HOUSING FINANCE POLICY CENTER

URBAN INSTITUTE

HOUSING FINANCE AT A GLANCE

A MONTHLY CHARTBOOK

June 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 state of the housing market and broader economy is inextricably intertwined with the state of credit access and housing affordability. Housing is less affordable than a year ago, as mortgage rates have risen 65 basis points (page 11) and home prices have risen 10.5 percent, but still affordable by historic standards (pages 16-17). The real problem we see in today's market is that credit is tight for borrowers with less-than-stellar credit scores. At the end of the first quarter of 2014, the mean FICO score at origination was 743, up nearly 50 basis points since 2001 (page 14).

Request for input on guarantee fees

We were pleased to see recent actions by the Federal Housing Finance Agency (FHFA) to address access to credit. On June 5, the FHFA requested input on changes to both the overall level of guarantee fees and to the loan-level pricing adjustments (LLPAs), upfront fees on riskier loans. FHFA is seeking very broad input, asking about the factors and goals that should be considered in setting g-fees, as well as the allocation of capital across risk buckets. The responses may allow FHFA to determine what action to take on g-fees and LLPAs. It is clear that in Mel Watt's FHFA, LLPAs could decline. In two recent blog posts we showed that the GSEs are failing to reach less-than-pristine borrowers. Watt's FHFA would like to change this, and their request for input on g-fees is another early step down that path.

Federal Housing Administration (FHA) actions to reduce overlays

FHA is also concerned about access to credit. The same day that Mel Watt gave his maiden speech as director of the FHFA, FHA announced its Blueprint for Access, a set of initiatives including the Homeowner Armed with Knowledge (HAWK) program, in which borrowers who commit to housing counseling receive a discount on their upfront and annual FHA mortgage insurance premiums. The initiatives also include quality assurance efforts intended to resolve some of lenders' uncertainty about how FHA underwriting rules are applied, which should relieve pressure on lenders to apply overlays to FHA lending. Overlays have become a huge issue for FHA, the traditional lender of last resort. The proportion of FHA borrowers with FICO credit scores under 640 shrunk from 47 percent in 2001 to less than 3 percent today. In a recent commentary, we examine FHA's proposed Supplemental Performance Metric, which would supplement the Lender Compare Ratio, a measure that looks at a lender's serious delinquency rate without consideration of the composition of the lender's book of business. We applaud that action and propose a slight variation of the new metric to eliminate incentives to limit lending to only a fraction of borrowers who would otherwise qualify for an FHA loan.

We welcome feedback from our readers on how we can make At A Glance a more useful publication. Please e-mail any comments or questions to ataglance@urban.org.

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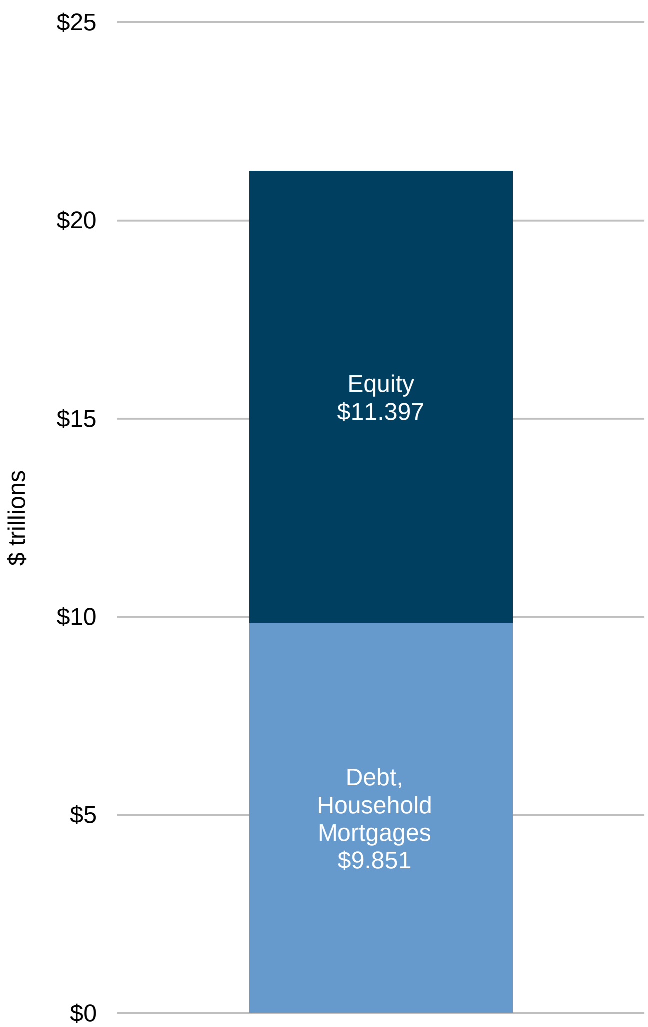
MARKET SIZE OVERVIEW

Home values continue to improve, with the Q1 2014 Fed Flow of Funds data indicating an increase in the total value of the US residential 1-4 unit housing market to 21.2 trillion, from 20.4 trillion in Q4 2013. Just under half of the market, $9.85 trillion, is mortgage debt, a slight downtick from the previous quarter, while household equity increased over $800 billion to $11.4 trillion. Agency MBS make up 56.2 percent of the total, private-label securities make up 7.8 percent, and unsecuritized first liens at commercial banks, savings institutions, and credit unions make up 24.0 percent. Second liens and GSE loans in portfolio comprise the remaining 7.0 and 4.9 percent of the total, respectively.

Value of the US Housing Market

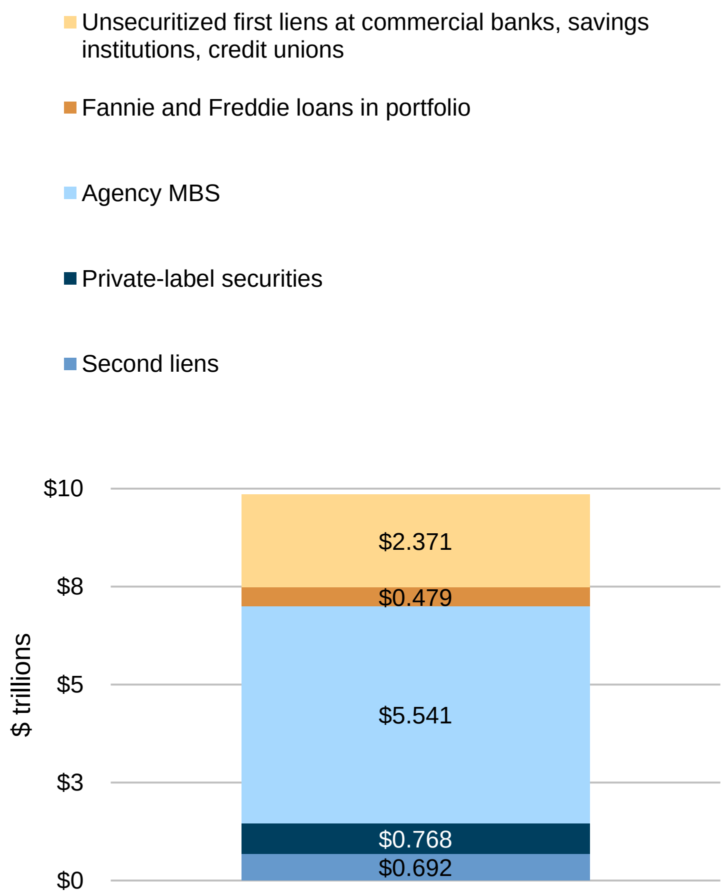
as of Q1 2014



Source: Federal Reserve Flow of Funds and Urban Institute.

Size of the US Residential Mortgage Market

as of Q1 2014



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

MARKET SIZE OVERVIEW

As of April 2014, 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. Outstanding securities in the agency market, as of Q1 2014, are 46.5 percent Fannie Mae, 28.2 percent Freddie Mac, and 25.3 percent Ginnie Mae.

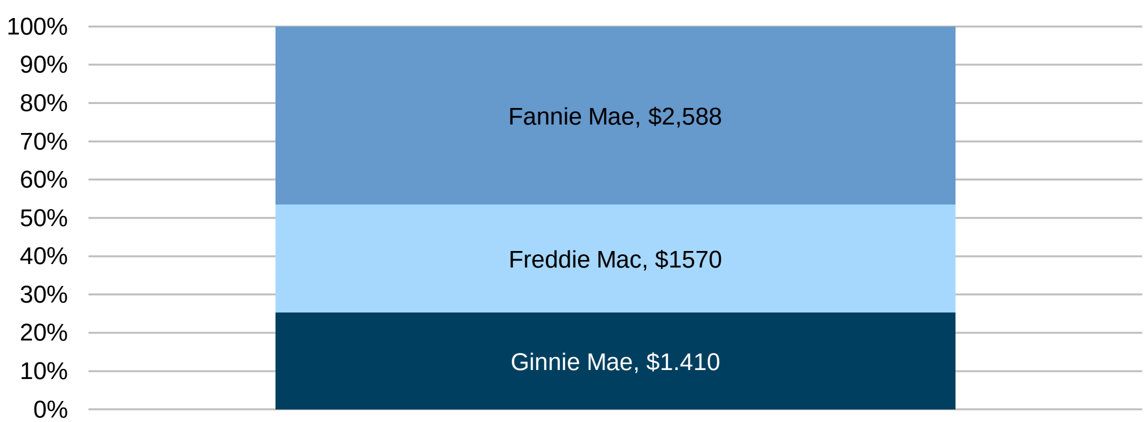
Private Label Securities by Product Type

as of April 2014; dollars in billions

Sources: CoreLogic and Urban Institute.

Agency Mortgage-Backed Securities

as of Q1 2014; dollars in trillions

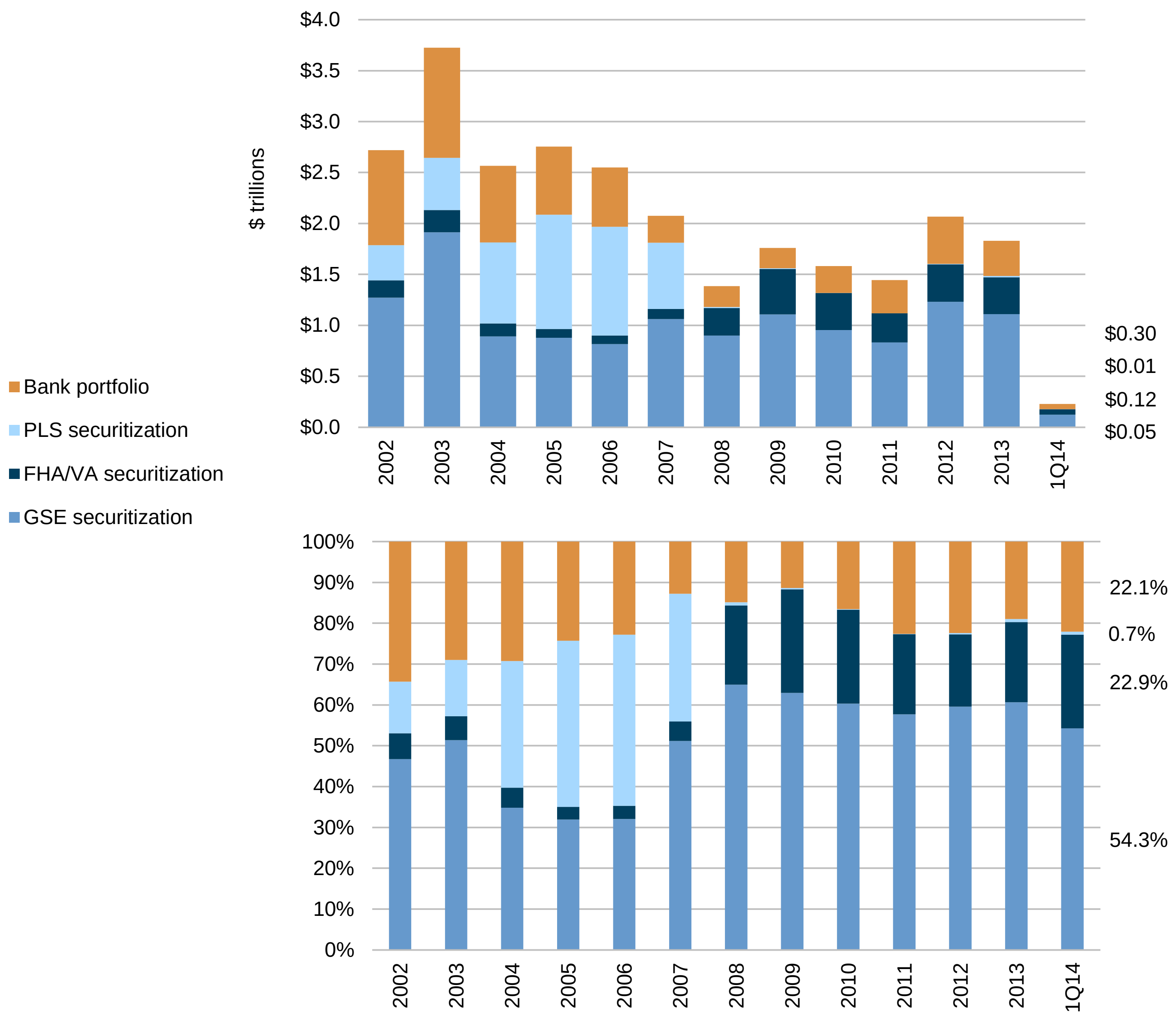


Sources: Fannie Mae, Freddie Mac, Ginnie Mac, and Urban Institute.

ORIGINATION VOLUME AND COMPOSITION

First lien originations in Q1 2014 began far below their 2013 pace, totaling only $123.6 billion. The share of bank portfolio and FHA/VA originations rose to around 22 percent each, while the GSE share dropped to 54 percent from 61 percent in 2013, reflecting the curtailment of refinancing activity. The private label origination share remains less than one percent.

First Lien Origination Volume and Share



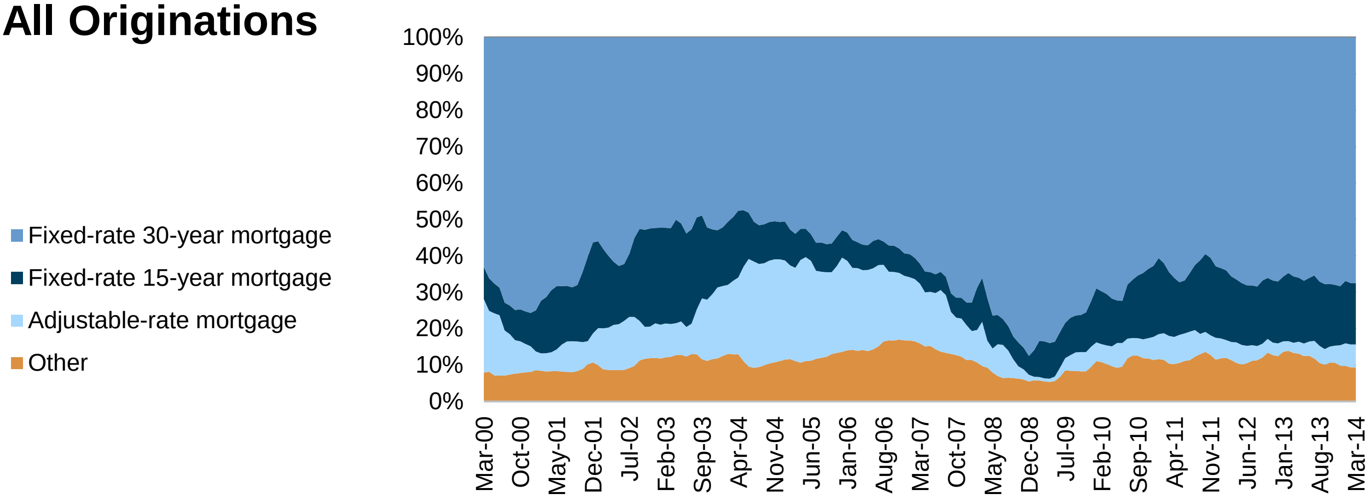
Sources: Inside Mortgage Finance and Urban Institute.

OVERVIEW

MORTGAGE ORIGINATION PRODUCT TYPE

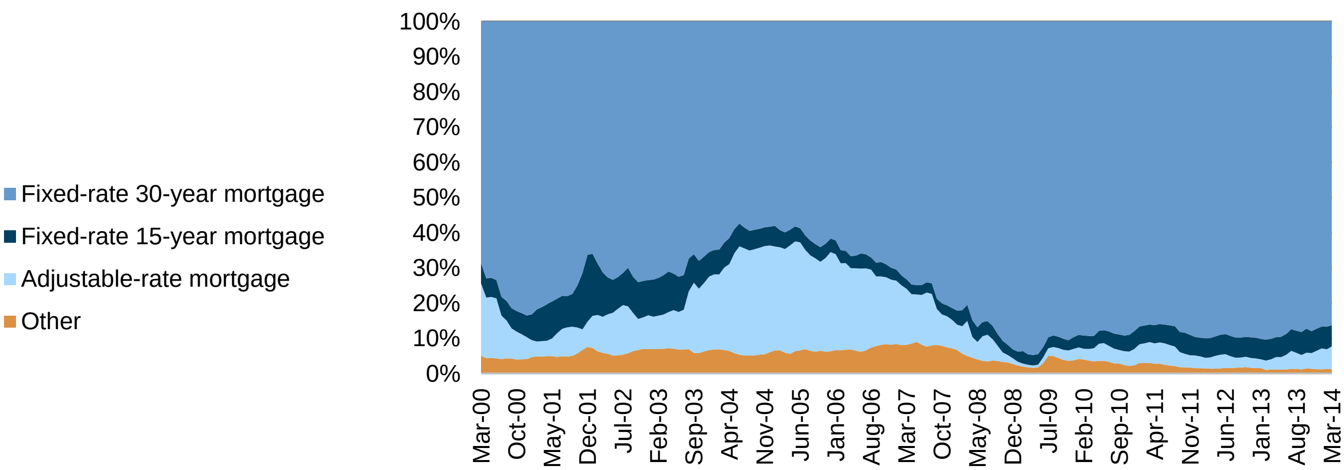
Adjustable-rate mortgages (ARMs) accounted for as much as 29 percent of all new originations during the peak of the recent housing bubble in 2005 (top chart). They fell to a historic low of 1 percent in 2009, and now consist of 6 percent of total originations. Fifteen-year FRMs, predominantly a refinance product, comprise 17 percent of new originations. If we exclude refinances (bottom chart), the share of 30-year FRMs in March 2014 stood at 86 percent, 15-year FRMs at 6 percent, and ARMs at 6 percent.

All Originations



Sources: CoreLogic Prime Servicing and Urban Institute.

Purchase Loans Only

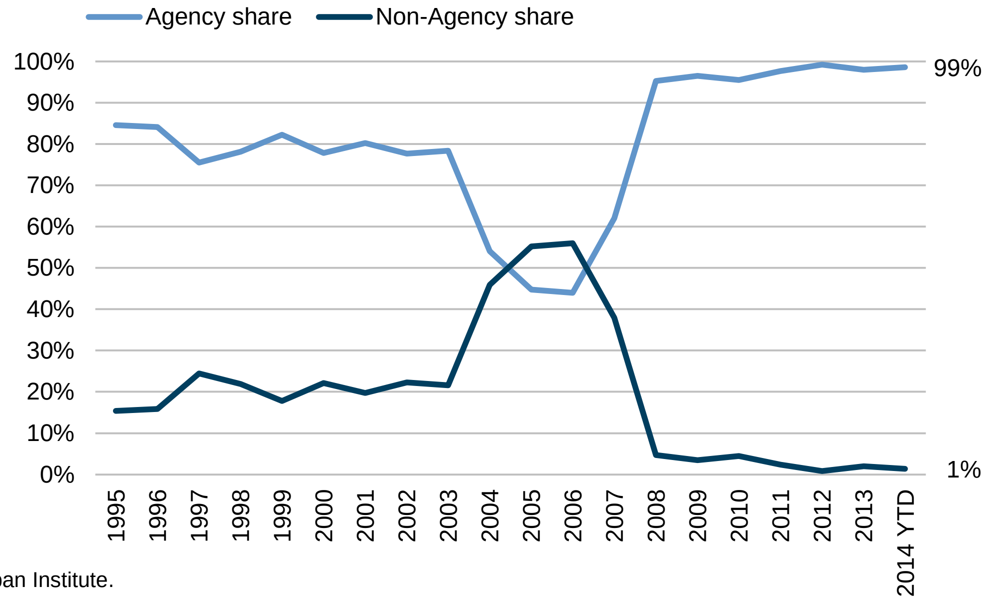


Sources: CoreLogic Prime Servicing and Urban Institute.

SECURITIZATION VOLUME AND COMPOSITION

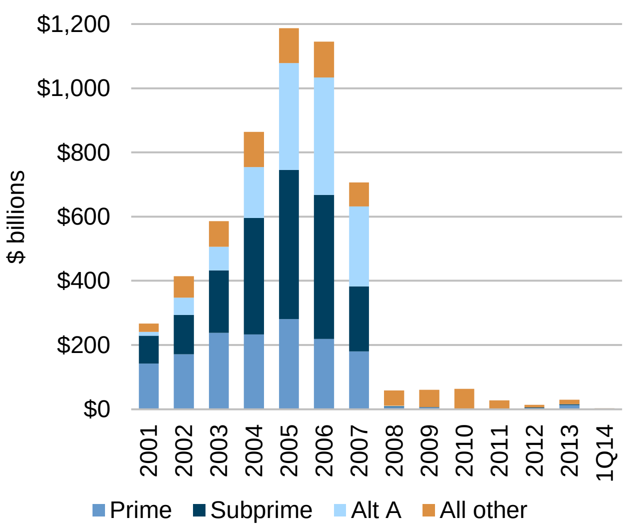
Agency/Non-Agency Share of Residential MBS Issuance

Non-agency single-family MBS issuance has hovered at or below 2 percent of total issuance since early 2011, and this share is even lower if re-REMICs are excluded. The environment in 2014 has not been favorable for new non-agency deals. In the first five months of 2014, total non-agency issuance was $4.5 billion, compared to $16.1 billion over the same period in 2013. May 2014 was the first month in 2 years with absolutely no new non-agency deals.



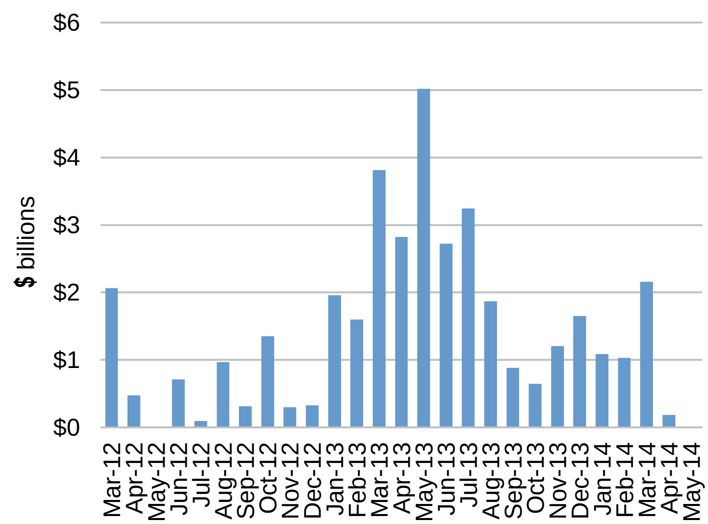
Sources: Inside Mortgage Finance and Urban Institute.
Note: Year-to-date figures as of May 2014.

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.

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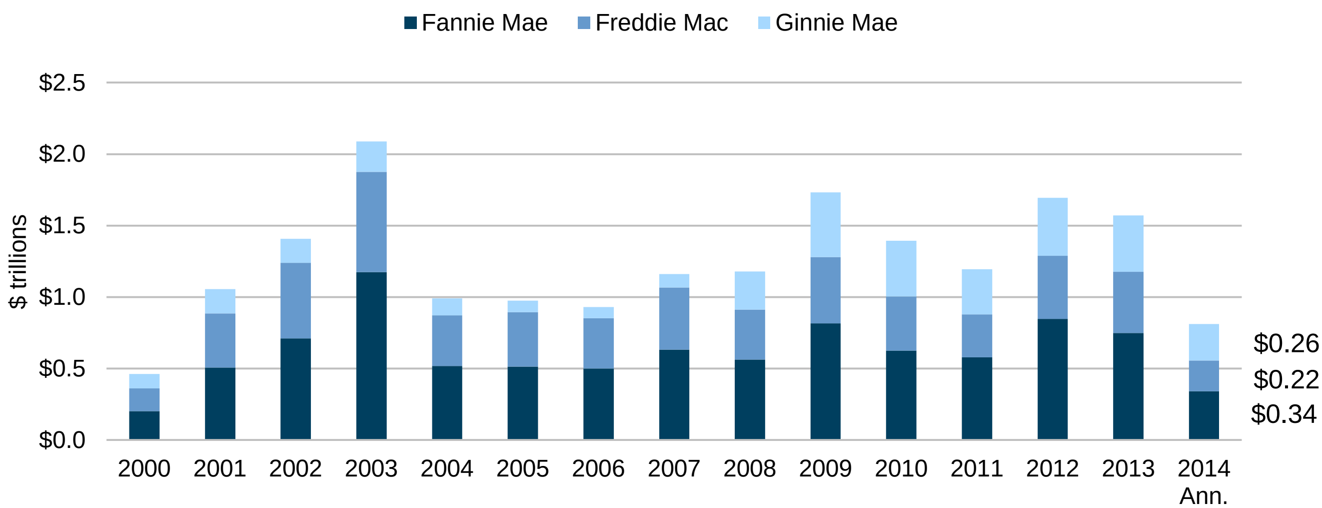
OVERVIEW
AGENCY ACTIVITY: VOLUMES AND PURCHASE/REFI COMPOSITION

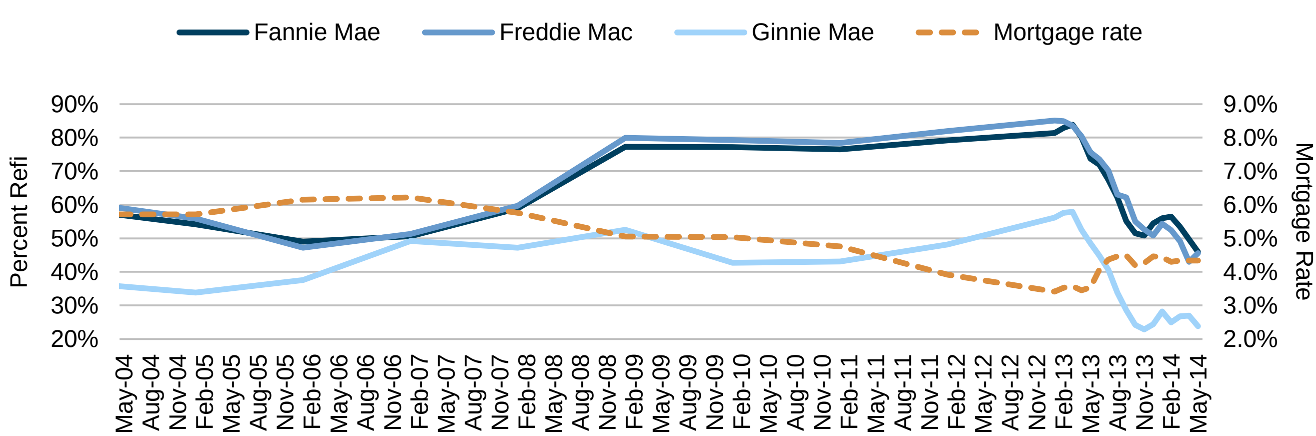
Agency issuance continues declining, totaling $329.4 billion in the first five months of 2014, compared to $773.8 billion for the same period a year ago. In May 2014, refinances were 46 percent of the GSEs' business, down from the first quarter's average of 52 and 57 percent. The Ginnie Mae market has always been more purchase-driven, with refinance volume of 24 percent in May 2014.

Agency Gross Issuance



Sources: eMBS and Urban Institute.
Note: Year to date as of May 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 late 2013 and early 2014, combined with higher interest rates in the second half of 2013 and the Fed tapering, has led to lower origination projections from the GSEs and MBA. Home sales are expected to be slightly softer in 2014 than in 2013, while housing starts are expected to pick up steam. And both housing starts and home sales are expected to strengthen considerably in 2015. Interest rates will edge up through the end of the year and in 2015, contributing to a sharp decline in the refinance share.

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
2013 Q1	532	532	524	73	73	74
2013 Q2	572	572	537	65	65	66
2013 Q3	450	450	401	52	52	51
2013 Q4	358	350	293	52	51	53
2014 Q1	237	300	226	48	48	49
2014 Q2	322	390	267	39	40	41
2014 Q3	302	320	289	32	33	38
2014 Q4	261	240	264	30	33	36
2015 Q1	237	285	290	32	30	35
2015 Q2	302	360	307	23	20	33
2015 Q3	297	280	324	23	15	32
2015 Q4	263	200	296	24	15	35
FY 2011	1496	1492	1436	66	64	65
FY 2012	2153	2122	2044	72	70	71
FY 2013	1913	1925	1755	62	61	63
FY 2014	1122	1250	1046	37	39	41
FY 2015	1099	1125	1217	25	20	34

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. Forecasts include interest rates as well. The yearly averages for 2011, 2012, and 2013 were 4.5%, 3.7%, and 4.0%, respectively. The three sources' projected annual average rates for 2014 and 2015 range from 4.4% to 4.7%, and 4.8% to 5.2%, respectively.

Housing Starts and Homes Sales

Year	Housing Starts, thousands			Home Sales				
	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	4566	4570	4501	4200	301
FY 2012	781	780	783	5028	5030	5030	4661	369
FY 2013	925	930	929	5519	5500	5505	5073	432
FY 2014	1050	1090	1015	5457	5500	5454	4976	478
FY 2015	1273	1400	1196	5834	5960	6111	5568	543

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.

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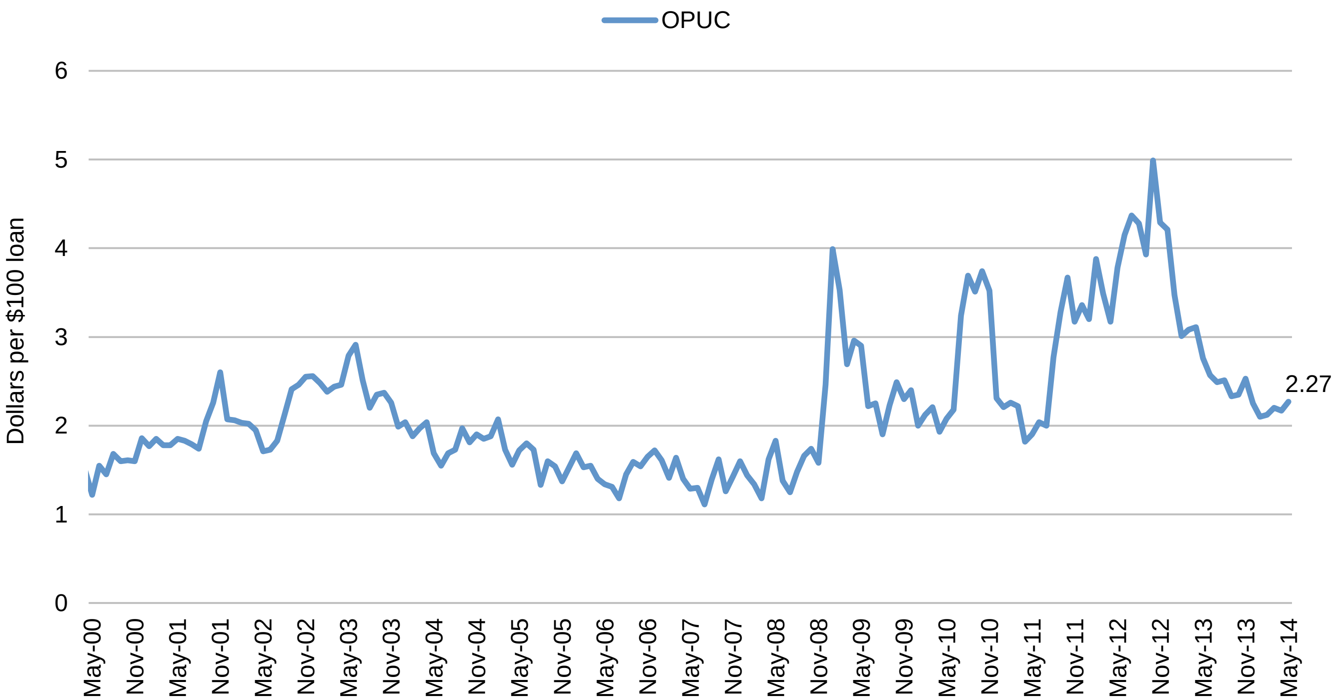
ORIGINATOR PROFITABILITY

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

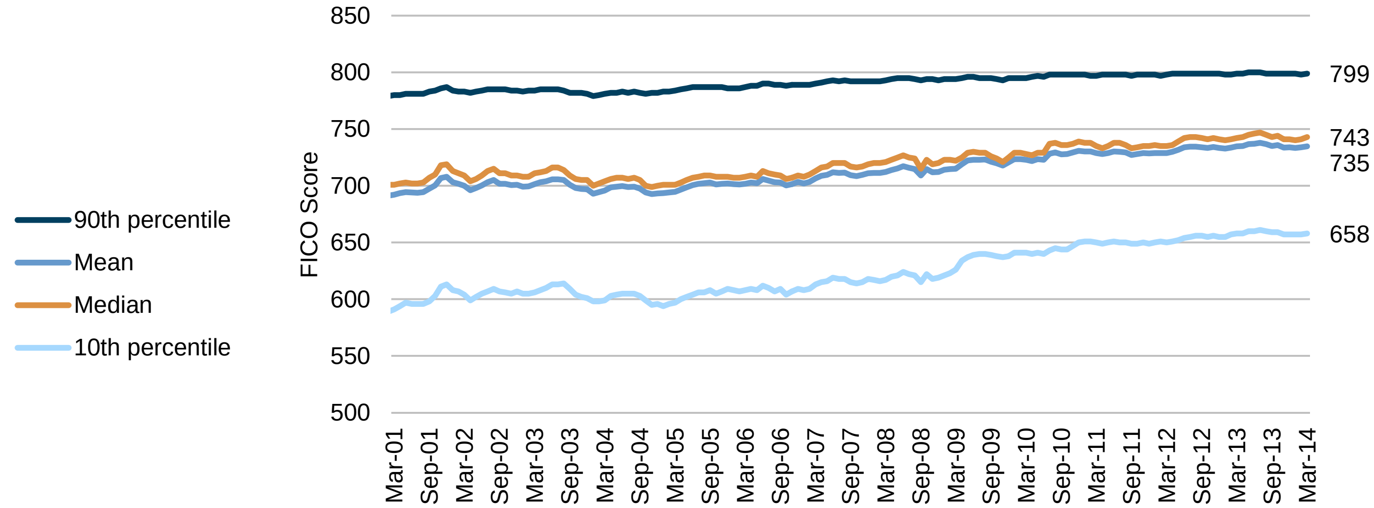


Sources: Federal Reserve Bank of New York, updated monthly and available at this link: http://www.ny.frb.org/research/epr/2013/1113fust.html and Urban Institute.
Note: OPUC stands for "originator profits and unmeasured costs" as discussed in Fuster et al. (2013). The OPUC series is a monthly (4-week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

CREDIT AVAILABILITY FOR PURCHASE LOANS

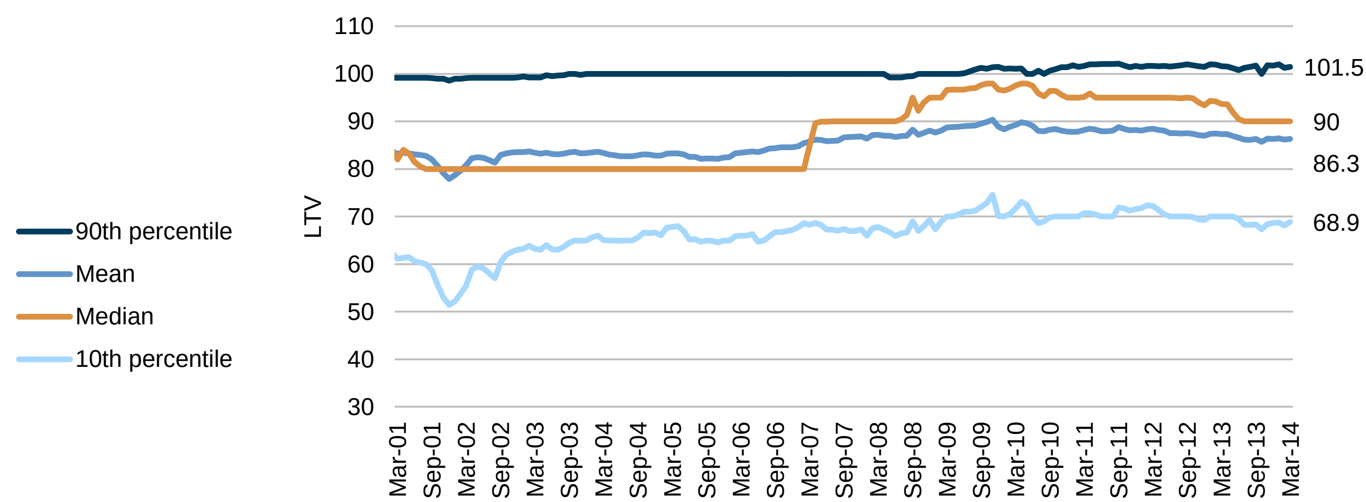
Access to credit has become extremely tight, especially for borrowers with low FICO scores. The mean and median FICO scores on new originations have drifted up about 39 points over the last decade. The 10th percentile of FICO scores, which represents the lower bound of creditworthiness needed to qualify for a mortgage, stood at 658 as of March 2014. Prior to the housing crisis, this threshold held steady in the low 600s. LTV levels at origination remain relatively high, averaging 86.3, which reflects the large number of FHA purchase originations.

Borrower FICO Score at Origination



Sources: CoreLogic Prime Servicing and Urban Institute.
Note: Purchase-only loans.

Combined LTV at Origination

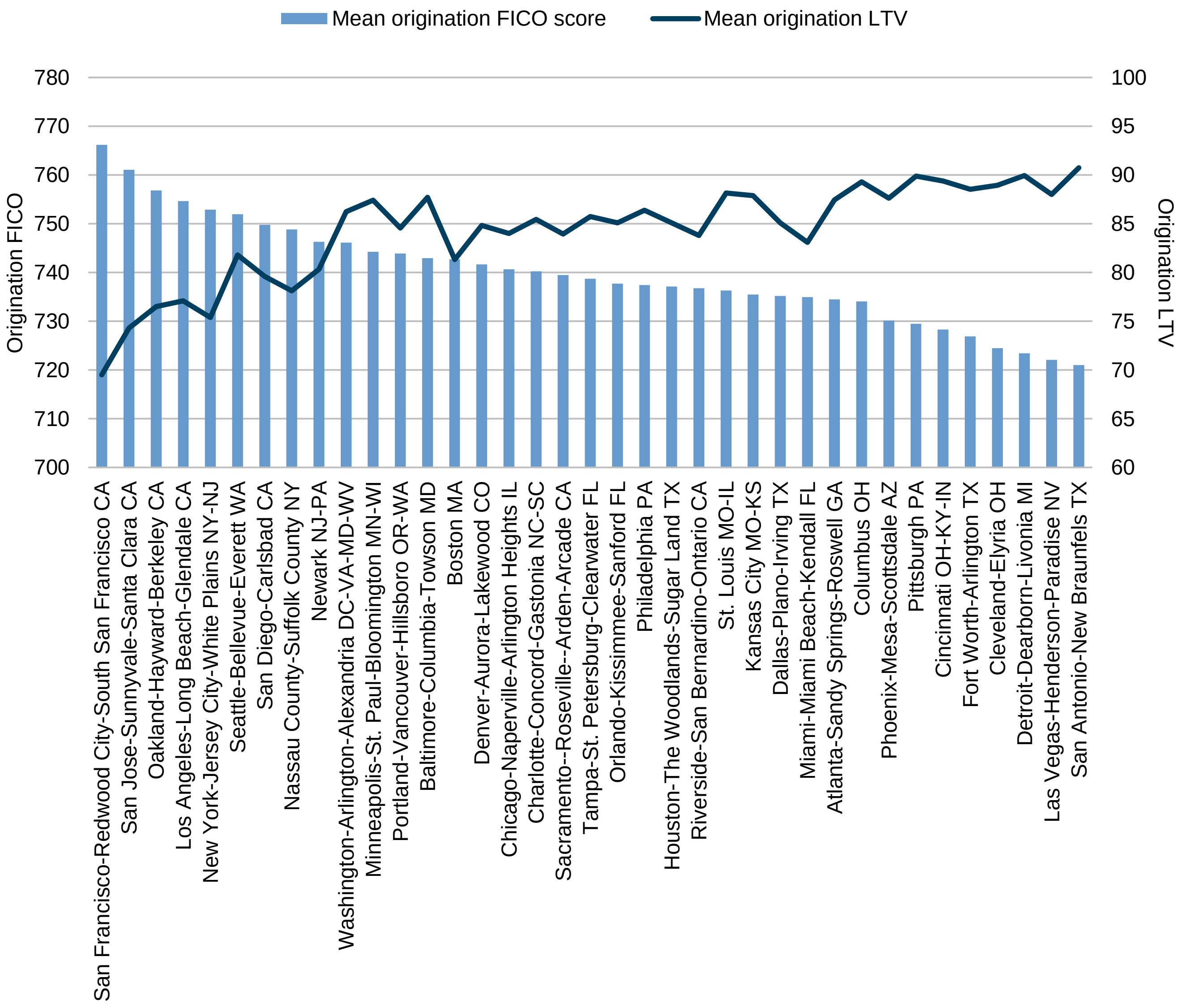


Sources: CoreLogic Prime Servicing and Urban Institute.
Note: Purchase-only loans.

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. For example, the mean origination FICO for borrowers in San Francisco- Redwood City- South San Francisco, CA is 766, while in San Antonio-New Braunfels, TX 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 by MSA

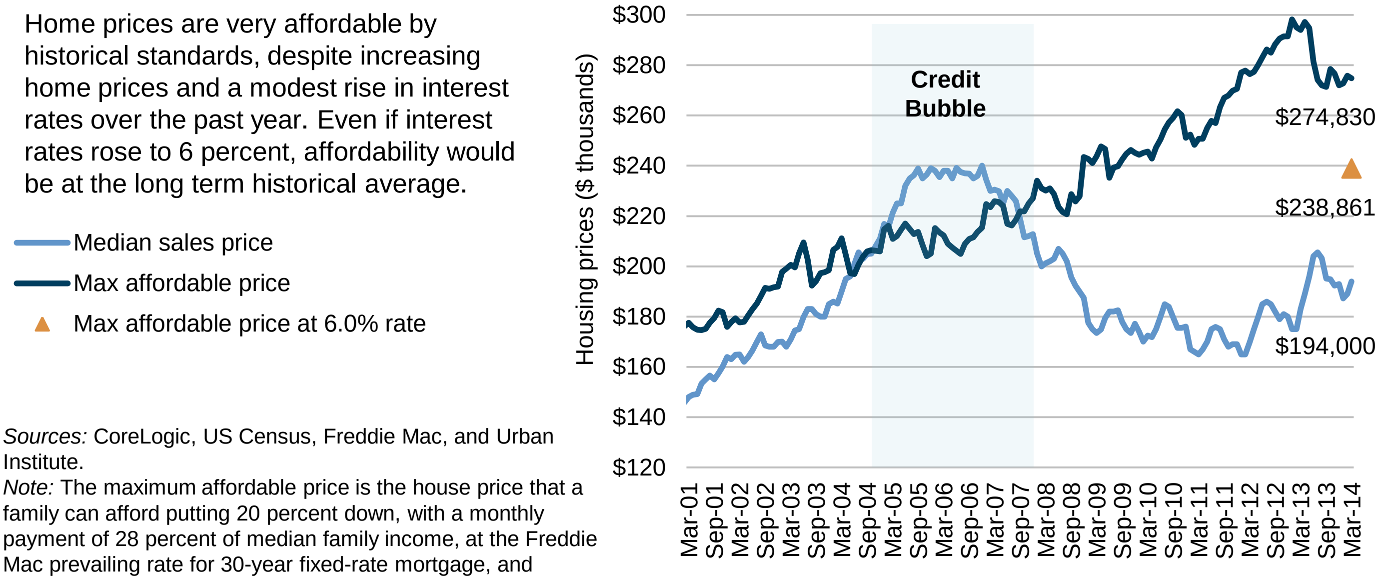


Sources: CoreLogic Prime Servicing as of March 2014 and Urban Institute.
Note: Purchase-only loans.

HOUSING AFFORDABILITY

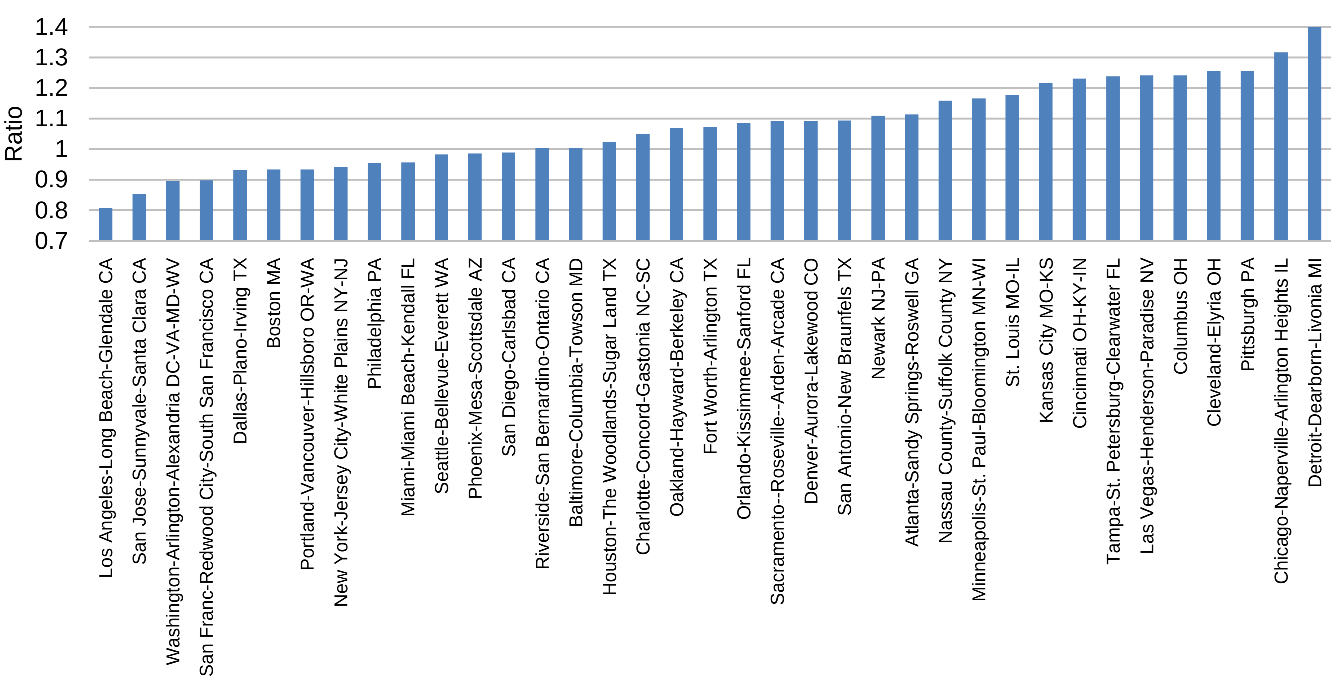
National Housing Affordability Over Time

Home prices are very affordable by historical standards, despite increasing home prices and a modest rise in interest rates over the past year. Even if interest rates rose to 6 percent, affordability would be at the long term historical average.



Sources: CoreLogic, US Census, Freddie Mac, and Urban Institute.
Note: The maximum affordable price is the house price that a family can afford putting 20 percent down, with a monthly payment of 28 percent of median family income, at the Freddie Mac prevailing rate for 30-year fixed-rate mortgage, and property tax and insurance at 1.75 percent of housing value.

Affordability Adjusted for MSA-Level DTI

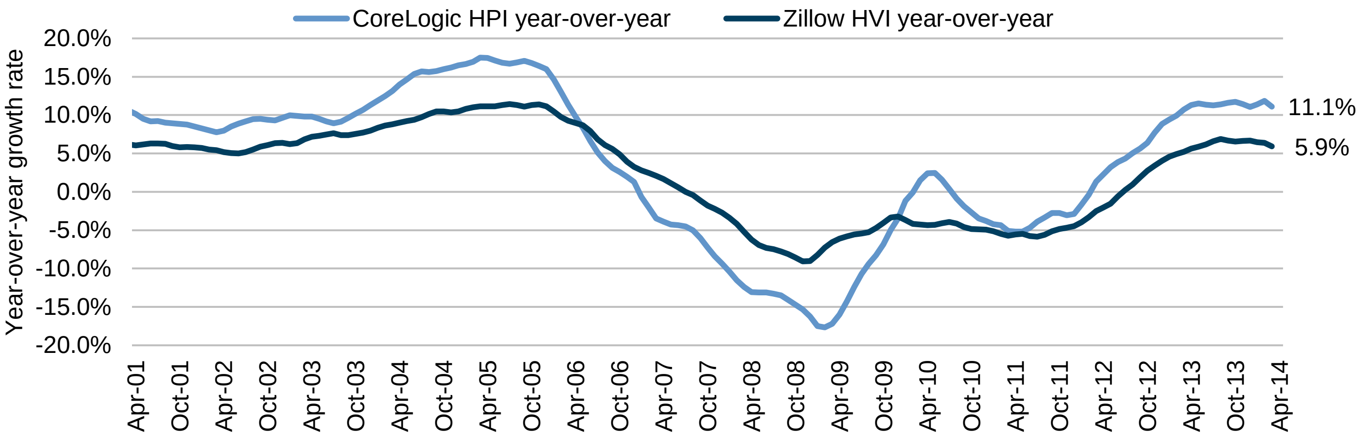


Sources: CoreLogic, US Census, Freddie Mac, and UI calculations based on NAR methodology.
Note: Affordability index is calculated relative to home prices in 2000-03. A ratio above 1 indicates higher affordability in March 2014 than in 2000-03.

HOME PRICE INDICES

National Year-Over-Year HPI Growth

The strong year-over-year house price growth through 2013 has flattened out through April 2014, 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 27.3 percent from the trough, national house prices still must grow 16.7 percent to reach pre-crisis peak levels. At the MSA level, three of the top 15 MSAs have reached their peak HPI– Houston, TX; Dallas, TX; and Denver, CO. Two MSAs particularly hard hit by the bust– Riverside, CA and Phoenix, AZ– would need to rise over 40 percent to return to peak prices.

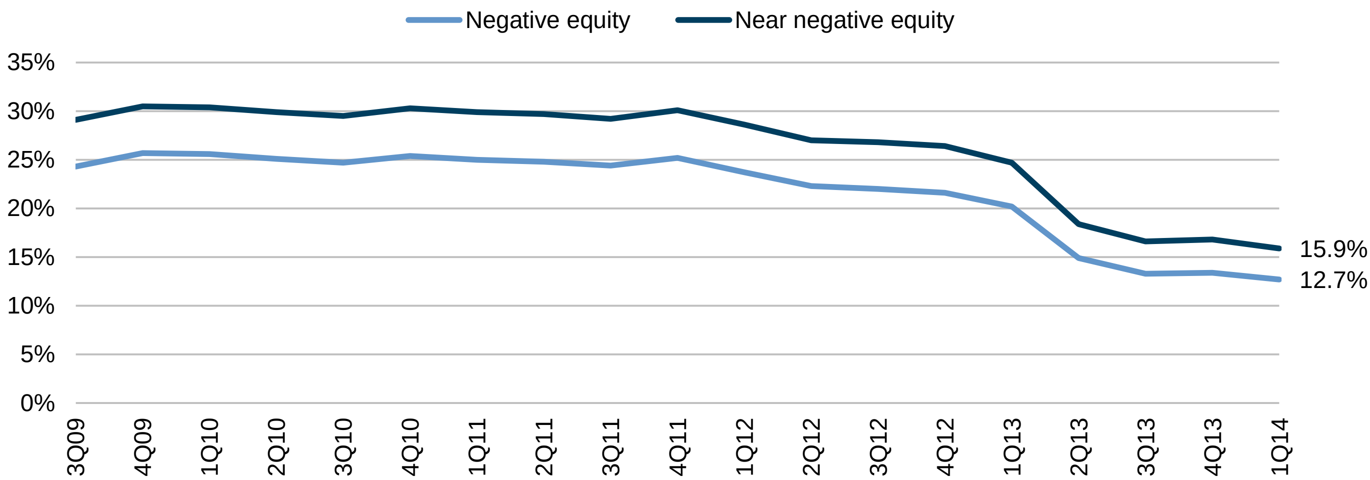
MSA	HPI changes (%)			% Rise needed to achieve peak
	2000 to peak	Peak to trough	Trough to current	
United States	99.3	-32.6	27.3	16.7
New York-Jersey City-White Plains NY-NJ	116.6	-20.1	16.0	7.8
Los Angeles-Long Beach-Glendale CA	182.0	-39.3	40.5	17.2
Chicago-Naperville-Arlington Heights IL	65.7	-36.5	17.8	33.8
Atlanta-Sandy Springs-Roswell GA	40.7	-33.6	32.4	13.8
Washington-Arlington-Alexandria DC-VA-MD-WV	160.4	-33.5	28.8	16.8
Houston-The Woodlands-Sugar Land TX	44.4	-12.7	29.2	-11.3
Phoenix-Mesa-Scottsdale AZ	126.3	-52.8	48.6	42.7
Riverside-San Bernardino-Ontario CA	194.5	-53.4	44.9	48.1
Dallas-Plano-Irving TX	38.1	-13.8	24.3	-6.6
Minneapolis-St. Paul-Bloomington MN-WI	74.3	-30.8	22.0	18.5
Seattle-Bellevue-Everett WA	94.2	-32.2	32.4	11.5
Denver-Aurora-Lakewood CO	36.2	-14.6	30.0	-9.9
Baltimore-Columbia-Towson MD	128.7	-25.8	9.7	22.9
San Diego-Carlsbad CA	149.1	-38.4	36.2	19.2
Anaheim-Santa Ana-Irvine CA	163.0	-37.2	37.3	15.9

Sources: CoreLogic HPIs as of April 2014 and Urban Institute.
Note: This table includes the largest 15 Metropolitan areas by mortgage count.

NEGATIVE EQUITY & SERIOUS DELINQUENCY

Negative Equity Share

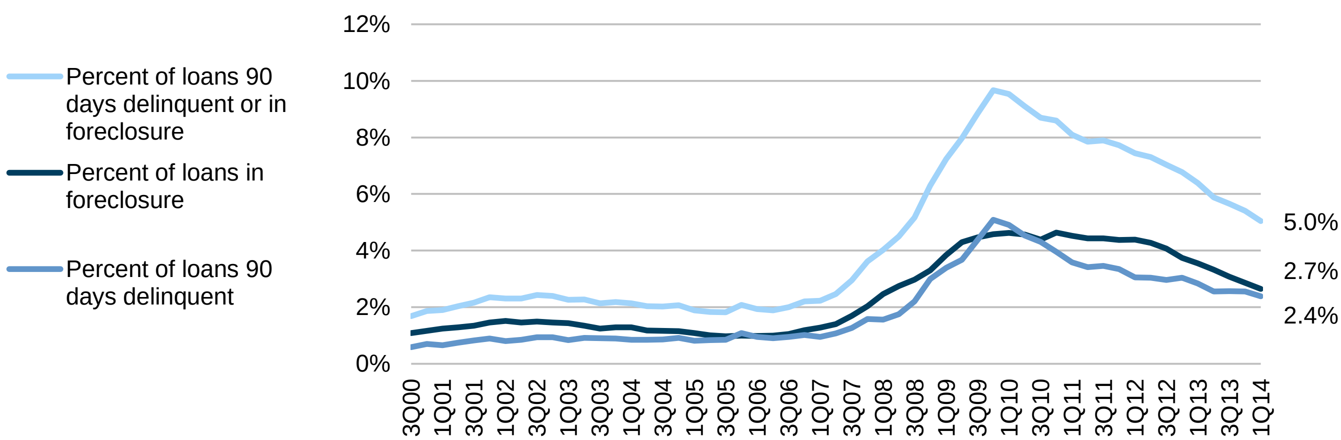
With housing prices appreciating through the first quarter of 2014, residential properties in negative equity (LTV greater than 100) as a share of all residential properties with a mortgage has dropped to 12.7 percent. Residential properties in near negative equity (LTV between 95 and 100) comprise another 3.2 percent.



Sources: CoreLogic and Urban Institute.
Note: CoreLogic negative equity rate is the percent of all residential properties with a mortgage with greater than 100 percent current LTV. Loans near negative equity refer to loans above 95 percent current LTV.

Loans in Serious Delinquency/Foreclosure

Serious delinquencies and foreclosures continue to decline with the housing recovery, but remain quite high relative to the early 2000s. Loans 90 days delinquent or in foreclosure totaled 5.0 percent in the first quarter of 2014, down from 6.4 percent for the same quarter a year earlier.



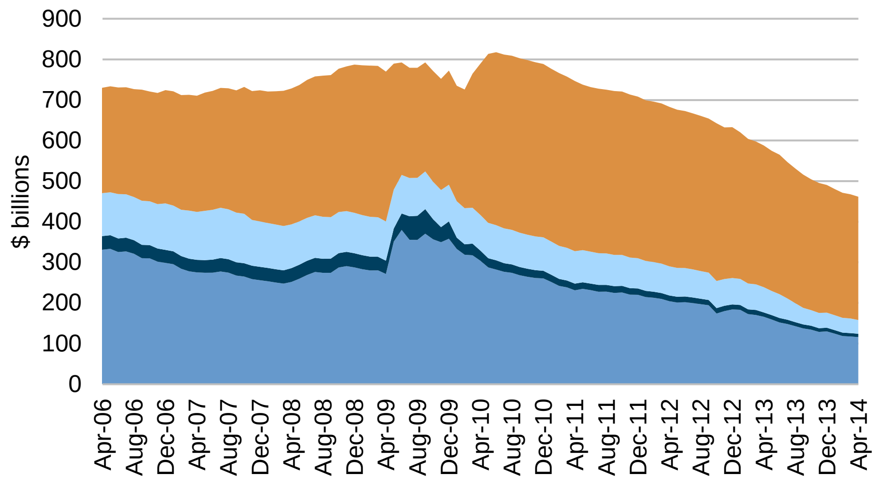
Sources: Mortgage Bankers Association and Urban Institute.

GSE PORTFOLIO WIND-DOWN

Freddie and Fannie continue to rapidly shrink their portfolio. Year over year, Fannie has contracted by 21.5 percent, and Freddie Mac by 18.9 percent. As of April 2014, they were both below their year-end 2014 portfolio cap. They are shrinking their less liquid assets at close to the same pace that they are shrinking their entire portfolio.

Fannie Mae Mortgage-Related Investment Portfolio Composition

Current size: $461.7 billion
Current cap: $469.625 billion
Shrinkage year-over-year: 21.5%
Shrinkage in non-liquid assets year-over-year: 17.9%

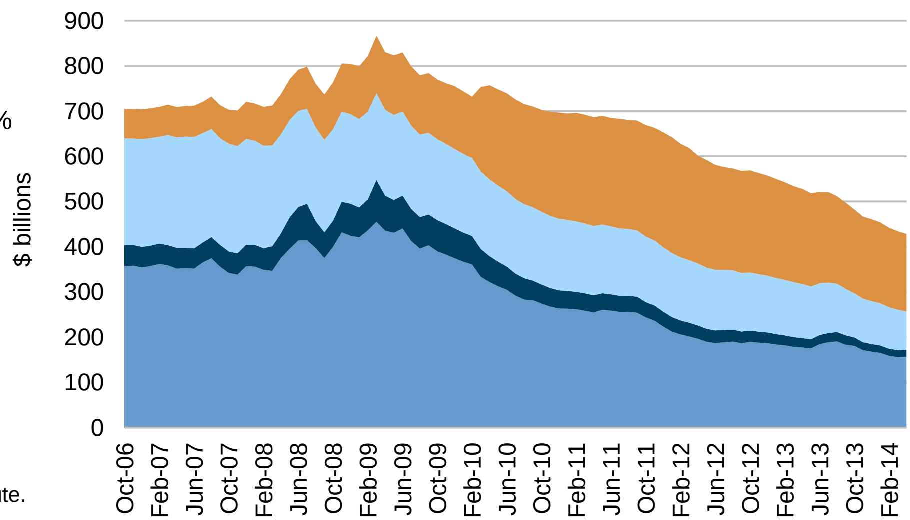


- Mortgage loans
- Non-agency MBS
- Non-FNMA agency MBS
- Fannie MBS in portfolio

Sources: Fannie Mae and Urban Institute.

Freddie Mac Mortgage-Related Investment Portfolio Composition

Current size: $428.5 billion
Current cap: $469.625 billion
Shrinkage year-over-year: 18.9%
Shrinkage in non-liquid assets year-over-year: 22.4%



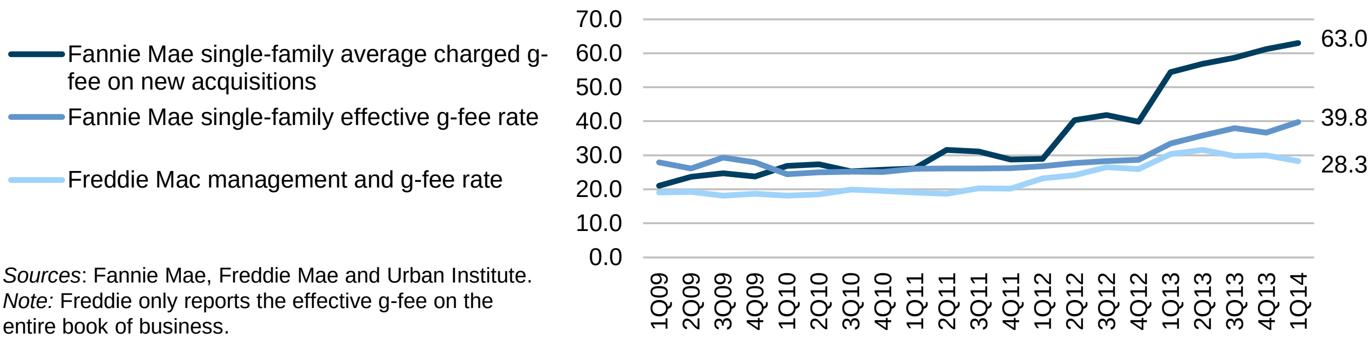
- Mortgage loans
- Non-agency MBS
- Non-FHLMC agency MBS
- FHLMC MBS in portfolio

Sources: Freddie Mac and Urban Institute.

EFFECTIVE GUARANTEE FEES AND GSE RISK-SHARING TRANSACTIONS

Effective Guaranty Fees

Fannie's average charged g-fee on new single-family originations was 63 bps in Q1 2014, up from 61.2 in the previous quarter, and 54.4 a year earlier. This is a marked increase over 2012 (39.9 bps) and 2011 (28.8 bps), and has contributed to the GSEs' strong profits. Fannie's 2014 loan-level price adjustments (LLPAs) are shown in the second table. The 25 bp Adverse Market Delivery Charge has been added to these upfront numbers. The FHFA has asked for input by August 4th about the level of g-fees and LLPAs.



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

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**
> 740	0.000%	0.250%	0.250%	0.500%	0.500%	0.500%	0.500%
720 – 739	0.000%	0.250%	0.500%	0.750%	0.750%	0.750%	0.750%
700 – 719	0.000%	0.750%	1.000%	1.250%	1.250%	1.250%	1.250%
680 – 699	0.250%	0.750%	1.500%	2.000%	1.750%	1.500%	1.500%
660 – 679	0.250%	1.250%	2.250%	2.750%	3.000%	2.500%	2.500%
640 – 659	0.750%	1.500%	2.750%	3.250%	3.500%	3.000%	3.000%
620 – 639	0.750%	1.750%	3.250%	3.250%	3.500%	3.500%	3.500%
< 620	0.750%	1.750%	3.250%	3.250%	3.500%	3.500%	3.500%
Product Feature (Cumulative)							
Investment Property	1.750%	1.750%	1.750%	3.000%	3.750%	N/A	N/A
2-unit property	1.000%	1.000%	1.000%	1.000%	1.000%	N/A	N/A
2-4 unit property	1.000%	1.000%	1.000%	1.000%	1.000%	N/A	N/A
Condominiums	0.000%	0.000%	0.000%	0.750%	0.750%	0.750%	0.750%

Sources: Fannie Mae and Urban Institute.
Note: Adverse Market Delivery Charge (AMDC) of 0.250% has been added to the LLPA numbers in the matrix by LTV and credit score. Freddie Mac charges very comparable LLPAs.

GSE RISK-SHARING TRANSACTIONS

Below are the GSEs' capital markets risk-sharing deals to date–four by Freddie Mac covering 8 percent of the collateral in their book of business, and three by Fannie Mae, covering 5 percent of their book of business. The bottom table shows specifics of CAS 2014-C02, Fannie Mae's latest deal and the first to include mortgages with LTVs above 80. CAS 2014-C02 is divided into two loan groups: Group 1 consists of loans with LTVs between 60 and 80 and has 3 percent subordination, and group 2 consists of loans with LTVs between 80 and 97 and required 3.75 percent subordination.

Freddie Mac – Structured Agency Credit Risk (STACR)

Date	Transaction	Reference Pool Size ($ millions)
July 24, 2013	STACR Series 2013 - DN1	$22,584.40
November 12, 2013	STACR Series 2013 - DN2	$35,327.30
February 6, 2014	STACR Series 2014 - DN1	$32,076.80
April 2, 2014	STACR Series 2014 - DN2	$28,146.98
Freddie Mac Total Reference Collateral		**$118,135.48**
Percent of Freddie Mac's Total Book of Business (Q1 2014)		**8**

Fannie Mae – Connecticut Avenue Securities (CAS)

Date	Transaction	Reference Pool Size ($ millions)
October 24, 2013	CAS 2013 - C01	$26,756.40
January 14, 2014	CAS 2014 - C01	$29,308.70
May 28, 2014	CAS 2014 - C02	$60, 818.48
Fannie Mae Total Reference Collateral		**$116,883.58**
Percent of Fannie Mae's Total Book of Business (Q1 2014)		**5**

Details of Fannie Mae's latest capital markets transaction, CAS 2014 – C02

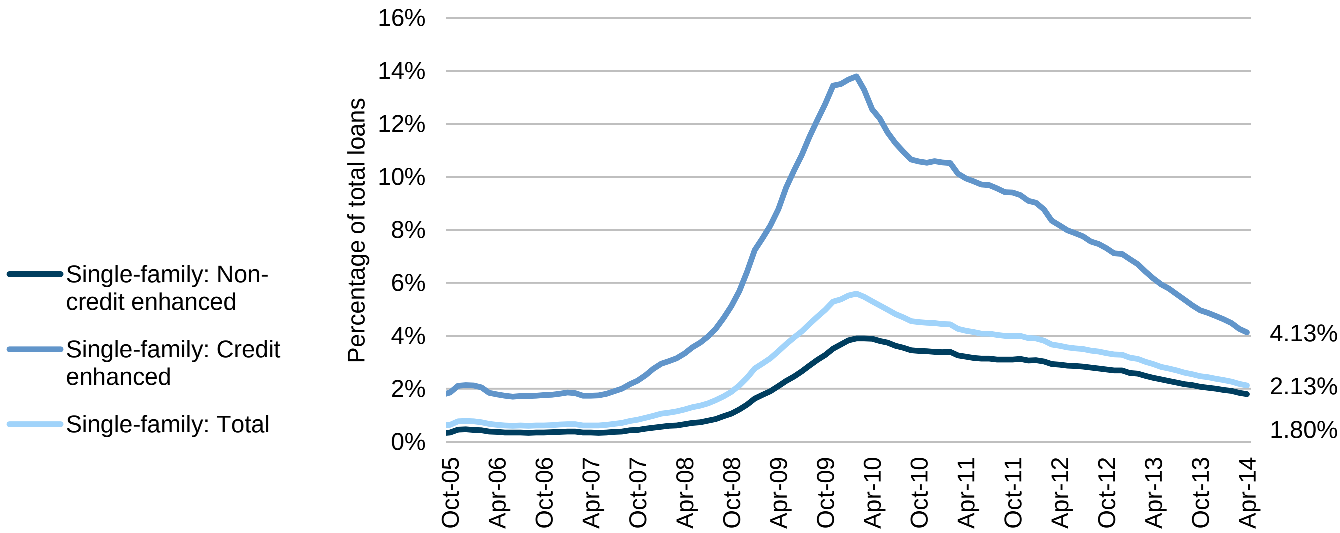
Class	Amount ($ millions)	Tranche Thickness (%)	CE (%)	Rating	Initial Spread
1A-H	$45,438	97	3	NR	-
1M-1, 1M-1H, Total	$556, $30, $586	1.19, 0.06, 1.25	1.75	F: BBB, SP: BBB-	95
1M-2, 1M-2H, Total	$645, $35, $679	1.38, 0.07, 1.45	0.30	NR	260
1B-H	$140	0.30	0	NR	-
2A-H	$13,451	96.25	3	NR	-
2M-1, 2M-1H, Total	$174, $15, $189	1.25, 0.1, 1.35	3.75	F: BBB+, SP: BB	95
2M-2, 2M-2H, Total	$226, $19, $245	1.62, 0.13, 1.75	2.40	NR	260
2B-H	$91	0.65	0.65	NR	-
Reference Pool Size	**$60,818.5**	**100**	-	-	-

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. Under "Rating," "F" = Fitch, "SP" = Standard & Poors.

SERIOUS DELINQUENCY RATES

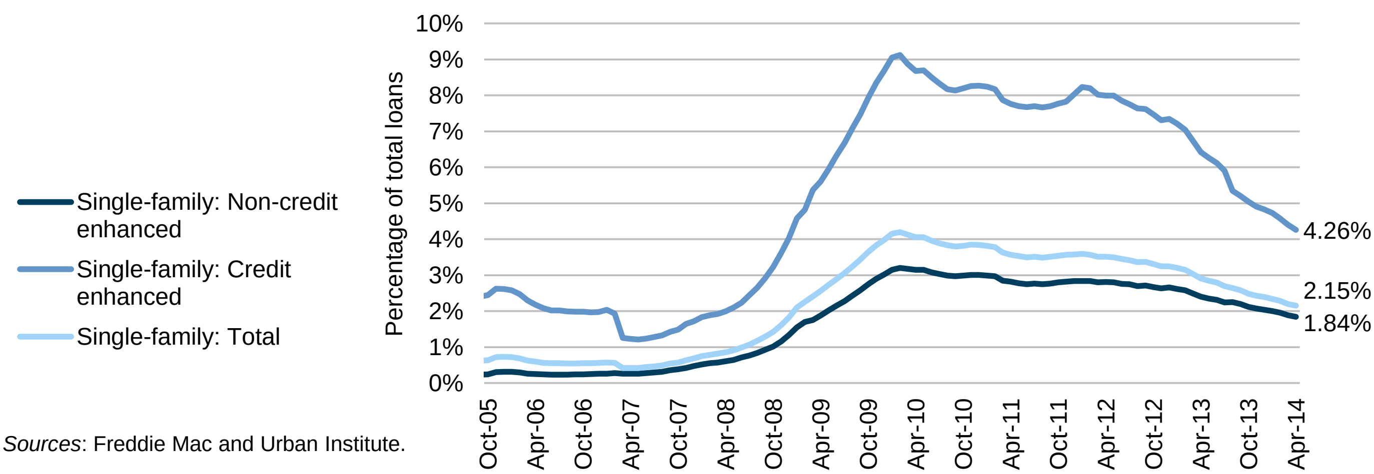
Serious delinquency rates of GSE loans continue to decline as the legacy portfolio is resolved and the pristine, post-2009 book of business exhibits very low default rates. As of April 2014, 2.13 percent of the Fannie portfolio and 2.15 percent of the Freddie portfolio were seriously delinquent, down from 2.93 percent and 2.91 percent a year earlier, respectively.

Serious Delinquency Rates–Fannie Mae



Sources: Fannie Mae and Urban Institute.

Serious Delinquency Rates–Freddie Mac

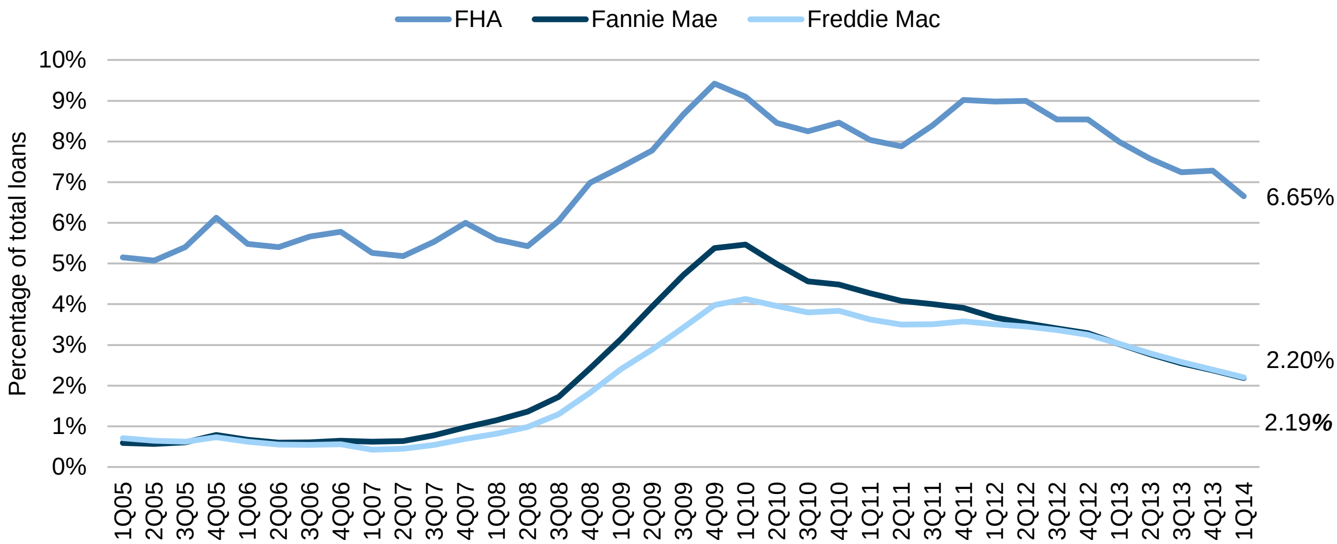


Sources: Freddie Mac and Urban Institute.

SERIOUS DELINQUENCY RATES

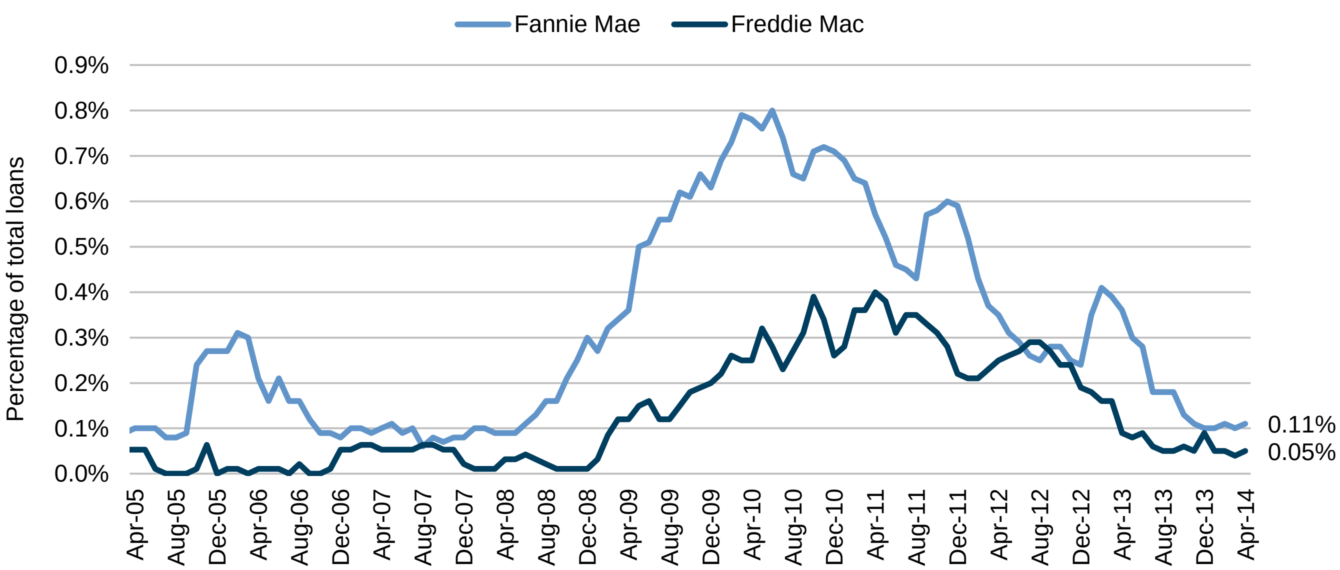
Serious delinquencies for FHA and GSE single-family loans continue to decline with the housing recovery, but remain high relative to 2005-2007. FHA delinquencies are declining from a higher relative starting point. GSE multifamily delinquencies have also declined substantially, although they never reached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

Serious Delinquency Rates–Single-Family Loans



Sources: Fannie Mae, Freddie Mac, MBA Delinquency Survey and Urban Institute.
Note: Serious delinquency rate is the number of loans 90 days or more past due or in the foreclosure process, divided by the total loan count.

Serious Delinquency Rates–Multifamily GSE Loans



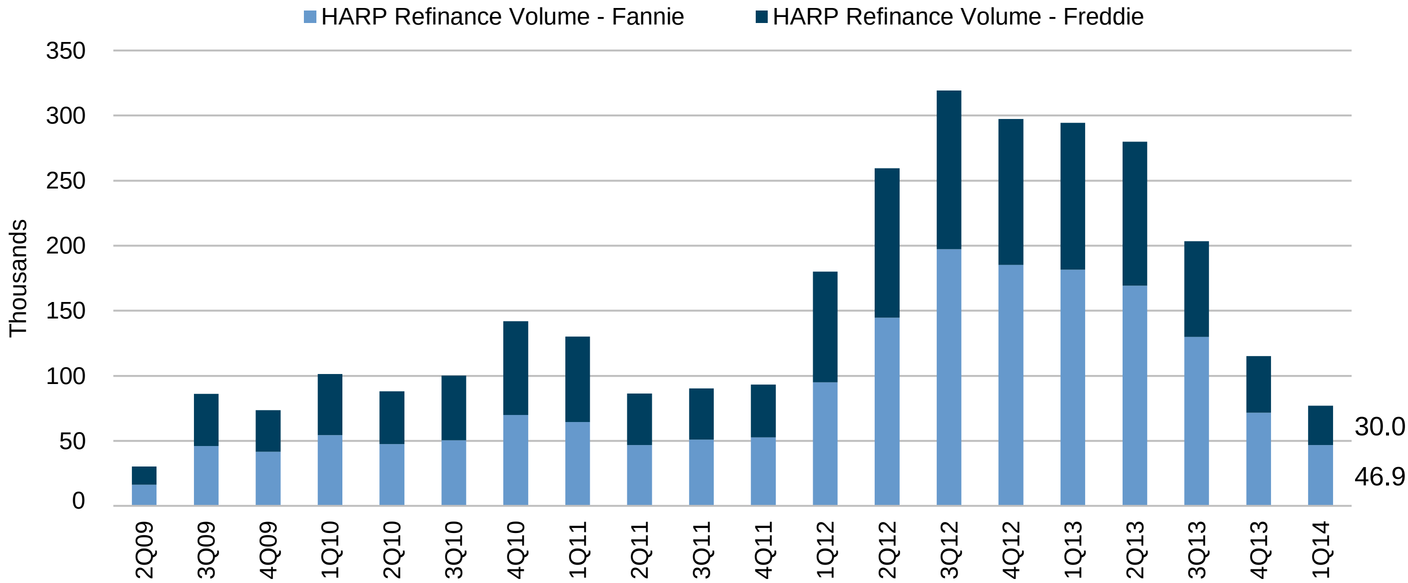
Sources: Fannie Mae, Freddie Mac and Urban Institute.
Note: Multifamily serious delinquency rate is the unpaid balance of loans 60 days or more past due, divided by the total unpaid balance.

GSES UNDER CONSERVATORSHIP

REFINANCE ACTIVITY

The Home Affordable Refinance Program (HARP) refinances have 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 16.3 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

	March 2014	Year-to-date 2014	Inception to date	2013	2012	2011
Total refinances	105,110	370,856	19,243,107	4,081,911	4,750,530	3,229,066
Total HARP refinances	19,992	76,930	3,134,889	892,914	1,074,769	400,024
Share 80–105 LTV	69.4%	69.8%	69.8%	56.4%	56.4%	85.0%
Share 105–125 LTV	18.2%	18.1%	17.3%	22.4%	22.4%	15.0%
Share >125 LTV	12.4%	12.1%	13.0%	21.2%	21%	0%
All other streamlined refinances	20,729	78,991	3,332,189	735,210	729,235	785,049

Sources: FHFA Refinance Report and Urban Institute.

GSE LOANS: POTENTIAL REFINANCES

To qualify for HARP, a loan must be originated before the June 2009 cutoff date, have a marked-to-market loan-to-value (MTM LTV) ratio above 80, and have no more than one delinquent payment in the past year and none in the past six months. There are 1,108,564 eligible loans, but 40 percent are out-of-the-money because the closing cost would exceed the long-term savings, leaving 664,933 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 7,149,312 loans in this category, 5,276,574 are in-the-money.

More than two thirds of the GSE book of business that meets the pay history requirements was originated after the June, 2009 cutoff date. FHFA Director Mel Watt announced recently that they are not planning to extend the date, as too few borrowers (439,259 by our estimate) would benefit from the change.

Total loan count	26,804,111
Loans that do not meet pay history requirement	966,214
Loans that meet pay history requirement:	25,837,897
Pre-June 2009 origination	8,257,876
Post-June 2009 origination	17,580,021

Loans Meeting HARP Pay History Requirements

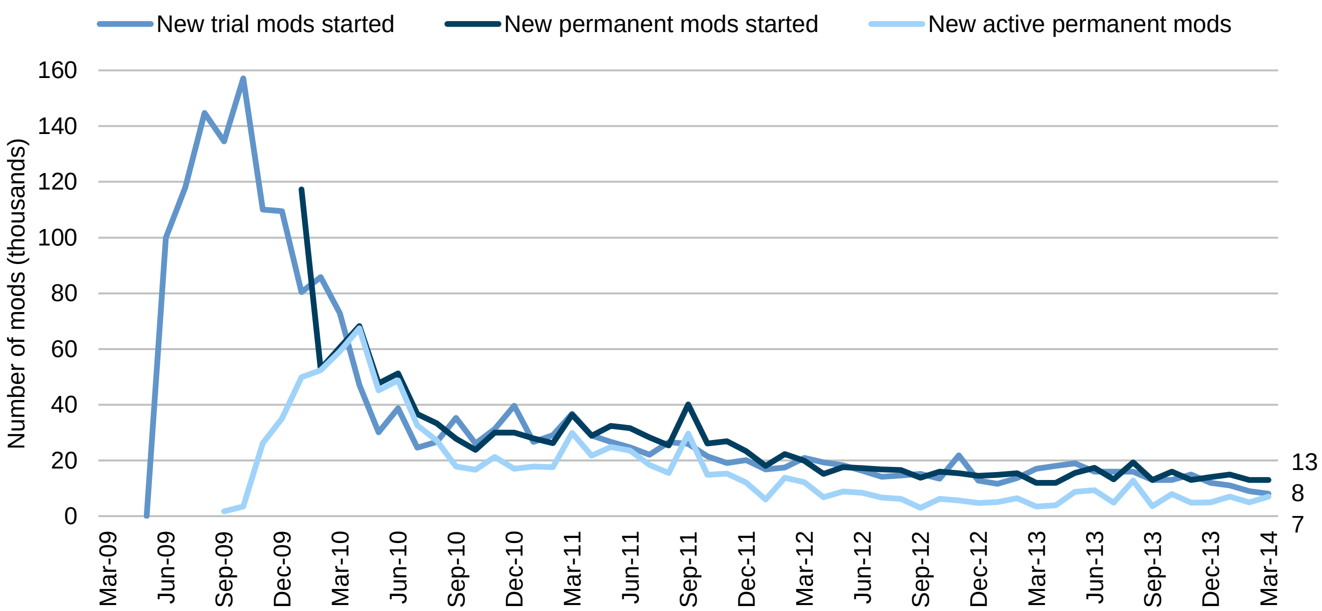
Pre-June 2009			
LTV category	In-the-money	Out-of-the-money	Total
≤80	5,276,574	1,872,738	7,149,312
>80	664,933	443,631	1,108,564
Total	5,941,507	2,316,369	8,257,876
Post-June 2009			
LTV category	In-the-money	Out-of-the-money	Total
≤80	1,640,975	13,016,965	14,657,940
>80	439,259	2,482,822	2,922,081
Total	2,080,234	15,499,787	17,580,021

Sources: CoreLogic prime servicing data as of April 2014, eMBS 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). Striped box indicates HARP-eligible loans that are in-the-money.

HAMP ACTIVITY

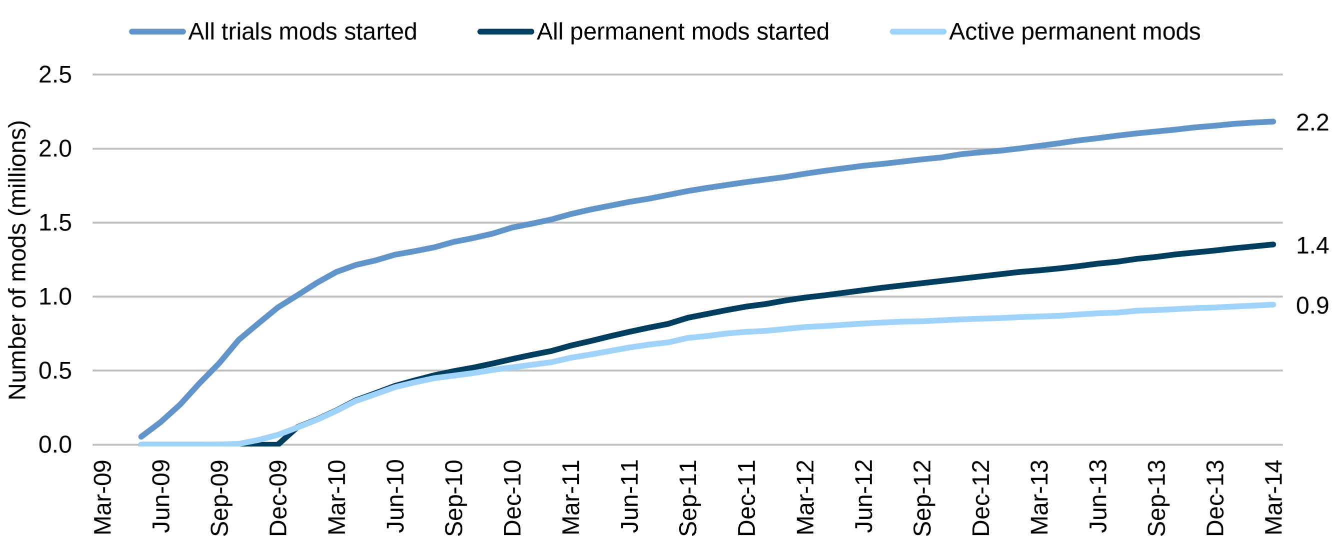
New HAMP trial mods have tapered off as new defaults have declined. Meanwhile, modification success rates are improving, so the number of new permanent modifications remains stable at 13,000 in February and March 2014.

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 before dropping 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. Portfolio loans are the most likely candidates for principal reduction, followed by private investor loans, because the GSEs and FHA/VA generally do not allow this type of modification.

Changes in Loan Terms for Modifications

	9/30/12	12/31/12	03/31/13	6/30/13	9/30/13	12/31/13	One quarter % change	One year % change
Capitalization	88.2	84.6	79.3	81.7	83.6	87.2	4.3	3.0
Rate Reduction	77.1	73.3	80.1	81.0	78.9	76.7	-2.8	4.7
Rate Freeze	7.1	3.9	3.7	5.2	5.5	7	28.4	77.9
Term Extension	64.9	58.9	60.3	67.7	69.3	75.9	9.6	28.9
Principal Reduction	17.2	20.0	15.2	12.2	13.6	10.5	-22.5	-47.4
Principal Deferral	19.0	20.5	18.2	20.5	25.3	30.6	20.9	49.3
Not Reported*	0.4	1.1	0.6	1.4	2.2	0.7	-68.1	-37.8

Sources: OCC Mortgage Metrics Report for the Fourth 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

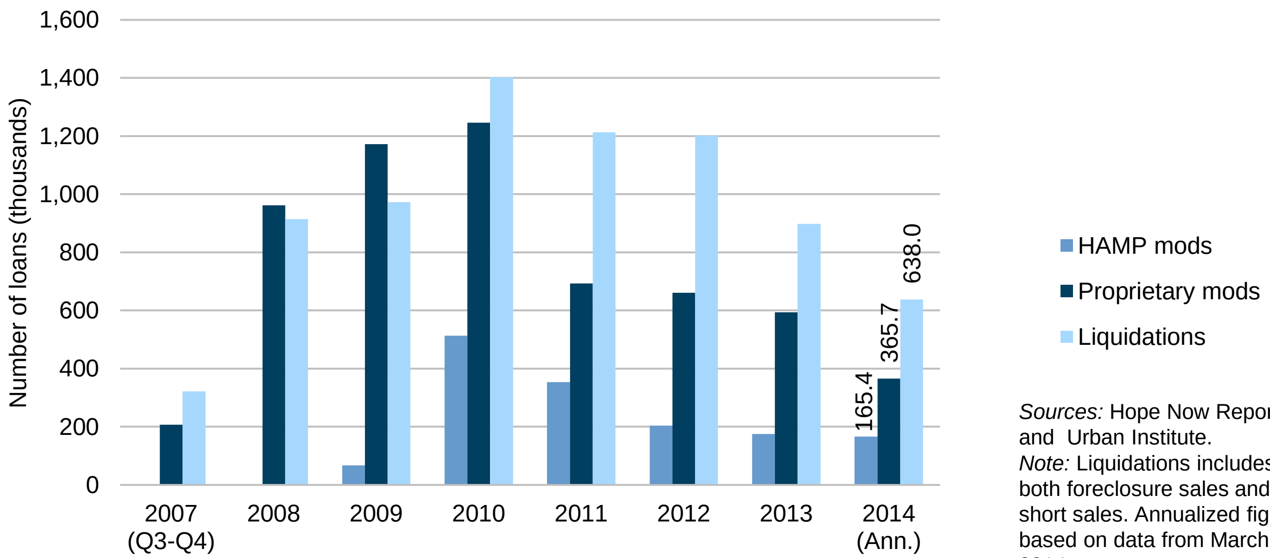
	Fannie Mae	Freddie Mac	Government-guaranteed	Private Investor	Portfolio	Overall
Capitalization	96.3	97.5	61.9	93.6	94.2	87.2
Rate reduction	61.6	79.5	91.0	73.6	75.0	76.7
Rate freeze	14.3	3.9	3.2	4.6	9.2	7.0
Term extension	92.1	94.4	94.8	26.6	62.9	75.9
Principal reduction	0.4	0.2	0.2	19.9	38.4	10.5
Principal deferral	24.0	34.2	35.0	33.3	25.9	30.6
Not reported*	1.5	0.2	0.3	1.1	0.5	0.7

Sources: OCC Mortgage Metrics Report for the Fourth 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

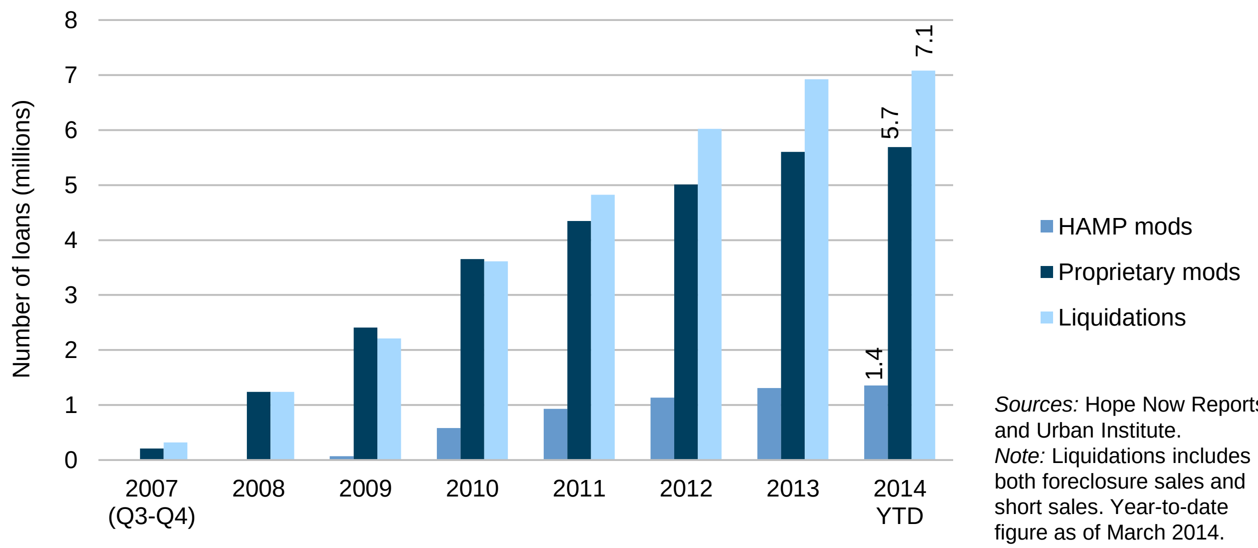
Total modifications (HAMP and proprietary) are now roughly equal to total liquidations. Hope Now reports show 7,045,753 borrowers have received a modification since Q3 2007, compared with 7,082,771 liquidations in the same period. We expect to see sharp declines in both liquidation and modification activity in 2014. In the first quarter, foreclosures and short sales dropped to their lowest totals since 2008.

Loan Modifications and Liquidations



Sources: Hope Now Reports and Urban Institute.
Note: Liquidations includes both foreclosure sales and short sales. Annualized figure based on data from March 2014.

Cumulative Modifications and Liquidations

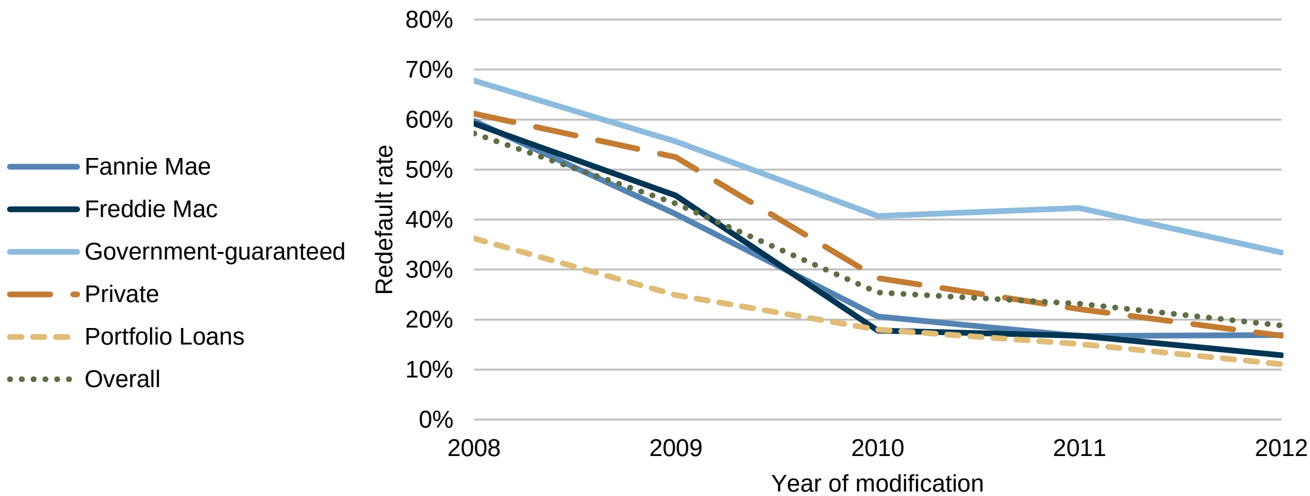


Sources: Hope Now Reports and Urban Institute.
Note: Liquidations includes both foreclosure sales and short sales. Year-to-date figure as of March 2014.

MODIFICATION REDEFAULT RATES BY BEARER OF THE RISK

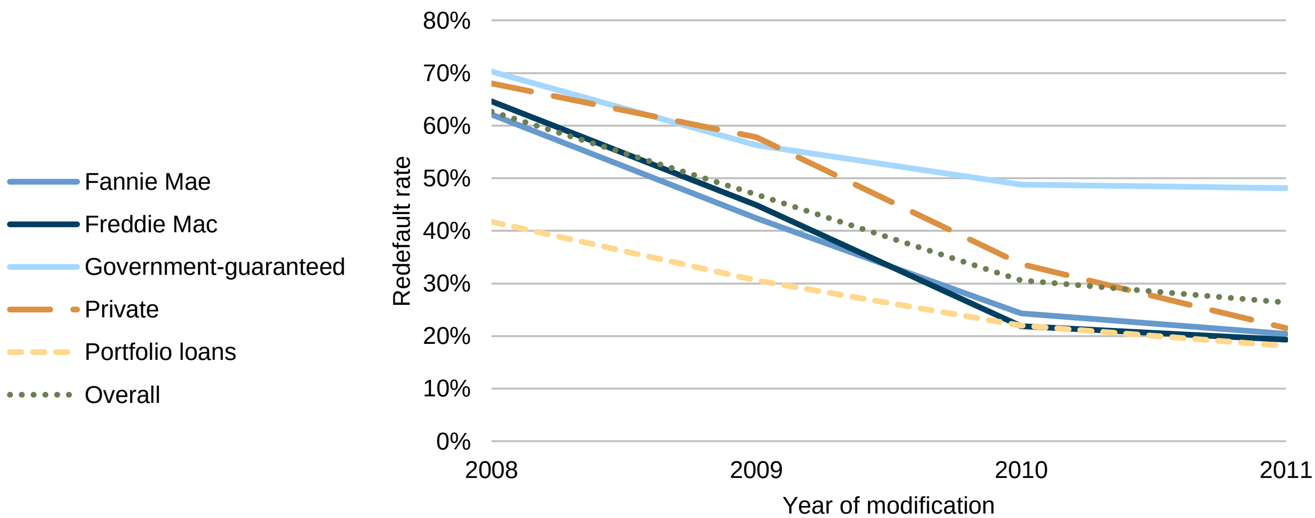
Redefault rates have come down across each sector, especially on private label modifications. Government-guaranteed mortgages have much higher redefault rates than other product types.

Redefault Rate 12 Months after Modification



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

Redefault Rate 24 Months after Modification



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

AGENCY GROSS AND NET ISSUANCE

While newly issued agency securities (agency gross issuance) had 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 329.4 billion for the first five months in 2014, a 57 percent decline year-over-year from the same period last 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	$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 YTD	$225.2	$104.2	$329.4
%Change year-over-year	-61.8%	-43.4%	-57.4%
2014 (Ann.)	$556.10	$255.1	$811.2

Sources: eMBS and Urban Institute.
Note: Dollar amounts are in billions.
Year-to-date figure as of May 2014.

Agency Net Issuance

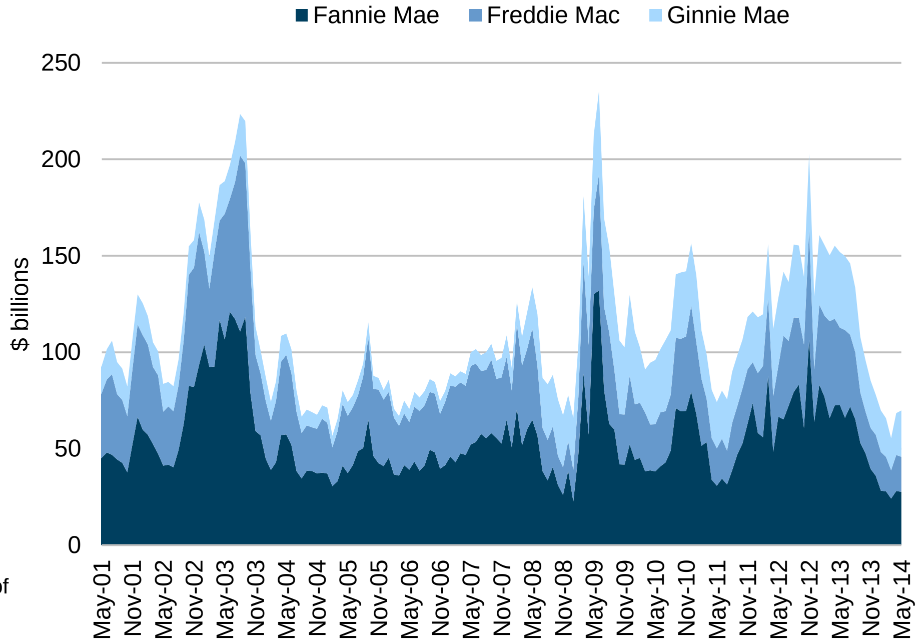
Issuance Year	GSEs	Ginnie Mae	Total
2000	$159.8	$29.3	$189.1
2001	$367.8	-$9.9	$357.9
2002	$357.6	-$51.2	$306.4
2003	$335.0	-$77.6	$257.4
2004	$83.3	-$40.1	$43.2
2005	$174.4	-$42.2	$132.1
2006	$313.6	$0.3	$313.8
2007	$514.7	$30.9	$545.5
2008	$314.3	$196.4	$510.7
2009	$249.5	$257.4	$506.8
2010	-$305.5	$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 YTD	-$11.1	$21.6	$10.5
%Change year-over-year	-146.1%	-37.1%	-82.0%
2014 (Ann.)	-$26.64	$51.84	$25.20

Sources: eMBS and Urban Institute.
Note: Dollar amounts are in billions.
Year-to-date figure as of May 2014.

AGENCY GROSS ISSUANCE & FED PURCHASES

Monthly Gross Issuance

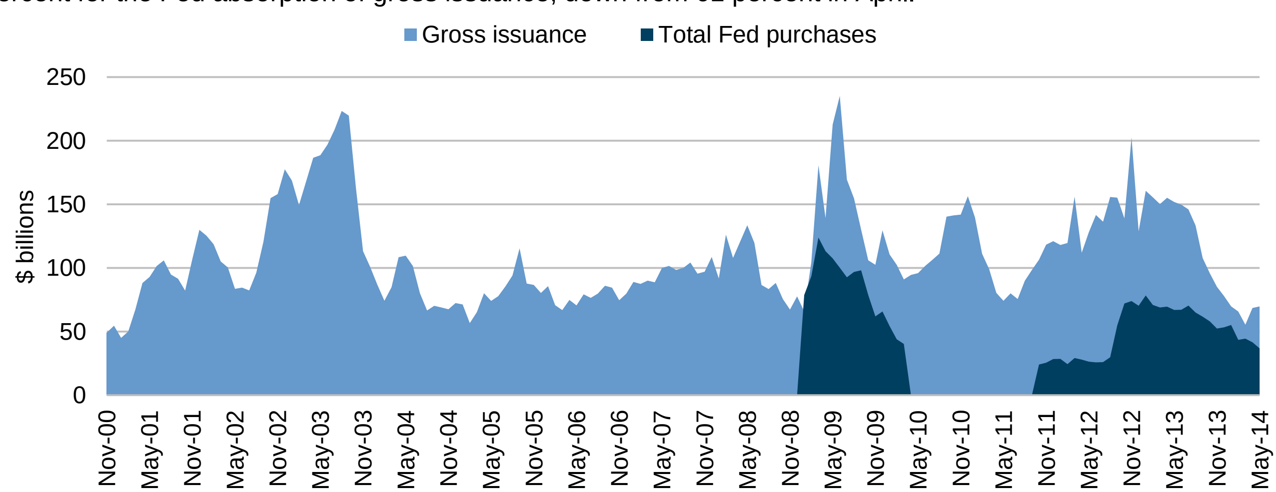
While government and GSE lending have dominated the mortgage market since the crisis, there has been a change in the mix. The Ginnie Mae share reached a peak of 28 percent of total agency issuance in 2010, and that share declined to 25 percent in 2013. It should begin to rise as we move from a refinance market to a purchase market. April 2014 showed a Ginnie Mae share of 31.8 percent.



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

Fed Absorption of Agency Gross Issuance

In 2013, the Fed absorbed nearly 50 percent of the year's gross issuance. In Q1 2014, the Fed began to taper, but gross issuance dropped even more. As a result, the Fed bought 74 percent of the total gross issuance in that quarter. Since April, gross issuance started to pick up while the Fed continued to taper. In May, total Fed purchases declined further to $36.8 billion, while gross issuance edged up to $69.8 billion, resulting in 52 percent for the Fed absorption of gross issuance, down from 61 percent in April.

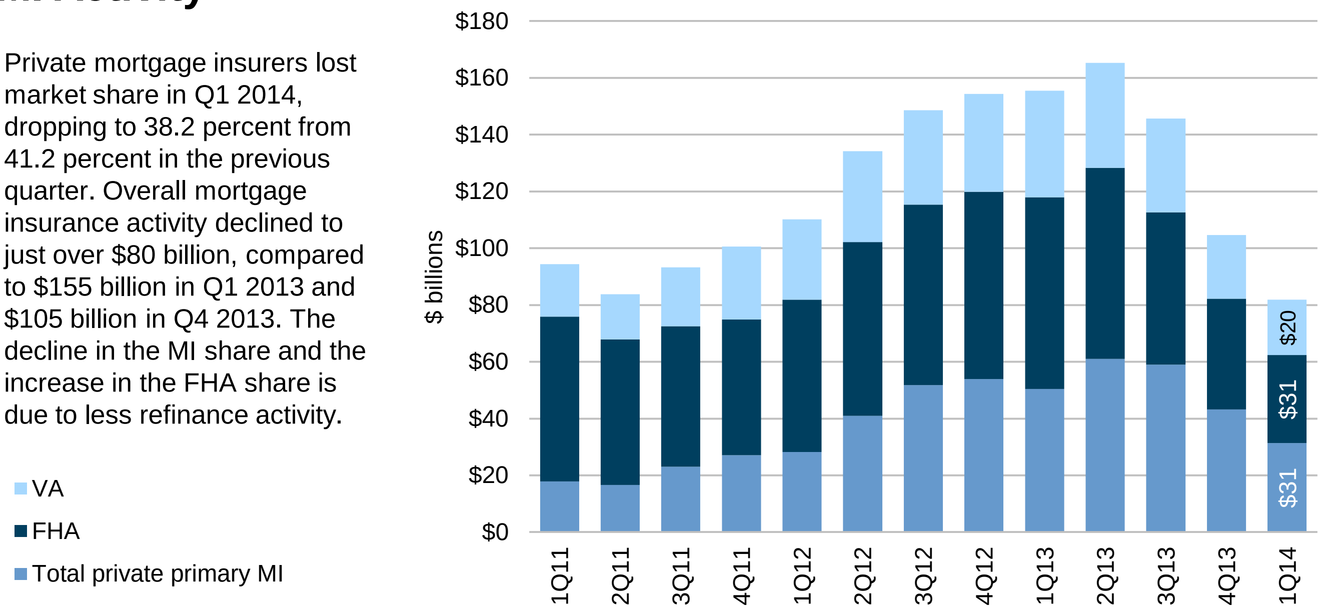


Sources: eMBS, Federal Reserve Bank of New York and Urban Institute.

MORTGAGE INSURANCE ACTIVITY

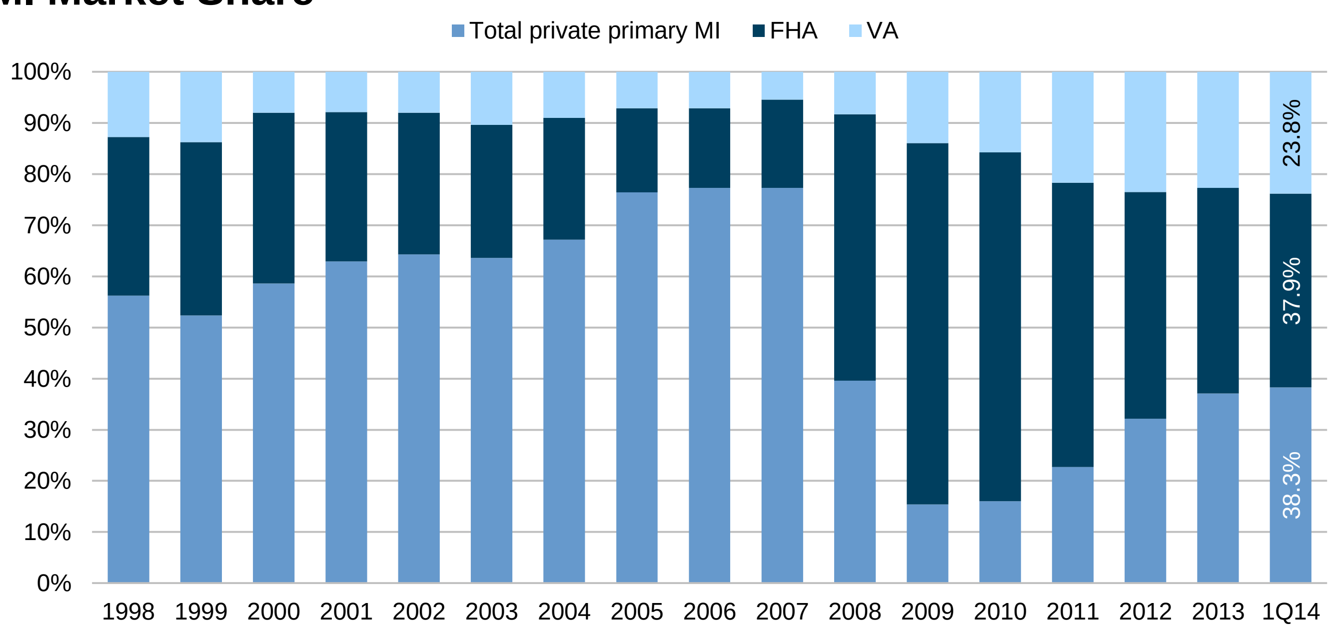
MI Activity

Private mortgage insurers lost market share in Q1 2014, dropping to 38.2 percent from 41.2 percent in the previous quarter. Overall mortgage insurance activity declined to just over $80 billion, compared to $155 billion in Q1 2013 and $105 billion in Q4 2013. The decline in the MI share and the increase in the FHA share is due to less refinance activity.



Sources: Inside Mortgage Finance and Urban Institute.

MI Market Share



Sources: Inside Mortgage Finance and Urban Institute.

MORTGAGE INSURANCE ACTIVITY

The table below depicts 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.

Initial Monthly Payment Comparison: FHA vs. PMI

Assumptions	
Property Value	$250,000
Loan Amount	$237,500
LTV	95
Base Rate	
Conforming	4.36%
FHA	4.00%

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*	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
PMI								
GSE AMDC & LLPA	3.50	3.00	2.50	1.50	1.25	0.75	0.50	0.50
PMI Annual MIP	1.15	1.15	1.15	0.89	0.89	0.62	0.62	0.54
Monthly Payment								
FHA	$1,411	$1,411	$1,411	$1,411	$1,411	$1,411	$1,411	$1,411
PMI	$1,511	$1,497	$1,482	$1,402	$1,395	$1,327	$1,320	$1,305
PMI Advantage	($100)	($86)	($71)	$9	$16	$84	$91	$106

Sources: Genworth Mortgage Insurance, Ginnie Mae and Urban Institute.
Note: Mortgage insurance premiums listed in percentage points. LLPA= Loan Level Price Adjustment, described in detail on page 20. FHA MIP=1.3 percent for <95 LTV mortgages. Orange shade indicates FHA monthly payment is more favorable, while light blue indicates PMI is more favorable.

RELATED HFPC WORK

PUBLICATIONS AND EVENTS

Upcoming Events

June 25—Sunset Seminar III: Cash Sales, Institutional Investors & Single Family Rentals: Performance, Pricing & Policy

July 16—July Data Talk: Quantifying the Impact of Student Loan Debt on Homeownership
More details to follow on our events page.

Commentaries

Supplementing the Compare Ratio: An Important Step Toward Opening the Credit Box
Author: Laurie Goodman
Date: June 9, 2014

Why Long Term GSE Reform Requires Congress
Author: Jim Parrott
Date: May 22, 2014

HAMP Modifications: Is Reset Risk an Issue?
Authors: Laurie Goodman and Jun Zhu
Date: May 14, 2014

Johnson Crapo GSE Discussion Draft: A Few Suggestions for Improvement
Authors: Laurie Goodman and Ellen Seidman
Date: April 14, 2014

National Mortgage Settlement: Lessons Learned
Authors: Laurie Goodman and Maia Woluchem
Date: April 14, 2014

OASIS: A Securitization Born from MSR Transfers
Authors: Laurie Goodman and Pamela Lee
Date: April 1, 2014

Where Have All the Loans Gone? The Impact of Credit Availability on Mortgage Volume
Authors: Laurie Goodman, Jun Zhu and Taz George
Date: March 13, 2014

Lifting the Fog around FHA Lending?
Author: Jim Parrott
Date: March 13, 2014

Blog Posts

Weaker credit or racial discrimination: the data are unclear
Author: Wei Li
Date: June 6, 2014

How well do the GSEs serve minority borrowers?
Author: Wei Li
Date: June 5, 2014

Why the GSEs need Congress to exit conservatorship
Author: Jim Parrott
Date: May 30, 2014

It's time for administrative reform to end the GSE conservatorships
Author: Jim Millstein (guest post)
Date: May 29, 2014

Will modification resets cause massive re-defaults?
Authors: Laurie Goodman and Jun Zhu
Date: May 16, 2014

Risk Sharing: High LTV mortgages are the next frontier
Authors: Pamela Lee and Bing Bai
Date: May 15, 2014

A strong pivot for the new director of FHFA
Author: Jim Parrott
Date: May 13, 2014

Is mortgage credit finally starting to loosen? Afraid not.
Authors: Jun Zhu, Laurie Goodman and Bing Bai
Date: May 2, 2014