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Press Release

Milliman analysis: For U.S. mortgages, riskier cash-out refinance volume rises significantly in Q4 2020, exceeding \$20 billion per month

Mortgage volume increases more than 132% year-over-year, driven by refinance loans

SEATTLE – MAY 4, 2021 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the fourth quarter (Q4) 2020 results of the Milliman Mortgage Default Index (MMDI), which shows the latest monthly estimate of the lifetime default risk of U.S.-backed mortgages.

During Q4 2020, mortgage demand remained strong, with mortgage volume for government-sponsored enterprise (GSE) acquisitions (purchased and refinanced loans backed by Freddie Mac and Fannie Mae) increasing more than 132% year-over-year. Approximately 71% of GSE mortgage volume for the quarter was refinance loans, while approximately 56% of Ginnie Mae loans originated in Q4 were the result of refinancing. Milliman's mortgage default risk rate for GSE loans remained nearly flat, inching down from 1.28% in Q3 to 1.27% in Q4 as interest rates remained low and home prices improved. The MMDI rate for Ginnie Mae loans increased slightly, from 7.39% in Q3 to 7.64% in Q4.

Of note, cash-out refinance volume, which is typically seen as riskier loan products relative to rate/term refinance mortgages, rose significantly for the quarter. GSE cash-out refinance mortgages averaged approximately \$5 billion per month from 2014 through 2019 and approximately \$2.5 billion per month for Ginnie Mae. For the second half of 2020, cash-out refinance volume increased to over \$20 billion per month.

“Leading up to the global financial crisis, cash-out refinance mortgage loans were a significant driver of risk as many borrowers extracted equity from growing home prices,” says Jonathan Glowacki, a principal at Milliman and author of the MMDI. “While cash-out refinance volume has increased significantly in 2020 and 2021, we believe the risk is now somewhat mitigated by tighter underwriting standards, namely capped LTV ratios.”

For more information go to www.milliman.com/mmdi/.

About Milliman

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit milliman.com.

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