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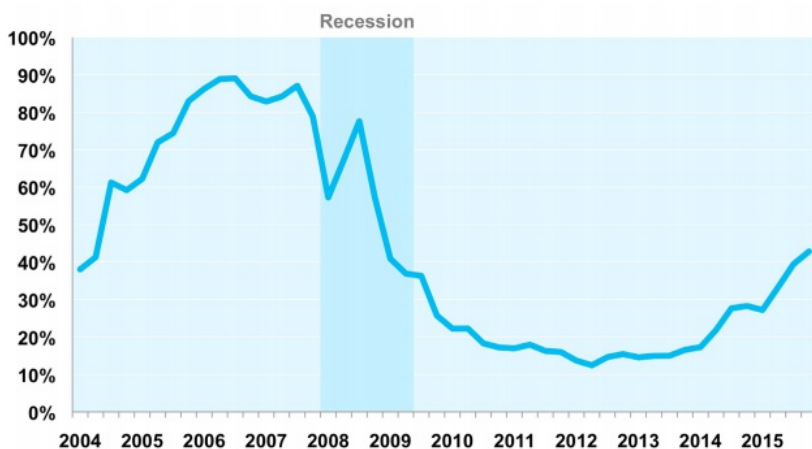
Cash-out Refinances at Seven-Year High

Even as the share of originations going for refinancing began to flag in the fourth quarter of 2015 the cash-out share of those refinancing increased. Freddie Mac said that transactions in which the new mortgage exceeded the old by 5 percent or more made up 43 percent of all refinances done during the quarter, up from 39 percent in the previous quarter and 28 percent a year earlier. It was the **highest cash out share since 2008**.

Freddie Mac funded **\$76 billion** in mortgage loans during the fourth quarter, down from \$94 billion in the third quarter. In both quarters refinancing represented about 50 percent of that volume, \$38 billion in the fourth quarter and \$46 billion in the third. In the first two quarters the refinance share was over 60 percent.

Prior to the housing crisis an average of **64 percent** of refinances included a cash out component, peaking at 89 percent in 2006. After the crash the share plummeted, hitting 12 percent in the second quarter of 2012. It didn't climb above 20 percent for the next two years.

Higher Loan Amount



Source: Freddie Mac fourth quarter Refinance Report. "Higher Loan Amount" refers to loan amounts that were at least 5 percent greater than the amortized unpaid principal balance (UPB) of the original loan

National Average Mortgage Rates



Rate Change Points

Mortgage News Daily

30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00

Freddie Mac

30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00

Mortgage Bankers Assoc.

30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/22

Recent Housing Data

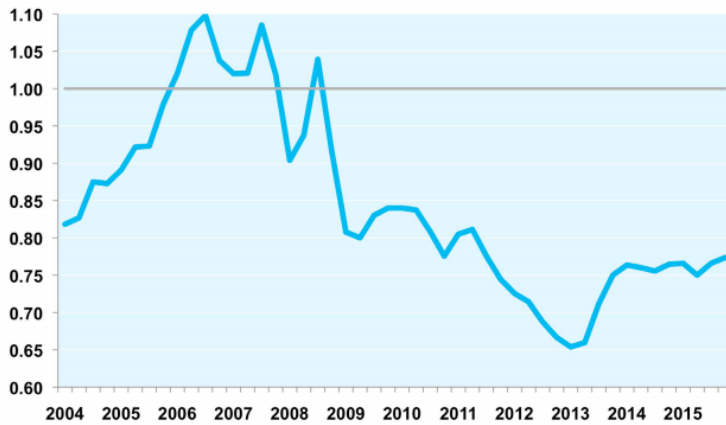
		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

There is a **definite cycle to cash-out refinancing**. Simple math dictates that the percentage of refinances they represent increases during periods when rates are stable or ascending because the overall rate of refinancing declines. Consequently the ratio of new to old mortgage rates is also higher, in some periods exceeding 1:1, as withdrawing equity becomes a more important driver of refinancing than an improvement in rates.

High cash out periods also correlate strongly with higher **home appreciation** rates between the existing and new mortgage and a shorter time span during which the old mortgage was in place. Over the years Freddie Mac has tracked the data the median age of the existing loan at refinance averaged 3.85 years. Since 2013 the median has exceeded 6 years and was 6.27 years in the most recent quarter.

Borrowers who refinanced during the fourth quarter cut their interest rate by **110 basis points** on average, a 23 percent reduction. This is high by historical standards; the average rate reduction is 13 percent and during 2006 and 2007 when 83 to 87 percent of refinances had a cash-out component the average rate actually increased by 5 percent.

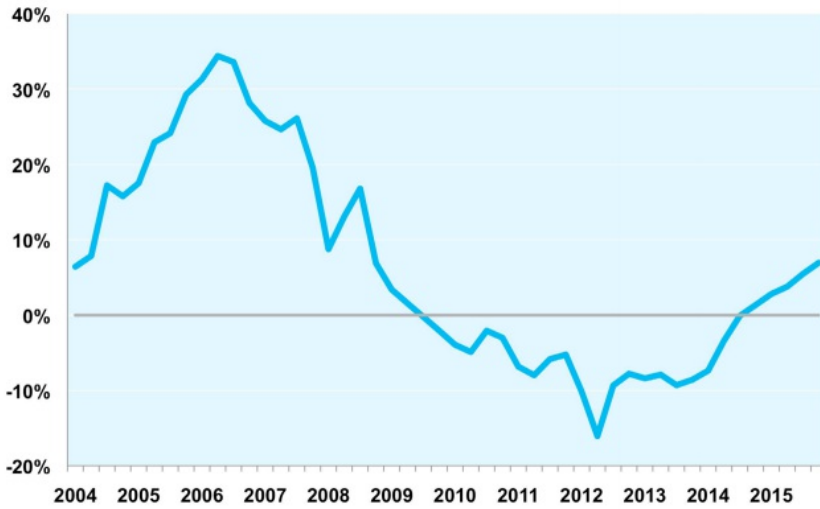
Median Ratio of New to Old Rate



Source: Freddie Mac fourth quarter Refinance Report. Ratio of new to old rate refers to the ratio of the interest rate of the new loan to the interest rate of the refinanced loan. Refinanced loans with adjustable-rate products are excluded.

Prior to the fourth quarter of 2009 the median appreciation during the life of the existing loan was **never negative**, averaging 16 percent median growth. Then appreciation declined for 19 straight quarters, dropping into negative territory in 2010 and staying there until 2014. Appreciation has been positive for five consecutive quarters and climbed to 7 percent in the most recent quarter.

Median Appreciation of Refinanced Property



Source: Freddie Mac fourth quarter Refinance Report.

Borrowers who refinanced in the fourth quarter overwhelmingly, by 95 percent, chose fixed rate loans. Only 17 percent of those with hybrid adjustable rate mortgages refinanced into another hybrid.

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its "Proposed Criteria for Evaluating Home Buyer Contract Forms" on Tuesday. The 15 criteria focus on the contracts' form – whether the documents are readable and understandable – and content – whether they are fair to homebuyers.

- the document's expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
- the right to terminate the contract
- the disclosure that compensation is negotiable
- the broker's compensation clearly stated and that the buyer broker can't receive additional compensation for facilitating a sale
- that any additional fees, such as for showing a home, will be deducted from the broker's commission if there is a successful sale
- that the commission is due only if there is a successful closing
- that buyers have an obligation – for no longer than 60 days, CFA recommends – to pay a broker who earlier showed them a home they purchased after the contract ended
- seller concessions paid directly to buyers
- dual agency not pre-approved by the contract
- an explanation of how a broker treats different buyer clients interested in the same property
- that buyers should not be required to first go through mediation or arbitration if they have a complaint

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