HOUSING FINANCE POLICY CENTER

HOUSING FINANCE AT A GLANCE

A MONTHLY CHARTBOOK

March 2015

URBAN INSTITUTE · ELEVATE · THE · DEBATE

ABOUT THE CHARTBOOK

The Housing Finance Policy Center's (HFPC) mission is to produce analyses and ideas that promote sound public policy, efficient markets, and access to economic opportunity in the area of housing finance. *At A Glance*, a monthly chartbook and data source for policymakers, academics, journalists, and others interested in the government's role in mortgage markets, is at the heart of this mission.

We welcome feedback from our readers on how we can make At A Glance a more useful publication. Please email any comments or questions to ataglance@urban.org.

To receive regular updates from the Housing Finance Policy Center, please visit urban.org/center/hfpc to sign up for our bi-weekly newsletter.

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INTRODUCTION

Introducing: Monthly Chartbook blogpost

Starting this month, we are introducing the "Chartbook Blogpost" – a monthly blog accompanying the Chartbook that provides deeper insight into one or more charts to highlight a specific mortgage market trend and discuss related policy implications. Our introductory March blog post examines the bottom chart on Chartbook page 8 (Origination market shares of different channels) and outlines key reasons for the growing share of bank portfolio lending to a 10 year high of 27 percent in 2014. Three factors are driving this trend: (i) rising share of jumbo loans – which are ineligible for GSE purchase, (ii) higher post-crisis g-fees – which create an incentive for lenders to hold mortgages and profit from g-fees, and (iii) an improving economy – which has made lenders less risk-averse and more willing to hold mortgages on their books.

Fall in GSE profits unlikely to trigger a Treasury draw anytime soon

Fannie Mae and Freddie Mac announced significantly lower 2014 earnings compared to last year, primarily due to favorable impact in 2013 of non-recurring gains such as reversal of deferred tax assets and legal settlements, as well as the unfavorable impact of derivative losses triggered by declining interest rates in Q4 2014. This has led to speculations of more Treasury draws if profits come under future stress, given the minimal and diminishing capital GSEs hold. Jim Parrott, senior fellow at the Urban Institute examined the likelihood of a future draw, different scenarios that could lead to a draw, and implications of a draw in a just-released issue brief.

Efforts to ease lender concerns regarding mortgage repurchases seem to have worked

We performed an in depth analysis of loan repurchase activity for Fannie Mae and Freddie Mac in light of FHFA's actions to give lenders greater clarity about repurchase requests. Recent credit data from GSEs show a clear trend towards early detection of rep and warranty violation, relatively low repurchases of recent vintages, and the completion of repurchase requests relating to pre-2009 vintages.

Will FHFA extend HARP deadline or the eligibility date?

On March 4th, FHFA Director Mel Watt discussed the potential for extending HARP deadline (currently Dec 31st 2015) and the eligibility date (loans originated before the June 1, 2009 cutoff), saying a decision would be made this year. Shortly thereafter, he clarified that a change in eligibility requirements was not under consideration, leaving open the possibility of a program extension. We view this decision as partially interest rate driven: If rates continue to rise, as is widely expected, that would diminish the appeal of an extension. If interest rates decline, it may make sense to align HARP expiration date with the Dec, 31, 2016 HAMP expiration date. FHFA has also recently ramped up its outreach efforts to encourage more HARP-eligible borrowers to consider refinancing.

Latest updates to Credit Availability Index (HCAI)

We just released our updated HCAI analysis using new data for loans made during the first three quarters of 2014. We expect these loans to have a default rate of about 5 percent, compared to over 12 percent for loans originated between 2001 and 2003, a time of balanced credit access. This indicates even doubling the current default risk of 5 percent would keep mortgage credit risk well below the cautious standards of 2001-2003, suggesting more room to responsibly open the credit box.

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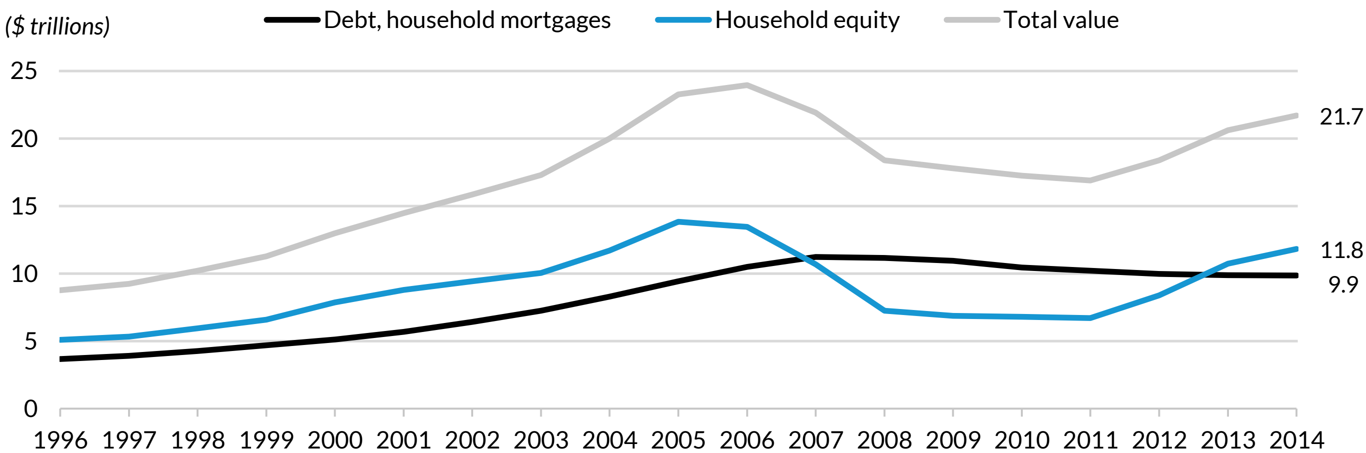
MARKET SIZE OVERVIEW

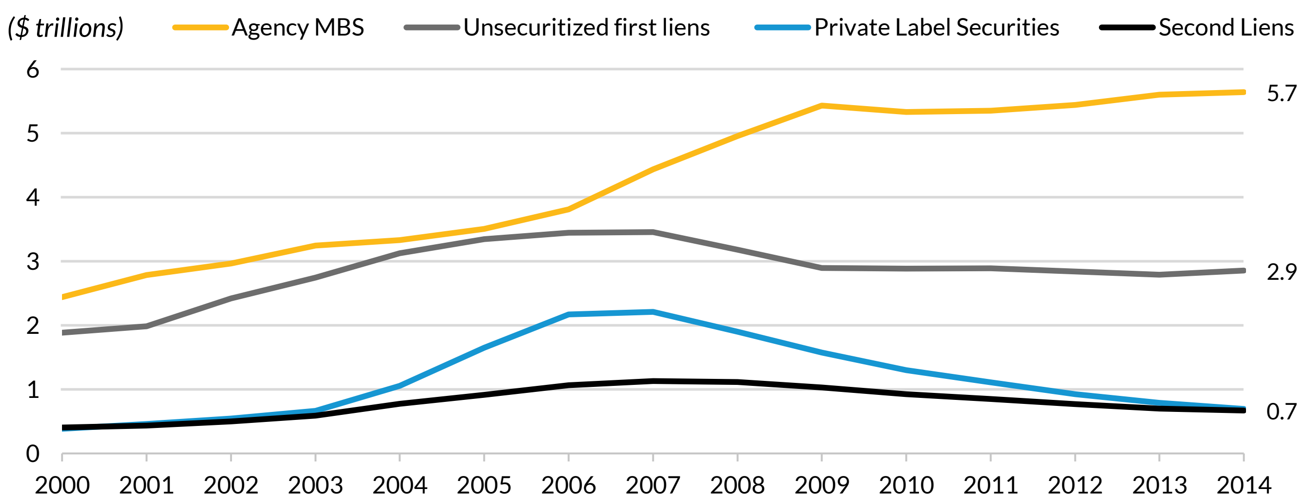
According to the Federal Reserve's Flow of Funds report, the total value of US housing has increased each of the last eight quarters led by growing household equity, and the trend continued in the latest report, covering Q4 2014. Total debt remained flat at $9.86 trillion, while household equity increased by $288 billion, bringing the total value of the housing market to $21.69 trillion. Agency MBS made up 57.2 percent of the total mortgage market (a slight increase from the prior quarter), private-label securities made up 7.1 percent, and unsecuritized first liens at the GSEs, commercial banks, savings institutions, and credit unions made up 28.9 percent. Second liens comprised the remaining 6.8 percent of the total.

Value of the US Housing Market



Sources: Federal Reserve Flow of Funds and Urban Institute.

Size of the US Residential Mortgage Market

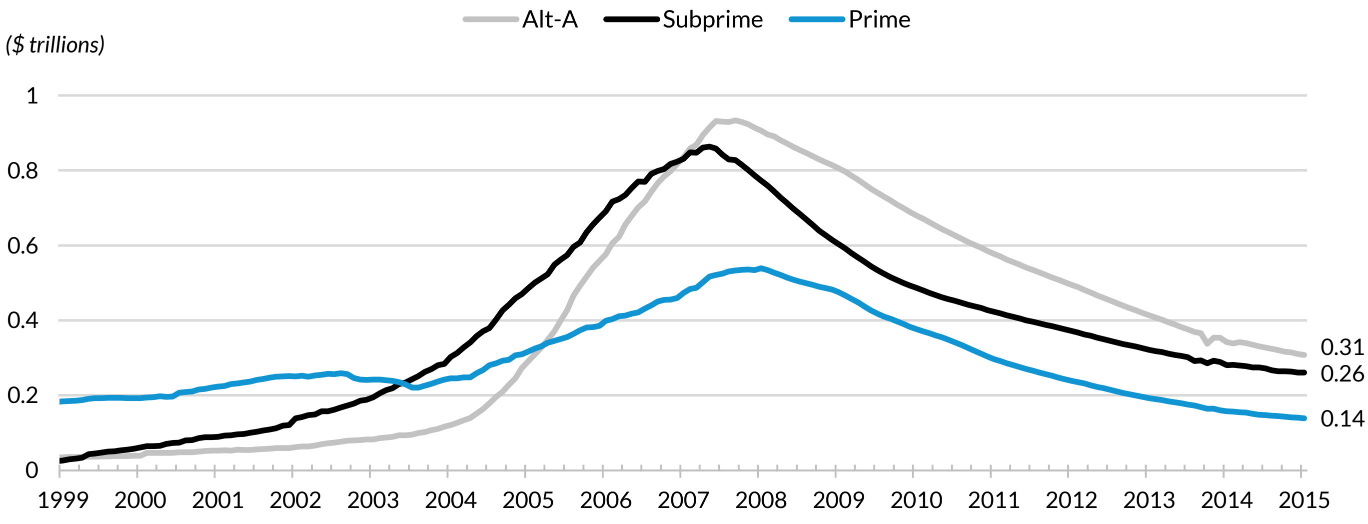


Sources: Federal Reserve Flow of Funds, Inside Mortgage Finance, Fannie Mae, Freddie Mac, eMBS and Urban Institute.
Note: Unsecuritized first liens includes loans held by commercial banks, GSEs, savings institutions, and credit unions.

MARKET SIZE OVERVIEW

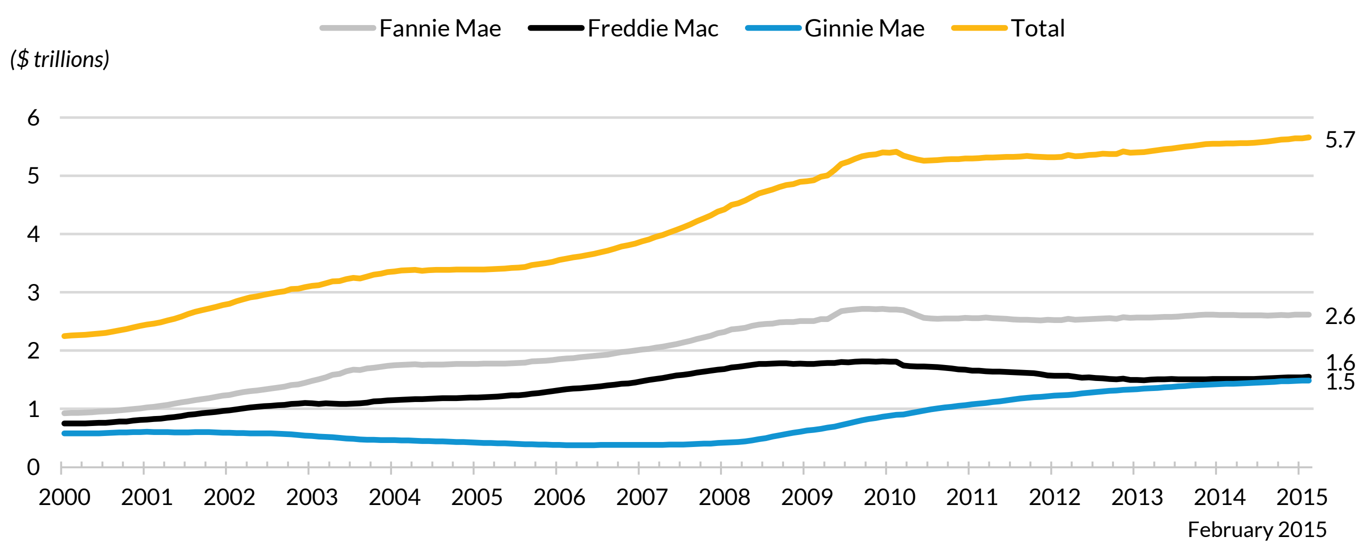
As of January 2015, debt in the private-label securitization market totaled $707 billion and was split among prime (19.6 percent), Alt-A (43.5 percent), and subprime (36.9 percent) loans. In February 2015, outstanding securities in the agency market totaled $5.66 trillion and were 46.3 percent Fannie Mae, 27.4 percent Freddie Mac, and 26.3 percent Ginnie Mae.

Private-Label Securities by Product Type



Sources: CoreLogic and Urban Institute.

Agency Mortgage-Backed Securities

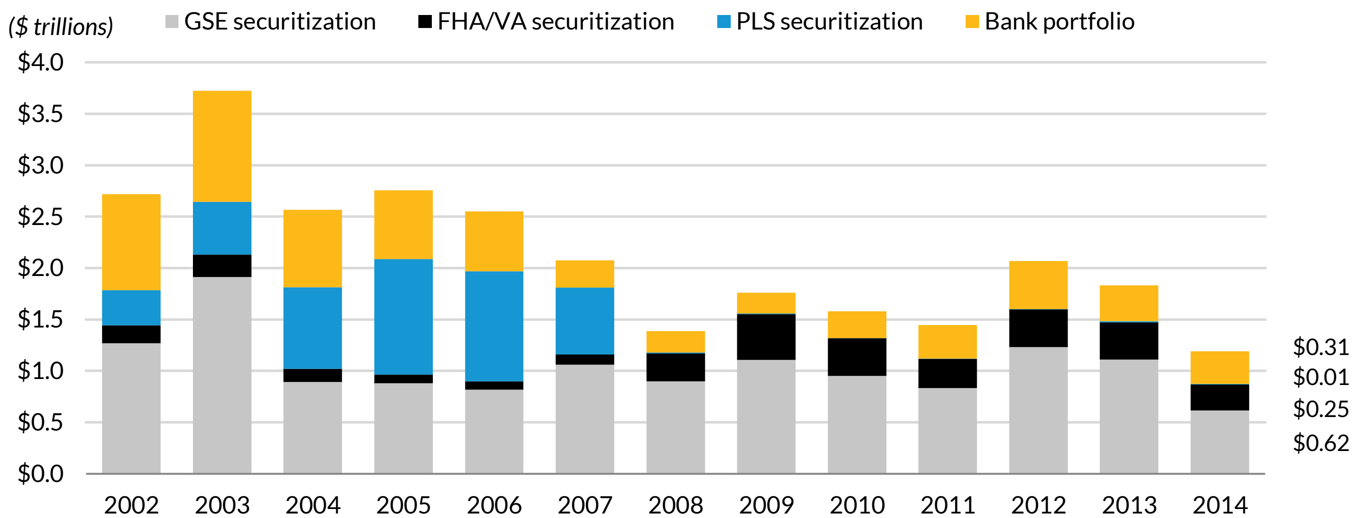


Sources: eMBS and Urban Institute.

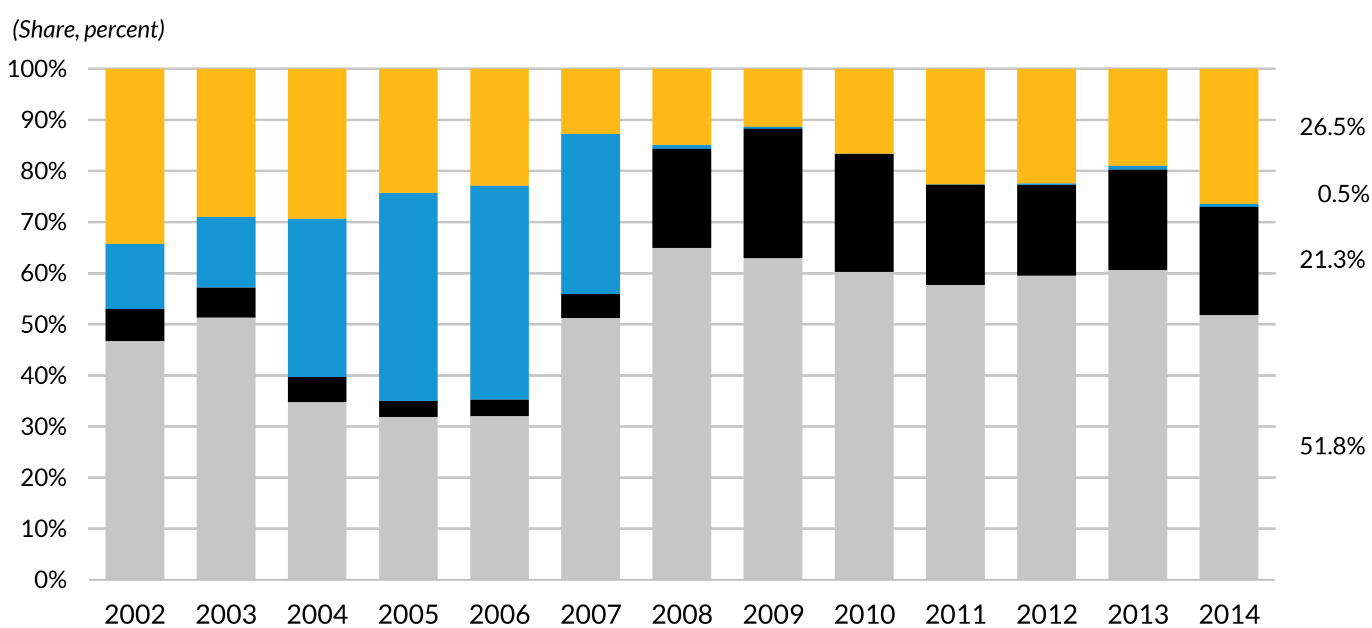
ORIGINATION VOLUME AND COMPOSITION

First Lien Origination Volume

First lien originations in 2014 totaled $1.19 trillion, far below their 2013 total of $1.83 trillion. The share of bank portfolio originations rose to nearly 27 percent, while the GSE share dropped to 52 percent from 61 percent in 2013, reflecting the curtailment of refinancing activity as well as more retention of loans in bank portfolios. FHA/VA originations accounted for another 21 percent, and the private label origination share remained less than one percent.



Sources: Inside Mortgage Finance and Urban Institute.

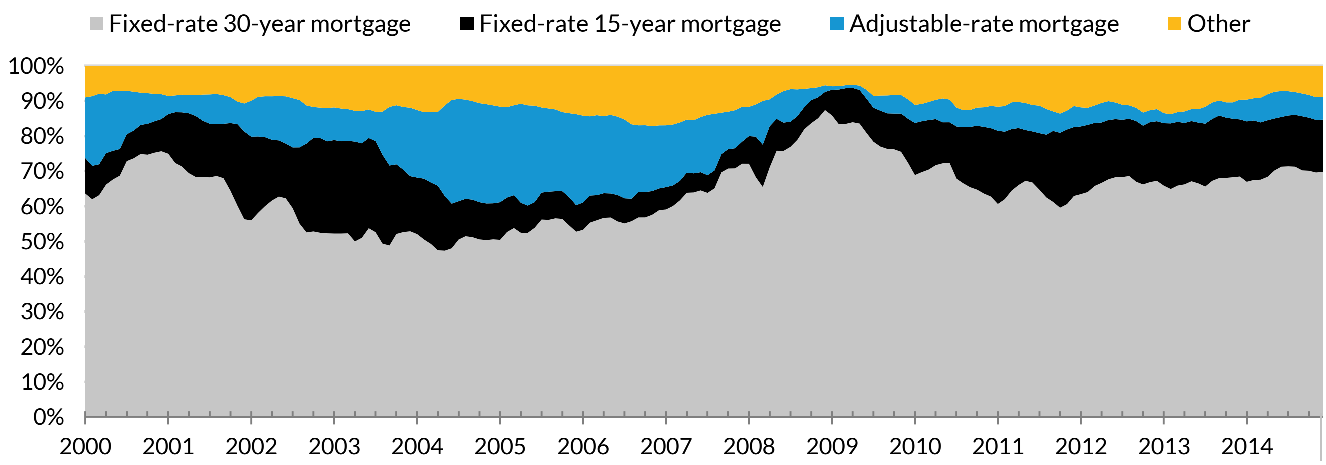


Sources: Inside Mortgage Finance and Urban Institute.

OVERVIEW
MORTGAGE ORIGINATION PRODUCT TYPE

Adjustable-rate mortgages (ARMs) accounted for as much as 29 percent of all new originations during the peak of the recent housing bubble in 2005 (top chart). They fell to a historic low of 1 percent in 2009, and slowly grew to 6.4 percent of total originations in December 2014, 13 percent higher than year ago level. 15-year fixed-rate mortgages (FRMs), predominantly a refinance product, comprise 14.9 percent of new originations. Excluding refinances (bottom chart), the share of 30-year FRMs originated in November 2014 stood at 86.8 percent, 15-year FRMs at 5.8 percent, and ARMs at 5.8 percent.

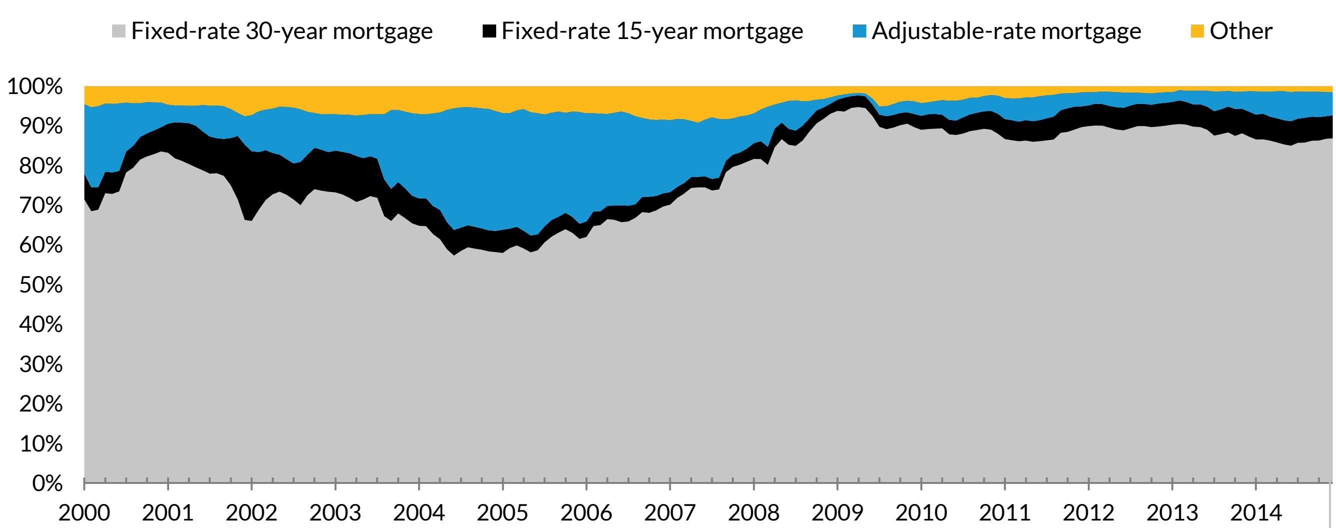
All Originations



December 2014

Sources: CoreLogic Prime Servicing and Urban Institute.

Purchase Loans Only



December 2014

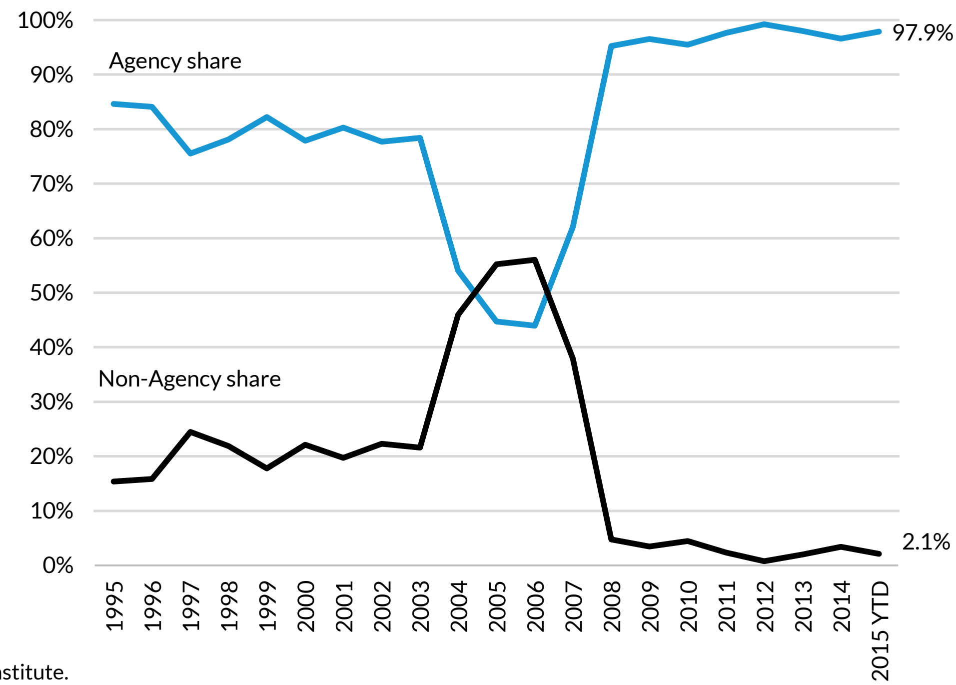
Sources: CoreLogic Prime Servicing and Urban Institute.

OVERVIEW

SECURITIZATION VOLUME AND COMPOSITION

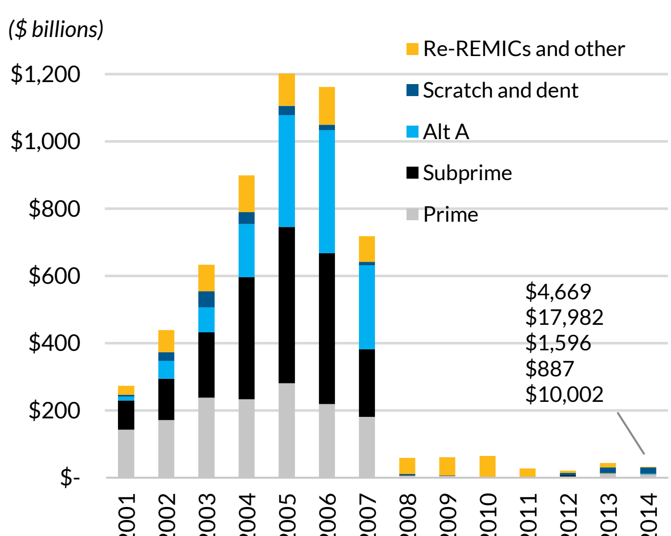
Agency/Non-Agency Share of Residential MBS Issuance

Non-agency single-family MBS issuance has hovered at or below 3 percent of total issuance since early 2011, and this share is even lower if re-REMICs are excluded. The environment in 2014 was not favorable for non-agency deals, totaling $35.1 billion, a decline from the 2013 total of $43.4 billion. Over half of the new issuance last year, $18.0 billion, was scratch and dent securitizations. For the first two months of 2015, non-agency issuance is slightly below its pace from early last year.



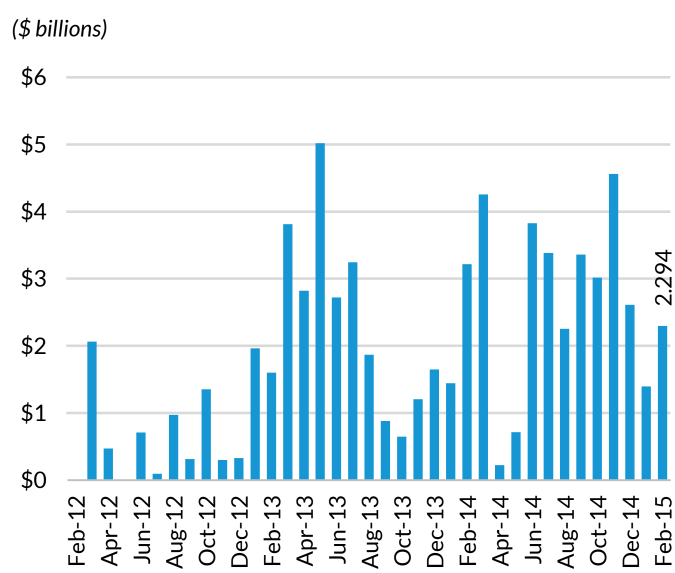
Sources: Inside Mortgage Finance and Urban Institute.

Non-Agency MBS Issuance



Sources: Inside Mortgage Finance and Urban Institute.

Non-Agency Securitization

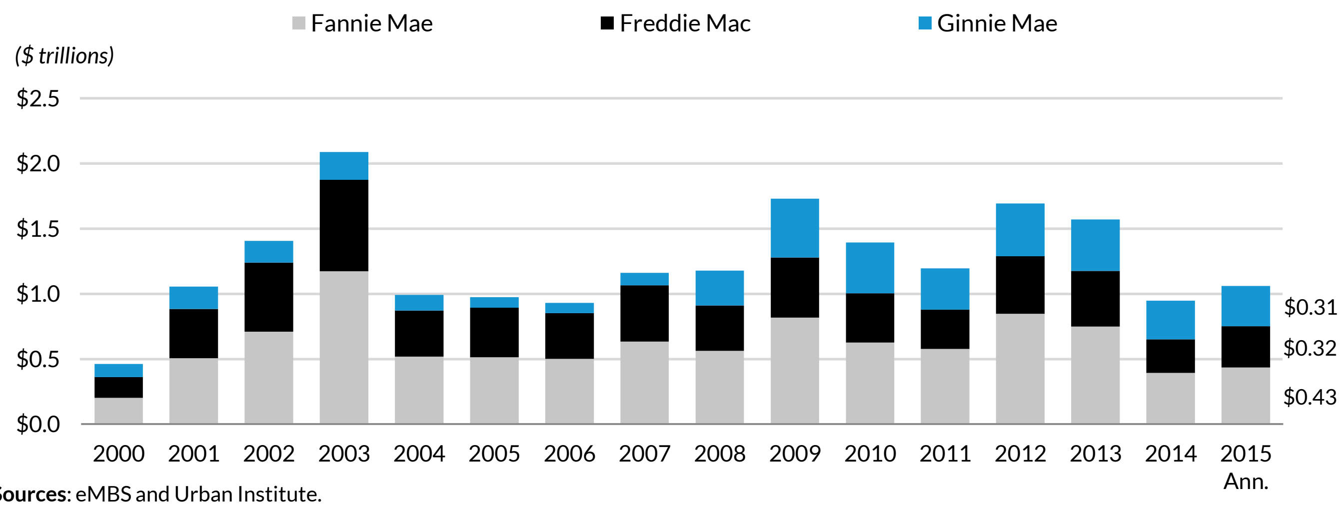


Sources: Inside Mortgage Finance and Urban Institute.
Note: Monthly figures equal total non-agency MBS issuance minus Re-REMIC issuance.

AGENCY ACTIVITY: VOLUMES AND PURCHASE/ REFI COMPOSITION

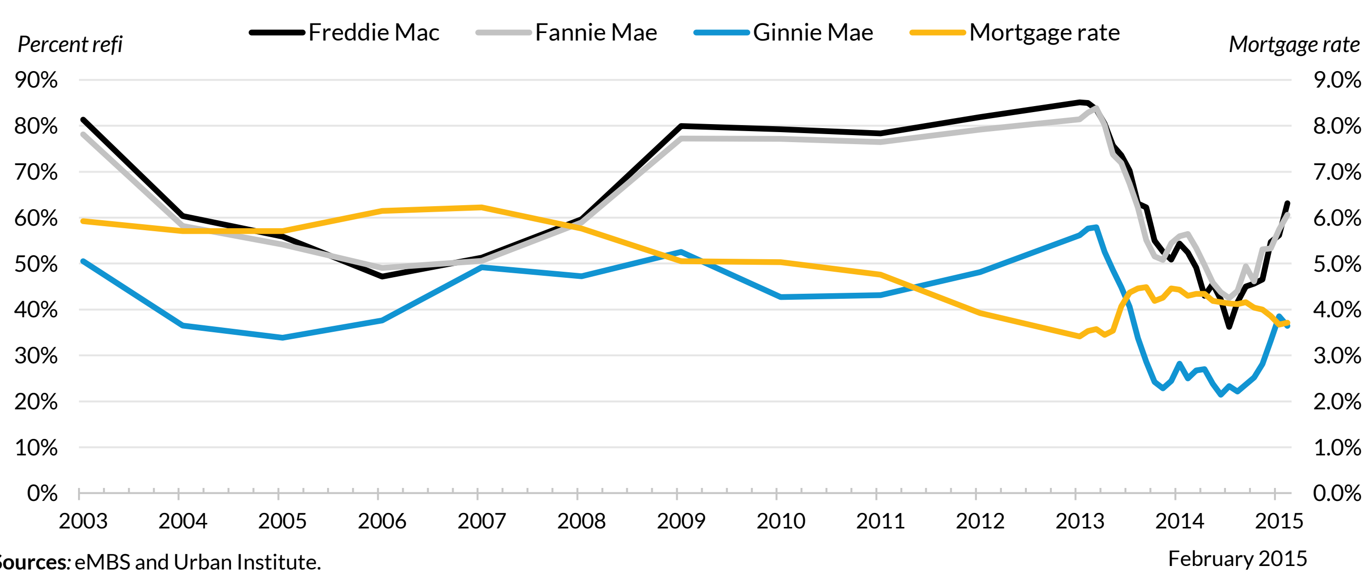
Agency issuance totaled $176.7 billion in the first two months of 2015, up from $135.6 billion for the same period a year ago. In February 2015, refinances continued to increase to 61 and 63 percent of the GSEs' business, as the average mortgage rate remained low. The Ginnie Mae market has always been more purchase-driven, with refinance volume of 36 percent.

Agency Gross Issuance



Sources: eMBS and Urban Institute.
Note: Annualized figure based on data from February 2015.

Percent Refi at Issuance



Sources: eMBS and Urban Institute.
Note: Based on at-issuance balance.

STATE OF THE MARKET

MORTGAGE ORIGINATION PROJECTIONS

With interest rates relatively low and a sizeable drop in FHA premiums, Fannie Mae and the MBA project modestly higher origination volume in 2015 over 2014 levels ($84 billion and $100 billion, respectively), while Freddie Mac is expecting origination volume to be on par with 2014. Fannie is expecting that in 2015, refinances will comprise a slightly higher percent of total origination than in 2014, whereas MBA and Freddie Mac expect refinances to comprise a smaller share o f originations, in part due to different interest rate assumptions. Home sales were slightly softer in 2014 than in 2013, while housing starts picked up some steam. Both housing starts and home sales are expected to strengthen considerably in 2015.

Total Originations and Refinance Shares

Period	Originations ($ billions)			Refi Share (%)		
	Total, FNMA estimate	Total, FHLMC estimate	Total, MBA estimate	FNMA estimate	FHLMC estimate	MBA estimate
2015 Q1	266	345	294	52	48	51
2015 Q2	360	375	338	45	38	40
2015 Q3	342	325	318	42	37	34
2015 Q4	309	255	272	42	37	36
2016 Q1	291	250	251	51	35	39
2016 Q2	339	390	319	36	32	30
2016 Q3	320	385	316	32	29	30
2016 Q4	290	250	284	31	25	32
FY 2012	2154	2122	2044	72	70	71
FY 2013	1866	1925	1845	60	59	60
FY 2014	1193	1200	1122	43	40	43
FY 2015	1277	1200	1222	45	35	40
FY 2016	1239	1275	1170	37	24	32

Sources: Mortgage Bankers Association, Fannie Mae, Freddie Mac and Urban Institute.
Note: Shaded boxes indicate forecasted figures. All figures are estimates for total single-family market. Column labels indicate source of estimate. Regarding interest rates, the yearly averages for 2012, 2013, and 2014 were 3.7%, 4.0%, and 4.2%, respectively. For 2015, Fannie Mae, Freddie Mac, and the MBA project rates of 3.8%, 3.9%, and 4.2%, respectively. For 2016, their respective projections are 4.2%, 4.8%, and 5.0%.

Housing Starts and Homes Sales

Year	Housing Starts, thousands			Home Sales. thousands				
	Total, FNMA estimate	Total, FHLMC estimate	Total, MBA estimate	Total, FNMA estimate	Total, FHLMC estimate	Total, MBA estimate	Existing, MBA estimate	New, MBA Estimate
FY 2012	781	780	783	5028	5030	5030	4661	369
FY 2013	925	920	930	5519	5520	5505	5073	432
FY 2014	1006	1010	1004	5365	5370	5357	4916	441
FY 2015	1155	1180	1110	5659	5600	5705	5206	499
FY 2016	1319	1400	1228	5885	5800	6002	5443	559

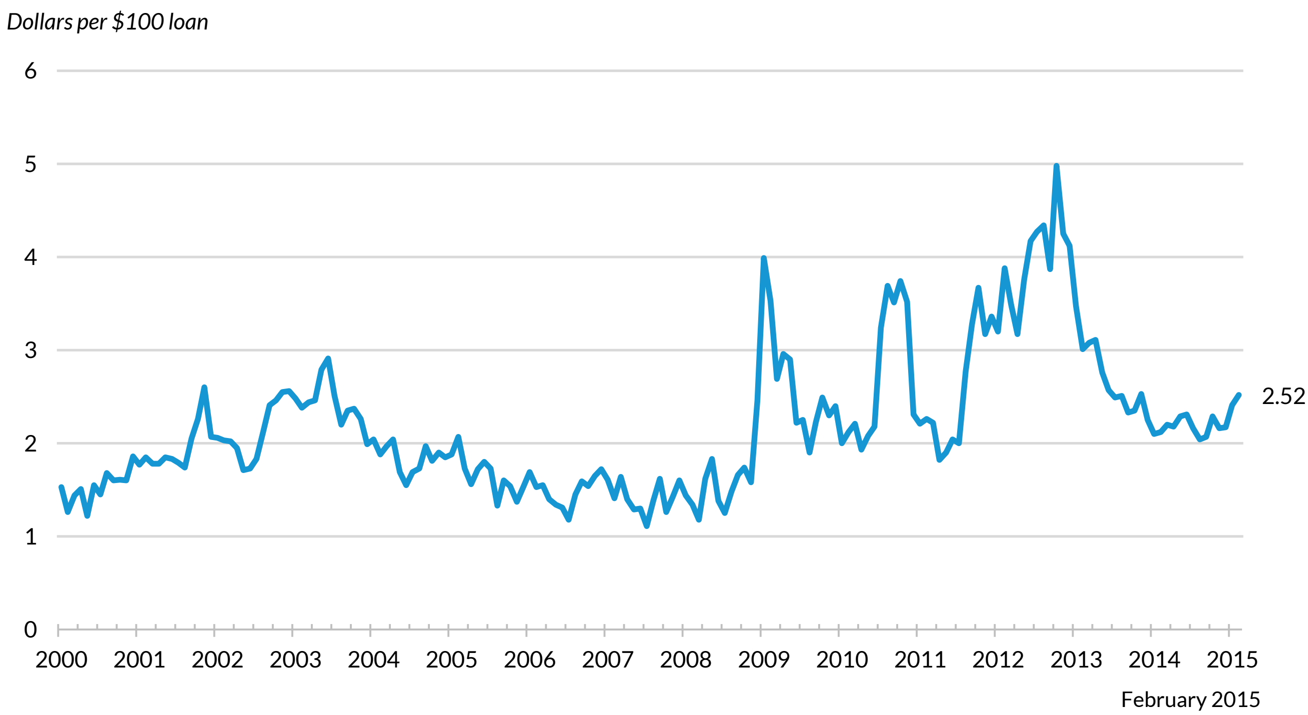
Sources: Mortgage Bankers Association, Fannie Mae, Freddie Mac and Urban Institute.
Note: Shaded boxes indicate forecasted figures. All figures are estimates for total single-family market; column labels indicate source of estimate.

STATE OF THE MARKET
ORIGINATOR PROFITABILITY

When originator profitability is high, mortgage rates tend to be less responsive to the general level of interest rates, as originators are capacity-constrained. When originator profitability is low, mortgage rates are far more responsive to the general level of interest rates. As interest rates have risen from the lows in 2012, and fewer borrowers find it economical to refinance, originator profitability is lower. Originator profitability is often measured as the spread between the rate the borrower pays for the mortgage (the primary rate) and the yield on the underlying mortgage-backed security in the secondary market (the secondary rate). However, with guarantee fees up dramatically from 2011 levels, the so-called primary-secondary spread has become a very imperfect measure to compare profitability across time.

The measure used here, Originator Profitability and Unmeasured Costs (OPUC), is formulated and calculated by the Federal Reserve Bank of New York. It looks at the price at which the originator actually sells the mortgage into the secondary market and adds the value of retained servicing (both base and excess servicing, net of g-fees) as well as points paid by the borrower. This measure was in the narrow range of 2.04 to 2.31 in 2014, and edged up to 2.52 in February 2015.

Originator Profitability and Unmeasured Costs

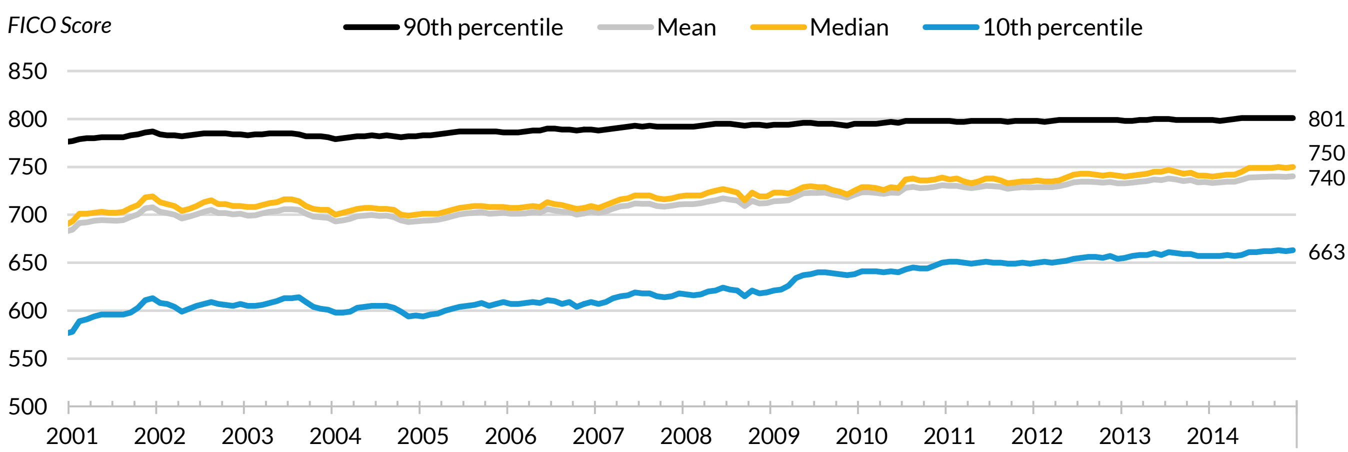


Sources: Federal Reserve Bank of New York, updated monthly and available at this link: http://www.ny.frb.org/research/epr/2013/1113fust.html and Urban Institute.
Note: OPUC stands for "originator profits and unmeasured costs" as discussed in Fuster et al. (2013). The OPUC series is a monthly (4-week moving) average.

STATE OF THE MARKET
CREDIT AVAILABILITY FOR PURCHASE LOANS

Access to credit has become extremely tight, especially for borrowers with low FICO scores. The mean and median FICO scores on new originations have both drifted up about 47 and 50 points over the last decade. The 10th percentile of FICO scores, which represents the lower bound of creditworthiness needed to qualify for a mortgage, stood at 663 as of December 2014. Prior to the housing crisis, this threshold held steady in the low 600s. Mean LTV levels at origination remain relatively high, averaging 85, which reflects the large number of FHA purchase originations.

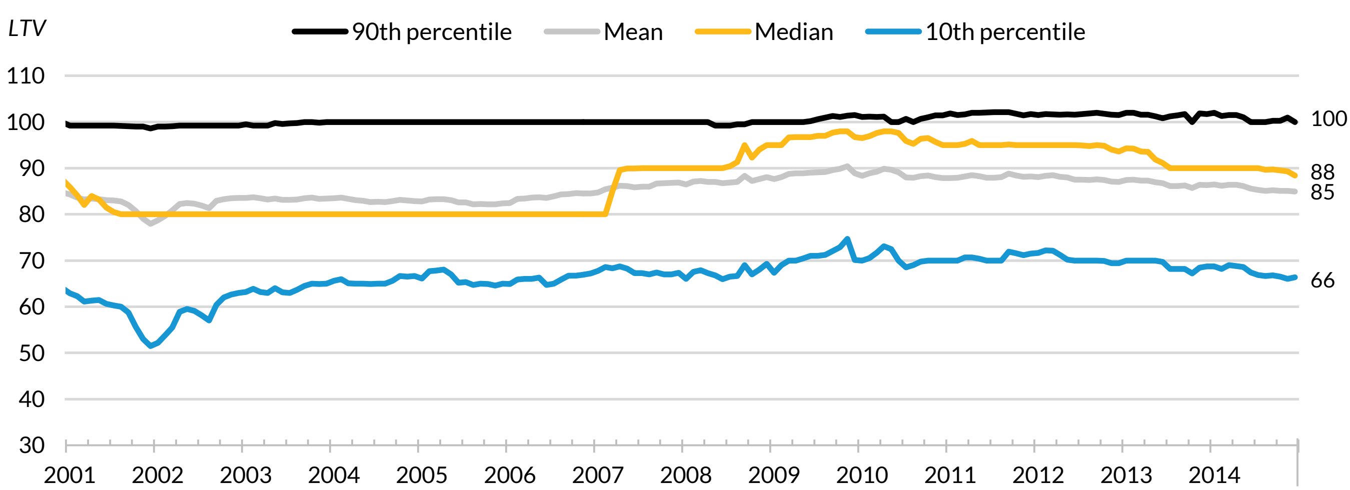
Borrower FICO Score at Origination



Sources: CoreLogic Servicing and Urban Institute.
Note: Purchase-only loans.

December 2014

Combined LTV at Origination



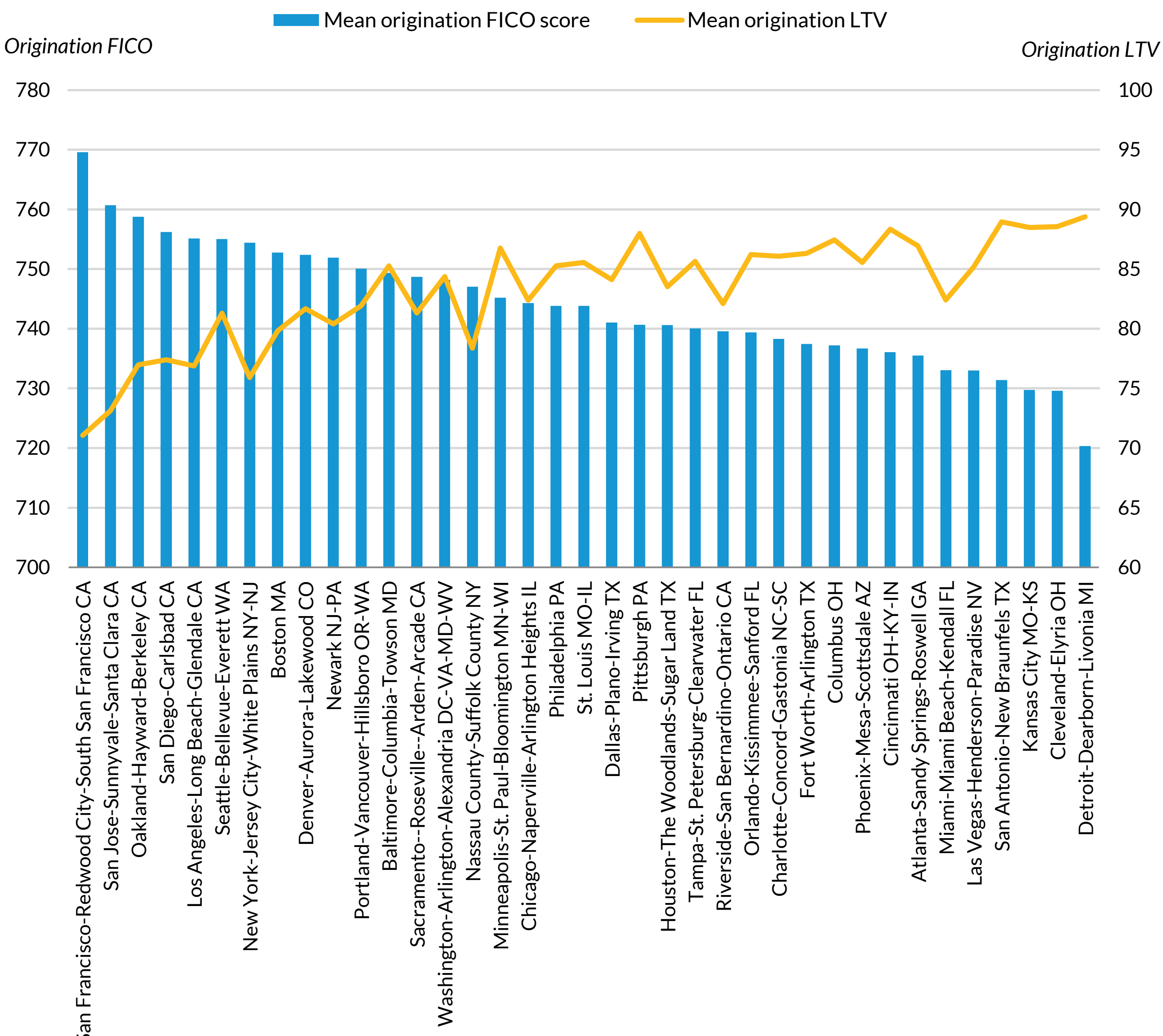
Sources: CoreLogic Servicing and Urban Institute.
Note: Purchase-only loans.

December 2014

CREDIT AVAILABILITY FOR PURCHASE LOANS

Credit has been tight for all borrowers with less-than-stellar credit scores, but there are significant variations across MSAs. For example, the mean origination FICO for borrowers in San Francisco- Redwood City- South San Francisco, CA is almost 770, while in Detroit-Dearborn-Livonia, MI it is 720. Across all MSAs, lower average FICO scores tend to be correlated with high average LTVs, as these MSAs rely heavily on FHA/VA financing.

Origination FICO and LTV by MSA



Sources: CoreLogic Servicing as of December 2014 and Urban Institute.
Note: Purchase-only loans.

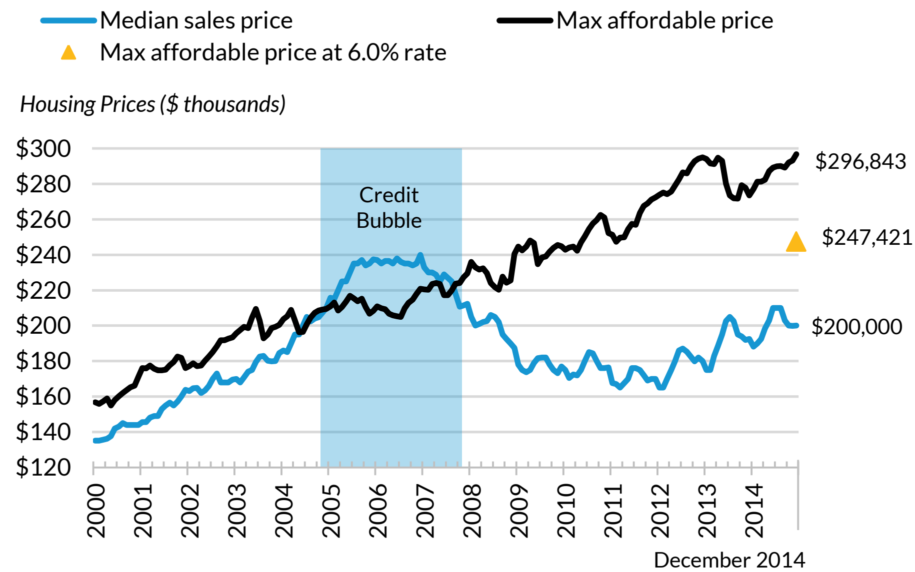
STATE OF THE MARKET

HOUSING AFFORDABILITY

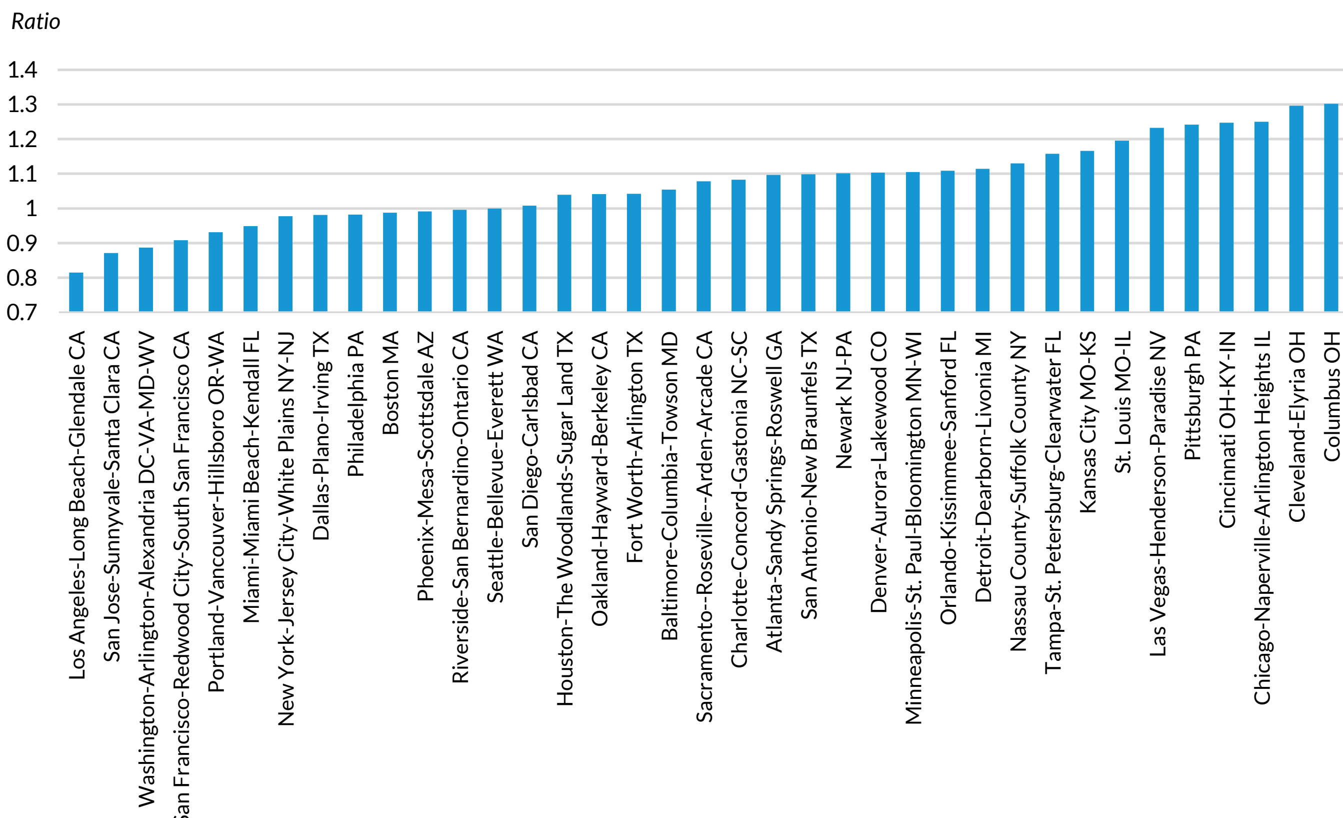
National Housing Affordability Over Time

Home prices are still very affordable by historical standards, despite increases over the last three years. Even if interest rates rose to 6 percent, affordability would be at the long-term historical average.

Sources: CoreLogic, US Census, Freddie Mac and Urban Institute.
Note: The maximum affordable price is the house price that a family can afford putting 20 percent down, with a monthly payment of 28 percent of median family income, at the Freddie Mac prevailing rate for 30-year fixed-rate mortgage, and property tax and insurance at 1.75 percent of housing value.



Affordability Adjusted for MSA-Level DTI

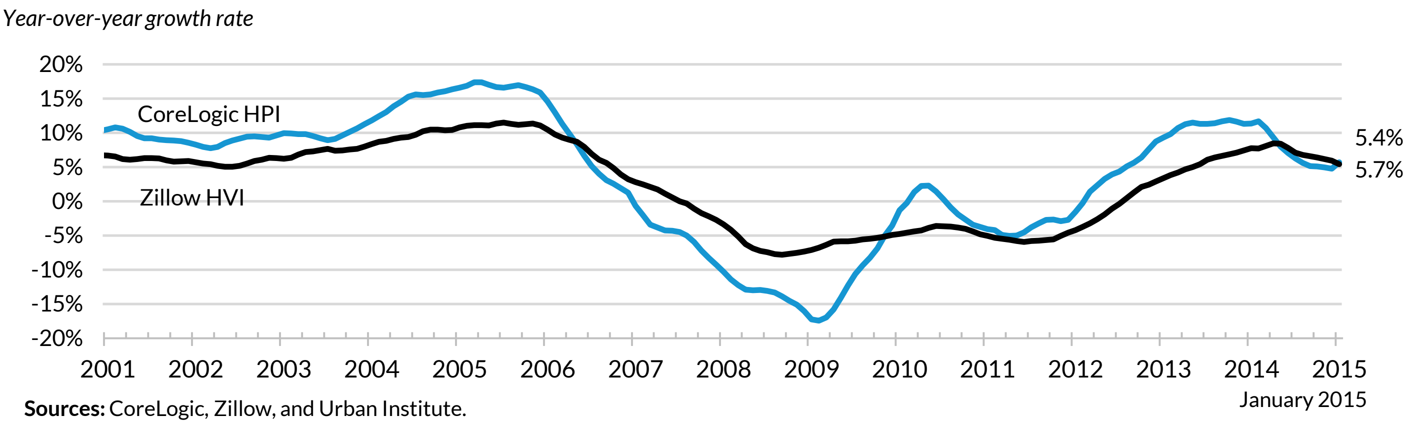


Sources: CoreLogic, US Census, Freddie Mac and UI calculations based on NAR methodology.
Note: Index is calculated relative to home prices in 2000-03. A ratio above 1 indicates higher affordability in December 2014 than in 2000-03.

HOME PRICE INDICES

National Year-Over-Year HPI Growth

The strong year-over-year house price growth through 2013 has slowed somewhat since 2014, as indicated by both the repeated sales HPI from CoreLogic and hedonic index from Zillow.



Sources: CoreLogic, Zillow, and Urban Institute.

Changes in CoreLogic HPI for Top MSAs

Despite rising 29 percent from the trough, national house prices still must grow 14.5 percent to reach pre-crisis peak levels. At the MSA level, three of the top 15 MSAs have reached their peak HPI– Houston, TX; Dallas, TX; and Denver, CO. Two MSAs particularly hard hit by the boom and bust– Phoenix, AZ and Riverside, CA– would need to rise more than 40 percent to return to peak levels.

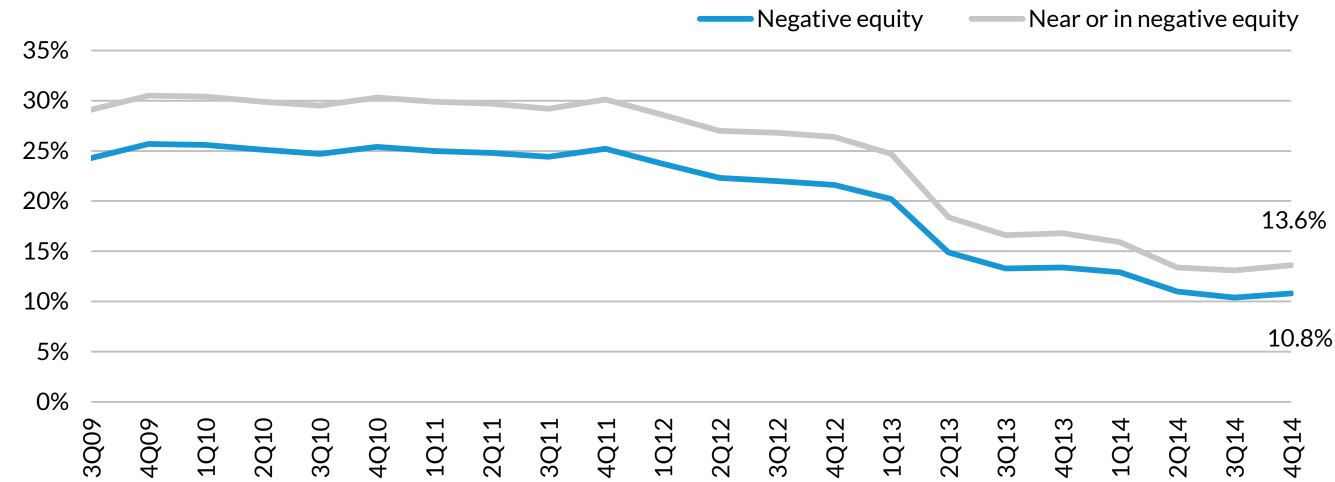
MSA	HPI changes (%)			% Rise needed to achieve peak
	2000 to peak	Peak to trough	Trough to current	
United States	98.8	-32.3	29.1	14.5
New York-Jersey City-White Plains NY-NJ	115.1	-19.9	19.3	4.7
Los Angeles-Long Beach-Glendale CA	181.4	-39.0	47.0	11.6
Chicago-Naperville-Arlington Heights IL	65.2	-36.4	20.8	30.2
Atlanta-Sandy Springs-Roswell GA	40.8	-33.5	38.4	8.7
Washington-Arlington-Alexandria DC-VA-MD-WV	159.6	-33.3	25.1	19.8
Houston-The Woodlands-Sugar Land TX	44.4	-12.6	33.3	-14.1
Phoenix-Mesa-Scottsdale AZ	126.3	-52.7	49.9	41.0
Riverside-San Bernardino-Ontario CA	194.5	-53.3	48.7	44.0
Dallas-Plano-Irving TX	38.3	-13.7	28.8	-10.1
Minneapolis-St. Paul-Bloomington MN-WI	73.9	-30.5	24.8	15.2
Seattle-Bellevue-Everett WA	94.1	-31.7	35.1	8.4
Denver-Aurora-Lakewood CO	36.3	-14.3	36.7	-14.6
Baltimore-Columbia-Towson MD	128.5	-25.5	6.7	25.9
San Diego-Carlsbad CA	148.7	-38.2	37.4	17.7
Anaheim-Santa Ana-Irvine CA	162.3	-36.8	37.4	15.2

Sources: CoreLogic HPIs as of January 2015 and Urban Institute.
Note: This table includes the largest 15 Metropolitan areas by mortgage count.

NEGATIVE EQUITY & SERIOUS DELINQUENCY

Negative Equity Share

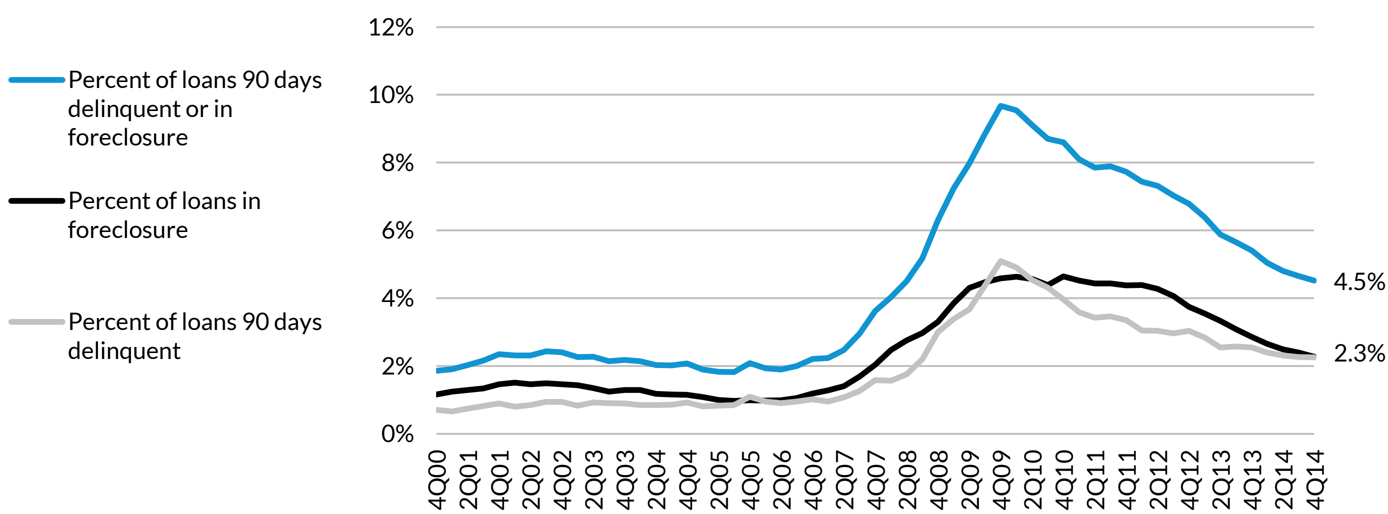
With housing prices appreciating through 2014, residential properties in negative equity (LTV greater than 100) as a share of all residential properties with a mortgage have dropped to 10.8 percent. Residential properties in near negative equity (LTV between 95 and 100) comprise another 2.8 percent.



Sources: CoreLogic and Urban Institute.
Note: CoreLogic negative equity rate is the percent of all residential properties with a mortgage in negative equity. Loans with negative equity refer to loans above 100 percent LTV. Loans near negative equity refer to loans above 95 percent LTV.

Loans in Serious Delinquency/Foreclosure

Serious delinquencies and foreclosures continue to decline with the housing recovery, but remain quite high relative to the early 2000s. Loans 90 days delinquent or in foreclosure totaled 4.5% in the fourth quarter of 2014, down from 5.4% for the same quarter a year earlier.



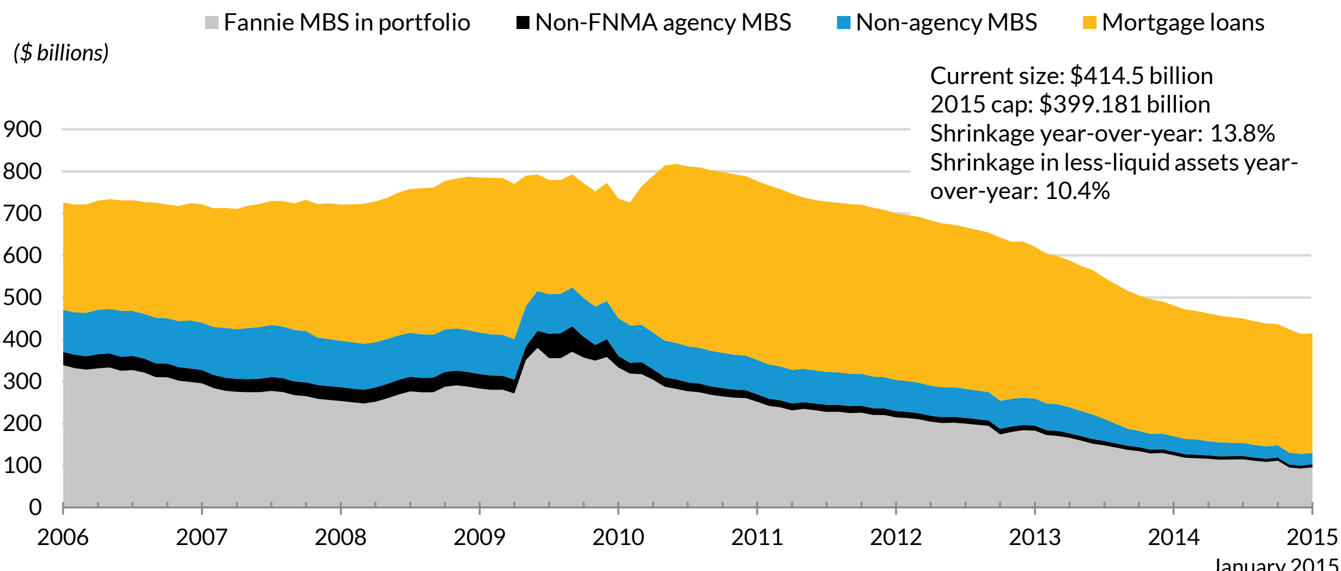
Sources: Mortgage Bankers Association and Urban Institute.

GSES UNDER CONSERVATORSHIP

GSE PORTFOLIO WIND-DOWN

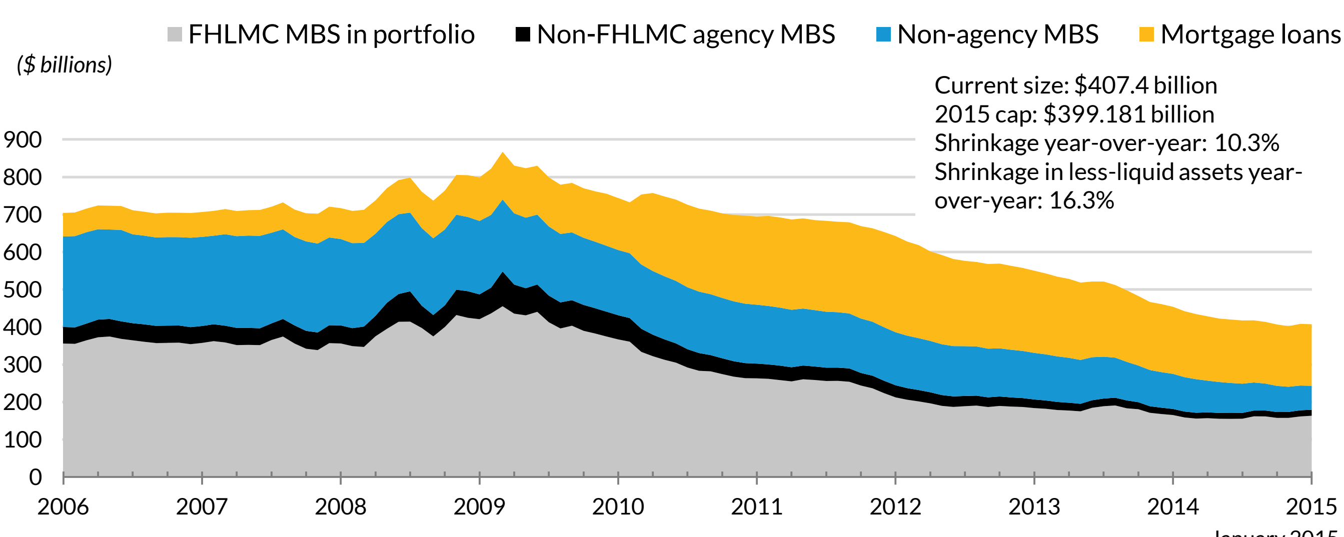
Fannie and Freddie ended 2014 with portfolios totaling $413.3 billion and $408.4 billion, respectively, well below the 2014 cap and just above the 2015 cap of $399 billion. In January 2015, portfolio size remained roughly constant for both GSEs, but over the past year, the downward trend is evident. Relative to January 2014, Fannie contracted by 13.8 percent, and Freddie Mac by 10.3 percent. They are shrinking their less liquid assets (mortgage loans and non-agency MBS) at close to the same pace that they are shrinking their entire portfolio.

Fannie Mae Mortgage-Related Investment Portfolio Composition



Sources: Fannie Mae and Urban Institute.

Freddie Mac Mortgage-Related Investment Portfolio Composition

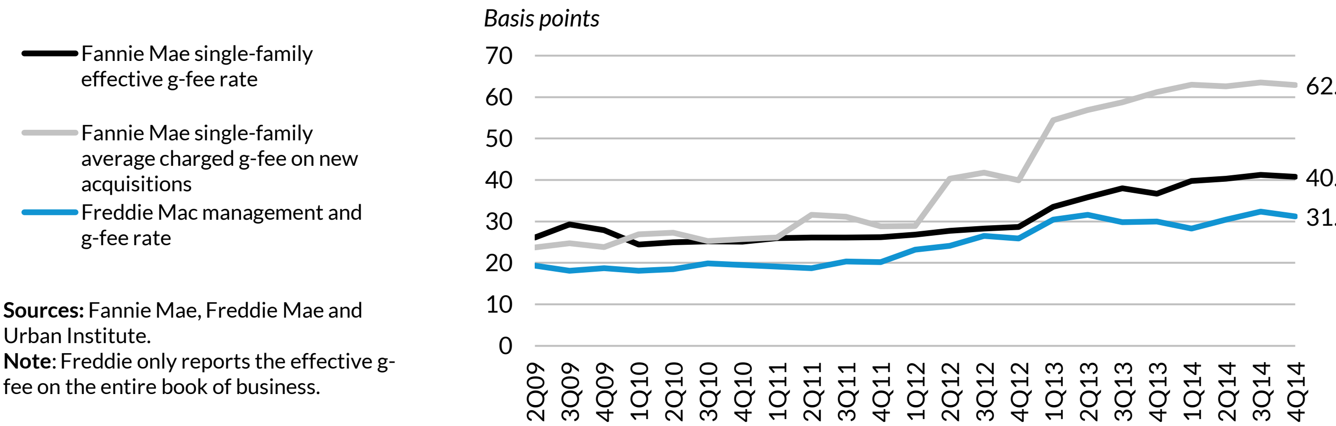


Sources: Freddie Mac and Urban Institute.

EFFECTIVE GUARANTEE FEES AND GSE RISK-SHARING TRANSACTIONS

Effective Guarantee Fees

Fannie's average charged g-fee on new single-family originations was 62.9 bps in Q4 2014, down slightly from 63.5 in the previous quarter. This is still a marked increase over 2012 (39.9 bps) and 2011 (28.8 bps), and has contributed to the GSEs' profits. Fannie's 2014 loan-level price adjustments (LLPAs) are shown in the second table. The 25 bp Adverse Market Delivery Charge has been added to these upfront numbers. The FHFA asked for input on the level of g-fees and LLPAs, with comments due in September of 2014, but has not yet announced a decision on the matter.



Sources: Fannie Mae, Freddie Mae and Urban Institute.
Note: Freddie only reports the effective g-fee on the entire book of business.

Fannie Mae Upfront Loan-Level Price Adjustments (LLPAs)

	LTV							
Credit Score	≤60	60.01 – 70	70.01 – 75	75.01 – 80	80.01 – 85	85.01 – 90	90.01 – 95	95.01 – 97
> 740	0.00%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	0.50%
720 – 739	0.00%	0.25%	0.50%	0.75%	0.75%	0.75%	0.75%	0.75%
700 – 719	0.00%	0.75%	1.00%	1.25%	1.25%	1.25%	1.25%	1.25%
680 – 699	0.25%	0.75%	1.50%	2.00%	1.75%	1.50%	1.50%	1.25%
660 – 679	0.25%	1.25%	2.25%	2.75%	3.00%	2.50%	2.50%	2.00%
640 – 659	0.75%	1.50%	2.75%	3.25%	3.50%	3.00%	3.00%	2.50%
620 – 639	0.75%	1.75%	3.25%	3.25%	3.50%	3.50%	3.50%	3.25%
< 620	0.75%	1.75%	3.25%	3.25%	3.50%	3.50%	3.50%	3.50%
Product Feature (Cumulative)								
Investment Property	1.75%	1.75%	1.75%	3.00%	3.75%	N/A	N/A	N/A
2-unit property	1.00%	1.00%	1.00%	1.00%	1.00%	N/A	N/A	N/A
3-4 unit property	1.00%	1.00%	1.00%	N/A	N/A	N/A	N/A	N/A
Condominiums	0.00%	0.00%	0.00%	0.75%	0.75%	0.75%	0.75%	0.75%

Sources: Fannie Mae and Urban Institute.
Note: Adverse Market Delivery Charge (AMDC) of 0.250% has been added to the LLPA numbers in the matrix by LTV and credit score. Freddie Mac charges very comparable LLPAs.

GSES UNDER CONSERVATORSHIP

GSE RISK-SHARING TRANSACTIONS

Fannie Mae – Connecticut Avenue Securities (CAS)		
Date	*Transaction*	*Reference Pool Size ($ millions)*
October 2013	CAS 2013 – C01	$26,756.40
January 2014	CAS 2014 – C01	$29,308.70
May 2014	CAS 2014 – C02	$60,818.48
July 2014	CAS 2014 – C03	$78,233.73
November 2014	CAS 2014 – C04	$58,872.70
February 2015	CAS 2015 – C01	$50,192.00
Fannie Mae Total Reference Collateral		**$299,182.01**
Percent of Fannie Mae's Total Book of Business		**11.4%**

Freddie Mac – Structured Agency Credit Risk (STACR)		
Date	*Transaction*	*Reference Pool Size ($ millions)*
July 2013	STACR Series 2013 - DN1	$22,584.40
November 2013	STACR Series 2013 - DN2	$35,327.30
February 2014	STACR Series 2014 - DN1	$32,076.80
April 2014	STACR Series 2014 - DN2	$28,146.98
August 2014	STACR Series 2014 - DN3	$19,746.23
August 2014	STACR Series 2014 – HQ1	$9,974.68
September 2014	STACR Series 2014 – HQ2	$33,434.43
October 2014	STACR Series 2014 – DN4	$15,740.71
October 2014	STACR Series 2014 – HQ3	$8,000.61
February 2015	STACR Series 2015 – DN1	$27,600.00
Freddie Mac Total Reference Collateral		**$232,675.68**
Percent of Freddie Mac's Total Book of Business		**15.1%**

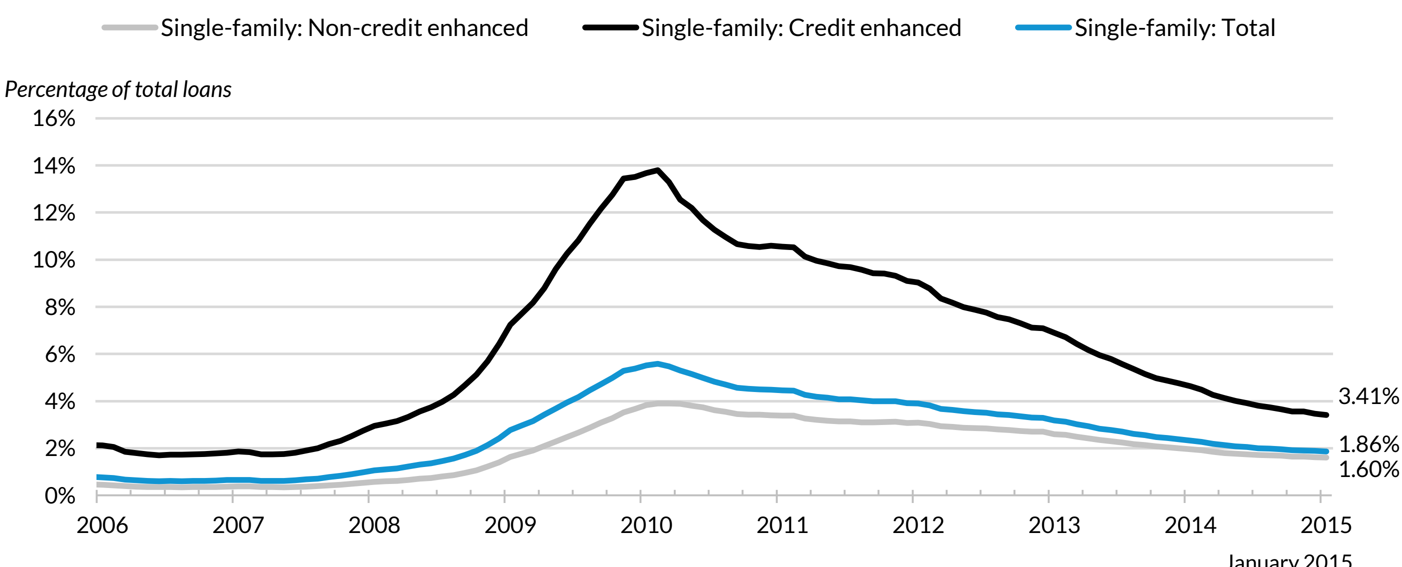
Details of Fannie Mae's latest capital markets transaction, CAS 2015 – C01					
Class	*Amount ($ millions)*	*Tranche Thickness (%)*	*CE (%)*	*Rating*	*Coupon (1mL+)*
1A-H	$30,290.1	96.5	3.5	NR	--
1M-1, 1M-1H, Total	$402.5, $21.2, $423.7	1.35	2.15	F: BBB D:BBB	150
1M-2, 1M-2H, Total	$521.5, $27.8, $549.3	1.75	0.4	NR	430
1B-H	$125.6	0.4	0	NR	--
2A-H	$18,098.9	96.25	3.75	NR	--
2M-1, 2M-1H, Total	$169.5, $9.1, $178.6	0.95	2.8	F: BBB D:BBB	150
2M-2, 2M-2H, Total	$375, $19.9, $394.9	2.1	0.7	NR	455
2B-H	$131.6	0.7	0	NR	--
Reference Pool Size	**$50,192.00**		--	--	--

Sources: Fannie Mae, Freddie Mac and Urban Institute.
Note: Classes A-H, M-1H, M-2H, and B-H are reference tranches only. These classes are not issued or sold. The risk is retained by Fannie Mae and Freddie Mac. "CE" = credit enhancement. Under "Rating," "F" = Fitch, "M" = Moody's, "D" = DBRS.

GSES UNDER CONSERVATORSHIP
SERIOUS DELINQUENCY RATES

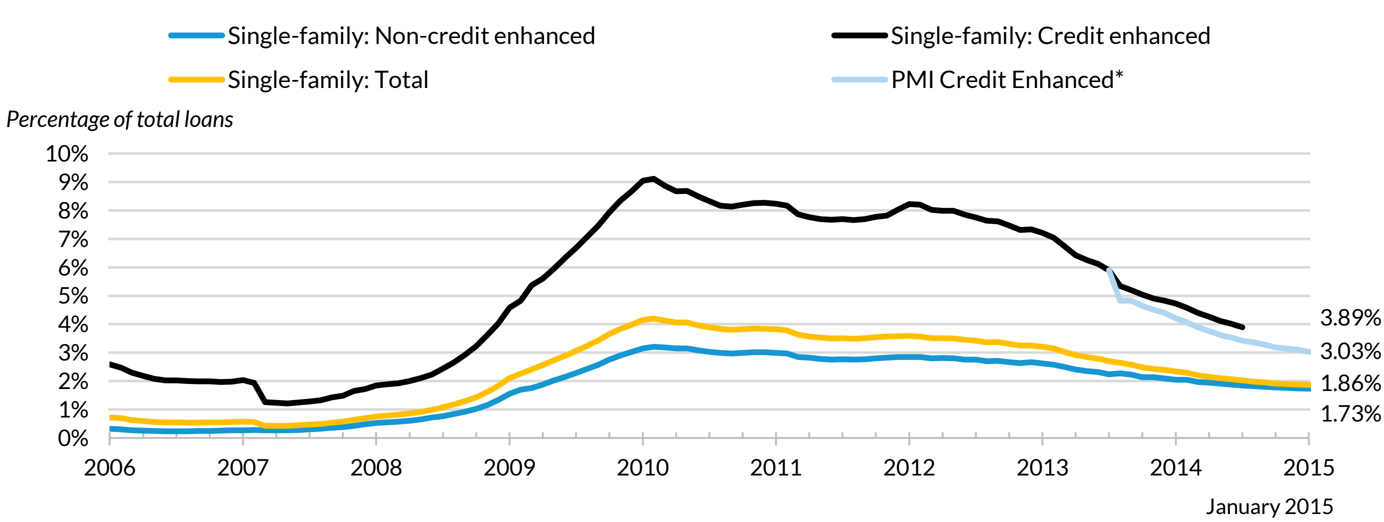
Serious delinquency rates of GSE loans continue to decline as the legacy portfolio is resolved and the pristine, post-2009 book of business exhibits very low default rates. As of January 2015, 1.86 percent of both the Fannie portfolio and Freddie portfolio were seriously delinquent, down from 2.33 percent for Fannie and 2.34 percent for Freddie in January 2014.

Serious Delinquency Rates–Fannie Mae



Sources: Fannie Mae and Urban Institute.

Serious Delinquency Rates–Freddie Mac

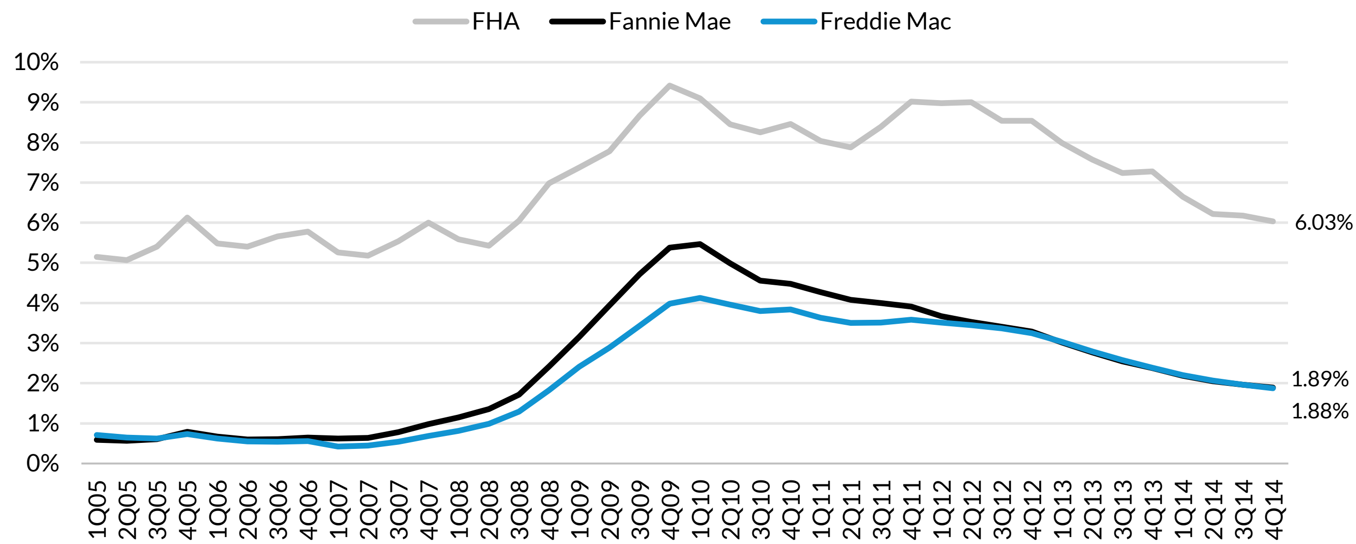


Sources: Freddie Mac and Urban Institute.
Note*: Following a change in Freddie reporting in September 2014, we switched from reporting credit enhanced delinquency rates to PMI credit enhanced delinquency rates.

SERIOUS DELINQUENCY RATES

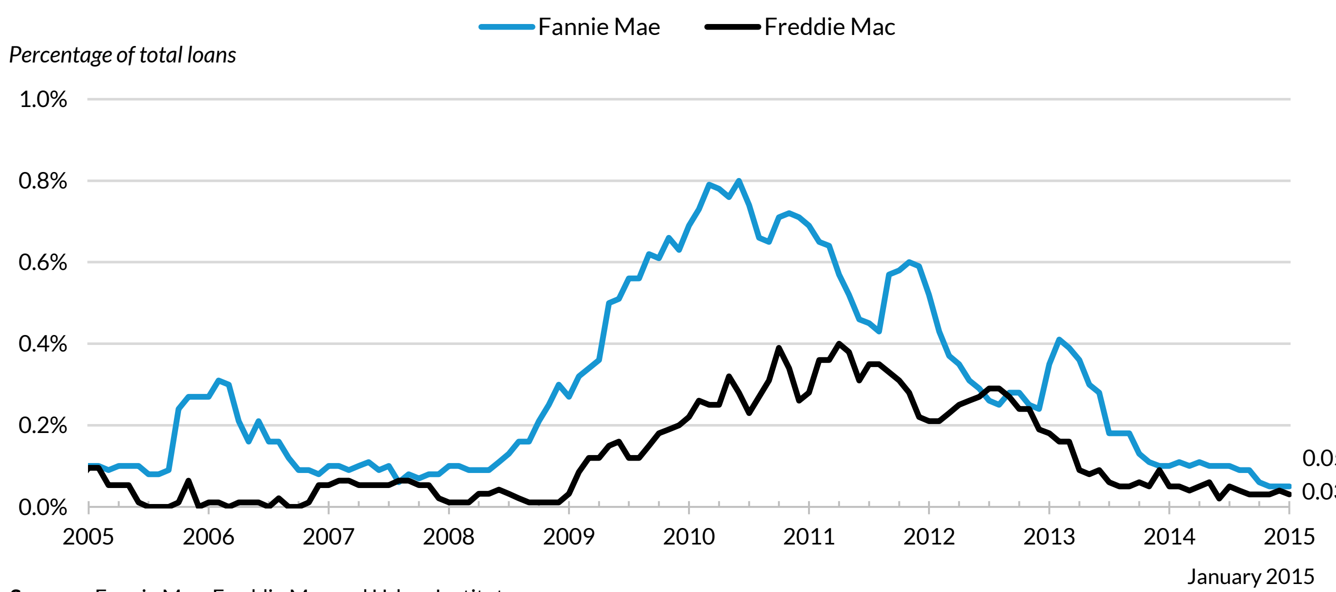
Serious delinquencies for FHA and GSE single-family loans continue to decline, but remain high relative to 2005-2007. FHA delinquencies are declining from a higher relative starting point. GSE multifamily delinquencies have declined to pre-crisis levels, though they did not reach problematic levels even in the worst years.

Serious Delinquency Rates–Single-Family Loans



Sources: Fannie Mae, Freddie Mac, MBA Delinquency Survey and Urban Institute.
Note: Serious delinquency is defined as 90 days or more past due or in the foreclosure process.

Serious Delinquency Rates–Multifamily GSE Loans



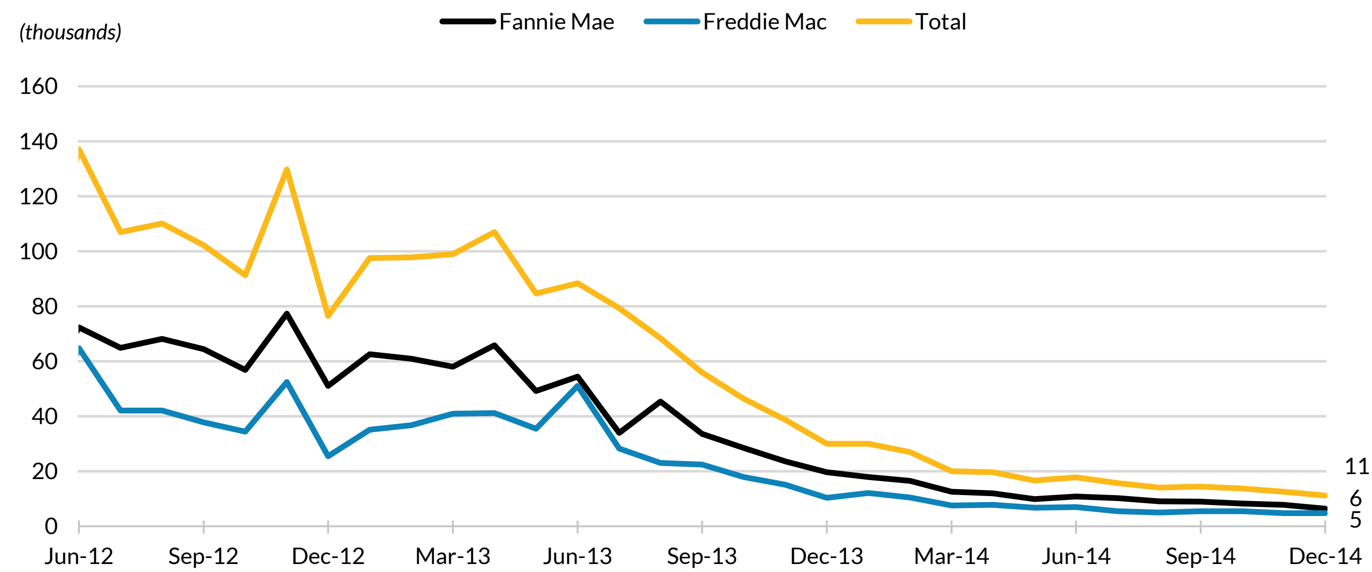
Sources: Fannie Mae, Freddie Mac and Urban Institute.
Note: Multifamily serious delinquency rate is the unpaid balance of loans 60 days or more past due, divided by the total unpaid balance.

GSES UNDER CONSERVATORSHIP

REFINANCE ACTIVITY

The Home Affordable Refinance Program (HARP) refinances have begun to slow. Two factors are responsible for this: (1) higher interest rates, leaving fewer eligible loans where refinancing is economically advantageous (in-the-money), and (2) a considerable number of borrowers who have already refinanced. Note that these latest numbers do not reflect the drop in interest rates in Q4 2014 and early 2015. Nonetheless, HARP refinances total 3.27 million since the program's Q2 2009 inception, accounting for 16 percent of all GSE refinances in this period.

Total HARP Refinance Volume



HARP Refinances

	December 2014	Year-to-date 2014	Inception to date	2013	2012	2011
Total refinances	158,886	1,536,792	20,409,043	4,081,911	4,750,530	3,229,066
Total HARP refinances	11,160	212,497	3,270,451	892,914	1,074,769	400,024
Share 80–105 LTV	75.9%	72.5%	69.9%	56.4%	56.4%	85.0%
Share 105–125 LTV	16.1%	17.2%	17.2%	22.4%	22.4%	15.0%
Share >125 LTV	8.0%	10.3%	12.8%	21.2%	21%	0%
All other streamlined refinances	20,168	268,026	3,521,230	735,210	729,235	785,049

Sources: FHFA Refinance Report and Urban Institute.

GSE LOANS: POTENTIAL REFINANCES

To qualify for HARP, a loan must be originated before the June 2009 cutoff date, have a marked-to-market loan-to-value (MTM LTV) ratio above 80, and have no more than one delinquent payment in the past year and none in the past six months. There are 779,074 eligible loans, but 37 percent are out-of-the-money because the closing cost would exceed the long-term savings, leaving 490,585 loans where a HARP refinance is both permissible and economically advantageous for the borrower. Loans below the LTV minimum but meeting all other HARP requirements are eligible for GSE streamlined refinancing. Of the 6,564,077 loans in this category, 5,613,916 are in-the-money.

More than 70 percent of the GSE book of business that meets the pay history requirements was originated after the June, 2009 cutoff date. FHFA Director Mel Watt announced in May 2014 that they are not planning to extend the date. On March 4, 2015, Watt said he won't keep renewing HARP in perpetuity, but left open the possibility of extending the current expiration date of December 31, 2015.

Total loan count	26,934,772
Loans that do not meet pay history requirement	867,437
Loans that meet pay history requirement:	26,067,335
Pre-June 2009 origination	7,343,151
Post-June 2009 origination	18,724,184

Loans Meeting HARP Pay History Requirements

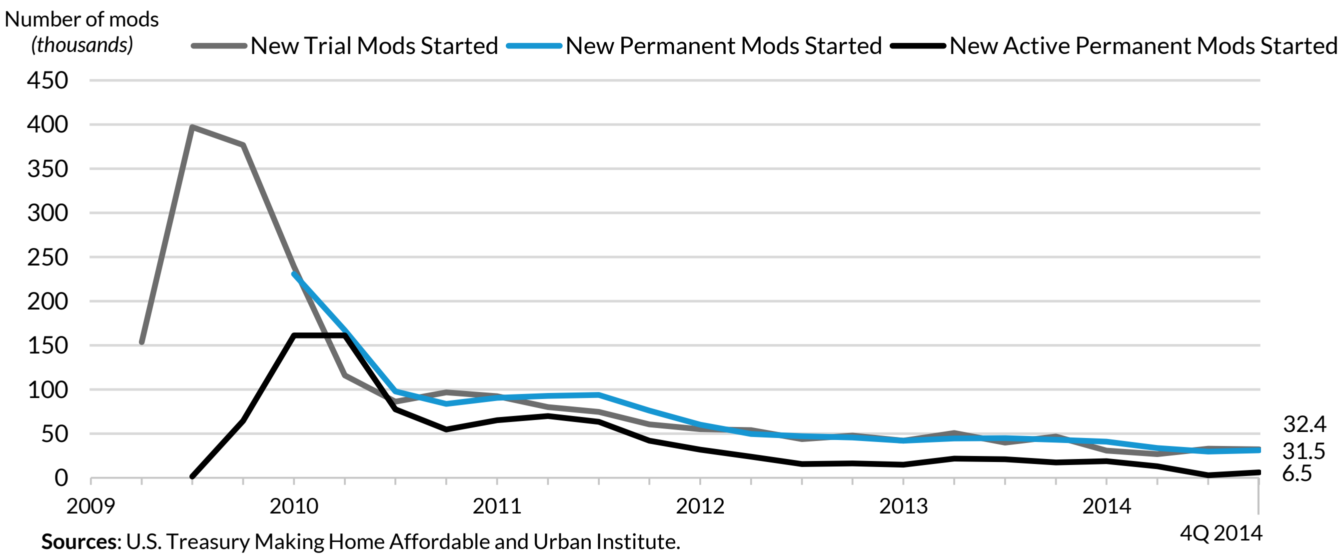
Pre-June 2009			
LTV category	*In-the-money*	*Out-of-the-money*	*Total*
≤80	5,613,916	950,161	6,564,077
>80	490,585	288,489	779,074
Total	6,104,501	1,238,650	7,343,151
Post-June 2009			
LTV category	*In-the-money*	*Out-of-the-money*	*Total*
≤80	4,983,149	10,777,041	15,760,190
>80	1,339,230	1,624,764	2,963,994
Total	6,322,379	12,401,805	18,724,184

Sources: CoreLogic Prime Servicing as of January 2015.
Note: Figures are scaled up from source data to account for data coverage of the GSE active loan market (based on MBS data from eMBS). Shaded box indicates HARP-eligible loans that are in-the-money.

MODIFICATION ACTIVITY
HAMP ACTIVITY

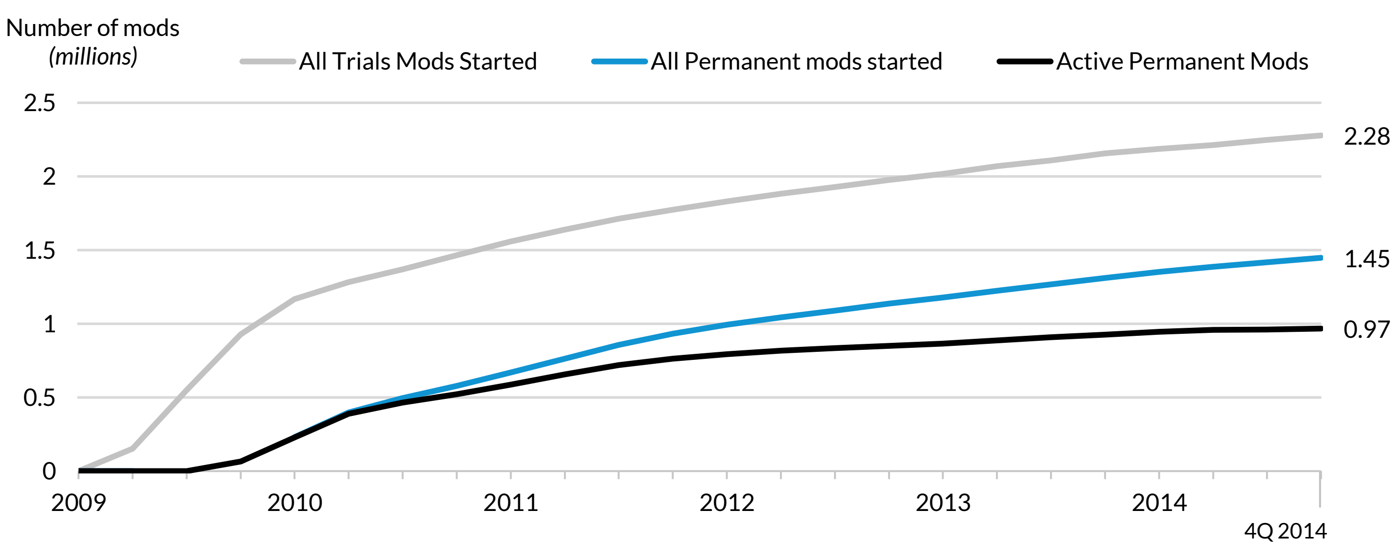
In Q4 2014, new HAMP activity (both trial modifications and permanent modifications) declined versus the same quarter in 2013. New trial mods averaged about 30,800 per quarter in 2014, compared to over 45,000 per quarter in 2013. Cumulative permanent HAMP mods started now total 1.45 million.

New HAMP Modifications



Sources: U.S. Treasury Making Home Affordable and Urban Institute.

Cumulative HAMP Modifications



Sources: U.S. Treasury Making Home Affordable and Urban Institute.

MODIFICATION ACTIVITY

MODIFICATION BY TYPE OF ACTION AND BEARER OF RISK

The share of principal reduction modifications peaked at 20 percent in December 2012 and has now dropped to 6.8 percent. This is to be expected, as increasing home prices have increased equity, reducing the need for principal reduction and making such modifications less likely to be net-present-value positive. Portfolio loans are the most likely candidates for principal reduction, followed by private investor loans, because the GSEs and FHA/VA generally do not allow this type of modification. The FHFA is studying whether a change in this policy is warranted for GSE modifications.

Changes in Loan Terms for Modifications

	Modification Quarter						One quarter % change	One year % change
	13Q2	13Q3	13Q4	14Q1	14Q2	14Q3		
Capitalization	81.6	83.5	87.7	74.3	59	71.1	-20.6	-14.8
Rate reduction	81.0	78.9	76.7	73.3	71.9	66.5	-7.5	-15.7
Rate freeze	5.2	5.5	7	6.5	7.1	7.5	5.9	38.2
Term extension	67.7	69.3	75.9	78	84	82.0	-2.4	18.4
Principal reduction	12.2	13.6	10.5	8.1	5	6.8	36.7	-49.7
Principal deferral	20.5	25.3	30.6	25.1	11.5	15.9	37.8	-37.3
Not reported*	1.5	2.2	0.7	0.7	0.7	0.5	-28.0	-77.4

Sources: OCC Mortgage Metrics Report for the Third Quarter of 2014 and Urban Institute.
Note: This table presents modifications of each type as a share of total modifications. Columns sum to over 100% because loans often receive modifications with multiple features.
*Processing constraints at some servicers prevented them from reporting specific modified term(s).

Type of Modification Action by Investor and Product Type

	Fannie Mae	Freddie Mac	Government-guaranteed	Private Investor	Portfolio	Overall
Capitalization	98.8%	96.8%	31.9%	93.9%	93.3%	71.1%
Rate reduction	48.8%	53.8%	77.4%	71.0%	69.4%	66.5%
Rate freeze	9.4%	5.6%	7.3%	5.0%	10.4%	7.5%
Term extension	93.5%	95.2%	97.5%	28.4%	59.0%	82.0%
Principal reduction	0.1%	0.0%	0.4%	21.4%	27.8%	6.8%
Principal deferral	14.3%	14.9%	12.1%	21.2%	24.5%	15.9%
Not reported*	0.1%	0.0%	0.6%	1.2%	0.7%	0.5%

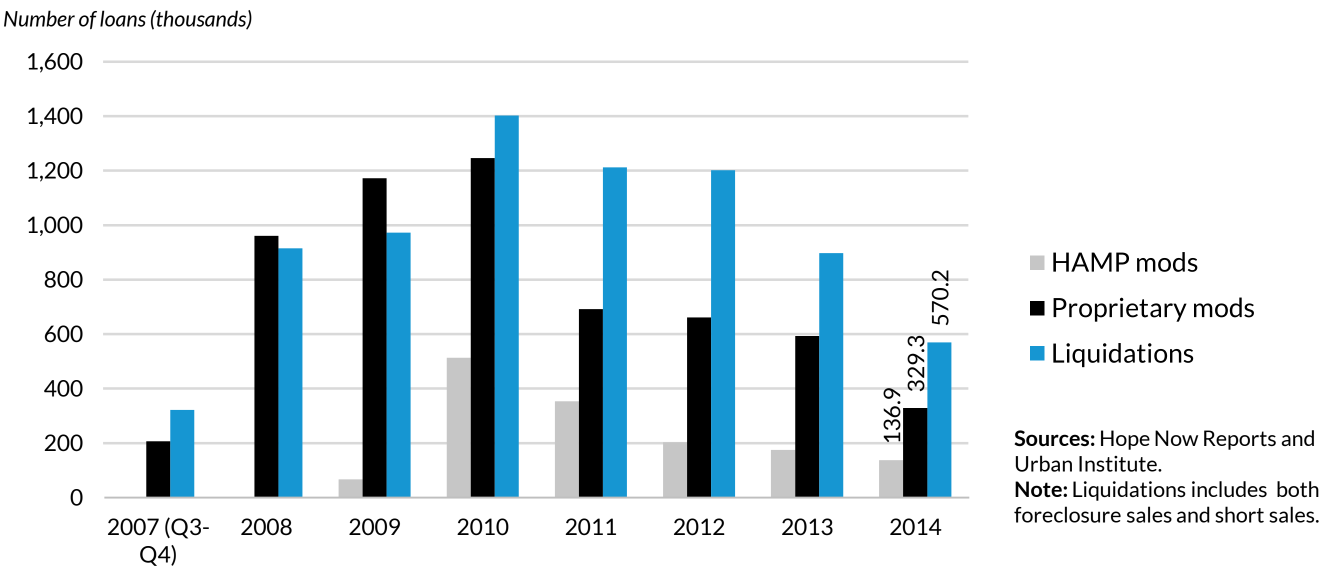
Sources: OCC Mortgage Metrics Report for the Third Quarter of 2014 and Urban Institute.
Note: This table presents modifications of each type as a share of total modifications. Columns sum to over 100% because loans often receive modifications with multiple features.
*Processing constraints at some servicers prevented them from reporting specific modified term(s).

MODIFICATION ACTIVITY

MODIFICATIONS AND LIQUIDATIONS

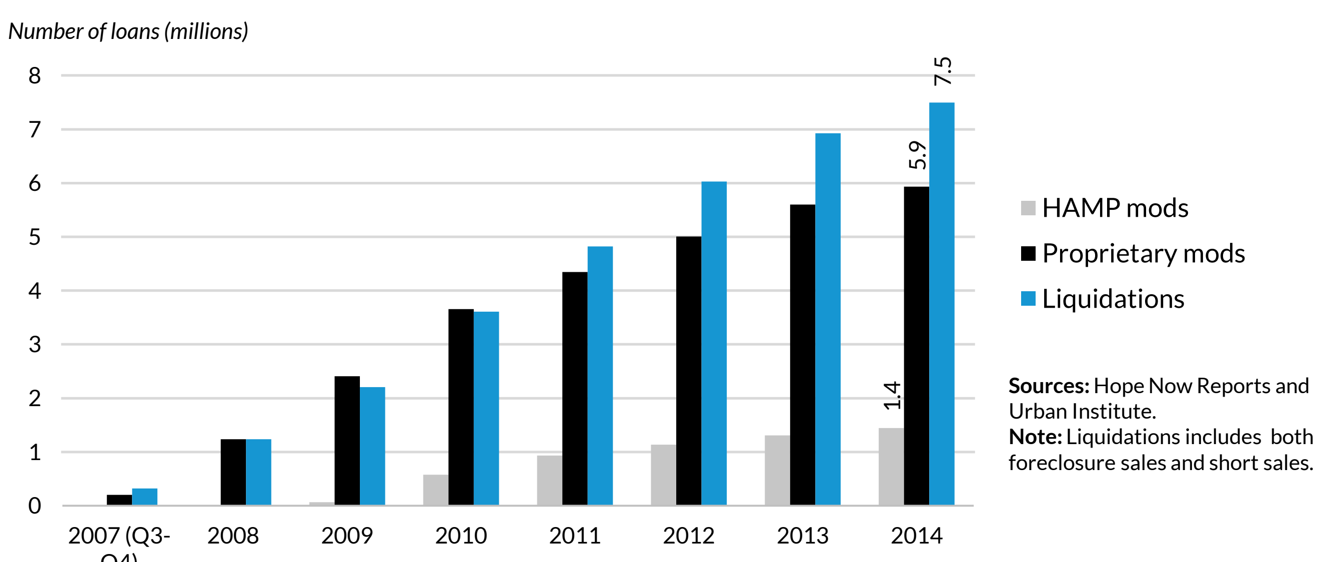
Total modifications (HAMP and proprietary) are now roughly equal to total liquidations. Hope Now reports show 7,379,156 borrowers have received a modification since Q3 2007, compared with 7,493,445 liquidations in the same period. Both liquidation and modification activity are slowing significantly, and ending 2014 significantly below their 2013 total. Only 36,639 modfications were completed in December 2014, a nearly 50 percent reduction from the monthly rate in early 2013.

Loan Modifications and Liquidations



Sources: Hope Now Reports and Urban Institute.
Note: Liquidations includes both foreclosure sales and short sales.

Cumulative Modifications and Liquidations

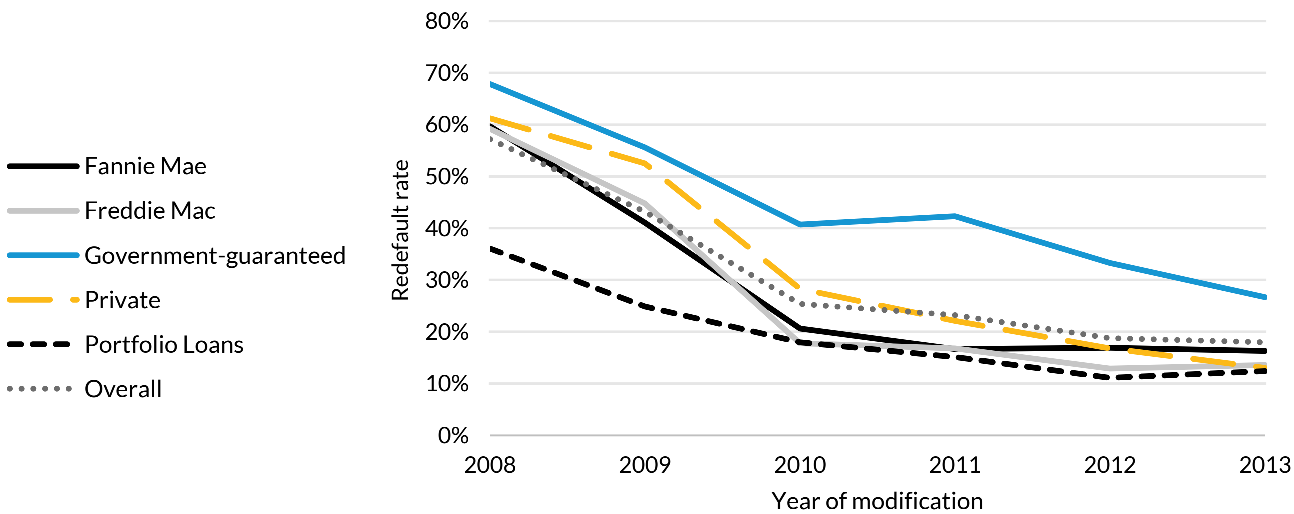


Sources: Hope Now Reports and Urban Institute.
Note: Liquidations includes both foreclosure sales and short sales.

MODIFICATION REDEFAULT RATES BY BEARER OF THE RISK

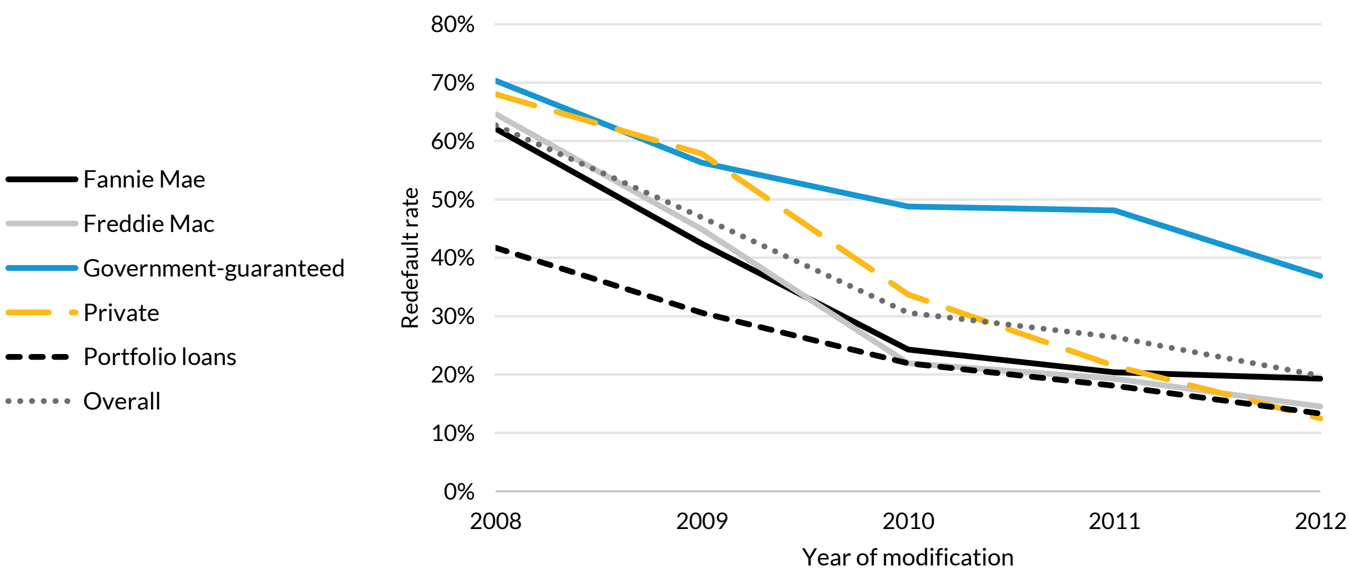
Redefault rates on modified loans have come down dramatically from 2008 to 2014. For the period as a whole, the steepest drops have been on private label modifications. More recently, there have been sharp declines in the redefault rates on government-guaranteed modifications, although this product type still has higher redefault rates than others.

Redefault Rate 12 Months after Modification



Sources: OCC Mortgage Metrics Report for the Third Quarter of 2014 and Urban Institute.

Redefault Rate 24 Months after Modification



Sources: OCC Mortgage Metrics Report for the Third Quarter of 2014 and Urban Institute.

AGENCY GROSS AND NET ISSUANCE

While refinancing activity fell off due to higher interest rates through the course of 2014, newly reduced rates and lowered FHA premiums make the trajectory of agency issuance uncertain. Agency gross issuance totaled $176.7 billion in the first two months of 2015, a 33 percent increase year-over-year. Net issuance, which excludes repayments, prepayments, and refinances on outstanding mortgages, remains low and dominated by Ginnie Mae. This is unsurprising, given the increased role of FHA and VA since the crisis.

Agency Gross Issuance

Issuance Year	GSEs	Ginnie Mae	Total
2000	$360.6	$102.2	$462.8
2001	$885.1	$171.5	$1,056.6
2002	$1,238.9	$169.0	$1,407.9
2003	$1,874.9	$213.1	$2,088.0
2004	$872.6	$119.2	$991.9
2005	$894.0	$81.4	$975.3
2006	$853.0	$76.7	$929.7
2007	$1,066.2	$94.9	$1,161.1
2008	$911.4	$267.6	$1,179.0
2009	$1,280.0	$451.3	$1,731.3
2010	$1,003.5	$390.7	$1,394.3
2011	$879.3	$315.3	$1,194.7
2012	$1,288.8	$405.0	$1,693.8
2013	$1,176.6	$393.6	$1,570.1
2014	$650.9	$296.3	$947.2
2015 YTD	$125.22	$51.43	$176.65
%Change year-over-year	33.3%	23.5%	30.2%
2015 Ann.	$751.32	$308.58	$1,059.90

Agency Net Issuance

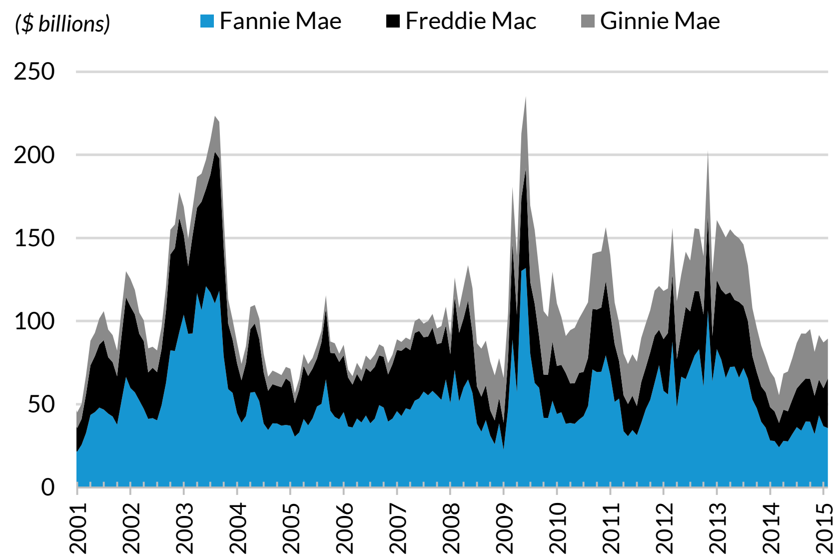
Issuance Year	GSEs	Ginnie Mae	Total
2000	$159.8	$29.3	$189.1
2001	$367.8	-$9.9	$357.9
2002	$357.6	-$51.2	$306.4
2003	$335.0	-$77.6	$257.4
2004	$83.3	-$40.1	$43.2
2005	$174.4	-$42.2	$132.1
2006	$313.6	$0.3	$313.8
2007	$514.7	$30.9	$545.5
2008	$314.3	$196.4	$510.7
2009	$249.5	$257.4	$506.8
2010	-$305.5	$198.2	-$107.3
2011	-$133.4	$149.4	$16.0
2012	-$46.5	$118.4	$71.9
2013	$66.5	$85.8	$152.3
2014	$30.3	$59.8	$90.1
2015 YTD	$11.3	$5.1	$16.4
%Change year-over-year	—*	-49.94%	143.30%
2015 Ann.	$67.68	$30.55	$98.23

Sources: eMBS and Urban Institute.
Note: Dollar amounts are in billions. Annualized figure based on data from February 2015.
*omitted since the GSE net issuance totaled -$3.4 billion in the first two months of 2014.

AGENCY GROSS ISSUANCE & FED PURCHASES

Monthly Gross Issuance

While government and GSE lending have dominated the mortgage market since the crisis, there has been a change in the mix. The Ginnie Mae share reached a peak of 28 percent of total agency issuance in 2010, declined to 25 percent in 2013, and has bounced back a bit, with a current 27 percent share. Note that month to month there is considerable variability, with higher Ginnie Mae shares associated with a decline in refinance activity, as Ginnie Mae is less impacted by a decline in refinance activity than the GSEs.

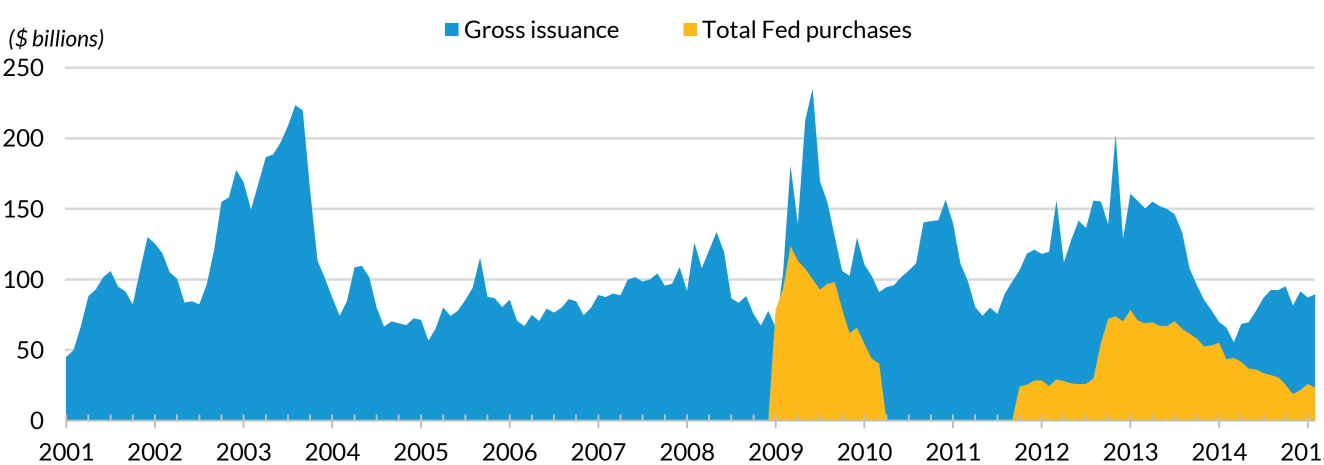


Sources: eMBS, Federal Reserve Bank of New York and Urban Institute.

February 2015

Fed Absorption of Agency Gross Issuance

In Q1 2014, the Fed began to taper, but gross issuance dropped even more, and Fed absorption reached 74 percent. Since then, gross issuance increased and the Fed continued to taper, resulting in a steady decline of the absorption share to 53 and 36 percent in Q2 and Q3, respectively. In October, the Fed announced the end of its purchase program. However, buying continued at a much reduced level, as the Fed kept reinvesting funds from pay downs on mortgages and agency debentures into the mortgage market. In February 2015, total Fed purchase declined to $23 billion, exhibiting a 26 percent Fed absorption of gross issuance, down from January's 30 percent.



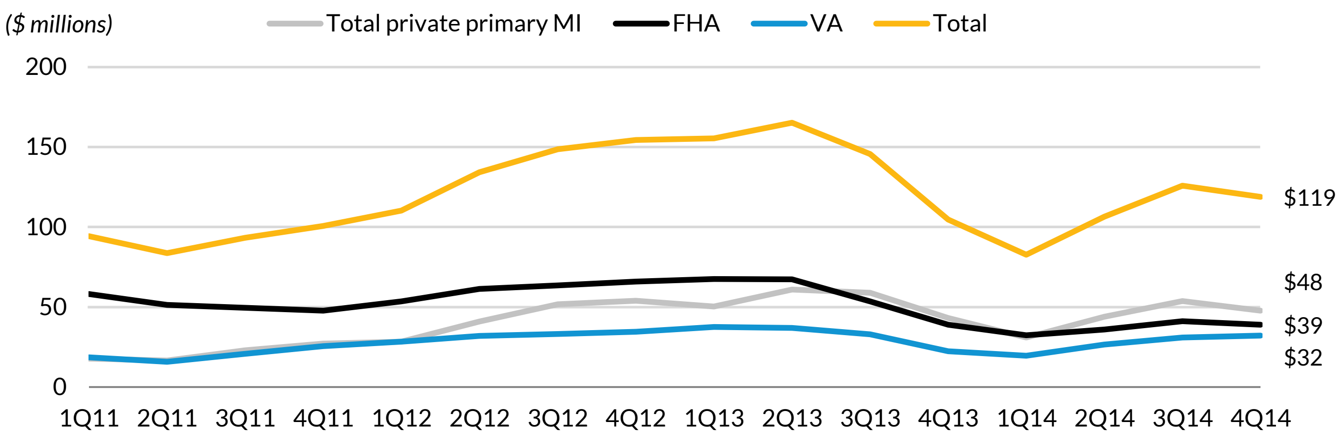
February 2015

Sources: eMBS, Federal Reserve Bank of New York and Urban Institute.

MORTGAGE INSURANCE ACTIVITY

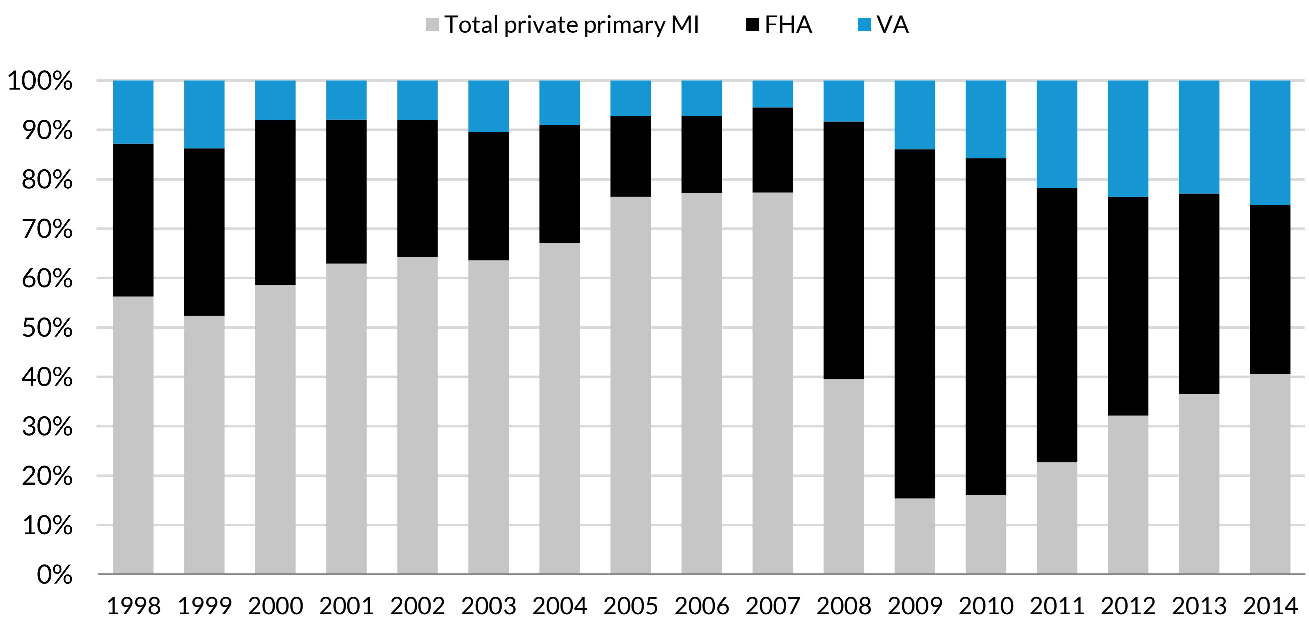
MI Activity

Mortgage insurance activity via the FHA, VA, and private insurers declined slightly at the end of last year, reaching $118.9 billion in Q4 2014. The FHA share of new MI activity remained steady at about 33 percent, whereas private mortgage insurers, at 40 percent, lost just over 2 percent of the market to VA, at 27 percent, over the course of the quarter.



Sources: Inside Mortgage Finance and Urban Institute.

MI Market Share



Sources: Inside Mortgage Finance and Urban Institute.

MORTGAGE INSURANCE ACTIVITY

FHA premiums rose significantly in the years following the housing crash, with annual premiums rising 170% from 2008 to 2013 as FHA worked to shore up its finances. In a move announced by President Obama just after the new year, and effective January 26, annual premiums were cut by 50 bps. We expect this reduction to significantly mitigate FHA's problem of adverse selection, in which lower-FICO borrowers disproportionately gravitate to FHA financing over GSE with PMI. As shown in the bottom table, a borrower putting 3.5% down will now find FHA more economical regardless of their FICO score.

FHA MI Premiums for Typical Purchase Loan

Case number date	Upfront mortgage insurance premium (UFMIP) paid	Annual mortgage insurance premium (MIP)
1/1/2001 - 7/13/2008	150	50
7/14/2008 - 4/5/2010*	175	55
4/5/2010 - 10/3/2010	225	55
10/4/2010 - 4/17/2011	100	90
4/18/2011 - 4/8/2012	100	115
4/9/2012 - 6/10/2012	175	125
6/11/2012 - 3/31/2013[a]	175	125
4/1/2013 – 1/25/2015[b]	175	135
Beginning 1/26/2015[c]	175	85

Sources: Ginnie Mae and Urban Institute.
Note: A typical purchase loan has an LTV over 95 and a loan term longer than 15 years. Mortgage insurance premiums are listed in basis points.
* For a short period in 2008 the FHA used a risk based FICO/LTV matrix for MI.
[a] Applies to purchase loans less than or equal to $625,500. Those over that amount have an annual premium of 150 bps.
[b] Applies to purchase loans less than or equal to $625,500. Those over that amount have an annual premium of 155 bps.
[c] Applies to purchase loans less than or equal to $625,500. Those over that amount have an annual premium of 105 bps.

Initial Monthly Payment Comparison: FHA vs. PMI

Assumptions	
Property Value	$250,000
Loan Amount	$241,250
LTV	96.5
Base Rate	
Conforming	3.90%
FHA	3.66%

FICO	620 - 639	640 - 659	660 - 679	680 - 699	700 - 719	720 - 739	740 - 759	760 +
FHA MI Premiums								
FHA UFMIP	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
FHA MIP	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
PMI								
GSE AMDC & LLPA*	3.75	3.00	2.50	1.75	1.75	1.25	1.00	1.00
PMI Annual MIP	1.48	1.48	1.48	1.31	1.31	1.10	1.10	1.05
Monthly Payment								
FHA	$1,295	$1,295	$1,295	$1,295	$1,295	$1,295	$1,295	$1,295
PMI	$1,542	$1,520	$1,506	$1,451	$1,451	$1,394	$1,387	$1,377
PMI Advantage	($247)	($225)	($211)	($156)	($156)	($99)	($92)	($82)

Sources: Genworth Mortgage Insurance, Ginnie Mae and Urban Institute.
Note: Mortgage insurance premiums listed in percentage points. Grey shade indicates FHA monthly payment is more favorable. The GSE monthly payment calculation does not include special programs like Fannie Mae's MyCommunitMortgage (MCM) and Freddie Mac's Home Possible (HP), both offer more favorable rates for low- to moderate-income borrowers.
*AMDC=Adverse Market Delivery Charge and LLPA= Loan Level Price Adjustment, both described in detail on page 20.

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PUBLICATIONS AND EVENTS

Upcoming Events

Sunset Seminar: ***May 2015***
More details to follow on our events page at urban.org/events.

For more information, please contact Alison Rincon (Arincon@urban.org)

Publications

What to Make of the Dramatic Fall in GSE Profits
Author: Jim Parrott
Date: March 16, 2015

The Impact of Early Efforts to Clarify Mortgage Repurchases: Evidence from Freddie Mac and Fannie Mae's Newest Data
Authors: Laurie Goodman, Jim Parrott and Jun Zhu
Date: March 13, 2015

The US Treasury's Credit Rating Agency Exercise
Authors: Laurie Goodman, Jim Parrott
Date: February 6, 2015

Loss Severity on Residential Mortgages
Authors: Laurie Goodman, Jun Zhu
Date: February 1, 2015

FHFA's Federal Home Loan Bank Members Proposal Overshoots the Mark
Authors: Laurie Goodman, Jim Parrott and Karan Kaul
Date: January 13, 2015

A Review and Critique of the 2014 actuarial assessment of FHA's Mortgage Insurance Fund
Author: Laurie Goodman
Date: January 6, 2014

Servicing: An Underappreciated Constraint to Access to Credit
Author: Laurie Goodman
Date: December 16, 2014

A Better Measure of Mortgage Application Denial Rates
Authors: Wei Li and Laurie Goodman
Date: December 2, 2014

Measuring Mortgage Credit Availability Using Ex-Ante Probability of Default
Authors: Wei Li and Laurie Goodman
Date: November 18, 2014

Blog Posts

The mortgage market can tolerate twice as much credit risk
Authors: Wei Li and Laurie Goodman
Date: March 2, 2015

Three charts that explain the renters next door
Author: Taz George
Date: February 26, 2015

New interactive tool shows impact of various changes on FHA refinance volume
Authors: Karan Kaul, Laurie Goodman, Jun Zhu
Date:

More than one in three FHA borrowers could save money by refinancing today
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Date: February 16, 2015

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Date: February 12, 2015

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Date: February 3, 2015

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Date: January 28, 2015

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