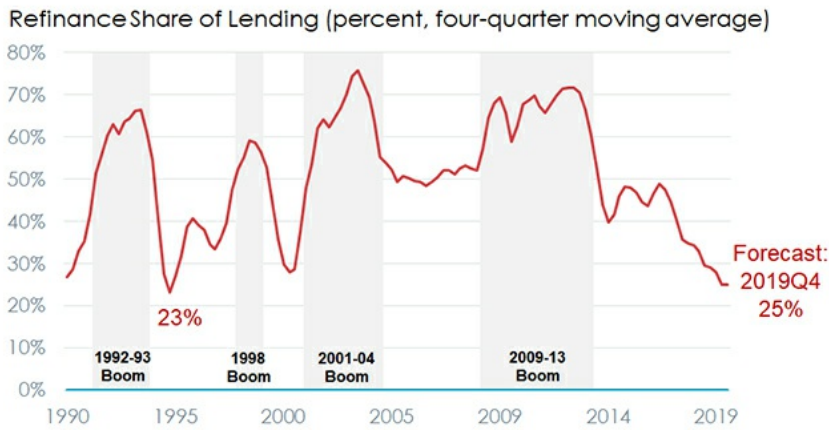
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		Value	Change
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

There are indeed reasons other than rates for homeowners to refinance. Nothaft says some 500,000 FHA-backed mortgages were refinanced into conventional mortgages in the two years ended last September. These refinances allow homeowners with good credit and 20 percent equity or more to **eliminate FHA insurance premiums which otherwise continue through the life of the loan**. Extracting equity after the strong run-up in home prices over the last few years will probably prompt a certain amount of cash-out refinancing as well. In fact, CoreLogic data shows that those refinances exceeded 40 percent in the third quarter of last year and Nothaft says he expects that number to increase.

Despite these types kinds of incentives, he is forecasting that the refinance share of originations will decline to about 25 percent of lending dollar volume this year. That will be the lowest four-quarter share since mid-1994 to mid-1995 when refinancing accounted for 23 percent of originations. Still, he expects that increases in purchase lending will fill the gap, leaving the dollar volume of originations in 2019 at about the same level as last year.

## Figure 2: Refi Share Projected to Fall to 25-Year Low



Source: Home Mortgage Disclosure Act (1990-2017); CoreLogic (2018); MBA, Fannie Mae and Freddie Mac projections (2019)

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