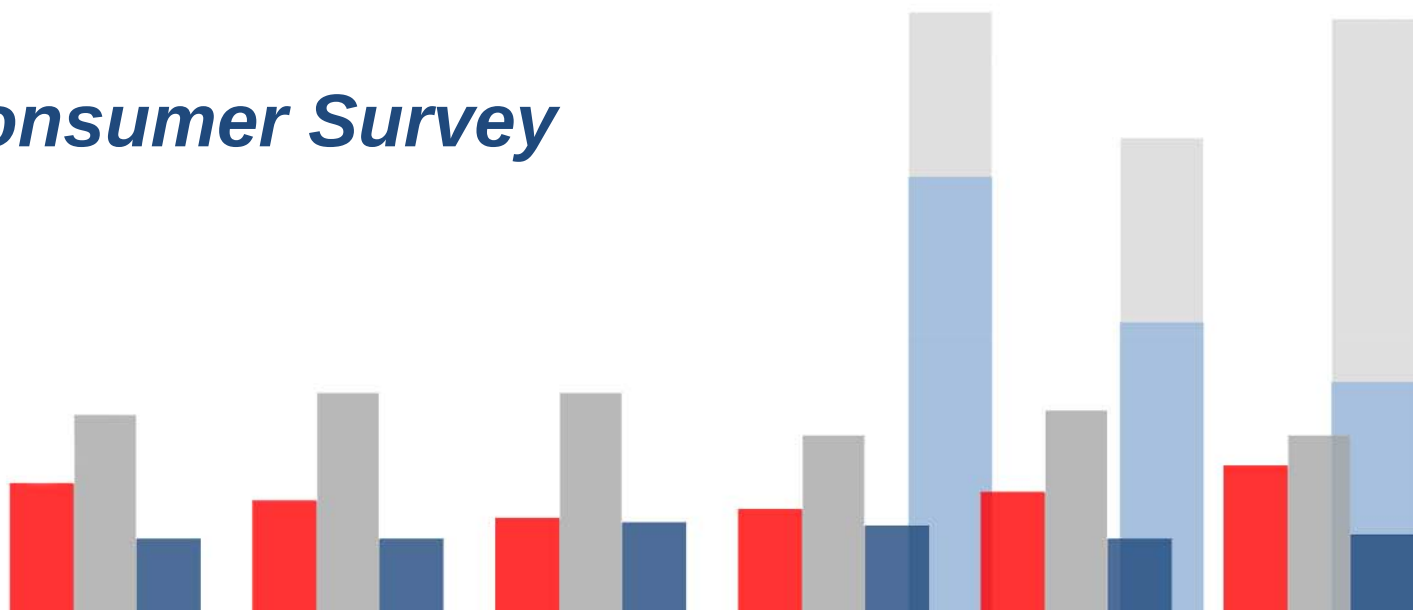


What Motivates Underwater Borrowers to Refinance?

A HARP Consumer Survey

March 6, 2013



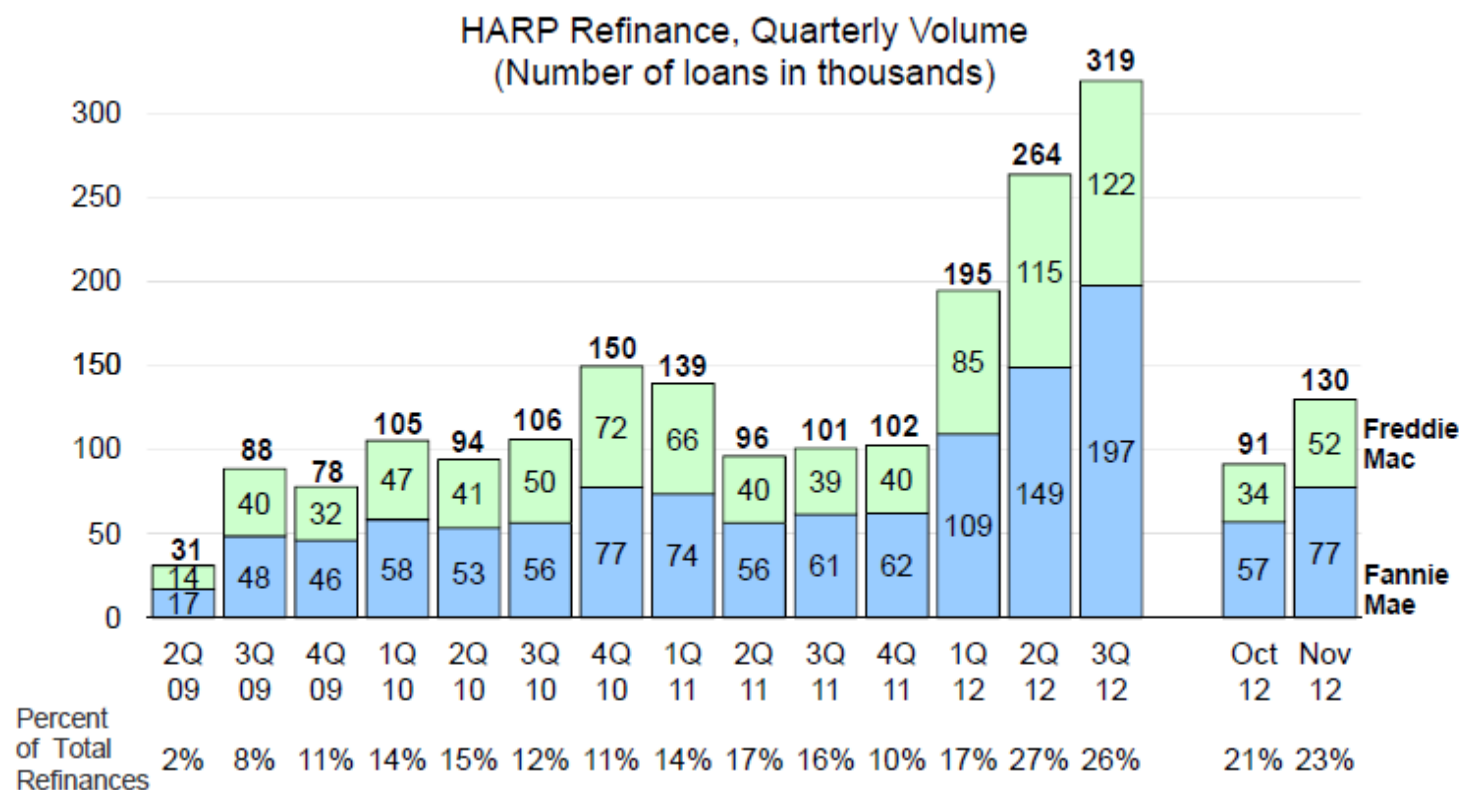
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Background

As of November 2012, about 2 million refinances were completed through HARP

- HARP is the primary refinance program aimed at underwater borrowers. Its volume has grown steadily in 2012 as HARP enhancements took effect in Q1 and Q2 of 2012
- HARP volume represented 26-27% of total refinance volume for the GSEs in Q2 and Q3 of 2012

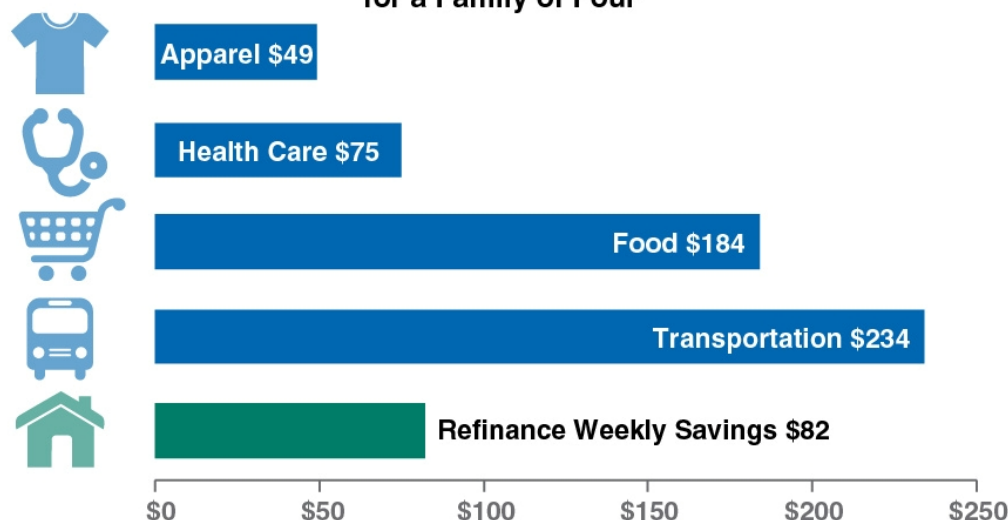


Source: "Refinance Report" by Federal Housing Finance Agency, November 2012. <http://www.fhfa.gov/webfiles/24967/Nov2012RefiReport.pdf>

HARP has helped deeply underwater borrowers

- Since 2011, the Federal Housing Finance Agency (FHFA) made enhancements to the Home Affordable Refinance Program (HARP), so-called “HARP 2.0,” to attract more eligible borrowers by removing the 125% LTV (Loan to Value ratio) cap, modifying lender representations and warranties, and expanding MBS eligibility.
- As a result of these program changes, the number of eligible underwater borrowers greatly expanded and completed HARP refinances for deeply underwater borrowers rose significantly. In September 2012, 26% of the loans refinanced through HARP were at a loan-to-value ratio greater than 125%.¹

Comparing Weekly Refinancing Savings to Regular Expenses
for a Family of Four



- The interest rate via HARP refinance could be reduced by two percentage points.²
- The average weekly payment savings among HARP-refinanced borrowers is about \$82³, which could cover nearly 50% of weekly food costs for an average 4-person household⁴.

1. “Refinance Report” by Federal Housing Finance Agency, September 2012. <http://www.fhfa.gov/webfiles/24701/Sept2012RefinanceReport.pdf>

2. Economic & Strategic Research estimate: a weighted average, year-to-date through November 2012.

3. Economic & Strategic Research estimate: a weighted average, year-to-date through November 2012, of monthly savings based on 30-year fixed-rate mortgages converted to 30-year fixed-rate refinances, HARP only, across all LTVs, divided by four to get the weekly savings estimate.

4. Bureau of Labor Statistics, Consumer Expenditure Survey, 2011 data released in September 2012. <http://www.bls.gov/cex/2011/Standard/cucomp.pdf>. Estimates based on the annual average of four-person households (husband, wife, and two children), divided by 52 to get the weekly expenditure estimates.

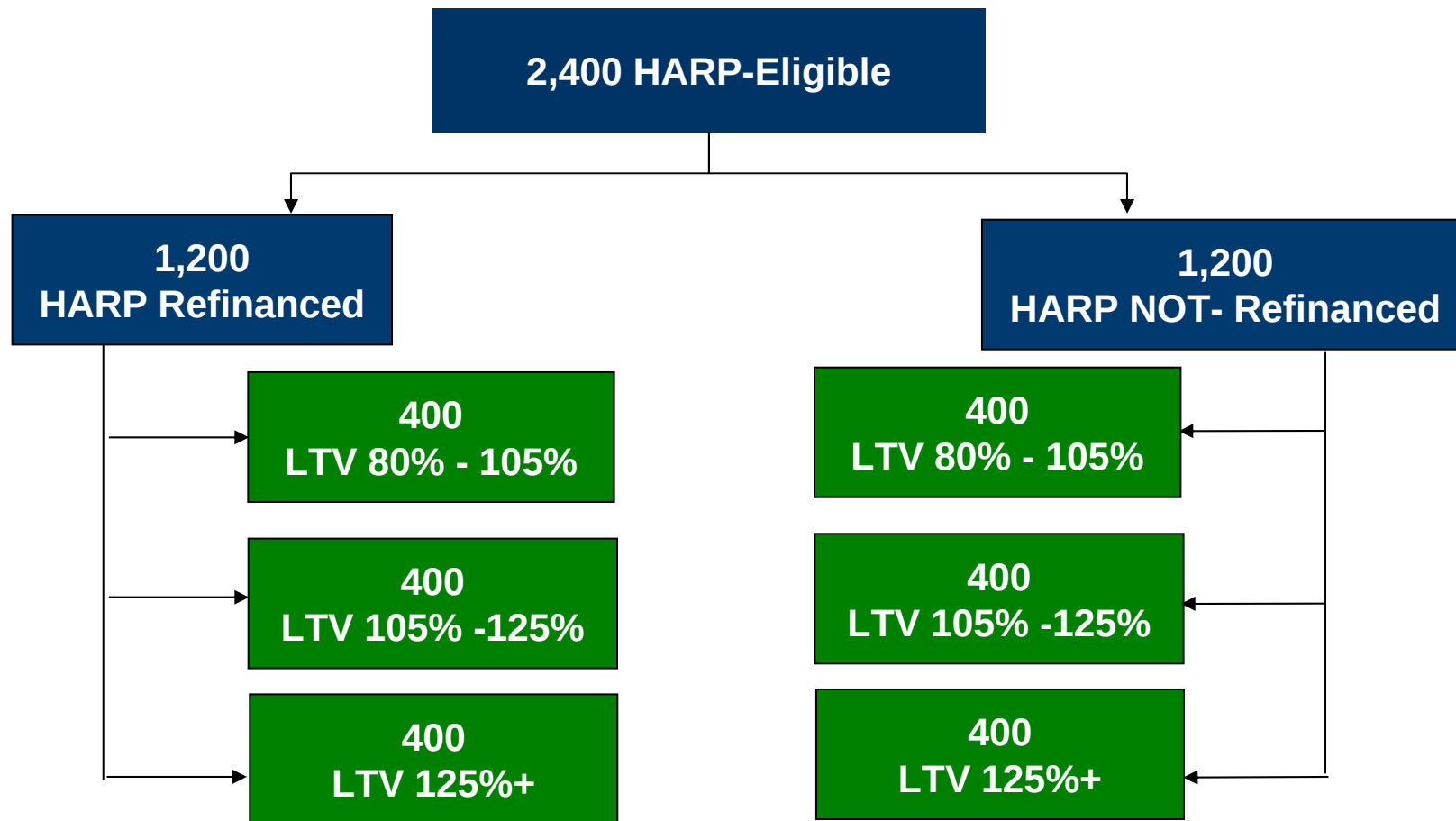
HARP Research Objectives

This research attempts to identify opportunities to understand motivations of borrowers in relation to the HARP refinance program before it expires at the end of 2013. Specific research objectives include:

- ☐ Understand HARP-eligible consumers' motivations and barriers to mortgage refinancing
- ☐ Understand the role servicers play, for example, in creating awareness for HARP-eligible consumers to refinance

Exploring why borrowers have not refinanced: Survey Methodology

- ❑ A 15-minute telephone survey in October 2012
- ❑ A total of 2,400 HARP-eligible borrowers from the Fannie Mae book of business, as of July 2012.



HARP Refinanced: those who completed the HARP process and their loans were acquired by Fannie Mae as of July 31, 2012

HARP NOT-Refinanced: those who did not according to the Fannie Mae record

Key Findings

- ❑ **HARP-eligible borrowers have misperceptions and barriers to HARP usage, including high closing costs, rigid loan terms, and distrust of lenders and offers**
 - Borrowers cite high closing costs and rigid loan terms as key barriers to refinance
 - In addition, many do not trust lenders or their communications
 - A misperception – the need to pay more for refinance to address lost home value – is the top reason cited by high LTV borrowers for not refinancing
 - Many borrowers, even though they are HARP-eligible, think they would not qualify for refinance, especially among high LTV borrowers

- ❑ **Lowering monthly payments is the key benefit driving refinancing**
 - Reducing loan terms is the second most popular benefit driver
 - Higher LTV borrowers show the strongest motivations to refinance

- ❑ **Borrowers look to mortgage servicers to inform their decision on refinancing**
 - Those who have refinanced are far more likely to have heard about HARP from mortgage servicers
 - And those who sought out information about HARP are more likely to have got it from their mortgage servicer, versus those who didn't refinance, who heard about HARP from *other servicers*
 - When deciding which communications received to respond to, previous experience with the lender is the top criterion

Costs, rigid loan terms, lender/offer distrust, and misperceptions about inability to qualify are the main reasons why people are not refinancing

How much does this apply to your decision NOT to refinance?
Showing % Greatly Applies

HARP Not Refinanced	Total	80-105% N=177	105-125% N=172	125%+ N=173
Closing costs are too high	34	36	31	28
You don't want to take out another 30-year loan	33	34	29	32
You received too many mailings or offers to take any seriously	24	24	21	24
Your home has lost value, so you would need to pay additional money to refinance	23	16	29	38
You do not trust the lender who contacted you	22	22	21	22
There is too much paperwork	20	19	24	18
The refinancing process is too long and difficult	19	20	19	15
You don't think you will be qualified for refinance	18	15	17	28
Lenders' interest rates are not low enough	17	16	19	18
You are uncertain about your job prospects	11	12	9	11
The lender whom you contacted was not responsive	11	8	15	18
You are going to move or sell soon	8	8	10	8
You think going through a round of refinancing will hurt your credit	5	5	6	4

misperception

* This question was asked of respondents who reported that they have not refinanced their mortgage since the home purchase.

For those who don't think they would qualify, 22% of them said it is because they are underwater

- 1 in 5 also said they thought issues with their credit would prevent them from refinancing

IF THOUGHT WOULD NOT QUALIFY: What was the major reason you thought you would not qualify for refinance?

Open-Ended Response

	HARP Not Refinanced
Underwater	22
Credit issues	20
Insufficient income or equity ¹	12
Tried before and did not qualify	11
Employment status	10
Not interested in refinancing	8
No particular reason	4
Income too high	3
Too expensive	3
Others	7

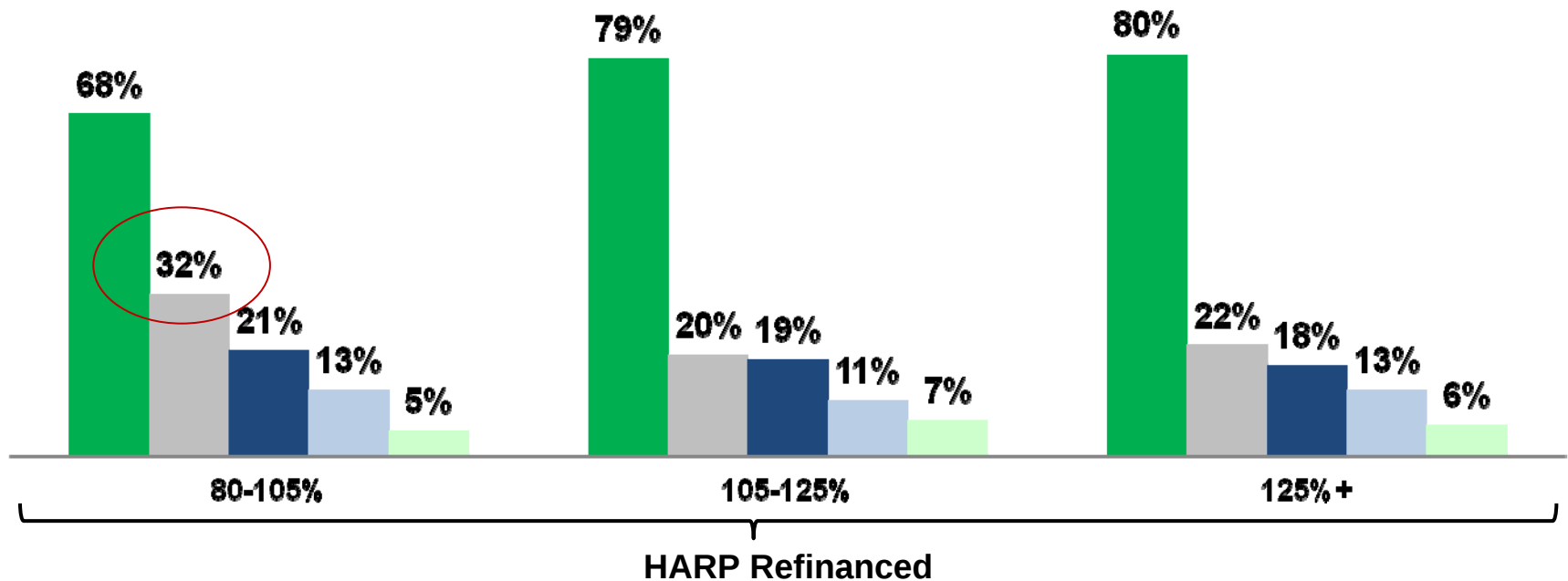
1. "Insufficient Equity" refers to respondents who felt they did not have enough equity to refinance, but did not mention being underwater or having negative equity in their response. For example: "The house was purchased too recently, so we don't have enough equity," "We haven't had our house long enough," "Not enough equity."

Reducing monthly mortgage payments is the key driver for refinancing overall; shortening loan terms appeals more to lower LTV respondents

How much does this apply to your decision to refinance? I refinanced to...

Showing % Greatly Applies

- lower monthly mortgage payments
- raise or decrease the loan amount borrowed
- change the mortgage servicer
- reduce the total years of loan payments
- change the mortgage loan product

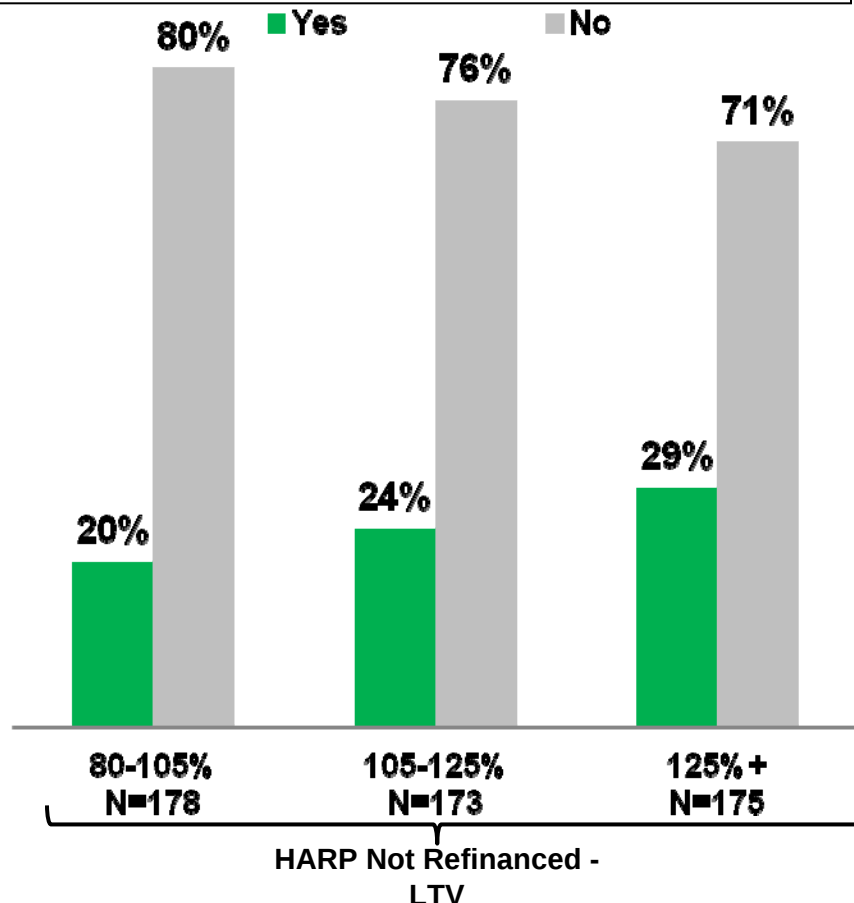


* This question was asked of respondents who reported that they have refinanced their mortgage.

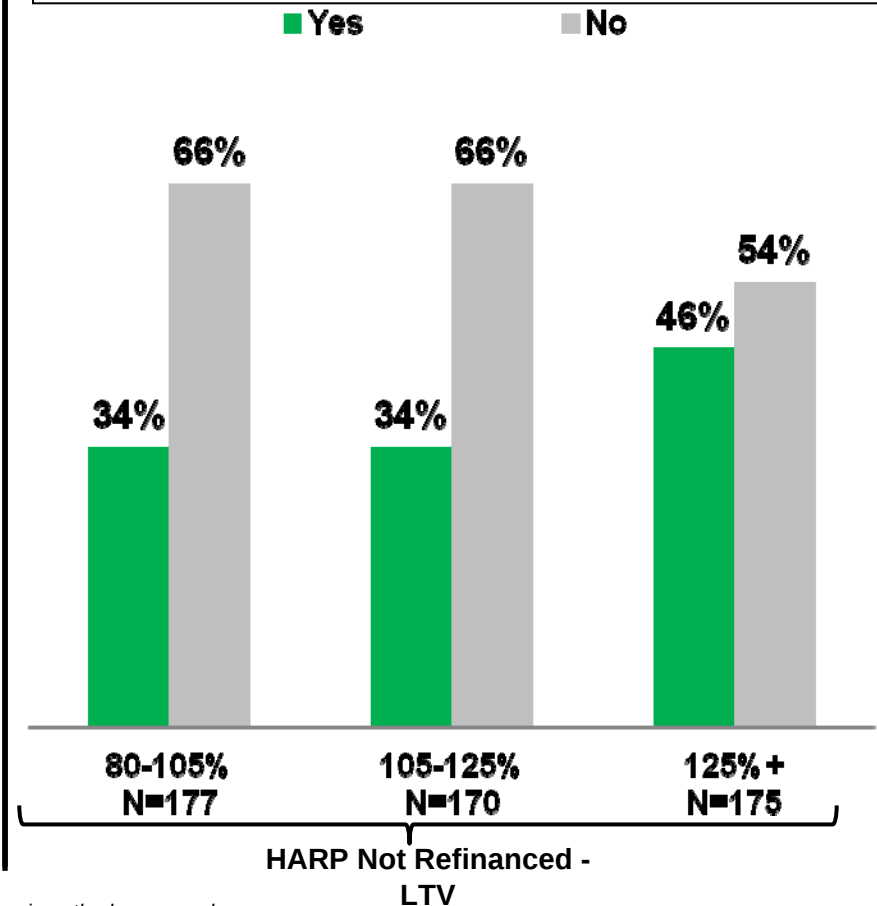
Among those who have not refinanced, higher LTV respondents appear more motivated to refinance their mortgages

- 125%+ LTV Not-Refinanced respondents are 12 percentage points more likely to have proactively contacted their mortgage servicer regarding refinancing opportunities

Have you tried to refinance your mortgage in the past 2-3 years?



Did you ever proactively contact your current mortgage servicer asking them for any refinancing offers or programs?



* This question was asked of respondents who reported that they have not refinanced their mortgage since the home purchase.

Mortgage servicers or lenders play a bigger role in creating HARP awareness among those who have refinanced

You mentioned that you are aware of the Home Affordable Refinance Program or HARP. How did you hear about the HARP program?

Multiple Responses Permitted

	HARP Refinanced N=909	HARP Not Refinanced N=810
In the mass media such as newspapers, TV, or radio	56	58
Your current mortgage servicer or lender	34	19
Online websites, forums, or blogs	22	23
Other lenders or financial institutions	18	18
Friends, family, or co-workers	18	21
A government organization	5	7
Real estate agents	4	6
Other	8	9

* This question was asked of respondents who reported that they are aware of HARP.

When respondents sought out more information about HARP, they were most likely to have contacted their mortgage servicer or lender

IF SOUGHT OUT INFORMATION: How did you seek out more information about the HARP program?
Multiple Responses Permitted

	HARP Refinanced N=430	HARP Not Refinanced N=281
Contacted your current mortgage servicer or lender	72	62
Searched Online	46	41
Contacted other bank or mortgage companies	41	39
Contacted a government organization	13	12
Attended a government-sponsored local event or Help Center	2	2
Other	9	11
None of the above	3	2

* This question was asked of respondents who reported that they have actively sought out more information about HARP.

In deciding which communications to respond to, 1 in 4 HARP refinancers cited “previous experience with a lender” as the criterion

- HARP Refinanced were more likely to respond because they had previous experience with the lender, at 25%, compared to 16% for HARP Not Refinanced
- At 33%, HARP Not Refinancers were most likely to respond to the best offer

How did you decide which communications to respond to?
Open-Ended Response

	HARP Refinanced N=445	HARP Not Refinanced N=151
Previous experience with the lender	25	16
Chose the best offer	21	33
Responded because the lender called, mailed, or e-mailed me directly	17	14
Responded randomly or to the first offer received	10	9
Reputation of the lender	8	9
Lowest fees	4	4
Based decision on research	3	2
Chose a lender that would work with underwater mortgages	2	2
Took the advice of friends, family, or co-workers	2	3
Others	8	9

* This question was asked of respondents who reported that they have received communications by direct mail, email, or phone about refinancing in the past 12 months.

Appendix

HARP Background

- ❑ Established in March 2009, for Fannie Mae and Freddie Mac, the Home Affordable Refinance Program (HARP) provides an option for homeowners to refinance “Underwater Mortgages”
 - A HARP refinance only applies to mortgages that were delivered to Fannie Mae or Freddie Mac on or before May 31, 2009
- ❑ On October 24, 2011, the Federal Housing Finance Agency (FHFA) announced changes to the Home Affordable Refinance Program (HARP), so-called “HARP 2.0,” in an effort to attract more eligible borrowers, by eliminating the 125% LTV cap, modifying lender representations & warranties, and expanding MBS eligibility
- ❑ The following criteria must be met to qualify for HARP:
 - Borrower must be current on their mortgage payments at the time of refinance
 - Borrower is allowed one late payment in the past 12 months, as long as it did not occur in the 6 months prior to the refinance
 - Current LTV must be greater than 80%
 - The maximum Loan to Value (LTV) cap (125%) has been removed on homeowners looking to refinance under HARP into a fixed-rate mortgage. For an adjustable-rate mortgage, the LTV may not be over 105%
- ❑ The program will end on December 31, 2013

HARP Sample Distribution

- From October 11, 2012 to October 25, 2012, Penn Schoen Berland conducted 2,400 telephone interviews among the following audiences:

Sample	Sample Size	Margin of Error
Total Sample, including:	2,400	±2.00%
HARP Refinanced	1,200	±2.83%
• LTV 80-105%	400	±4.9%
• LTV 105-125%	400	±4.9%
• LTV 125%+	400	±4.9%
HARP Not Refinanced	1,200	±2.83%
• LTV 80-105%	400	±4.9%
• LTV 105-125%	400	±4.9%
• LTV 125%+	400	±4.9%

Throughout this presentation, we used “weighted” totals for the HARP Refinanced and HARP Not Refinanced populations based on real population data

HARP Sample Weighting

- Throughout the presentation, we calculated “weighted” base sizes for the HARP Refinanced and HARP Not Refinanced populations to represent the actual LTV population distributions. The breakdown is demonstrated below:

ALL HARP-eligible	MTMLTV (80—105%)	MTMLTV (105-125%)	MTMLTV (125%+)
Those who took the HARP refinancing	64.64%	20.52%	14.84%
Those who did not take HARP refinancing	61.17%	20.49%	18.34%

- For the audiences broken out by LTV groups, we did not apply weights, as we had set quotas of N=400 for each LTV group as a part of our research plan:

ALL HARP-eligible	MTMLTV (80—105%)	MTMLTV (105-125%)	MTMLTV (125%+)
Those who took the HARP refinancing	400	400	400
Those who did not take HARP refinancing	400	400	400