HOUSING FINANCE POLICY CENTER

HOUSING FINANCE AT A GLANCE

A MONTHLY CHARTBOOK

September 2015

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ABOUT THE CHARTBOOK

The Housing Finance Policy Center's (HFPC) mission is to produce analyses and ideas that promote sound public policy, efficient markets, and access to economic opportunity in the area of housing finance. *At A Glance*, a monthly chartbook and data source for policymakers, academics, journalists, and others interested in the government's role in mortgage markets, is at the heart of this mission.

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

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INTRODUCTION

Benchmark interest rates to stay unchanged

Putting to rest months of speculation and anticipation, the Federal Reserve last week announced its decision to leave baseline interest rates unchanged at their current target range of 0 to 0.25 percent. The FOMC will meet again in late October and then in mid-December for a possible action on interest rates. Our expectation is that the Fed will increase the baseline rate by 25 basis points before the end of this year with more increases next year.

Regardless of when the first rate hike happens, our view is that a 25 basis point increase in the Fed funds rate will have no material impact on the mortgage market. There are three reasons for this. First, the Fed for months has been very clear about its intention to raise the baseline rate, which means any potential impact on the mortgage rate is largely priced in. Second, because mortgage rates are driven by a wide variety of different factors, increases in the baseline rate are not typically passed on to borrowers basis point for basis point. Third, even if mortgage rates were to rise by a full quarter percent, the impact on monthly payments would be minimal. A rise in mortgage rates from current 4 percent to 4.25 percent on a $250,000 mortgage, for example, would result in only a $35 increase in the monthly mortgage payment. While this could have some impact at the margin, it is highly unlikely to be material.

FHA's certification proposal is a step in the right direction but more is needed

On September 1st the FHA proposed changes to the certification that lenders must make regarding the loan file's accuracy and compliance with FHA's rules at the time endorsement. If the FHA later finds inaccuracies or inconsistencies in the loan file, even if very small, the lender can face substantial financial and reputational damage. Because penalties can be extremely harsh and because it is practically impossible to avoid every single mistake, lenders mitigate this risk by simply stopping lending to borrowers with even a small risk of default.

In its new proposal, the FHA attempts to narrow the scope of the certification and with it the scope of risk faced by the lenders. As Urban Institute Senior Fellow Jim Parrott recently noted, however, the updated certification language falls short of its objective and will thus have little impact on access if left unchanged. This conclusion was further supported only a few days ago, when Wells Fargo announced it was raising minimum credit scores for FHA loans from 600 to 640 precisely because of certification worries.

The longer term worry is that, if the issue is left unresolved, many lenders will make a strategic business decision to completely exit lower-FICO FHA lending, causing significant credit curtailment for the very households the FHA is supposed to serve.

INSIDE THIS ISSUE

- Household equity increased by 3.4 percent in the second quarter of 2015, bring the total value of the housing market to $22.7 trillion (page 6)
- First lien originations in the first half of 2015 totaled $805 billion, with the GSE securitization accounting for half of the volume (page 8)
- The percentage of borrowers with negative equity and in serious delinquency continues to decline (page 18)
- There are only 246,466 loans where a HARP refinance is both permissible and economically advantageous for the borrower (page 25)
- The number of new HAMP trial mods remains low, but cumulative permanent HAMP mods now total over 1.5 million (page 26)
- Liquidations in 2015, including foreclosure sales and short sales, have averaged 38,569 per month, compared to 47,515 per month in 2014 (page 28)
- The Ginnie Mae share of agency issue stood at 29 percent in August 2015, as FHA continues to pick up volume due to the premium cut (page 31)

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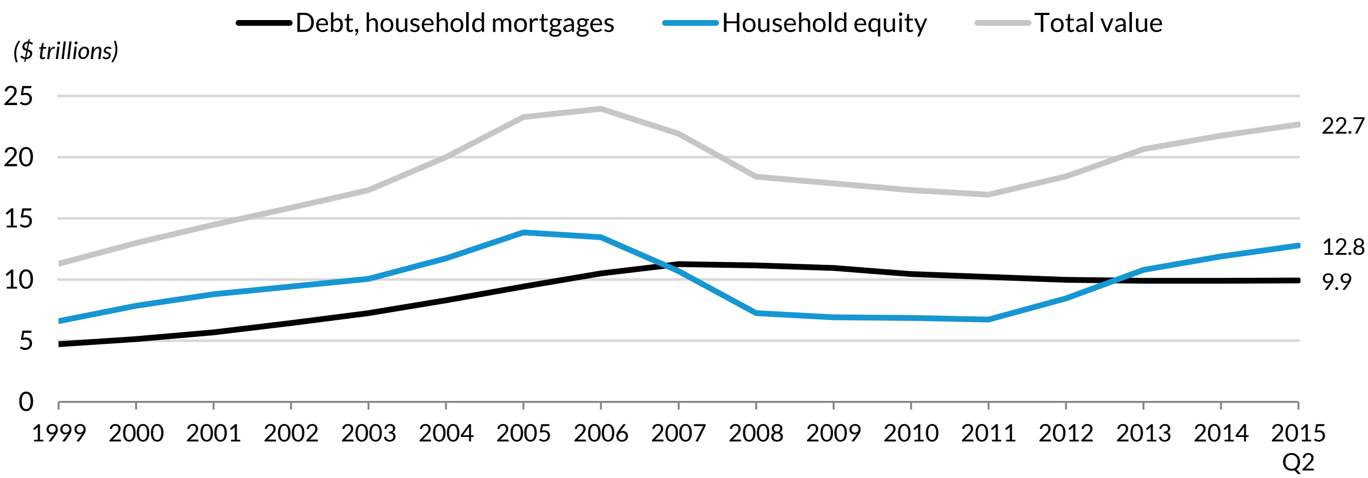
MARKET SIZE OVERVIEW

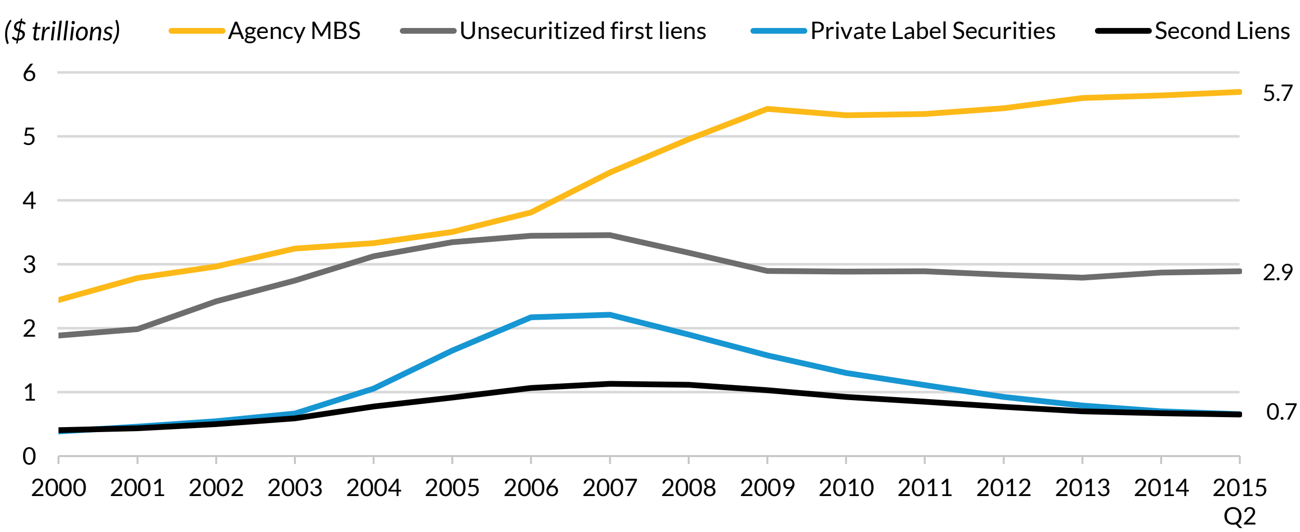
The Federal Reserve's Flow of Funds report has consistently indicated an increasing total value of the housing market driven by growing household equity in each quarter of the past 2 years, and the trend continued according to the latest data, covering Q2 2015. Total debt and mortgages increased slightly to $9.90 trillion, while household equity increased by 3.4 percent to $12.76 trillion, bringing the total value of the housing market to $22.7 trillion. Agency MBS make up 56.6 percent of the total mortgage market (a slight increase from the prior quarter), private-label securities make up 7.5 percent, and unsecuritized first liens at the GSEs, commercial banks, savings institutions, and credit unions make up 29.0 percent. Second liens comprise the remaining 6.9 percent of the total.

Value of the US Housing Market



Sources: Federal Reserve Flow of Funds and Urban Institute.

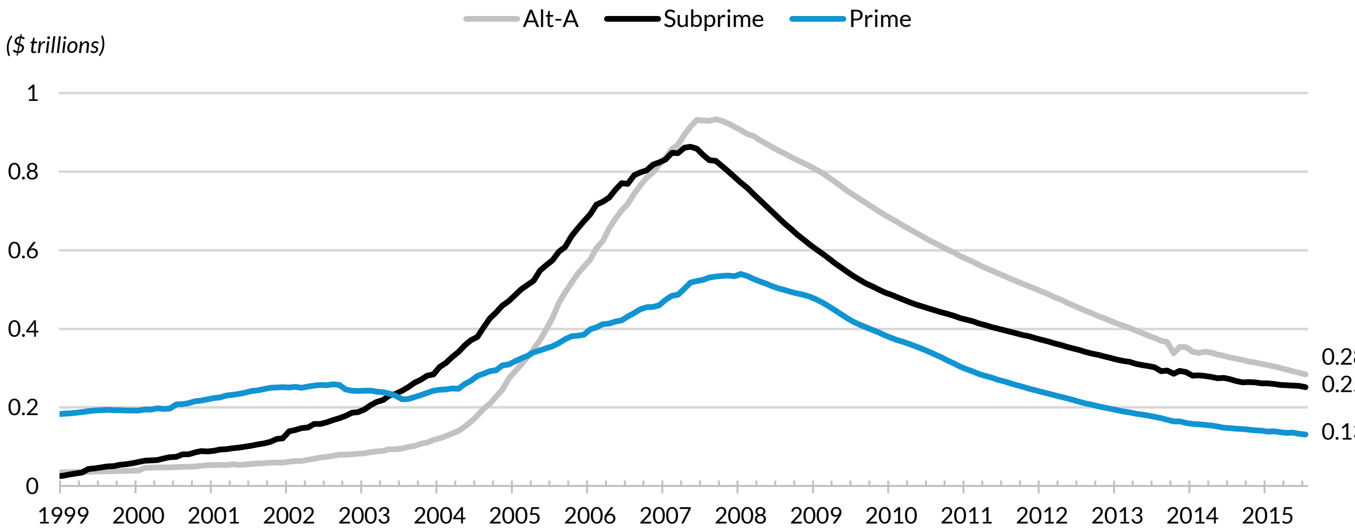
Size of the US Residential Mortgage Market



MARKET SIZE OVERVIEW

As of July 2015, debt in the private-label securitization market totaled $666 billion and was split among prime (19.7 percent), Alt-A (42.6 percent), and subprime (37.7 percent) loans. In July 2015, outstanding securities in the agency market totaled $5.74 trillion and were 45.6 percent Fannie Mae, 27.7 percent Freddie Mac, and 26.7 percent Ginnie Mae.

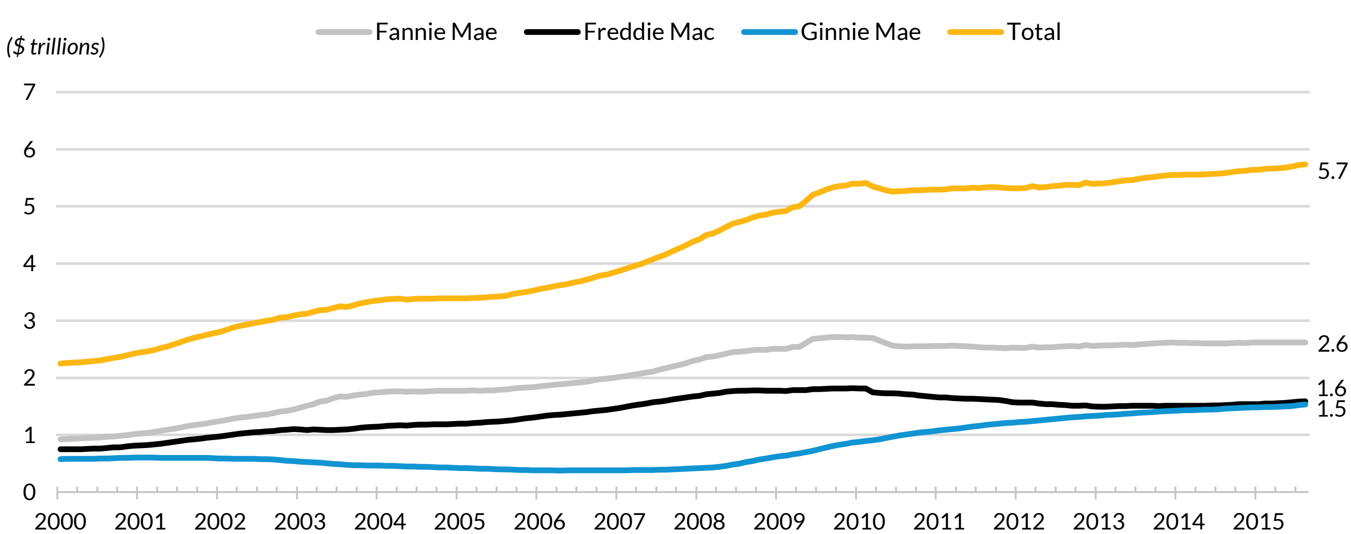
Private-Label Securities by Product Type



Sources: CoreLogic and Urban Institute.

July 2015

Agency Mortgage-Backed Securities



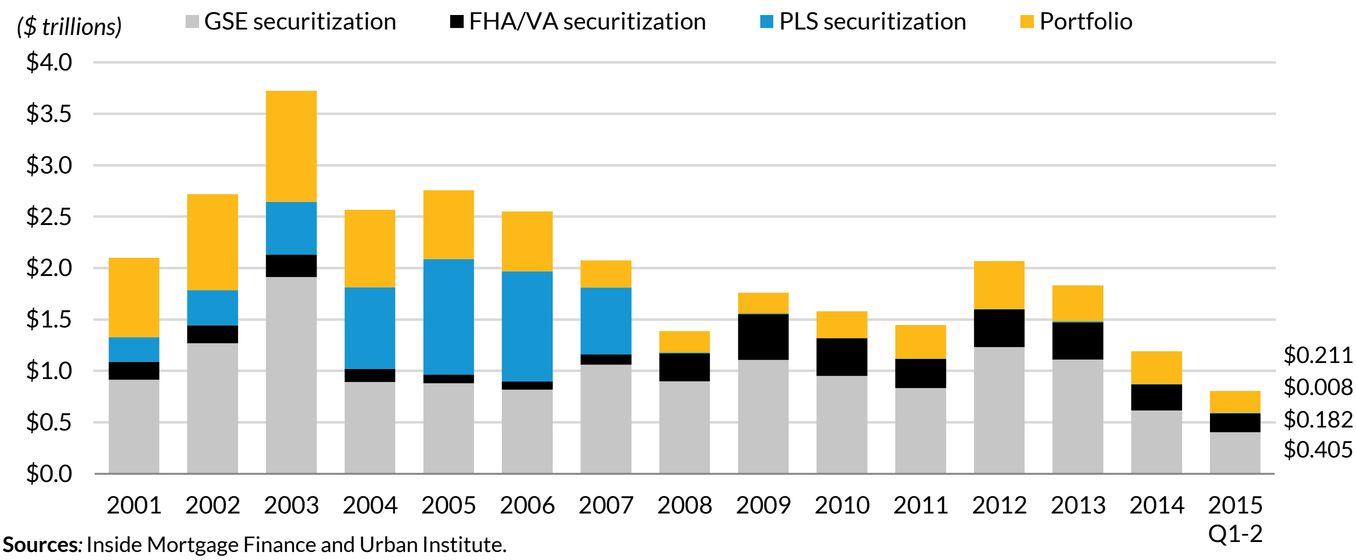
August 2015

Sources: eMBS and Urban Institute.

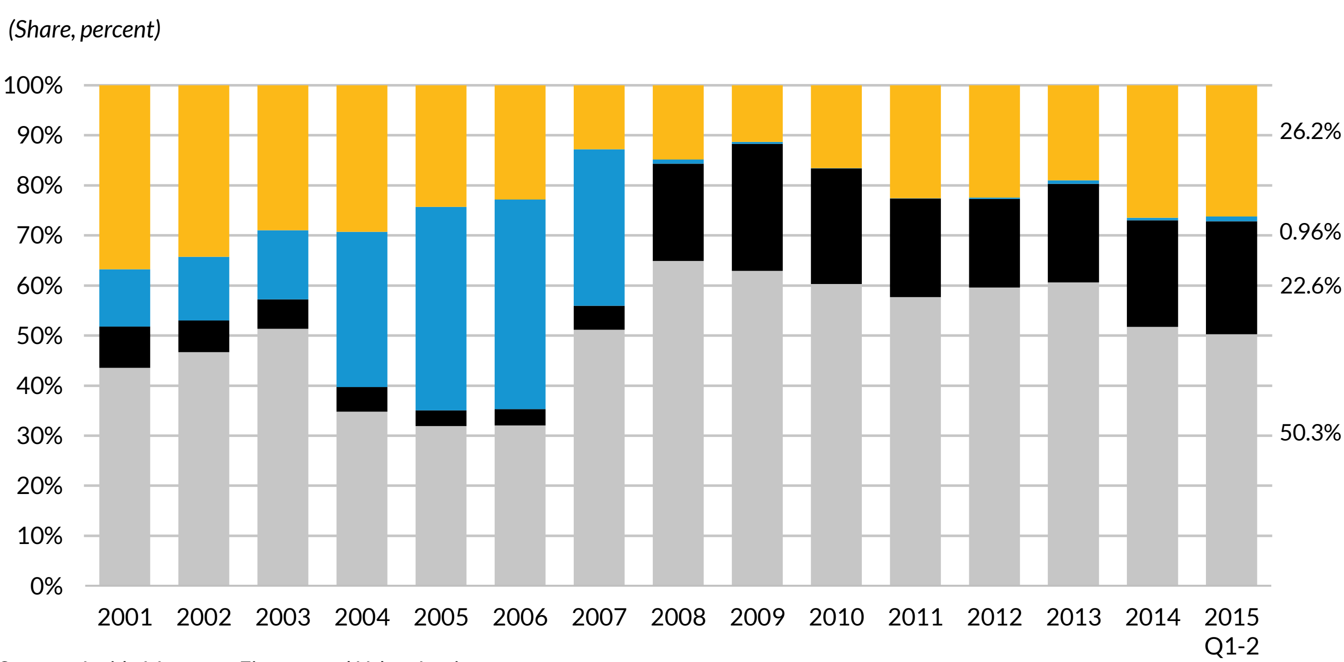
ORIGINATION VOLUME AND COMPOSITION

First Lien Origination Volume

First lien originations in 2015 Q1 and Q2 totaled approximately $805 billion. The share of portfolio originations was 26 percent, while the GSE share dropped to 50 percent from 52 last year, reflecting a small loss of market share to FHA due to the FHA premium cut. FHA/VA originations account for another 23 percent, and the private label originations were about 1 percent.



Sources: Inside Mortgage Finance and Urban Institute.



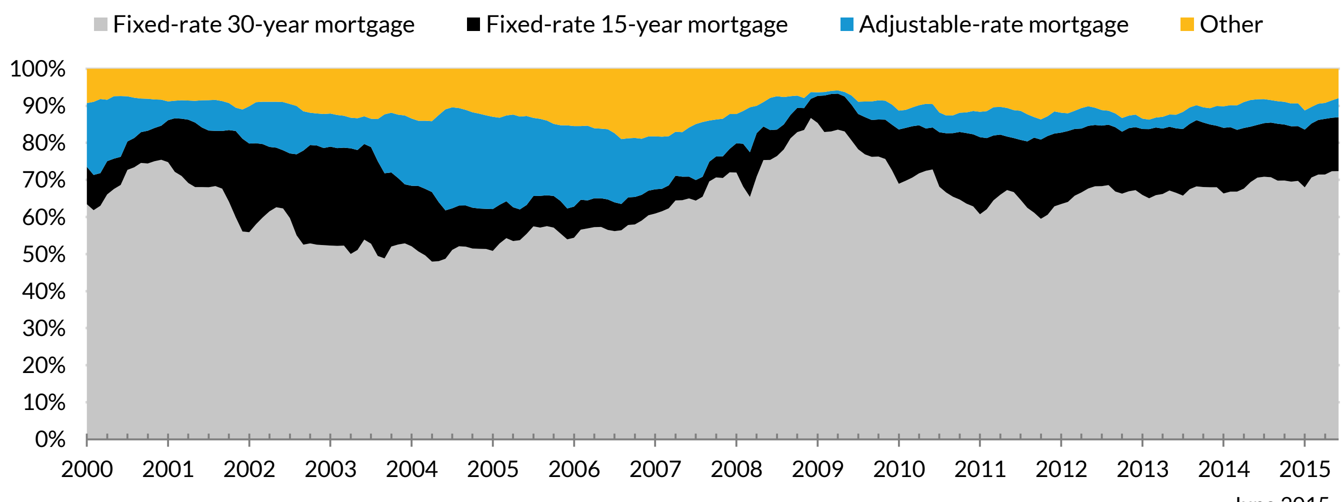
Sources: Inside Mortgage Finance and Urban Institute.

OVERVIEW

MORTGAGE ORIGINATION PRODUCT TYPE

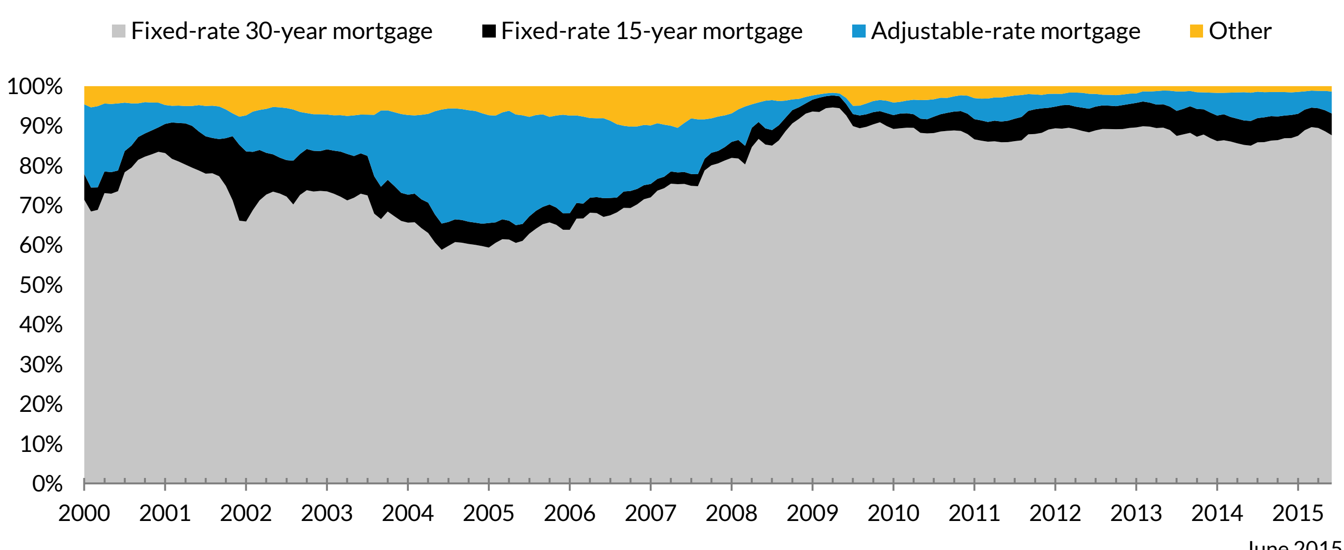
Adjustable-rate mortgages (ARMs) accounted for as much as 27 percent of all new originations during the peak of the recent housing bubble in 2004 (top chart). They fell to a historic low of 1 percent in 2009, and then slowly grew to a high of 7.2 percent in May 2014. Since then they began to edge down again to 5.2 percent of total originations in June 2015, 25 percent lower than year ago level. 15-year fixed-rate mortgages (FRMs), predominantly a refinance product, comprise 14.5 percent of new originations. If we exclude refinances (bottom chart), the share of 30-year FRMs in June 2015 stood at 87.6 percent, 15-year FRMs at 5.5 percent, and ARMs at 5.5 percent.

All Originations



Sources: CoreLogic Prime Servicing and Urban Institute.

Purchase Loans Only

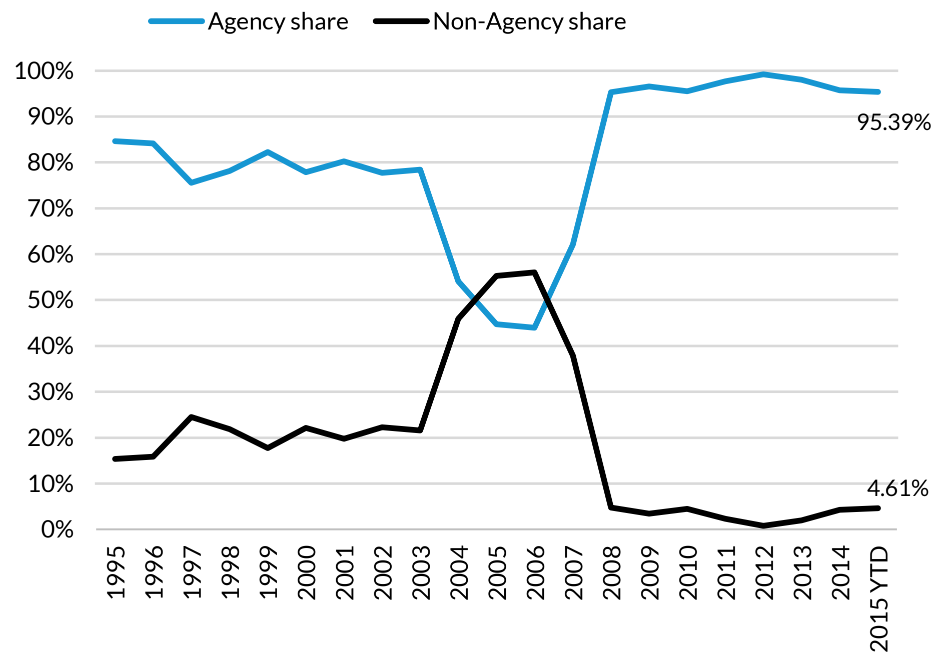


Sources: CoreLogic Prime Servicing and Urban Institute.

SECURITIZATION VOLUME AND COMPOSITION

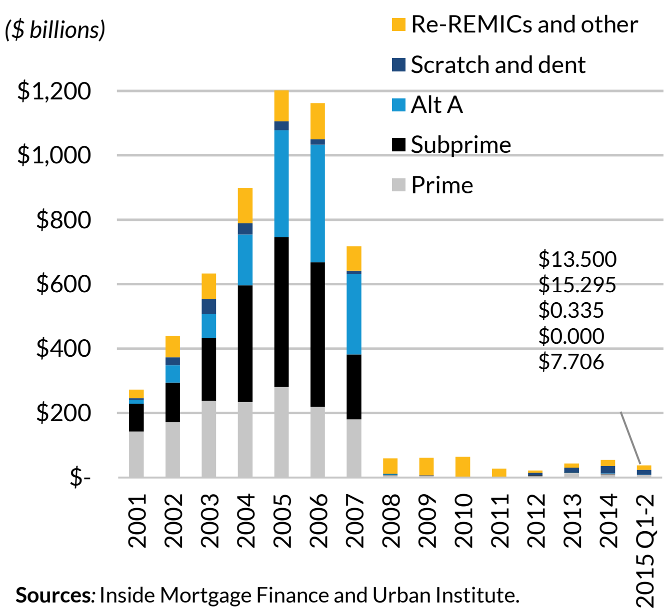
Agency/Non-Agency Share of Residential MBS Issuance

The non-agency share of mortgage securitizations was 4.6% through June 2015, compared to 4.3% in 2014 and 2.0% in 2013. This reflects the growing volume in scratch and dent securitizations (those backed by non-performing and re-performing loans, bottom left table). The volume of prime securitizations for Q1 and Q2 2015 totaled $7.7 billion or $15.4 billion annualized, far exceeding double last year's $9 billion. However, this is tiny compared to pre-crises levels. To put in the perspective, in 2001, prime origination totaled $142 billion.



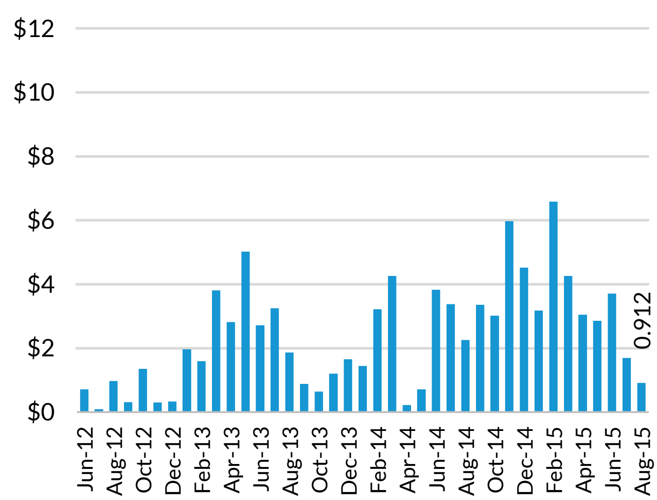
Sources: Inside Mortgage Finance and Urban Institute.

Non-Agency MBS Issuance



Sources: Inside Mortgage Finance and Urban Institute.

Monthly Non-Agency Securitization

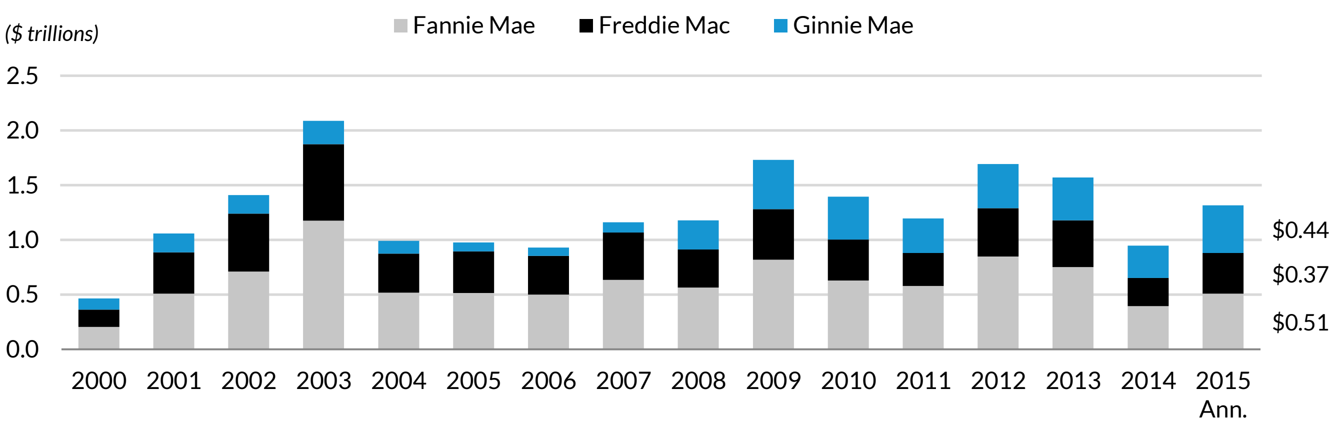


Sources: Inside Mortgage Finance and Urban Institute.
Note: Monthly figures equal total non-agency MBS issuance minus Re-REMIC issuance.

AGENCY ACTIVITY: VOLUMES AND PURCHASE/ REFI COMPOSITION

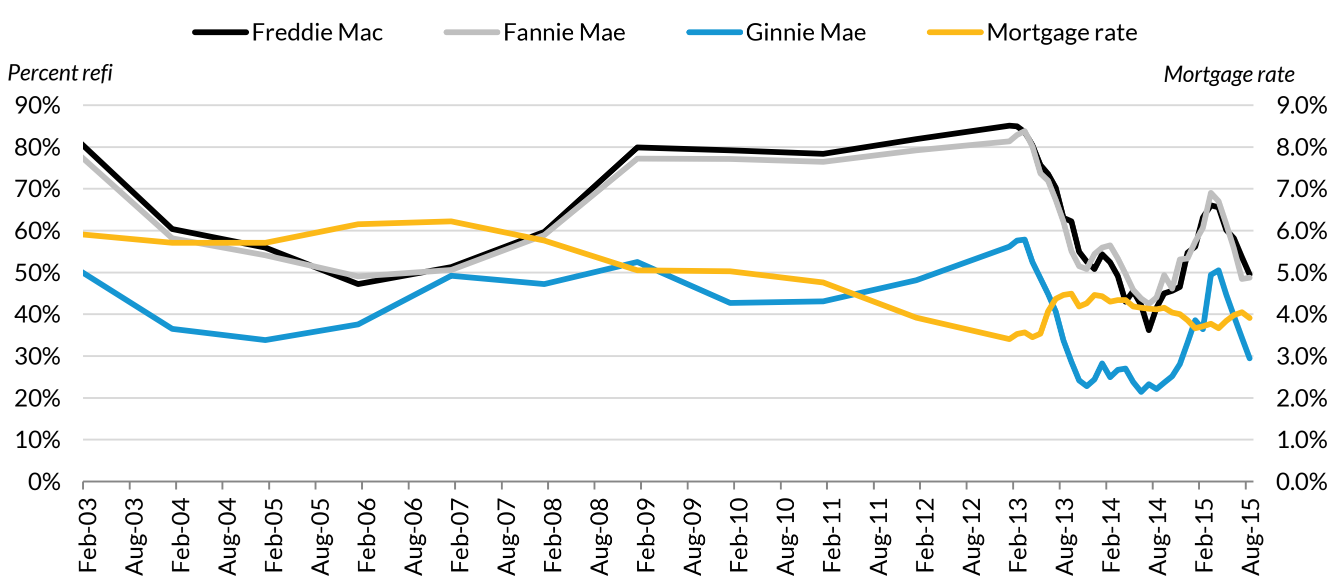
Agency issuance totaled $877 billion in the first eight months of 2015, up from $586 billion for the same period a year ago. In August 2015, refinances dropped to 49 and 50 percent of the GSEs' business, as the average mortgage rate began to edge up from low levels. The GNMA response to interest rate changes in 2015, both increases and decreases, has been somewhat larger than the GSE response, due to the 50 bps cut in the FHA premium in January. The Ginnie Mae refinance volume stood at 30 percent in August 2015, down since April but sill high relative to the past two years.

Agency Gross Issuance



Sources: eMBS and Urban Institute.
Note: Annualized figure based on data from August 2015.

Percent Refi at Issuance



Sources: eMBS and Urban Institute.
Note: Based on at-issuance balance.

STATE OF THE MARKET

MORTGAGE ORIGINATION PROJECTIONS

The GSEs and MBA have increased their origination volume and refinance share projections for 2015, especially the first half of the year. Compared to 2014, the MBA anticipates a $249 billion growth in originations, while Freddie Mac and Fannie Mae expect increases of $200 billion and $239 billion, respectively. The GSEs' higher projected growth is tied to their higher estimates of the refinance activity in 2015, while the MBA expects a slight decline in the refi share to 42 percent of originations. Home sales were slightly softer in 2014 than in 2013, while housing starts picked up some steam. Both housing starts and home sales are expected to strengthen considerably in 2015.

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
2015 Q1	343	350	330	60	57	53
2015 Q2	434	435	395	50	50	43
2015 Q3	351	380	363	38	40	35
2015 Q4	296	285	283	35	35	35
2016 Q1	248	260	273	42	40	36
2016 Q2	324	395	346	30	30	28
2016 Q3	321	390	355	28	26	27
2016 Q4	296	255	291	28	25	31
FY 2012	2154	2122	2044	72	70	71
FY 2013	1866	1925	1845	60	59	60
FY 2014	1184	1250	1122	43	43	43
FY 2015	1423	1450	1371	47	46	42
FY 2016	1190	1300	1264	31	30	30

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. Regarding interest rates, the yearly averages for 2013, 2014, 2015, and 2016 were 4.0%, 4.2%, 4.0% and 4.7%, respectively. For 2015, Fannie Mae, Freddie Mac, and the MBA project rates of 3.9%, 4.0%, and 4.0%, respectively. For 2016, their respective projections are 4.2%, 4.9%, and 4.9%.

Housing Starts and Homes Sales

Year	Housing Starts, thousands			Home Sales. thousands				
	Total, FNMA estimate	Total, FHLMC estimate	Total, MBA estimate	Total, FNMA estimate	Total, FHLMC estimate	Total, MBA estimate	Existing, MBA estimate	New, MBA Estimate
FY 2012	781	780	783	5028	5030	5030	4661	369
FY 2013	925	920	930	5519	5520	5505	5073	432
FY 2014	1003	1000	1001	5377	5380	5360	4920	440
FY 2015	1102	1140	1101	5796	5730	5738	5217	521
FY 2016	1318	1400	1238	6056	5960	6035	5466	569

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.

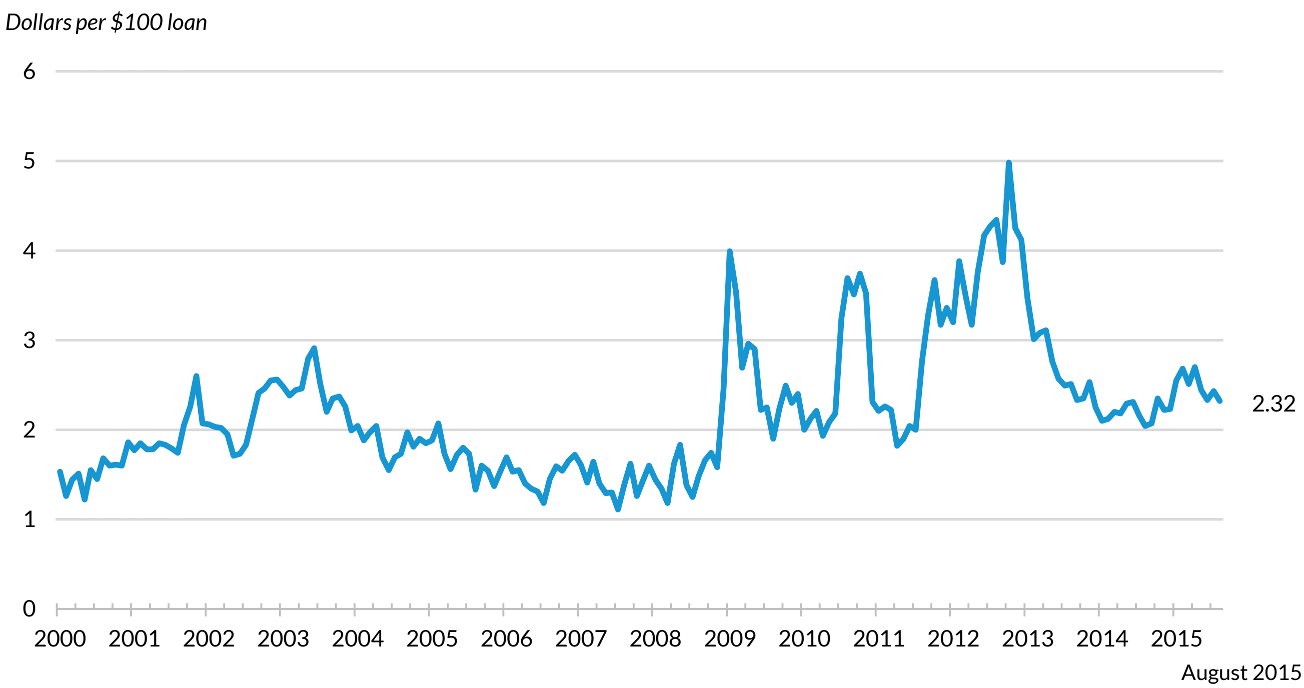
STATE OF THE MARKET

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 interest rates have risen from the lows in 2012, 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 up dramatically from 2011 levels, the so-called primary-secondary spread has become a very imperfect measure to compare profitability across time.

The 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. This measure was in the narrow range of 2.04 to 2.70 since 2014, and stood at 2.32 in August 2015.

Originator Profitability and Unmeasured Costs

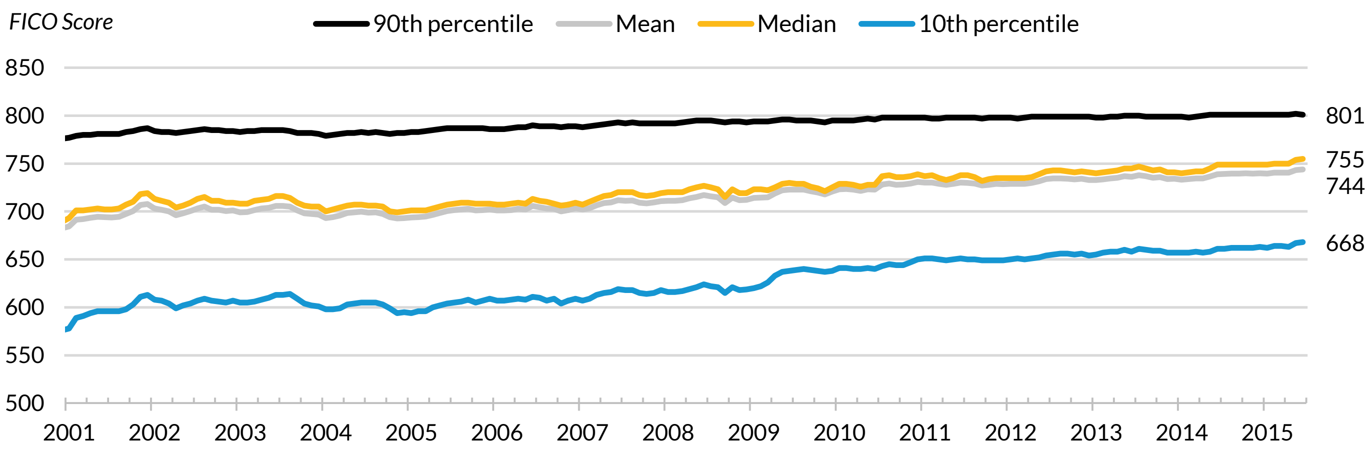


Sources: Federal Reserve Bank of New York, updated monthly and available at this link: http://www.ny.frb.org/research/epr/2013/1113fust.html and Urban Institute.
Note: OPUC stands for "originator profits and unmeasured costs" as discussed in Fuster et al. (2013). The OPUC series is a monthly (4-week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

CREDIT AVAILABILITY FOR PURCHASE LOANS

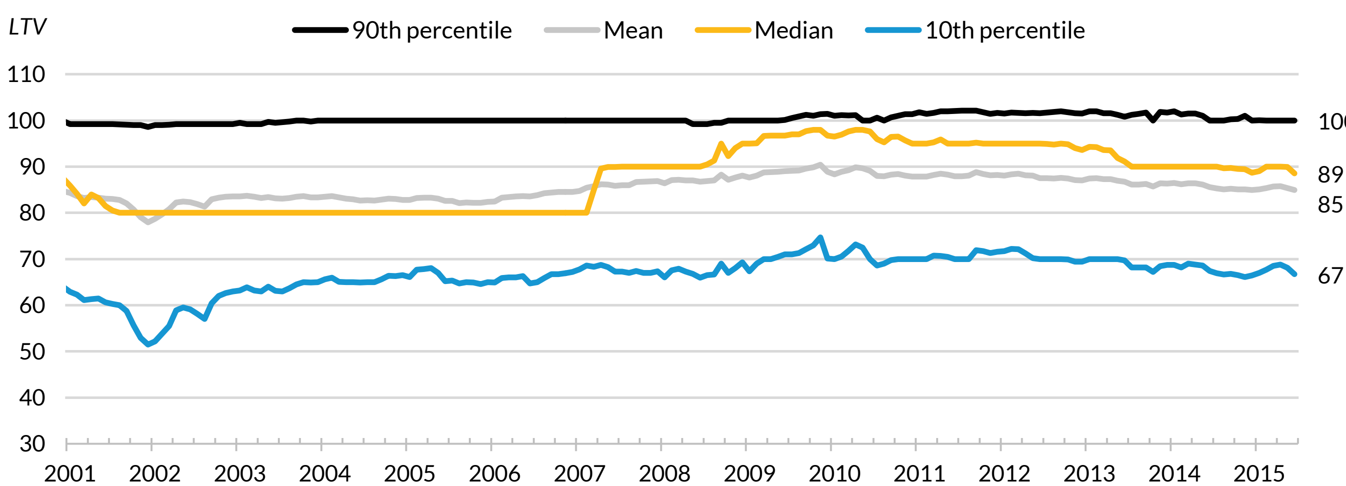
Access to credit has become extremely tight, especially for borrowers with low FICO scores. The mean and median FICO scores on new originations have both drifted up about 43 and 48 points over the last decade. The 10th percentile of FICO scores, which represents the lower bound of creditworthiness needed to qualify for a mortgage, stood at 668 as of June 2015. Prior to the housing crisis, this threshold held steady in the low 600s. LTV levels at origination remain relatively high, averaging 85, which reflects the large number of FHA purchase originations.

Borrower FICO Score at Origination



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

Combined LTV at Origination



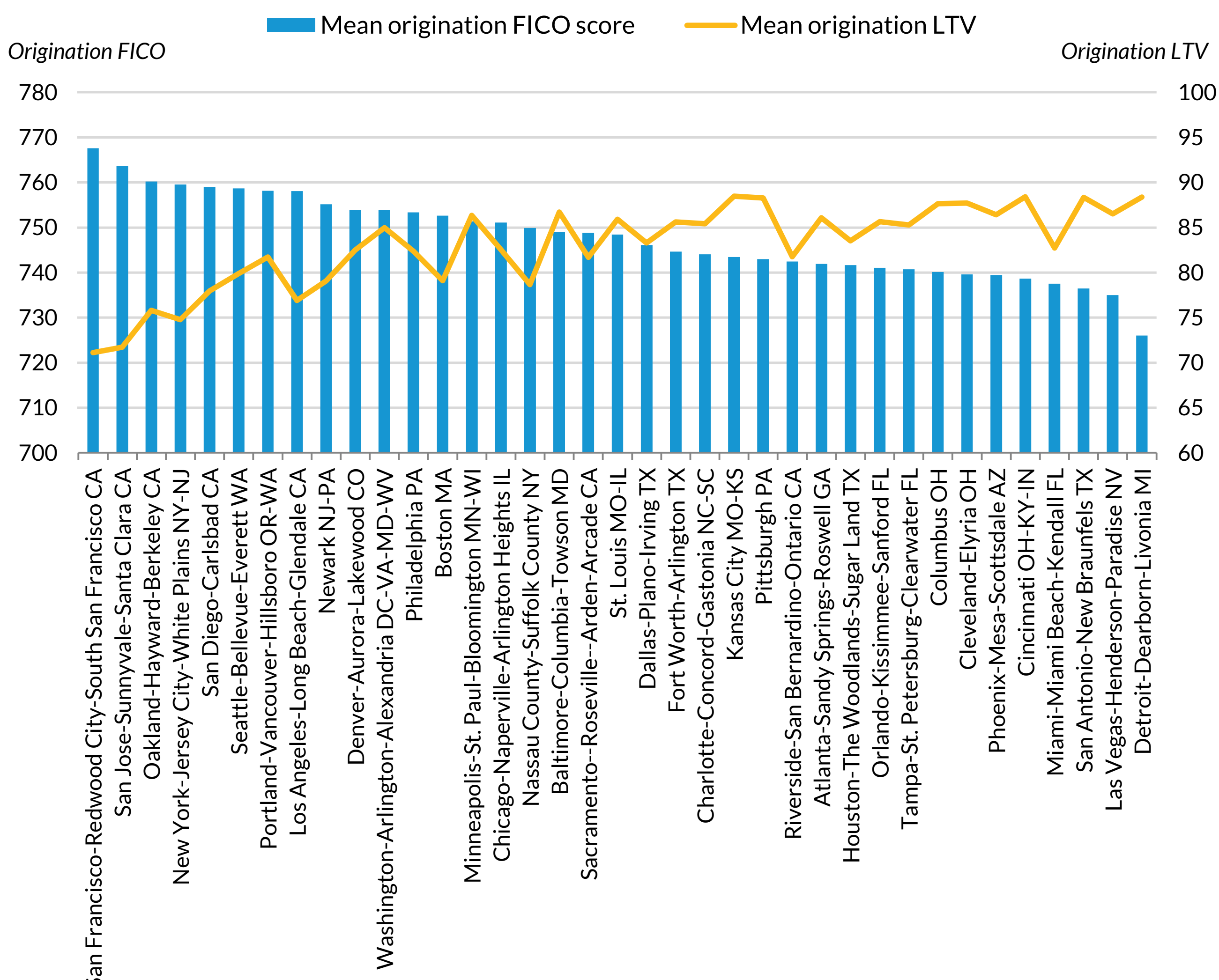
Sources: CoreLogic Servicing and Urban Institute.
Note: Purchase-only loans.

STATE OF THE MARKET

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 768, while in Detroit-Dearborn-Livonia, MI it is 723. Across all MSAs, lower average FICO scores tend to be correlated with high average LTVs, as these MSAs rely heavily on FHA/VA financing.

Origination FICO and LTV



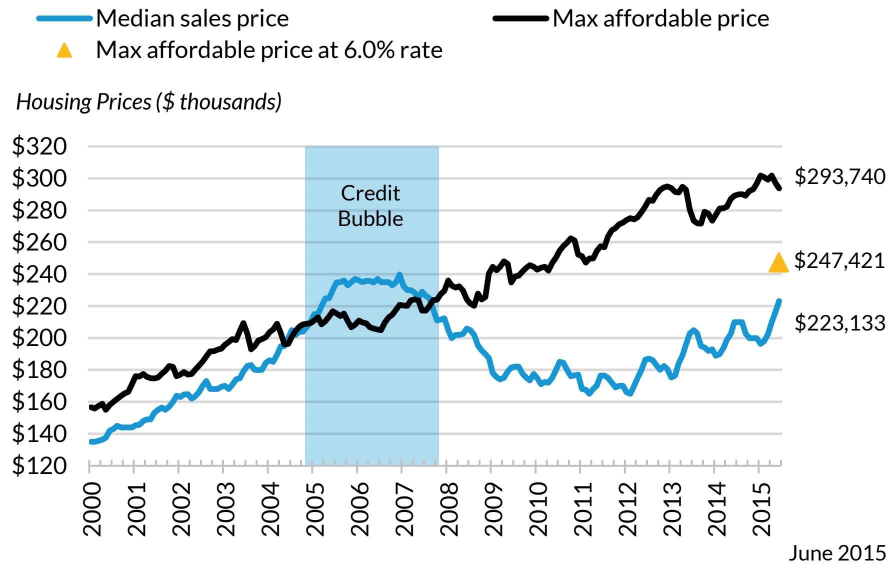
Sources: CoreLogic Prime Servicing as of June 2015 and Urban Institute.
Note: Purchase-only loans.

HOUSING AFFORDABILITY

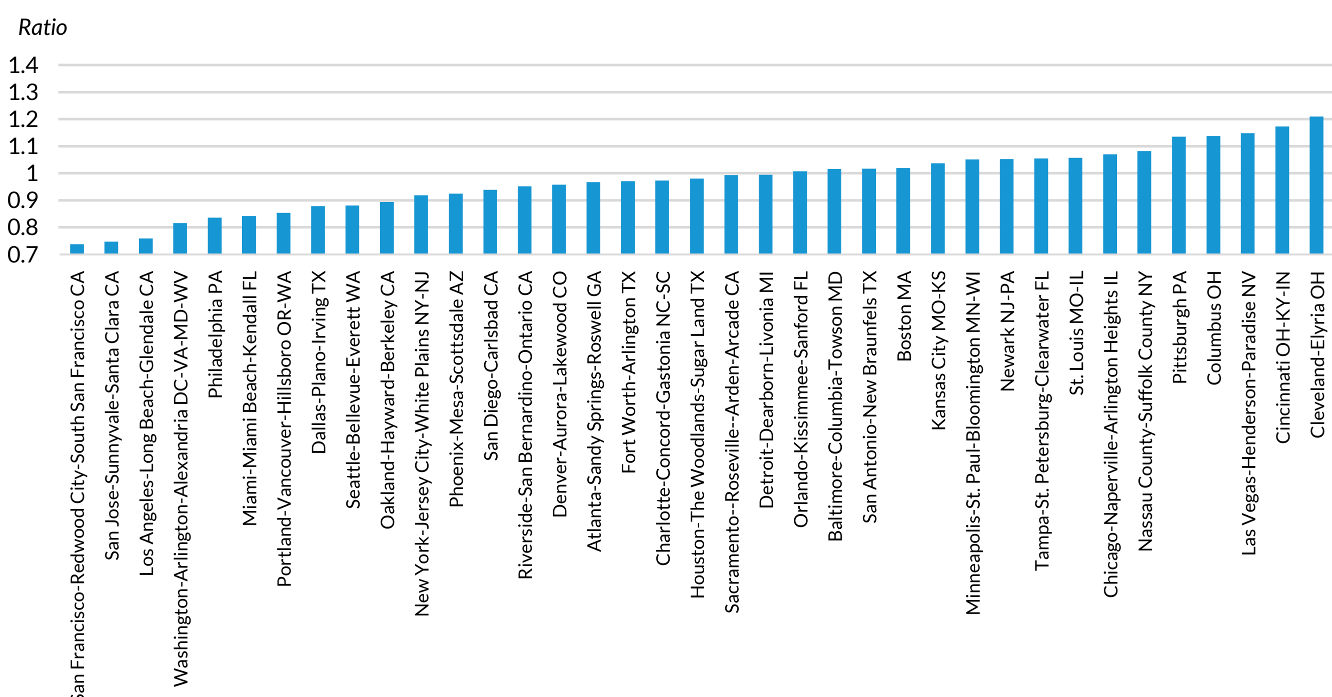
National Housing Affordability Over Time

Home prices are still very affordable by historical standards, despite increases over the last three years. Even if interest rates rose to 6 percent, affordability would be at the long term historical average. The bottom chart shows that some areas are much more affordable than others.

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



Affordability Adjusted for MSA-Level DTI

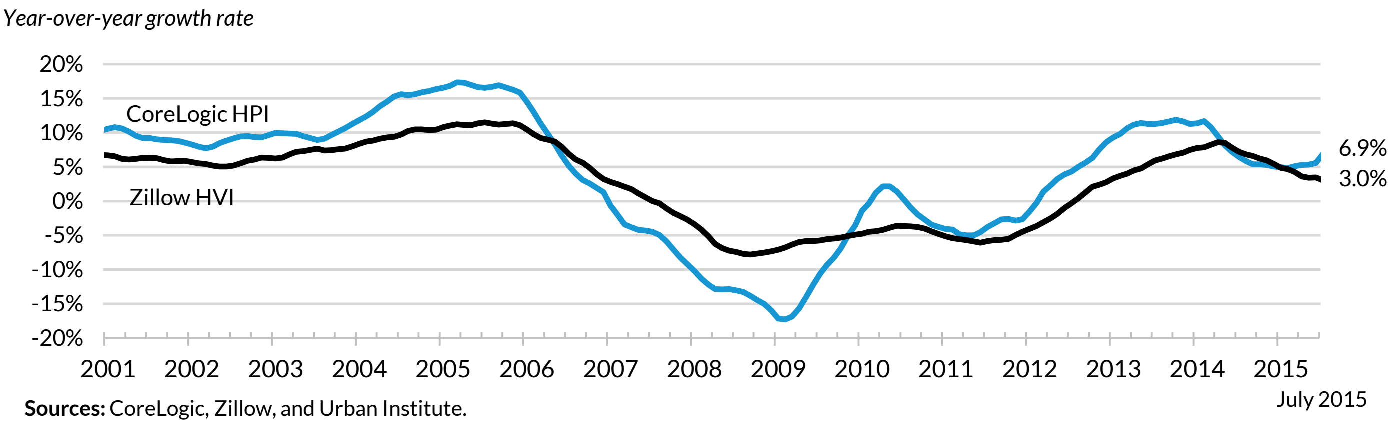


Sources: CoreLogic, US Census, Freddie Mac and UI calculations based on NAR methodology.
Note: Index is calculated relative to home prices in 2000-03. A ratio above 1 indicates higher affordability in June 2015 than in 2000-03.

HOME PRICE INDICES

National Year-Over-Year HPI Growth

The strong year-over-year house price growth through 2013 has slowed somewhat since 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 37.8 percent from the trough, national house prices still must grow 7 percent to reach pre-crisis peak levels. At the MSA level, four of the top 15 MSAs have reached their peak HPI– Houston, TX; Dallas, TX; Seattle, WA and Denver, CO. Two MSAs particularly hard hit by the boom and bust– Phoenix, AZ and Riverside, CA– would need to rise 34 and 37 percent to return to peak levels, respectively.

MSA	HPI changes (%)			% Rise needed to achieve peak
	2000 to peak	Peak to trough	Trough to current	
United States	98.7	-32.2	37.8	7.1
New York-Jersey City-White Plains NY-NJ	114.5	-19.9	23.6	1.0
Los Angeles-Long Beach-Glendale CA	181.2	-38.9	52.9	7.0
Chicago-Naperville-Arlington Heights IL	65.0	-36.3	27.6	23.0
Atlanta-Sandy Springs-Roswell GA	40.8	-33.4	48.2	1.2
Washington-Arlington-Alexandria DC-VA-MD-WV	159.4	-33.2	32.8	12.7
Houston-The Woodlands-Sugar Land TX	44.6	-12.6	39.8	-18.2
Phoenix-Mesa-Scottsdale AZ	126.4	-52.6	57.1	34.4
Riverside-San Bernardino-Ontario CA	194.4	-53.2	55.6	37.3
Dallas-Plano-Irving TX	38.3	-13.5	37.2	-15.7
Minneapolis-St. Paul-Bloomington MN-WI	73.9	-30.4	31.8	9.0
Seattle-Bellevue-Everett WA	93.8	-31.6	48.4	-1.5
Denver-Aurora-Lakewood CO	36.5	-14.4	48.9	-21.6
Baltimore-Columbia-Towson MD	129.0	-25.7	11.1	21.2
San Diego-Carlsbad CA	148.3	-38.0	44.6	11.6
Anaheim-Santa Ana-Irvine CA	162.2	-36.9	44.7	9.5

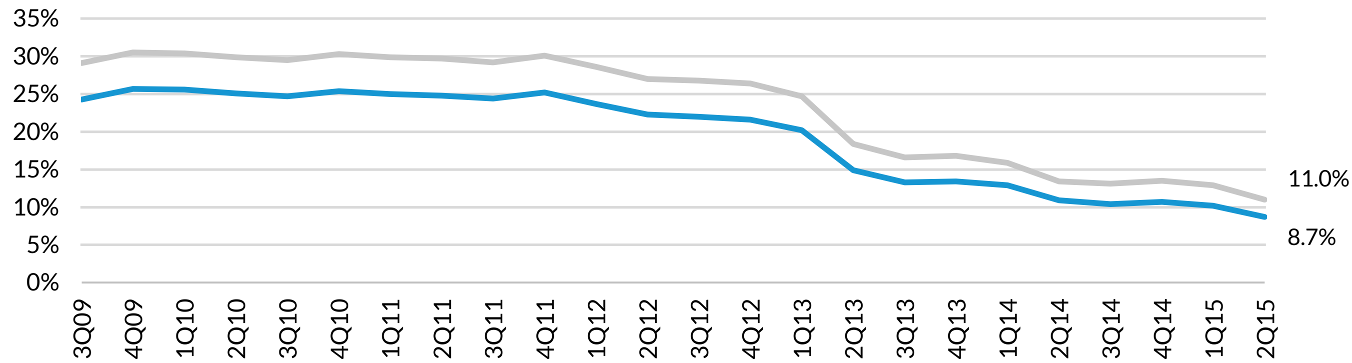
Sources: CoreLogic HPIs as of July 2015 and Urban Institute.
Note: This table includes the largest 15 Metropolitan areas by mortgage count.

NEGATIVE EQUITY & SERIOUS DELINQUENCY

Negative Equity Share

Negative equity   Near or in negative equity

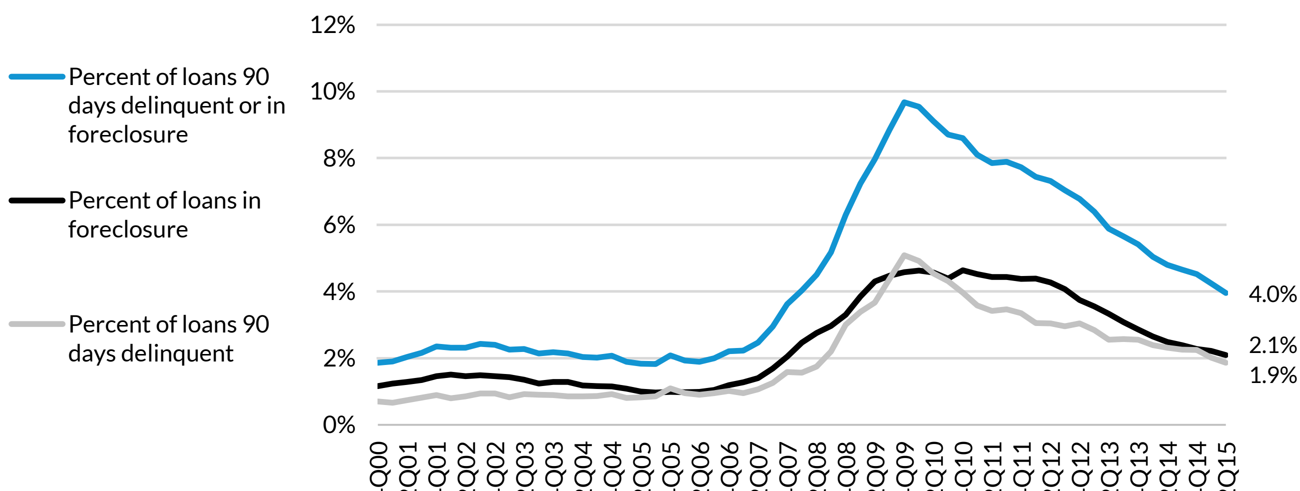
With housing prices continuing to appreciate, residential properties in negative equity (LTV greater than 100) as a share of all residential properties with a mortgage have dropped to 8.7 percent as of Q2 2015. Residential properties in near negative equity (LTV between 95 and 100) comprise another 2.3 percent.



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

Loans in Serious Delinquency/Foreclosure

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 4.0% in the second quarter of 2015, down from 4.8% for the same quarter a year earlier.

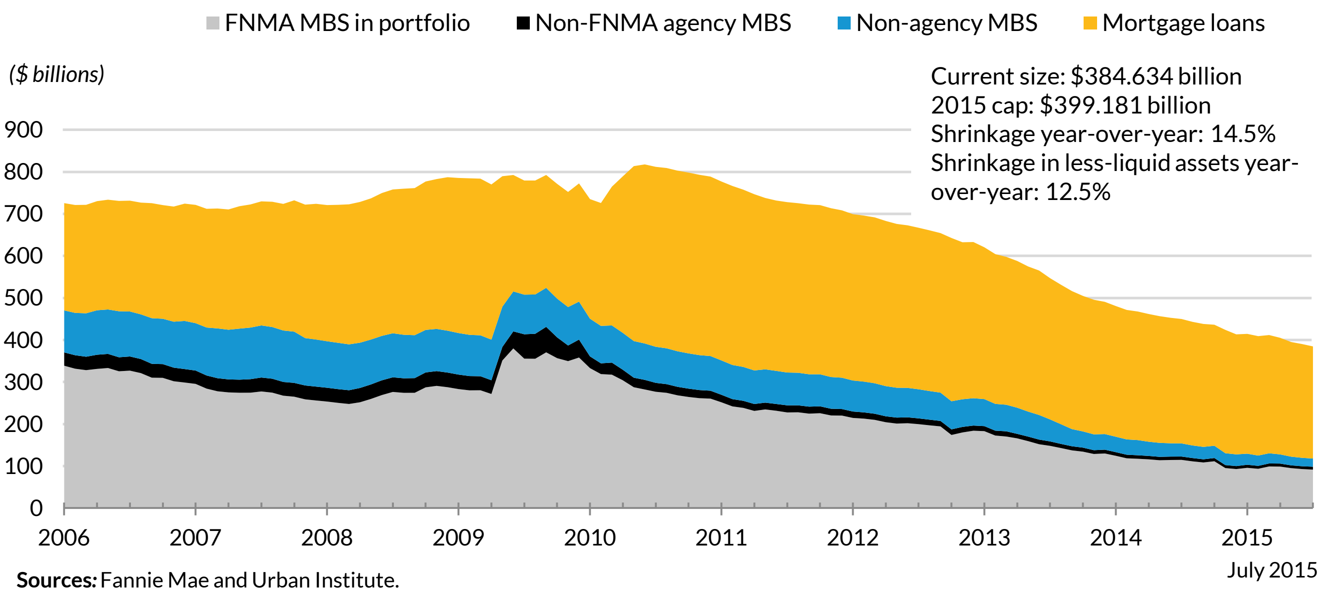


Sources: Mortgage Bankers Association and Urban Institute.

GSE PORTFOLIO WIND-DOWN

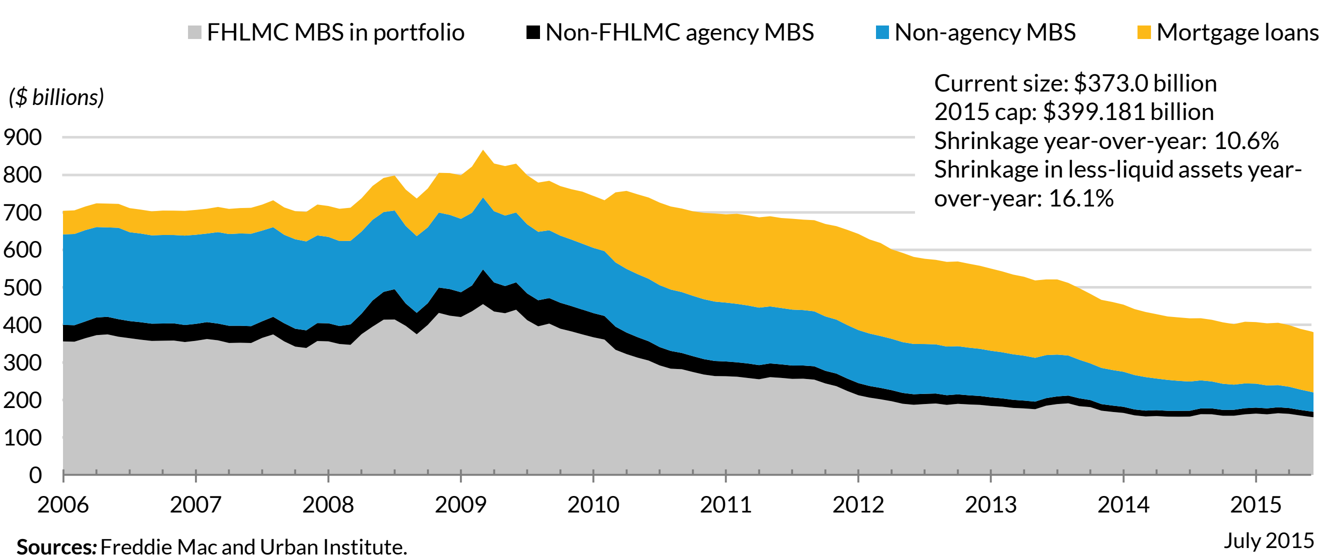
Fannie and Freddie ended 2014 with portfolios totaling $413.3 billion and $408.4 billion, respectively, well below the 2014 cap and just above the 2015 cap of $399 billion. In July 2015, portfolio size declined to below the 2015 caps for both GSEs, adding to the evident downward trend of the past year. Relative to July 2014, Fannie contracted by 14.5 percent, and Freddie Mac by 10.6 percent. They are shrinking their less liquid assets (mortgage loans and non-agency MBS) at close to the same pace, or even more rapidly, than they are shrinking their entire portfolios.

Fannie Mae Mortgage-Related Investment Portfolio Composition



Sources: Fannie Mae and Urban Institute.

Freddie Mac Mortgage-Related Investment Portfolio Composition



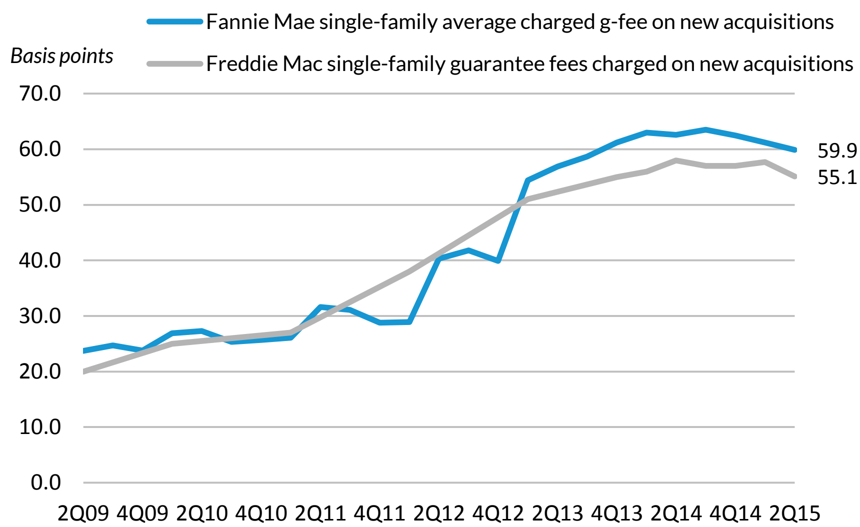
Sources: Freddie Mac and Urban Institute.

GSES UNDER CONSERVATORSHIP

EFFECTIVE GUARANTEE FEES AND GSE RISK-SHARING TRANSACTIONS

Guarantee Fees Charged on New Acquisitions

Fannie's average charged g-fee on new single-family originations dipped to 59.9 bps in Q2 2015, down from 61.2 bps in the previous quarter. Freddie's fee also fell in this quarter, to 55.1 bps from 57.7 bps. This is still a marked increase over 2012 and 2011, and has contributed to the GSEs' profits. Fannie's new Loan-Level Price Adjustments (LLPAs), effective as of September 2015, are shown in the second table. The Adverse Market Delivery Charge (AMDC) of 0.25 percent is eliminated, and LLPAs for some borrowers will is slightly increased to compensate for the revenue lost from the AMDC. As a result, the new LLPAs are expected to have a modest impact on GSE pricing.



Sources: Fannie Mae, Freddie Mae and Urban Institute.

Fannie Mae Upfront Loan-Level Price Adjustments (LLPAs)

	LTV							
Credit Score	≤60	60.01 – 70	70.01 – 75	75.01 – 80	80.01 – 85	85.01 – 90	90.01 – 95	95.01 – 97
> 740	0.00%	0.25%	0.25%	0.50%	0.25%	0.25%	0.25%	0.75%
720 – 739	0.00%	0.25%	0.50%	0.75%	0.50%	0.50%	0.50%	1.00%
700 – 719	0.00%	0.50%	1.00%	1.25%	1.00%	1.00%	1.00%	1.50%
680 – 699	0.00%	0.50%	1.25%	1.75%	1.50%	1.25%	1.25%	1.50%
660 – 679	0.00%	1.00%	2.25%	2.75%	2.75%	2.25%	2.25%	2.25%
640 – 659	0.50%	1.25%	2.75%	3.00%	3.25%	3.75%	2.75%	2.75%
620 – 639	0.50%	1.50%	3.00%	3.00%	3.25%	3.25%	3.25%	3.50%
< 620	0.50%	1.50%	3.00%	3.00%	3.25%	3.25%	3.25%	3.75%
Product Feature (Cumulative)								
High LTV	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Investment Property	2.125%	2.125%	2.125%	3.375%	4.125%	N/A	N/A	N/A

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

GSE RISK-SHARING TRANSACTIONS: CAS AND STACR

Fannie Mae – Connecticut Avenue Securities (CAS)

Date	*Transaction*	*Reference Pool Size ($ millions)*
October 2013	CAS 2013 – C01	$26,756.40
January 2014	CAS 2014 – C01	$29,308.70
May 2014	CAS 2014 – C02	$60,818.48
July 2014	CAS 2014 – C03	$78,233.73
November 2014	CAS 2014 – C04	$58,872.70
February 2015	CAS 2015 – C01	$50,192.00
May 2015	CAS 2015 – C02	$45,009.10
June 2015	CAS 2015 – C03	$48,326.40
Fannie Mae Total Reference Collateral		**$397,547.50**
Percent of Fannie Mae's Total Book of Business		**15.18%**

Freddie Mac – Structured Agency Credit Risk (STACR)

Date	*Transaction*	*Reference Pool Size ($ millions)*
July 2013	STACR Series 2013 - DN1	$22,584.40
November 2013	STACR Series 2013 - DN2	$35,327.30
February 2014	STACR Series 2014 - DN1	$32,076.80
April 2014	STACR Series 2014 - DN2	$28,146.98
August 2014	STACR Series 2014 - DN3	$19,746.23
August 2014	STACR Series 2014 – HQ1	$9,974.68
September 2014	STACR Series 2014 – HQ2	$33,434.43
October 2014	STACR Series 2014 – DN4	$15,740.71
October 2014	STACR Series 2014 – HQ3	$8,000.61
February 2015	STACR Series 2015 – DN1	$27,600.00
March 2015	STACR Series 2015 – HQ1	$16,551.60
April 2015	STACR Series 2015 – DNA1	$31,875.70
May 2015	STACR Series 2015-HQ2	$30,324.90
June 2015	STACR Series 2015 – DNA2	$31,985.70
Freddie Mac Total Reference Collateral		**$343,370.00**
Percent of Freddie Mac's Total Book of Business		**22.08%**

Details of Freddie Mac's June 2015 capital markets transaction, STACR Series 2015 – DNA2

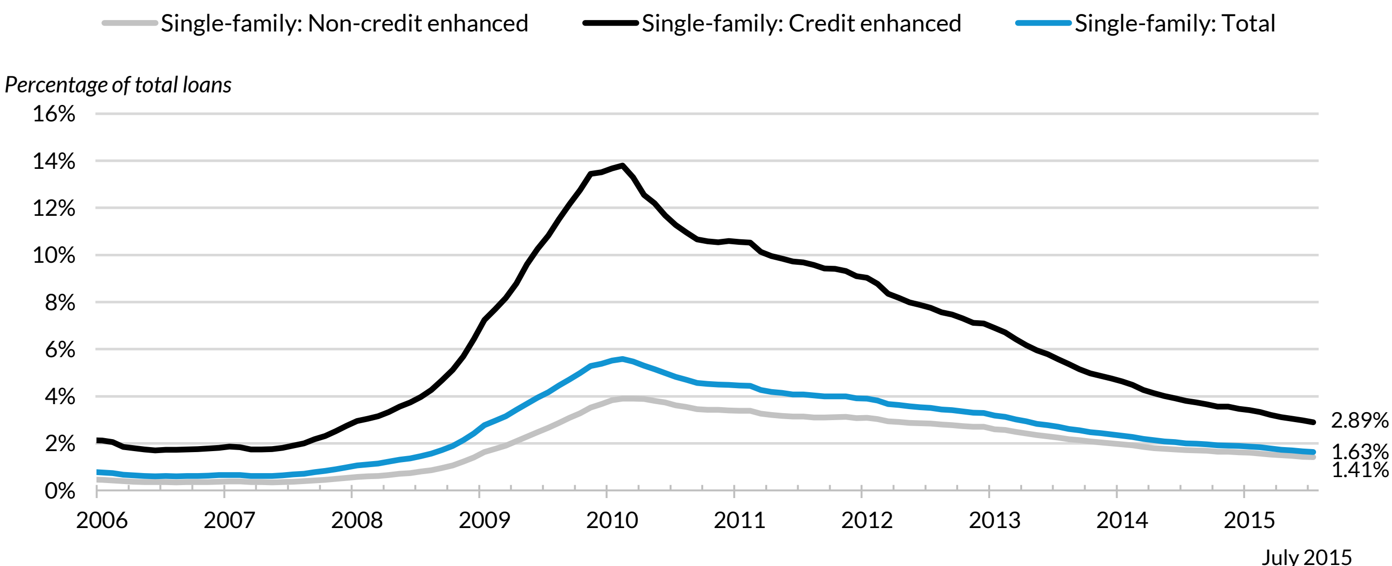
Class	*Amount ($ millions)*	*Tranche Thickness (%)*	*CE (%)*	*Moody's Rating*	*Coupon (1mL+)*
A-H	$30,226.4	94.5	5.5	NR	NR
M-1, M-1H, Total	$200, $119.9, $319.9	1	4.5	M: A3	115
M-2, M-2H, Total	$400, $239.7, $639.7	2	2.5	M: Baa3	260
M-3, M-3H, Total	$200, $119.9, $319.9	1	1.5	M: B1	390
B, BH, Total	$150, $329.8, $479.8	1.5	0	NR	755
Reference Pool Size	**$31,985.7**	**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.

GSES UNDER CONSERVATORSHIP
SERIOUS DELINQUENCY RATES

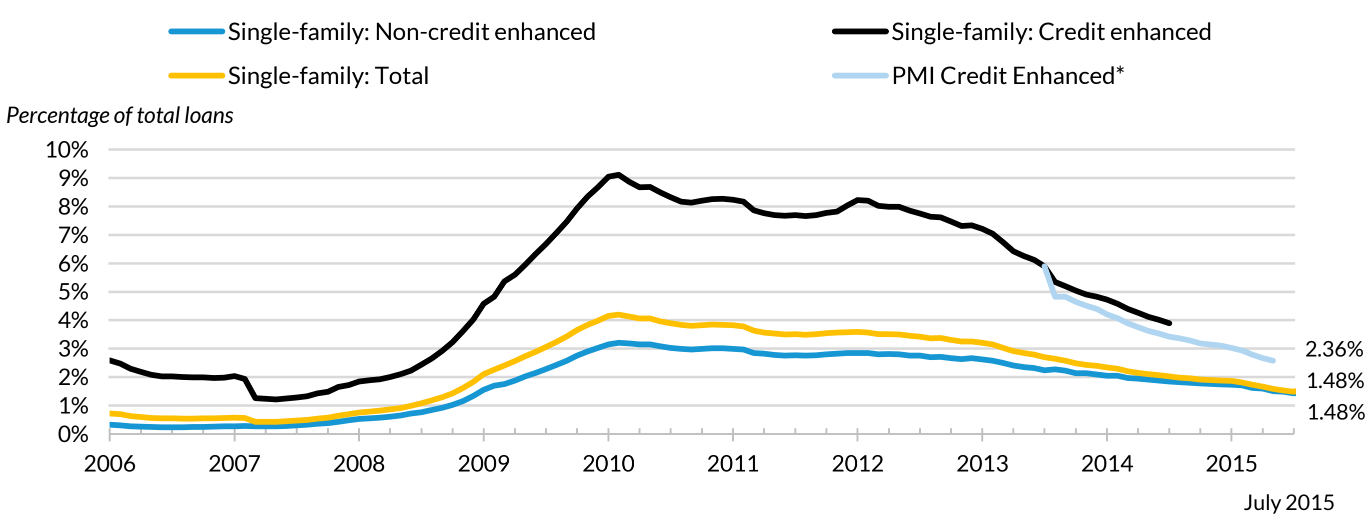
Serious delinquency rates of GSE loans continue to decline as the legacy portfolio is resolved and the pristine, post-2009 book of business exhibits very low default rates. As of July 2015, 1.63 percent of the Fannie portfolio and 1.48 percent of the Freddie portfolio were seriously delinquent, down from 2.00 percent for Fannie and 2.02 percent for Freddie in July 2014.

Serious Delinquency Rates–Fannie Mae



Sources: Fannie Mae and Urban Institute.

Serious Delinquency Rates–Freddie Mac



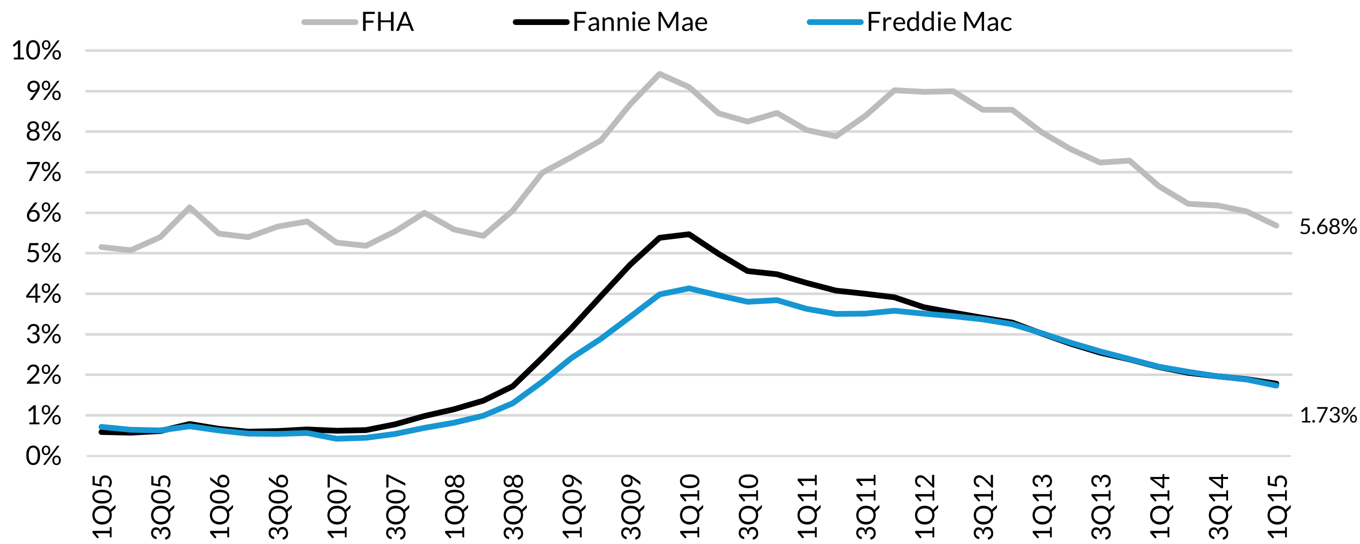
Sources: Freddie Mac and Urban Institute.
Note*: Following a change in Freddie reporting in September 2014, we switched from reporting credit enhanced delinquency rates to PMI credit enhanced delinquency rates.

GSES UNDER CONSERVATORSHIP

SERIOUS DELINQUENCY RATES

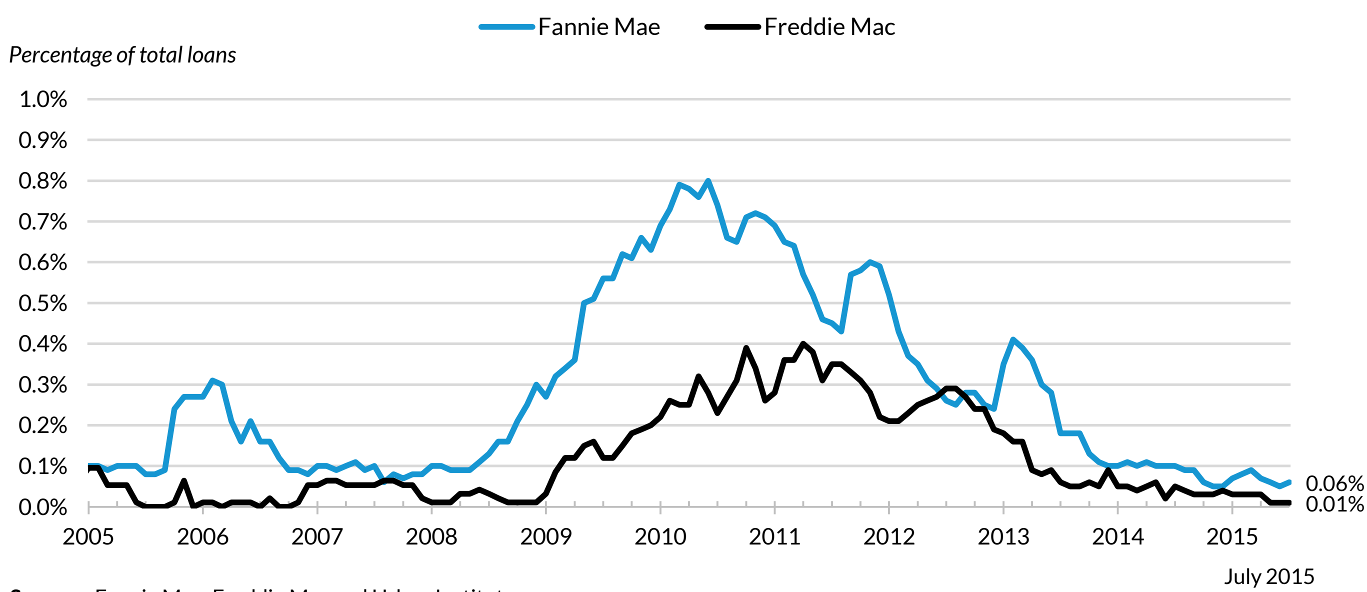
Serious delinquencies for FHA and GSE single-family loans continue to decline. GSE delinquencies remain higher relative to 2005-2007, while FHA delinquencies (which are much higher than their GSE counterparts) are now at levels similar to 2005-2007. GSE multifamily delinquencies have declined to pre-crisis levels, though they did not reach problematic levels even in the worst years.

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

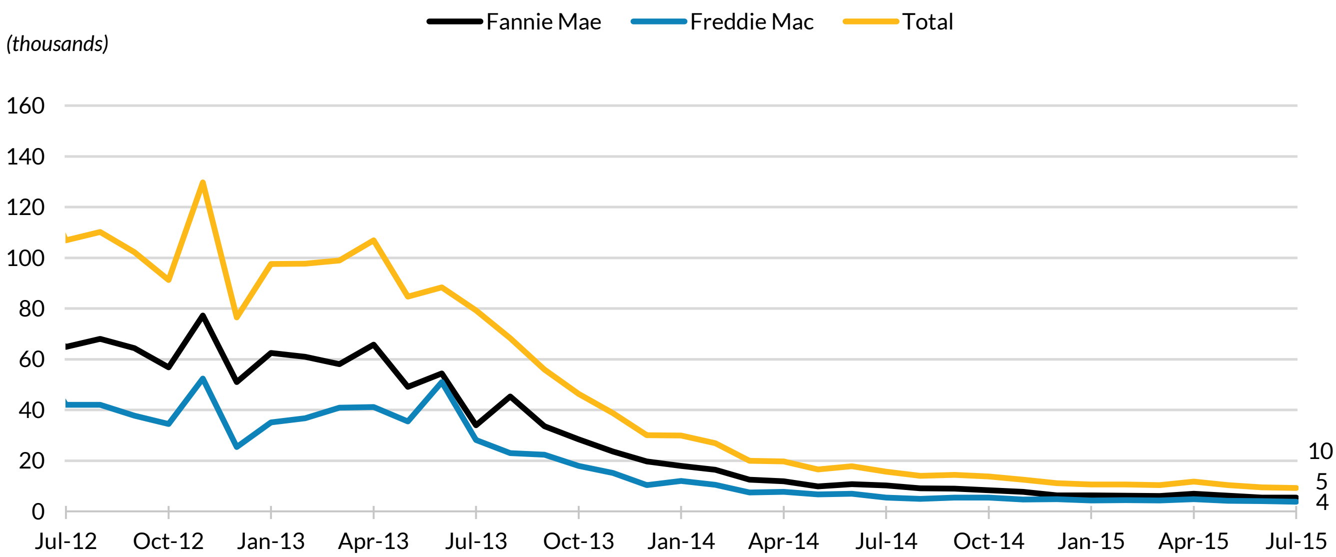


Sources: Fannie Mae, Freddie Mac and Urban Institute.
Note: Multifamily serious delinquency rate is the unpaid balance of loans 60 days or more past due, divided by the total unpaid balance.

GSES UNDER CONSERVATORSHIP
REFINANCE ACTIVITY

The Home Affordable Refinance Program (HARP) refinances have slowed considerably. 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. Since the program's Q2 2009 inception, HARP refinances total 3.3 million, accounting for 16 percent of all GSE refinances in this period.

Total HARP Refinance Volume



Sources: FHFA Refinance Report and Urban Institute. July 2015

HARP Refinances

	July 2015	Year-to-date 2015	Inception to date	2014	2013	2012
Total refinances	198,081	1,359,246	21,768,284	1,536,788	4,081,911	4,750,530
Total HARP refinances	9,267	72,476	3,342,921	212,488	892,914	1,074,769
Share 80–105 LTV	76.2%	75.7%	70.1%	72.5%	56.4%	56.4%
Share 105–125 LTV	15.8%	15.9%	17.2%	17.2%	22.4%	22.4%
Share >125 LTV	8.0%	8.4%	12.7%	10.3%	21.2%	21%
All other streamlined refinances	17,881	142,699	3,663,938	268,026	735,210	729,235

Sources: FHFA Refinance Report and Urban Institute.

GSES UNDER CONSERVATORSHIP

GSE LOANS: POTENTIAL REFINANCES

"To qualify for HARP, a loan must be originated before the June 2009 cutoff date, have a marked-to-market loan-to-value (MTM LTV) ratio above 80, and have no more than one delinquent payment in the past year and none in the past six months. There are 459,484 eligible loans, but 46 percent are out-of-the-money because the closing cost would exceed the long-term savings, leaving 246,466 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 5,856,363 loans in this category, 4,726,965 are in-the-money.

More than 70 percent 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 in May 2014 that they are not planning to extend the cutoff date. On May 8, 2015 Director Watt extended the deadline for the HARP program for an additional year, until the end of 2016.

Total loan count	26,963,252
Loans that do not meet pay history requirement	1,342,933
Loans that meet pay history requirement:	25,620,319
Pre-June 2009 origination	6,315,847
Post-June 2009 origination	19,304,473

Loans Meeting HARP Pay History Requirements

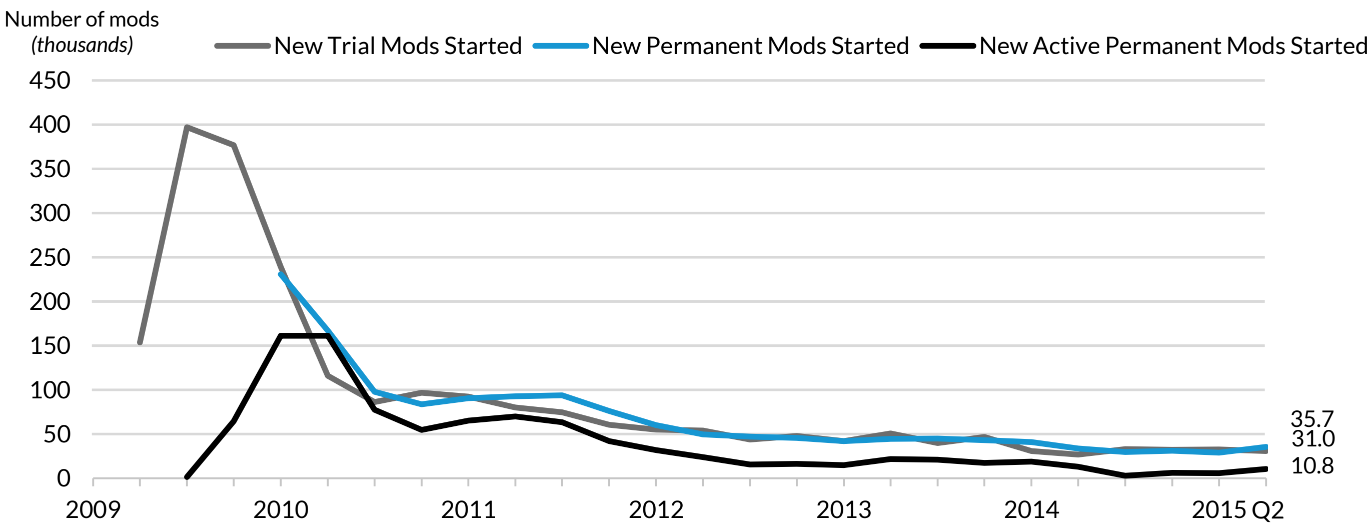
Pre-June 2009			
LTV category	*In-the-money*	*Out-of-the-money*	*Total*
≤80	4,726,965	1,129,397	5,856,363
>80	246,466	213,018	459,484
Total	4,973,432	1,342,415	6,315,847
Post-June 2009			
LTV category	*In-the-money*	*Out-of-the-money*	*Total*
≤80	3,254,303	13,662,930	16,917,232
>80	578,456	1,808,784	2,387,240
Total	3,832,758	15,471,714	19,304,473

Sources: CoreLogic Prime Servicing as of July 2015 and Urban Institute.
Note: Figures are scaled up from source data to account for data coverage of the GSE active loan market (based on MBS data from eMBS). Shaded box indicates HARP-eligible loans that are in-the-money.

MODIFICATION ACTIVITY
HAMP ACTIVITY

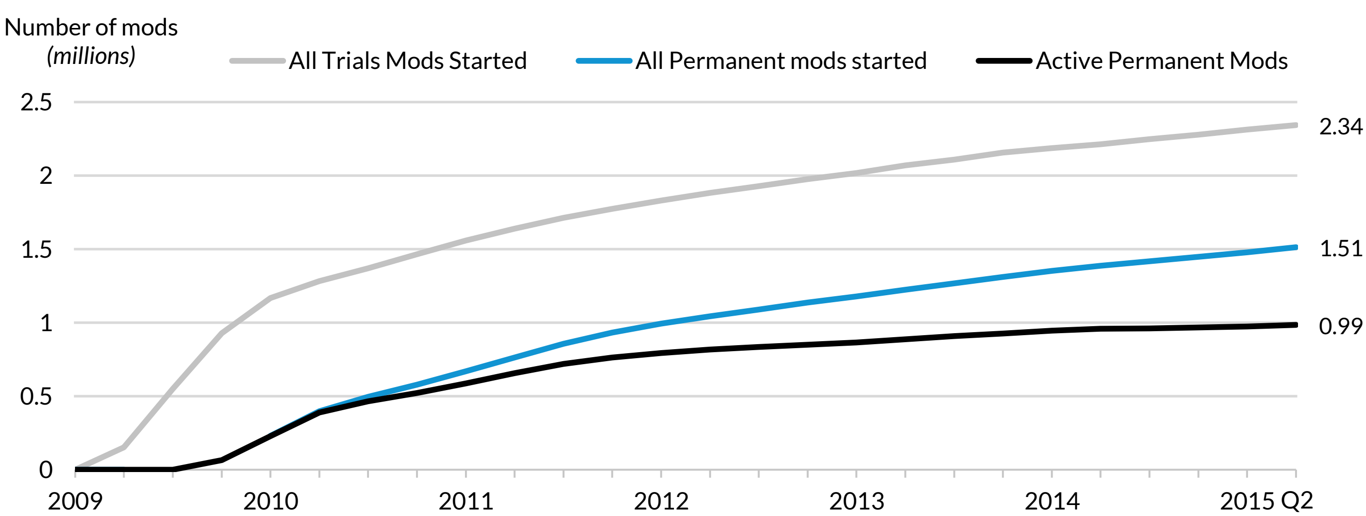
In 2015 Q1 and Q2, new HAMP trial mods were slightly above last year's average rate of 30,800 per quarter, while new permanent mods exhibited their lowest quarterly total ever at 29,101 in Q1 before increasing to 35, 738 in Q2. Cumulative permanent HAMP mods started now total 1.51 million.

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 ACTIVITY

MODIFICATION BY TYPE OF ACTION AND BEARER OF RISK

The latest OCC Mortgage Metrics report signals a sharp increase in the share of loans that received principal reductions, from 6.5 percent in Q4 2014 to 14.5 percent in Q1 2015. There are two reasons for this. First, a noticeable share (5.8 percent) of government loans are now getting principal reductions, up from less than 1% percent in the previous quarter. Second, the share of portfolio loans receiving principal reductions has risen sharply, from 27.4 percent in Q4 2014 to 50.3 percent in Q1 2015. The GSEs generally do not allow principal reduction modifications; the FHFA is studying whether a change in this policy is warranted.

Changes in Loan Terms for Modifications

	Modification Quarter						One quarter % change	One year % change
	13Q4	14Q1	14Q2	14Q3	14Q4	15Q1		
Capitalization	87.7	74.3	59	71.1	84.1	88.9	5.7	19.7
Rate reduction	76.7	73.3	71.9	66.5	65.1	68.2	4.8	-6.9
Rate freeze	7	6.5	7.1	7.5	8.4	7.4	-11.2	13.8
Term extension	75.9	78	84	82.0	83.8	84.9	1.2	8.8
Principal reduction	10.5	8.1	5	6.8	6.5	14.5	122.7	78.7
Principal deferral	30.6	25.1	11.5	15.9	10.4	9.9	-4.6	-60.0
Not reported*	0.7	0.7	0.7	0.5	0.4	0.5	15.8	-30.6

Sources: OCC Mortgage Metrics Report for the First Quarter of 2015 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	98.9%	98.8%	75.4%	93.6%	97.5%	88.9%
Rate reduction	40.5%	44.5%	82.6%	70.2%	78.6%	68.2%
Rate freeze	15.5%	8.8%	4.9%	5.3%	5.8%	7.4%
Term extension	95.4%	96.5%	97.7%	31.2%	71.3%	84.9%
Principal reduction	0.0%	0.1%	5.8%	20.6%	50.3%	14.5%
Principal deferral	15.6%	13.7%	0.3%	20.1%	16.0%	9.9%
Not reported*	-	0.1%	0.4%	1.2%	0.8%	0.5%

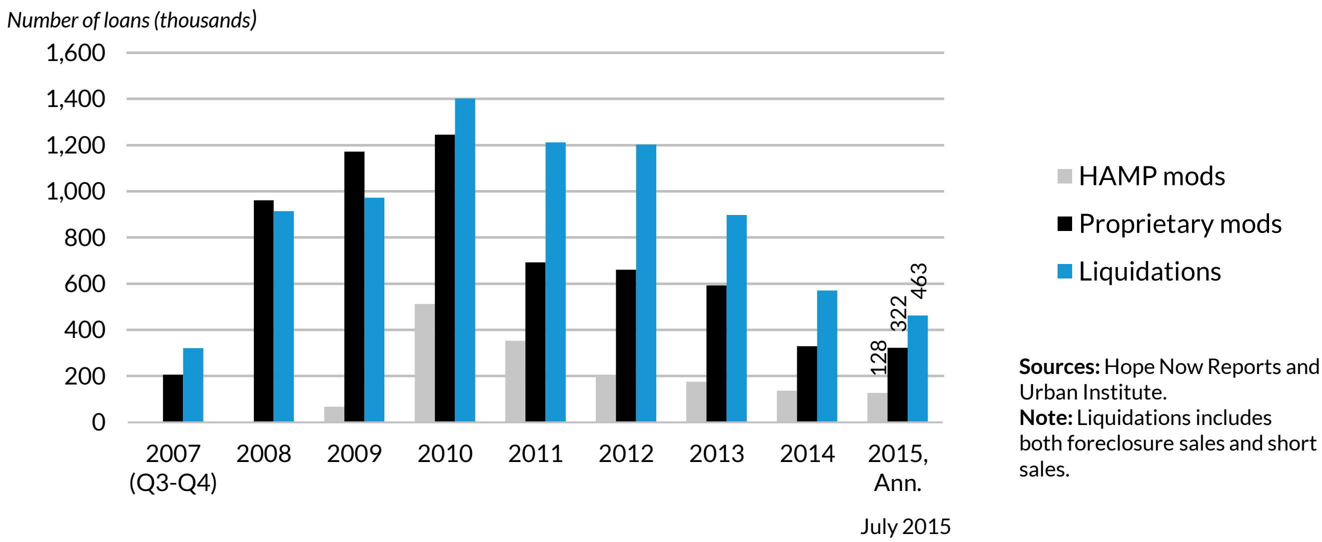
Sources: OCC Mortgage Metrics Report for the First Quarter of 2015 and Urban Institute.
Note: This table presents modifications of each type as a share of total modifications. Columns sum to over 100% because loans often receive modifications with multiple features.
*Processing constraints at some servicers prevented them from reporting specific modified term(s).

MODIFICATION ACTIVITY

MODIFICATIONS AND LIQUIDATIONS

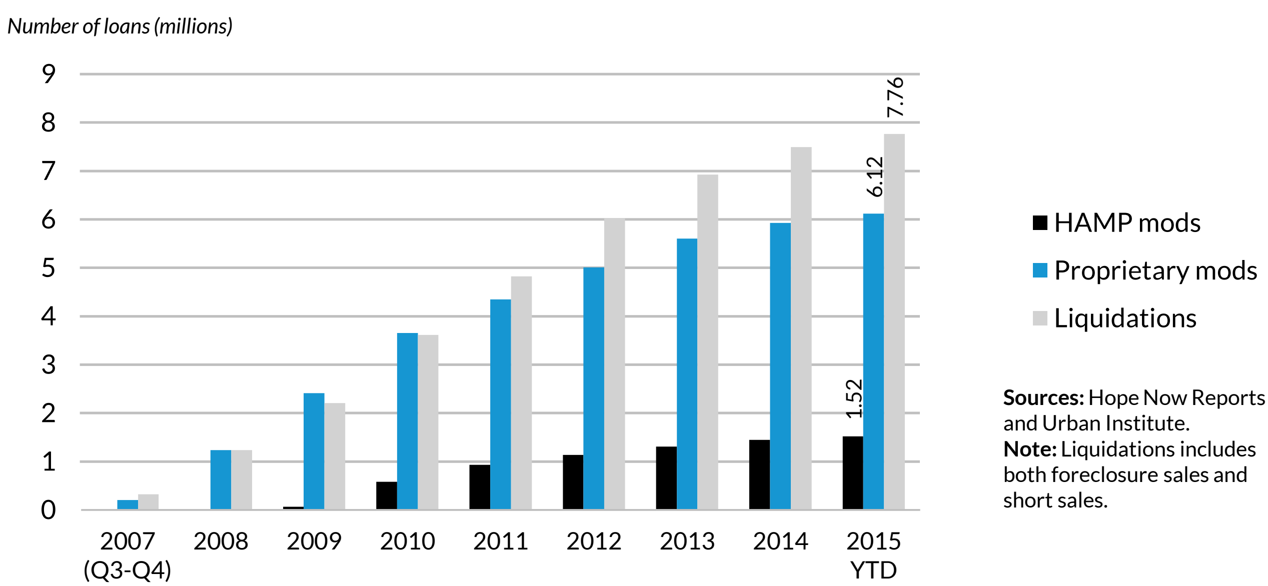
Total modifications (HAMP and proprietary) are now roughly equal to total liquidations. Hope Now reports show 7,641,619 borrowers have received a modification since Q3 2007, compared with 7,763,430 liquidations in the same period. Modification activity slowed significantly in 2014 and remained level in the first half of 2015, averaging 37,495 monthly through July. Liquidations have continued to decline, averaging 38,569 per month over this period compared to 47,515 per month in 2014.

Loan Modifications and Liquidations



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

Cumulative Modifications and Liquidations

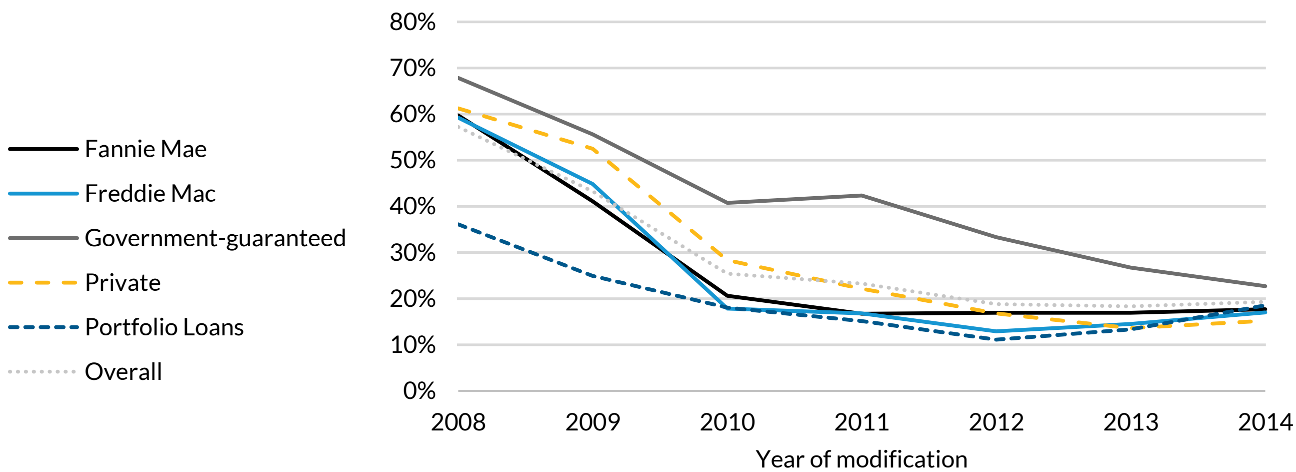


Sources: Hope Now Reports and Urban Institute.
Note: Liquidations includes both foreclosure sales and short sales.

MODIFICATION REDEFAULT RATES BY BEARER OF THE RISK

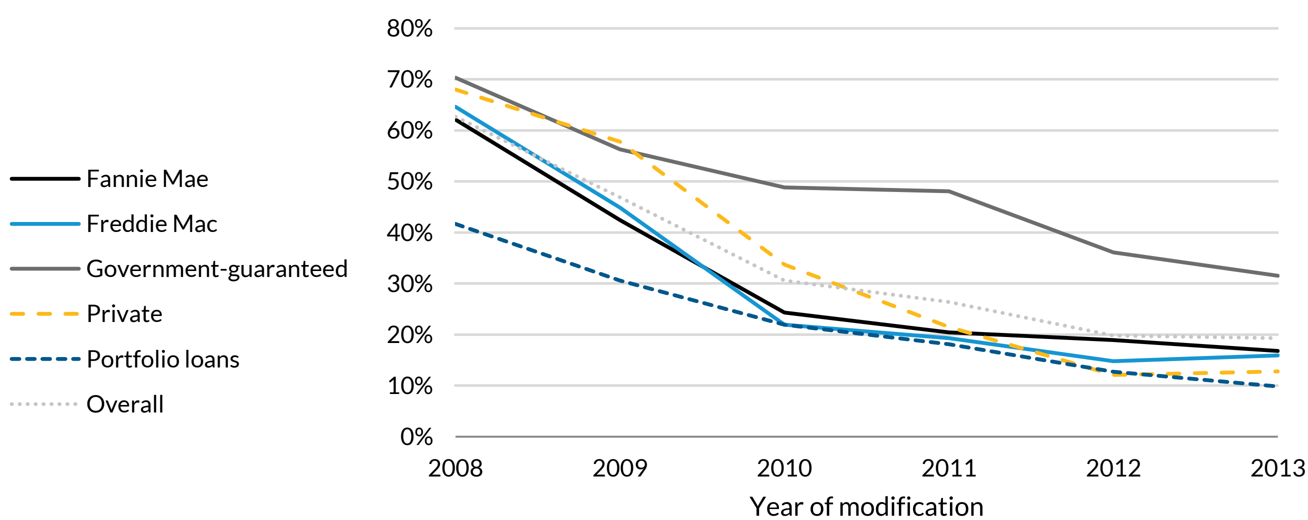
Redefault rates on modified loans have come down dramatically from 2008 to 2014. For the period as a whole, the steepest drops have been on private label modifications. More recently, there have been sharp declines in the redefault rates on government-guaranteed modifications, although this product type still has higher redefault rates than others.

Redefault Rate 12 Months after Modification



Sources: OCC Mortgage Metrics Report for the First Quarter of 2015 and Urban Institute.

Redefault Rate 24 Months after Modification



Sources: OCC Mortgage Metrics Report for the First Quarter of 2015 and Urban Institute.

AGENCY ISSUANCE

AGENCY GROSS AND NET ISSUANCE

While refinancing activity fell off due to higher interest rates through the course of 2014, newly reduced rates and lowered FHA premiums have resulted in agency gross issuance of $877 billion in the first eight months of 2015, a 49.6 percent increase year-over-year. Net issuance (which excludes repayments, prepayments, and refinances on outstanding mortgages) remains low.

Agency Gross Issuance

Issuance Year	GSEs	Ginnie Mae	Total
2000	$360.6	$102.2	$462.8
2001	$885.1	$171.5	$1,056.6
2002	$1,238.9	$169.0	$1,407.9
2003	$1,874.9	$213.1	$2,088.0
2004	$872.6	$119.2	$991.9
2005	$894.0	$81.4	$975.3
2006	$853.0	$76.7	$929.7
2007	$1,066.2	$94.9	$1,161.1
2008	$911.4	$267.6	$1,179.0
2009	$1,280.0	$451.3	$1,731.3
2010	$1,003.5	$390.7	$1,394.3
2011	$879.3	$315.3	$1,194.7
2012	$1,288.8	$405.0	$1,693.8
2013	$1,176.6	$393.6	$1,570.1
2014	$650.9	$296.3	$947.2
2015 YTD	$585.49	$291.66	$877.15
%Change year-over-year	46.3%	56.6%	49.6%
2015 Ann.	$878.24	$437.49	$1,315.73

Agency Net Issuance

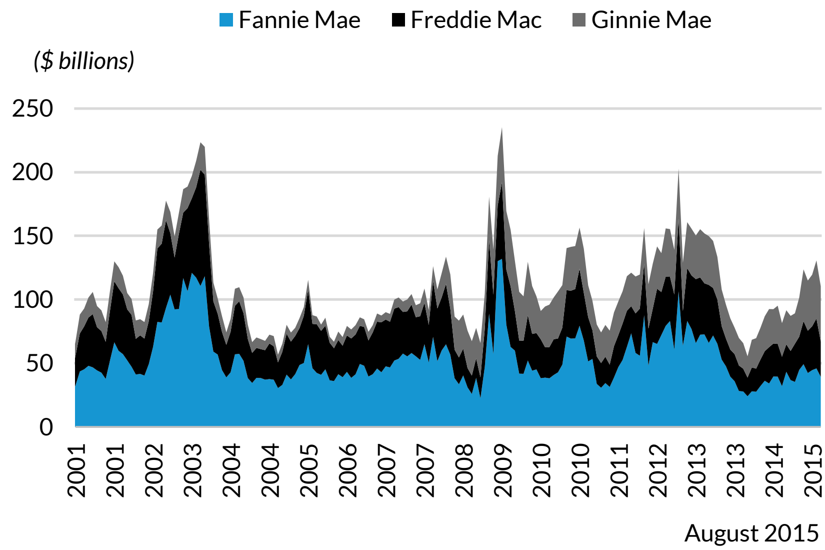
Issuance Year	GSEs	Ginnie Mae	Total
2000	$159.8	$29.3	$189.1
2001	$367.8	-$9.9	$357.9
2002	$357.6	-$51.2	$306.4
2003	$335.0	-$77.6	$257.4
2004	$83.3	-$40.1	$43.2
2005	$174.4	-$42.2	$132.1
2006	$313.6	$0.3	$313.8
2007	$514.7	$30.9	$545.5
2008	$314.3	$196.4	$510.7
2009	$249.5	$257.4	$506.8
2010	-$305.5	$198.2	-$107.3
2011	-$133.4	$149.4	$16.0
2012	-$46.5	$118.4	$71.9
2013	$66.5	$85.8	$152.3
2014	$30.3	$59.8	$90.1
2015 YTD	$44.9	$51.6	$96.5
%Change year-over-year	-	33.23%	161.57%
2015 Ann.	$67.36	$77.47	$144.82

Sources: eMBS and Urban Institute.
Note: Dollar amounts are in billions. Annualized figure based on data from August 2015.
*omitted since the GSE net issuance totaled -$1.9 billion in the first eight months of 2014.

AGENCY GROSS ISSUANCE & FED PURCHASES

Monthly Gross Issuance

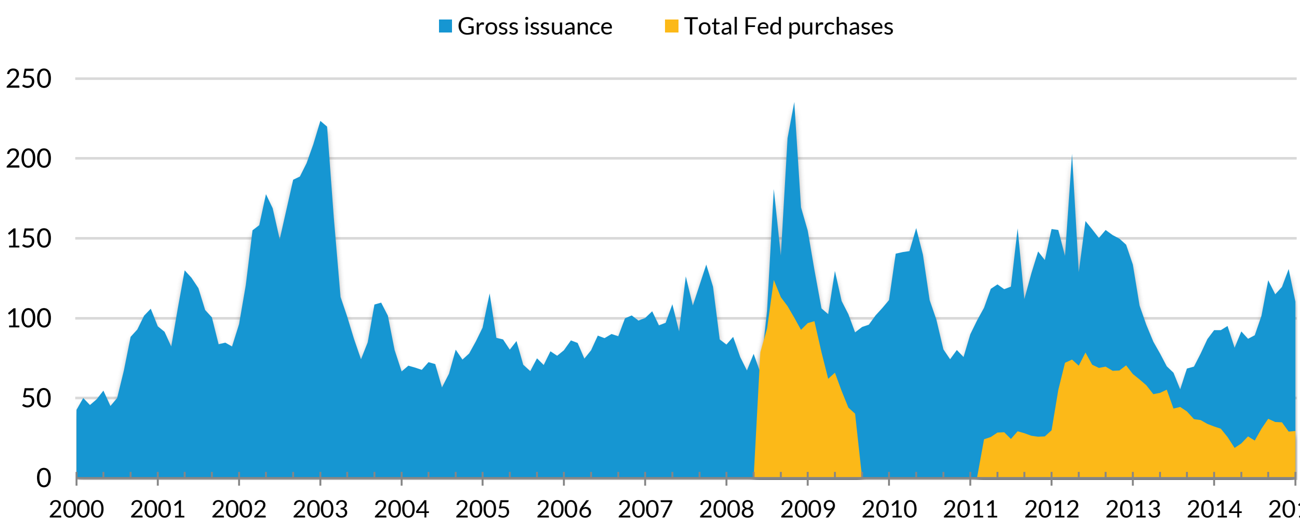
While government and GSE lending have dominated the mortgage market since the crisis, there has been a change in the mix. The Ginnie Mae share reached a peak of 28 percent of total agency issuance in 2010, declined to 25 percent in 2013, and has bounced back sharply since then. The Ginnie Mae issuance stood at a high of 39 percent in August 2015, as the FHA refinance activity surged with the recent reduction in the FHA insurance premium.



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

Fed Absorption of Agency Gross Issuance

In October 2014, the Fed ended its purchase program, but continued buying at a much reduced level, reflecting reinvesting funds from pay downs on mortgages and agency debentures into the mortgage market. Since then, the Fed's absorption of gross issuance has been between 22 and 30 percent. In August 2015, total Fed purchase stood flat at $29 billion, yielding Fed absorption of gross issuance of 27 percent, up from 22 percent last month.



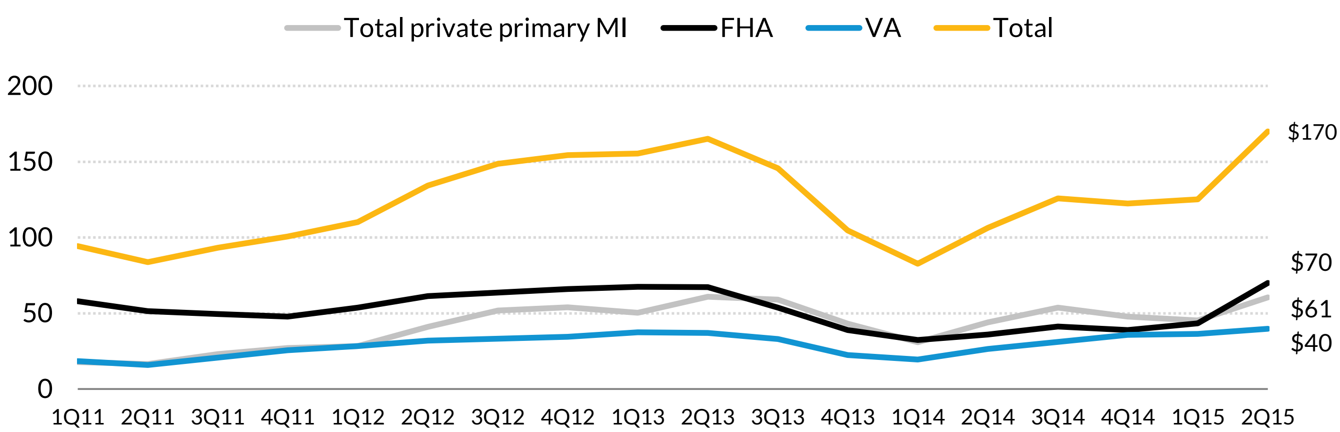
Sources: eMBS, Federal Reserve Bank of New York and Urban Institute.

August 2015

MORTGAGE INSURANCE ACTIVITY

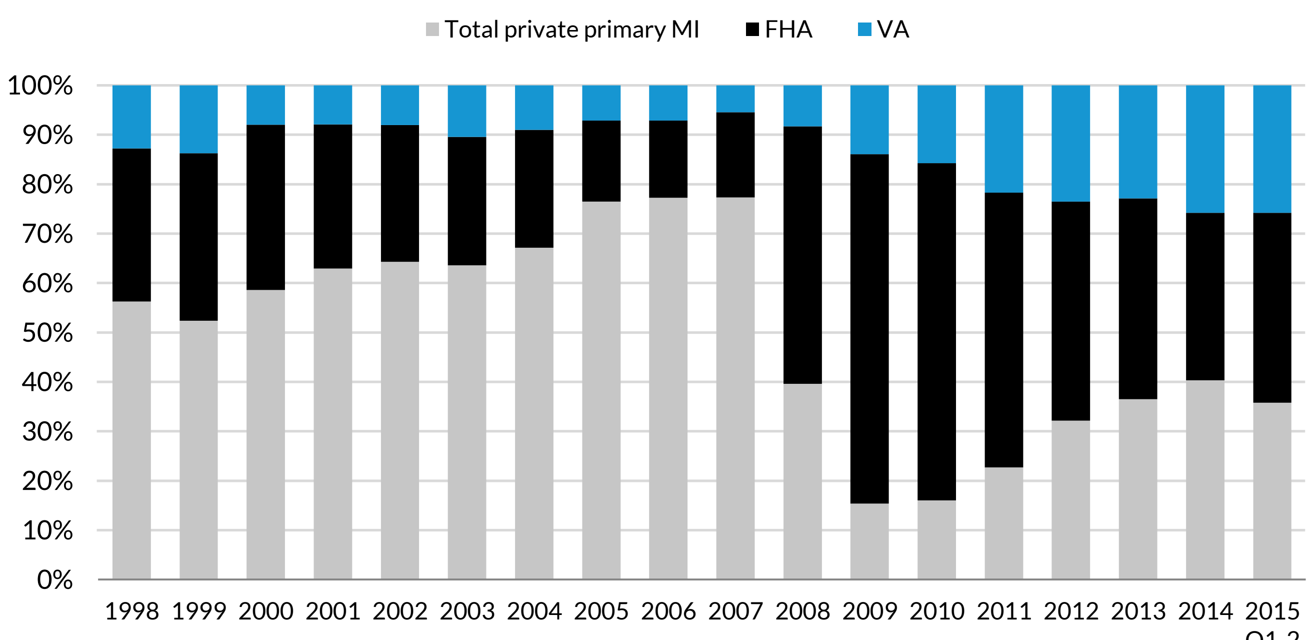
MI Activity

In 2015 Q2, mortgage insurance activity via the FHA, VA and private insurers jumped by 36 percent over the previous quarter to a total of $170.2 billion. While all three MI channels experienced growth, FHA led the pack, bolstered by lower premiums. FHA's market share now stands at 38 percent year to date, surpassing the private insurance market. VA lending is on pace for the agency's highest origination volume on record.



Sources: Inside Mortgage Finance and Urban Institute.

MI Market Share



Sources: Inside Mortgage Finance and Urban Institute.

AGENCY ISSUANCE
MORTGAGE INSURANCE ACTIVITY

FHA premiums rose significantly in the years following the housing crash, with annual premiums rising 170% from 2008 to 2013 as FHA worked to shore up its finances. In a move announced by President Obama just after the new year, annual premiums were cut by 50 bps. We expect this reduction to significantly mitigate FHA's problem of adverse selection, in which lower-FICO borrowers disproportionately gravitate to FHA financing over GSE with PMI. As shown in the bottom table, a borrower putting 3.5% down will now find FHA more economical regardless of their FICO score.

FHA MI Premiums for Typical Purchase Loan

Case number date	Upfront mortgage insurance premium (UFMIP) paid	Annual mortgage insurance premium (MIP)
1/1/2001 - 7/13/2008	150	50
7/14/2008 - 4/5/2010*	175	55
4/5/2010 - 10/3/2010	225	55
10/4/2010 - 4/17/2011	100	90
4/18/2011 - 4/8/2012	100	115
4/9/2012 - 6/10/2012	175	125
6/11/2012 - 3/31/2013[a]	175	125
4/1/2013 – 1/25/2015[b]	175	135
Beginning 1/26/2015[c]	175	85

Sources: Ginnie Mae and Urban Institute.
Note: A typical purchase loan has an LTV over 95 and a loan term longer than 15 years. Mortgage insurance premiums are listed in basis points.
* For a short period in 2008 the FHA used a risk based FICO/LTV matrix for MI.
[a] Applies to purchase loans less than or equal to $625,500. Those over that amount have an annual premium of 150 bps.
[b] Applies to purchase loans less than or equal to $625,500. Those over that amount have an annual premium of 155 bps.
[c] Applies to purchase loans less than or equal to $625,500. Those over that amount have an annual premium of 105 bps.

Initial Monthly Payment Comparison: FHA vs. PMI

Assumptions	
Property Value	$250,000
Loan Amount	$241,250
LTV	96.5
Base Rate	
Conforming	3.89%
FHA	3.50%

FICO	620 - 639	640 - 659	660 - 679	680 - 699	700 - 719	720 - 739	740 - 759	760 +
FHA MI Premiums								
FHA UFMIP	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
FHA MIP	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
PMI								
GSE LLPA*	3.75	3.00	2.50	1.75	1.75	1.25	1.00	1.00
PMI Annual MIP	1.48	1.48	1.48	1.31	1.31	1.10	1.10	1.05
Monthly Payment								
FHA	$1,273	$1,273	$1,273	$1,273	$1,273	$1,273	$1,273	$1,273
PMI	$1,533	$1,512	$1,498	$1,442	$1,442	$1,386	$1,379	$1,369
PMI Advantage	($260)	($239)	($225)	($169)	($169)	($113)	($106)	($96)

Sources: Genworth Mortgage Insurance, Ginnie Mae and Urban Institute.
Note: Mortgage insurance premiums listed in percentage points. Grey shade indicates FHA monthly payment is more favorable. The PMI monthly payment calculation does not include special programs like Fannie Mae's MyCommunitMortgage (MCM) and Freddie Mac's Home Possible (HP), both offer more favorable rates for low- to moderate-income borrowers.
LLPA= Loan Level Price Adjustment, described in detail on page 20.

RELATED HFPC WORK
PUBLICATIONS AND EVENTS

Upcoming Events

Oct. 6, 2015: New HMDA Data: What Can We Learn?
This event will focus on the newly released 2014 data. Presenters include Neil Bhutta from the Federal Reserve Board, Molly Boesel from CoreLogic, and Bing Bai from the Urban Institute. For more information including registration details, please check link above.

***SAVE THE DATE: November 20th at the Newseum: Data, Demand, and Demographics**, Co -hosted by the Urban Institute and CoreLogic. Featured speakers include: Jason Furman, Sarah Rosen Wartell, Frank Nothaft, Dave Stevens, and Tim Pawlenty. More information and registration details to come soon.*

Publications

The Rebirth of Securitization: Where is the Private-Label Mortgage Market?
Author: Laurie Goodman
Date: September 10, 2015

Fixing FHA's Certification: Time to turn a Sword into a Plowshare
Author: Jim Parrott
Date: September 3, 2015

FHA's Proposed Servicing Reforms Need More Thought
Authors: Laurie Goodman
Date: August 28, 2015

Principal Reduction and the GSEs
Authors: Laurie Goodman, Jim Parrott, and Jun Zhu
Date: August 18, 2015

The Credit box Shows Early Signs of Loosening: Evidence from the Latest HCAI Update
Authors: Bing Bai, Wei Li and Laurie Goodman
Date: July 21, 2015

Fixing the FHA's Loan Certification: A Proposal
Authors: Laurie Goodman, Jim Parrott, Lewis Ranieri, Ellen Seidman and Mark Zandi
Date: July 14, 2015

Use the Expanded-Data Index to Set Mortgage Loan Limits
Author: Laurie Goodman
Date: June 17, 2015

Headship/Homeownership: What Does the Future Hold?
Authors: Laurie Goodman, Rolf Pendall and Jun Zhu
Date: June 8, 2015

Privatizing Fannie and Freddie: Be Careful What You Ask For
Authors: Jim Parrott and Mark Zandi
Date: May 18, 2015

Blog Posts

FHA's new performance metric could open the credit box
Author: Karan Kaul
Date: September 14, 2015

A mortgage program to better serve the next generation of borrowers
Author: Laurie Goodman and Eva Wingren
Date: September 11, 2015

Is principal reduction an effective way to modify troubled mortgages?
Author: Yamillet Payano
Date: August 17, 2015

How will we know when the mortgage market has fully recovered?
Authors: Karan Kaul
Date: August 10, 2015

It's still too hard for most Americans to get a mortgage
Authors: Laurie Goodman, Wei Li, and Bing Bai
Date: July 30, 2015

Five benefits of government mortgage programs
Authors: Karan Kaul and Sheryl Pardo
Date: July 20, 2015

Three GSE risk-sharing innovations that could change housing finance reform
Authors: Laurie Goodman and Karan Kaul
Date: July 9, 2015

Can the mortgage market handle the surge in minority homeownership?
Authors: Laurie Goodman, Rolf Pendall and Jun Zhu
Date: July 1, 2015

We are not prepared for the growth in rental demand
Authors: Laurie Goodman, Rolf Pendall and Jun Zhu
Date: June 24, 2015

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