

HOUSING FINANCE POLICY CENTER



# HOUSING FINANCE AT A GLANCE

A MONTHLY CHARTBOOK

April 2015

## 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](mailto:ataglance@urban.org).

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

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# INTRODUCTION

## Home equity is outpacing mortgage debt

Our April chartbook blog outlines three reasons why recent increases in household equity aren't necessarily a cause for celebration. Household equity has been increasing since 2011 as house prices have grown; in contrast, household mortgage debt outstanding has fallen every year between 2007 and 2014 (page 6). When housing markets are healthy, appreciation in house prices has historically resulted in commensurate increases in mortgage debt, with new homeowners entering the market and existing homeowners "trading up" for larger homes via larger mortgages. Therefore, the recent increase in house prices without a corresponding increase in mortgage debt outstanding suggests that housing markets are far from normal. Three factors are driving this divergence between household equity and mortgage debt (i) house price growth over the last two years, (ii) extraordinarily tight credit, and (iii) strong demand for renting.

## FHFA's final decision on g-fees and PMIERS

On April 17<sup>th</sup>, the Federal Housing Finance Agency (FHFA) and the GSEs announced their much anticipated final decisions regarding the guarantee-fees charged by the GSEs, and the new eligibility requirements for private mortgage insurers. On the g-fee front, FHFA eliminated the Adverse Market Charge for all mortgages guaranteed by the GSEs. In order to keep these changes revenue-neutral, the FHFA instituted additional changes to g-fees based on loan amount, loan-to-value and FICO scores. On the PMIER front, the most noteworthy announcement was the decision to not allow PMIs to count future premiums towards capital requirements. Urban Institute senior fellow Jim Parrot analyzed both the g-fee and PMIER changes in greater detail in a [recent issue brief](#).

## Four million loans missing due to tight credit

We released a detailed analysis of the [impact of tight lending standards on credit availability](#) from 2009 to 2013. Mortgage credit is much tighter today than it was at the peak of the housing bubble in 2005 and 2006, as is both expected and appropriate. But credit is also significantly tighter than it was in 2001, a period in which credit availability was more balanced. According to our estimates, an additional 1.25 million

loans would have been made in 2013 if the relatively cautious credit standards of 2001 had been in place. Between 2009 and 2013, the number of "missing loans" grew from 0.5 million to 1.25 million annually, for a total of more than 4 million missing loans over five years.

## The GSEs' shrinking multifamily presence

According to [our recent issue brief](#), Fannie Mae's and Freddie Mac's role in the multifamily market has not only shrunk significantly post-crisis, but has also dipped below the level of the early 2000s – a period in which the housing market was stable. A closer examination of the GSEs' multifamily financing also reveals that a disproportionately large share of recent declines has come from underserved segments of the multifamily market, causing these renters to spend even more on housing or live in inadequate housing conditions. We urge the FHFA to take additional steps to prevent further shrinkage of GSEs' role for underserved populations and markets.

## INSIDE THIS ISSUE

- Non-agency MBS issuance shows signs of life (page 10)
- Fannie, Freddie, and the MBA expect gains in originations; agency gross issuance rises in Q1 2015 (pages 12, 30)
- Median borrower FICO score at origination is 749; median LTV is 89 (page 14)
- Freddie Mac announces new \$16.5 billion risk-sharing deal (page 21)
- Principal reduction and deferral mods are becoming less common, while term extensions are picking up (page 27)

# CONTENTS

## Overview

### **Market Size Overview**

Value of the US Residential Housing Market	6
Size of the US Residential Mortgage Market	6
Private Label Securities	7
Agency Mortgage-Backed Securities	7

### **Origination Volume and Composition**

First Lien Origination Volume & Share	8
---------------------------------------	---

### **Mortgage Origination Product Type**

Composition (All Originations & Purchase Originations Only)	9
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### **Securitization Volume and Composition**

Agency/Non-Agency Share of Residential MBS Issuance	10
Non-Agency MBS Issuance	10
Non-Agency Securitization	10

### **Agency Activity: Volumes and Purchase/Refi Composition**

Agency Gross Issuance	11
Percent Refi at Issuance	11

## State of the Market

### **Mortgage Origination Projections**

Total Originations and Refinance Shares	12
Housing Starts and Home Sales	12

### **Originator Profitability**

Originator Profitability and Unmeasured Costs (OPUC)	13
--	----

### **Credit Availability for Purchase Loans**

Borrower FICO Score at Origination Month	14
Combined LTV at Origination Month	14
Origination FICO and LTV by MSA	15

### **Housing Affordability**

National Housing Affordability Over Time	16
Affordability Adjusted for MSA-Level DTI	16

### **Home Price Indices**

National Year-Over-Year HPI Growth	17
Changes in CoreLogic HPI for Top MSAs	17

### **Negative Equity & Serious Delinquency**

Negative Equity Share	18
Loans in Serious Delinquency	18

## GSEs under Conservatorship

### **GSE Portfolio Wind-Down**

Fannie Mae Mortgage-Related Investment Portfolio	19
Freddie Mac Mortgage-Related Investment Portfolio	19

# CONTENTS

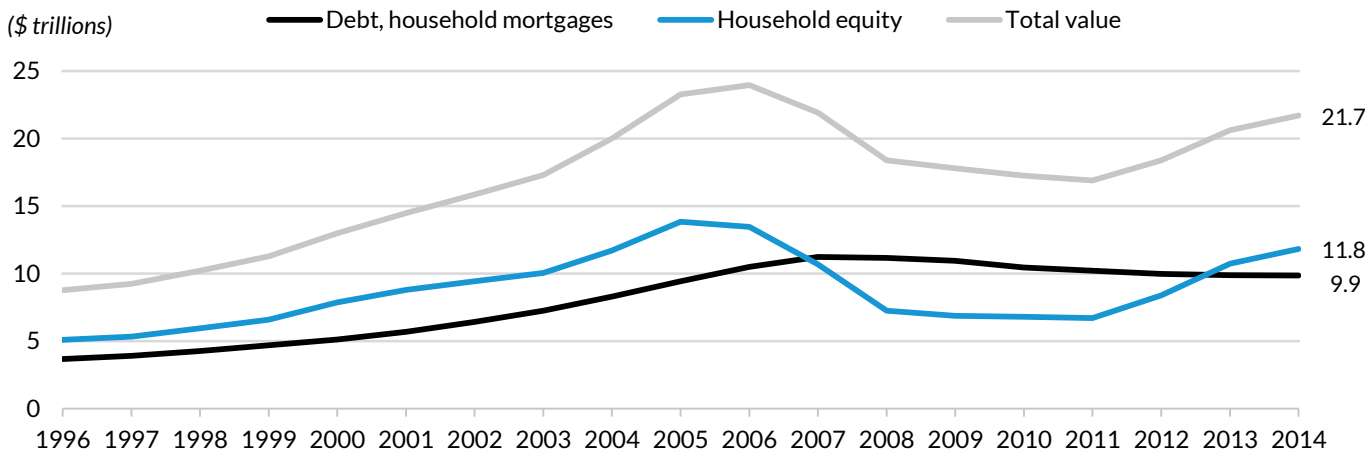
<b><i>Effective Guarantee Fees &amp; GSE Risk-Sharing Transactions</i></b>	
Effective Guarantee Fees	20
Fannie Mae Upfront Loan-Level Price Adjustment	20
GSE Risk-Sharing Transactions	21
<b><i>Serious Delinquency Rates</i></b>	
Serious Delinquency Rates – Fannie Mae & Freddie Mac	22
Serious Delinquency Rates – Single-Family Loans & Multifamily GSE Loans	23
<b><i>Refinance Activity</i></b>	
Total HARP Refinance Volume	24
HARP Refinances	24
<b><i>GSE Loans: Potential Refinances</i></b>	
Loans Meeting HARP Pay History Requirements	25
<b>Modification Activity</b>	
<b><i>HAMP Activity</i></b>	
New HAMP Modifications	26
Cumulative HAMP Modifications	26
<b><i>Modification by Type of Action and Bearer of Risk</i></b>	
Changes in Loan Terms for Modifications	27
Type of Modification Action by Investor and Product Type	27
<b><i>Modifications and Liquidations</i></b>	
Loan Modifications and Liquidations (By Year & Cumulative)	28
<b><i>Modification Redefault Rates by Bearer of the Risk</i></b>	
Redefault Rate after Modification (12 Months & 24 Months)	29
<b>Agency Issuance</b>	
<b><i>Agency Gross and Net Issuance</i></b>	
Agency Gross Issuance	30
Agency Net Issuance	30
<b><i>Agency Gross Issuance &amp; Fed Purchases</i></b>	
Monthly Gross Issuance	31
Fed Absorption of Agency Gross Issuance	31
<b><i>Mortgage Insurance Activity</i></b>	
MI Activity & Market Share	32
FHA MI Premiums for Typical Purchase Loan	33
Initial Monthly Payment Comparison: FHA vs. PMI	33
<b>Related HFPC Work</b>	
<b><i>Publications and Events</i></b>	34

## OVERVIEW

# MARKET SIZE OVERVIEW

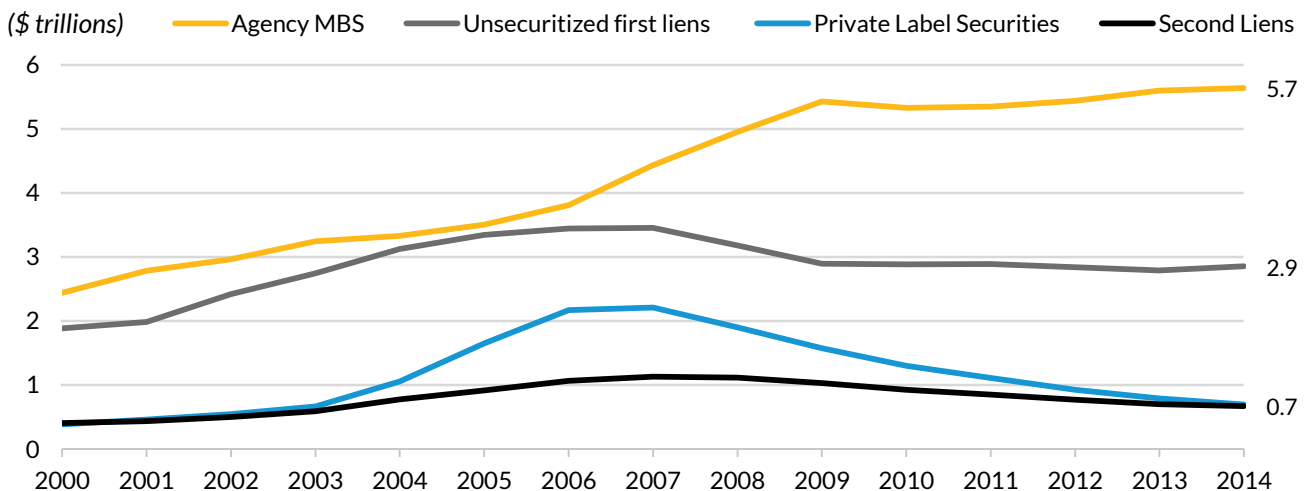
According to the Federal Reserve's Flow of Funds report, the total value of US housing has increased each of the last eight quarters led by growing household equity, and the trend continued in the latest report, covering Q4 2014. Total debt remained flat at \$9.86 trillion, while household equity increased 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.

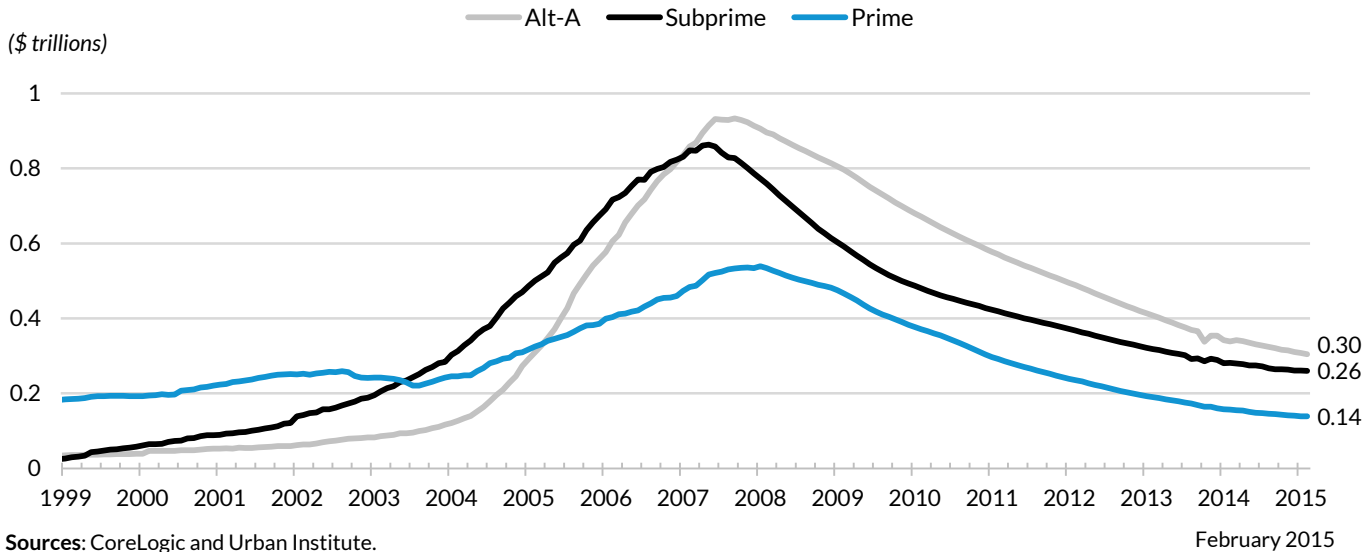
Note: Unsecuritized first liens includes loans held by commercial banks, GSEs, savings institutions, and credit unions.

## OVERVIEW

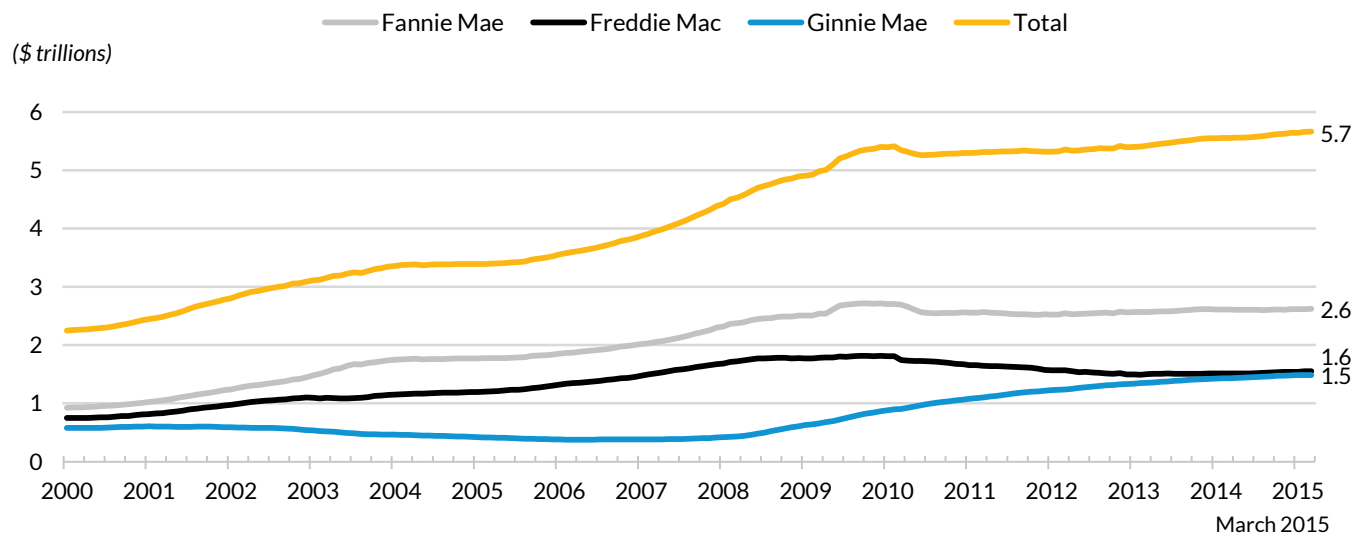
# MARKET SIZE OVERVIEW

As of February 2015, debt in the private-label securitization market totaled \$703 billion and was split among prime (19.8 percent), Alt-A (43.2 percent), and subprime (37.0 percent) loans. In March 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



## Agency Mortgage-Backed Securities

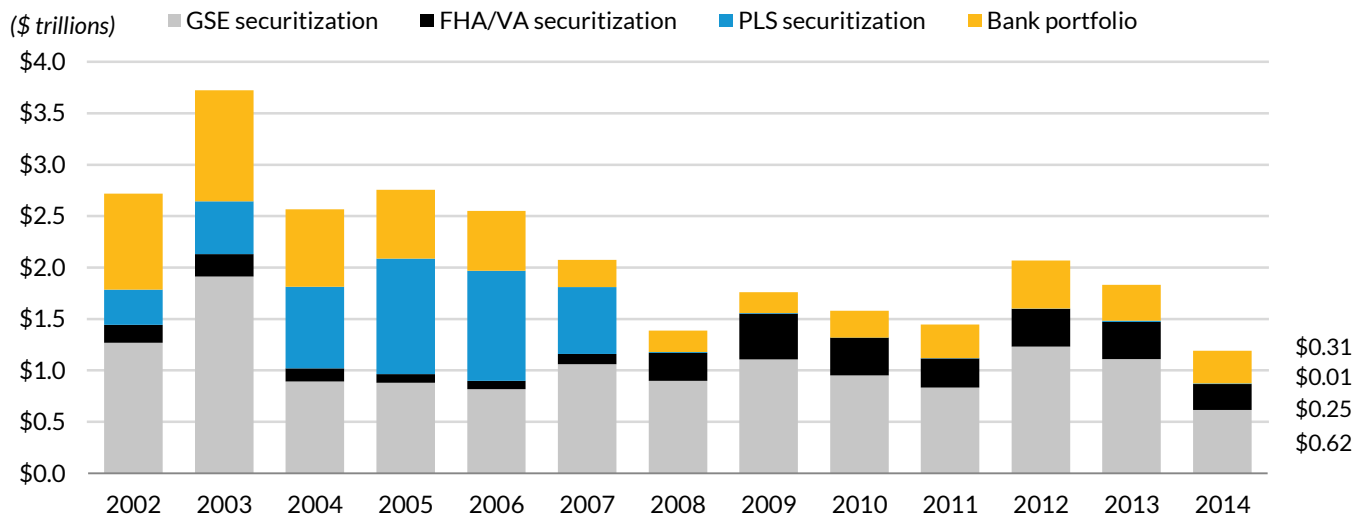


## OVERVIEW

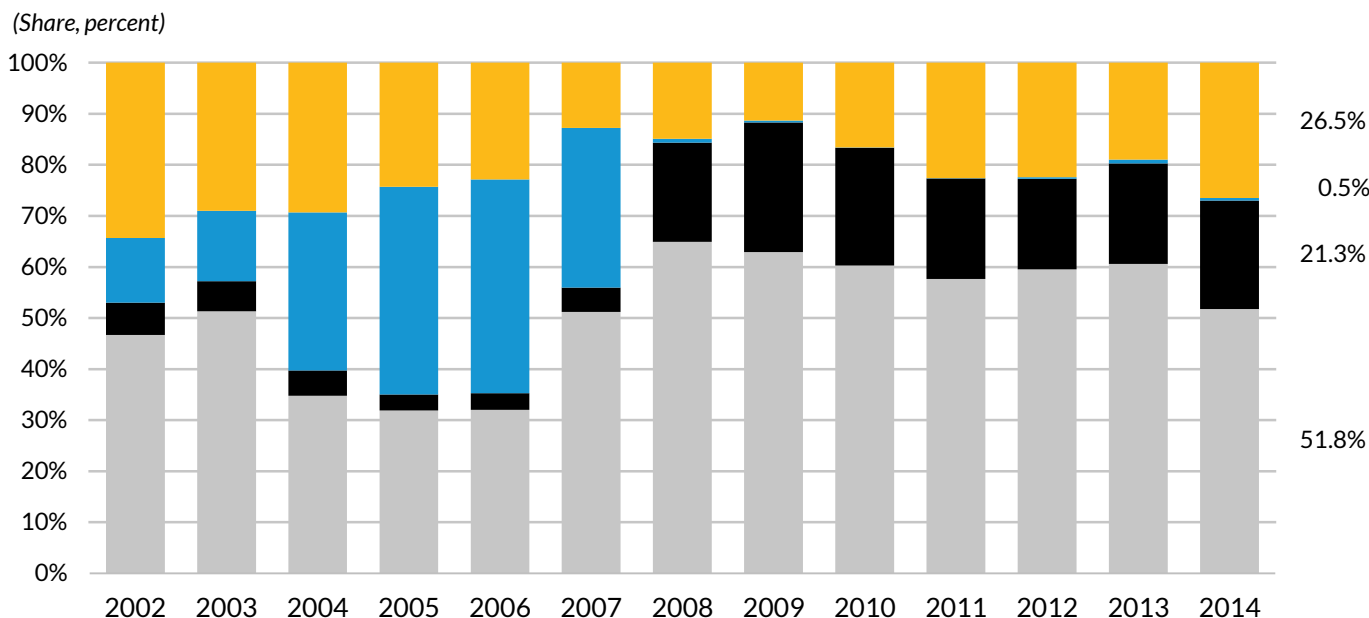
# ORIGINATION VOLUME AND COMPOSITION

## 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.

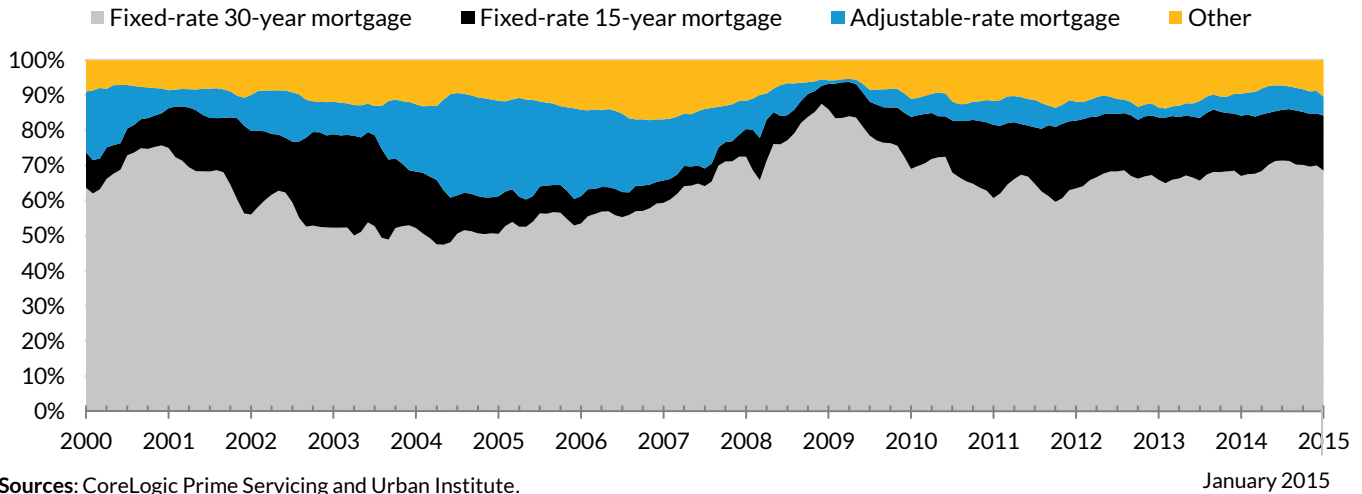


## OVERVIEW

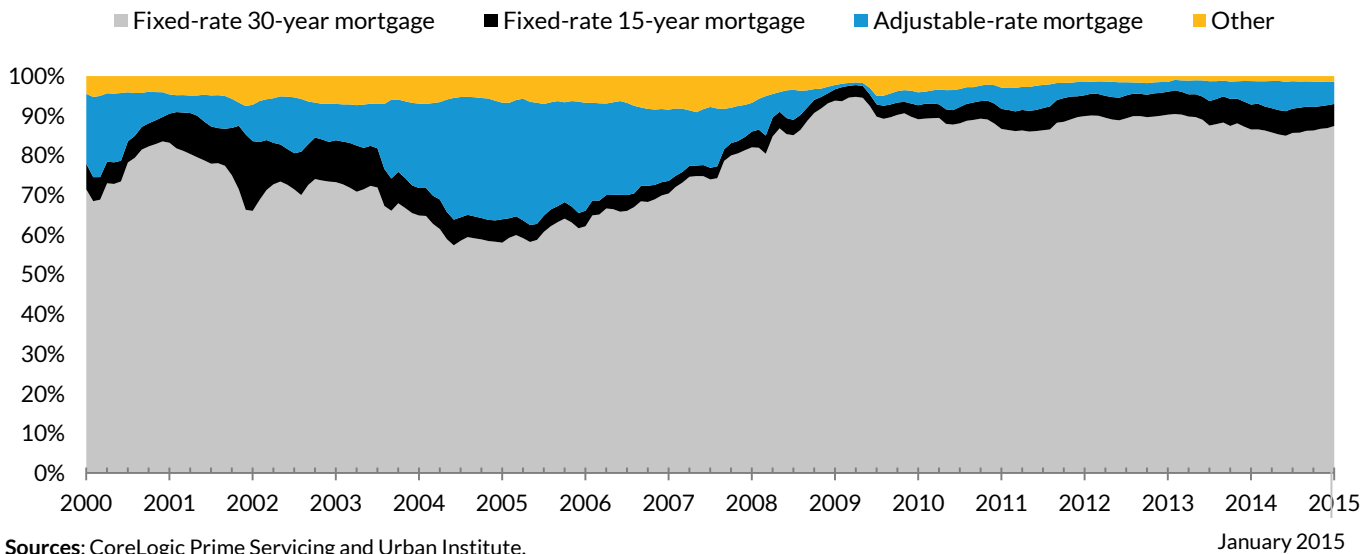
# MORTGAGE ORIGINATION PRODUCT TYPE

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 then slowly grew to a high of 7.6 percent in March 2014. Since then they began to edge down again to 5.3 percent of total originations in January 2015, 14 percent lower than year ago level. 15-year fixed-rate mortgages (FRMs), predominantly a refinance product, comprise 15.6 percent of new originations. If we exclude refinances (bottom chart), the share of 30-year FRMs in November 2014 stood at 87.4 percent, 15-year FRMs at 5.6 percent, and ARMs at 5.6 percent.

## All Originations



## Purchase Loans Only

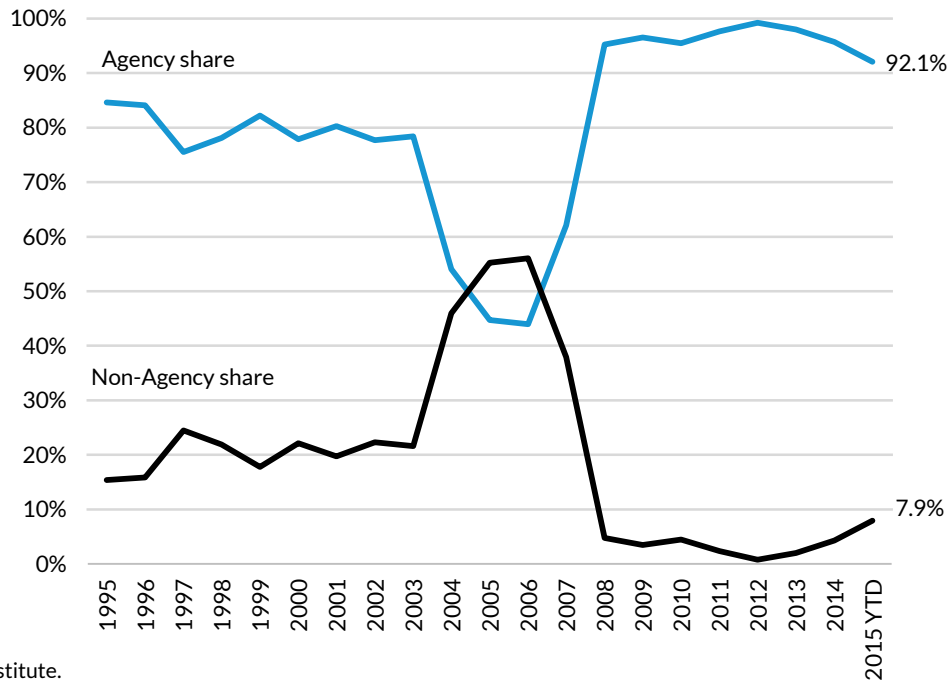


## OVERVIEW

# SECURITIZATION VOLUME AND COMPOSITION

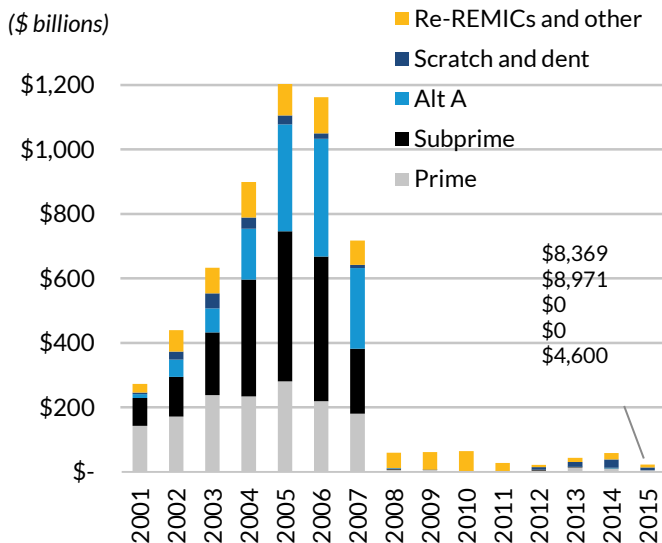
## Agency/Non-Agency Share of Residential MBS Issuance

The non-agency single-family MBS market is finally showing signs of life, with its share climbing above 5 percent for the first time since 2007. Non-agency deals in the first quarter of 2015 reached \$21.9 billion, compared to \$8.4 billion in early 2014. Re-remics (excluded from bottom right chart) and scratch and dent securitizations continue to account for much of new issuance. At 4.6 billion for Q1 2015 (\$18.4 billion on an annualized basis), prime jumbo issuance had its strongest quarter since 2007. This is still anemic relative to the \$142.2 billion in 2001.



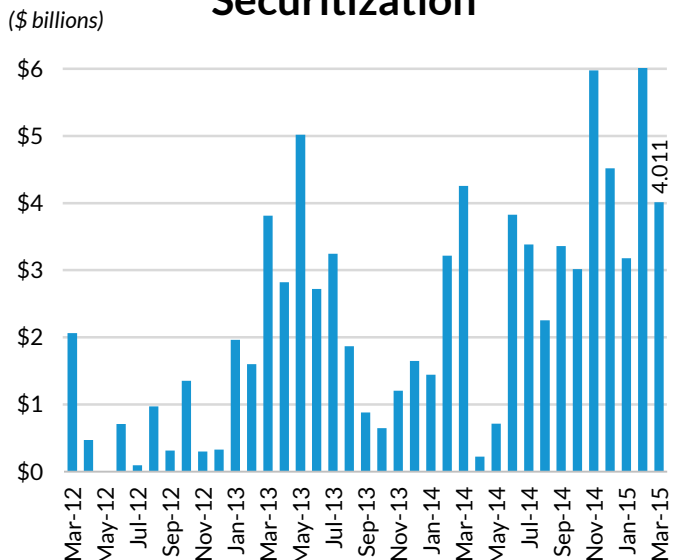
Sources: Inside Mortgage Finance and Urban Institute.

## Non-Agency MBS Issuance



Sources: Inside Mortgage Finance and Urban Institute.

## Monthly Non-Agency Securitization



Sources: Inside Mortgage Finance and Urban Institute.

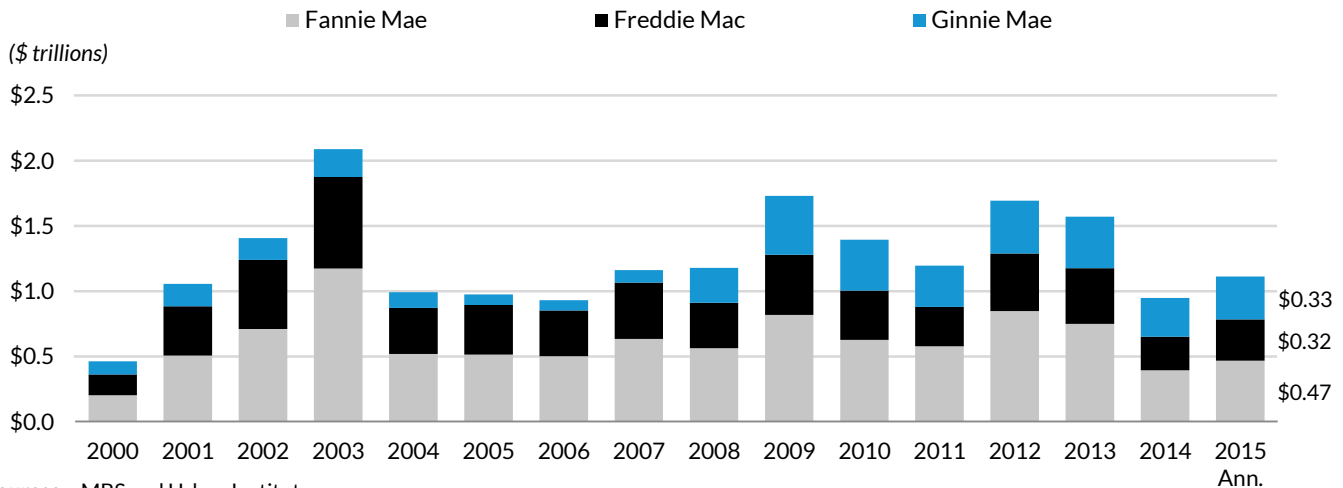
Note: Monthly figures equal total non-agency MBS issuance minus Re-REMIC issuance.

## OVERVIEW

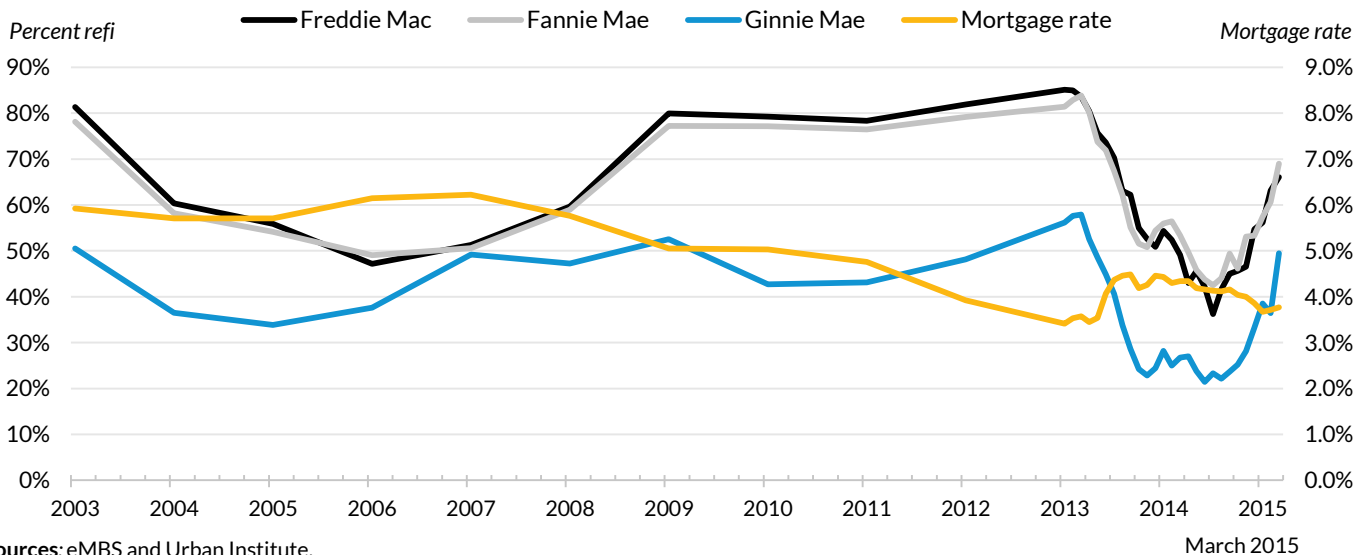
# AGENCY ACTIVITY: VOLUMES AND PURCHASE/ REFI COMPOSITION

Agency issuance totaled \$277.9 billion in the first quarter of 2015, up from \$191.1 billion for the same period a year ago. In March 2015, refinances continued to increase to 69 and 66 percent of the GSEs' business, as the average mortgage rate remained low. With 50 basis point decrease in the FHA premium, the Ginnie Mae refinance volume surged to almost 50 percent in March, up from 36 percent last month.

## Agency Gross Issuance



## Percent Refi at Issuance



## STATE OF THE MARKET

# MORTGAGE ORIGINATION PROJECTIONS

With interest rates relatively low and a sizeable drop in FHA premiums, Fannie Mae, Freddie Mac, and the MBA project higher origination volume in 2015 over 2014 levels (about \$55, \$50, and \$109 billion higher, respectively). All three expect a similar rate of refinances, with slight variances 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 and even further in 2016.

## 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	272	330	288	56	54	52
2015 Q2	329	390	353	42	43	41
2015 Q3	333	325	318	41	32	34
2015 Q4	304	255	272	42	32	36
2016 Q1	261	250	251	46	32	39
2016 Q2	321	390	319	33	32	30
2016 Q3	320	385	316	31	29	30
2016 Q4	304	250	284	33	25	32
FY 2012	2154	2122	2044	72	70	71
FY 2013	1866	1925	1845	60	59	60
FY 2014	1184	1250	1122	43	43	43
FY 2015	1239	1300	1231	45	41	41
FY 2016	1206	1275	1170	35	30	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 2013, 2014, 2015, and 2016 were 4.0%, 4.2%, 4.0% and 4.7%, respectively. For 2015, Fannie Mae, Freddie Mac, and the MBA project rates of 3.9%, 4.0%, and 4.2%, respectively. For 2016, their respective projections are 4.2%, 4.9%, 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	1003	1000	1001	5377	5380	5363	4920	443
FY 2015	1155	1150	1095	5659	5600	5593	5093	500
FY 2016	1319	1400	1228	5886	5800	5975	5416	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

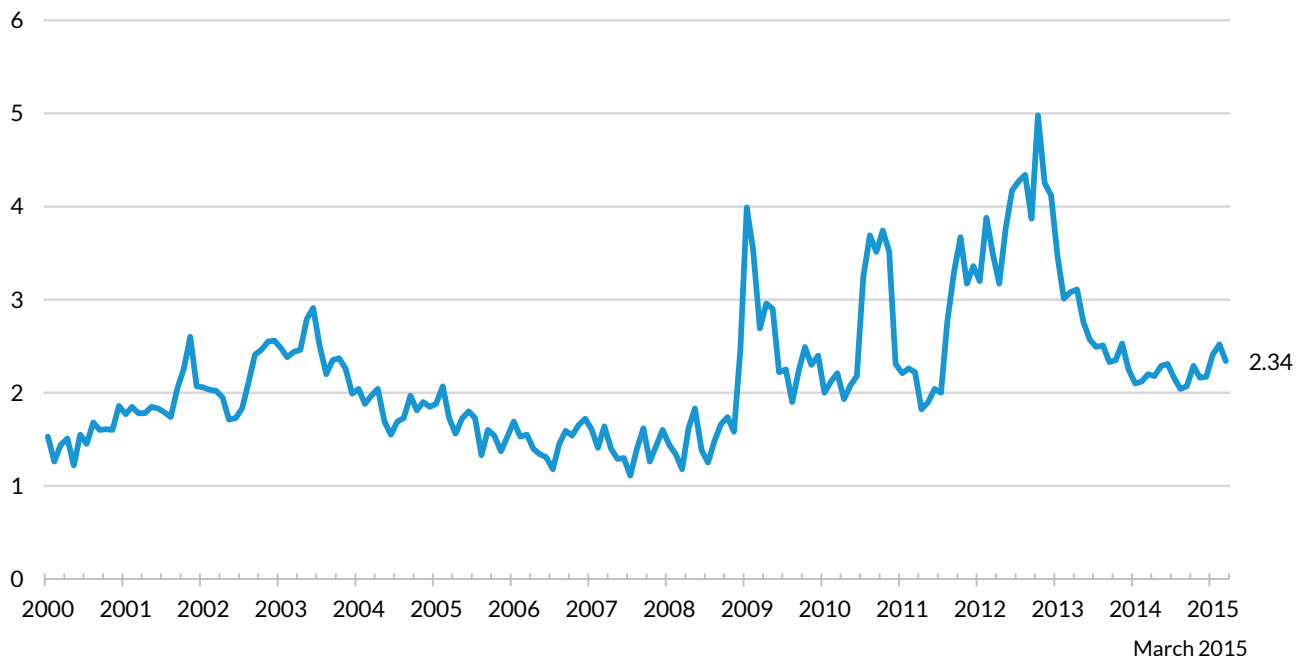
## ORIGINATOR PROFITABILITY

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 stood at 2.34 in March 2015.

### Originator Profitability and Unmeasured Costs

*Dollars per \$100 loan*



**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.

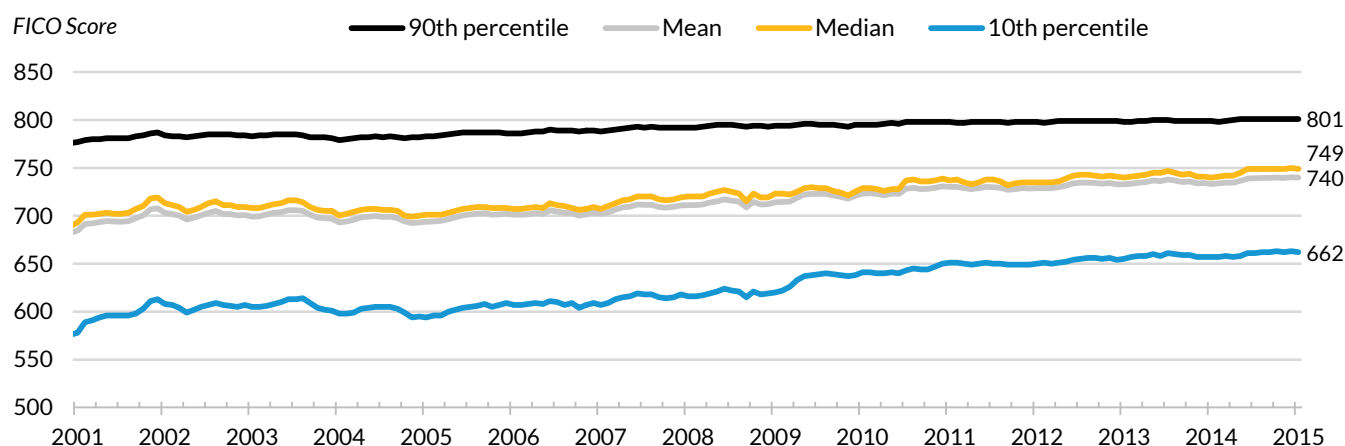
**Note:** OPUC stands for "originator profits and unmeasured costs" as discussed in [Fuster et al. \(2013\)](#). The OPUC series is a monthly (4-week moving) average.

# 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 46 and 48 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 662 as of January 2015. Prior to the housing crisis, this threshold held steady in the low 600s. LTV levels at origination remain relatively high, averaging 85, which reflects the large number of FHA purchase originations.

### Borrower FICO Score at Origination

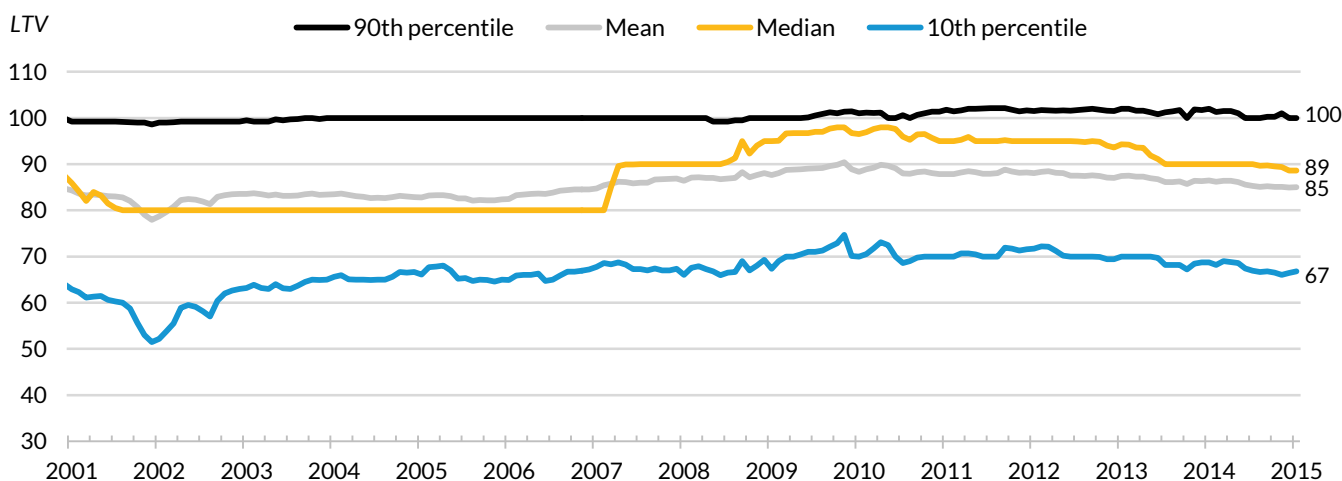


Sources: CoreLogic Servicing and Urban Institute.

January 2015

Note: Purchase-only loans.

### Combined LTV at Origination



Sources: CoreLogic Servicing and Urban Institute.

January 2015

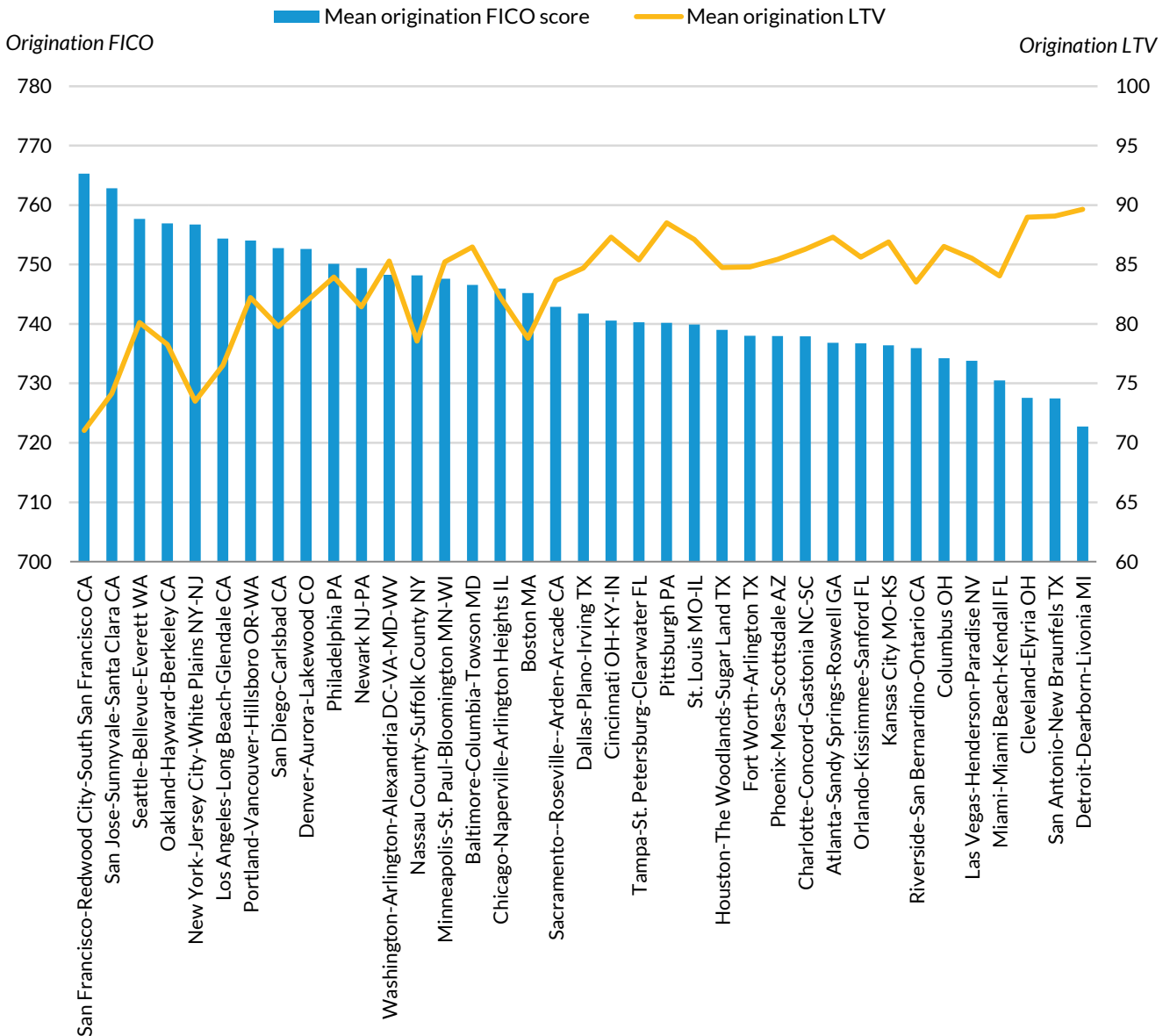
Note: Purchase-only loans.

## STATE OF THE MARKET

# 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 765, while in Detroit-Dearborn-Livonia, MI it is 723. 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 February 2015 and Urban Institute.

**Note:** Purchase-only loans.

# STATE OF THE MARKET

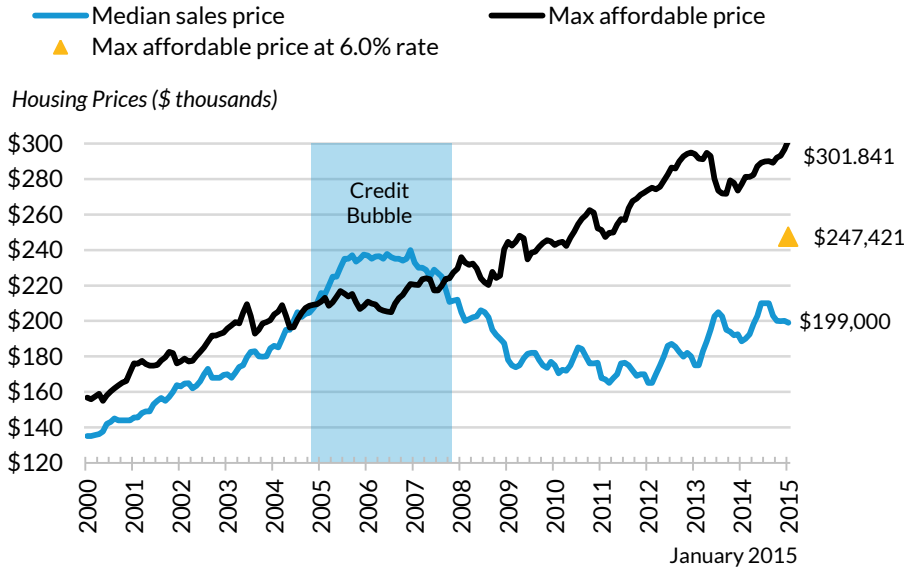
# HOUSING AFFORDABILITY

## 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.

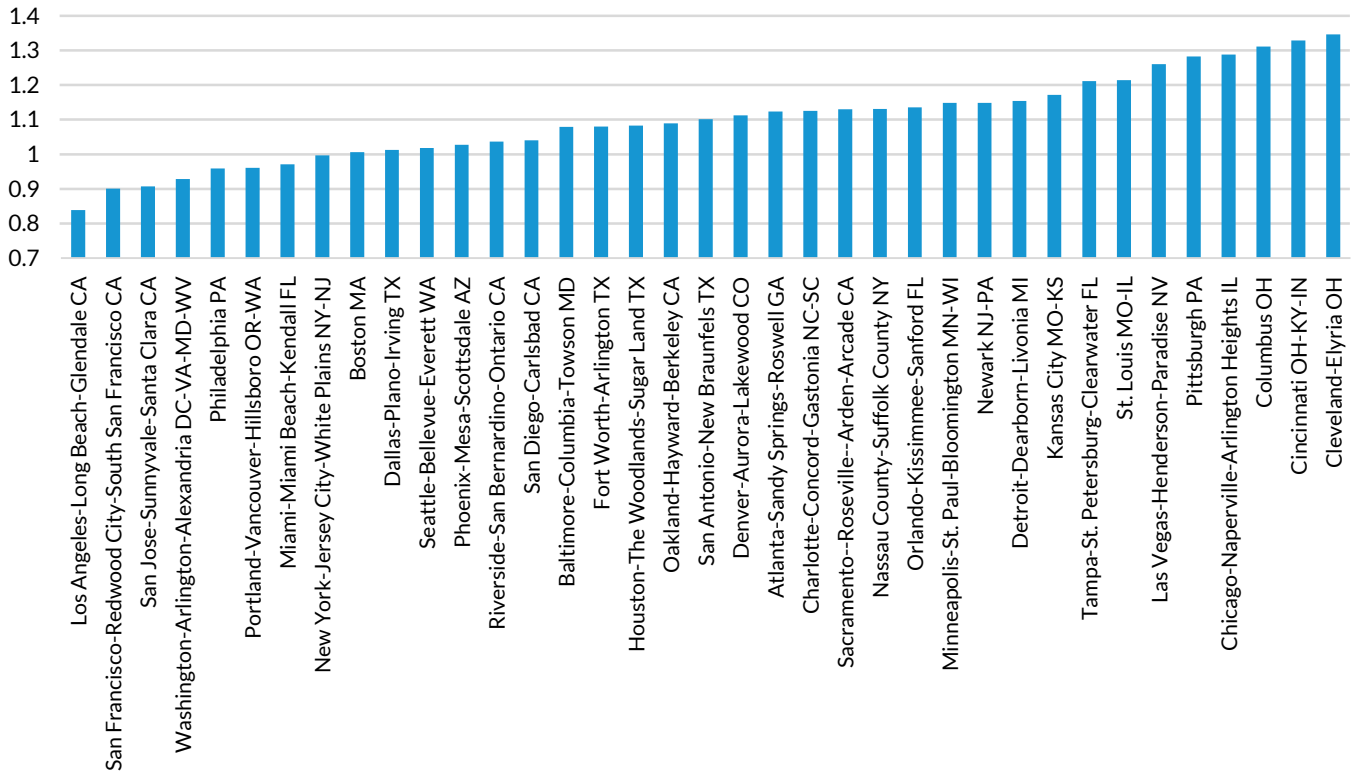
**Sources:** CoreLogic, US Census, Freddie Mac and Urban Institute.

**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

Ratio



**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 January 2015 than in 2000-03.



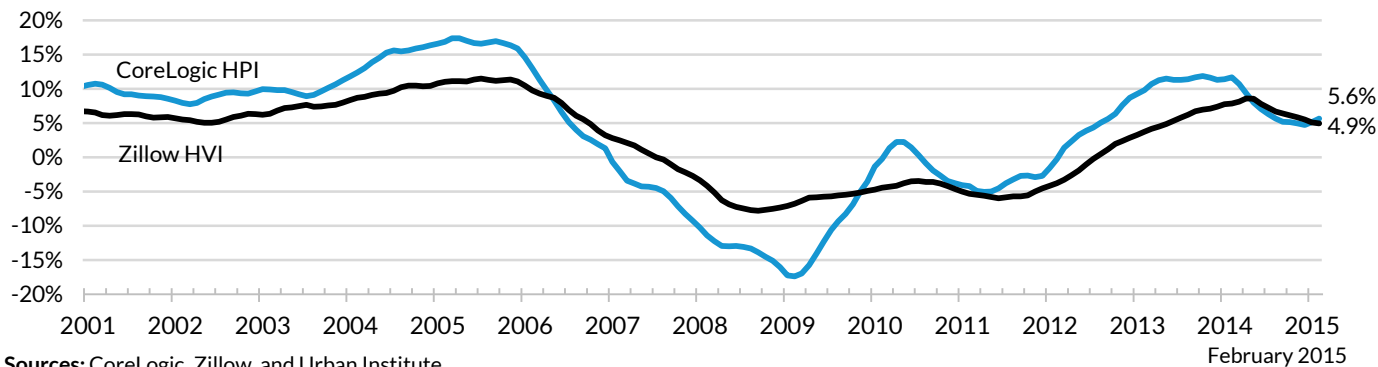
# STATE OF THE MARKET

## 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.

Year-over-year growth rate



Sources: CoreLogic, Zillow, and Urban Institute.

### Changes in CoreLogic HPI for Top MSAs

Despite rising 30 percent from the trough, national house prices still must grow 13.9 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	29.8	13.9
New York-Jersey City-White Plains NY-NJ	115.1	-19.9	22.8	1.6
Los Angeles-Long Beach-Glendale CA	181.4	-39.0	47.3	11.3
Chicago-Naperville-Arlington Heights IL	65.2	-36.4	19.1	32.0
Atlanta-Sandy Springs-Roswell GA	40.8	-33.5	37.7	9.3
Washington-Arlington-Alexandria DC-VA-MD-WV	159.6	-33.3	26.3	18.6
Houston-The Woodlands-Sugar Land TX	44.4	-12.6	34.5	-14.9
Phoenix-Mesa-Scottsdale AZ	126.3	-52.7	50.1	40.8
Riverside-San Bernardino-Ontario CA	194.5	-53.3	49.2	43.4
Dallas-Plano-Irving TX	38.3	-13.7	29.8	-10.8
Minneapolis-St. Paul-Bloomington MN-WI	73.9	-30.5	24.2	15.8
Seattle-Bellevue-Everett WA	94.1	-31.7	36.4	7.4
Denver-Aurora-Lakewood CO	36.3	-14.3	38.6	-15.8
Baltimore-Columbia-Towson MD	128.5	-25.5	6.5	26.2
San Diego-Carlsbad CA	148.7	-38.2	37.9	17.2
Anaheim-Santa Ana-Irvine CA	162.3	-36.8	38.7	14.1

Sources: CoreLogic HPIs as of January 2015 and Urban Institute.

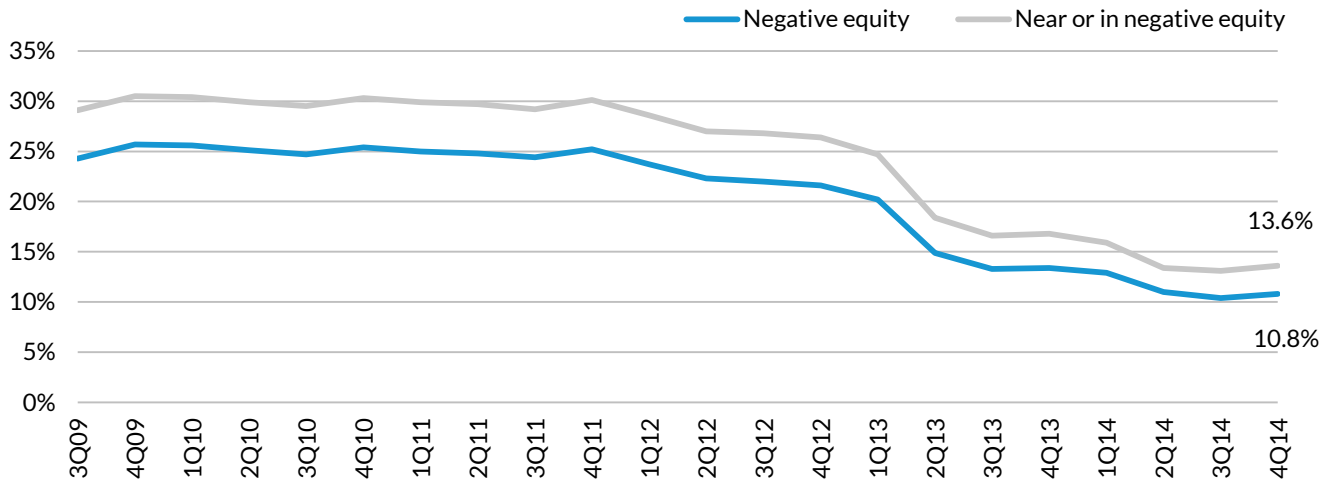
Note: This table includes the largest 15 Metropolitan areas by mortgage count.

## STATE OF THE MARKET

# 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.

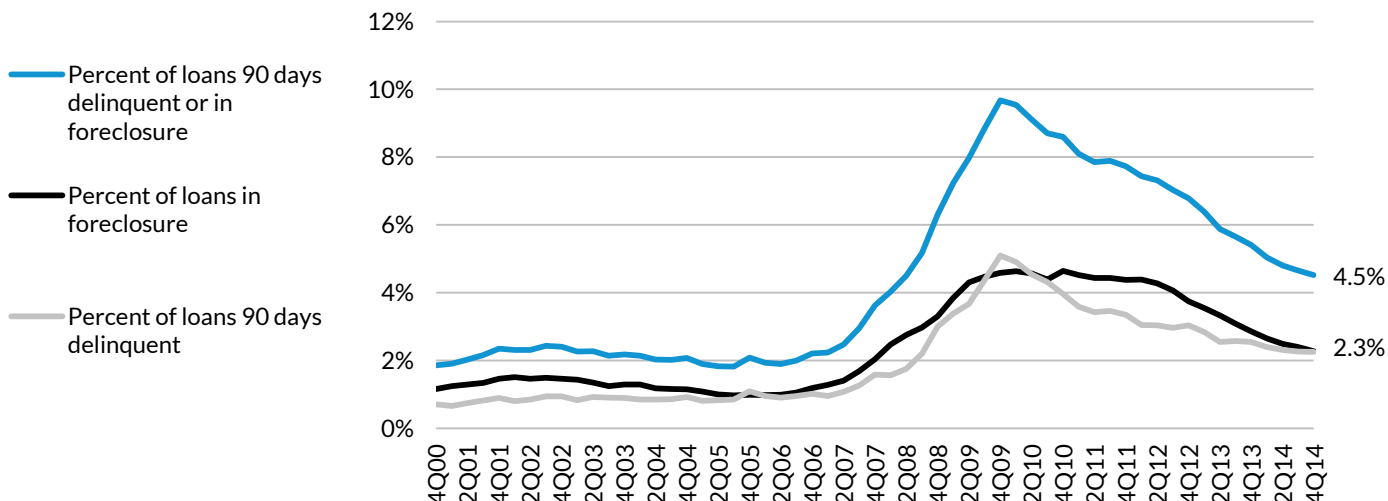


Sources: CoreLogic and Urban Institute.

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.

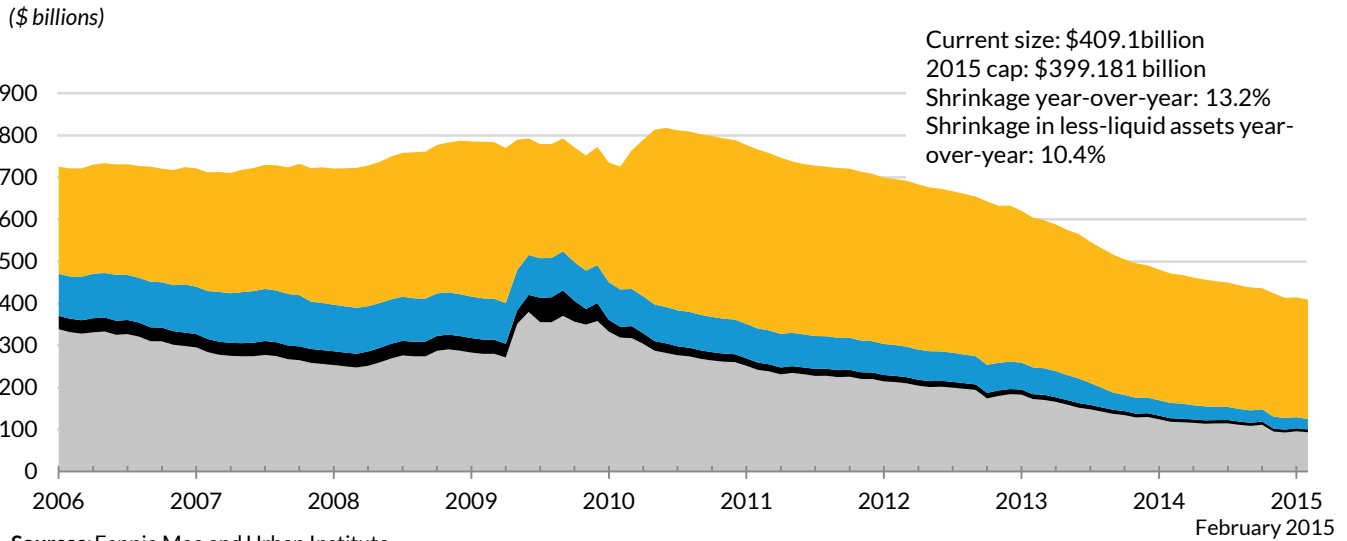
# GSES UNDER CONSERVATORSHIP

## 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. While the GSEs have both contracted their portfolio very modestly for the first two months of 2015, with Fannie now at \$409.1 billion and Freddie now at \$404.1 billion, the downward trend is evident. Relative to February 2014, Fannie contracted by 13.2 percent, and Freddie Mac by 8.6 percent. Over the past year, Fannie has been shrinking its less liquid assets (mortgage loans and non-agency MBS) slightly slower than their entire portfolio. Freddie is shrinking these less liquid assets decidedly faster.

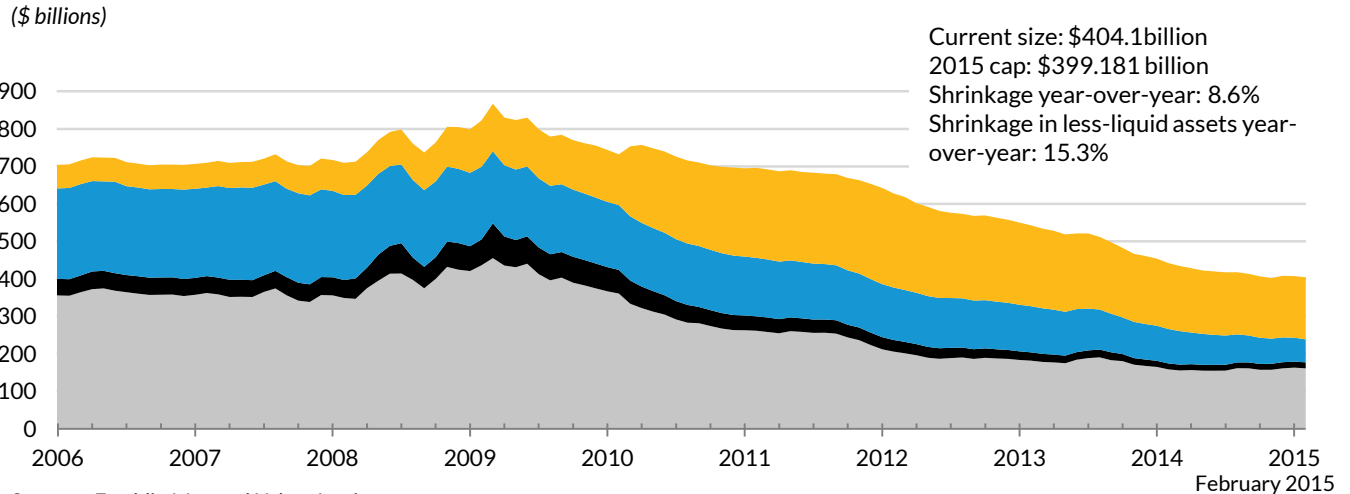
### Fannie Mae Mortgage-Related Investment Portfolio Composition

■ Fannie MBS in portfolio ■ Non-FNMA agency MBS ■ Non-agency MBS ■ Mortgage loans



### Freddie Mac Mortgage-Related Investment Portfolio Composition

■ FHLMC MBS in portfolio ■ Non-FHLMC agency MBS ■ Non-agency MBS ■ Mortgage loans

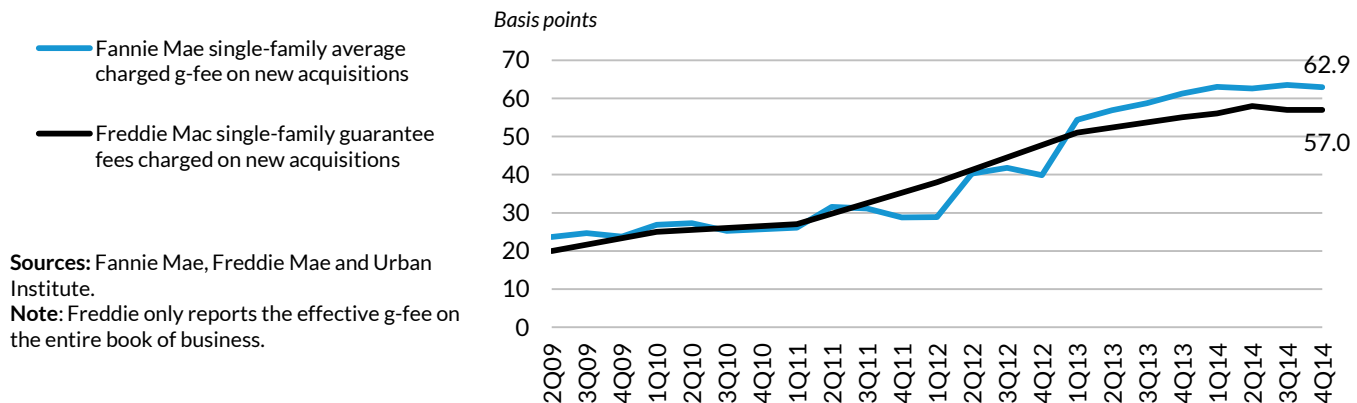


## GSES UNDER CONSERVATORSHIP

# 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. Freddie's was slightly lower, at 57.0 bps in both quarters. This is still a marked increase over 2012 and 2011, 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. On April 17, 2015, the FHFA announced that its review of g-fees was completed. Effective in September 2015, G-fees will remain the same, the Adverse Market Delivery Charge will be eliminated, and LLPAs for some borrowers will be slightly increased to compensate for the revenue lost from the Adverse Market Delivery Charge.



## Fannie Mae Upfront Loan-Level Price Adjustments (LLPAs)

Credit Score	LTV							
	≤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%
<b>Product Feature (Cumulative)</b>								
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
<b>Fannie Mae Total Reference Collateral</b>		<b>\$299,182.01</b>
<b>Percent of Fannie Mae's Total Book of Business</b>		<b>11.4%</b>

### 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
March 2015	STACR Series 2015 - HQ1	\$16,551.60
<b>Freddie Mac Total Reference Collateral</b>		<b>\$249,183.74</b>
<b>Percent of Freddie Mac's Total Book of Business</b>		<b>16.1%</b>

### Details of Freddie Mac's latest capital markets transaction, STACR 2015 – HQ1

Class	Amount (\$ millions)	Tranche Thickness (%)	CE (%)	Moody's Rating	Coupon (1mL+)
A-H	\$15,475.6	93.5	6.5	NR	--
M-1, M-1H, Total	\$266, \$23.7, \$289.7	1.75	4.75	A	105
M-2, M-2H, Total	\$266, \$23.7, \$289.7	1.75	3	BBB	220
M-3, M-3H, Total	\$228, \$20.3, \$248.3	1.5	1.5	B+	380
B, BH, Total	\$100, \$148.3, \$248.3	1.5	0	NR	1075
<b>Reference Pool Size</b>	<b>\$16,551.6</b>		--	--	--

**Sources:** Fannie Mae, Freddie Mac and Urban Institute.

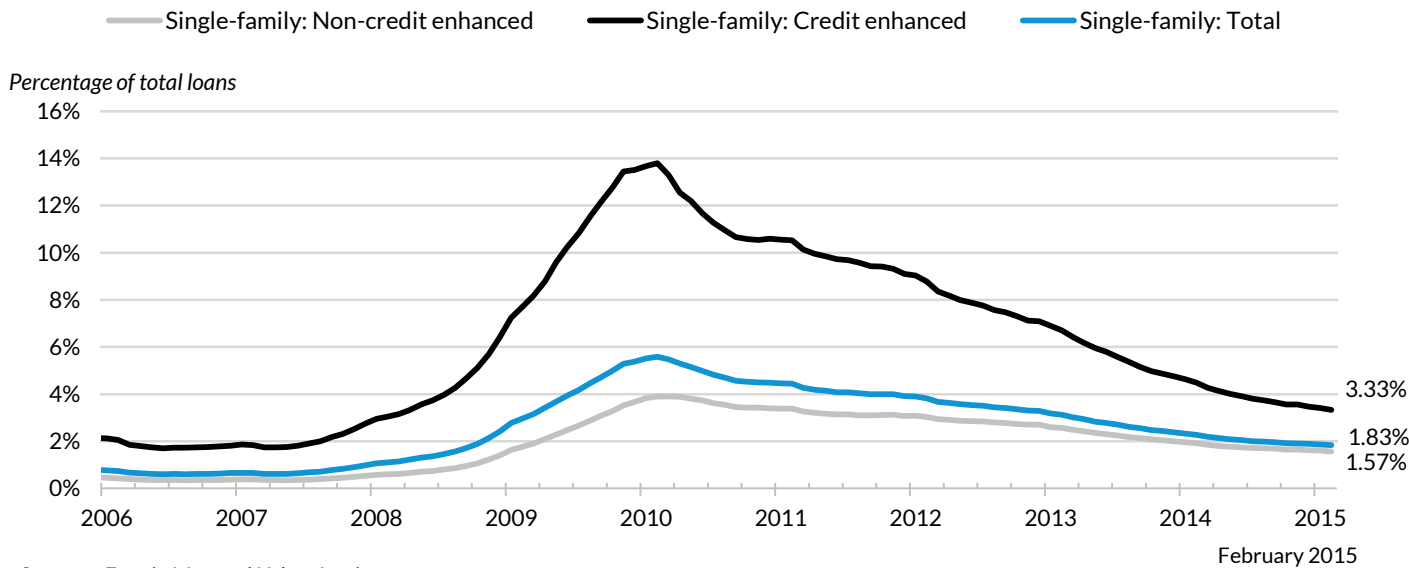
**Note:** Classes A-H, M-1H, M-2H, and B-H are reference tranches only. These classes are not issued or sold. The risk is retained by Fannie Mae and Freddie Mac. "CE" = credit enhancement.

# GSES UNDER CONSERVATORSHIP

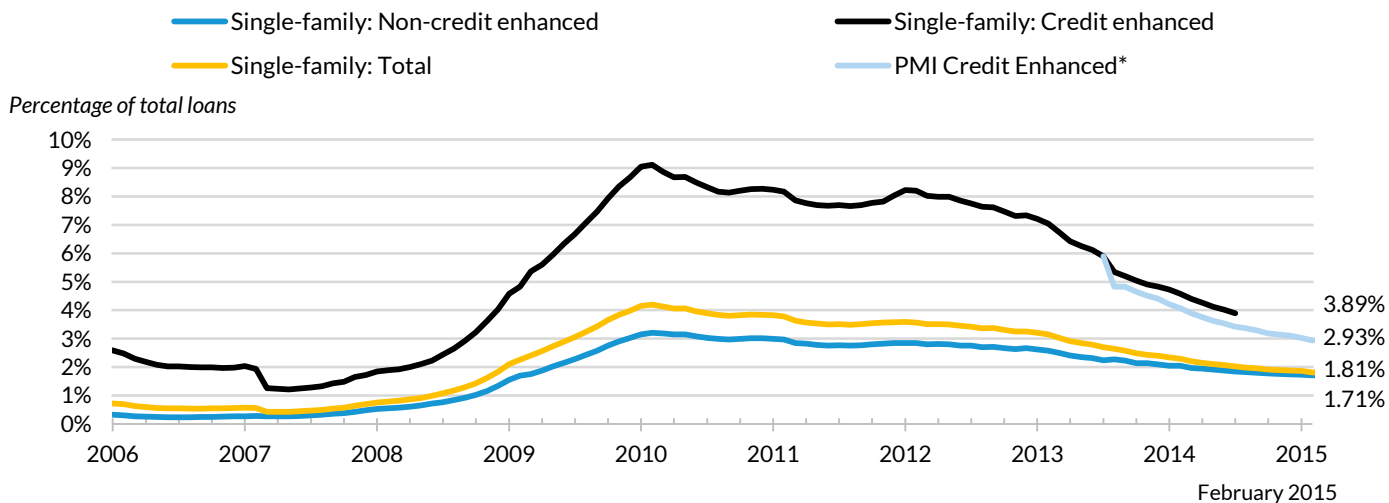
## SERIOUS DELINQUENCY RATES

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 February 2015, 1.83 percent of the Fannie portfolio and 1.81 percent of the Freddie portfolio were seriously delinquent, down from 2.27 percent for Fannie and 2.29 percent for Freddie in February 2014.

### Serious Delinquency Rates–Fannie Mae



### Serious Delinquency Rates–Freddie Mac

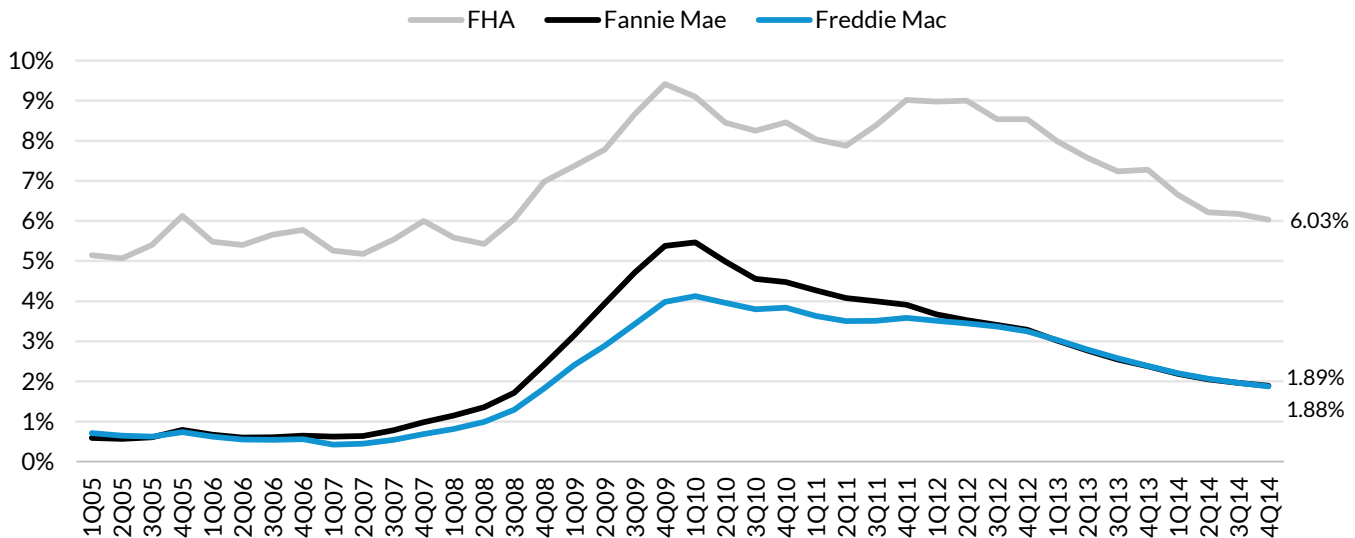


# GSES UNDER CONSERVATORSHIP

## 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.

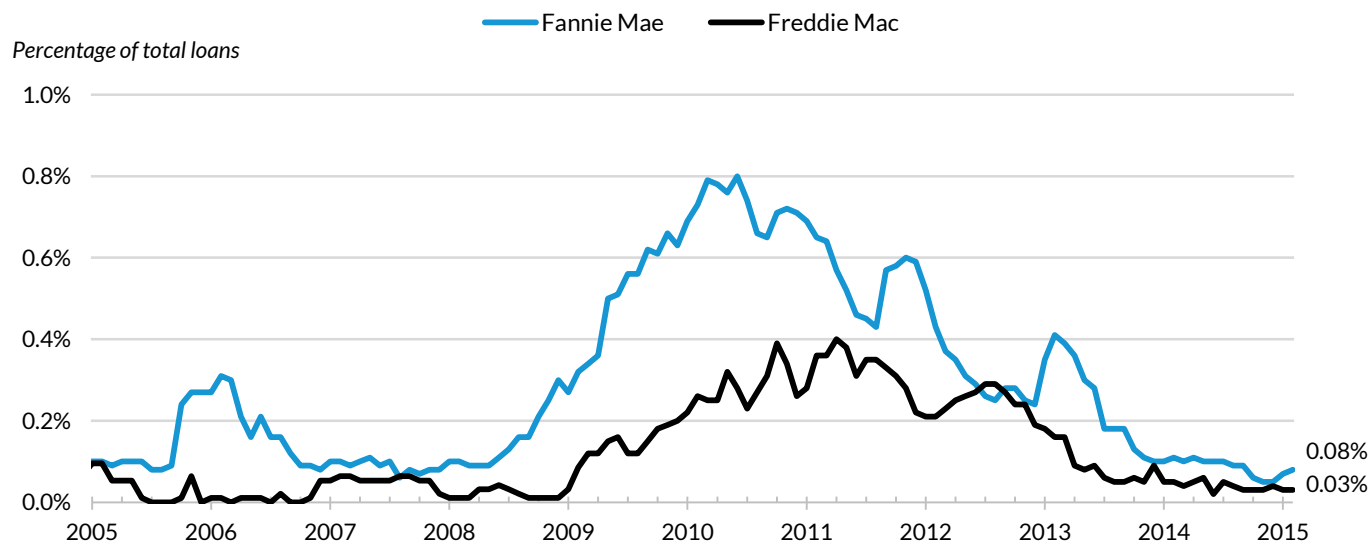
### Serious Delinquency Rates–Single-Family Loans



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



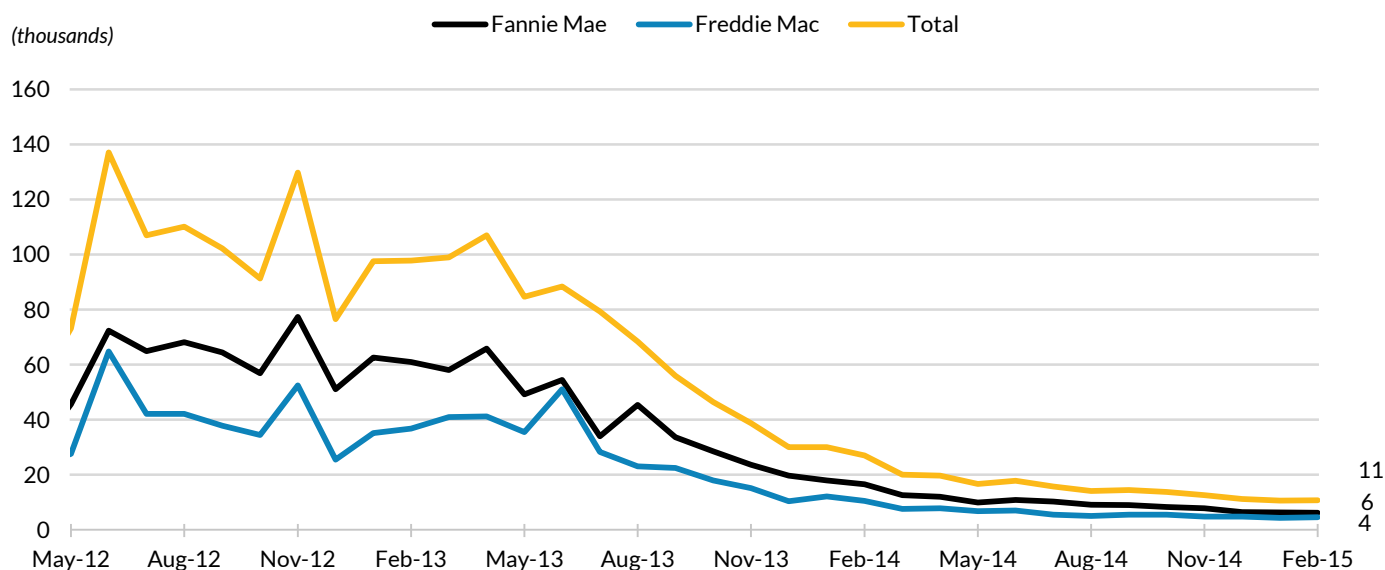
Sources: Fannie Mae, Freddie Mac and Urban Institute.

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 slowed considerably, reflecting the fact that 3.29 million borrowers have already refinanced since the programs Q2 2009 inception. HARP refinances accounted for 16 percent of all GSE refinances between April 2009 and February 2015. The February numbers show only 10,673 new refinances, despite low interest rates, down from an average of 17,708 per month in 2014.

## Total HARP Refinance Volume



## HARP Refinances

	February 2015	Year-to-date 2015	Inception to date	2014	2013	2012
Total refinances	188,455	340,866	20,749,906	1,536,789	4,081,911	4,750,530
Total HARP refinances	10,673	21,264	3,291,718	212,497	892,914	1,074,769
Share 80-105 LTV	76.1%	75.6%	70.0%	72.5%	56.4%	56.4%
Share 105-125 LTV	15.8%	16.0%	17.2%	17.2%	22.4%	22.4%
Share >125 LTV	8.1%	8.4%	12.8%	10.3%	21.2%	21.0%
All other streamlined refinances	20,177	39,014	3,521,230	268,025	735,210	729,235

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 764,887 eligible loans, but 38 percent are out-of-the-money because the closing cost would exceed the long-term savings, leaving 473,135 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 6,427,493 loans in this category, 5,362,694 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 cutoff date. On March 4, 2015 Director Watt said he won't keep renewing HARP in perpetuity, even if it is extended again before its current expiration date of December 31, 2015.

Total loan count	26,936,165
Loans that do not meet pay history requirement	861,563
Loans that meet pay history requirement:	26,074,602
Pre-June 2009 origination	7,192,380
Post-June 2009 origination	18,882,222

## Loans Meeting HARP Pay History Requirements

### Pre-June 2009

LTV category	In-the-money	Out-of-the-money	Total
≤80	5,362,694	1,064,799	6,427,493
>80	473,136	291,751	764,887
Total	5,835,830	1,356,550	7,192,380

### Post-June 2009

LTV category	In-the-money	Out-of-the-money	Total
≤80	4,023,341	11,834,945	15,858,286
>80	1,071,684	1,952,252	3,023,936
Total	5,095,025	13,787,197	18,882,222

Sources: CoreLogic Prime Servicing as of February 2015.

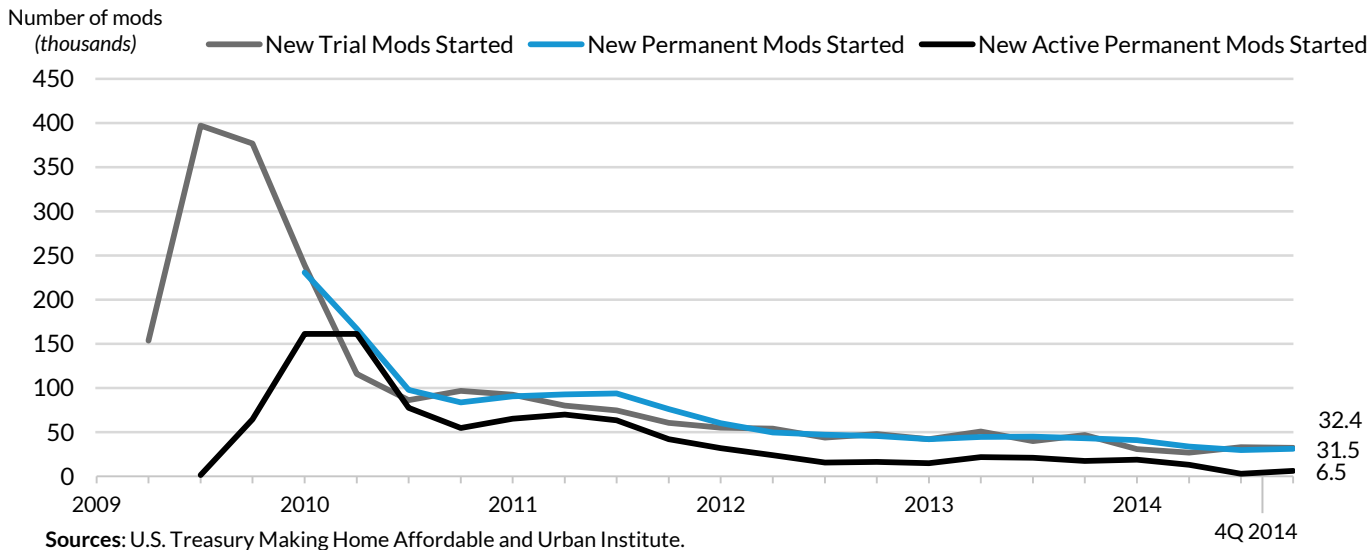
Note: Figures are scaled up from source data to account for data coverage of the GSE active loan market (based on MBS data from eMBS). Shaded box indicates HARP-eligible loans that are in-the-money.

# MODIFICATION ACTIVITY

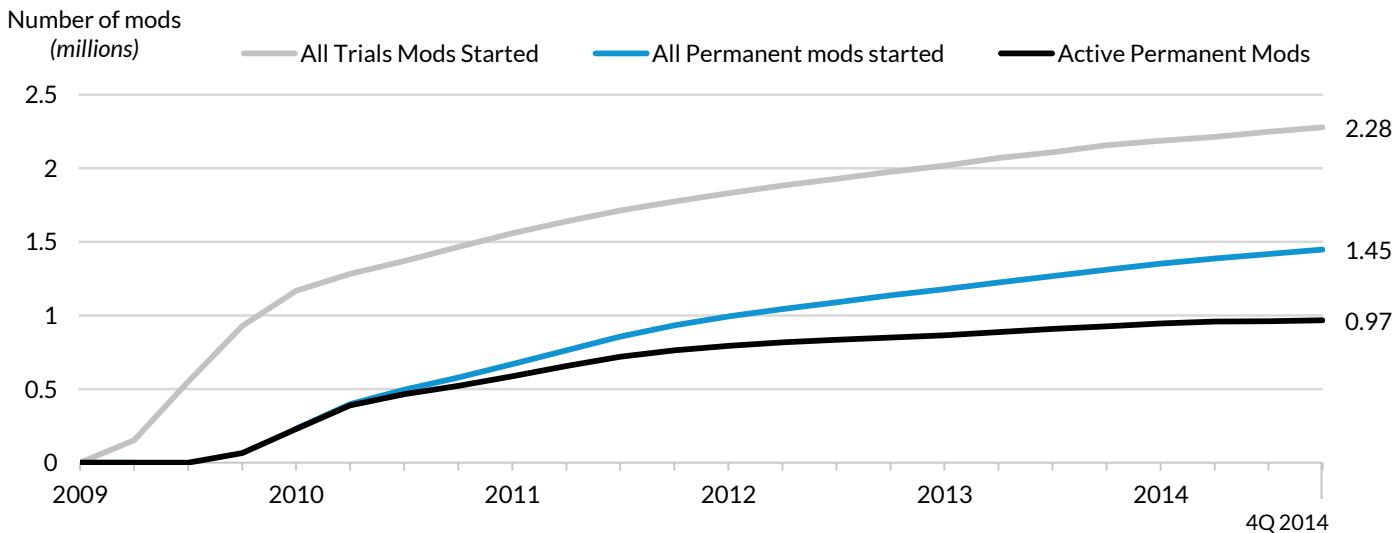
## HAMP ACTIVITY

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



### Cumulative HAMP Modifications



## 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 6.5 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
	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4		
Capitalization	83.5	87.7	74.3	59	71.1	84.1	18.3	-4.1
Rate reduction	78.9	76.7	73.3	71.9	66.5	65.1	-2.1	-15.1
Rate freeze	5.5	7	6.5	7.1	7.5	8.4	11.2	19.7
Term extension	69.3	75.9	78	84	82.0	83.8	2.2	10.4
Principal reduction	13.6	10.5	8.1	5	6.8	6.5	-4.6	-38.0
Principal deferral	25.3	30.6	25.1	11.5	15.9	10.4	-34.3	-65.7
Not reported*	2.2	0.7	0.7	0.7	0.5	0.4	-21.2	-43.4

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	98.7%	98.7%	64.0%	95.7%	93.3%	84.1%
Rate reduction	43.9%	46.4%	79.2%	70.8%	70.8%	65.1%
Rate freeze	11.6%	7.8%	6.6%	5.9%	11.9%	8.4%
Term extension	94.3%	96.3%	97.1%	31.4%	61.3%	83.8%
Principal reduction	0.0%	0.0%	0.6%	22.0%	27.4%	6.5%
Principal deferral	13.8%	13.4%	2.0%	15.3%	22.5%	10.4%
Not reported*	0.1%	0.1%	0.5%	0.9%	0.3%	0.4%

Sources: OCC Mortgage Metrics Report for the Fourth 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).

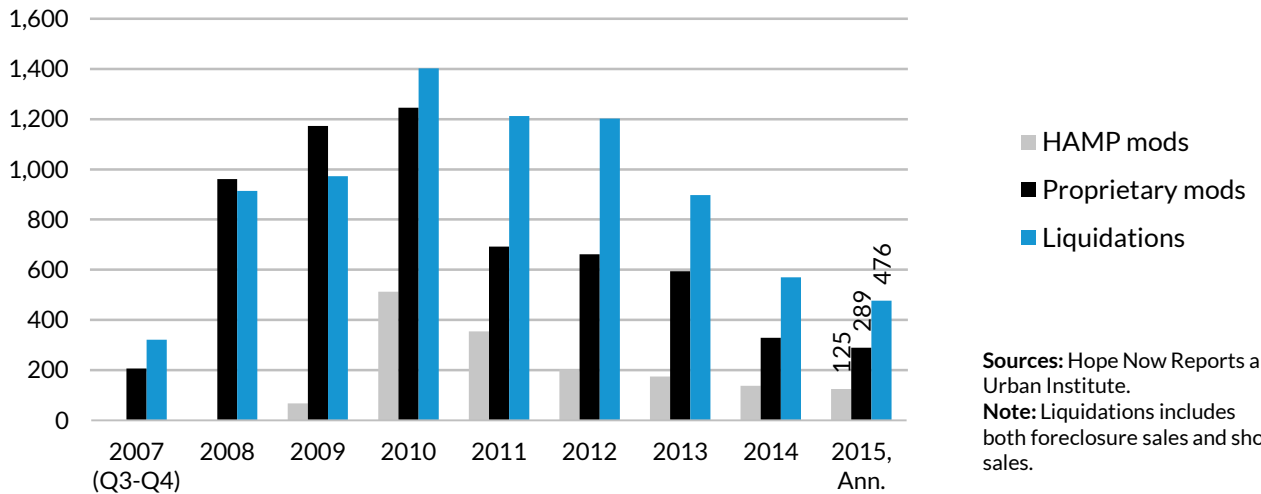
# MODIFICATION ACTIVITY

# MODIFICATIONS AND LIQUIDATIONS

Total modifications (HAMP and proprietary) are now roughly equal to total liquidations. Hope Now reports show 7,448,155 borrowers have received a modification since Q3 2007, compared with 7,572,840 liquidations in the same period. Both liquidation and modification activity are slowing significantly. Only 33,832 modifications were completed in February 2015, compared to a monthly average of about 39,000 in 2014 and 47,000 in 2013.

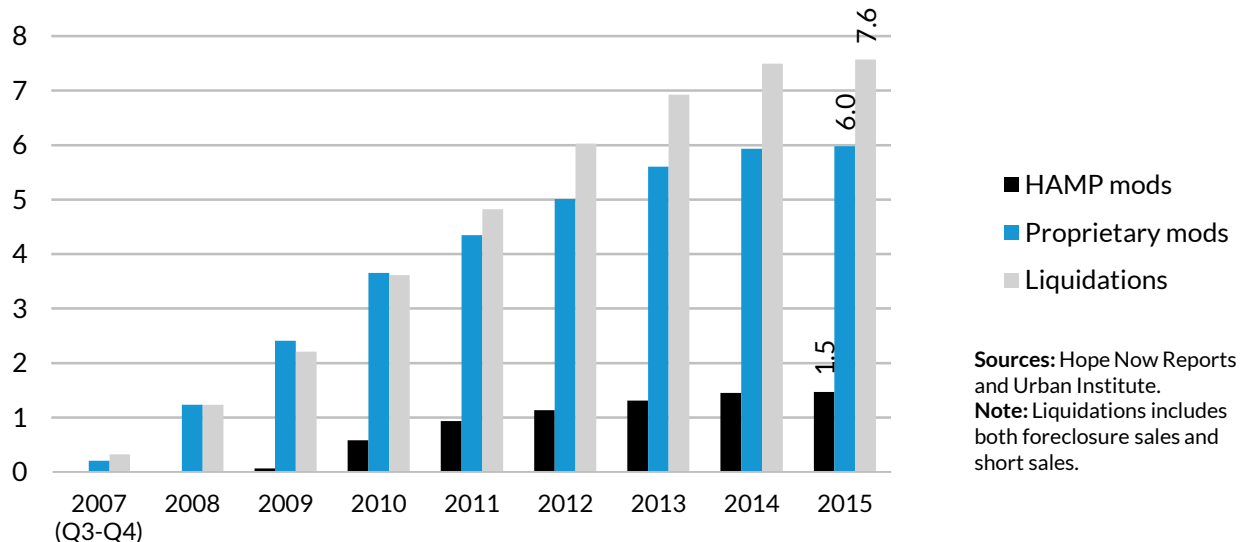
## Loan Modifications and Liquidations

Number of loans (thousands)



## Cumulative Modifications and Liquidations

Number of loans (millions)

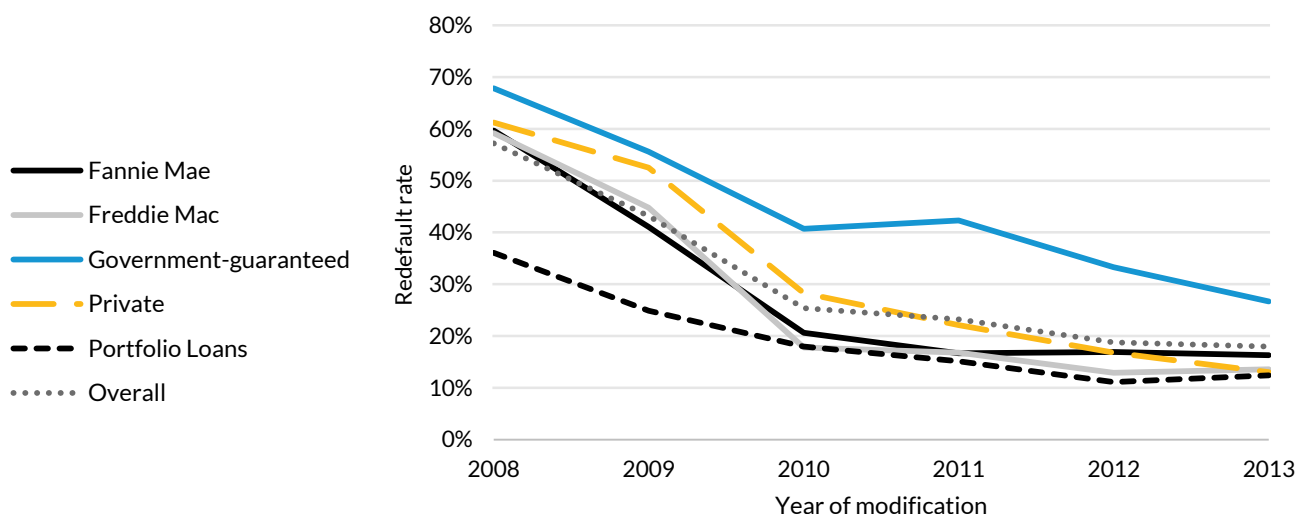


## MODIFICATION ACTIVITY

# MODIFICATION REDEFAULT RATES BY BEARER OF THE RISK

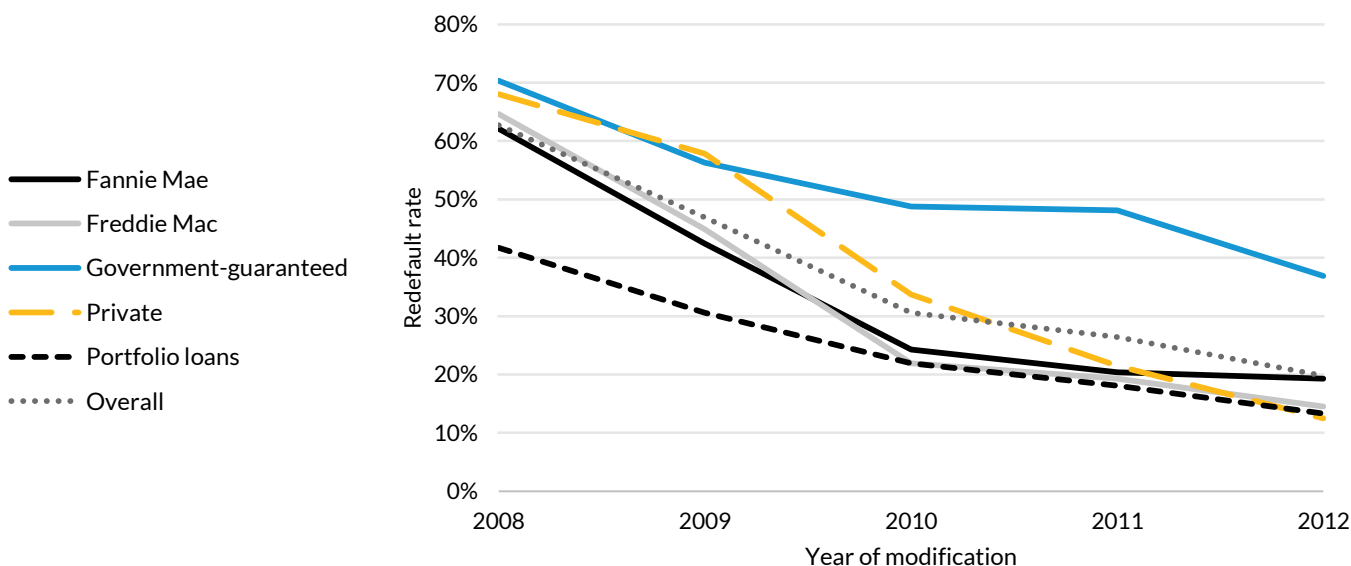
Redeault rates on modified loans have come down dramatically from 2008 to 2014. For the period as a whole, the steepest drops have been on private label modifications. More recently, there have been sharp declines in the redeault rates on government-guaranteed modifications, although this product type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

## Redeault Rate 12 Months after Modification



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

## Redeault Rate 24 Months after Modification



Sources: OCC Mortgage Metrics Report for the Fourth 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 have resulted in agency gross issuance of \$277.9 billion in the first quarter of 2015, a 45 percent increase year-over-year. Net issuance (which excludes repayments, prepayments and refinances on outstanding mortgages) remains low.

## 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	\$195.79	\$82.12	\$277.91
%Change year-over-year	47.5%	40.8%	45.4%
2015 Ann.	\$783.16	\$328.48	\$1,111.64

## 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	\$15.4	\$5.5	\$20.9
%Change year-over-year	-*	-53.97%	301.36%
2015 Ann.	\$61.66	\$21.91	\$83.57

Sources: eMBS and Urban Institute.

Note: Dollar amounts are in billions. Annualized figure based on data from March 2015.

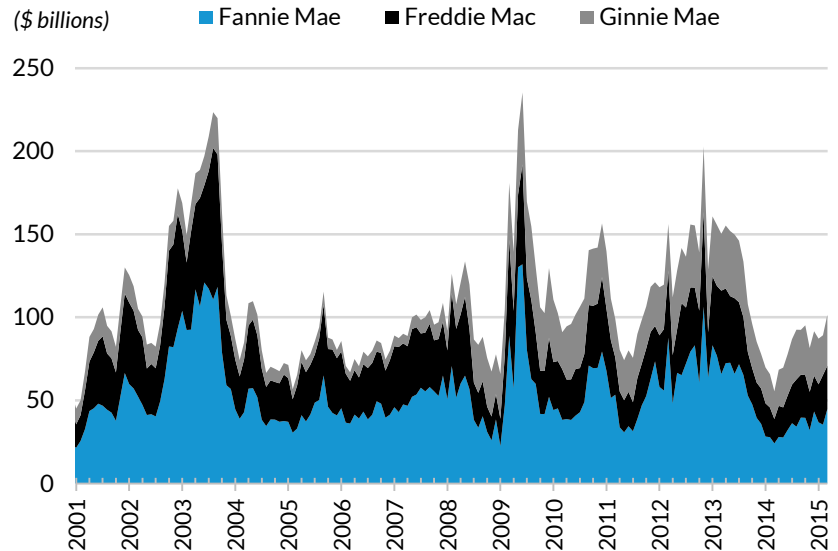
\*omitted since the GSE net issuance totaled -\$6.7 billion in the first three months of 2014.

## AGENCY ISSUANCE

# 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 since then. The Ginnie Mae issuance now stood at 30 percent in March 2015, up from 27 percent last month, as the FHA refinance activity surged with the recent reduction in FHA insurance premiums.

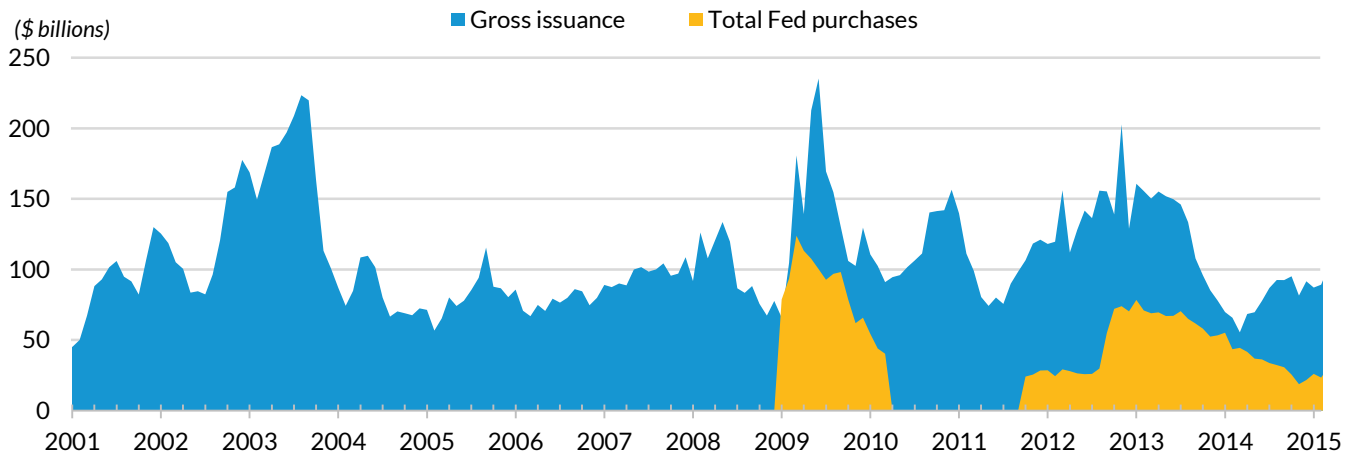


Sources: eMBS, Federal Reserve Bank of New York and Urban Institute.

March 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. From November 2014 to March 2015, the Fed's absorption of gross issuance has been between 23 and 30 percent; in March 2015 total Fed purchases were \$31 billion, yielding a 30 percent absorption rate.



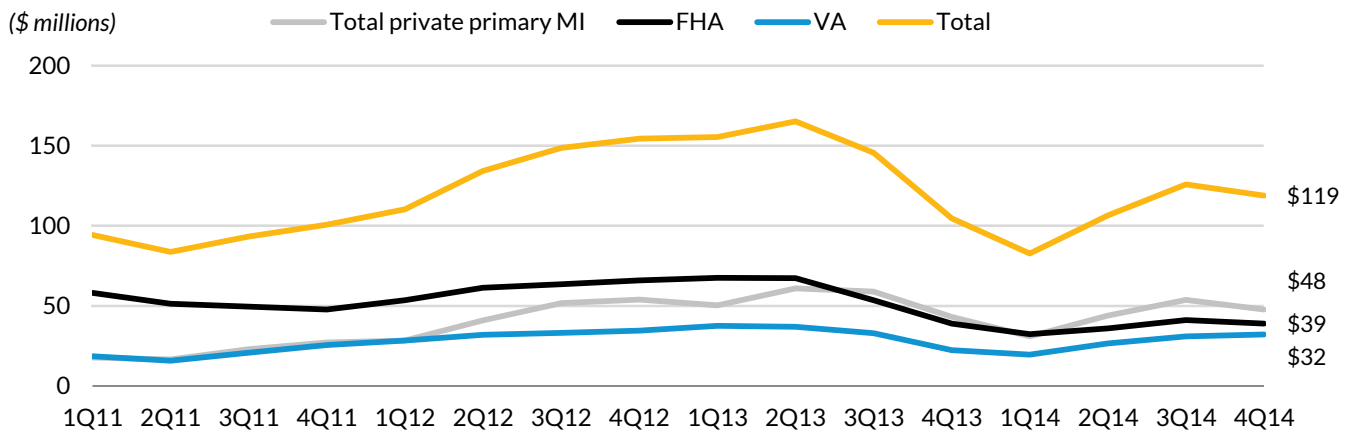
Sources: eMBS, Federal Reserve Bank of New York and Urban Institute.

March 2015

# AGENCY ISSUANCE MORTGAGE INSURANCE ACTIVITY

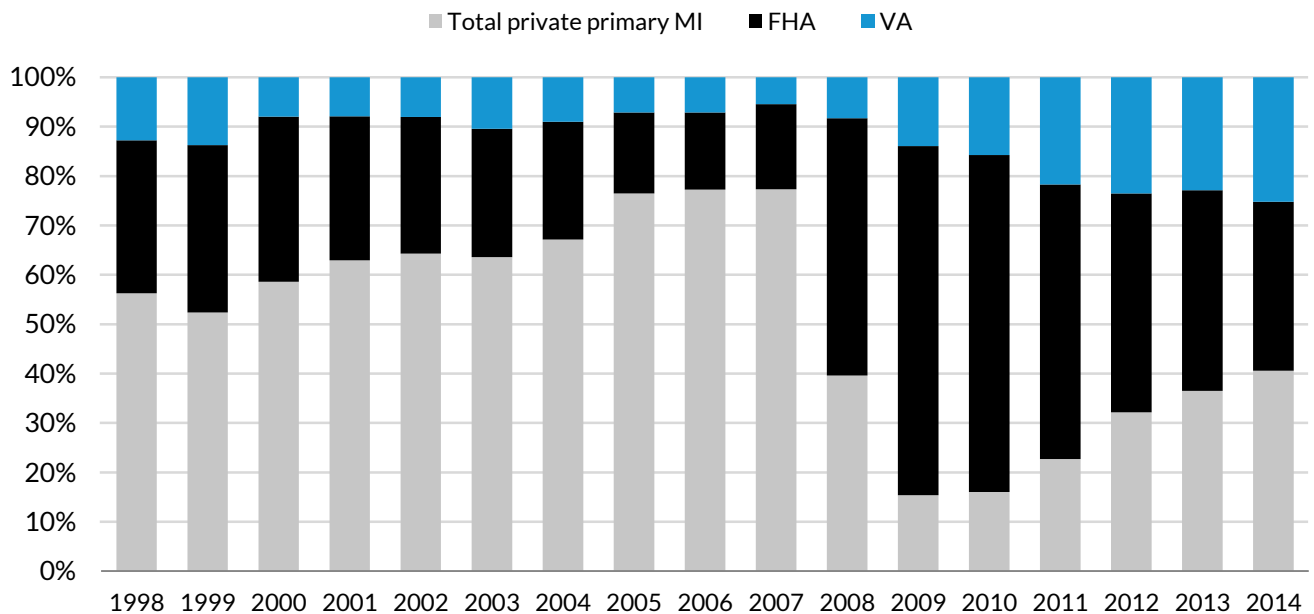
## MI Activity

Mortgage insurance activity via the FHA, VA, and private insurers declined slightly in Q4 2014, reaching \$118.9 billion. 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.



# AGENCY ISSUANCE 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 <sup>a</sup>	175	125
4/1/2013 - 1/25/2015 <sup>b</sup>	175	135
Beginning 1/26/2015 <sup>c</sup>	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.

<sup>a</sup> Applies to purchase loans less than or equal to \$625,500. Those over that amount have an annual premium of 150 bps.

<sup>b</sup> Applies to purchase loans less than or equal to \$625,500. Those over that amount have an annual premium of 155 bps.

<sup>c</sup> 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	3.83%
FHA	3.50%

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	\$1,273	\$1,273	\$1,273	\$1,273	\$1,273	\$1,273	\$1,273	\$1,273
PMI	\$1,532	\$1,510	\$1,496	\$1,441	\$1,441	\$1,385	\$1,378	\$1,368
PMI Advantage	(\$259)	(\$237)	(\$223)	(\$168)	(\$168)	(\$112)	(\$105)	(\$95)

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.

# RELATED HFPC WORK

# PUBLICATIONS AND EVENTS

## Upcoming Events

[Sunset Seminar—Mortgage Servicing: Current State and Future Trends](#) – May 6<sup>th</sup> at 5:30 PM at The Urban Institute  
Servicers, who play a pivotal role in the housing finance system, have undergone significant market, regulatory, and technological changes in recent years. Michael Drayne (Ginnie Mae), Stephen Fleming (Phoenix Capital), Mike Fratantoni (Mortgage Bankers Association), Laurie Goodman (Urban Institute), Jeffrey Naimon (BuckleySandler) and Faith Schwartz (CoreLogic) will address a series of questions about their current state and future trends.

## Publications

### [A Modest Recalibration of GSE Pricing](#)

Author: Jim Parrott

Date: April 17, 2015

### [The GSEs' Shrinking Role in the Multifamily Market](#)

Author: Karan Kaul

April 8, 2015

### [The Impact of Tight Credit Standards on 2009-13 Lending](#)

Authors: Laurie Goodman, Jun Zhu and Taz George

Date: April 2, 2015

### [Early Steps Down the Path of GSE Reform](#)

Author: Jim Parrott

Date: March 23, 2015

### [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 and Jim Parrott

Date: February 6, 2015

### [Loss Severity on Residential Mortgages](#)

Authors: Laurie Goodman and 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

## Blog Posts

### [Home equity is outpacing mortgage debt, but it's not all good news](#)

Authors: Karan Kaul and Taz George

Date: April 21, 2015

### [Should policymakers address Fannie Mae and Freddie Mac's shrinking role in Multifamily Housing?](#)

Author: Karan Kaul

Date: April 16, 2015

### [Six things that might surprise you about alternative credit scores](#)

Author: Karan Kaul

Date: April 13, 2015

### [Tight credit has hurt minority borrowers the most](#)

Authors: Laurie Goodman, Jun Zhu and Taz George

Date: April 8, 2015

### [Four million mortgage loans missing from 2009 to 2013 due to tight credit standards](#)

Authors: Laurie Goodman, Jun Zhu and Taz George

Date: April 2, 2015

### [To understand mortgage default rates, ask these three questions](#)

Authors: Laurie Goodman, Ellen Seidman, Taz George and Jun Zhu

Date: March 30, 2015

### [What's behind the growing share of bank portfolio lending?](#)

Author: Karan Kaul

Date: March 18, 2015

### [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

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