HOUSING FINANCE POLICY CENTER

HOUSING FINANCE AT A GLANCE

A MONTHLY CHARTBOOK

April 2017

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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.

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INTRODUCTION

The Unwinding of Fed's MBS Holdings

The Federal Open Market Committee has long maintained that the wind down of the Fed's agency MBS holdings, currently at $1.75 trillion, will not commence until the Fed begins increasing the federal funds rate. After holding the target rate in the 0.0 to 0.25% range for seven years from 2008 to 2015, the Fed announced its first rate increase in December 2015. The second hike came a year later in December 2016 and the third one, just a month ago in March. Now that the Fed has in fact begun raising rates, questions surrounding the unwinding of its MBS portfolio are, not surprisingly, beginning to surface.

The Fed has a wide range of options to accomplish the ramp down. These include minimally disruptive strategies such as gradually phasing out reinvestments of principal pay downs (prepayments for example), or ceasing reinvestments altogether. Once the Fed has ceased reinvestment, they will have the option of letting the securities run off over time (and due to prepayments, the average life of these mortgage investments is far shorter than their maturity) or selling in the open market. The latter is a very aggressive option, something the Fed has said it is not considering. In line with this, in a recent survey of market participants conducted by the Fed, a large majority expects the Fed to start by phasing out reinvestments.

But even at a slow pace, there is no question that unwinding will, over time, remove a major source of demand for agency mortgage-backed securities. The Fed currently owns 29.4 percent of all agency MBS outstanding. Therefore its withdrawal will surely put some upward pressure on MBS yields and on mortgage rates, although it will hardly be the only factor. Exactly how much impact is nearly impossible to predict and will depend not only on which of the above strategies the Fed chooses, but also on *how* it implements that strategy. For instance, under the most likely option of phasing out reinvestments, the Fed will still need to decide how much of the principal paid down should be reinvested, and the pace at which this number ought to be reduced over time.

Equally important, the Fed will need to decide how to allocate reinvestment reductions across agencies—should the reductions be pro-rata or should there be any skew? If reductions are skewed more toward conventional MBS (those backed by Fannie and Freddie), any increase in rates will be felt more by conventional borrowers. In contrast, if reductions are skewed more toward Ginnie Mae MBS, the potential impact will be felt more by first-time homebuyers, low- and moderate-income borrowers and veterans, who depend heavily on FHA and VA financing. Indeed, how the Fed begins to unwind is crucial to housing affordability in the coming years. More so, because baseline interest rates are already on an upward trajectory and house prices in several geographies are already unaffordable and out of reach for many.

Fed's wind down raises another important policy question relevant to the future of housing finance: The agency MBS market has for a long time relied on a backstop bid from the federal government during turbulent times. Prior to financial crisis, this bid was provided by Fannie Mae and Freddie Mac through their retained portfolios, but at a substantial risk and cost to the taxpayer. Currently, this bid is being provided by the Fed, although its rationale and mode of operation are very different from that of the GSEs. Therefore, as policymakers debate the future of housing finance, they will need to decide if there is any role for similar market intervention in the future, and if yes, the most appropriate structural framework for it.

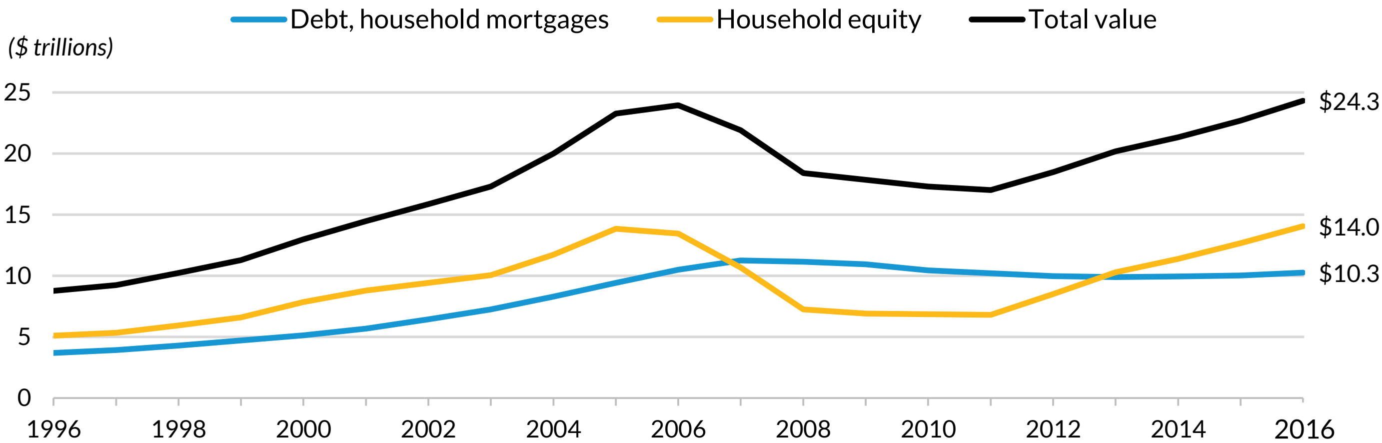
INSIDE THIS ISSUE

- Refinance shares continued to decline in March 2017 as mortgage rates stayed elevated (Page 11).
- HCAI shows mortgage credit availability remained flat at 5.2 percent in Q4 2016 (Page 13).
- Freddie Mac completed its largest ($60.7 billion) risk-sharing deal in April 2017 (Pages 22 and 23).
- Agency issuances continued to fall in March 2017, but the YTD totals were still up YOY (Pages 30, 31)

MARKET SIZE OVERVIEW

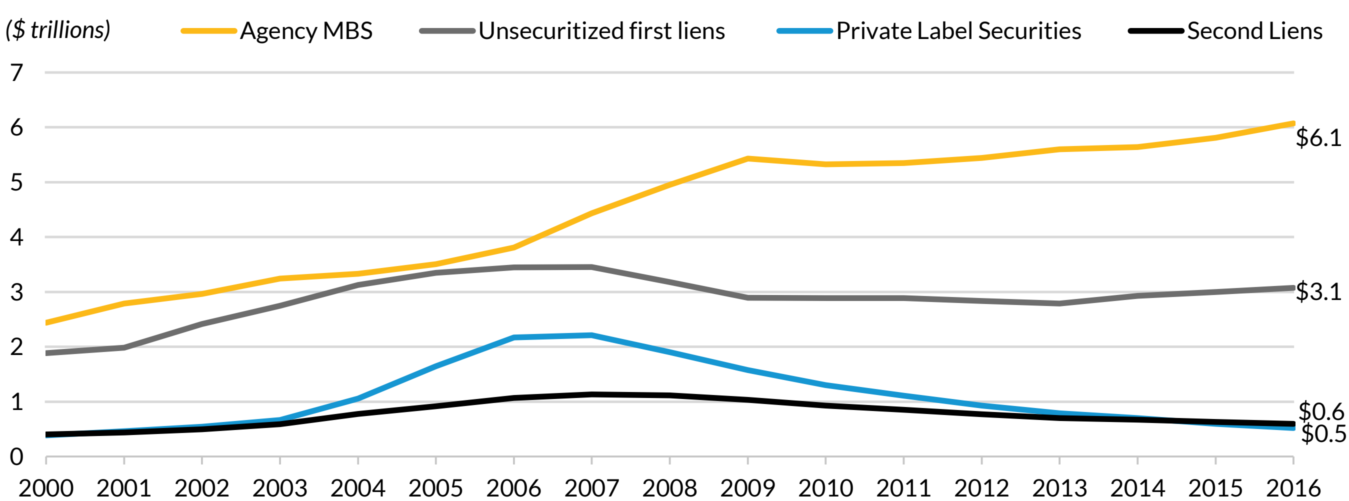
The Federal Reserve's Flow of Funds report has consistently indicated an increasing total value of the housing market driven by growing household equity since 2012, and 2016 was no different. While total debt and mortgages was stable at $10.3 trillion, household equity reached a new high of $14.0 trillion, bringing the total value of the housing market to $24.3 trillion, surpassing the pre-crisis peak of $23.9 trillion in 2006. Agency MBS make up 59.2 percent of the total mortgage market, private-label securities make up 5.1 percent, and unsecuritized first liens at the GSEs, commercial banks, savings institutions, and credit unions make up 29.9 percent. Second liens comprise the remaining 5.8 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

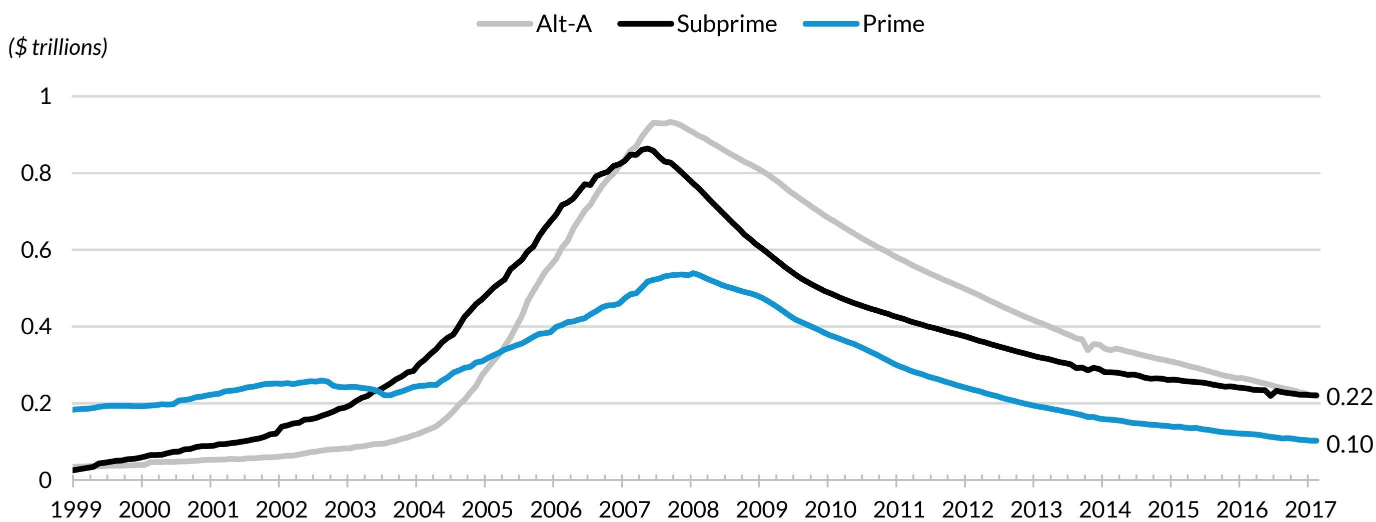


Sources: Federal Reserve Flow of Funds, Inside Mortgage Finance, Fannie Mae, Freddie Mac, eMBS and Urban Institute.
Note: Unsecuritized first liens includes loans held by commercial banks, GSEs, savings institutions, and credit unions.

MARKET SIZE OVERVIEW

As of February 2017, debt in the private-label securitization market totaled $542 billion and was split among prime (18.9 percent), Alt-A (40.3 percent), and subprime (40.8 percent) loans. In March 2017, outstanding securities in the agency market totaled $6.15 trillion and were 44.2 percent Fannie Mae, 27.6 percent Freddie Mac, and 28.2 percent Ginnie Mae. Ginnie Mae has had more outstanding securities than Freddie since May 2016.

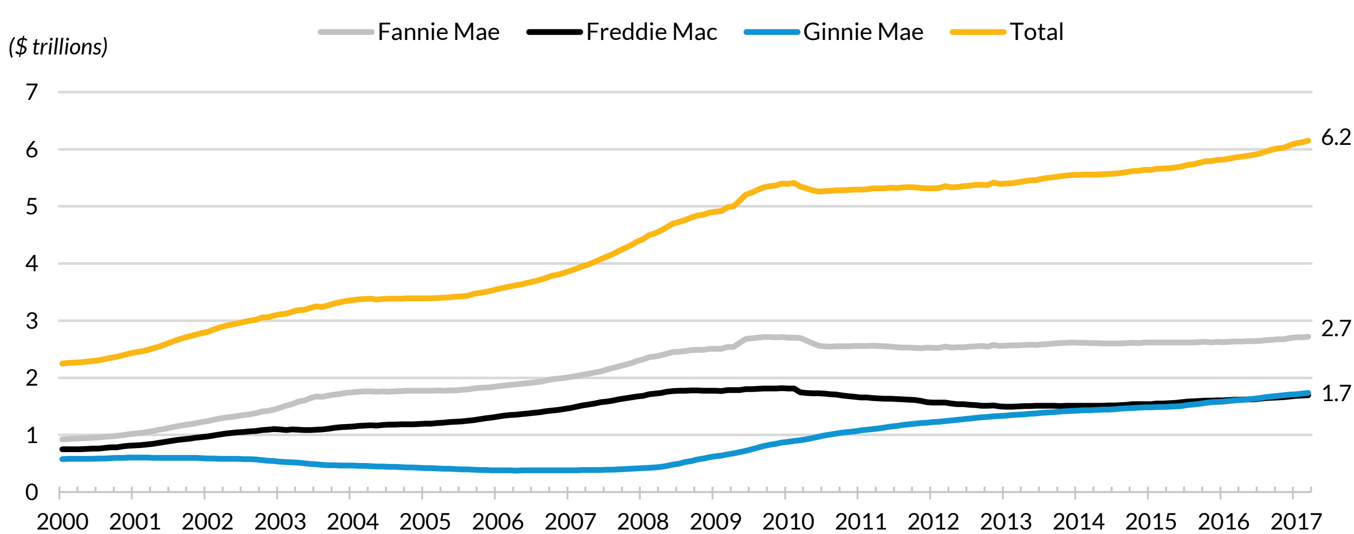
Private-Label Securities by Product Type



Sources: CoreLogic and Urban Institute.

February 2017

Agency Mortgage-Backed Securities



March 2017

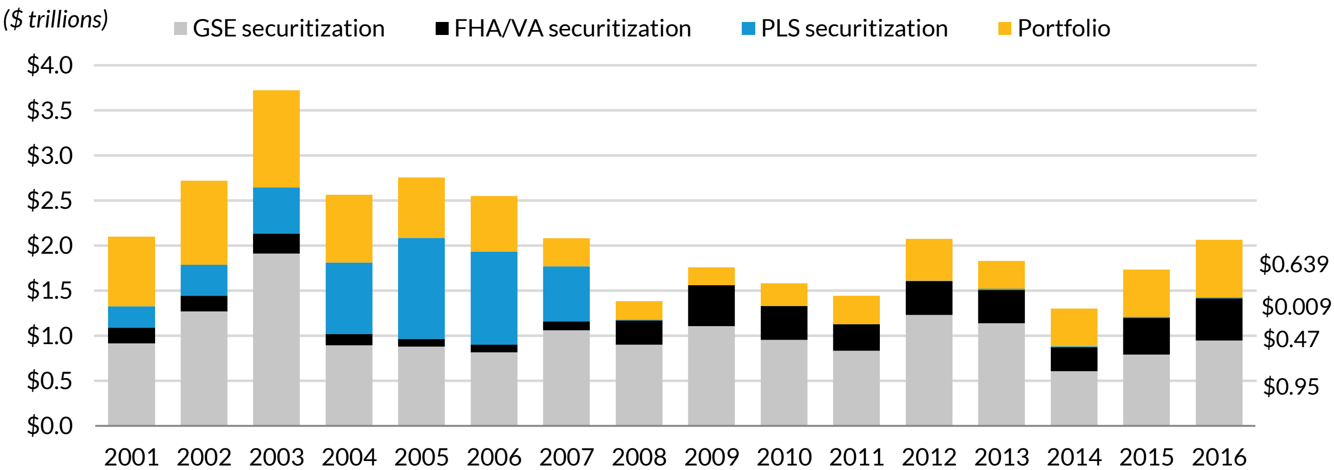
Sources: eMBS and Urban Institute.

OVERVIEW

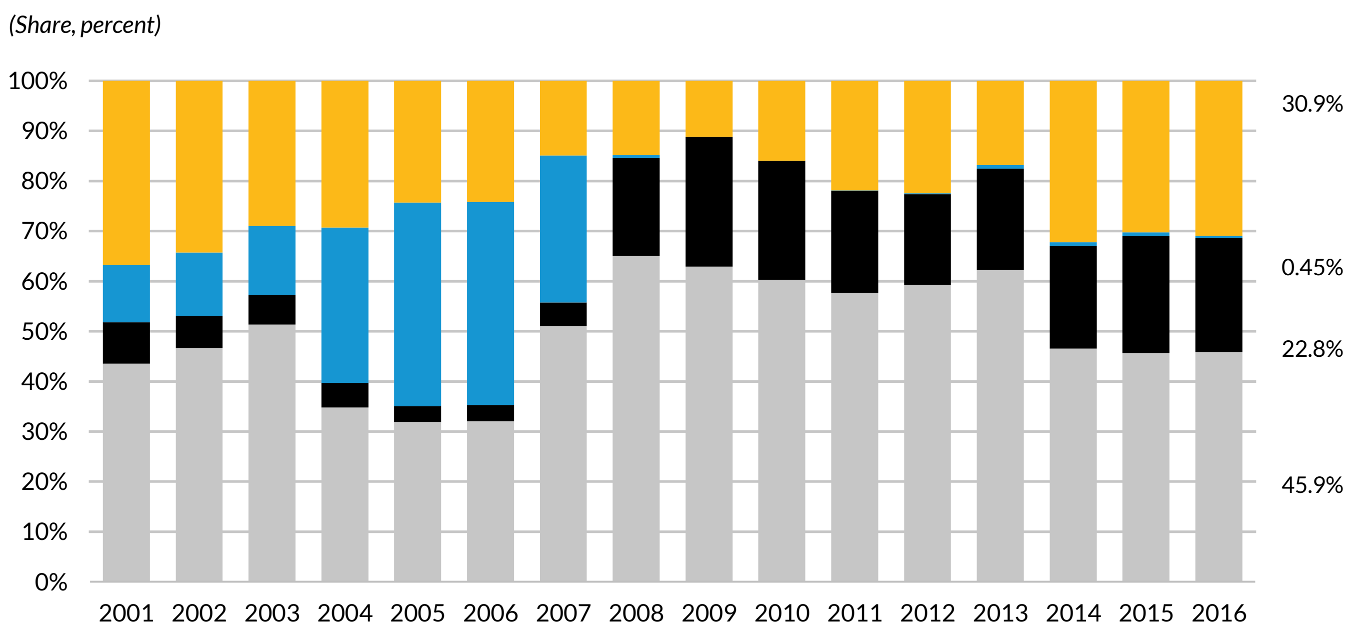
ORIGINATION VOLUME AND COMPOSITION

First Lien Origination Volume

First lien originations in 2016 totaled approximately $2.1 trillion, the most robust origination year since 2012. The share of portfolio originations was 30.9 percent, up from 30.2 percent in 2015. The GSE share went up to 45.9 percent, from 45.7 percent for the same period in 2015. The FHA/VA share was slightly down: 22.8 percent in 2016 versus 23.3 percent in 2015. Origination of private-label securities is well under 1 percent in both years.



Sources: Inside Mortgage Finance and Urban Institute. *Last updated February 2017.*



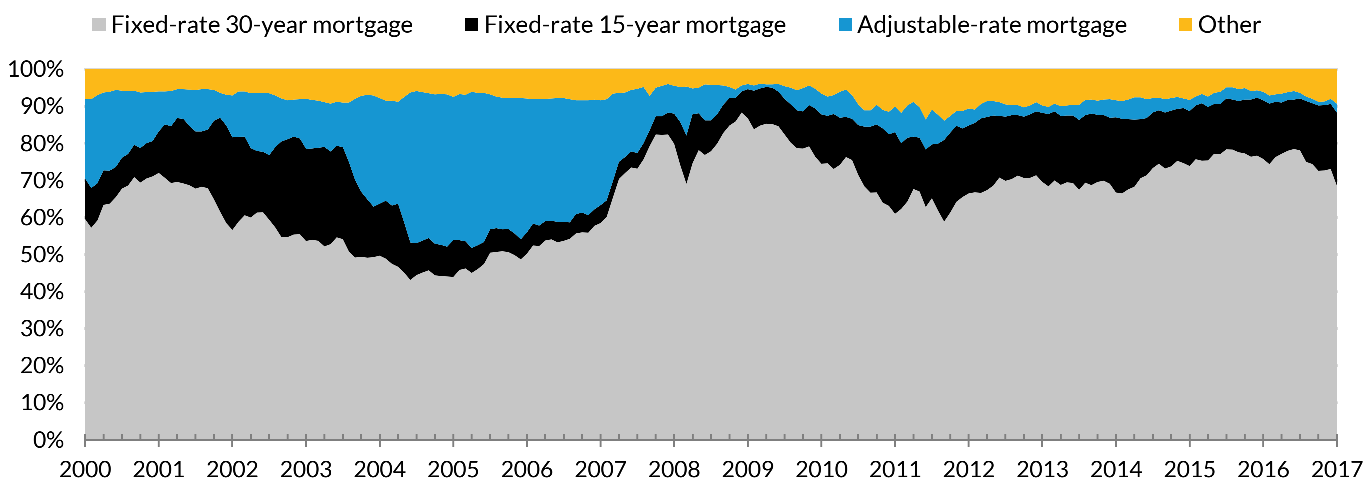
Sources: Inside Mortgage Finance and Urban Institute. *Last updated February 2017.*

OVERVIEW

MORTGAGE ORIGINATION PRODUCT TYPE

Adjustable-rate mortgages (ARMs) accounted for as much as 42 percent of all new originations during the peak of the 2005 housing bubble (top chart). The ARMs fell to an historic low of 1 percent in 2009, and then slowly grew to a high of 6 percent in April 2014. Since then, ARMs began to decline again to 2.4 percent in January 2017. The 15-year fixed-rate mortgage (FRM), predominantly a refinance product, increased slightly to 19.7 percent of new originations. If we exclude refinances (bottom chart), the share of 30-year FRMs in January 2017 stood at 89.4 percent, 15-year FRMs at 6.8 percent, and ARMs at 2.5 percent.

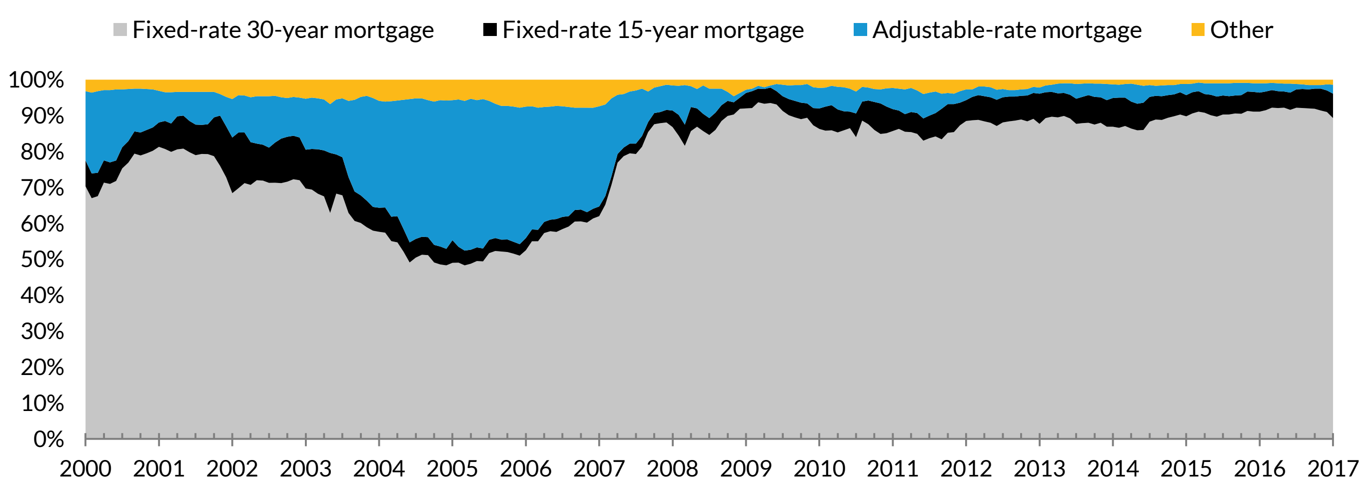
All Originations



Sources: Corelogic, eMBS, HMDA, SIFMA and Urban Institute.

January 2017

Purchase Loans Only



Sources: Corelogic, eMBS, HMDA, SIFMA and Urban Institute.

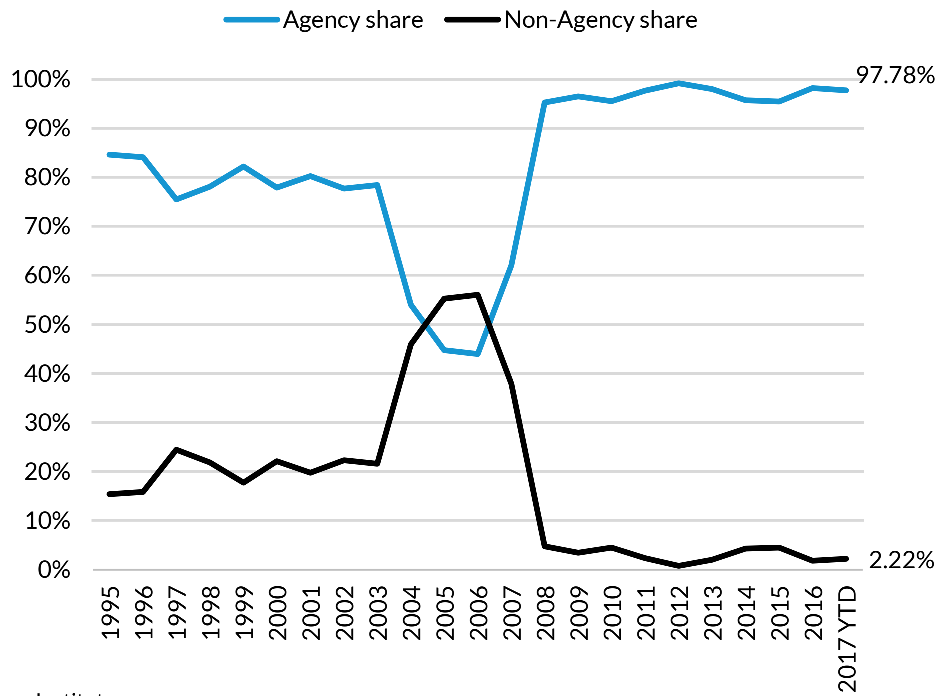
January 2017

OVERVIEW

SECURITIZATION VOLUME AND COMPOSITION

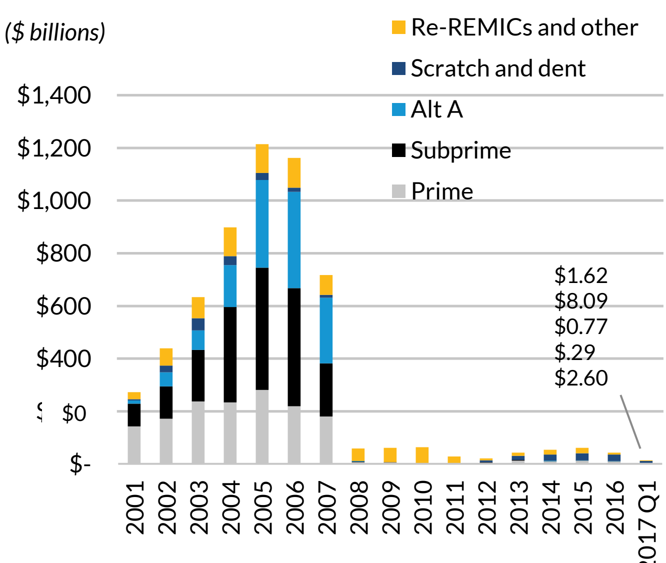
Agency/Non-Agency Share of Residential MBS Issuance

The non-agency share of mortgage securitizations in Q1 2017 was 2.2 percent, compared to 1.8 percent in 2016 and 4.5 percent in 2015. The non-agency securitization volume totaled $13.38 billion in Q1 2017, a 67.1 percent increase over the previous quarter. Much of the volume was in non-performing and re-performing (scratch and dent) deals. The volume of prime securitizations in Q1 2017 totaled $2.60 billion, higher than the preceding quarter ($1.57 billion) but lower than Q1 2016 ($2.92 billion). Non-agency securitizations continue to be tiny compared to pre-crisis levels.



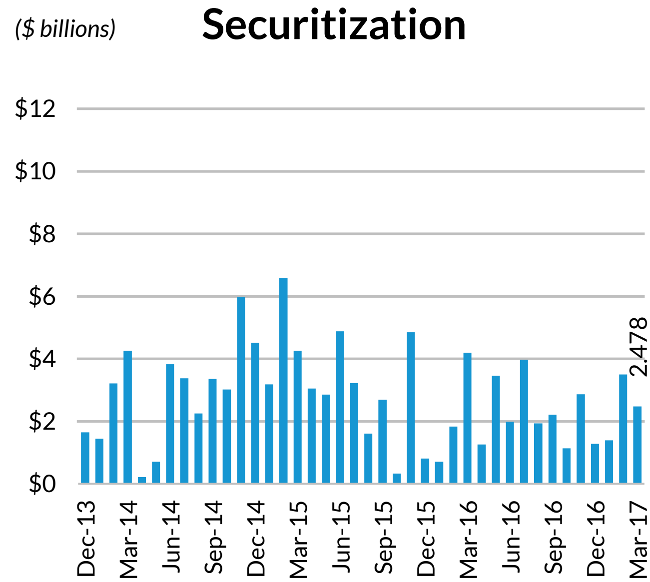
Sources: Inside Mortgage Finance and Urban Institute.
Note: Based on data from March 2017.

Non-Agency MBS Issuance



Sources: Inside Mortgage Finance and Urban Institute.

Monthly Non-Agency Securitization



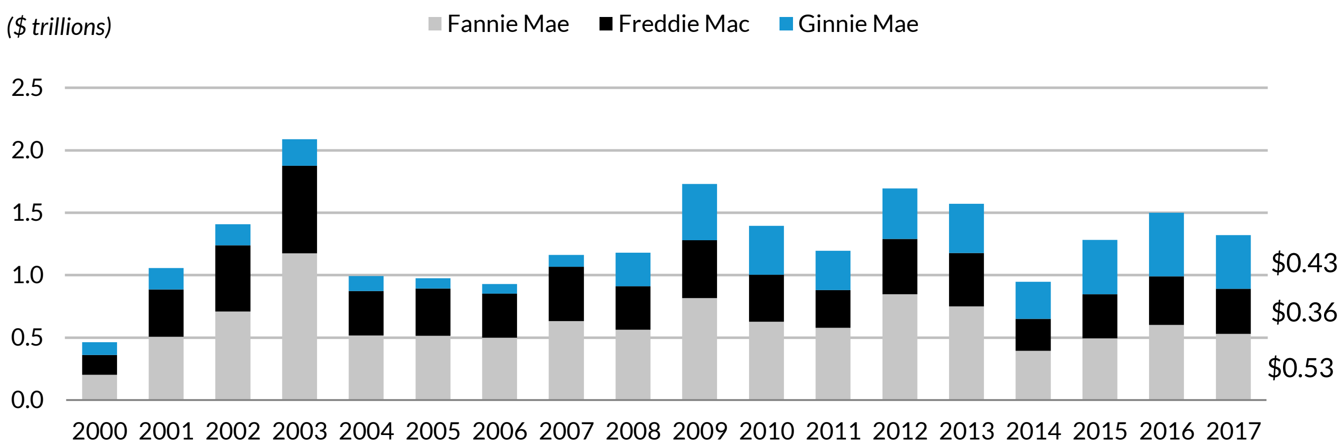
Sources: Inside Mortgage Finance and Urban Institute.
Note: Monthly figures equal total non-agency MBS issuance minus Re-REMIC issuance.

OVERVIEW

AGENCY ACTIVITY: VOLUMES AND PURCHASE/ REFI COMPOSITION

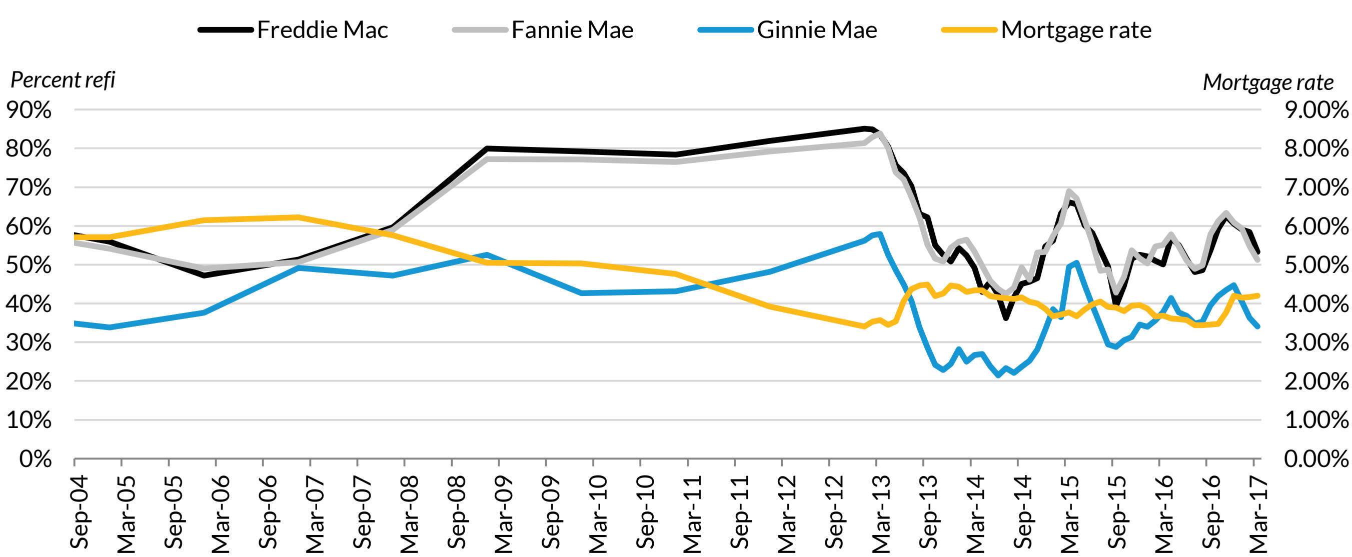
Agency issuance totaled $329.9 billion in the first quarter of 2017, up from $274.7 billion a year ago. In March 2017, refinances continued to decline to 53, 51 and 34 percent of Fannie Mae, Freddie Mac and Ginnie Mae's businesses, respectively, because mortgage rates have remained elevated since the election.

Agency Gross Issuance



Sources: eMBS and Urban Institute.
Note: Annualized figure based on data from March 2017.

Percent Refi at Issuance



Sources: eMBS and Urban Institute.
Note: Based on at-issuance balance. Figure based on data from March 2017

MORTGAGE ORIGINATION PROJECTIONS

Origination volume for calendar year 2016 was close to $2.0 trillion. In 2017, Fannie Mae, Freddie Mac and MBA expect origination volume to be in the $1.5-$1.6 trillion range, owing to a sharp decline in refinance activity due to rising interest rates. In 2017, refinance activity is expected to be in the 27-33 percent range, representing a drop from the 48 percent refi share in 2016. Fannie, Freddie, and MBA all forecast 2017 housing starts to total 1.24 to 1.27 million units, an increase from 2016. Home sales forecasts for 2017 range from 5.90-6.37 million, with Freddie predicting a small drop from 2016 levels, while Fannie and MBA are expecting home sales to rise from 2016 levels.

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
2017 Q1	355	335	361	46	39	46
2017 Q2	444	443	450	30	27	31
2017 Q3	416	432	437	27	24	26
2017 Q4	362	335	352	28	21	28
2018 Q1	309	285	345	32	26	32
2018 Q2	421	420	445	23	18	23
2018 Q3	425	430	443	22	17	22
2018 Q4	379	365	355	24	21	25
FY 2014	1301	1350	1261	40	39	40
FY 2015	1730	1750	1679	47	45	46
FY 2016	1963	2125	1891	48	48	48
FY 2017	1578	1545	1571	33	27	32
FY 2018	1534	1500	1588	25	20	25

Sources: Fannie Mae, Freddie Mac, Mortgage Bankers Association 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 2014, 2015, and 2016 were 3.9%, 3.9%, and 3.6% For 2017, the respective projections for Fannie, Freddie, and MBA are 4.2%, 4.4%, and 4.4%.

Housing Starts and Homes Sales

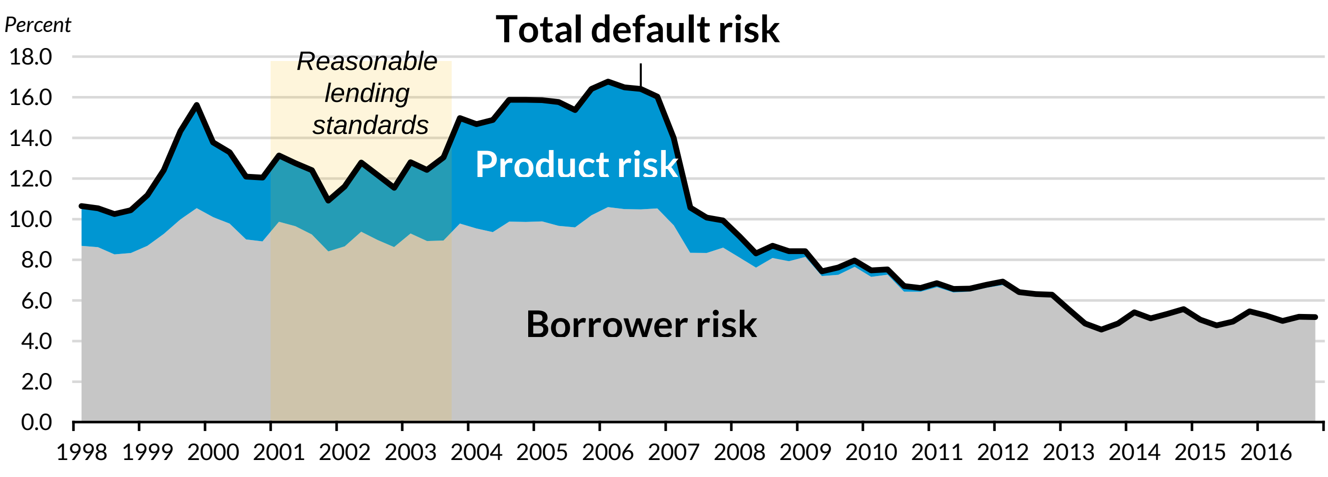
Year	Housing Starts, thousands			Home Sales. thousands				
	Total, FNMA estimate	Total, FHLMC estimate	Total, MBA estimate	Total, FNMA estimate	Total, FHLMC estimate	Total, MBA estimate	Existing, MBA estimate	New, MBA Estimate
FY 2014	1003	1000	1001	5377	5380	5360	4920	440
FY 2015	1112	1110	1108	5751	5750	5740	5237	503
FY 2016	1174	1170	1176	6010	6010	6000	5441	559
FY 2017	1250	1270	1273	6174	5900	6374	5749	625
FY 2018	1333	1360	1358	6324	6020	6686	5992	694

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.

CREDIT AVAILABILITY AND ORIGINATOR PROFITABILITY

Housing Credit Availability Index (HCAI)

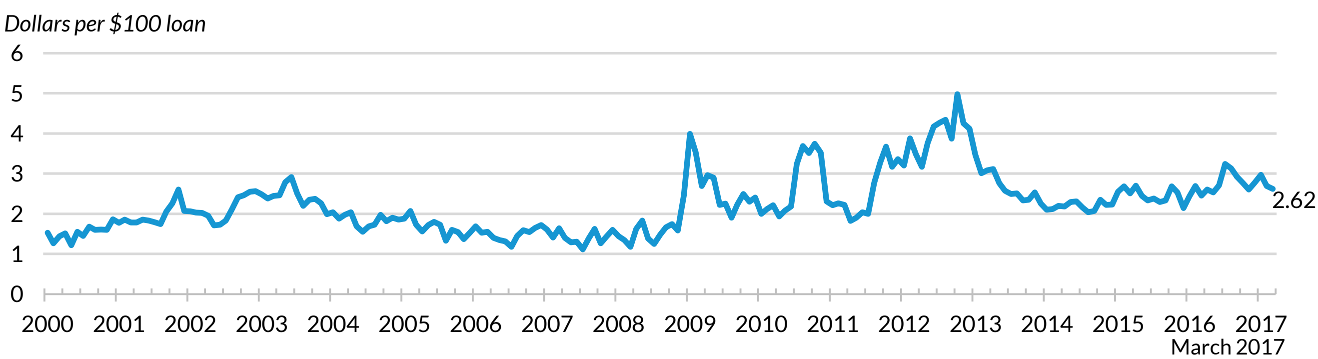
HFPC's Housing Credit Availability Index (HCAI) assesses lenders' tolerance for both borrower risk and product risk, calculating the share of owner-occupied purchase loans that are likely to default. The index shows that credit availability remained flat at 5.2 percent in the fourth quarter of 2016 (Q4 2016). The measure is less than half of the 2001-2003 standard of 12.5 percent. The HCAI is likely to increase with the post-election spike in interest rates, as lenders may expand the credit box when origination volumes drop. More information about the HCAI, including the breakdown by market segment, is available here.



Sources: eMBS, Corelogic, HMDA, IMF, and Urban Institute.
Note: All series measure the first-time homebuyer share of purchase loans for principal residences.

Originator Profitability and Unmeasured Costs

When originator profits are higher, mortgage volumes are less responsive to changes in interest rates, because originators are at capacity. Originator Profitability and Unmeasured Costs (OPUC), formulated and calculated by the Federal Reserve Bank of New York is a good relative measure of originator profitability. OPUC uses the sales price of the mortgage in the secondary market (less par) and adds two additional sources of profitability; retained servicing (both base and excess servicing, net of g-fees) and points paid by the borrower. Driven by the post-Brexit decline in interest rates, OPUC rose sharply to $3.21in July 2016. Since then it has declined and stood at $2.62 in March 2017.

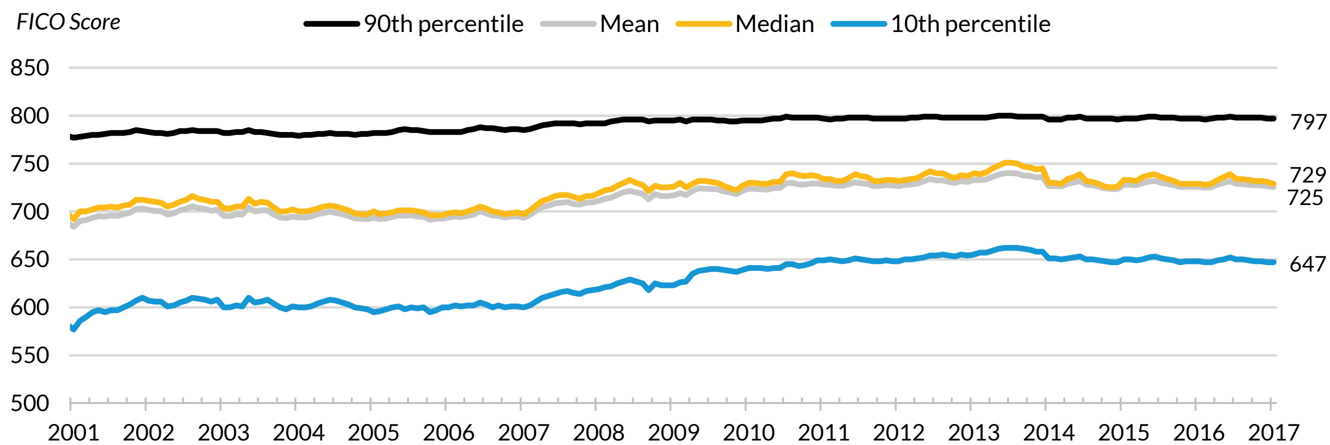


Sources: Federal Reserve Bank of New York, updated monthly and available at this link: http://www.ny.frb.org/research/epr/2013/1113fust.html and Urban Institute.
Note: OPUC is a is a monthly (4-week moving) average as discussed in Fuster et al. (2013).

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 32 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 647 as of January 2017. Prior to the housing crisis, this threshold held steady in the low 600s. Loan-to-value levels at origination remain relatively high, averaging 87.6, which reflects the large number of FHA purchase originations.

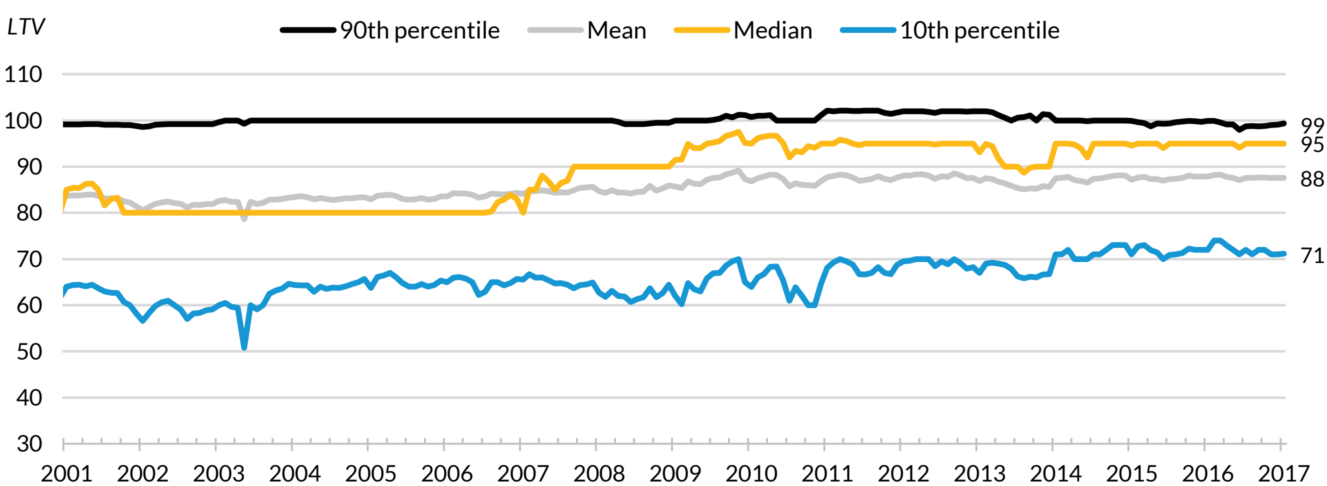
Borrower FICO Score at Origination



Sources: Corelogic, eMBS, HMDA, SIFMA and Urban Institute.
Note: Includes owner-occupied purchase loans only

January 2017

Combined LTV at Origination



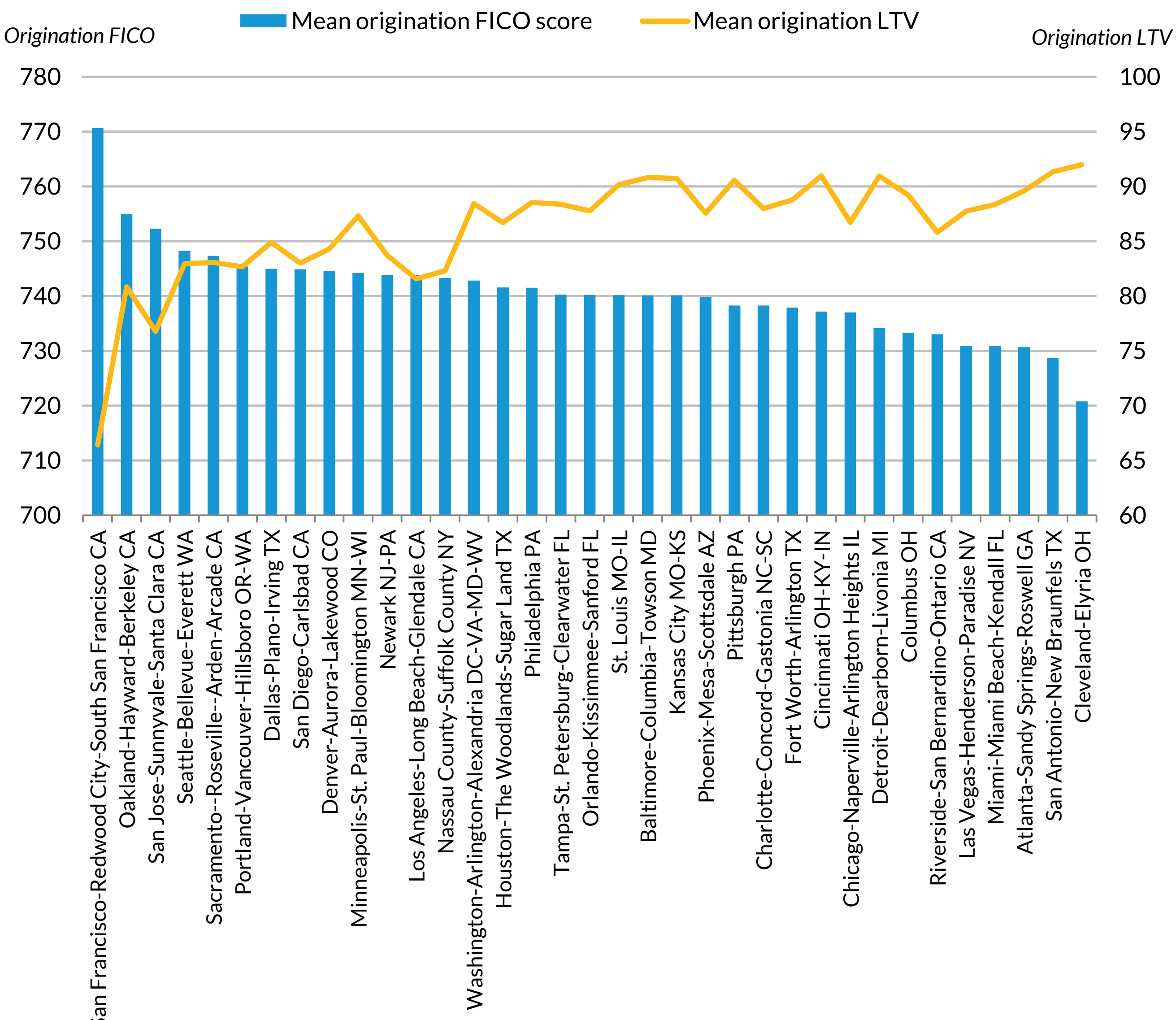
Sources: Corelogic, eMBS, HMDA, SIFMA and Urban Institute.
Note: Includes owner-occupied purchase loans only

January 2017

CREDIT AVAILABILITY FOR PURCHASE LOANS

Credit has been tight for all borrowers with less-than-stellar credit scores--especially in MSAs with high housing prices. For example, the mean origination FICO for borrowers in San Francisco- Redwood City- South San Francisco, CA is 770 and in Cleveland-Elyria, OH 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



Sources: Corelogic, eMBS, HMDA, SIFMA and Urban Institute.
Note: Includes owner-occupied purchase loans only. Data as of January 2017.

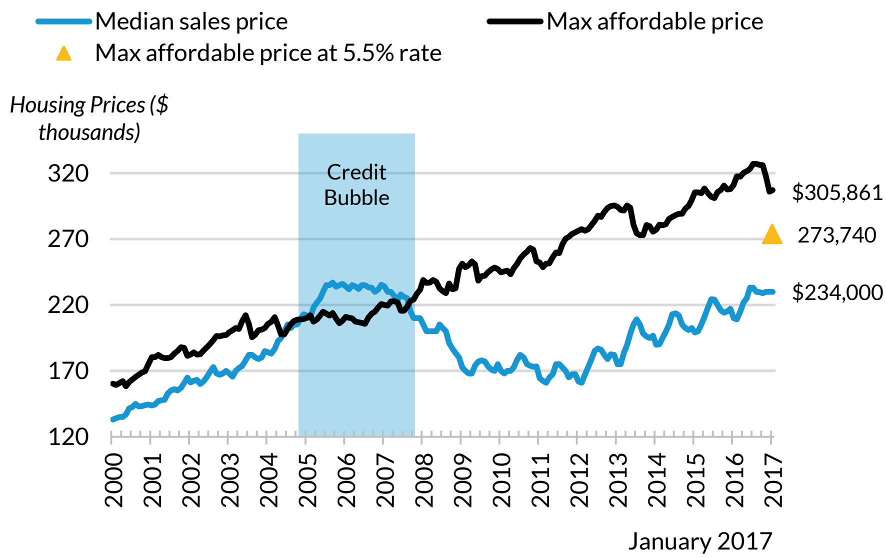
STATE OF THE MARKET

HOUSING AFFORDABILITY

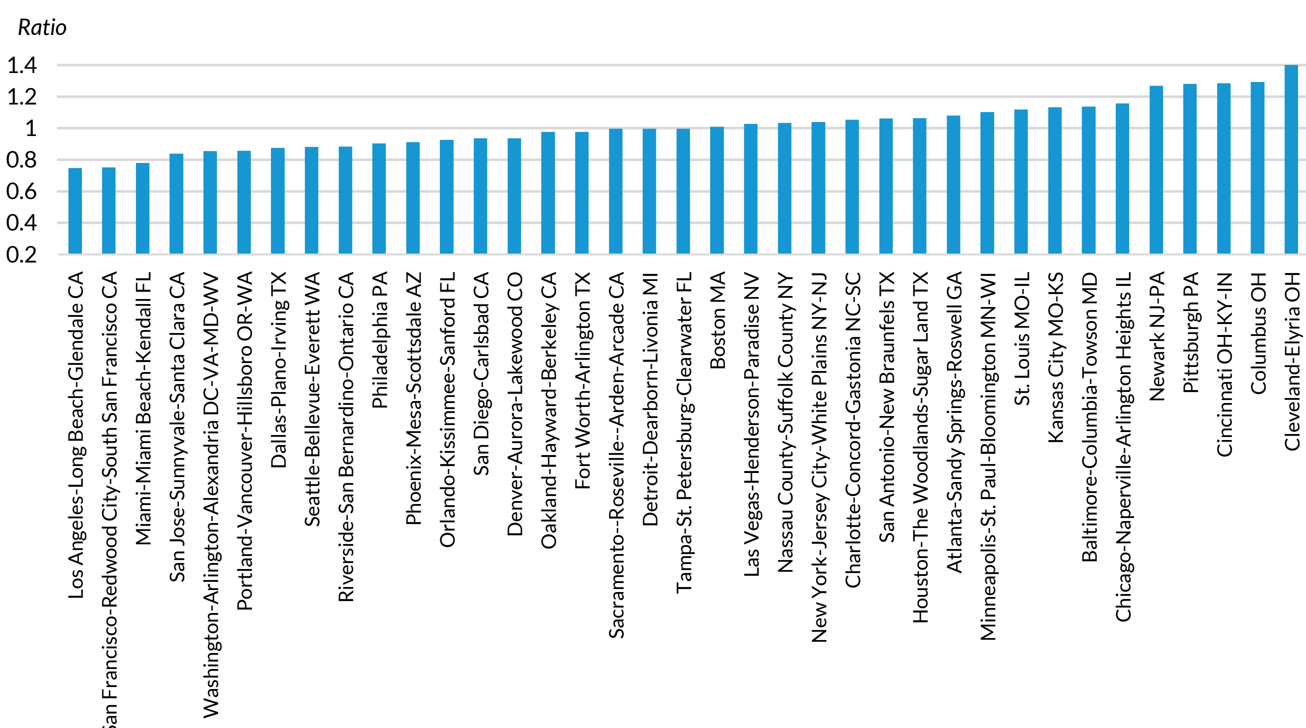
National Housing Affordability Over Time

Home prices are still very affordable by historic standards, despite increases over the last four years and the recent interest rate hike. Even if interest rates rise to 5.5 percent, affordability would still be at the long term historical average. The bottom chart shows that some areas are much more affordable than others.

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

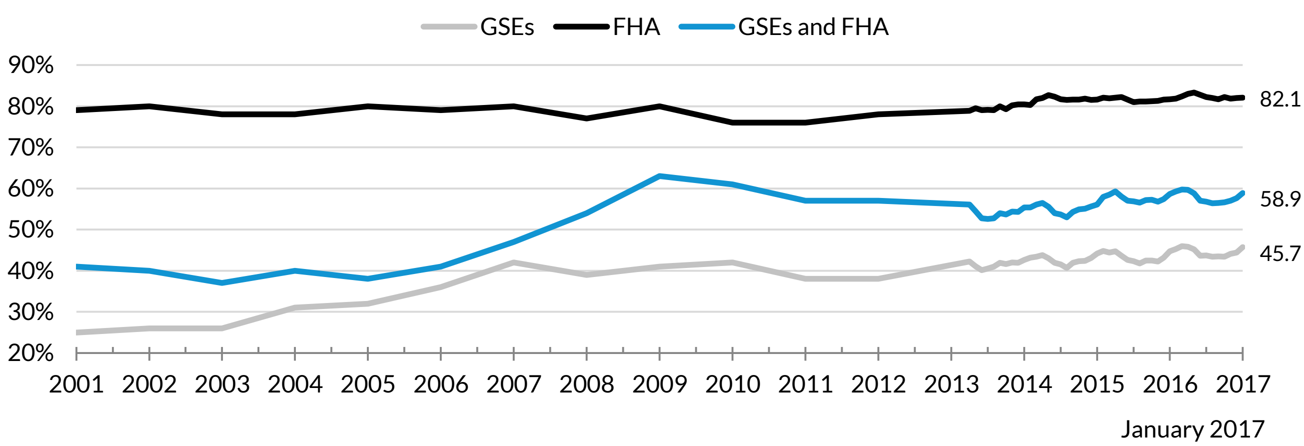


Sources: CoreLogic, US Census, Freddie Mac and Urban Institute calculations based on NAR methodology.
Note: Index is calculated relative to home prices in 2000-03. A ratio above 1 indicates higher affordability in January 2017 than in 2000-03.

STATE OF THE MARKET
FIRST-TIME HOMEBUYERS

First-Time Homebuyer Share

In January 2017, the first-time homebuyer share of GSE purchase loans rose slightly to 45.7 percent. The FHA, always , more focused on first-time homebuyers, stood at 82.1 percent in January 2017, down from the peak of 83.3 percent in May 2016. The bottom table shows that based on mortgages originated in January 2017, the average first-time homebuyer was more likely than an average repeat buyer to take out a smaller loan and have a lower credit score and higher LTV and DTI, thus requiring a higher interest rate.



Sources: eMBS, Federal Housing Administration (FHA) and Urban Institute.
Note: All series measure the first-time homebuyer share of purchase loans for principal residences.

Comparison of First-Time and Repeat Homebuyers, GSE and FHA Originations

	GSEs		FHA		GSEs and FHA	
Characteristics	First-time	Repeat	First-time	Repeat	First-time	Repeat
Loan Amount ($)	226,492	247,055	200,419	221,024	212,666	240,392
Credit Score	739.7	753.8	679.3	686.1	707.7	736.5
LTV (%)	86.4	79.5	95.4	94.1	90.9	83.0
DTI (%)	34.3	35.4	42.0	43.2	38.4	37.4
Loan Rate (%)	4.33	4.24	4.21	4.15	4.27	4.22

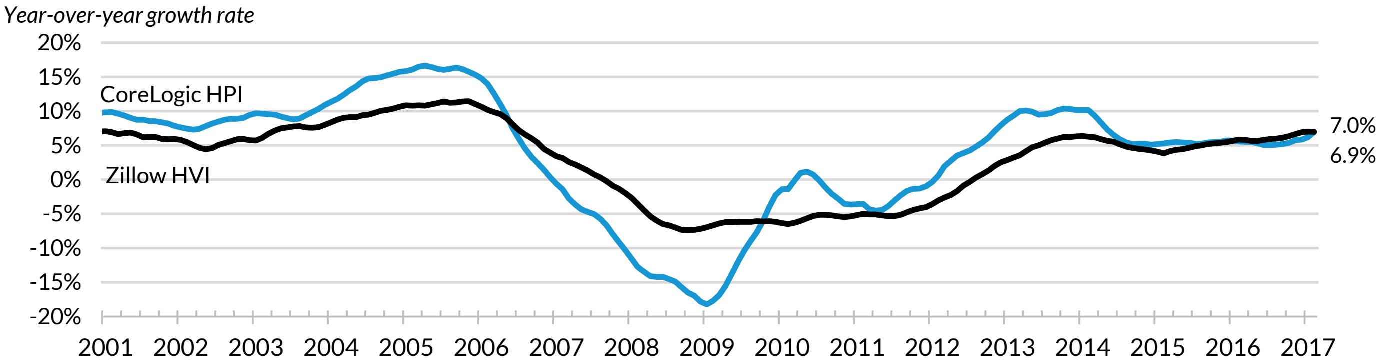
Sources: eMBS and Urban Institute.
Note: Based on owner-occupied purchase mortgages originated in January 2017.

STATE OF THE MARKET

HOME PRICE INDICES

National Year-Over-Year HPI Growth

While the strong year-over-year house price growth from 2012 to 2013 has slowed somewhat, home price appreciation remains robust as measured by the repeat sales index from CoreLogic and hedonic index from Zillow. We will continue to closely monitor how rising mortgage rates impact this strong growth.



Sources: CoreLogic, Zillow, and Urban Institute.

Changes in CoreLogic HPI for Top MSAs

Despite rising 44.5 percent from the trough, national house prices still must grow 3.9 percent to reach pre-crisis peak levels. At the MSA level, six of the top 15 MSAs have reached the peak of their House Price Index– New York, NY; Atlanta, GA; Houston, TX; Dallas, TX; Seattle, WA and Denver, CO. Two MSAs particularly hard hit by the boom and bust– Phoenix, AZ and Riverside, CA– would need to rise 26 and 29 percent to return to peak levels, respectively.

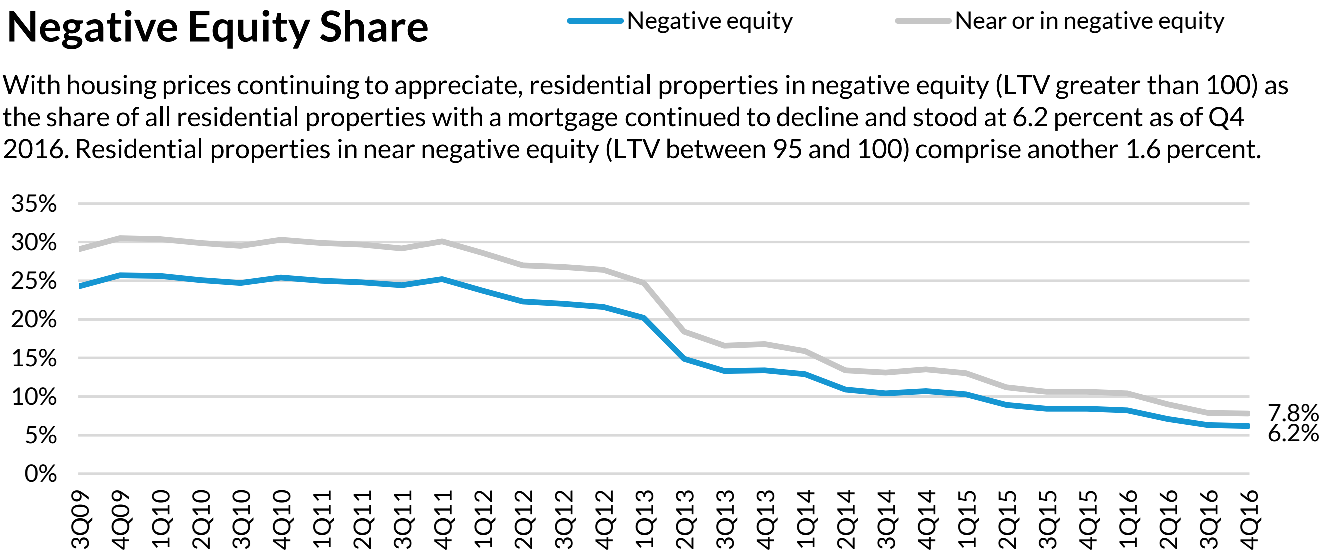
MSA	HPI changes (%)			% Rise needed to achieve peak
	2000 to peak	Peak to trough	Trough to current	
United States	93.7	-33.4	44.5	3.9
New York-Jersey City-White Plains NY-NJ	112.4	-16.6	27.0	-5.5
Los Angeles-Long Beach-Glendale CA	177.3	-38.5	61.3	0.7
Chicago-Naperville-Arlington Heights IL	66.1	-35.8	30.6	19.4
Atlanta-Sandy Springs-Roswell GA	37.9	-33.1	53.9	-2.9
Washington-Arlington-Alexandria DC-VA-MD-WV	155.5	-34.3	34.9	12.8
Houston-The Woodlands-Sugar Land TX	39.7	-14.0	44.3	-19.3
Phoenix-Mesa-Scottsdale AZ	123.8	-52.7	67.7	26.2
Riverside-San Bernardino-Ontario CA	186.3	-52.7	63.9	29.1
Dallas-Plano-Irving TX	34.2	-13.9	51.9	-23.6
Minneapolis-St. Paul-Bloomington MN-WI	73.1	-30.5	36.3	5.5
Seattle-Bellevue-Everett WA	91.0	-29.1	65.2	-14.6
Denver-Aurora-Lakewood CO	35.6	-13.4	65.8	-30.4
Baltimore-Columbia-Towson MD	122.8	-24.5	10.8	19.6
San Diego-Carlsbad CA	145.0	-37.6	53.8	4.2
Anaheim-Santa Ana-Irvine CA	160.8	-35.7	49.6	4.0

Sources: CoreLogic HPIs and Urban Institute. Data as of February 2017.
Note: This table includes the largest 15 Metropolitan areas by mortgage count.

NEGATIVE EQUITY & SERIOUS DELINQUENCY

Negative Equity Share

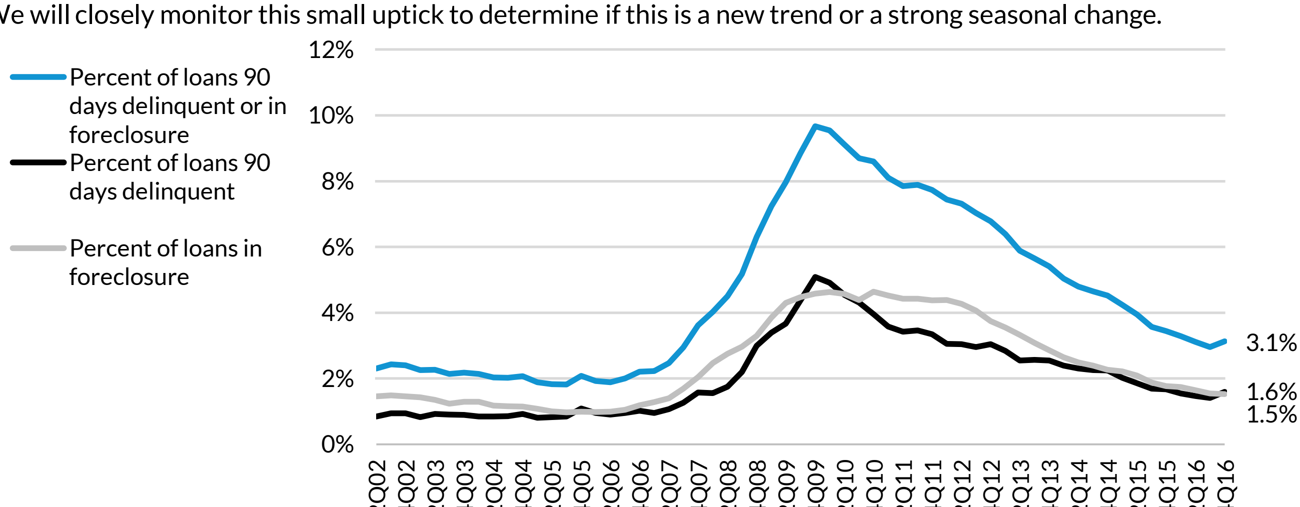
With housing prices continuing to appreciate, residential properties in negative equity (LTV greater than 100) as the share of all residential properties with a mortgage continued to decline and stood at 6.2 percent as of Q4 2016. Residential properties in near negative equity (LTV between 95 and 100) comprise another 1.6 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

90 days delinquencies increased from 1.41 to 1.60 percent in Q4 2016. This is the highest rate since Q3 2013. The percent of loans in foreclosure continued to edge down. The combined delinquencies totaled 3.13 percent in Q4 2016, up from 2.96 percent in Q3 2016 but down from 3.44 percent for the same quarter a year earlier. We will closely monitor this small uptick to determine if this is a new trend or a strong seasonal change.

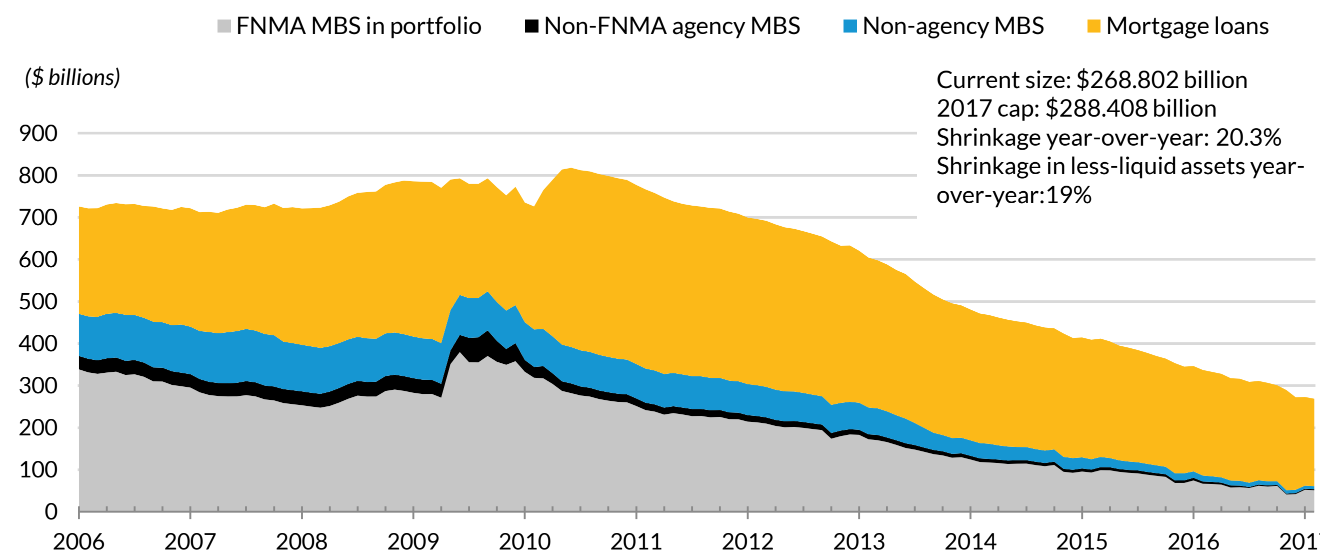


Sources: Mortgage Bankers Association and Urban Institute. *Last updated February 2017.*

GSE PORTFOLIO WIND-DOWN

Both GSEs continue to contract their portfolios. Since February 2016, Fannie Mae has contracted by 20.3 percent and Freddie Mac by 14.8 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. As of February 2017, Fannie Mae had already reached its 2017 cap, and Freddie Mac was just above it.

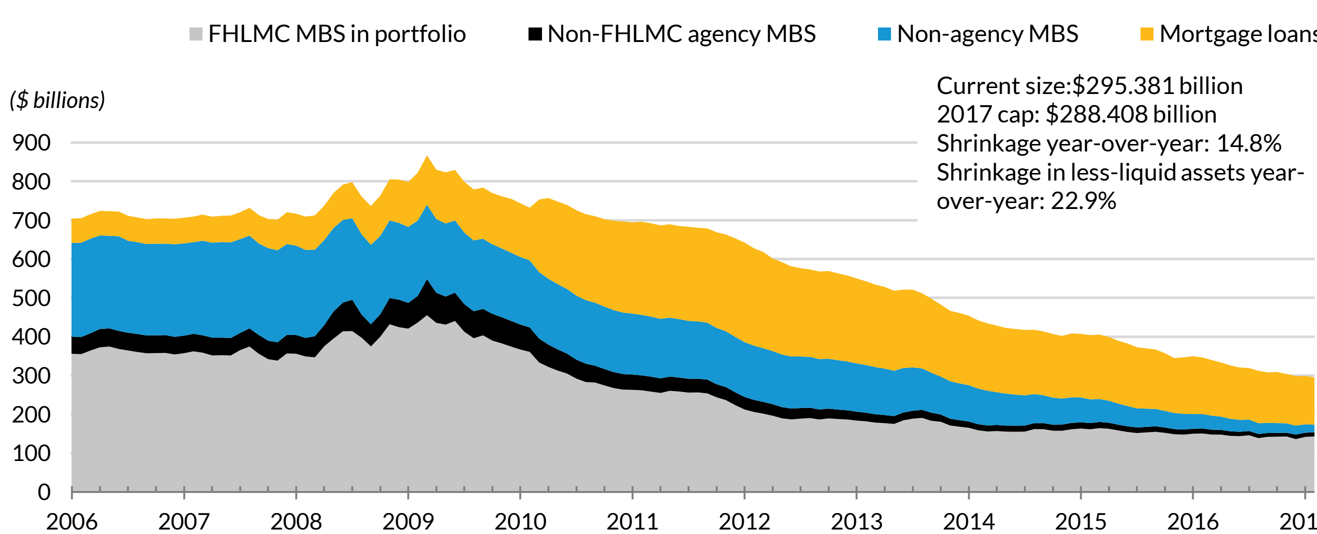
Fannie Mae Mortgage-Related Investment Portfolio Composition



Sources: Fannie Mae and Urban Institute.

February 2017

Freddie Mac Mortgage-Related Investment Portfolio Composition



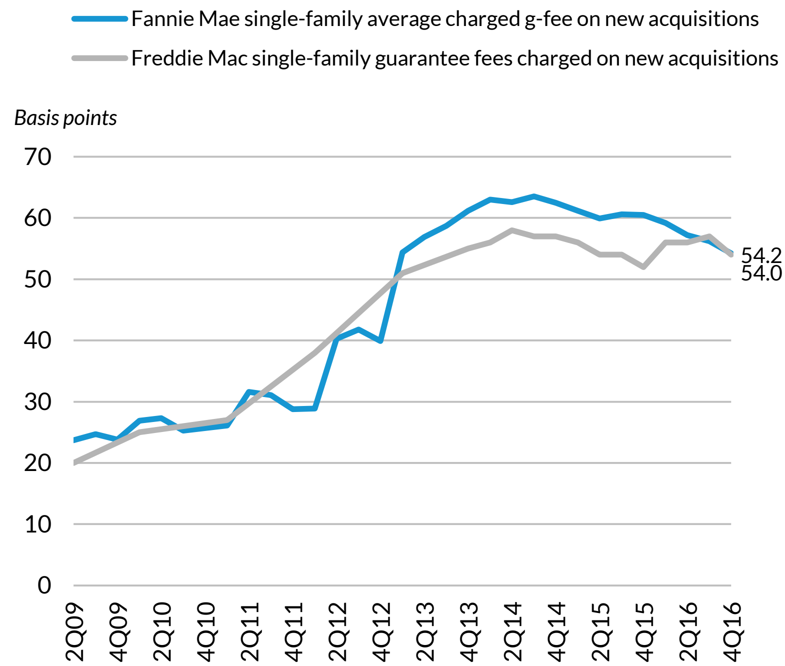
February 2017

Sources: Freddie Mac and Urban Institute.

EFFECTIVE GUARANTEE FEES

Guarantee Fees Charged on New Acquisitions

The last 10-K indicates that both Fannie and Freddie's average g-fees on new acquisitions edged down in Q4 2016. Fannie's fee decreased from 56.2 to 54.2 bps and Freddie was down from 57 to 54 bps. This is still a marked increase over 2012 and 2011, and has contributed to the GSEs' profits. In Fannie's new Loan-Level Price Adjustments (LLPAs), effective September 2015, the Adverse Market Delivery Charge (AMDC) of 0.25 percent has been eliminated. Accordingly, LLPAs for some borrowers have been slightly increased to compensate for this revenue loss. As a result, the new LLPAs have had a modest impact on GSE pricing.



Sources: Fannie Mae, Freddie Mae and Urban Institute. *Last updated February 2017.*

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%	0.25%	0.25%	0.25%	0.75%
720 – 739	0.00%	0.25%	0.50%	0.75%	0.50%	0.50%	0.50%	1.00%
700 – 719	0.00%	0.50%	1.00%	1.25%	1.00%	1.00%	1.00%	1.50%
680 – 699	0.00%	0.50%	1.25%	1.75%	1.50%	1.25%	1.25%	1.50%
660 – 679	0.00%	1.00%	2.25%	2.75%	2.75%	2.25%	2.25%	2.25%
640 – 659	0.50%	1.25%	2.75%	3.00%	3.25%	3.75%	2.75%	2.75%
620 – 639	0.50%	1.50%	3.00%	3.00%	3.25%	3.25%	3.25%	3.50%
< 620	0.50%	1.50%	3.00%	3.00%	3.25%	3.25%	3.25%	3.75%
Product Feature (Cumulative)								
High LTV	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Investment Property	2.125%	2.125%	2.125%	3.375%	4.125%	N/A	N/A	N/A

Sources: Fannie Mae and Urban Institute.
Note: For whole loans purchased on or after September 1, 2015, or loans delivered into MBS pools with issue dates on or after September 1, 2015.

GSE RISK-SHARING TRANSACTIONS

Fannie Mae and Freddie Mac have been laying off back-end credit risk through CAS and STACR as well as through reinsurance transactions. They have also done a few front-end transactions with originators and experimented with deep mortgage insurance coverage with private mortgage insurers. FHFA's 2017 scorecard requires the GSEs to lay off credit risk on 90 percent of newly acquired loans in categories targeted for transfer. Fannie Mae's CAS issuances to date cover 27.5 percent of its outstanding guarantees, while Freddie's STACR covers 41.9 percent. In April 2017, Freddie Mac completed its largest ($60.7 billion) risk-sharing deal.

Fannie Mae – Connecticut Avenue Securities (CAS)

Date	*Transaction*	*Reference Pool Size ($ m)*	*Amount Issued ($m)*	*% of Reference Pool Covered*
2013	CAS 2013 deals	$26,756	$675	2.5%
2014	CAS 2014 deals	$227, 234	$5,849	2.6%
2015	CAS 2015 deals	$187,126	$5,463	2.9%
February 2016	CAS 2016 – C01	$28,882	$945	3.3%
March 2016	CAS 2016 – C02	$35,004	$1,032	2.9%
April 2016	CAS 2016 – C03	$36,087	$1,166	3.2%
July 2016	CAS 2016 – C04	$42,179	$1,322	3.1%
August 2016	CAS 2016 - C05	$38,668	$1,202	3.1%
November 2016	CAS 2016 - C06	$33,124	$1,024	3.1%
December 2016	CAS 2016 – C07	$22,515	$702	3.1%
January 2017	CAS 2017 – C01	$43,758	$1,351	3.1%
March 2017	CAS 2017 – C02	$39,988	$1,330	3.3%
Total		**$761,321**	**$22,060**	**2.9%**
Percent of Fannie Mae's Total Book of Business		**27.48%**		

Freddie Mac – Structured Agency Credit Risk (STACR)

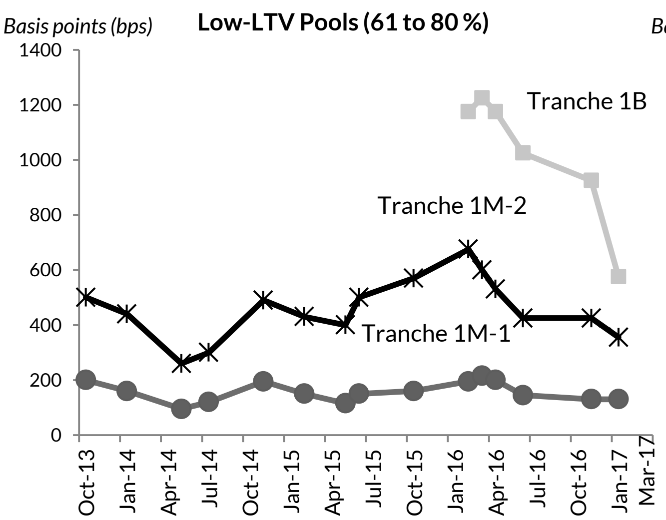
Date	*Transaction*	*Reference Pool Size ($ m)*	*Amount Issued ($m)*	*% of Reference Pool Covered*
2013	STACR Series 2015 – HQA1	$57,912	$1,130	2.0%
2014	STACR Series 2015 – DNA3	$147,120	$4,916	3.3%
2015	STACR Series 2015 – HQA2	$209,521	$6,658	3.2%
January 2016	STACR Series 2016 – DNA1	$35,700	$996	2.8%
March 2016	STACR Series 2016 – HQA1	$17,931	$475	2.6%
May 2016	STACR Series 2016 – DNA2	$30,589	$916	3.0%
May 2016	STACR Series 2016 – HQA2	$18,400	$627	3.4%
June 2016	STACR Series 2016 – DNA3	$26,400	$795	3.0%
September 2016	STACR Series 2016 – HQA3	$15,709	$515	3.3%
September 2016	STACR Series 2016 – DNA4	$24,845	$739	3.0%
October 2016	STACR Series 2016 - HQA4	$13,847	$478	3.5%
January 2017	STACR Series 2017 – DNA1	$33, 965	$802	2.4%
February 2017	STACR Series 2017 – HQA1	$29,700	$753	2.5%
April 2017	STACR Series 2017 – DNA2	$60,716	$1,320	2.2%
Total		**$738,064**	**$21,120**	**2.9%**
Percent of Freddie Mac's Total Book of Business		**41.94%**		

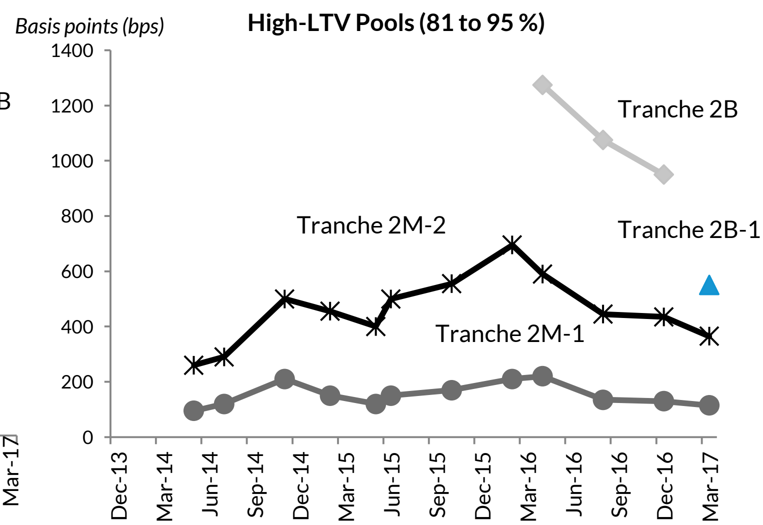
Sources: Fannie Mae, Freddie Mac and Urban Institute.
Note: Classes A-H, M-1H, M-2H, and B-H are reference tranches only. These classes are not issued or sold. The risk is retained by Fannie Mae and Freddie Mac. "CE" = credit enhancement.

GSE RISK-SHARING SPREADS

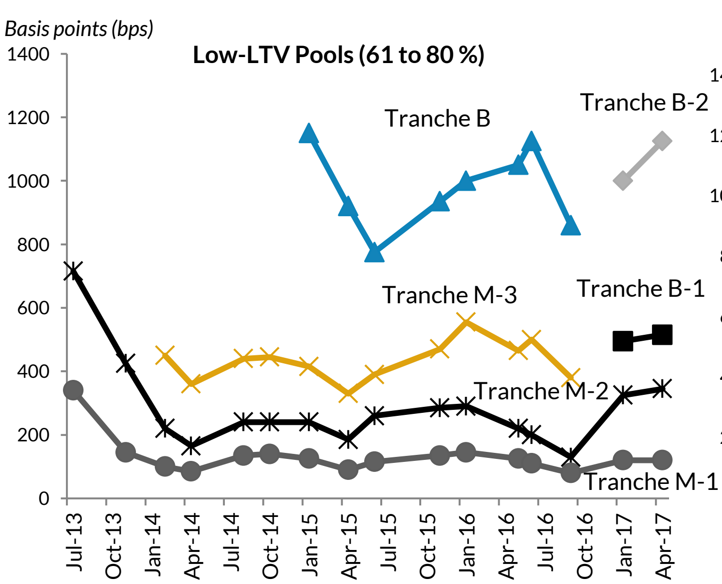
CAS and STACR spreads have moved around considerably since 2013, with the bottom mezzanine tranche and the first loss bonds experiencing considerably more volatility than the top mezzanine bonds. Tranche B in particular has been highly volatile because of its first loss position. Spreads widened especially during Q1 2016 due to falling oil prices, concerns about global economic growth and the slowdown in China. Since then spreads have resumed their downward trend but remain volatile.

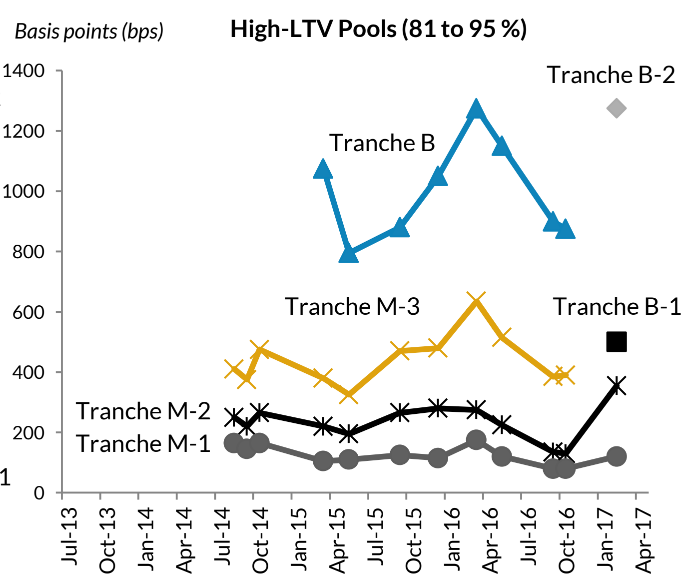
Fannie Mae CAS Spreads at-issuance (basis points over 1-month LIBOR)





Freddie Mac STACR Spreads at-issuance (basis points over 1-month LIBOR)



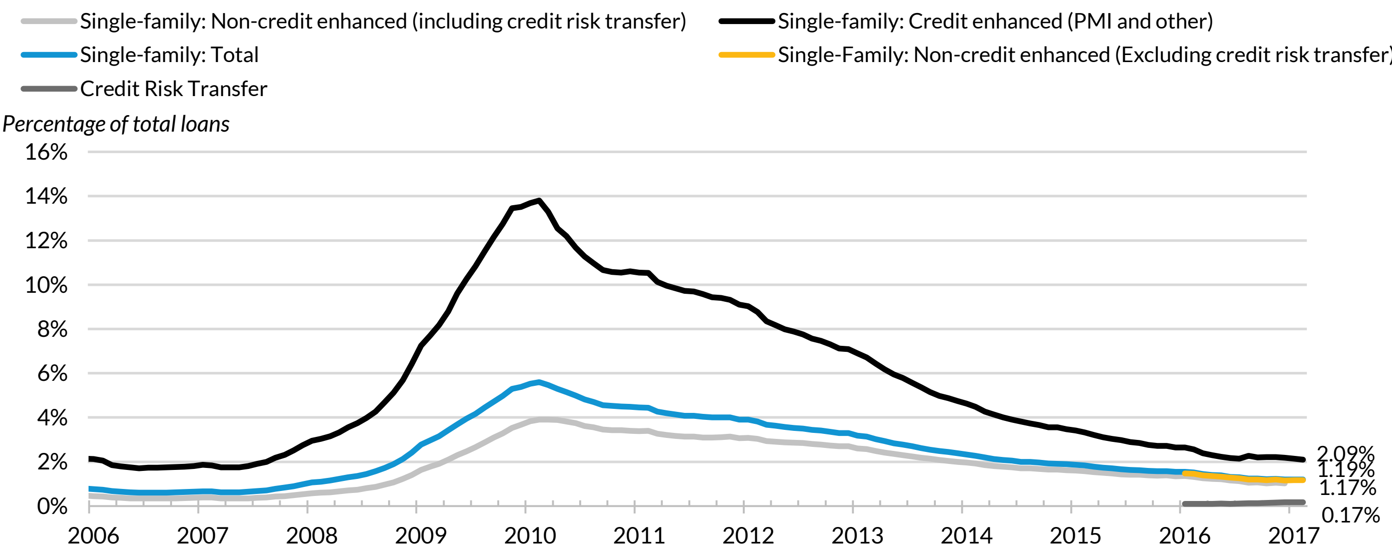


Sources: Fannie Mae, Freddie Mac Press Releases and Urban Institute.

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 2017, 1.19 percent of the Fannie portfolio and 0.98 percent of the Freddie portfolio were seriously delinquent, down from 1.52 percent for Fannie and 1.26 percent for Freddie in February 2016.

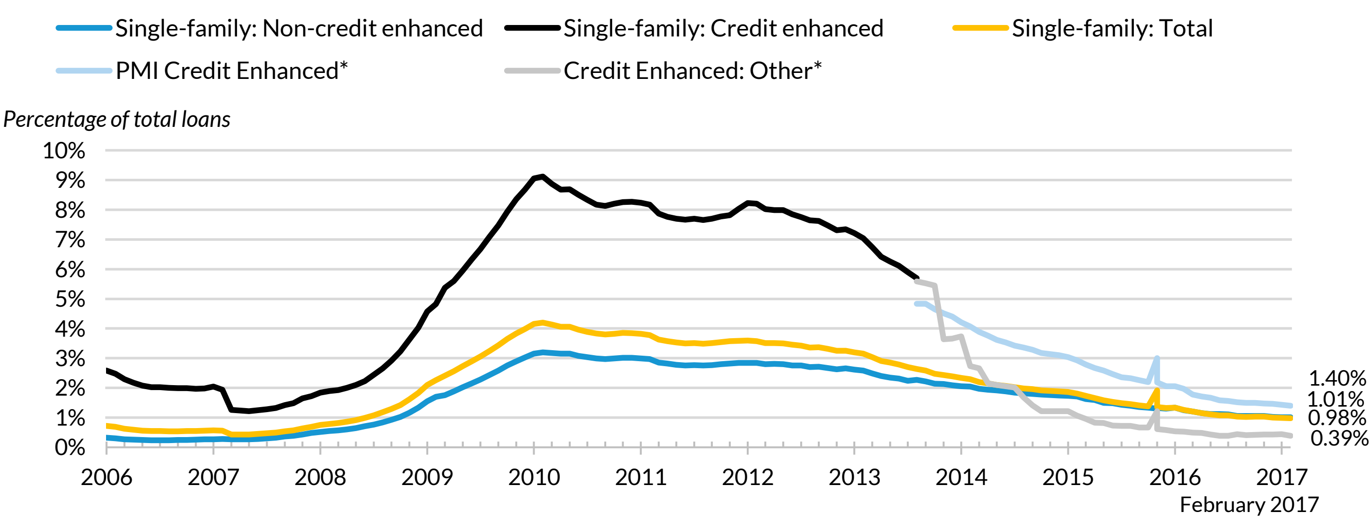
Serious Delinquency Rates–Fannie Mae



Sources: Fannie Mae and Urban Institute. February 2017

Note*: Following a change in Fannie reporting in March 2017, we started to report the credit risk transfer category and a new non-credit enhanced category that excludes loans covered by either primary MI or credit risk transfer transactions. Fannie reported these two new categories going back to January 2016.

Serious Delinquency Rates–Freddie Mac



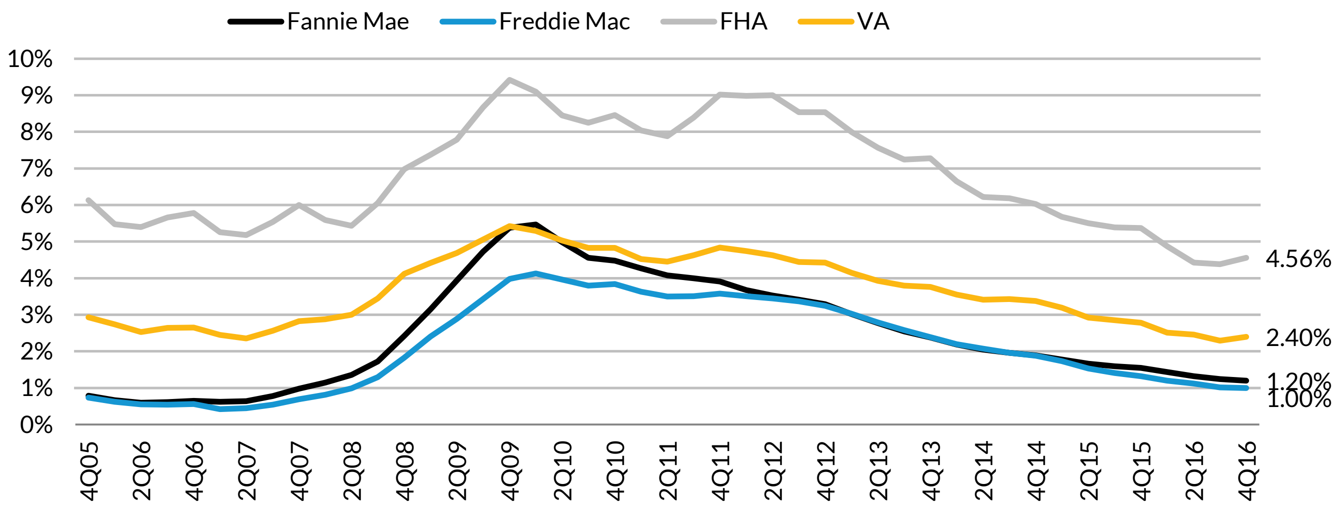
Sources: Freddie Mac and Urban Institute.

Note*: Following a change in Freddie reporting in September 2014, we switched from reporting credit enhanced delinquency rates to PMI and other credit enhanced delinquency rates. Freddie reported these two categories for credit-enhanced loans going back to August 2013. The other category includes single-family loans covered by financial arrangements (other than primary mortgage insurance) including loans in reference pools covered by STACR debt note transactions as well as other forms of credit protection.

GSES UNDER CONSERVATORSHIP
SERIOUS DELINQUENCY RATES

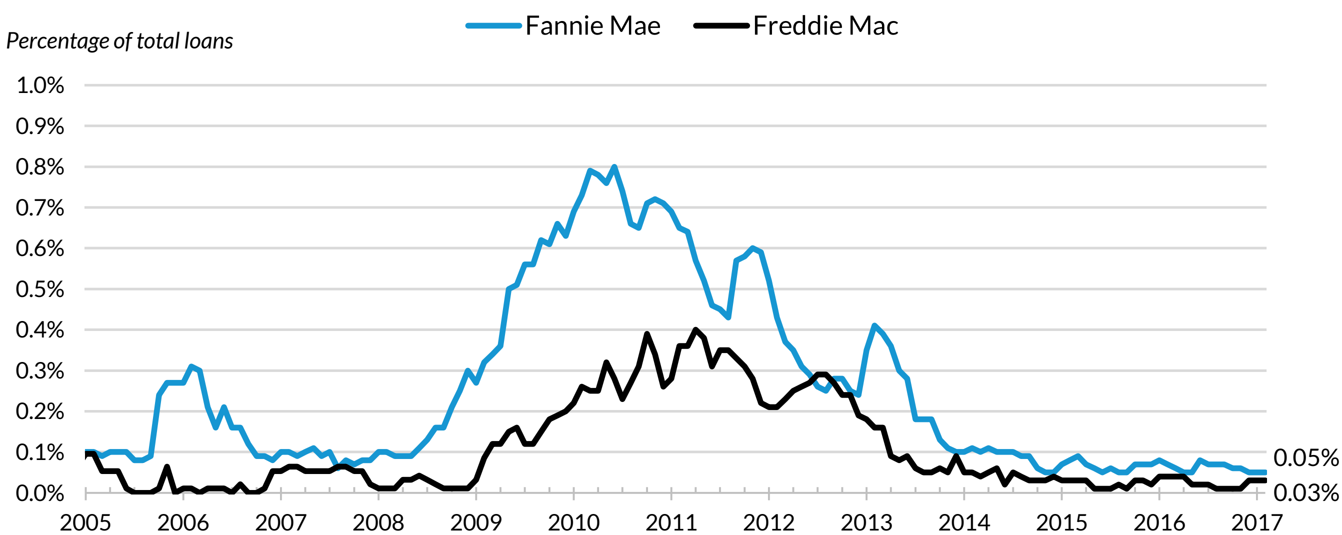
Serious delinquencies for GSE single-family loans continue to decline, while FHA, VA recorded their first uptick since Q2 2012 and Q4 2011, respectively . GSE delinquencies remain higher relative to 2005-2007. Despite the small increases, FHA and VA delinquencies (which are higher than their GSE counterparts) are still at levels lower than 2005-2007. We will monitor closely to see if this small uptick is a new trend or the reflection of a strong seasonal pattern. GSE multifamily delinquencies have declined to pre-crisis levels, although they did not reach problematic levels even in the worst years of the crisis.

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. Not seasonally adjusted.

Serious Delinquency Rates–Multifamily GSE Loans

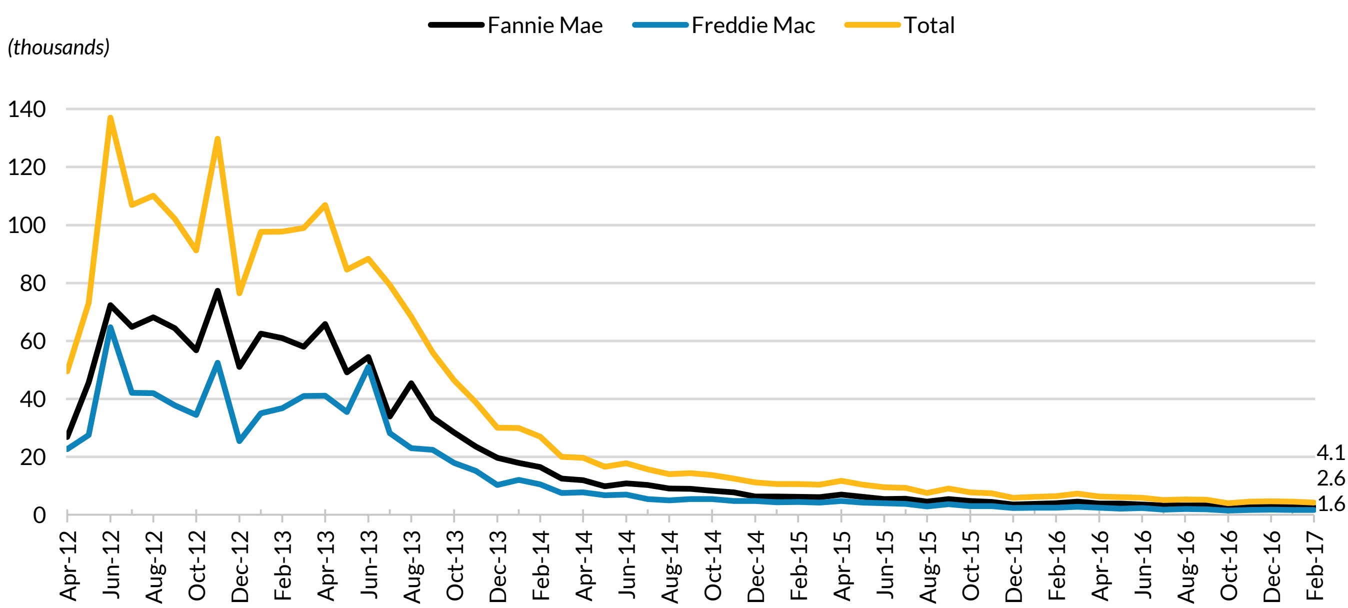


Sources: Fannie Mae, Freddie Mac and Urban Institute.
Note: Multifamily serious delinquency rate is the unpaid balance of loans 60 days or more past due, divided by the total unpaid balance.

GSES UNDER CONSERVATORSHIP
REFINANCE ACTIVITY

The Home Affordable Refinance Program (HARP) refinances have slowed considerably, reflecting the considerable number of borrowers who have already refinanced. The trend is likely to continue especially with the recent rate increases. Since the program's Q2 2009 inception, HARP refinances total 3.45 million, accounting for 13.8 percent of all GSE refinances in this period. In February 2017, the latest month for which data is available, HARP refinances accounted for 2.2 percent of total refinances.

Total HARP Refinance Volume



Sources: FHFA Refinance Report and Urban Institute.

HARP Refinances

	February 2017	Inception to date	2016	2015	2014	2013
Total refinances	157,921	25,186,261	2,325,668	2,084,936	1,536,788	4,081,911
Total HARP refinances	4,198	2,453,422	67,114	110,111	212,488	892,914
Share 80–105 LTV	80.4%	99.1%	79.4%	76.5%	72.5%	56.4%
Share 105–125 LTV	13.8%	24.1%	14.2%	15.6%	17.2%	22.4%
Share >125 LTV	5.8%	17.7%	6.5%	8.0%	10.3%	21.2%
All other streamlined refinances	12,876	3,925,713	159,792	218,243	268,026	735,210

Sources: FHFA Refinance Report and Urban Institute.

GSES UNDER CONSERVATORSHIP

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 223,526 eligible loans, but 52 percent are out-of-the-money because the closing cost would exceed the long-term savings, leaving 108,094 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 4,587,911 loans in this category, 3,292,047 are in-the-money.

Over 80 percent of the GSE book of business that meets the pay history requirements was originated after the June, 2009 cutoff date. FHFA extended the deadline for the HARP program until Sept 30, 2017 to create a transition period for a new high LTV refi product planned to launch toward the end of 2017.

Total loan count	27,468,946
Loans that do not meet pay history requirement	1,219,357
Loans that meet pay history requirement:	26,249,589
Pre-June 2009 origination	4,811,437
Post-June 2009 origination	21,438,152

Loans Meeting HARP Pay History Requirements

Pre-June 2009			
LTV category	*In-the-money*	*Out-of-the-money*	*Total*
≤80	3,292,047	1,295,865	4,587,911
>80	108,094	115,432	223,526
Total	3,400,141	1,411,296	4,811,437
Post-June 2009			
LTV category	*In-the-money*	*Out-of-the-money*	*Total*
≤80	1,201,551	17,636,549	18,838,100
>80	156,061	2,443,991	2,600,052
Total	1,357,612	20,080,540	21,438,152

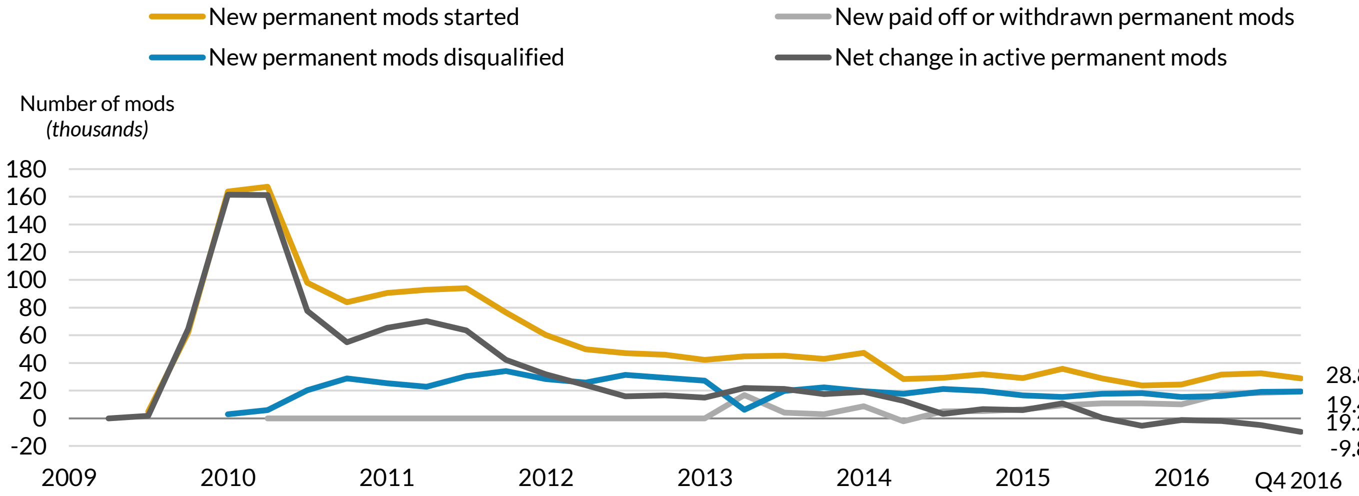
Sources: CoreLogic Prime Servicing as of February 2017 and Urban Institute.
Note: Figures are scaled up from source data to account for data coverage of the GSE active loan market (based on MBS data from eMBS). Shaded box indicates HARP-eligible loans that are in-the-money. The March PMMS rate of 4.2 percent was used to calculate this table.

MODIFICATION ACTIVITY

HAMP ACTIVITY

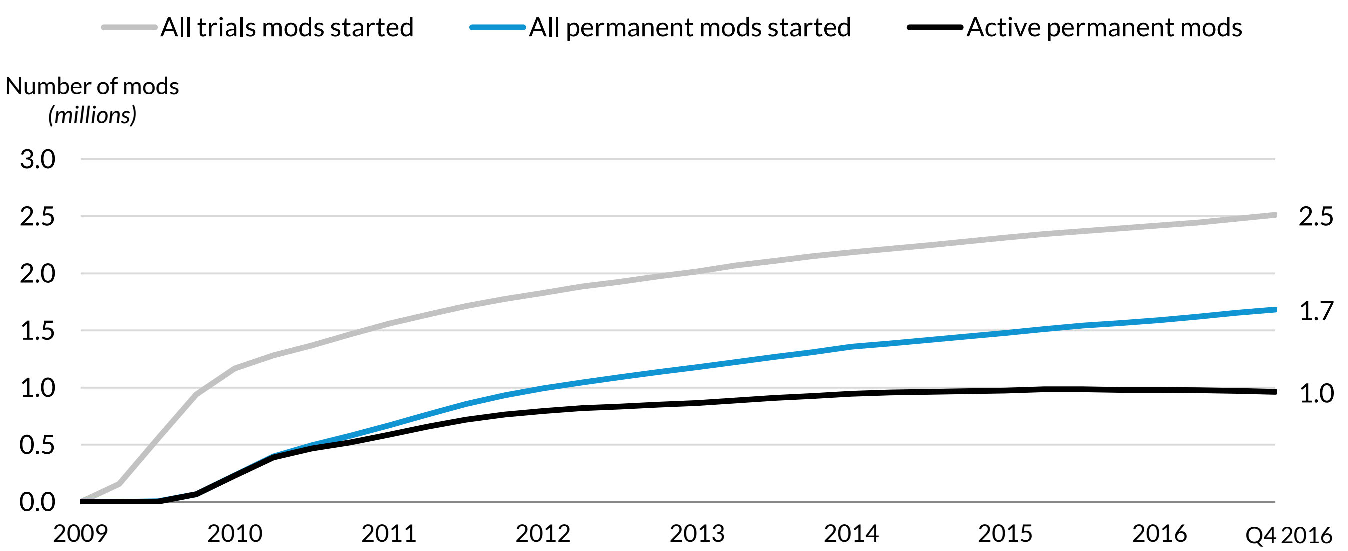
In Q4 2016, the number of active permanent modifications continued to fall by 9,812 mortgages, the fourth consecutive quarter with a decline since Q4 2015. There are three factors behind this change: Fewer new permanent modifications were made, some modifications failed because the borrowers did not make their payments, and a small number of borrowers either paid off their mortgage or withdrew their application. After the HAMP sunset at year-end 2016, no new modification applications were considered.

New HAMP Modications



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

Cumulative HAMP Modifications



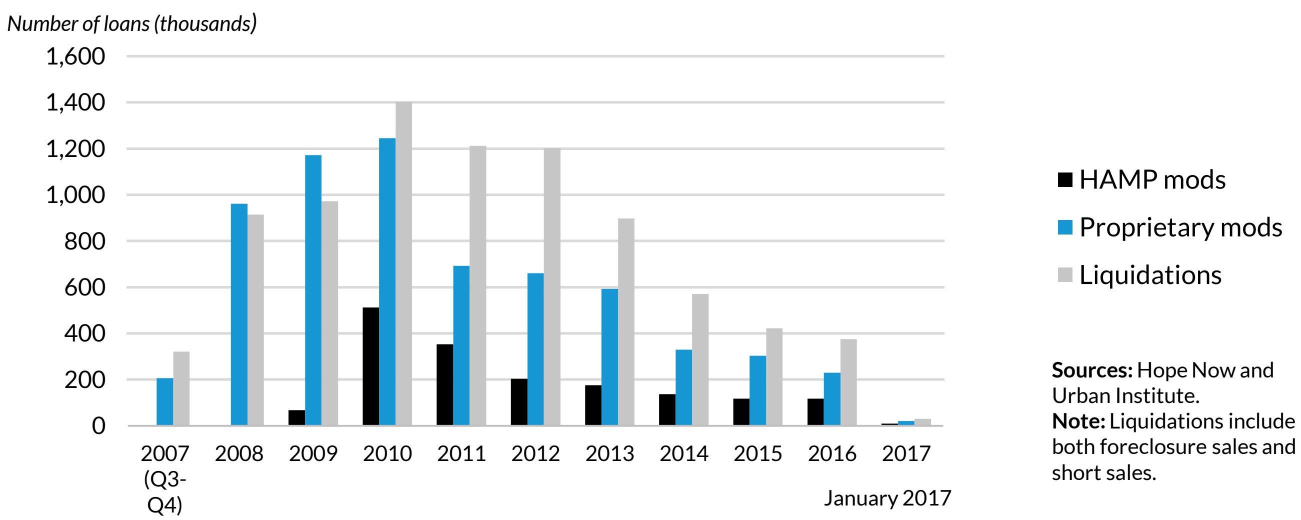
Sources: U.S. Treasury Making Home Affordable and Urban Institute.

MODIFICATION ACTIVITY

MODIFICATIONS AND LIQUIDATIONS

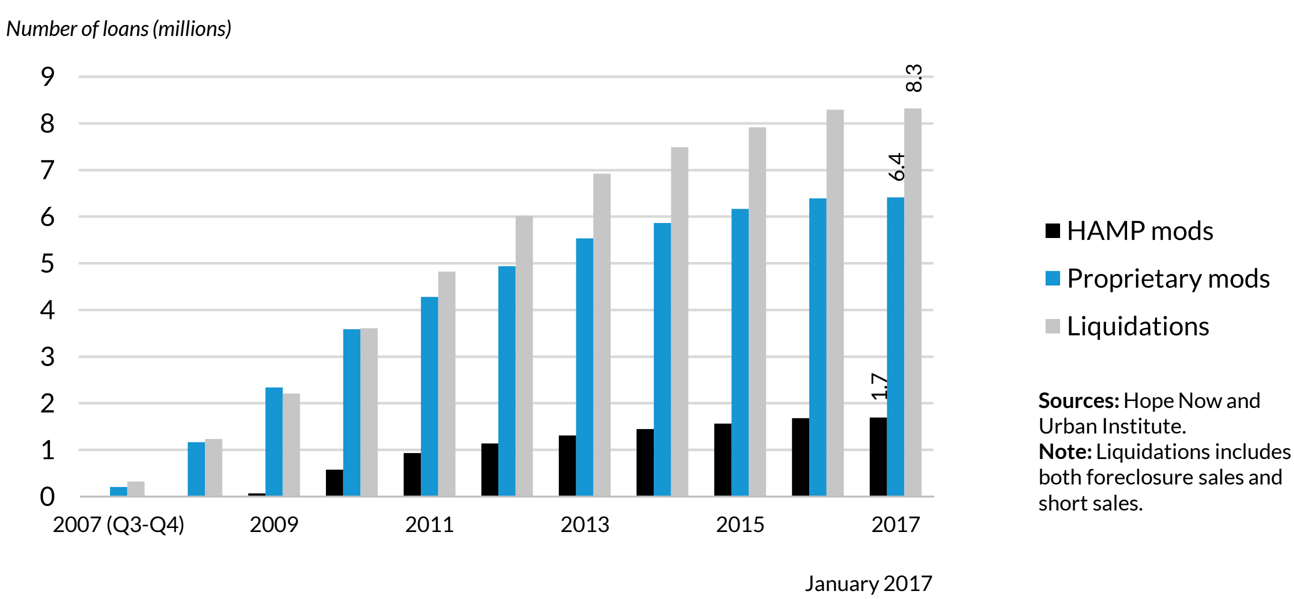
Total modifications (HAMP and proprietary) are now roughly equal to total liquidations. Hope Now reports show 8,104,292 borrowers have received a modification since Q3 2007, compared with 8,320,191 liquidations in the same period. Modification activity and liquidations have slowed significantly over the past few years. In the first month of 2017, there were just 29,371 modifications and 29,890 liquidations.

Loan Modifications and Liquidations



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

Cumulative Modifications and Liquidations



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

AGENCY GROSS AND NET ISSUANCE

Agency gross issuance totaled $329.9 billion in the first quarter of 2017, a 20.1 percent increase year-over-year, mostly due to the anemic issuances in early 2016. However, when measured on a monthly basis, agency gross issuance has been falling for three consecutive months through March 2017, caused by both seasonal swings and the reduction in refinance activities. Net issuance (which excludes repayments, prepayments, and refinances on outstanding mortgages) remained low, but was up 55.5 percent compared to the first quarter of 2016.

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	$845.7	$436.3	$1,282.0
2016	$991.59	$508.18	$1,499.77
2017 YTD	$222.92	$106.98	$329.90
2017% Change year-over-year	24.6%	11.6%	20.1%
2017 Ann.	$891.68	$427.92	$1,319.60

Agency Net Issuance

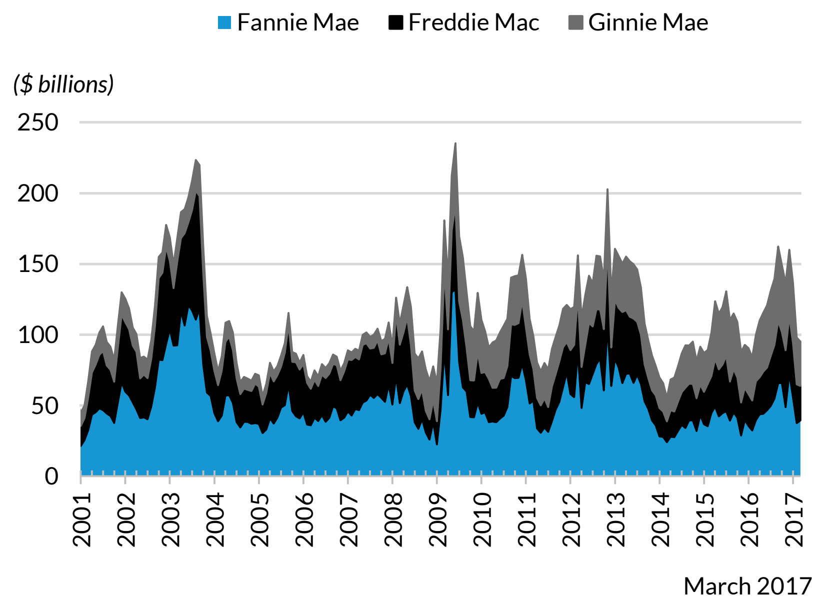
Issuance Year	GSEs	Ginnie Mae	Total
2000	$159.8	$29.3	$189.1
2001	$367.8	-$9.9	$357.9
2002	$357.6	-$51.2	$306.4
2003	$335.0	-$77.6	$257.4
2004	$83.3	-$40.1	$43.2
2005	$174.4	-$42.2	$132.1
2006	$313.6	$0.3	$313.8
2007	$514.7	$30.9	$545.5
2008	$314.3	$196.4	$510.7
2009	$249.5	$257.4	$506.8
2010	-$305.5	$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	$75.0	$94.5	$169.5
2016	$135.4	$125.8	$261.3
2017 YTD	$46.9	$29.2	$76.2
2017% Change year-over-year	112.37%	8.76%	55.53%
2017 Ann.	$187.8	$116.9	$304.7

Sources: eMBS and Urban Institute.
Note: Dollar amounts are in billions. Annualized figure based on data from March 2017.

AGENCY GROSS ISSUANCE & FED PURCHASES

Monthly Gross Issuance

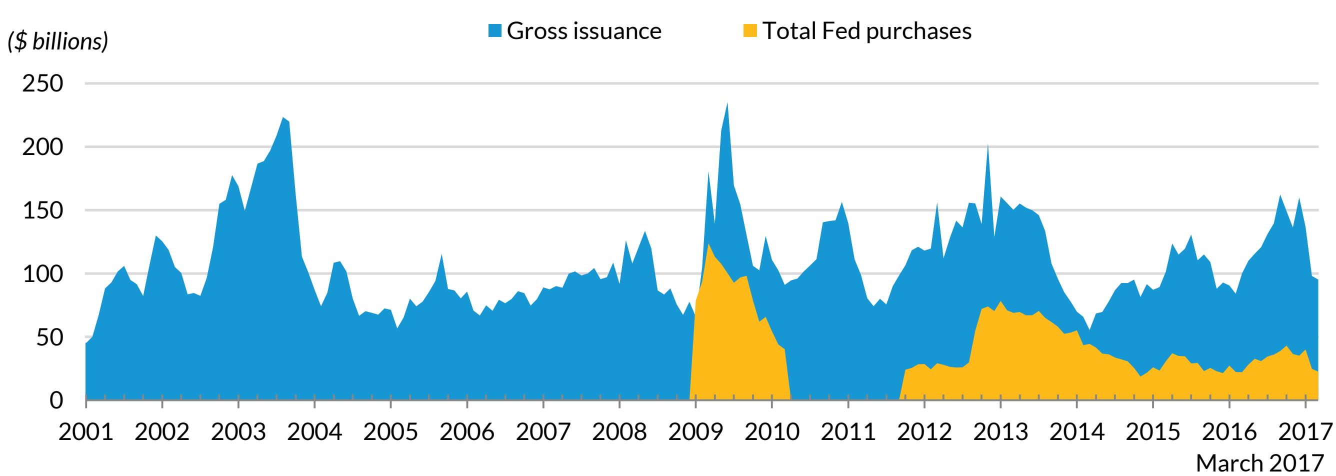
While government and GSE lending have dominated the mortgage market since the crisis, there has been a change in the mix. The Ginnie Mae share reached a peak of 28 percent of total agency issuance in 2010, declined to 25 percent in 2013, and has bounced back sharply since then. With the winter season and elevated mortgage rates since the election, monthly agency issuance has been declining in the first quarter of 2017. Fannie Mae gross issuance was almost cut in half from 73 billion in December 2016 to 40 billion in March 2017 and Freddie Mac's number dropped from 41 to 24 billion. Less dependent on refinances, Ginnie Mae gross issuance fell less from 47 to 31 billion in the same period, driving its share up to 33 percent in March 2017.



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

Fed Absorption of Agency Gross Issuance

In October 2014, the Fed ended its purchase program, but continued buying at a much reduced level, reinvesting funds from pay downs on mortgages and agency debentures into the mortgage market. Since then, the Fed's absorption of gross issuance has been between 20 and 30 percent. In March 2017, agency gross issuance dropped to $95.2 billion while total Fed purchases dropped to $22.5 billion, yielding an absorption rate of 23.7 percent, down from 25.3 percent the previous month.

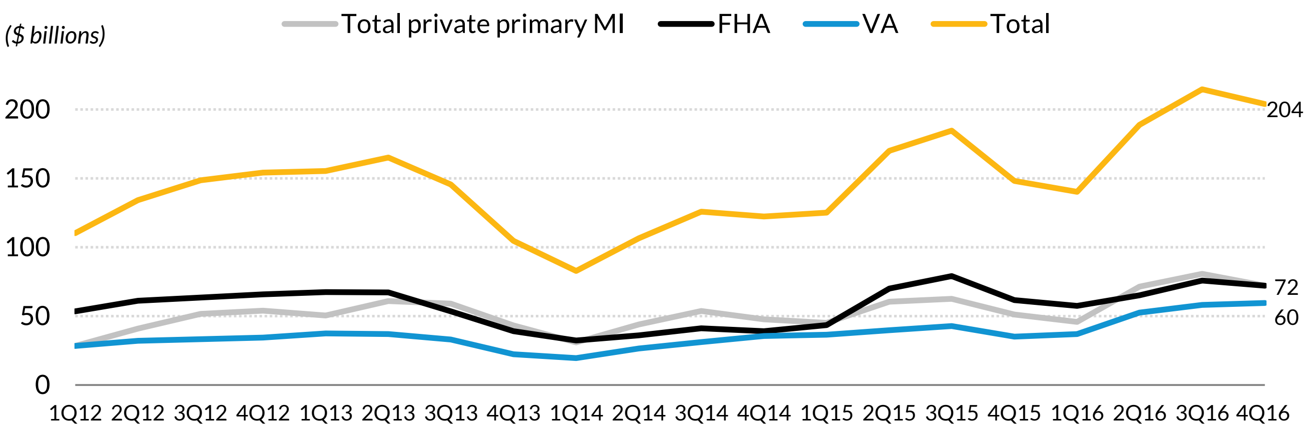


Sources: eMBS, Federal Reserve Bank of New York and Urban Institute.

MORTGAGE INSURANCE ACTIVITY

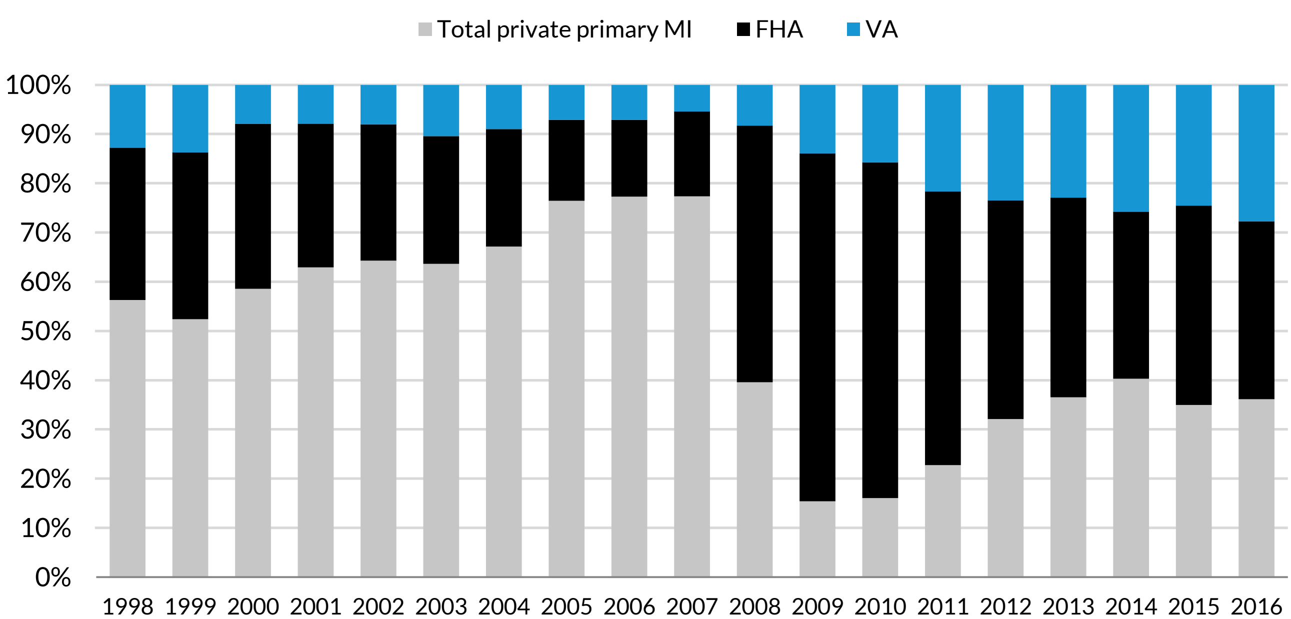
MI Activity

In Q4 2016, mortgage insurance activity via the FHA, VA and private insurers dropped from the previous quarter's $204 billion to $215 billion but was still up 38 percent year-over-year . FHA accounted for 36 percent of the market in 2016, down from 40 percent in 2015, losing 3 percent market share to VA and 1 percent to private insurers.



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 percent from 2008 to 2013 as FHA worked to shore up its finances. In January 2015, President Obama announced a 50 bps cut in annual insurance premiums, making FHA mortgages more attractive than GSE mortgages for all borrowers. The April 2016 reduction in PMI rates for borrowers with higher FICO scores has partially offset that. As shown in the bottom table, a borrower putting 3.5 percent down will now find FHA more economical except for those with FICO scores of 740 or higher.

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	4.22%
FHA	4.09%

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 LLPA*	3.50	2.75	2.25	1.50	1.50	1.00	0.75	0.75
PMI Annual MIP	2.25	2.05	1.90	1.40	1.15	0.95	0.75	0.55
Monthly Payment								
FHA	$1,356	$1,356	$1,356	$1,356	$1,356	$1,356	$1,356	$1,356
PMI	$1,736	$1,674	$1,629	$1,507	$1,456	$1,402	$1,355	$1,314
PMI Advantage	($380)	($318)	($273)	($151)	($100)	($46)	$1	$42

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, while light blue indicates PMI is more favorable. The PMI monthly payment calculation does not include special programs like Fannie Mae's HomeReady and Freddie Mac's Home Possible (HP), both offer more favorable rates for low- to moderate-income borrowers. LLPA= Loan Level Price Adjustment, described in detail on page 21.

RELATED HFPC WORK

PUBLICATIONS AND EVENTS

Upcoming Events:

Tuesday April 25, 2017: What's Next For Home Appraisals? Please check our events page for more details.

Projects

The Mortgage Servicing Collaborative

Housing Finance Reform Incubator

Housing Credit Availability Index (HCAI)

Publications

Clarifying the Choices in Housing Finance Reform
Authors: Jim Parrott
Date: March 13, 2017

Quantifying the Tightness of Mortgage Credit and Assessing Policy Actions
Authors: Laurie Goodman
Date: March 9, 2017

The Detroit Housing Market
Authors: Erika C. Poethig, Joseph Schilling, Laurie Goodman, Bing Bai, James Gastner, Rolf Pendall, Sameera Fazili
Date: March 6, 2017

Seniors' Access to Home Equity
Authors: Karan Kaul, Laurie Goodman
Date: February 28, 2017

Lower-Credit Mortgage Applicants Are Dropping Out of the Market
Authors: Bing Bai, Laurie Goodman, Bhargavi Ganesh
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Fannie Mae's Financing of Single-Family Rentals: Good Pilot, but Plenty to Think About
Authors: Laurie Goodman, Karan Kaul
Date: February 2, 2017

A More Promising Road to GSE Reform: Access and Affordability
Authors: Jim Parrott, Lewis Ranieri, Gene Sperling, Mark M. Zandi, Barry Zigas
Date: January 9, 2017

Blog Posts

Innovations in credit scoring could help more families become first-time homebuyers
Authors: Ellen Seidman
Date: March 28, 2017

Fannie and Freddie eased access to credit. Now it's the FHA's turn
Authors: Laurie Goodman
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The HUD inspector general's criticism of state down payment assistance programs is misplaced
Authors: Laurie Goodman, Jim Parrott, Bing Bai
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Date: February 28, 2017

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Borrowers with less-than-perfect credit are giving up trying to get a mortgage
Authors: Laurie Goodman, Bing Bai, Bhargavi Ganesh
Date: February 10, 2017

Updating mortgage servicing now will ensure the mortgage market better serves all Americans
Authors: Alanna McCargo, Laurie Goodman
Date: February 2, 2017

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