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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?

<table>
<thead>
<tr>
<th>Loans originated (2019)</th>
<th>FICO &lt; 700</th>
<th>DTI &gt; 43</th>
<th>80 &lt; LTV &lt; 97</th>
<th>Investment loan</th>
<th>Cash-out refinance</th>
<th>Fails at least one criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>2,139,990</td>
<td>299,018</td>
<td>531,219</td>
<td>845,481</td>
<td>134,767</td>
<td>-</td>
</tr>
<tr>
<td>Refinance</td>
<td>1,942,513</td>
<td>322,986</td>
<td>416,024</td>
<td>232,246</td>
<td>110,872</td>
<td>812,717</td>
</tr>
</tbody>
</table>

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</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>13.97%</td>
<td>24.82%</td>
<td>39.52%</td>
<td>6.30%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Refinance</td>
<td>16.63%</td>
<td>21.42%</td>
<td>11.95%</td>
<td>5.71%</td>
<td>41.84%</td>
</tr>
</tbody>
</table>

Source: eMBS and Urban Institute.
Around 64 percent of purchase loans would not qualify

This makes up $356 billion in volume

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

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.

![Chart showing 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](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

- 2001-2002 average: 5.53%
- 2005-2006 average: 6.52%
- 2019 average: 2.90%
- 2019 average under restricted conditions: 1.03%

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