

EXECUTIVE OFFICE OF THE PRESIDENT COUNCIL OF ECONOMIC ADVISERS CEA NOTES ON REFINANCING ACTIVITY AND MORTGAGE RATES

April 9, 2009

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COUNCIL OF ECONOMIC ADVISERS
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CEA Notes on Refinancing Activity and Mortgage Rates

The Administration's homeownership plan, along with actions taken by the Federal Reserve, has had a notable impact on mortgage rates and refinancing activity. This fact sheet summarizes mortgage rate and refinancing activity since the plan was announced on February 18.

Refinancing application activity

- **According to the Mortgage Bankers Association, refinancing applications have risen about 88% since the homeownership plan was announced on February 18.**
- In the week ended April 3, mortgage applications to refinance rose 3.2%, the fifth consecutive weekly increase.
- Refinancings are now back to the extraordinary pace seen in December and January when mortgage rates first fell to near-historic lows.
- This includes jumbo and other nonconforming mortgages, but experts believe that they make up a very small share of the total because access to credit in these parts of the market remains tight and rates remain relatively high (see figure on page 2).
- Fannie Mae reports that our program to allow refinancings for borrowers with high loan-to-value ratios is now up and running and already processing applications.

- Fannie Mae announced that the company's refinancing volume jumped to \$77 billion in March, nearly twice their February refinancing volume and the company's largest refinance month since 2003.
- Fannie Mae also reports that 500,000 borrowers have accessed their online assistance to inquire about the possibility of refinancing their loan and more than 80,000 callers have contacted Fannie's national hotline since the plan was announced.

Purchase/new mortgage applications

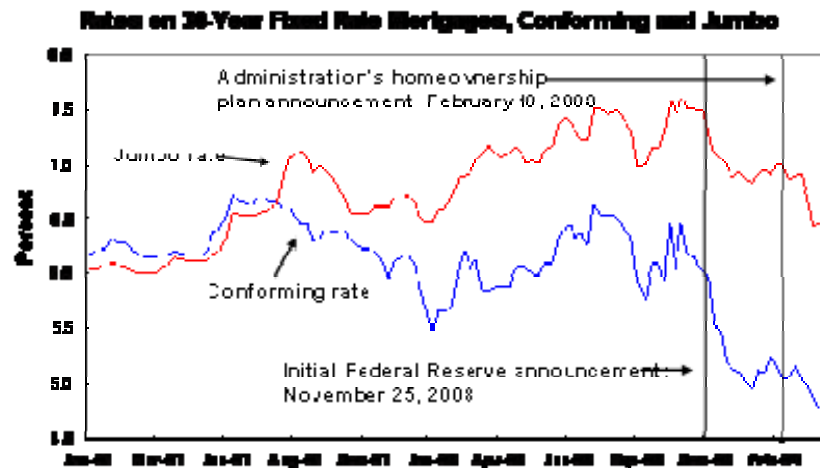
- **Purchase applications have risen about 19% since the signing of the stimulus bill and the roll-out of the homeownership plan.** However, the level of applications is still depressed relative to levels seen since 2002.
- In the week ended April 3, mortgage applications to purchase a home rose 11.1%, the fifth consecutive weekly increase.
- This increase may in part reflect the combined effect of the first-time home buyer tax credit and the remarkably low level of mortgage rates.

Mortgage rates

- **For the week ended April 2, the conforming mortgage rate (the rate for mortgages that meet the GSEs' standards) was 4.78%, the lowest weekly rate since 1971 (when the data series begins), and likely the lowest widely-available mortgage rate since the 1950s.**
- The conforming mortgage rate is down about 40 basis points since before the homeownership plan was announced on February 18 and is down about 125 basis points since before the Federal Reserve initially announced its plan to purchase GSE debt and mortgage-backed securities on November 25.
- The homeownership plan is one reason that mortgage interest rates are now at near-historic lows: the homeownership plan increased our funding commitment to Fannie Mae and Freddie Mac, called for the Treasury Department to continue to purchase Fannie Mae and Freddie

Mac mortgage-backed securities, and increased the size of the mortgage portfolio of Fannie Mae and Freddie Mac.

- Rates on jumbo mortgages have fallen back to January 2008 levels but remain elevated relative to conforming mortgage rates and Treasury rates. This reflects the more limited access mortgage borrowers have to this market, which may have prevented a comparable wave of refinancing.



Mortgage market "spreads:" the amount they exceed other interest rates

- The spread between conforming mortgage interest rates (currently at 4.78%) and long-run Treasury rates was about 150 basis points (1.5 percentage points) in the first half of 2007. Spreads began rising in the summer of 2007 and peaked in December 2008 at about 300 basis points. Spreads have come down since then.
- In the most recent data, this spread was about 200 basis points, down about 10 basis points in the last week and down about 25 basis points since before the homeownership plan was announced on February 18.
- Spreads on GSE debt and spreads on GSE mortgage-backed securities have also fallen about 10 basis points in the past week, suggesting that investors are demanding lower risk premiums to hold housing-related assets.

Housing Market Indicators

| Latest Period | | <i>Mortgage Delinquency Survey (Quarterly)</i> | | | | |
|--|--|---|------------------|-----------------------|---------------|--------------|
| | | Level | 1-quarter change | 4-quarter change | | |
| 2008:Q4 | Delinquency rate | | | | | |
| | 60 to 89 days past due | 1.78 % | 0.3 p.p. | 0.5 p.p. | | |
| | 90 + days past due | 3.00 % | 0.8 p.p. | 1.4 p.p. | | |
| | Foreclosure inventory | 3.30 % | 0.3 p.p. | 1.3 p.p. | | |
| <i>Home Prices (Monthly)</i> | | | | | | |
| | | Level | 1-month change | 12-month change | | |
| Jan-09 | FHFA purchase only price index | 203 pts | 1.7 % | -6.3 % | | |
| Jan-09 | Case-Shiller 20-city price index | 146 pts | -2.8 % | -19.0 % | | |
| <i>Housing Starts, Building Permits, Home Sales and Months' Supply (Monthly)</i> | | | | | | |
| | | Level | 1-month change | 12-month change | | |
| Feb-09 | Housing starts | 0.583 mil | 22.2 % | -47 % | | |
| | Single-family | 0.357 mil | 1.1 % | -51 % | | |
| | Building permits | 0.564 mil | 6.2 % | -43 % | | |
| | Single-family | 0.390 mil | 16.1 % | -40 % | | |
| Feb-09 | New single-family home sales | 0.337 mil | 4.7 % | -41 % | | |
| Feb-09 | Months' supply (m.s.) of new single-family homes | 12.2 m.s. | -0.7 m.s. | 2.5 m.s. | | |
| Feb-09 | Existing home sales | 4.72 mil | 5.1 % | -4.6 % | | |
| Feb-09 | Months' supply (m.s.) of existing homes | 9.7 m.s. | 0.0 m.s. | 0.0 m.s. | | |
| <i>Mortgage Applications (Weekly)</i> | | | | | | |
| | | Level | 2008 avg level | Change from 2008 avg | Weekly change | |
| 3-Apr-09 | Mortgage applications for purchase (Volume index) | 298 pts | 345 pts | -14 % | 11.1 % | |
| 3-Apr-09 | Mortgage applications for refinancing (Volume index) | 6,814 pts | 2,394 pts | 185 % | 3.2 % | |
| 3-Apr-09 | Refinancing share | 78 % | 50 % | 27 p.p. | -1.2 p.p. | |
| <i>Housing Finance -- Mortgage Rates (Weekly) and Spreads on Agency Debt and Agency MBS (Daily)</i> | | | | | | |
| | | Level | 2008 peak level | 2007:H1 average level | Weekly change | Daily change |
| 3-Apr-09 | Freddie Mac 30 year rate | 4.78 % | 6.63 % | 6.29 % | -0.07 p.p. | NA |
| 3-Apr-09 | Mortgage rate to Treasury | 2.02 p.p. | 2.96 p.p. | 1.52 p.p. | -0.09 p.p. | NA |
| 8-Apr-09 | Fannie debt to Treasury | | | | | |
| | 2 year | 0.54 p.p. | 1.82 p.p. | 0.25 p.p. | -0.05 p.p. | 0.00 p.p. |
| | 10 year | 0.66 p.p. | 1.75 p.p. | 0.37 p.p. | -0.10 p.p. | -0.03 p.p. |
| 7-Apr-09 | Fannie MBS CC option adjusted spread to Treasuries | 0.02 p.p. | NA | NA | -0.10 p.p. | -0.01 p.p. |

