

APRIL 2020

Credit Availability and the COVID-19 Crisis

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Context

- In the wake of the COVID-19 crisis, many mortgage lenders are tightening lending standards.
- Standards vary by lender- many have imposed minimum FICO scores or restricted the products they offer
 - Wells Fargo, US Bank: Minimum credit score of 680
 - Flagstar bank: Minimum credit score of 640
 - Navy Federal Credit Union: Stopped offering FHA loans
 - Better.com: Stopped offering FHA loans, no jumbos above 80 LTV, increase minimum FICO score
- JPMC has instituted the strictest overlay on agency lending; we use their criteria to estimate the effect of the overlay on GSE lending.

Overlays on GSE Lending

- No investment loans
- No cash-out refis
- Borrower characteristics:
 - FICO score of 700 or above
 - LTV of 80 or below
 - DTI of 43 or below
- Some affordable lending programs are exempt- we use loans with LTV of 97 or above as a proxy for these programs
- Heightened reserve requirements also implemented- we aren't able to quantify the effect of this

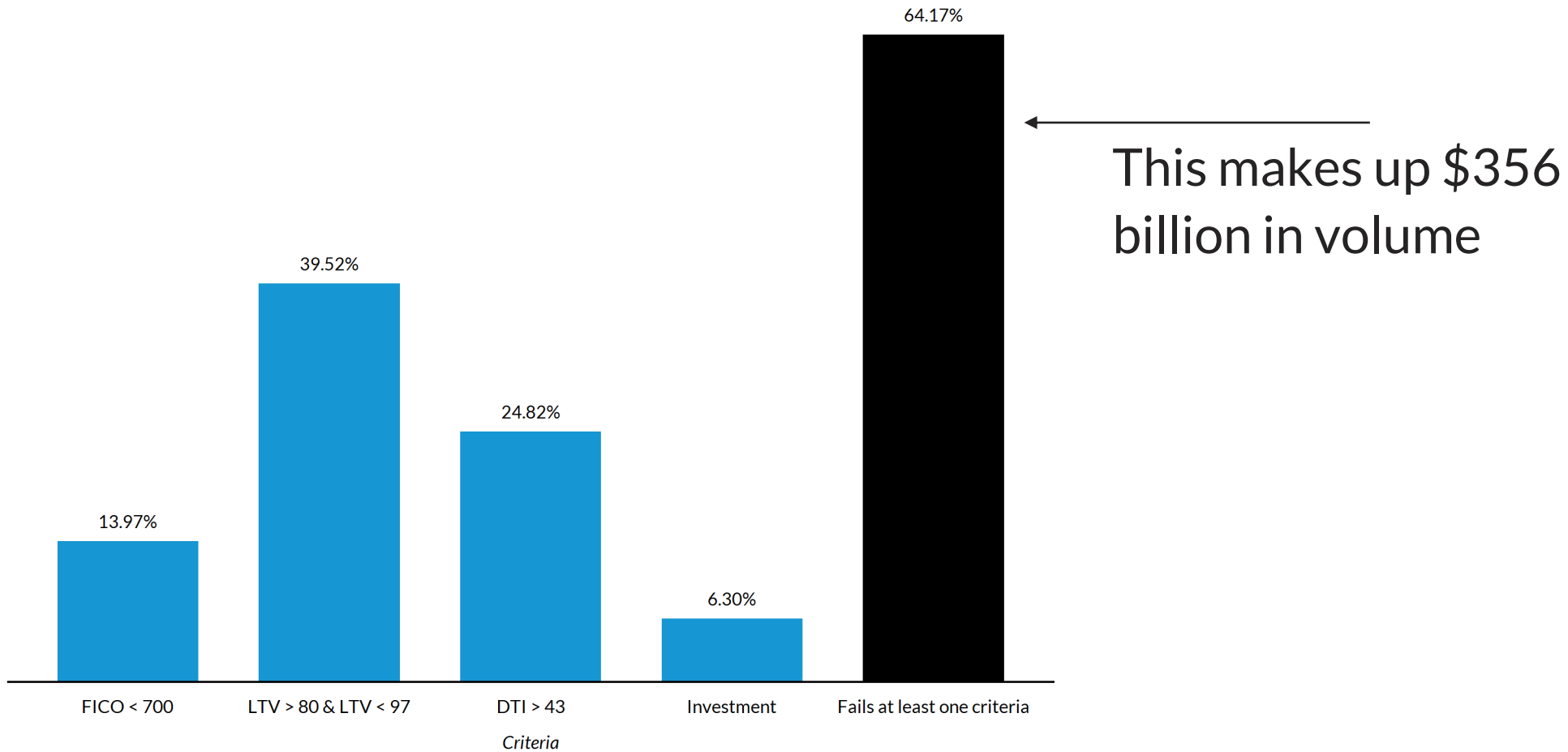
Exercise 1: Using 2019 GSE lending, how many loans fail these criteria?

	Loans originated (2019)	FICO < 700	DTI > 43	80 < LTV < 97	Investment loan	Cash-out refinance	Fails at least one criteria
Purchase	2,139,990	299,018	531,219	845,481	134,767	-	1,372,663
Refinance	1,942,513	322,986	416,024	232,246	110,872	812,717	1,341,887

	FICO < 700	DTI > 43	80 < LTV < 97	Investment loan	Cash-out refinance	Fails at least one criteria
Purchase	13.97%	24.82%	39.52%	6.30%	0.00%	64.17%
Refinance	16.63%	21.42%	11.95%	5.71%	41.84%	69.08%

Source: eMBS and Urban Institute.

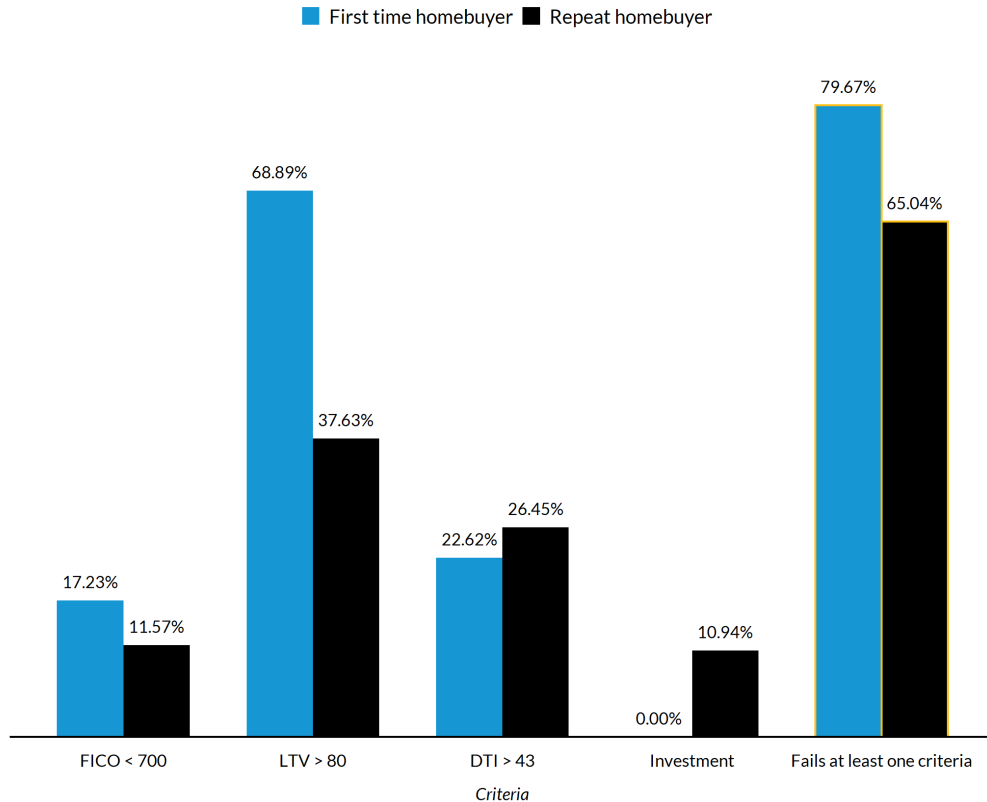
Around 64 percent of purchase loans would not qualify



Source: eMBS and Urban Institute.

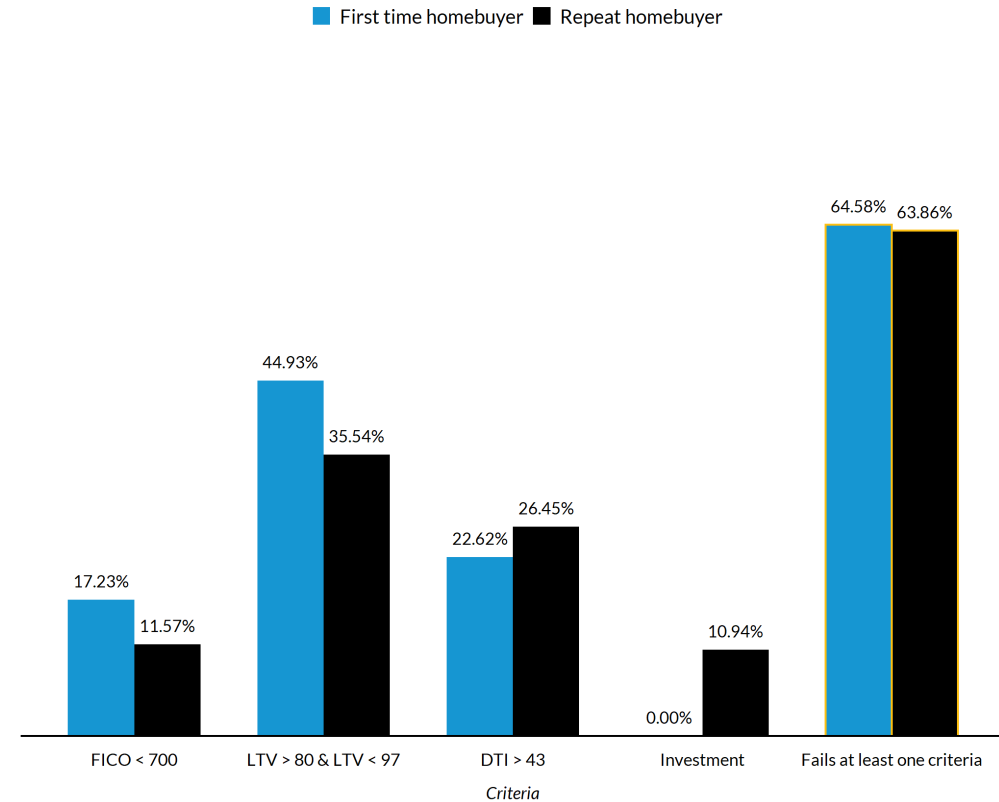
Exempting affordable homeownership programs benefits first time home-buyers

Without exemption for ≥ 97 LTV loans-
80% of loans to FTHBs don't qualify



Source: eMBS and Urban Institute.

With exemption for ≥ 97 LTV loans-
65% of loans to FTHBs don't qualify

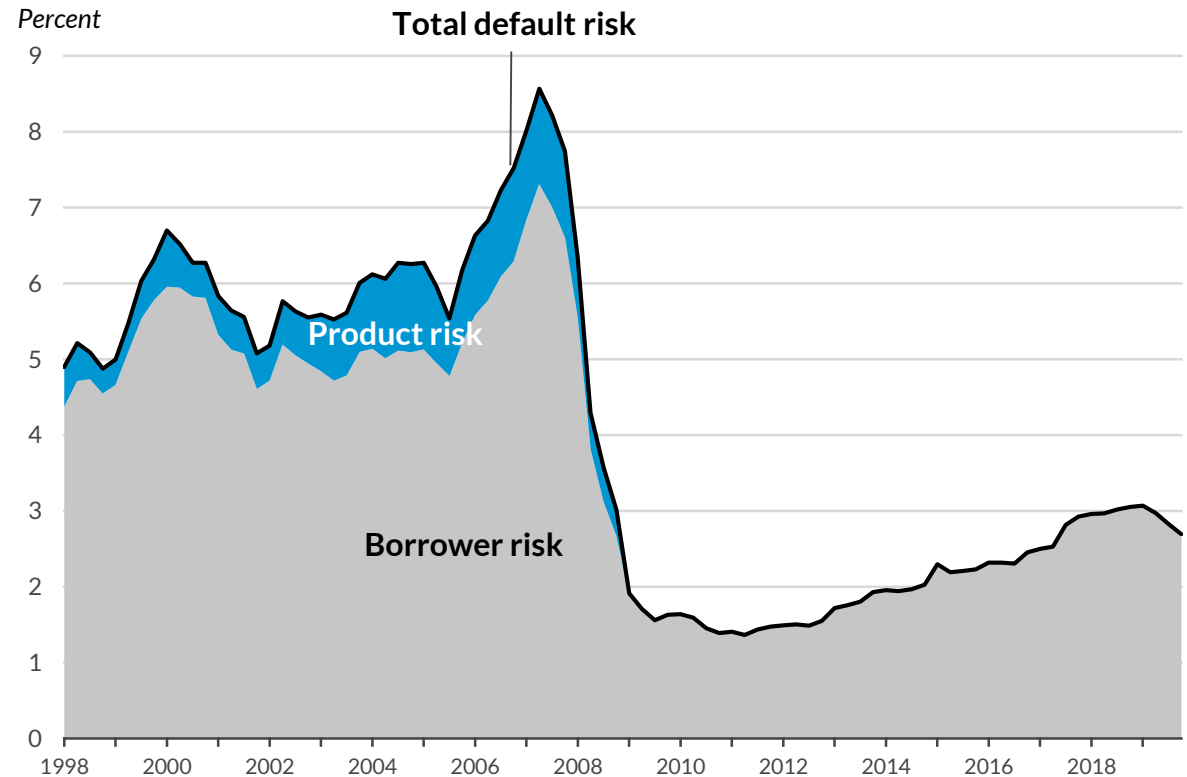


Source: eMBS and Urban Institute.

Exercise 2: What does this do to the Housing Credit Availability Index (HCAI)?

- HCAI: measures the percentage of owner-occupied purchase loans that are likely to default.
- Lower HCAI = lenders are imposing tighter lending standards
- In the GSE channel, default risk has been hovering around 3 percent- much lower than in 2001-2003 before the crisis

Default Risk Taken by the GSE Channel, 1998Q1–2019Q4



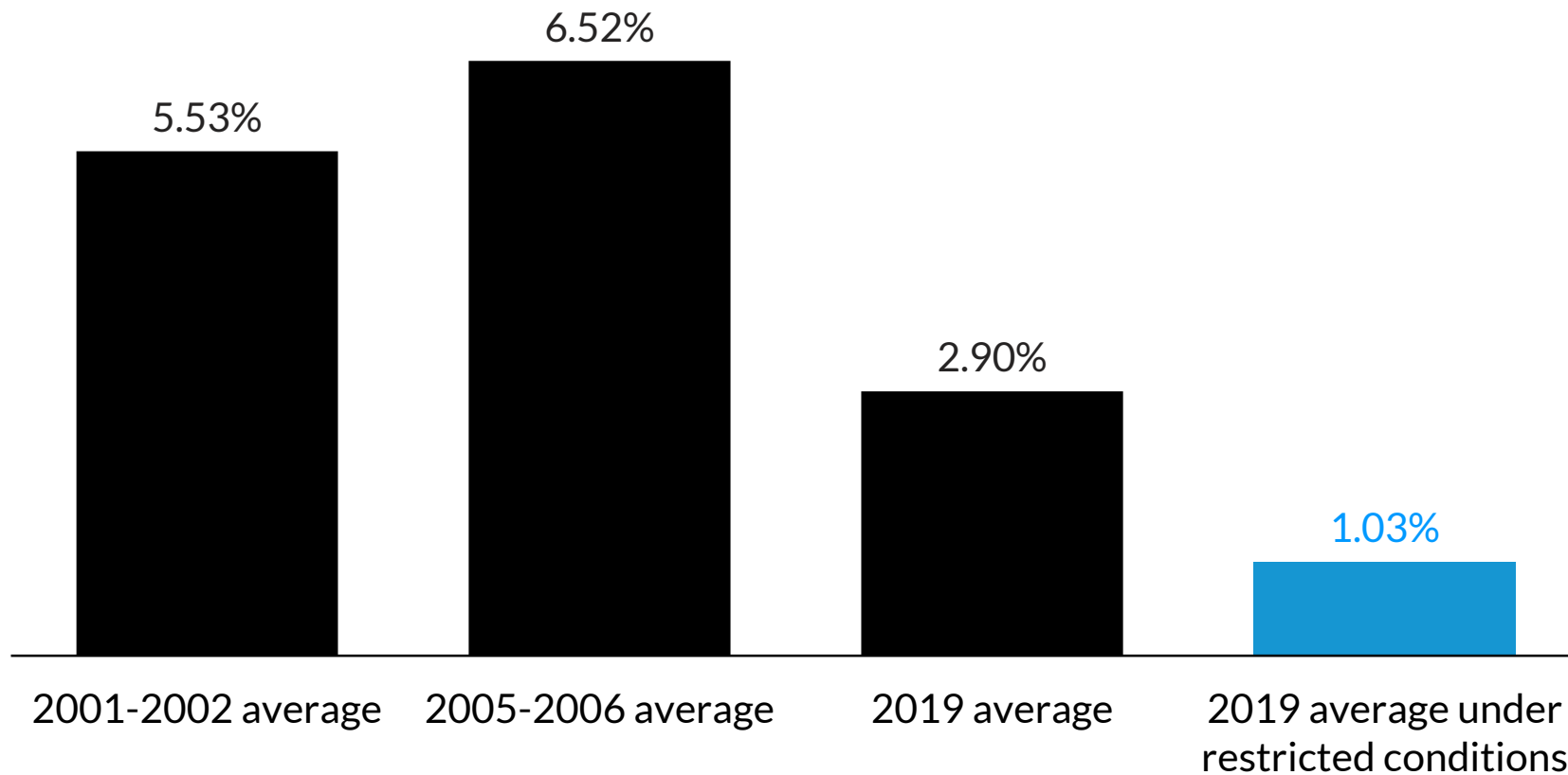
Source: eMBS, CoreLogic, Black Knight, HMDA, IMF, and Urban Institute.

Note: For more information on the HCAI, see

<https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index>

These overlays would cut risk in GSE channel by nearly two thirds

Default risk taken in the GSE channel



Source: eMBS, CoreLogic, Black Knight, HMDA, IMF, and Urban Institute.

Note: For more information on the HCAI, see <https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index>