HOUSING FINANCE POLICY CENTER

URBAN INSTITUTE

HOUSING FINANCE AT A GLANCE

A MONTHLY CHARTBOOK

February 2014

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.

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We welcome your feedback. Please send any comments or questions to ataglance@urban.org.

INTRODUCTION

The year of 2013 began with the promise of progress on GSE reform but closed under a cloud of increasing uncertainty. House reform efforts stalled after the PATH Act cleared the Financial Services Committee, and Senate leaders were unable to achieve their goal of getting a bill out of committee by the end of 2013. But as the window of opportunity narrows with the approach of midterms, work in both chambers is heating up: On the Senate side, Banking Committee leaders Johnson and Crapo may be close to finalizing a proposal for long-term reform, which is likely to build on the work of Senators Corker and Warner. In the House, Democratic Representatives Delaney, Carney, and Himes are drafting a proposal in which the government provides broad support for the market through a structure modeled on Ginnie Mae.

While many analysts and experts are scratching their heads about what will happen next on GSE reform, we believe there are two mortgage market trends of which you can be certain.

First, there will be renewed focus on credit availability. In one of his first decisions as FHFA's new director, Mel Watt reversed the former acting director's plans to hike the GSEs' loan-level pricing adjustments (LLPA) and securitization guarantee fees. G-fee increases would have hit all borrowers, and LLPA increases would have sharply increased costs for borrowers lacking pristine credit or access to substantial down payments. This shift in FHFA policy comes at a time of extremely tight credit as measured by FICO scores (page 14). We expect that in the next few months, the FHFA will turn its attention to reps and warrants as a way to reduce uncertainty that has led lenders to add credit overlays to their GSE lending.

The issue of tight credit and lender overlays extends to FHA as well. The recent announcement by Wells Fargo that it will begin accepting FHA borrowers with credit scores as low as 600 (the prior limit was 640) is a step toward increasing credit availability. The move suggests that if FHA proceeds with promised indemnification revisions, more lenders may be willing to reduce overlays.

Second, there will be continued focus on risk-sharing as a mechanism for bringing private capital back to the market (pages 20-21). Freddie Mac completed its third risk-sharing transaction in February, following Fannie Mae's January deal. The collateral backing Freddie's deal, while still of very high quality (all loans have LTVs between 60 and 80 percent), had marginally lower FICO scores, marginally higher LTVs, marginally higher DTIs, more risk layering, and less embedded home price appreciation than in previous deals. For the GSEs to transfer a more considerable amount of risk to the private sector, they must eventually do risk-sharing on the higher-LTV portion of their books of business as well.

We welcome feedback from readers on how we can make *At A Glance* a more useful publication. Please continue to contact us at ataglance@urban.org with comments or questions.

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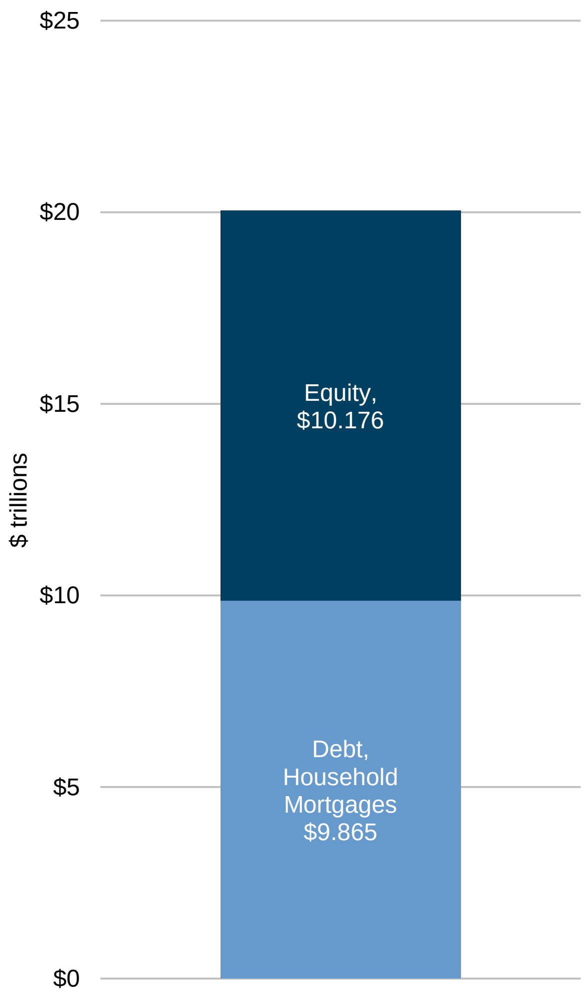
MARKET SIZE OVERVIEW

Home values continue to improve, increasing the total value of the US residential housing market. According to the 2013 Q3 Fed Flow of Funds report, the total size of the mortgage market stands at $9.87 trillion, a slight uptick from the previous quarter. This is the first quarterly increase in total mortgage debt outstanding since early 2008, driven largely by a $50 billion increase in agency mortgage-backed securities (MBS), 1.7 percent higher than in 2013 Q2. Agency MBS make up 60.3 percent of the total, private-label securities make up 8.3 percent, and unsecuritized first liens at commercial banks, savings institutions, and credit unions make up 18.9 percent. Second liens and GSE loans in portfolio comprise the remaining 7.2 and 5.3 percent of the total, respectively.

Value of the US Housing Market

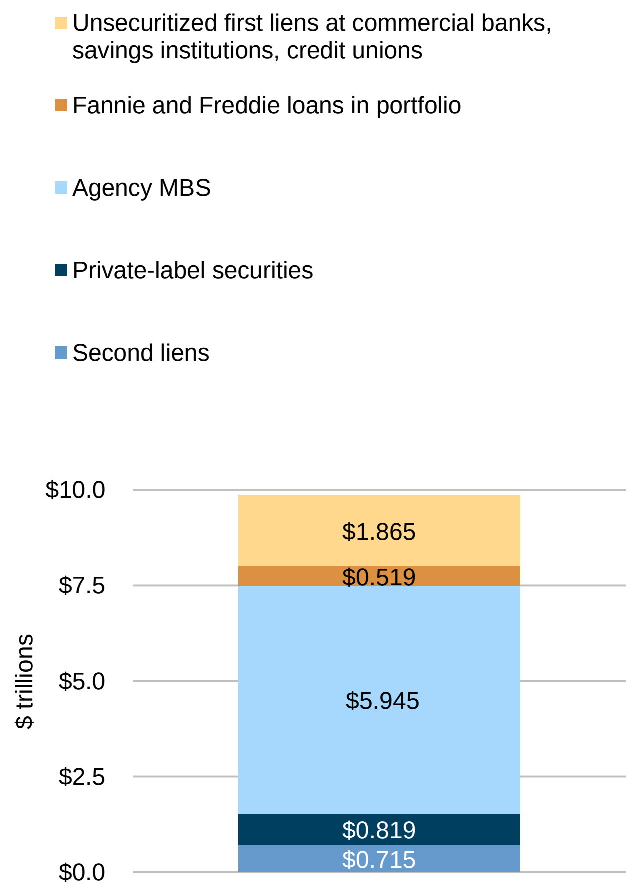
as of Q3 2013



Sources: Federal Reserve Flow of Funds and Urban Institute.

Size of the US Residential Mortgage Market

as of Q3 2013



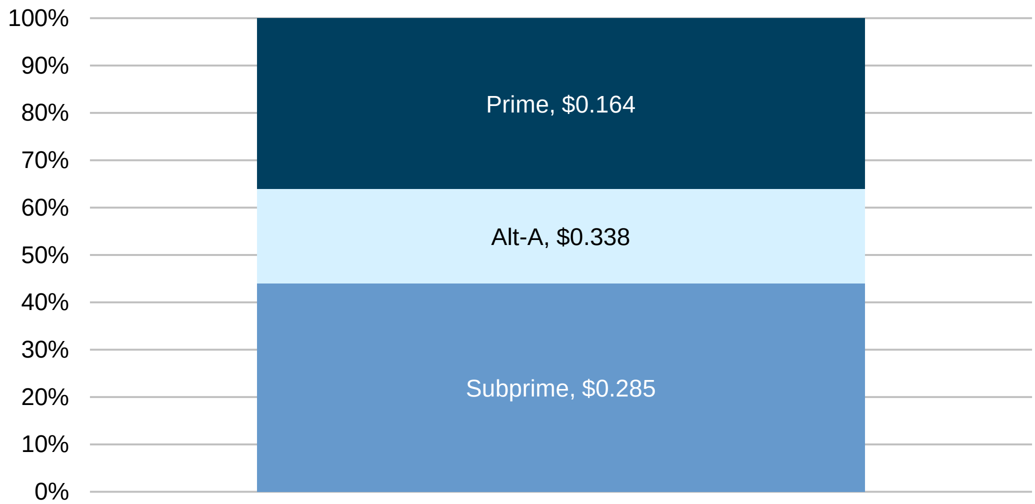
Sources: Federal Reserve Flow of Funds, Inside Mortgage Finance, Fannie Mae, Freddie Mac and Urban Institute.

MARKET SIZE OVERVIEW

As of December 2013, debt in the private-label securitization market is split among prime (20.0 percent), Alt-A (44.0 percent), and subprime (36.0 percent) loans. The agency market, as of September 2013, is 48.7 percent Fannie Mae, 28.1 percent Freddie Mac, and 23.2 percent Ginnie Mae outstanding securities.

Private-Label Securities

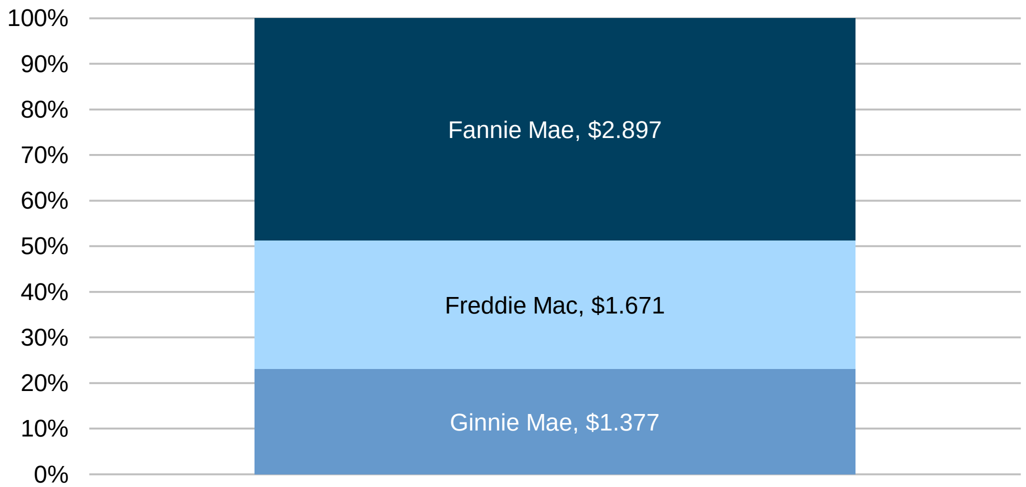
as of December 2013; dollars in trillions



Sources: CoreLogic and Urban Institute.

Agency Mortgage-Backed Securities

as of Q3 2013; dollars in trillions

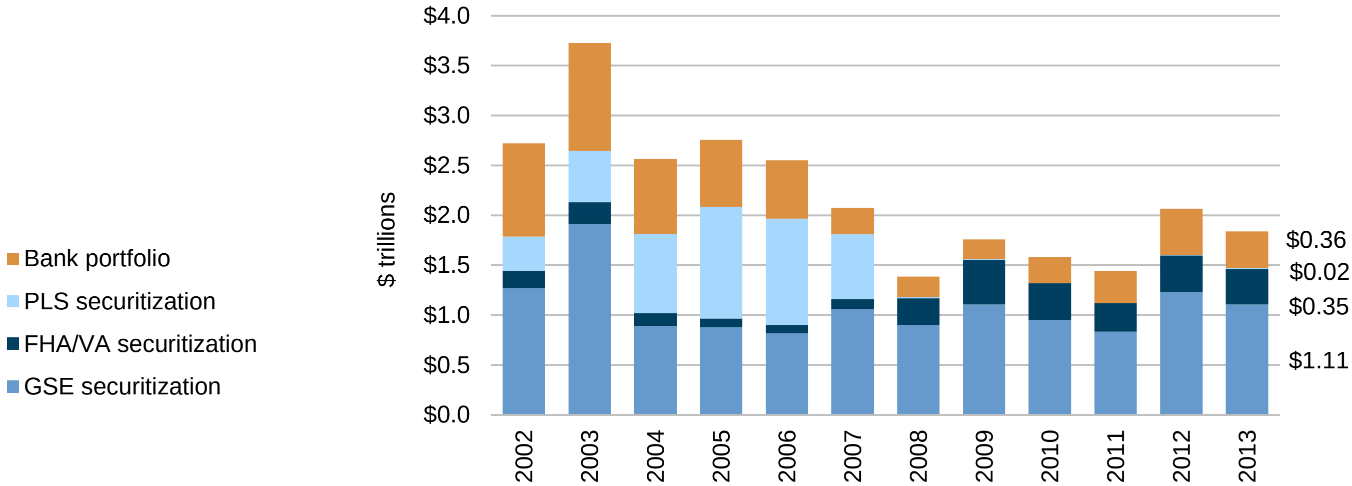


Sources: Inside Mortgage Finance and Urban Institute.

OVERVIEW
ORIGINATION VOLUME AND COMPOSITION

First Lien Origination Volume

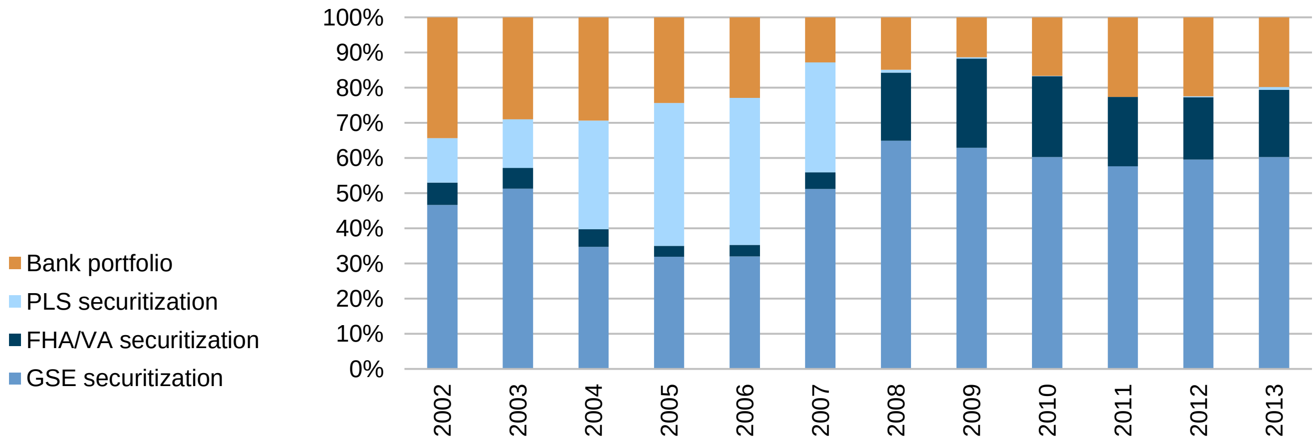
First lien originations in 2013 totaled $1.84 trillion, just short of 2012's $2.12 trillion due to the impact of higher rates. Private-label originations, at $15.3 billion, were more than double their 2012 total of $6 billion.



Sources: Inside Mortgage Finance and Urban Institute.

First Lien Origination Share

The GSE share of first lien originations is in line with historical levels, now sitting at 60.6 percent. Likewise, FHA and VA continue to hold a much larger share than in pre-crisis years, with 19 percent of the market. While private-label originations are less than 1 percent, that constitutes an increase from the depths of the recession, when such originations all but disappeared.

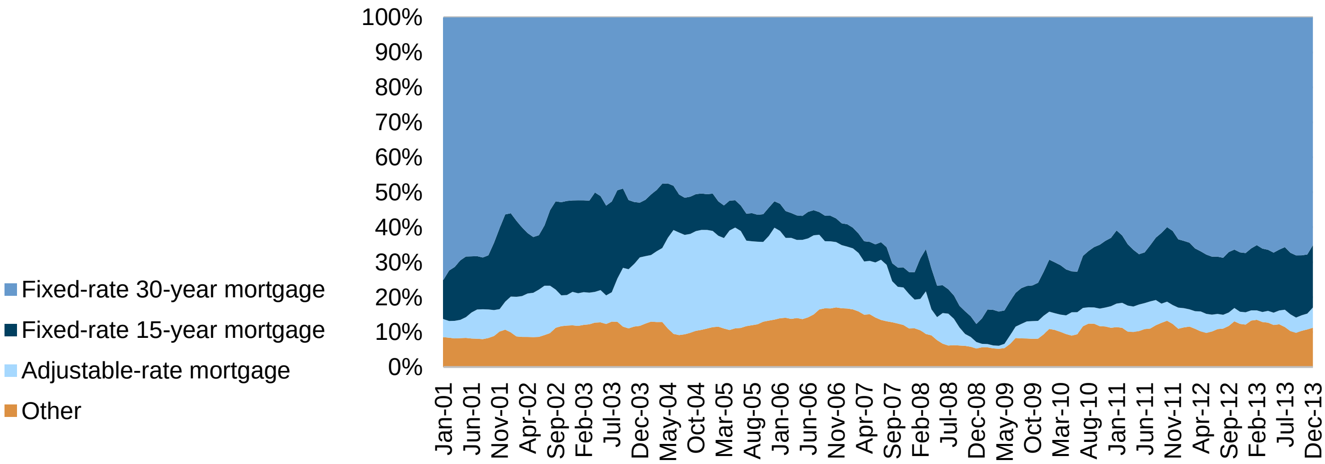


Sources: Inside Mortgage Finance and Urban Institute.

MORTGAGE ORIGINATION PRODUCT TYPE

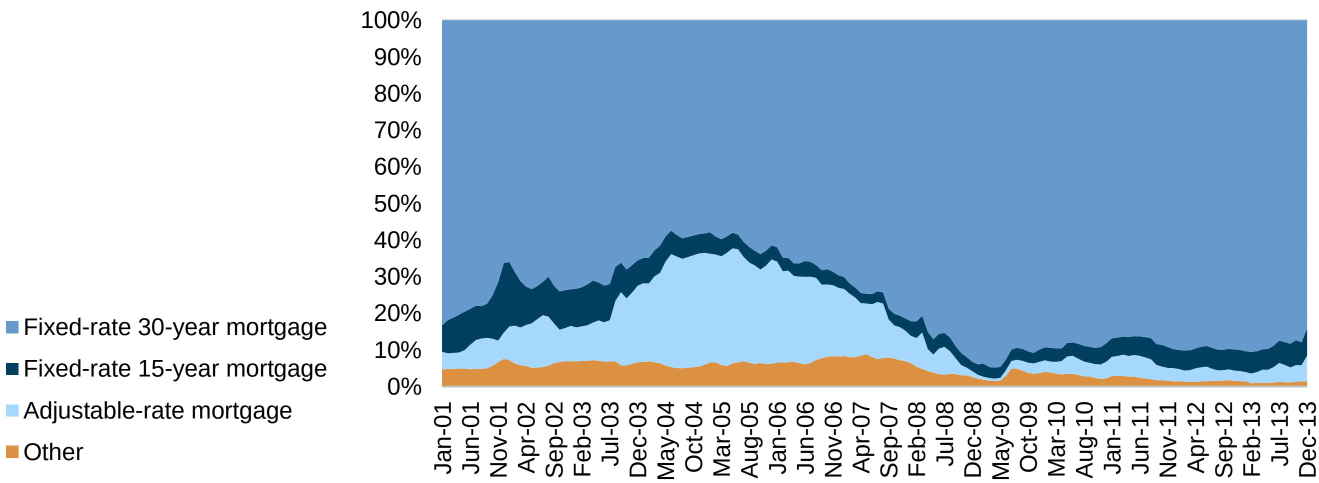
While the 30-year fixed-rate mortgage (FRM) dominates the US market, adjustable-rate mortgages (ARM) accounted for as much as 30 percent of all new originations during the peak of the recent housing bubble in 2005 (top chart). They fell to a historic low of 1 percent in 2009, and now consist of 6 percent of total originations. 15-year FRMs, traditionally more of a refinance product comprise 18 percent of new originations. If we exclude refinances (bottom chart), in December, 2013, the share of 30-year FRMs stood at 84 percent, 15-year FRMs at 7 percent, and ARMs at 7 percent.

Mortgage Origination Product Type Composition, All Loans



Sources: CoreLogic Prime Servicing as of December 2013 and Urban Institute.

Mortgage Origination Product Type Composition, Purchase Loans



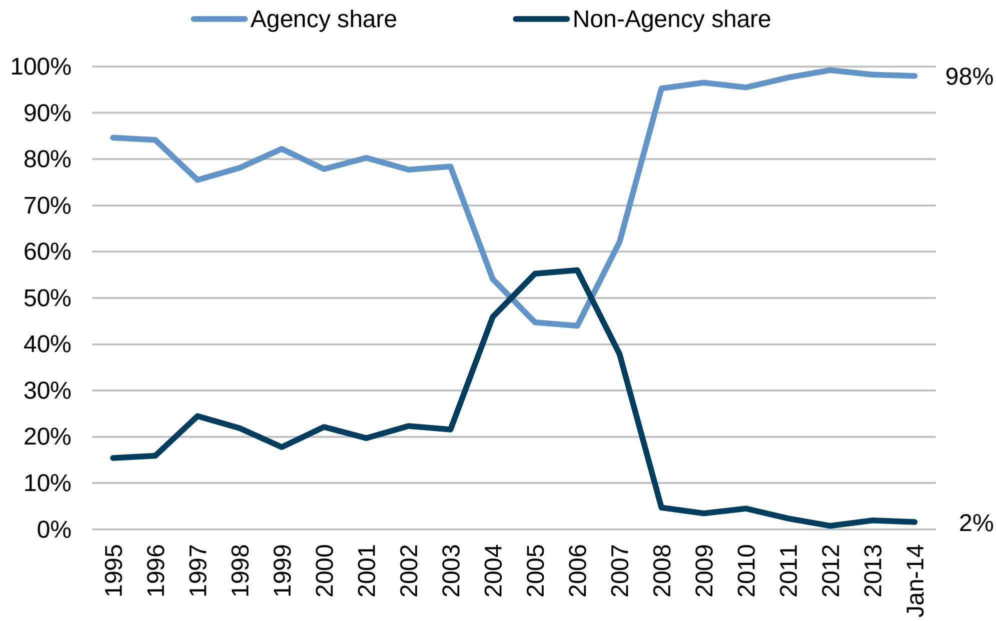
Sources: CoreLogic Prime Servicing as of December 2013 and Urban Institute.

OVERVIEW

SECURITIZATION VOLUME AND COMPOSITION

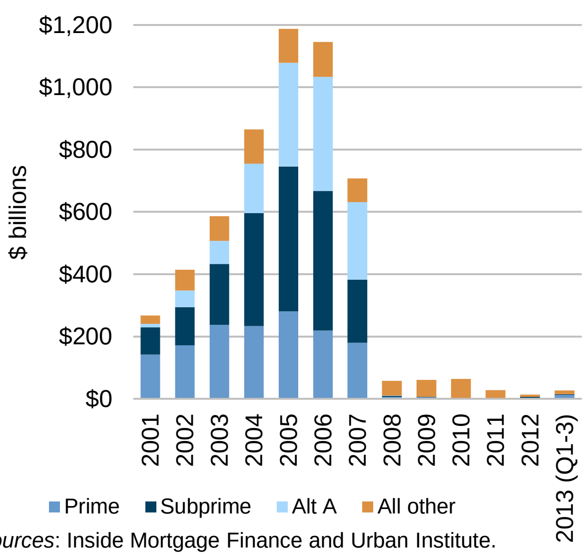
Agency/Non-Agency Share of Residential MBS Issuance

Non-agency single-family MBS issuance has now hovered near 2 percent of total issuance since early 2011, and this share is even lower if re-REMICs are excluded. Total non-agency issuance in 2013 was $31.4 billion, compared to $13.1 billion for all of 2012, but still far below pre-bubble years like 2002, when non-agency issuance reached $400 billion.



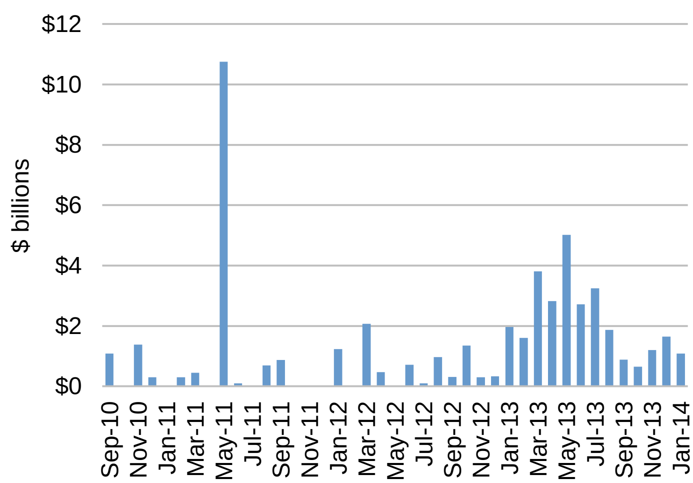
Sources: Inside Mortgage Finance and Urban Institute.

Non-Agency MBS Issuance



Sources: Inside Mortgage Finance and Urban Institute.

Non-Agency Securitization 2.0

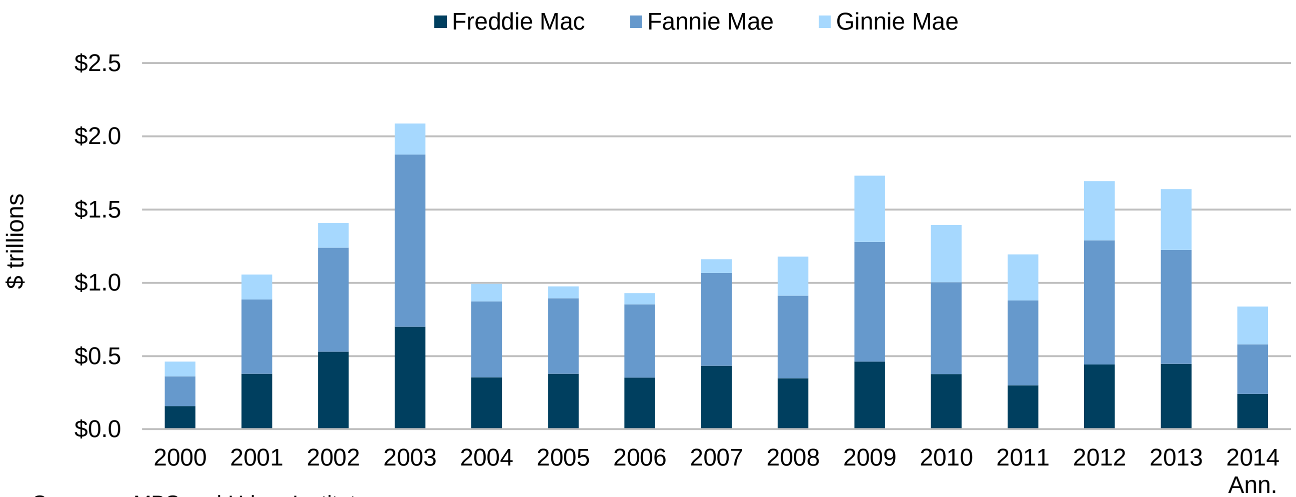


Sources: Inside Mortgage Finance and Urban Institute.
Note: Monthly figures equal total non-agency MBS issuance minus Re-REMIC issuance.

OVERVIEW
AGENCY ACTIVITY: VOLUMES AND PURCHASE/REFI COMPOSITION

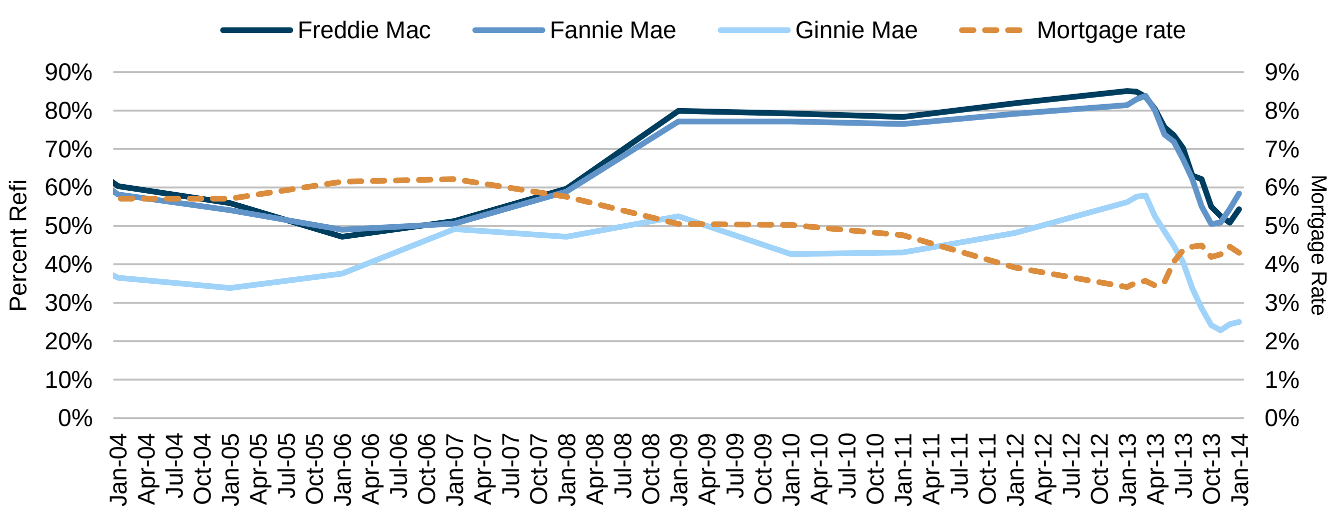
Agency issuance continues declining, totaling $69.8 billion in the first month of 2014, compared to 160.7 billion for same month a year ago. In January 2014, refinances were about 54-58 percent of the GSEs' business, slightly up from 50-54 percent last month – an uptick after nearly a year of decline, reflecting a recent 16 bps drop in interest rates. The Ginnie Mae market has always been more purchase-driven, with refinance volume up to 25.1 percent in January 2014 from 24.4 percent in December 2013.

At-Issuance Balance



Sources: eMBS and Urban Institute.
Note: Annualized figure based on data from January 2014.

Percent Refi at Issuance



Sources: eMBS, Freddie Mac PMMS and Urban Institute.
Note: Based on at-issuance loan balance.

STATE OF THE MARKET

MORTGAGE ORIGINATION PROJECTIONS

The sharp drop in mortgage originations in Q4 of 2013 combined with higher interest rates in the second half of 2013 has led the MBA, Fannie Mae, and Freddie Mac to lower their 2014 estimate for origination activity. Note that Fannie, Freddie and the MBA all estimate the 2014 refi share at 37-40 percent, not far off from 2013 Q4. The housing market is expected to pick up further in 2014, with both housing starts and existing home sales up sharply.

Total Originations and Refinance Shares

	Originations ($B)			Refi Share (%)		
Period	Total, FNMA estimate	Total, FHLMC estimate	Total, MBA estimate	FNMA estimate	FHLMC estimate	MBA estimate
2013 Q1	430	540	524	72	72	74
2013 Q2	554	560	537	65	65	66
2013 Q3	442	400	401	66	57	51
2013 Q4	396	350	293	56	38	53
2014 Q1	317	383	264	53	44	50
2014 Q2	372	453	311	39	40	37
2014 Q3	354	332	315	37	39	36
2014 Q4	315	242	290	37	35	36
FY 2011	1,496	1,500	1,436	66	64	65
FY 2012	2,153	2,130	2,044	72	70	71
FY 2013	1,817	1,900	1,755	62	62	63
FY 2014	1,255	1,410	1,116	37	40	39
FY 2015	1,145	1,190	1,229	26	20	35

Note: Shaded boxes indicate forecasted figures. All figures are estimates for total single-family market; column labels indicate source of estimate. The yearly averages for interest rates in 2011, 2012, and 2013 were 4.5, 3.7, and 4.0, respectively. The projected average annual rates for 2014 and 2015 range from 4.8 to 4.9, and 5.2 to 5.6, respectively.
Sources: Mortgage Bankers Association, Fannie Mae, Freddie Mac and Urban Institute.

Housing Starts and Homes Sales

	Housing Starts, thousands			Home Sales				
Year	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 2011	609	610	612	4,566	4,570	4,501	4,200	301
FY 2012	781	780	783	5,028	5,030	5,030	4,661	369
FY 2013	925	920	922	5,523	5,530	5,599	5,111	449
FY 2014	1,106	1,100	1,043	5,697	5,900	5,905	5,309	490
FY 2015	1,356	1,350	1,145	6,026	6,100	6,052	5,542	510

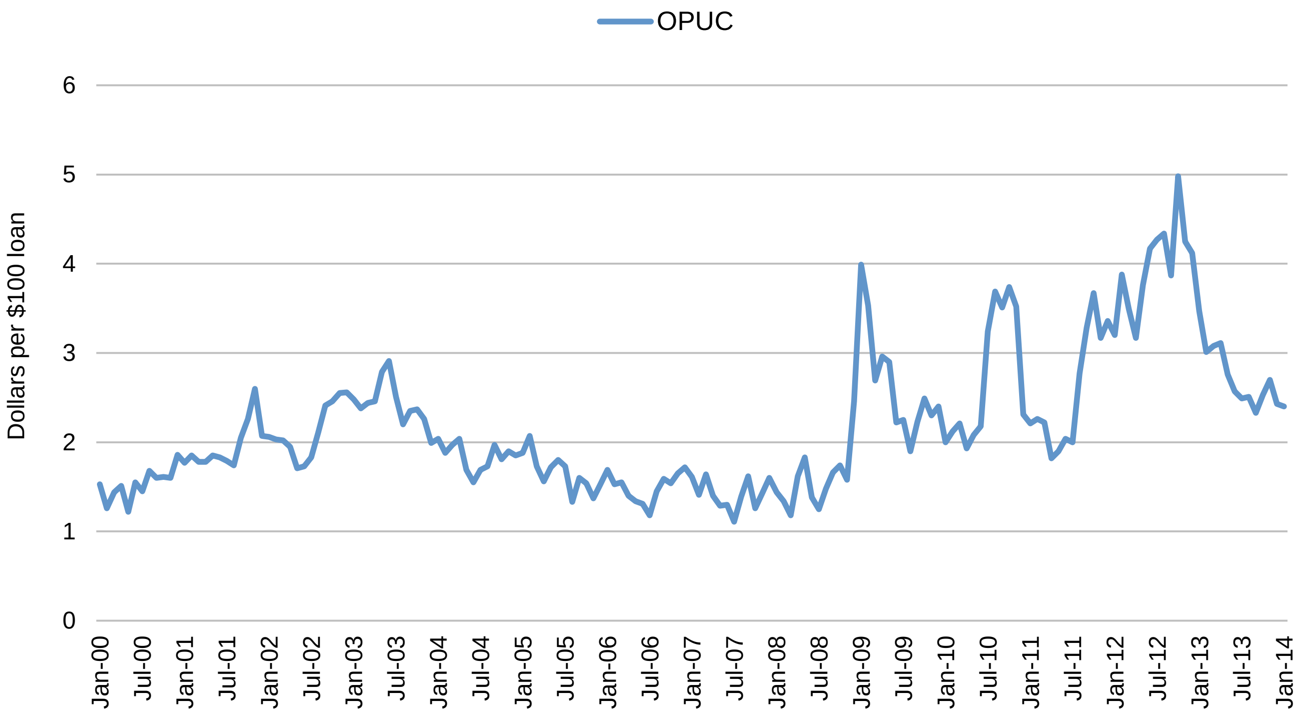
Note: Shaded boxes indicate forecasted figures. All figures are estimates for total single-family market. Column labels indicate source of estimate.
Sources: Mortgage Bankers Association, Fannie Mae, Freddie Mac and Urban Institute.

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 mortgage interest rates have risen 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 rising steadily over the past few years, the so-called primary-secondary spread has become a very imperfect measure to compare profitability across time.

This 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.

Originator Profitability and Unmeasured Costs (OPUC)



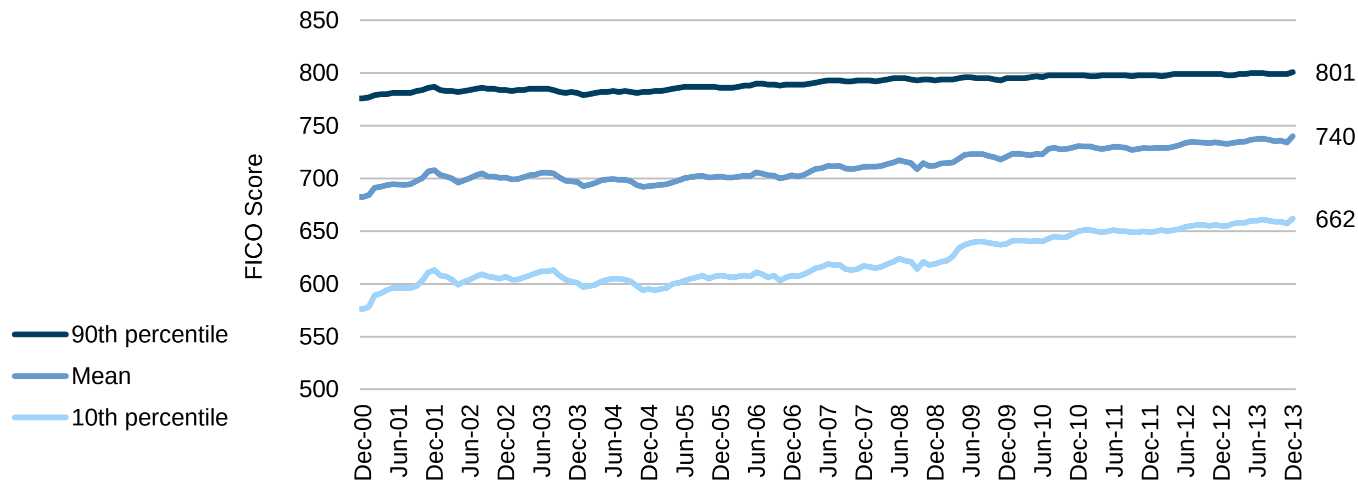
Note: OPUC stands for "originator profits and unmeasured costs" as discussed in Fuster et al. (2013). The OPUC series is a monthly (4-week moving) average.
Source: Federal Reserve Bank of New York, updated monthly and available at this link: http://www.ny.frb.org/research/epr/2013/1113fust.html and Urban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

STATE OF THE MARKET

CREDIT AVAILABILITY FOR PURCHASE LOANS

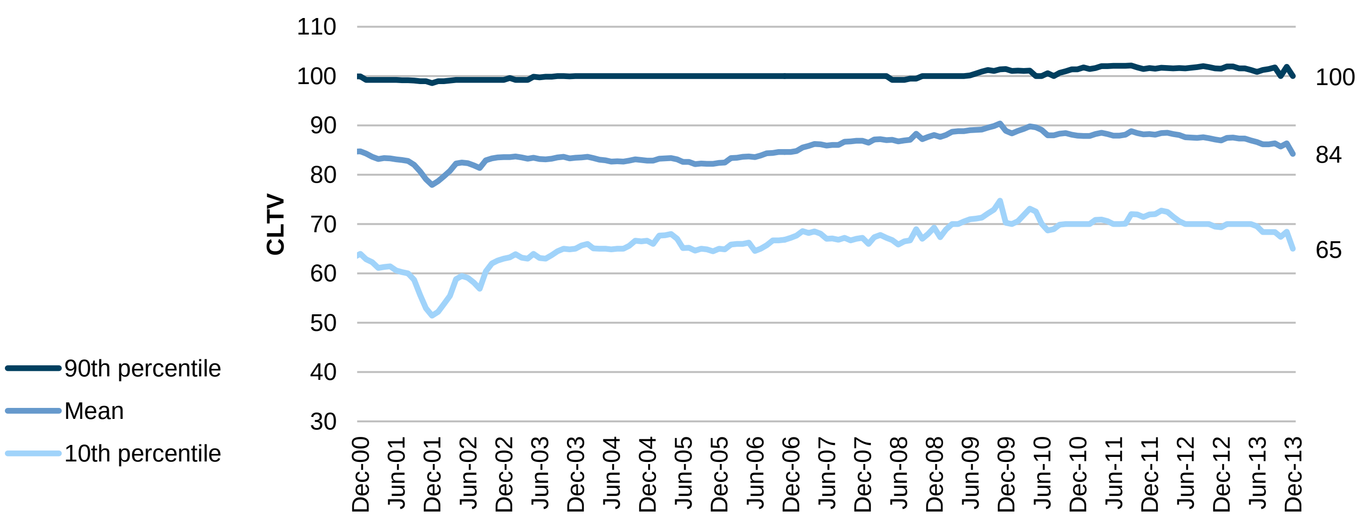
Access to credit has become extremely limited and continues to tighten, especially for borrowers with low FICO scores. The 10th percentile of FICO scores on new originations, which represents the lower bound of creditworthiness needed to qualify for a mortgage, stood at 662 as of December 2013. Prior to the housing crisis, this threshold held steady in the low 600s. LTV levels at origination remain relatively high at 84.2, which reflects the large number of FHA purchase originations.

Borrower FICO Score at Origination Month



Sources: CoreLogic Prime Servicing as of December 2013 and Urban Institute.
Note: Purchase-only loans.

Combined LTV at Origination

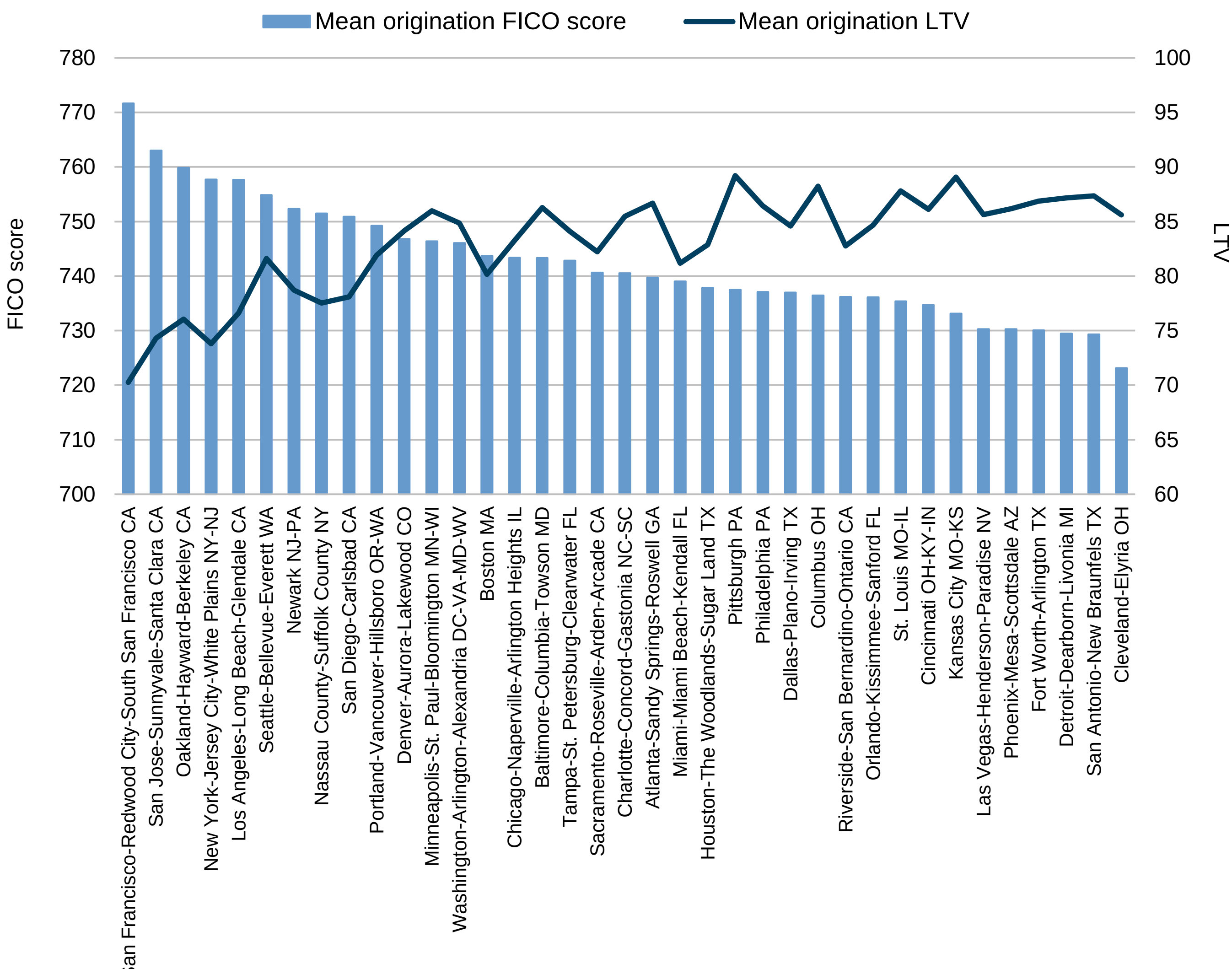


Sources: CoreLogic Prime Servicing as of December 2013 and Urban Institute.
Note: Purchase-only loans.

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. The mean origination FICO for borrowers in San Francisco-Redwood City-South San Francisco, CA is over 770, while in Cleveland-Elyria, OH it is slightly above 720. Note that across all MSAs, lower average FICO scores tends to be correlated with high average LTVs at origination, as these MSAs rely heavily on FHA/VA financing.

Origination FICO and LTV by MSA

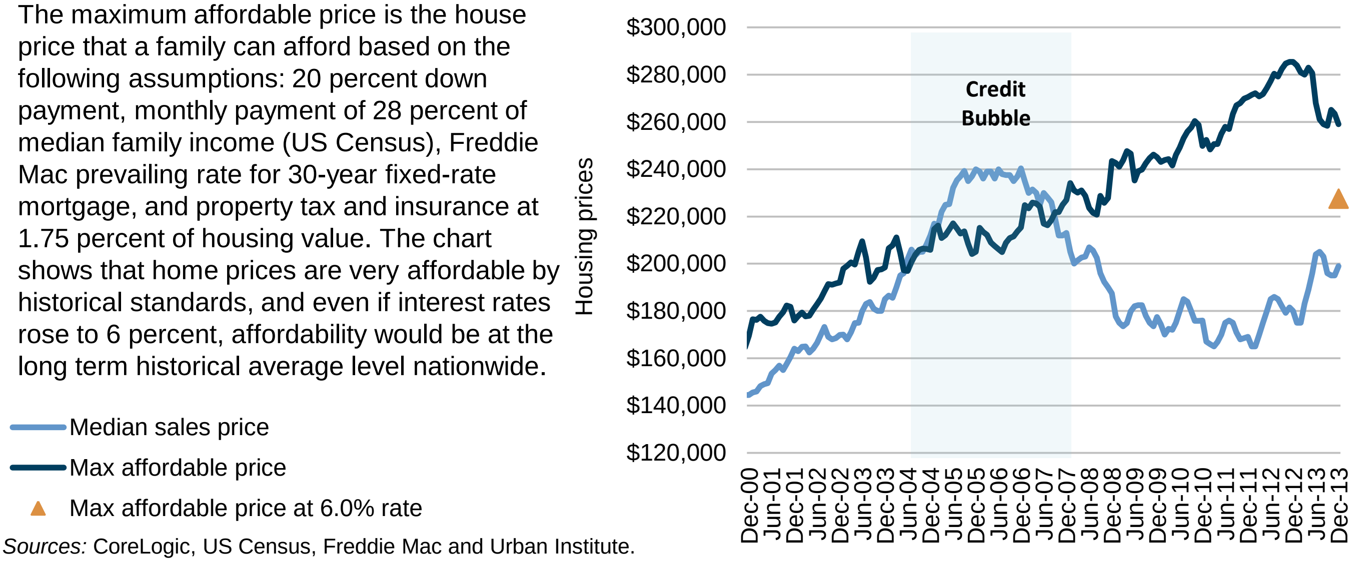


Sources: CoreLogic Prime Servicing as of December 2013 and Urban Institute.
Note: Purchase-only loans.

HOUSING AFFORDABILITY

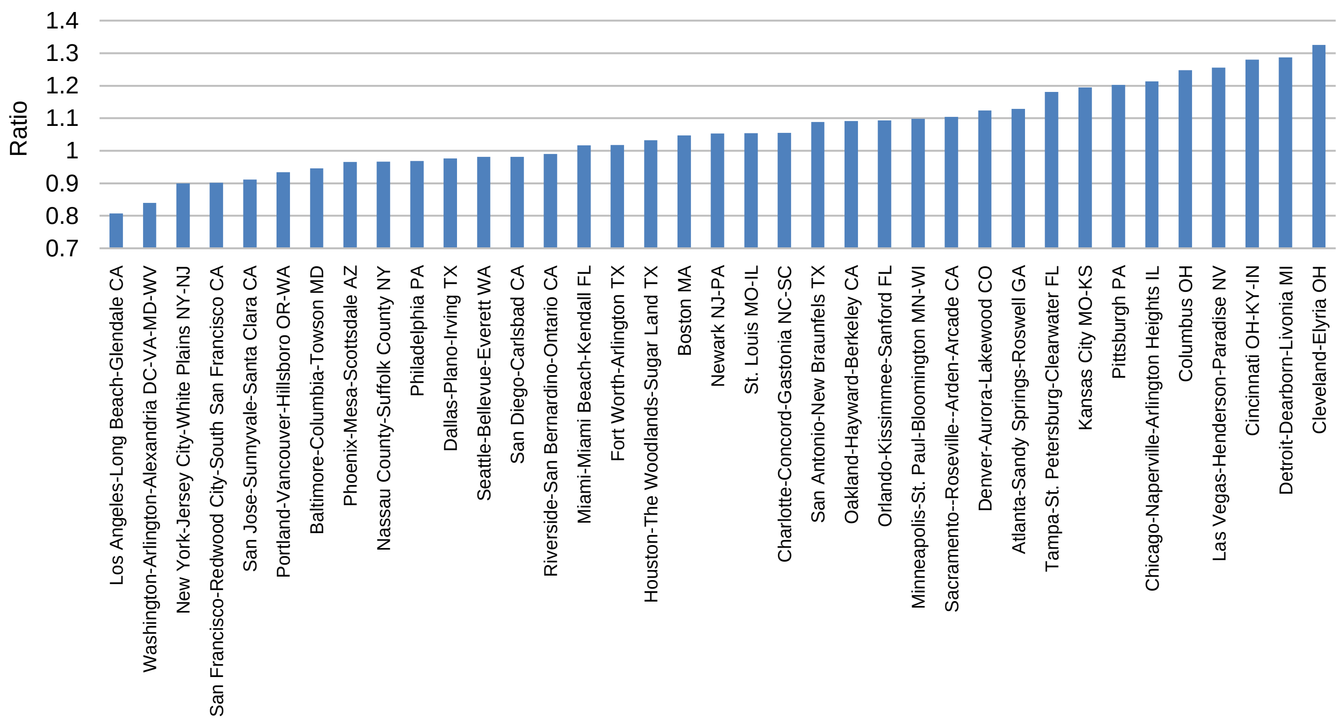
National Housing Affordability Over Time

The maximum affordable price is the house price that a family can afford based on the following assumptions: 20 percent down payment, monthly payment of 28 percent of median family income (US Census), Freddie Mac prevailing rate for 30-year fixed-rate mortgage, and property tax and insurance at 1.75 percent of housing value. The chart shows that home prices are very affordable by historical standards, and even if interest rates rose to 6 percent, affordability would be at the long term historical average level nationwide.



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

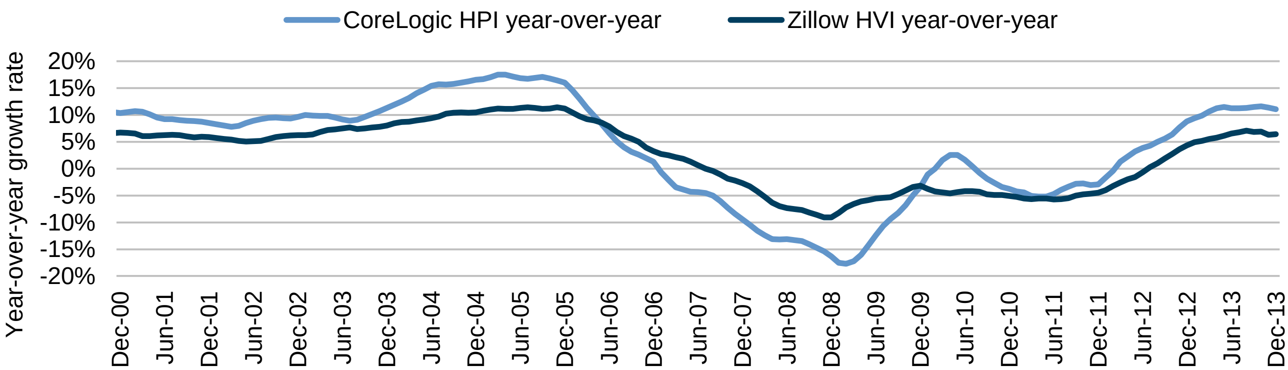
Affordability Adjusted for MSA-Level DTI



Note: Affordability index is calculated relative to home prices in 2000-03. A ratio above 1 indicates higher affordability in December 2013 than in 2000-03.
Sources: CoreLogic, US Census, Freddie Mac and Urban Institute calculations based on NAR methodology.

National Year-Over-Year HPI Growth

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



Sources: CoreLogic, Zillow and Urban Institute.

Changes in CoreLogic HPI for Top MSAs

Despite rising 21.8 percent from the trough, national house prices still must grow 22.0 percent to reach peak pre-crisis levels. At the MSA level, three of the top 15 MSAs have reached their peak HPI– Houston, TX; Dallas, TX; and Denver, CO. One MSA particularly hard hit by the boom and bust– Riverside, CA– remains more than 50 percent below its peak.

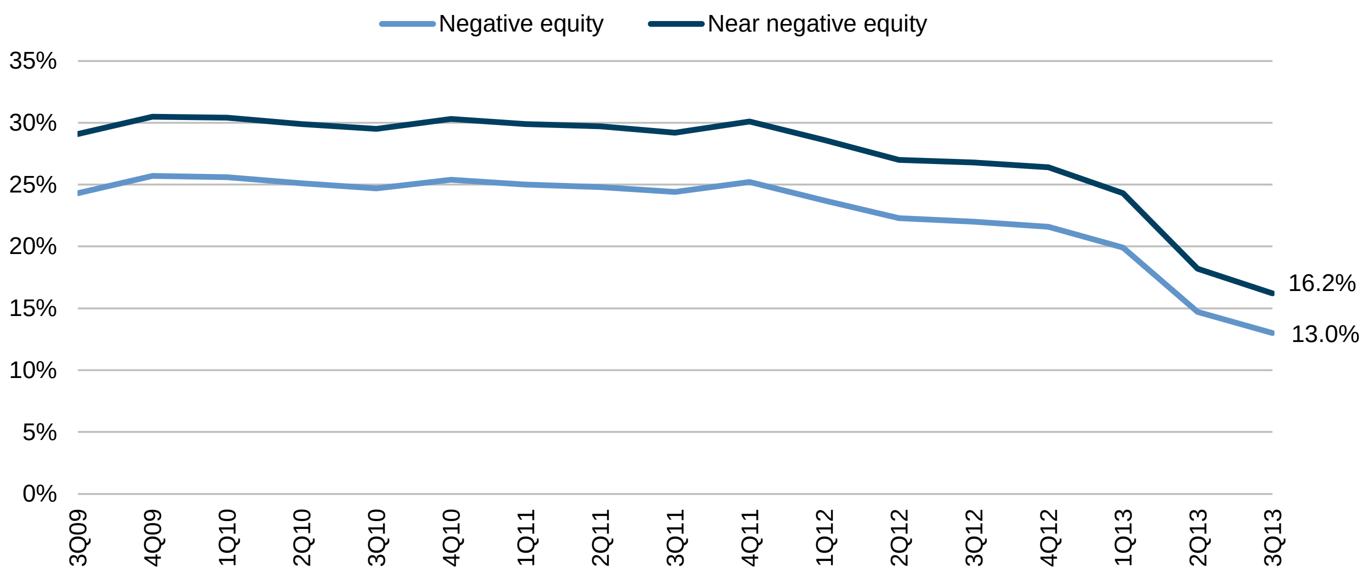
MSA	HPI changes			% Rise needed to achieve peak
	2000 to peak	Peak to trough	Trough to current	
United States	99.4%	-32.7%	21.8%	22.0%
New York-Jersey City-White Plains NY-NJ	116.9%	-20.0%	12.2%	11.4%
Los Angeles-Long Beach-Glendale CA	182.3%	-39.4%	33.1%	23.9%
Chicago-Naperville-Arlington Heights IL	65.5%	-36.6%	16.6%	35.2%
Atlanta-Sandy Springs-Roswell GA	40.5%	-33.7%	28.8%	17.1%
Washington-Arlington-Alexandria DC-VA-MD-WV	160.6%	-33.6%	24.8%	20.7%
Houston-The Woodlands-Sugar Land TX	44.3%	-12.9%	19.7%	-4.1%
Phoenix-Mesa-Scottsdale AZ	126.3%	-52.9%	44.3%	47.2%
Riverside-San Bernardino-Ontario CA	194.7%	-53.4%	38.1%	55.4%
Dallas-Plano-Irving TX	38.2%	-13.9%	17.3%	-0.9%
Minneapolis-St. Paul-Bloomington MN-WI	74.4%	-30.9%	19.0%	21.6%
Seattle-Bellevue-Everett WA	94.3%	-32.3%	24.5%	18.7%
Denver-Aurora-Lakewood CO	36.3%	-14.7%	23.6%	-5.2%
Baltimore-Columbia-Towson MD	128.6%	-25.8%	7.7%	25.2%
San Diego-Carlsbad CA	149.0%	-38.4%	30.0%	24.9%
Anaheim-Santa Ana-Irvine CA	163.1%	-37.2%	32.0%	20.7%

Sources: CoreLogic HPIs as of December 2013 and Urban Institute.
Note: This table includes the largest 15 Metropolitan areas by mortgage count.

NEGATIVE EQUITY & SERIOUS DELINQUENCY

Negative Equity Share

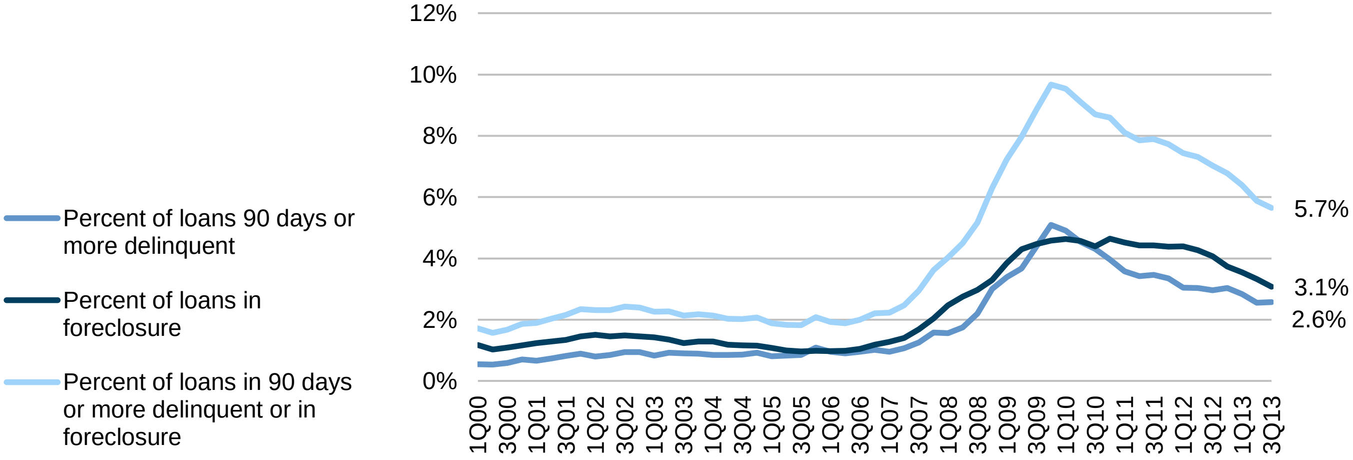
With housing prices appreciating through September 2013, residential properties in negative equity (LTV greater than 100) as a share of all residential properties with a mortgage has dropped to 13 percent. Residential properties in near negative equity (LTV between 95 and 100) comprise another 3.2 percent.



Sources: CoreLogic and Urban Institute.

Loans in Serious Delinquency

Serious delinquencies and foreclosures continue to decline with the housing recovery, but remain quite high relative to the early 2000s.



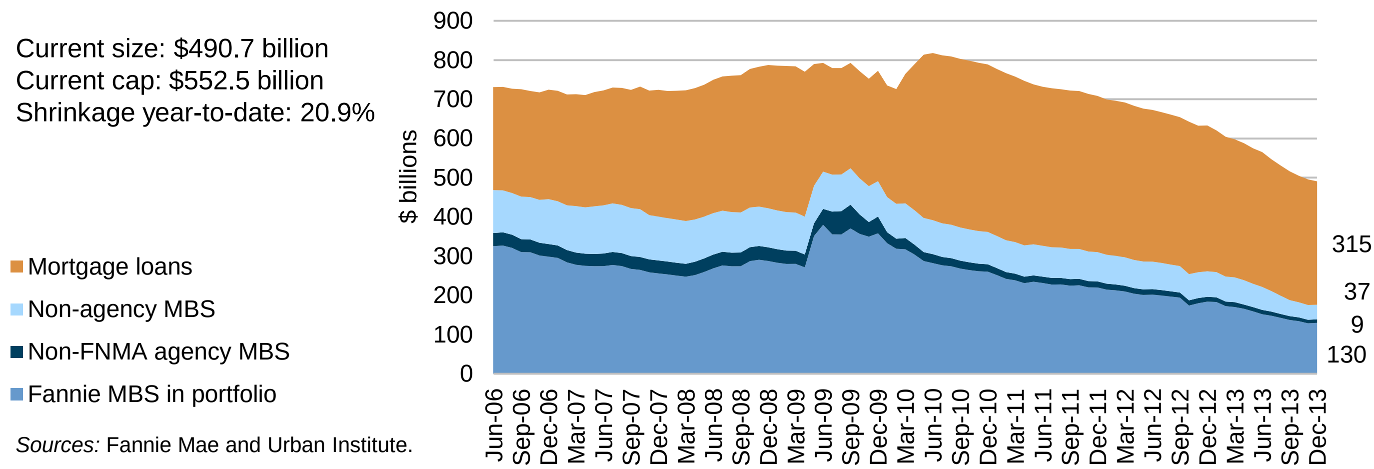
Sources: Mortgage Bankers Association and Urban Institute.

GSE PORTFOLIO WIND-DOWN

Under conservatorship, both Fannie Mae and Freddie Mac have shrunk their portfolios and shifted their mix of assets, as the agency MBS share is shrinking more rapidly than the less liquid assets (mortgage loans and non-agency MBS). Agency MBS now comprises 28.3 percent of the Fannie portfolio and 40.1 percent of the Freddie portfolio. Both GSEs were well under their portfolio cap of $552.5 billion for year-end 2013, finishing the year at $490.7 billion for Fannie and $461.0 billion for Freddie.

Fannie Mae Mortgage-Related Investment Portfolio Composition

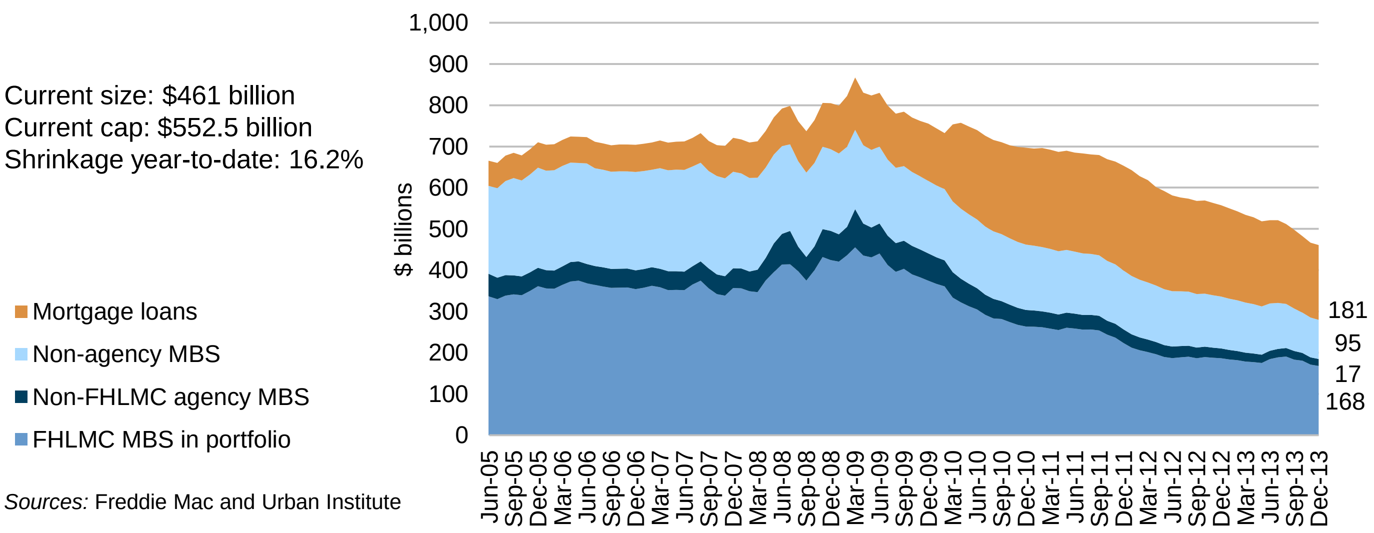
Current size: $490.7 billion
Current cap: $552.5 billion
Shrinkage year-to-date: 20.9%



Sources: Fannie Mae and Urban Institute.

Freddie Mac Mortgage-Related Investment Portfolio Composition

Current size: $461 billion
Current cap: $552.5 billion
Shrinkage year-to-date: 16.2%

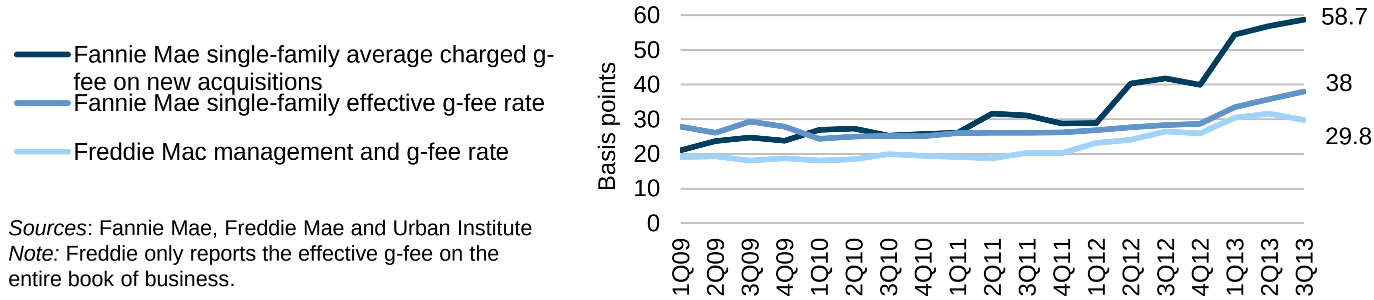


Sources: Freddie Mac and Urban Institute

EFFECTIVE GUARANTEE FEES AND GSE RISK-SHARING TRANSACTIONS

Effective Guarantee Fees

In Q3, effective g-fees on new Fannie acquisitions rose to 58.7 bps; they were scheduled to increase again in early 2014. However, the FHFA's newly appointed director, Mel Watt, halted plans to implement further g-fee increases. G-fees should remain constant as Watt decides on the FHFA's path forward.



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

Fannie Mae Risk-Sharing Transactions

Date	Deal	Class	Amount ($ millions)	Tranche Thickness (%)	CE (%)	Rating	Initial Spread (bps)
Oct 24, 2013	Connecticut Avenue Securities (CAS) 2013-C01	A-H	$25,953.7	97	3	NR	-
		M-1, M-1H	$361.2	1.35	1.65	F: BBB-sf	200
		M-1	$337.5	1.26			
		M-1H	$23.7	0.09			
		M-2, M-2H	$361.2	1.35	0.30	NR	525
		M-2	$337.5	1.26			
		M-2H	$23.7	0.09			
		B-H	$80.3	0.30	0	NR	-
		Total Reference Pool Size	**$26,756.4**	**100**			
Jan 14, 2014	CAS Series 2014-C01	A-H	$28.4	97	3	NR	-
		M-1, M-1H	$395.7	1.35	1.65	F: BBB-sf; M: Baa2	160
		M-1	$375	1.28			
		M-1H	$20.7	0.07			
		M-2, M-2H	$395.7	1.35	0.30	NR	440
		M-2	$375.0	1.28			
		M-2H	$20.7	0.07			
		B-H	$87.9	0.30	0	NR	-
		Total Reference Pool Size	**$29,308.7**	**100**			

Sources: Fannie Mae and Urban Institute.
Notes: 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. "CE" = credit enhancement. Under "Ratings," "F" stands for Fitch, "M" stands for Moody's, and "K" stands for "Kroll Bond Ratings."

Freddie Mac Risk-Sharing Transactions

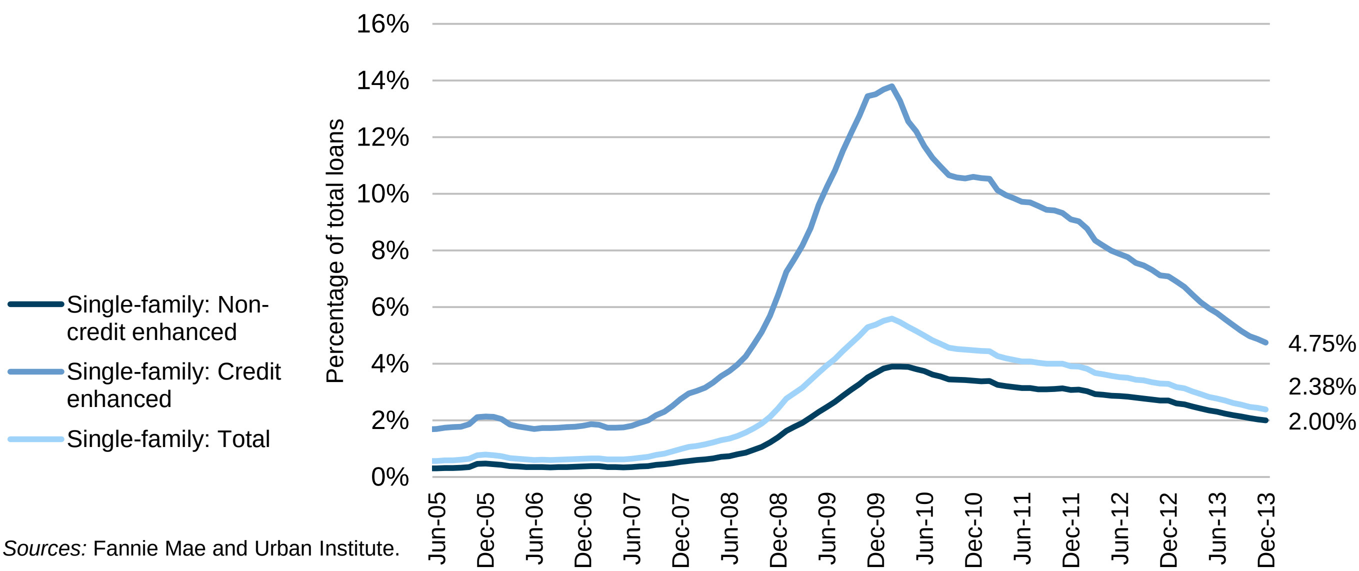
Date	Deal	Class	Amount ($ millions)	Tranche Thickness (%)	CE (%)	Rating	Initial Spread (bps)
July 24, 2013	Structured Agency Credit Risk (STACR) Debt Notes, Series 2013-DN1	A-H	$21,906.8	97	3	NR	-
		M-1, M-1H	$304.9	1.35	1.65	NR	340
		M-1	$250.0	1.26			
		M-1H	$54.9	0.09			
		M-2, M-2H	$304.9	1.35	0.30	NR	715
		M-2	$250.0	1.26			
		M-2H	$54.9	0.09			
		B-H	$67.8	0.30	0	NR	-
		Total Reference Pool Size	**$22,584.4**	**100**			
Nov 12, 2013	STACR Debt Notes, Series 2013-DN2	A-H	$34,267.5	97	3	NR	-
		M-1, M-1H	$370.9	1.05	1.95	F: BBB-sf; M: Baa1	145
		M-1	$245 .0	0.69			
		M-1H	$125.9	0.36			
		M-2, M-2H	$582.9	1.65	0.30	NR	425
		M-2	$385 .0	1.09			
		M-2H	$197.9	0.56			
		B-H	$106 .0	0.30	0	NR	-
		Total Reference Pool Size	**$35,327.3**	**100**			
Feb 6, 2014	STACR Debt Notes, Series 2014-DN1	A-H	$30,980.8	95.5	4.50	NR	-
		M-1, M-1H	$240.0	1.00	3.50	-	100
		M-1	$155.6	0.65		M: A1 (sf); K: A(sf)	
		M-1H	$84.4	0.35		NR	
		M-2, M-2H	$360.0	1.50	2	-	220
		M-2	$233.4	0.97		M: Baa1(sf); K: BBB(sf)	
		M-2H	$126.6	0.53		NR	
		M-3, M-3H	$408.0	1.70	0.30	-	450
		M-3	$264.5	1.10		NR	
		M-3H	$143.5	0.60		NR	
		B-H	$87.9	0.30	0	NR	-
		Total Reference Pool Size	**$32,076.8**	**100**			

Sources: Freddie Mac and Urban Institute.
Notes: Classes A-H, M-1H, M-2H, M-3H, and B-H are reference tranches only. These classes are not issued or sold. The risk is retained by Fannie Mae. “CE” = credit enhancement. Under “Ratings,” “F” stands for Fitch, “M” stands for Moody’s, and “K” stands for “Kroll Bond Ratings.”

SERIOUS DELINQUENCY RATES

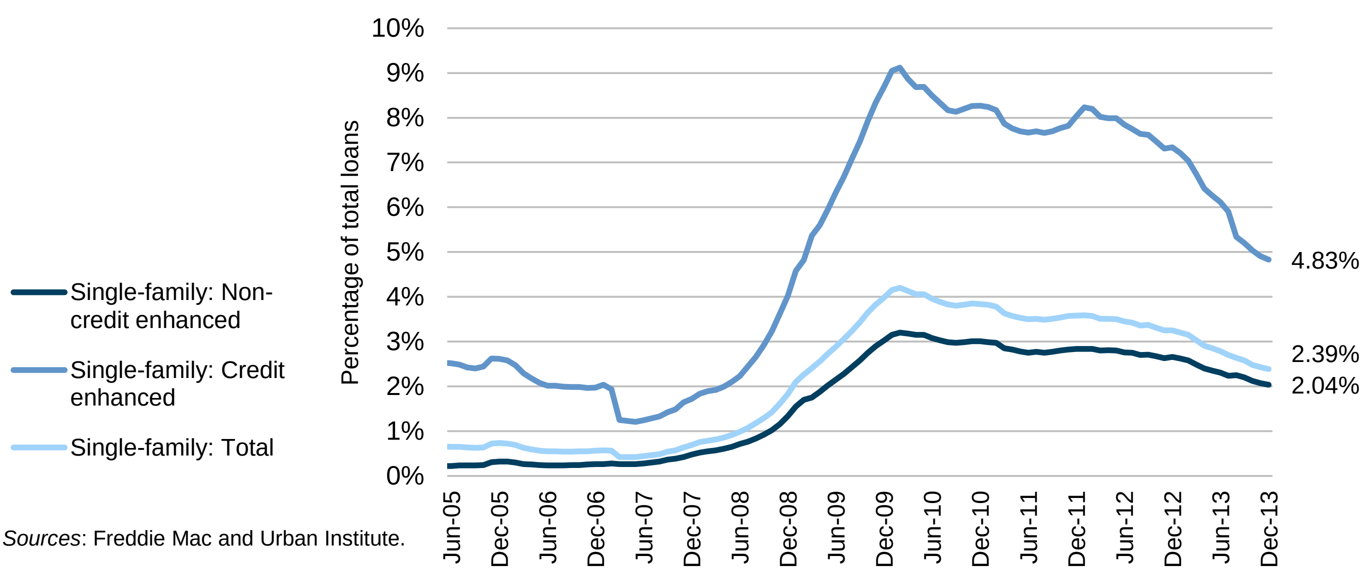
Serious delinquency rates at the GSEs continue to decline as the legacy portfolio is resolved and the pristine, post-2009 book of business exhibits very low default rates. As of year end 2013, 2.38 percent of the Fannie portfolio and 2.39 percent of the Freddie portfolio were seriously delinquent, down from 3.18 percent and 3.20 percent at the beginning of 2013, respectively.

Serious Delinquency Rates–Fannie Mae



Sources: Fannie Mae and Urban Institute.

Serious Delinquency Rates–Freddie Mac

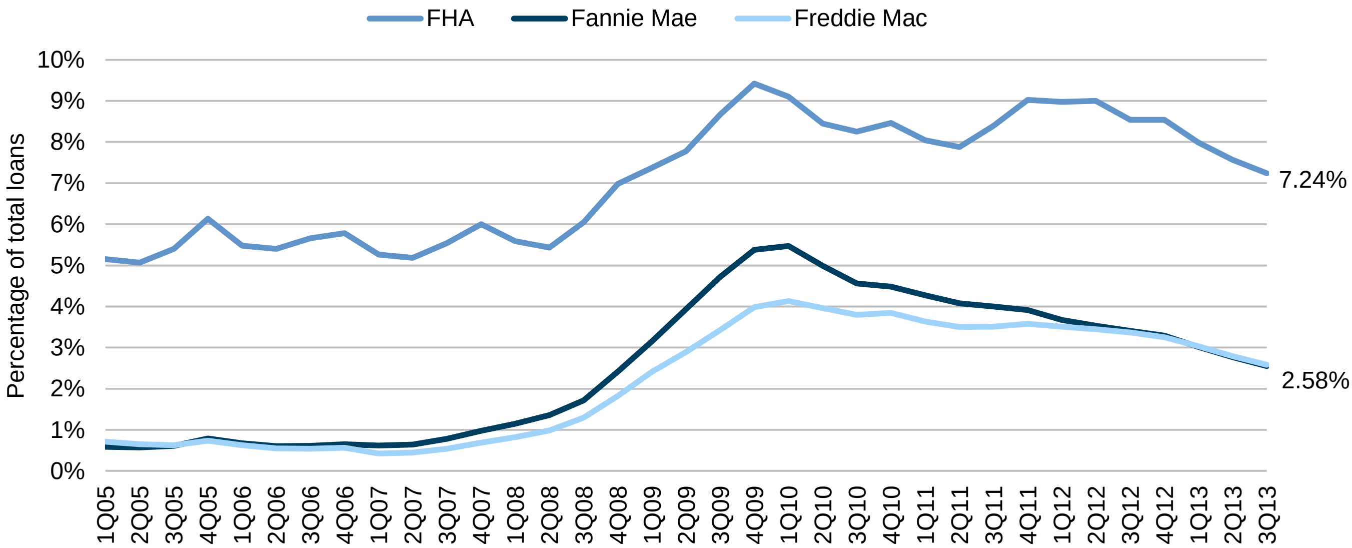


Sources: Freddie Mac and Urban Institute.

SERIOUS DELINQUENCY RATES

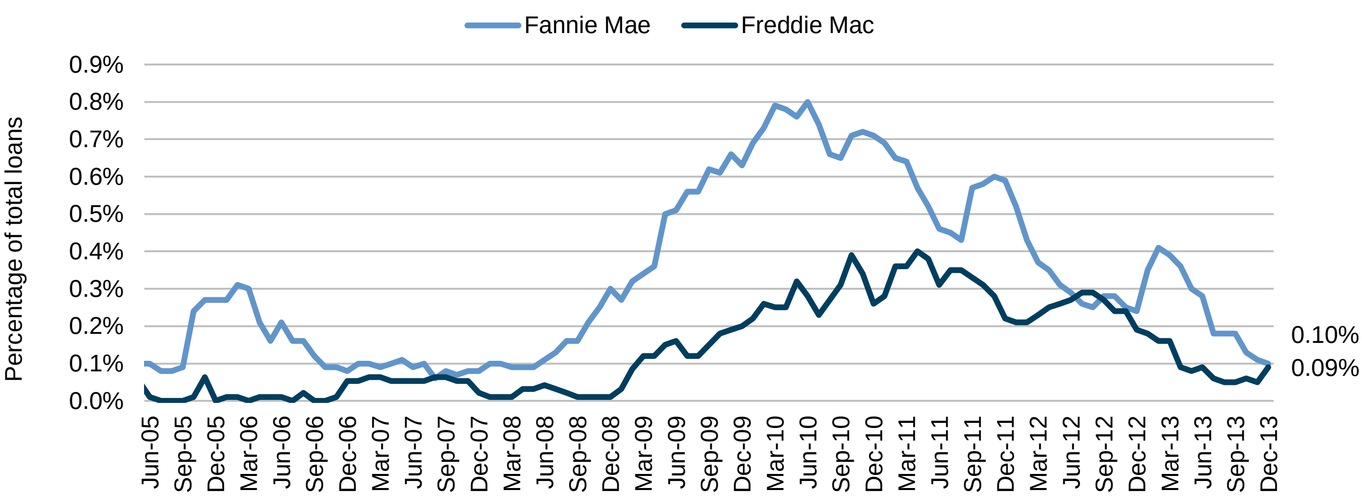
Serious delinquencies for FHA and GSE single-family loans continue to decline with the housing recovery, but remain quite high relative to 2005-2007. FHA delinquencies are declining from a much higher relative starting point. GSE multifamily delinquencies are also declining, although they never reached problematic levels, even at the height 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.

Serious Delinquency Rates–Multifamily GSE Loans

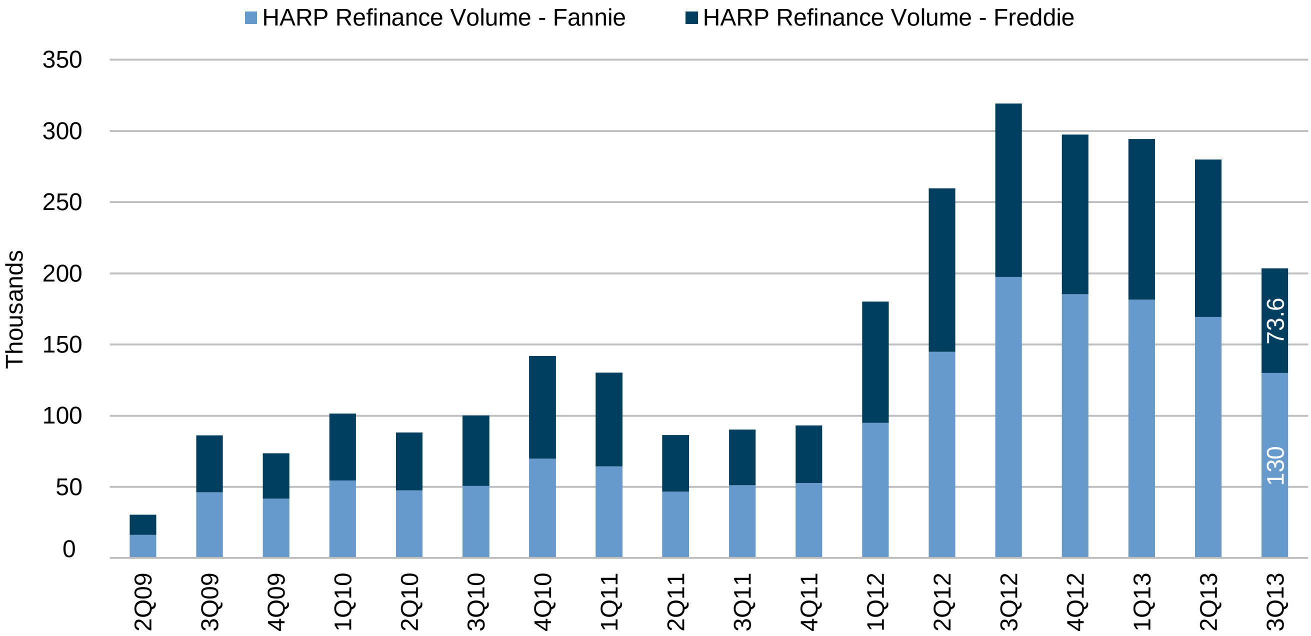


Sources: Fannie Mae, Freddie Mac and Urban Institute.
Note: Serious delinquency is defined as 60 days or more past due.

REFINANCE ACTIVITY

The Home Affordable Refinance Program (HARP) refinances have begun to slow. Two factors are responsible for this: (1) higher interest rates, leaving fewer eligible loans where refinancing is economically advantageous (in-the-money), and (2) a considerable number of borrowers who have already refinanced. Despite these factors, HARP recently crossed a milestone of 3 million refinances since Q2 2009, accounting for about 16 percent of all GSE refinances in this period. As a result of the large volume of refi activity, the pool of eligible loans remaining is now much lower.

Total HARP Refinance Volume



Sources: FHFA Refinance Report and Urban Institute.

HARP Refinances

	November 2013	Year-to-date 2013	Inception to date	2012	2011	2010
Total refinances	163,547	3,931,048	18,721,388	4,750,530	3,229,066	3,604,640
Total HARP refinances	38,732	862,892	3,027,937	1,074,769	400,024	431,647
Share 80–105 LTV	66.3%	59.5%	69.8%	56.4%	85.0%	93.4%
Share 105–125 LTV	19.7%	21.3%	17.2%	22.4%	15.0%	6.6%
Share >125 LTV	14.0%	19.2%	13.0%	21.2%	0%	0%
All other streamlined refinances	35,798	704,962	3,222,949	729,235	785,049	763,477

Sources: FHFA Refinance Report and Urban Institute.

GSE LOANS: POTENTIAL REFINANCES

To qualify for HARP, a loan must be originated before June 2009, 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 1,332,375 eligible loans, but 38 percent are out-of-the-money because the closing cost would exceed the long-term savings, leaving 831,891 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 7,338,163 loans in this category, 5,103,151 are in-the-money.

More than half the GSE book of business was originated after the cutoff date. Of these loans, 2,502,746 meet the other HARP criteria, but 90 percent are out-of-the-money, leaving only 259,426 loans that, if there was a change in the eligibility date, would be potential HARP candidates at current interest rate levels. If the cutoff date was moved forward one year, 116,531 of the 259,426 borrowers would potentially qualify; 52 to 70 percent of these additional borrowers have already received a HARP refinance once. If the cutoff date was moved forward two years, 203,865 of the 259,426 borrowers would potentially qualify.

Total loan count	24,736,654
Loans that do not meet pay history requirement	1,966,065
Loans that meet pay history requirement:	22,770,589
Pre-June 2009 origination	8,670,538
Post-June 2009 origination	14,100,051

Loans Meeting HARP Pay History Requirements

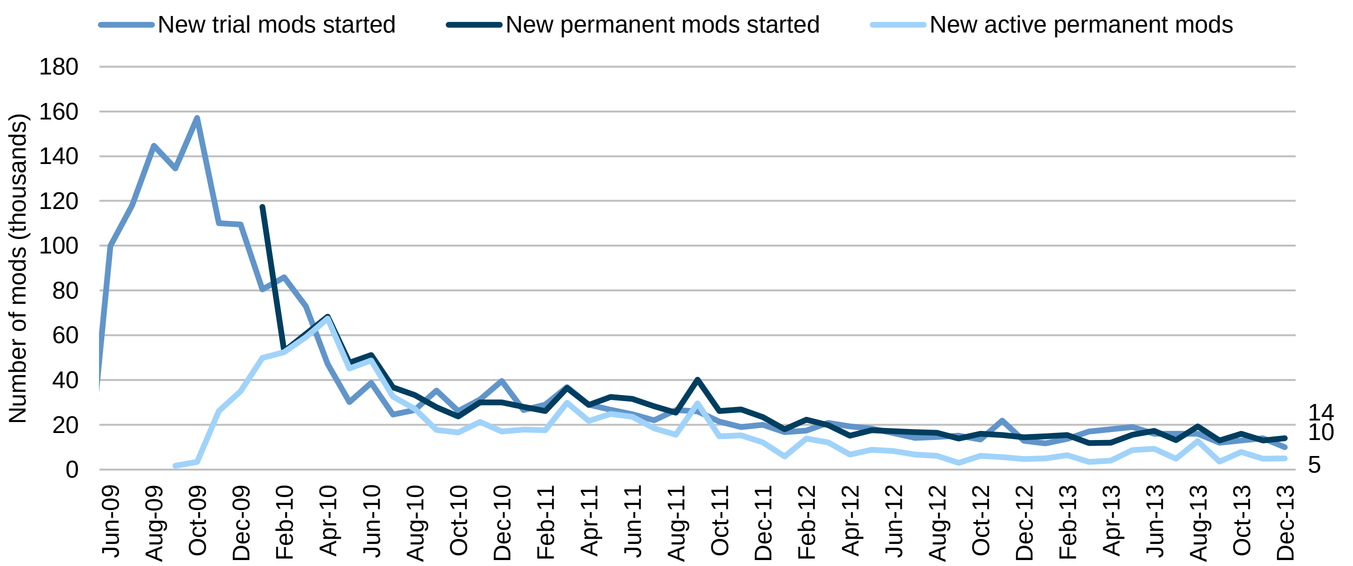
Pre-June 2009			
LTV category	In-the-money	Out-of-the-money	Total
≤80	5,103,151	2,235,012	7,338,163
>80	831,891	500,485	1,332,375
Total	5,935,042	2,735,497	8,670,538
Post-June 2009			
LTV category	In-the-money	Out-of-the-money	Total
≤80	855,572	10,741,732	11,597,305
>80	259,426	2,243,320	2,502,746
Total	1,114,998	12,985,052	14,100,051

Sources: CoreLogic prime servicing data as of December 2013.
Note: Figures are scaled up from source data by a factor of 1/.65 to account for data coverage. Striped box indicates HARP-eligible loans that are in-the-money.

HAMP ACTIVITY

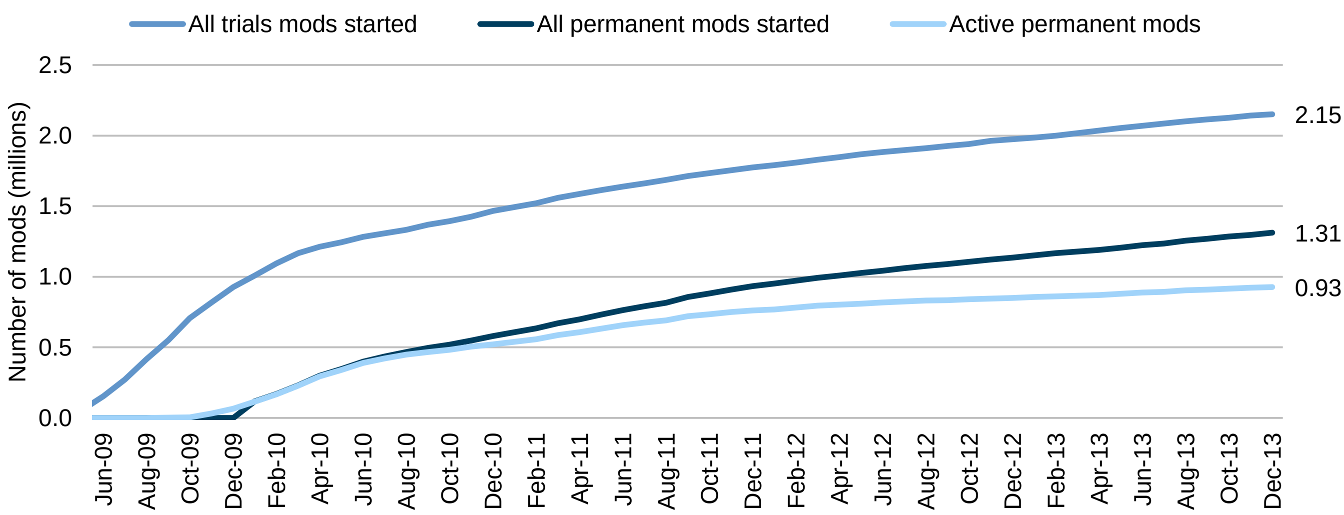
New trial mods have tapered off as new defaults have declined. Modification success rates, however, are improving, so the number of new permanent mods started remains fairly stable. During 2013, new permanent mods started has ranged between 11,913 and 19,318 per month, averaging 14,683. The last data available (December) is slightly below average at 14,000 new permanent modifications. We would expect new permanent mods to begin to taper off in the months ahead, due to sharp declines in new defaults.

New HAMP Modifications



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

Cumulative HAMP Modifications



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

MODIFICATION BY TYPE OF ACTION AND BEARER OF RISK

The share of principal reduction modifications peaked at 20 percent in December 2012 and has dropped in 2013. 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. Principal reduction is most likely to be done on private investor loans, followed by portfolio loans. The GSEs and FHA/VA do not allow this type of modification.

Changes in Loan Terms for Modifications

	9/30/12	12/31/12	03/31/13	6/30/13	9/30/13	One quarter % change	One year % change
Capitalization	88.2	84.6	79.3	81.7	83.6	2.3	-5.3
Rate Reduction	77.1	73.3	80.1	81.0	78.9	-2.6	2.3
Rate Freeze	7.1	3.9	3.7	5.2	5.5	5.0	-22.9
Term Extension	64.9	58.9	60.3	67.7	69.3	2.4	6.7
Principal Reduction	17.2	20.0	15.2	12.1	13.6	11.9	-20.8
Principal Deferral	19.0	20.5	18.2	20.5	25.3	23.5	33.3
Not Reported*	0.4	1.1	0.6	1.4	2.2	57.0	487.8

Sources: OCC Mortgage Metrics Report for the Third Quarter of 2013 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

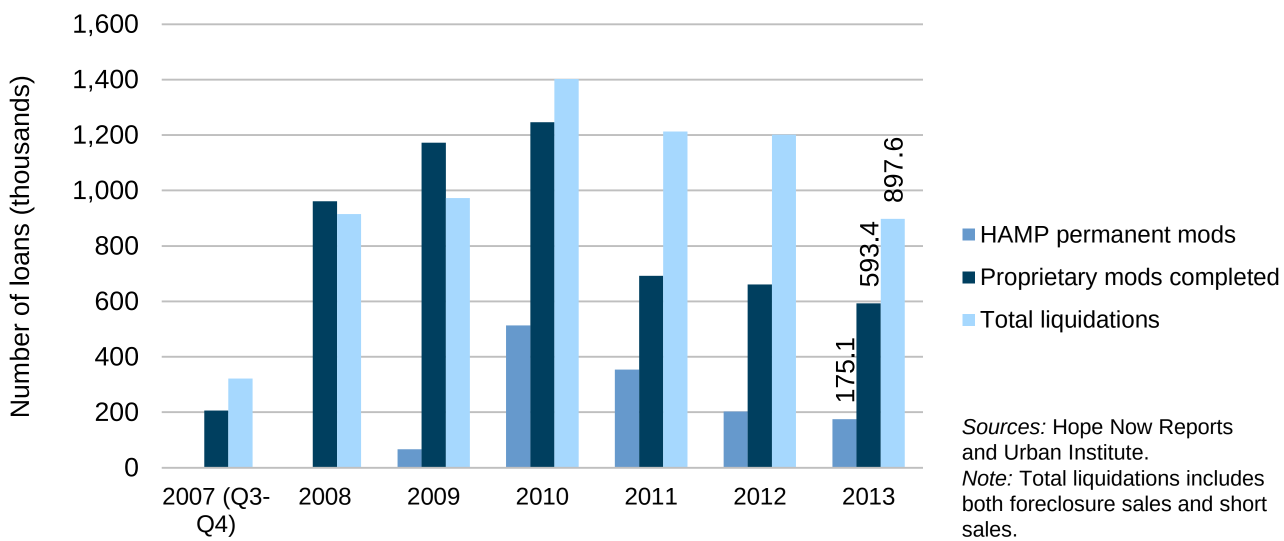
	Fannie Mae	Freddie Mac	Government-guaranteed	Private Investor	Portfolio	Overall
Capitalization	90.1	97.1	60.9	95.2	89.5	83.6
Rate reduction	62.4	78.2	94.7	75.6	76.0	78.9
Rate freeze	10.4	4.2	0.6	4.6	10.1	5.5
Term extension	81.6	90.3	91.1	21.5	60.3	69.3
Principal reduction	0.0	0.2	3.9	25.4	44.1	13.6
Principal deferral	24.0	33.8	15.3	34.2	26.1	25.3
Not reported*	6.4	1.4	0.8	0.9	1.7	2.2

Sources: OCC Mortgage Metrics Report for the Third Quarter of 2013 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).

MODIFICATIONS AND LIQUIDATIONS

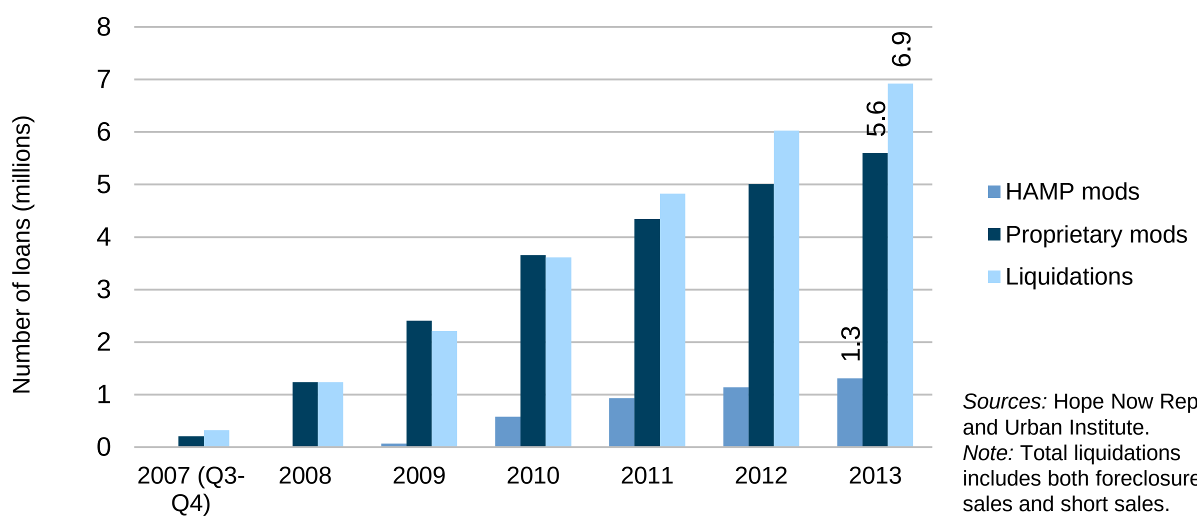
Total modifications (HAMP and proprietary) are now roughly equal to total liquidations. Hope Now reports show 6,912,971 borrowers have received a modification since Q3 2007, compared with 6,923,264 liquidations in the same period. Foreclosure sales dropped 6.2 percent from November to December, to 38,740. Modifications fell by 1.7 percent, to 43,569. Both declines are reflective of the housing market continuing to gain steam.

Loan Modifications and Liquidations



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

Cumulative Modifications and Liquidations

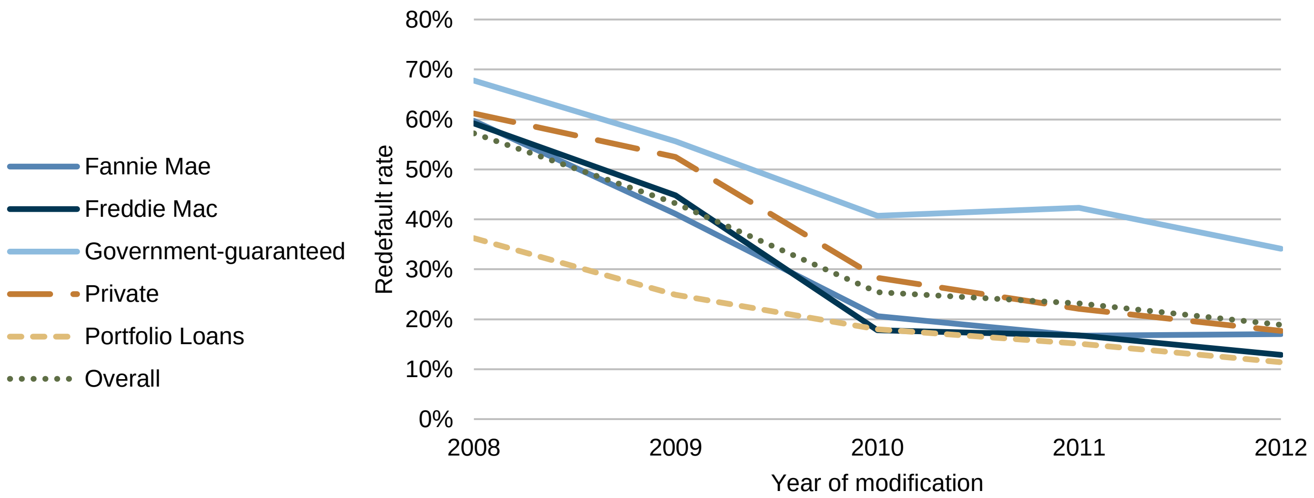


Sources: Hope Now Reports and Urban Institute.
Note: Total liquidations includes both foreclosure sales and short sales.

MODIFICATION REDEFAULT RATES BY BEARER OF THE RISK

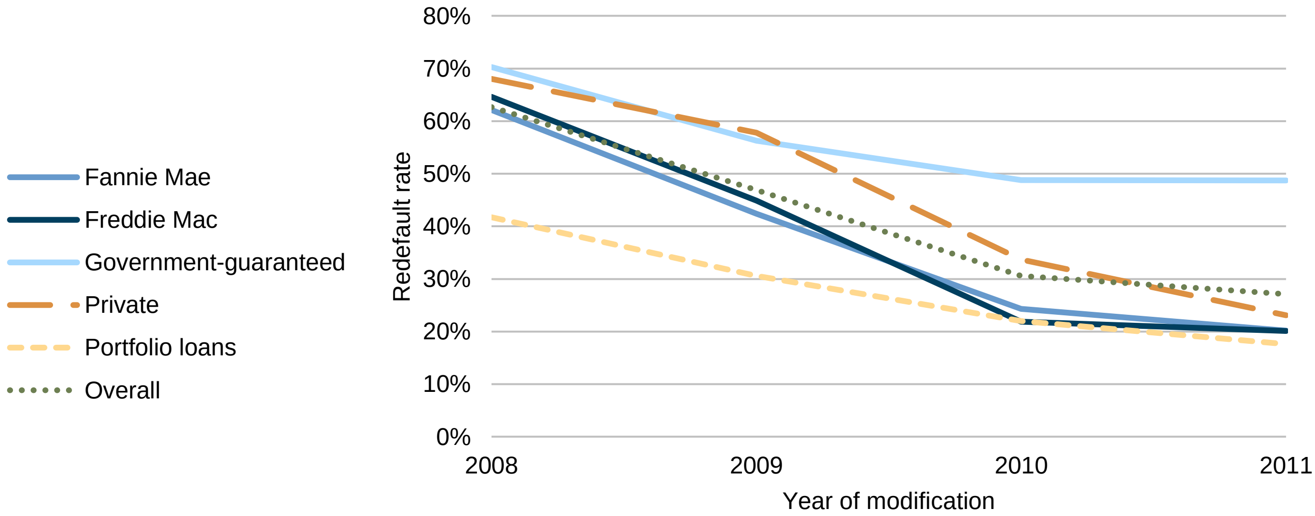
Redefault rates have come down across each sector, especially on private-label modifications. Government-guaranteed mortgages have much higher redefault rates than other product types.

Redefault Rate 12 Months after Modification



Sources: OCC Mortgage Metrics Report for the Third Quarter of 2013 and Urban Institute.

Redefault Rate 24 Months after Modification



Sources: OCC Mortgage Metrics Report for the Third Quarter of 2013 and Urban Institute.

AGENCY GROSS AND NET ISSUANCE

While newly issued agency securities (agency gross issuance) have been robust in 2013, much of the issuance has been driven by refinancing. As that activity has fallen off with rising interest rates, new issuance has fallen off as well. Agency gross issuance totaled 69.8 billion in January 2014, a 56.6 percent decline year-over-year. Net issuance, which excludes repayments, prepayments, and refinances on outstanding mortgages, remains low and dominated by Ginnie Mae. This is unsurprising, given the increased role of FHA and VA during the crisis.

Agency Gross Issuance

Issuance Year	GSEs	Ginnie Mae	Total
2000	$360.6	$102.2	$462.8
2001	$885.1	$171.5	$1,056.6
2002	$1,238.9	$169.0	$1,407.9
2003	$1,874.9	$213.1	$2,088.0
2004	$872.6	$119.2	$991.9
2005	$893.9	$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
Jan 2014	$48.2	$21.6	$69.8

Sources: eMBS and Urban Institute.
Note: Dollar amounts are in billions.

Agency Net Issuance

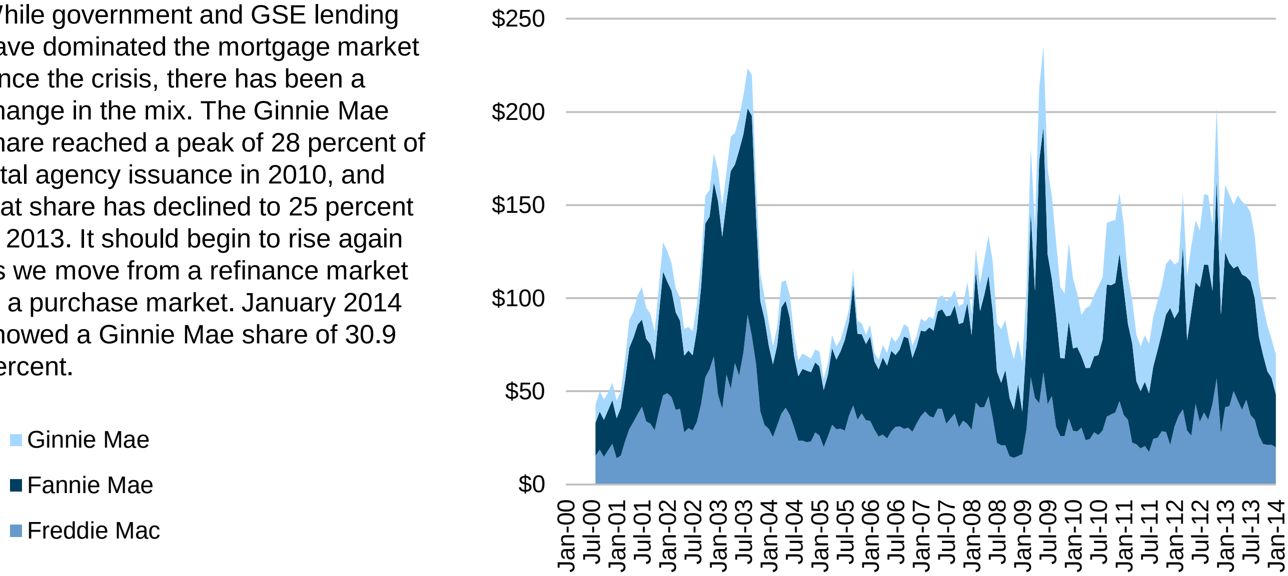
Issuance Year	GSE	Ginnie Mae	Total
2000	$159.8	$29.3	$189.1
2001	$367.8	-$9.9	$357.9
2002	$357.6	-$51.2	$306.4
2003	$335.0	-$77.6	$257.4
2004	$83.3	-$40.1	$43.2
2005	$174.4	-$42.2	$132.1
2006	$313.6	$0.3	$313.8
2007	$514.7	$30.9	$545.5
2008	$314.3	$196.4	$510.7
2009	$249.5	$257.4	$506.8
2010	-$305.5	$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
Jan 2014	-$4.4	$4.9	$0.5

Sources: eMBS and Urban Institute.
Note: Dollar amounts are in billions.

AGENCY GROSS ISSUANCE & FED PURCHASES

Monthly Gross Issuance

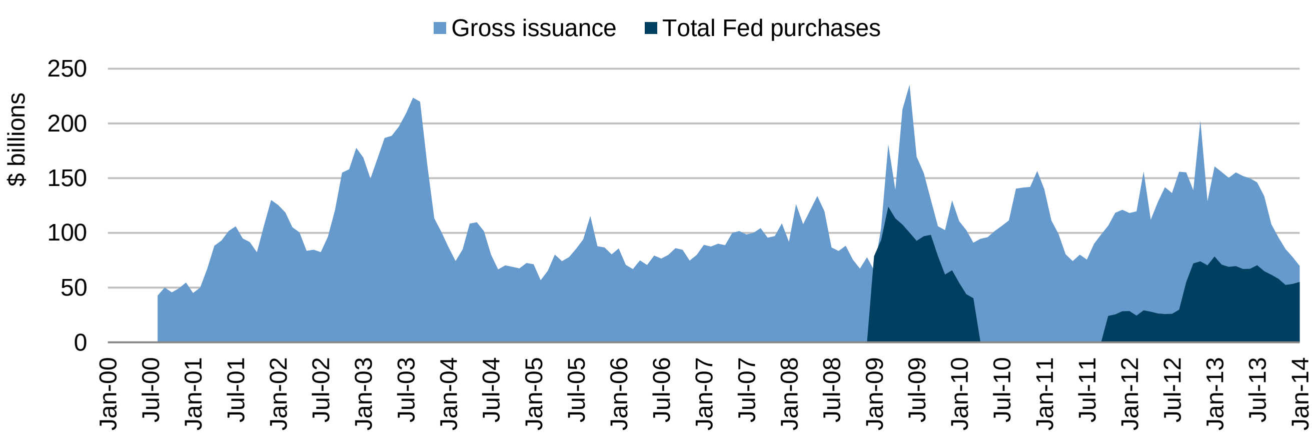
While government and GSE lending have dominated the mortgage market since the crisis, there has been a change in the mix. The Ginnie Mae share reached a peak of 28 percent of total agency issuance in 2010, and that share has declined to 25 percent in 2013. It should begin to rise again as we move from a refinance market to a purchase market. January 2014 showed a Ginnie Mae share of 30.9 percent.



Sources: eMBS and Urban Institute.

Fed Absorption of Agency Gross Issuance

In 2013, the Fed absorbed nearly 50 percent of the year's gross issuance. In December, with agency production lower, and with the Fed not yet tapering, that share rose to 79 percent. The Fed has since tapered twice. They announced in December that new Fed purchases of MBS were going to be reduced from $40 billion/month to $35 billion/month, effective in January. In January, they agreed to reduce monthly purchases of MBS from $35 billion/month to $30 billion/month effective in February. The impact of this will be reflected in the chart below in the coming months, as both gross issuance and Fed purchases will both be down.



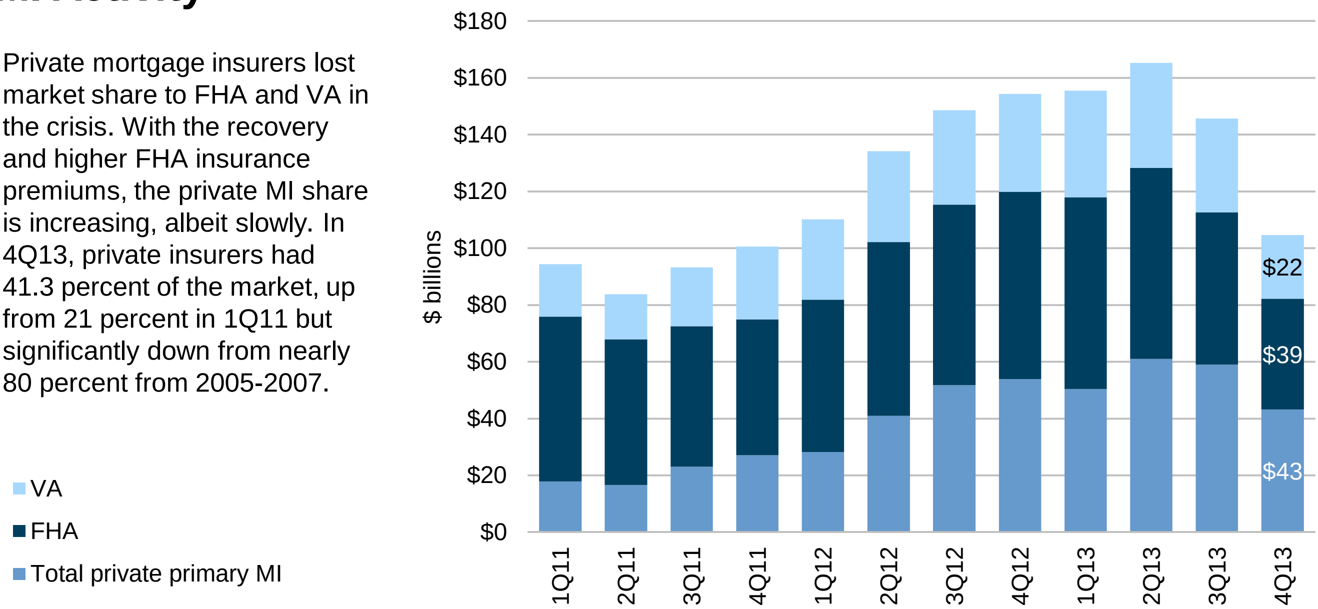
Sources: eMBS, Federal Reserve Bank of New York and Urban Institute.

URBAN INSTITUTE

MORTGAGE INSURANCE ACTIVITY

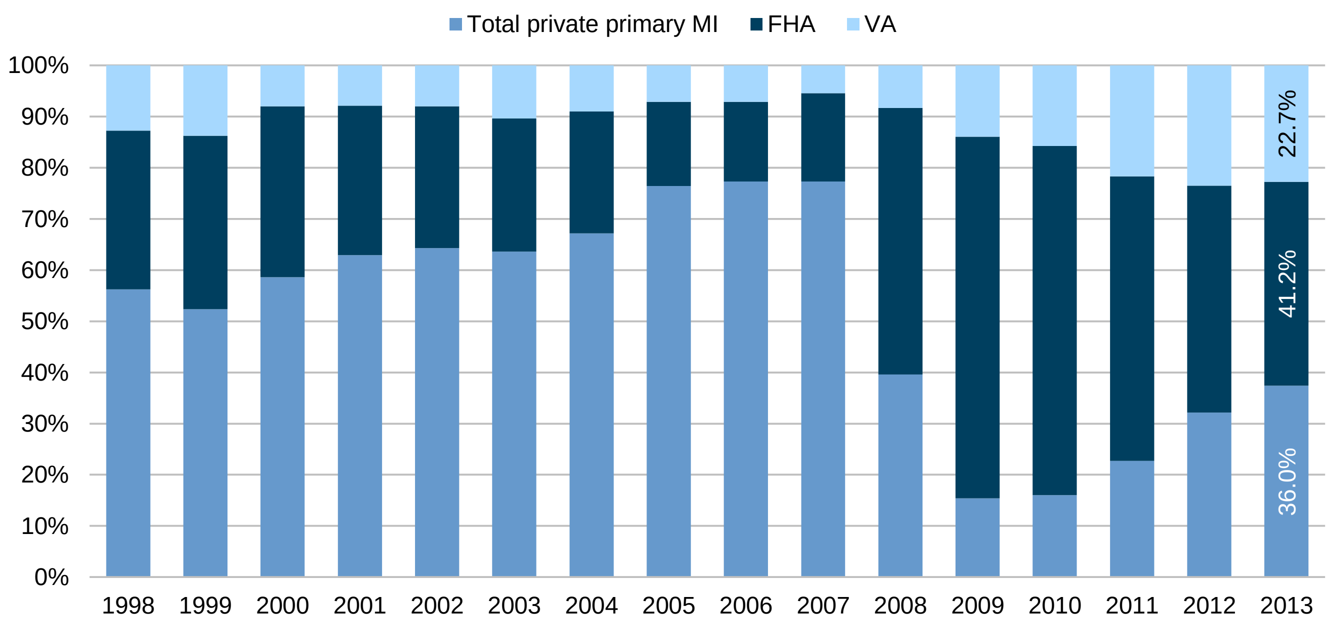
MI Activity

Private mortgage insurers lost market share to FHA and VA in the crisis. With the recovery and higher FHA insurance premiums, the private MI share is increasing, albeit slowly. In 4Q13, private insurers had 41.3 percent of the market, up from 21 percent in 1Q11 but significantly down from nearly 80 percent from 2005-2007.



Sources: Inside Mortgage Finance and Urban Institute.

MI Market Share



Sources: Inside Mortgage Finance and Urban Institute.

MORTGAGE INSURANCE ACTIVITY

The table below charts the history of FHA mortgage insurance premiums since 2001. Note that the most recent change increased the annual premium by 10 bps, from 1.25 to 1.35 percent, and kept the upfront premium at 1.75 percent for mortgages with balances less than $625,500. Annual premiums have more than doubled since 2008, as the FHA has worked to shore up its finances.

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 - 9/30/2008*	175	55
10/1/2008 - 4/4/2010	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 - present[b]	175	135

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 the FHA used a risk based FICO/LTV matrix for MI. This table assumes the average FICO for 2008 purchase originations, ~630.
[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.

RELATED HFPC WORK
PUBLICATIONS AND EVENTS

Upcoming Events

March Data Talk—Recent Research on Strategic Default
The March Data Talk will focus on two papers that discuss Strategic Default. The presenters/co-authors include Paul Willen, Federal Reserve Bank of Boston; Kris Gerardi, Federal Reserve Bank of Atlanta and Michael Bradley, CoreLogic; Amy Crew Cutts, Equifax. Bob Avery of the FHFA will serve as the moderator and discussant. Please check our events page for more information as it becomes available.

Commentaries

The Mortgage Debt Forgiveness Act Has Expired—Renewal Could Benefit Millions
Authors: Laurie Goodman and Ellen Seidman
Date: February 18, 2014

Single-Family Securitized Financing: A Blueprint for the Future?
Author: Laurie Goodman
Date: January 17, 2014

FHA Loan Limits—What Areas Are the Most Affected?
Authors: Laurie Goodman, Ellen Seidman and Jun Zhu
Date: January 16, 2014

Blog Posts

Mortgage Debt Forgiveness Act renewal could benefit millions
Authors: Laurie Goodman and Ellen Seidman
Date: February 18, 2014

Fast pay-off, low down payment loans perform well
Authors: Laurie Goodman, Ellen Seidman and Jun Zhu
Date: January 30, 2014

Extending the HARP cutoff date is no silver bullet
Authors: Bing Bai and Taz George
Date: January 28, 2014

GSE reform legislation? Yes, sir.
Author: Ellen Seidman
Date: January 22, 2014

Are new FHA loan limits a cause for concern?
Author: Ellen Seidman
Date: January 17, 2014

Past Events

Sunset Seminar: Bringing Private Capital Back to the Mortgage Market
Panelists: Laurie Goodman, Director, Housing Finance Policy Center; Eric Kaplan, Managing Director, Mortgage Finance, Shellpoint Partners; Paul Leonard, Senior Vice President, Government Affairs, Financial Services Roundtable
Moderator: Faith Schwartz, Senior Vice President, Government Solutions CoreLogic
February 18, 2014

January Lunchtime Data Talk–Multifamily Housing
Presenters: Jamie Woodwell, Vice President in the Research and Economics group at the Mortgage Bankers Association, and Mark Obrinsky, Senior Vice President for Research and Chief Economist at the National Multi Housing Council
January 13, 2014

December Lunchtime Data Talk: Housing Data: Home Sales, Affordability, and Realtor/Builder Activity
Presenters: Lawrence Yun, Chief Economist and Senior Vice President of Research, National Association of Realtors and David Crowe, Chief Economist and Senior Vice President, National Association of Home Builders
December 9, 2013

Data, Demand, and Demographics: A Symposium on Housing Finance
Presenters: Gene Sperling, Director of the National Economic Council; Ed Glaeser, Harvard University; Mark Fleming, Chief Economist, CoreLogic
November 20, 2013

RELATED HFPC WORK
PUBLICATIONS AND EVENTS

Issue Papers and Briefs

The Impact of Mortgage Rate Increases on Housing Affordability
Authors: Lan Shi, Laurie Goodman
November 12, 2013
By most measures, the US housing market appears to be in strong recovery. House prices have risen consistently since January 2013, and by August, the US median home price was the highest it had been since December 2004. As a result of a stronger economy, mortgage rates also have increased consistently since December 2012. Though these trends indicate that the country is in a housing recovery, they have also made housing less affordable over the past several months. Moreover, employing a unique methodology that accounts for regional differences in debt-to-income and loan-to-value ratios, we find that affordability varies significantly among major metropolitan areas.

Reps and Warrants: Lessons from the GSEs Experience
Authors: Laurie Goodman, Jun Zhu
October 24, 2013
GSE credit has become very tight, with a significant increase in the average credit score of approved loans. How Fannie Mae and Freddie Mac are enforcing their Representations and Warranties (Reps and Warrants) rights is playing a significant role in this phenomenon. In this paper, we use the recently released Freddie Mac and Fannie Mae loan-level credit data and find that put-backs are having an outsized chilling effect on lower FICO/higher LTV loans.

The GSE Reform Debate: How Much Capital Is Enough?
Authors: Laurie Goodman, Jun Zhu
October 24, 2013
This paper shows that collateral composition, house price experience, and diversification significantly affect credit risk, and thus the amount of private capital needed in front of any government catastrophic guarantee of mortgages in the secondary market.

Eminent Domain: The Debate Distracts from Pressing Problems
Author: Pamela Lee
October 24, 2013
Richmond, CA, has taken steps to become the first city in the nation to vote to use its powers of eminent domain to seize underwater loans and, the city argues, prevent foreclosures and neighborhood blight. We look at several cities that have considered this controversial strategy, evaluating what they have in common, and whether the plan, as proposed, will address the problems they face.

QRM Comment Letter: Credit Risk Retention
Author: Laurie Goodman
October 24, 2013
On August 22, the six regulatory agencies proposed rules for risk retention under Section 941 of the Dodd Frank Act. In this comment letter, we focused on one aspect of the proposal, the Qualified Residential Mortgage (QRM) definition for residential mortgage backed securities.

Testimony

Housing Finance Reform: Fundamentals of Transferring Credit Risk in a Future Housing Finance System
Author: Laurie Goodman
December 10, 2013
The GSEs recently completed three transactions that transferred some of the risk from their guarantor book of business to private investors. In the context of reforms to the nation's housing finance system, this testimony before the Senate Banking Committee focuses on the extent to which these deals are transferrable, and to what degree.