HOUSING FINANCE POLICY CENTER

HOUSING FINANCE AT A GLANCE

A MONTHLY CHARTBOOK

December 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

Last month (November chartbook introduction, page 3) we observed that the 2 important drivers of origination volume in 2016 will be the pace of Fed tightening and improvements in credit availability over the course of the year. Specifically, we opined that (i) a one-time 25 basis point hike in interest rates will have no material impact on mortgage rates (or on origination volumes) and (ii) the agencies will continue their efforts to expand the credit box in 2016. But how well those efforts ultimately translate into greater lending to borrowers will depend critically on lender willingness to lend to the full extent of the credit box. While the FHA's unresolved loan certification remains the most significant headwind for FHA lending in the near term, greater competition between lenders in 2016 could create tailwinds, especially for conventional lending.

Ultra-low interest rates during the post-crisis years gave borrowers a major incentive to save money by refinancing. The demand for refinance was further supported by various government programs that made it easy and inexpensive for borrowers to refinance (Streamlined Refinance, HARP, FHA's premium cut for example). Strong borrower demand for mortgages meant originators could increase their profit margins without worrying too much about losing business to another competitor. In other words, competition among lenders was low, profitability was high and there was no pressing need to expand the credit box.

But all of that stands to change as the origination market continues its transition to a more normal purchase money dominated market. According to the Mortgage Bankers Association, lender average net gain per loan followed a declining trend during most of 2014, falling from $954 in Q2 2014 to $744 by Q4 2014. Then came the FHA premium cut in Jan 2015, creating another major refinancing incentive for borrowers and giving lenders another opportunity to increase profit margins. As a result, average profit per loan skyrocketed to $1447 in Q1 2015, but has since resumed its downward trend, coming in at $1238 for Q3 2015, signaling competition between lenders is on the rise again.

Given there is neither any reason to expect another FHA premium cut nor the policy need for a major refinancing push, it is likely that origination profit margins will continue their downward trend through 2016 as competition rises further. This means lenders will need to work harder to attract new borrowers through a combination of better pricing, incentives and marketing. But this also means lenders may now finally have a vested interest in meaningfully expanding the credit box.

INSIDE THIS ISSUE

- The total value of the US Housing Market continued to rise, driven by a $381 billion increase in household equity (page 6)
- Refinances jumped up to 52 and 54 percent of the Freddie Mac's and Fannie Mae's business in November (page 11)
- Loans in serious delinquency/foreclosure declined to 3.6 percent in Q3 2015 (page 18)
- New HAMP trial mods and new permanent mods reached new low (page 26)
- The share of modifications featuring a principal reduction continued to fall in the third quarter of 2015 (page 27)
- FHA led the expansion in mortgage insurance activity in Q3 2015 (page 32)

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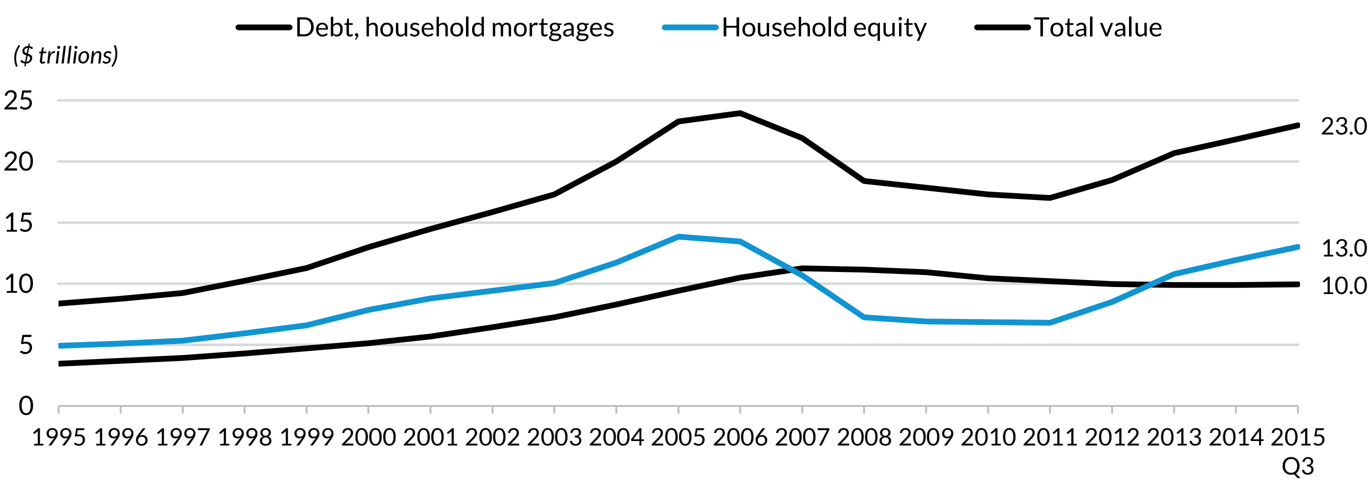
OVERVIEW

MARKET SIZE OVERVIEW

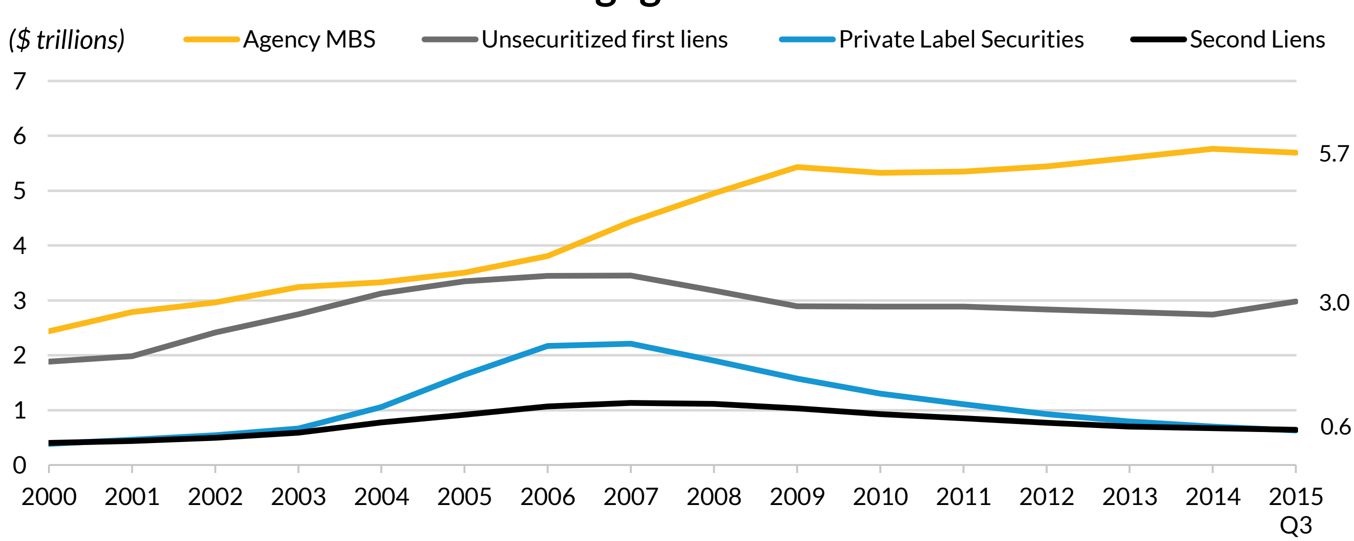
The Federal Reserve's Flow of Funds report has consistently indicated an increasing total value of the housing market driven by growing household equity in each quarter of the past 2 years, and the trend continued according to the latest data, covering Q3 2015. Total debt and mortgages increased slightly to $9.95 trillion, while household equity increased by 3 percent to $13.01 trillion, bringing the total value of the housing market to $22.96 trillion. Agency MBS make up 57.2 percent of the total mortgage market, private-label securities make up 6.4 percent, and unsecuritized first liens at the GSEs, commercial banks, savings institutions, and credit unions make up 29.9 percent. Second liens comprise the remaining 6.5 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

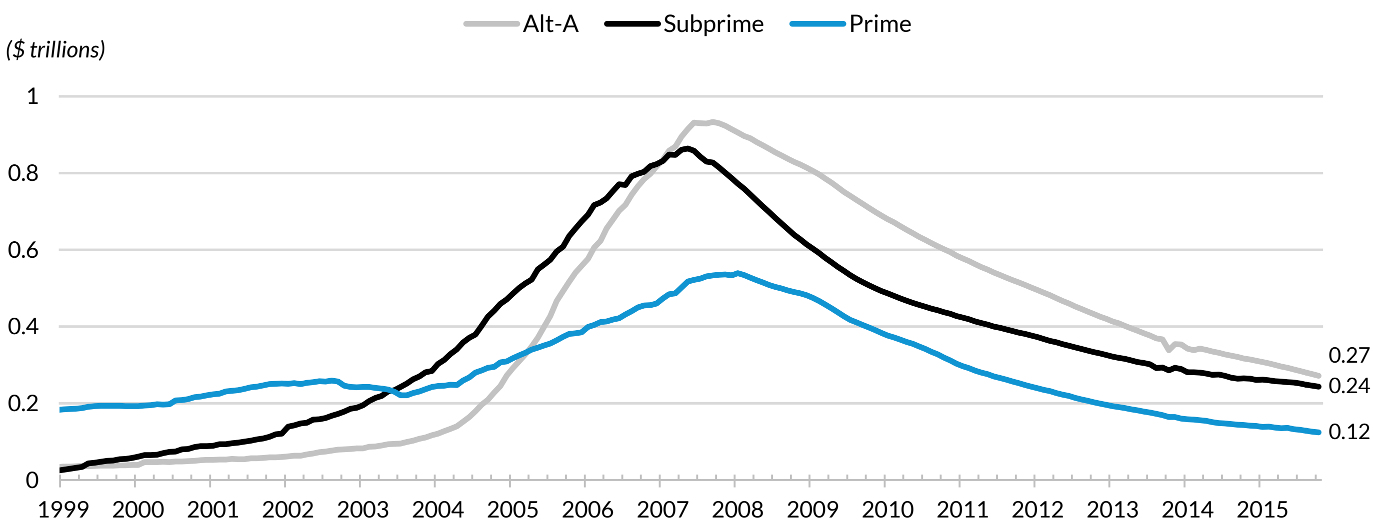


Sources: Federal Reserve Flow of Funds, Inside Mortgage Finance, Fannie Mae, Freddie Mac, eMBS and Urban Institute.
Note: Unsecuritized first liens includes loans held by commercial banks, GSEs, savings institutions, and credit unions.

OVERVIEW
MARKET SIZE OVERVIEW

As of October 2015, debt in the private-label securitization market totaled $648 billion and was split among prime (19.4 percent), Alt-A (42.5 percent), and subprime (38.1 percent) loans. In November 2015, outstanding securities in the agency market totaled $5.79 trillion and were 45.2 percent Fannie Mae, 27.7 percent Freddie Mac, and 27.1 percent Ginnie Mae.

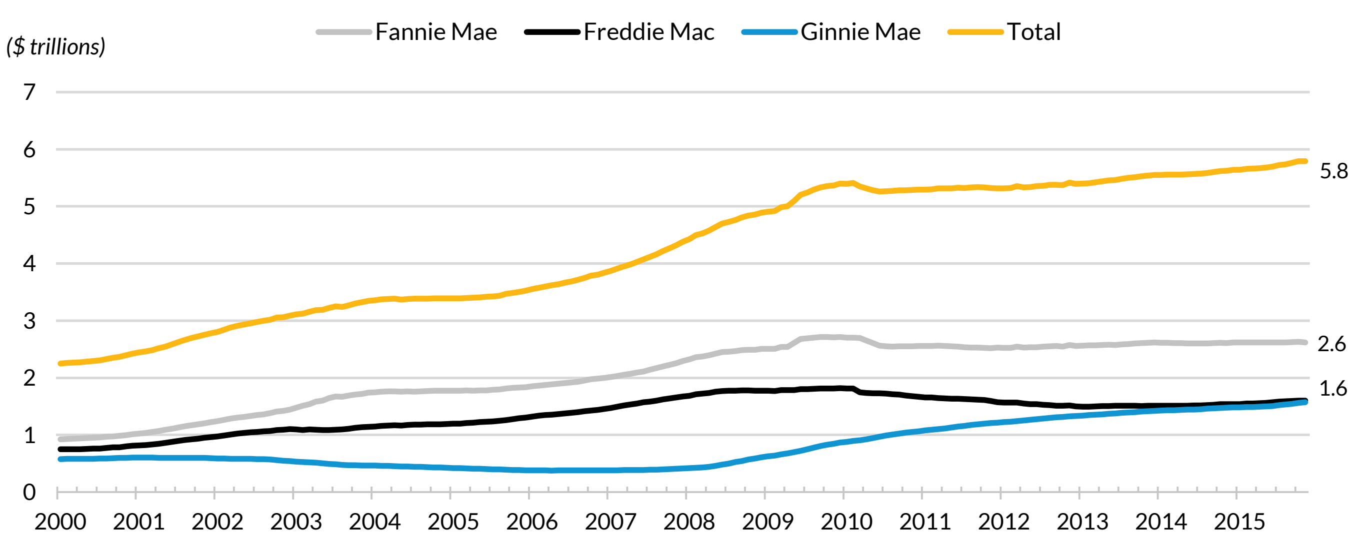
Private-Label Securities by Product Type



Sources: CoreLogic and Urban Institute.

October 2015

Agency Mortgage-Backed Securities



November 2015

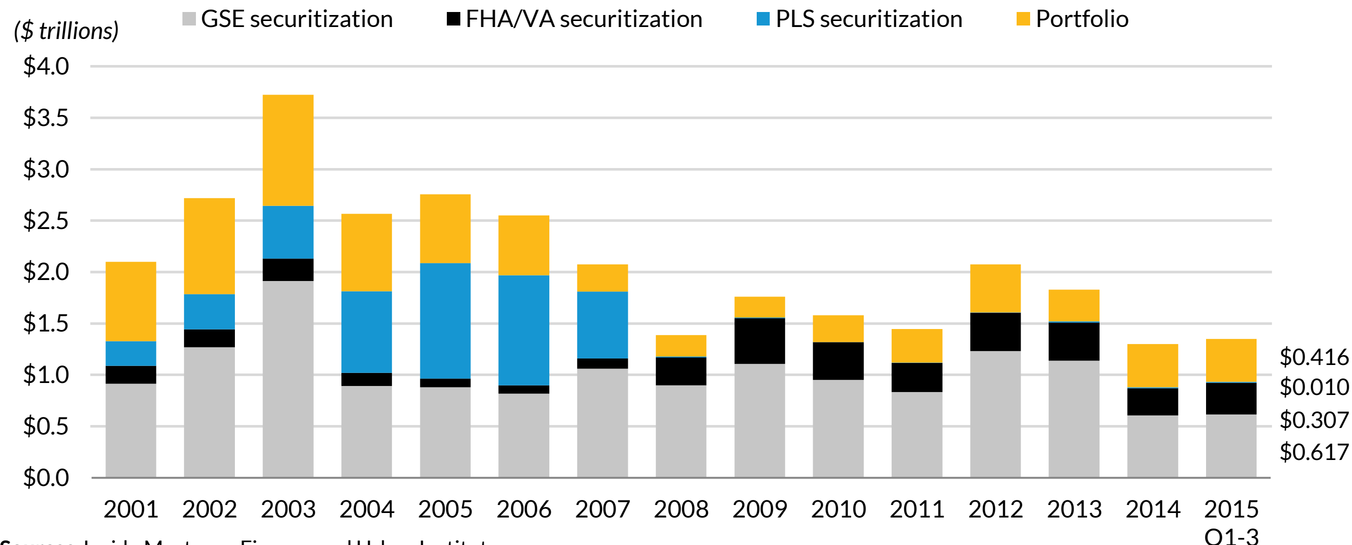
Sources: eMBS and Urban Institute.

OVERVIEW

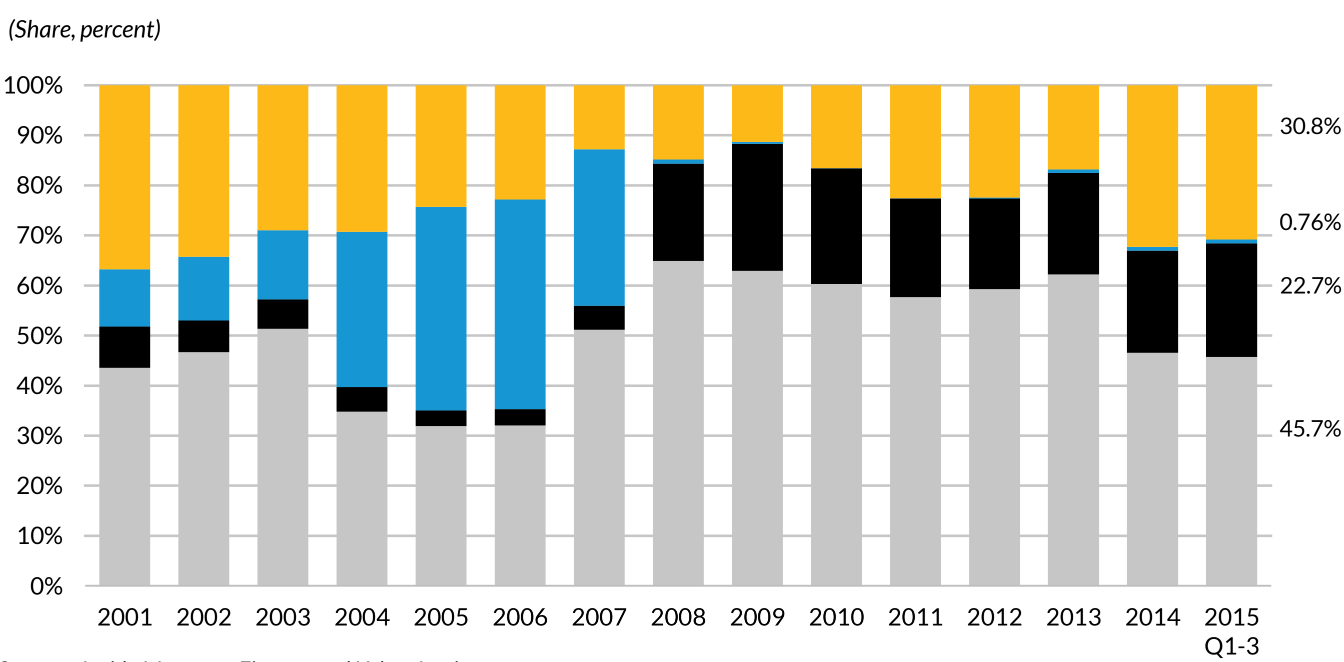
ORIGINATION VOLUME AND COMPOSITION

First Lien Origination Volume

First lien originations in first three quarters of 2015 totaled approximately $1,350 billion. The share of portfolio originations was 31 percent, while the GSE share dropped to 46 percent from 47 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 0.8 percent.



Sources: Inside Mortgage Finance and Urban Institute.



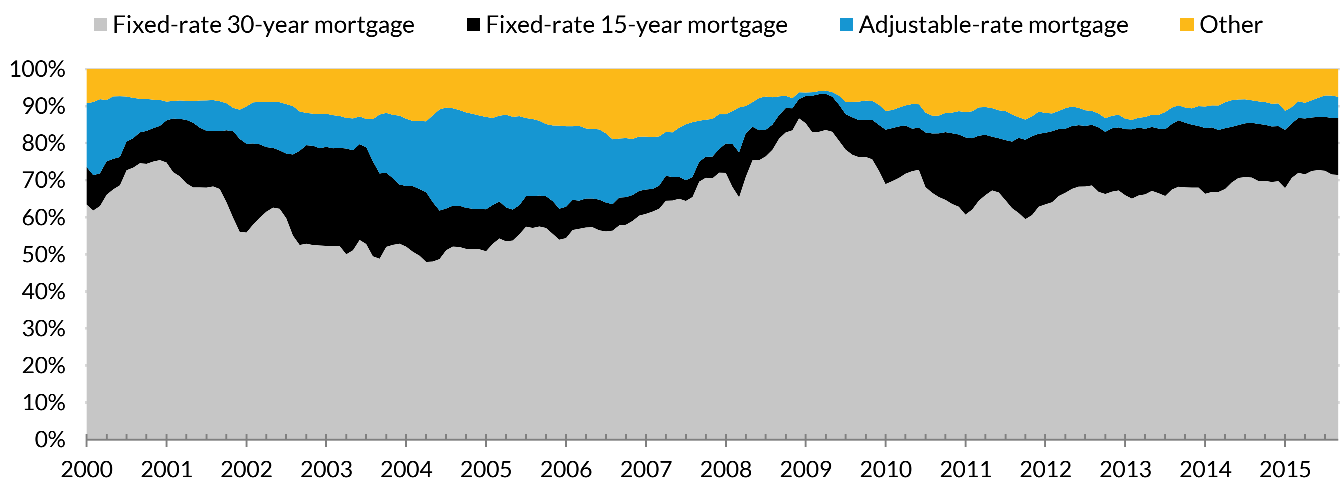
Sources: Inside Mortgage Finance and Urban Institute.

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 5.7 percent of total originations in September 2015. 15-year fixed-rate mortgages (FRMs), predominantly a refinance product, comprise 15.3 percent of new originations. If we exclude refinances (bottom chart), the share of 30-year FRMs in September 2015 stood at 87.5 percent, 15-year FRMs at 5.4 percent, and ARMs at 5.7 percent.

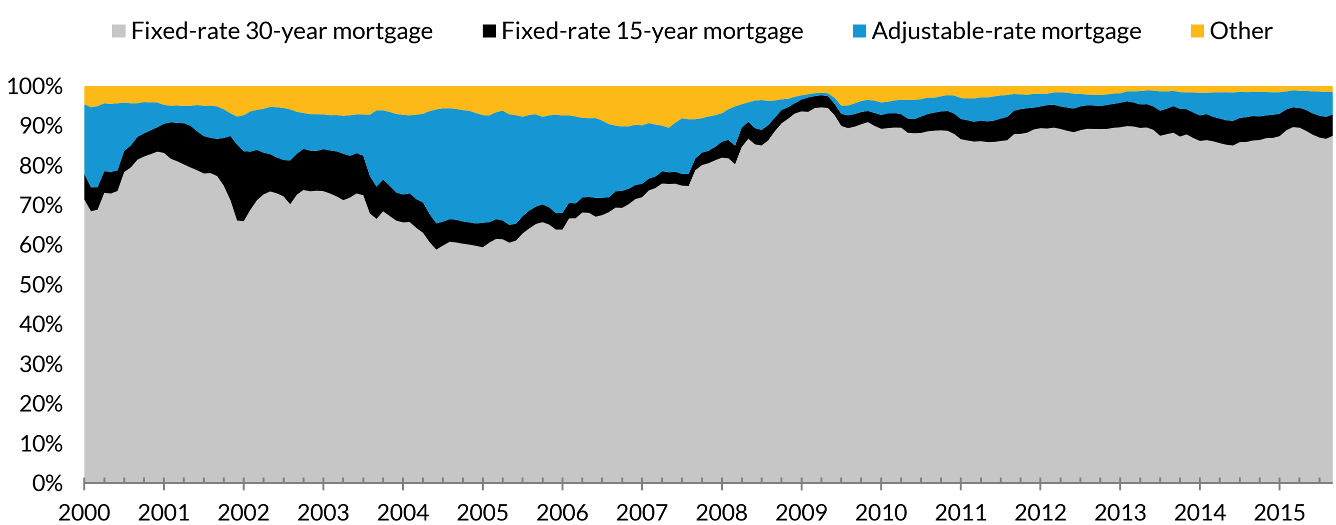
All Originations



September 2015

Sources: CoreLogic Servicing and Urban Institute.

Purchase Loans Only



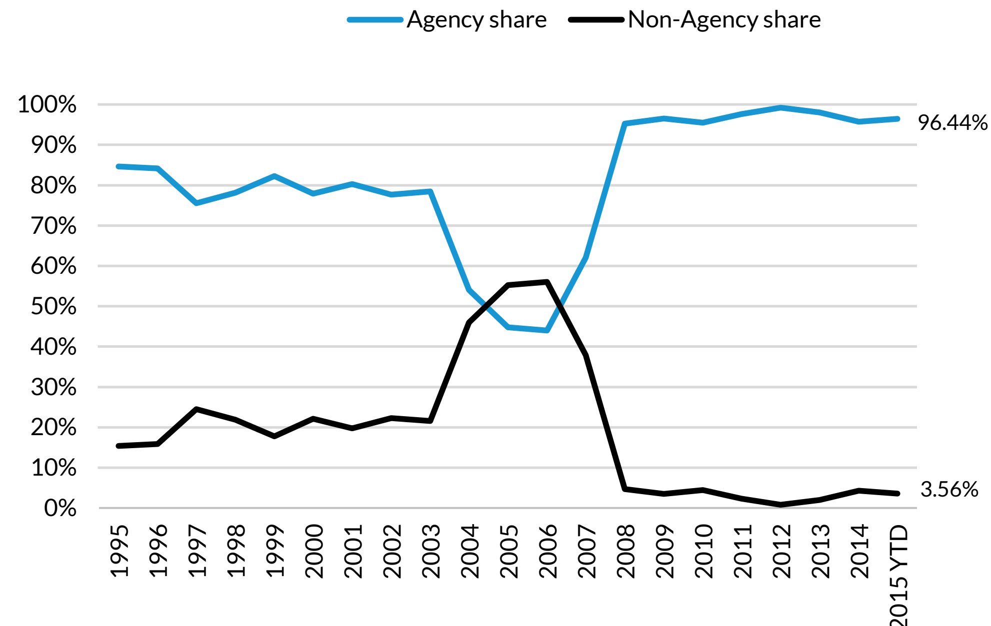
September 2015

Sources: CoreLogic Servicing and Urban Institute.

SECURITIZATION VOLUME AND COMPOSITION

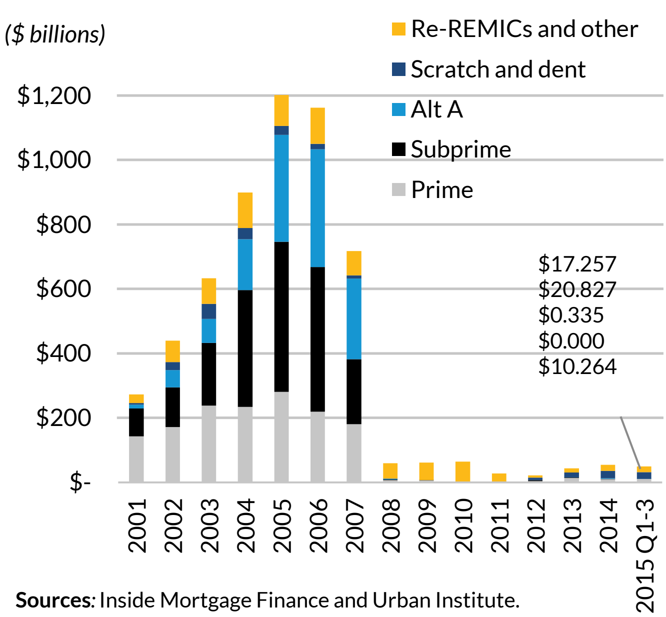
Agency/Non-Agency Share of Residential MBS Issuance

The non-agency share of mortgage securitizations was 3.6% through October 2015, compared to 4.3% in 2014 and 2.0% in 2013. The volume of prime securitizations for the first three quarters of 2015 totaled $10.3 billion or $13.7 billion annualized, far exceeding last year's $9.6 billion. However, this is tiny compared to pre-crises levels. To put in the perspective, in 2001, prime origination totaled $142 billion.



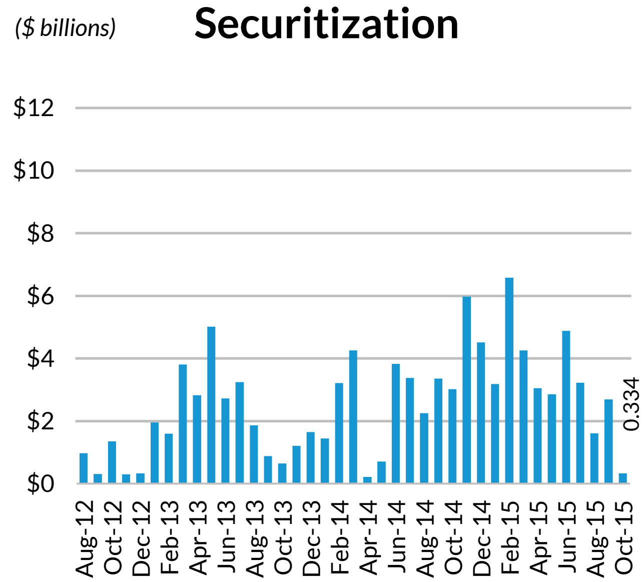
Sources: Inside Mortgage Finance and Urban Institute.

Non-Agency MBS Issuance



Sources*:* Inside Mortgage Finance and Urban Institute.

Monthly Non-Agency Securitization



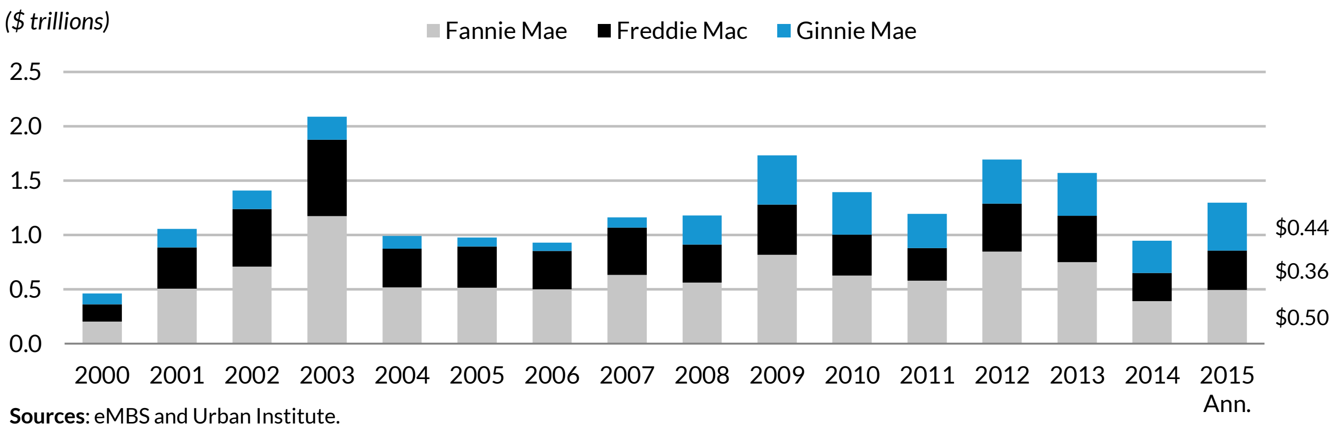
Sources: Inside Mortgage Finance and Urban Institute.
Note: Monthly figures equal total non-agency MBS issuance minus Re-REMIC issuance.

OVERVIEW

AGENCY ACTIVITY: VOLUMES AND PURCHASE/ REFI COMPOSITION

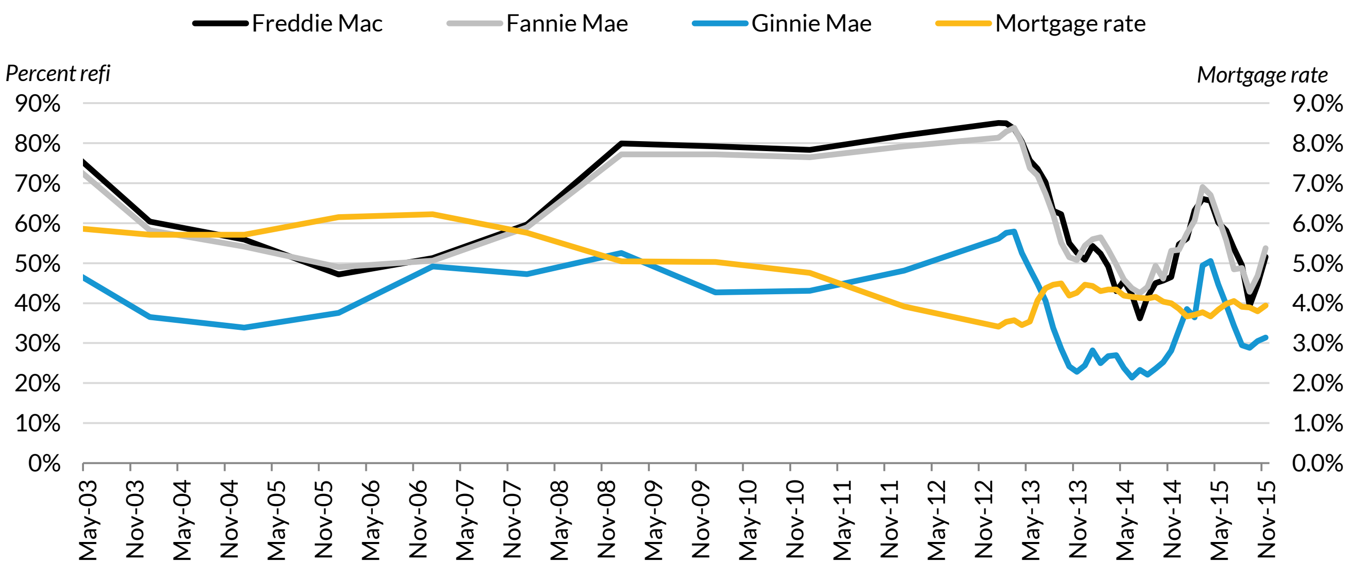
Agency issuance totaled $1,189 billion in the first eleven months of 2015, up from $856 billion for the same period a year ago. In November 2015, refinances jumped up to 52 and 54 percent of the Freddie Mac's and Fannie Mae's business, respectively, reflecting small declines in mortgage rates. The GNMA 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 31 percent in November 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 September 2015.

Percent Refi at Issuance



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

STATE OF THE MARKET

MORTGAGE ORIGINATION PROJECTIONS

MBA and the GSEs have all increased their origination volume for 2015, though the change was the most dramatic for Freddie Mac. The MBA anticipates a total of $1,466 billion originations in 2015, while Fannie Mae expects $1,711 billion. Freddie Mac estimates increased dramatically to $1,750 billion (up from $1,530 billion). Homes sales and housing starts increased steadily throughout 2015, and are expected to strengthen considerably in 2016.

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	384	400	330	59	52	53
2015 Q2	500	500	395	48	45	43
2015 Q3	426	450	381	38	45	37
2015 Q4	401	400	360	39	50	44
2016 Q1	306	320	293	44	50	40
2016 Q2	380	460	360	30	35	31
2016 Q3	372	420	355	28	30	27
2016 Q4	347	380	312	29	28	29
FY 2012	2154	2122	2044	72	70	71
FY 2013	1866	1925	1845	60	59	60
FY 2014	1301	1350	1261	40	42	40
FY 2015	1711	1750	1466	46	48	44
FY 2016	1405	1580	1320	32	35	31

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%, 3.9% and 4.6%, respectively. For 2015, Fannie Mae, Freddie Mac, and the MBA project rates of 3.9%, 3.9%, and 3.9%, respectively. For 2016, their respective projections are 4.1%, 4.8%, and 4.8%.

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	1116	1130	1115	5794	5770	5807	5298	509
FY 2016	1232	1330	1233	6000	5960	6138	5545	593

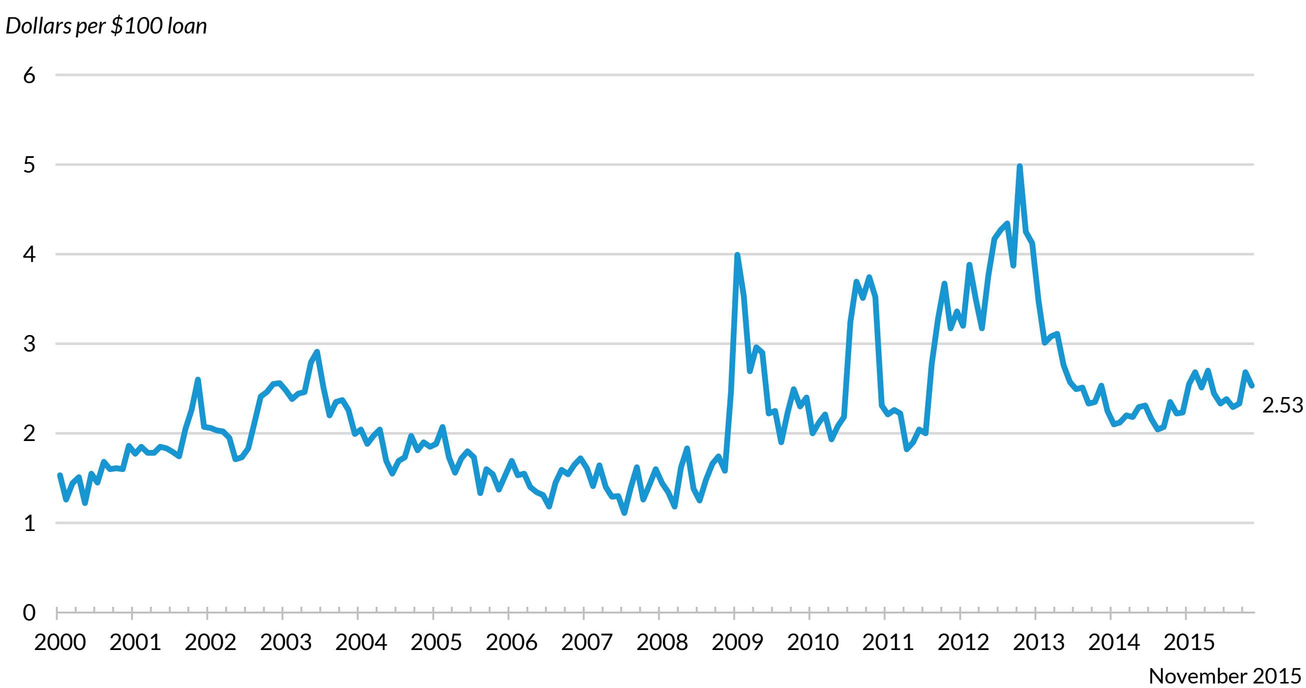
Sources: Mortgage Bankers Association, Fannie Mae, Freddie Mac and Urban Institute.
Note: Shaded boxes indicate forecasted figures. All figures are estimates for total single-family market; column labels indicate source of estimate.

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 2.53 in Nov 2015.

Originator Profitability and Unmeasured Costs



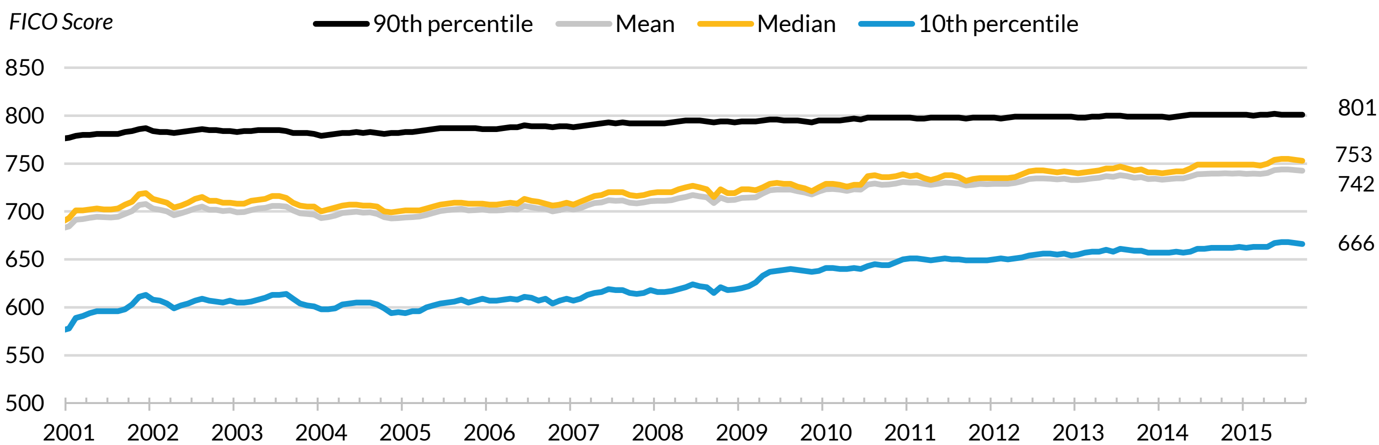
Sources: Federal Reserve Bank of New York, updated monthly and available at this link: http://www.ny.frb.org/research/epr/2013/1113fust.html and Urban Institute.
Note: OPUC stands for "originator profits and unmeasured costs" as discussed in Fuster et al. (2013). The OPUC series is a monthly (4-week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

STATE OF THE MARKET

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 40 and 44 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 666 as of September 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.

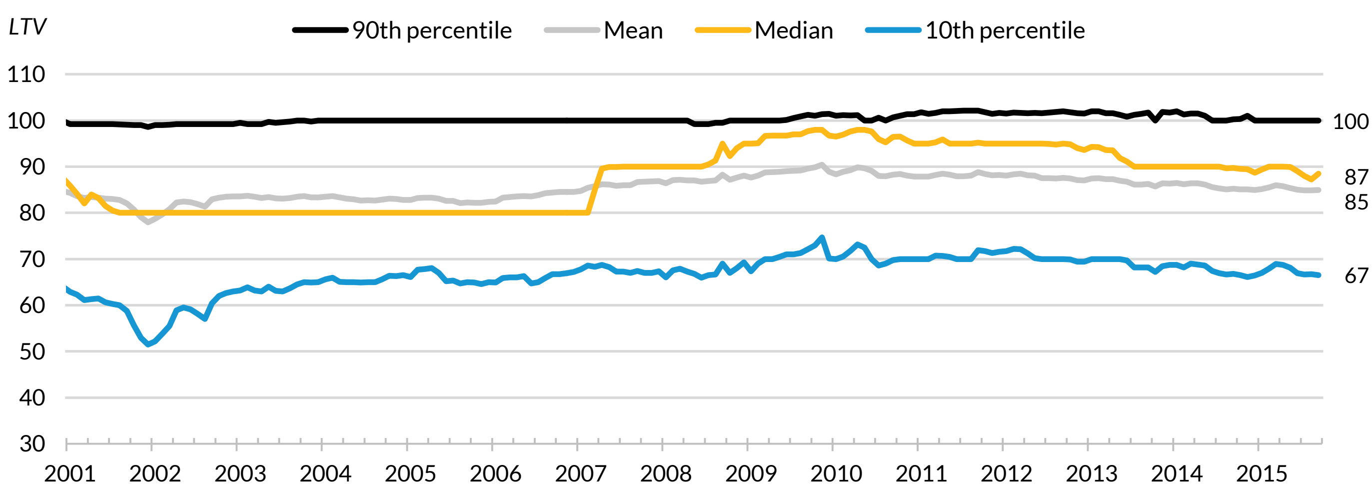
Borrower FICO Score at Origination



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

September 2015

Combined LTV at Origination



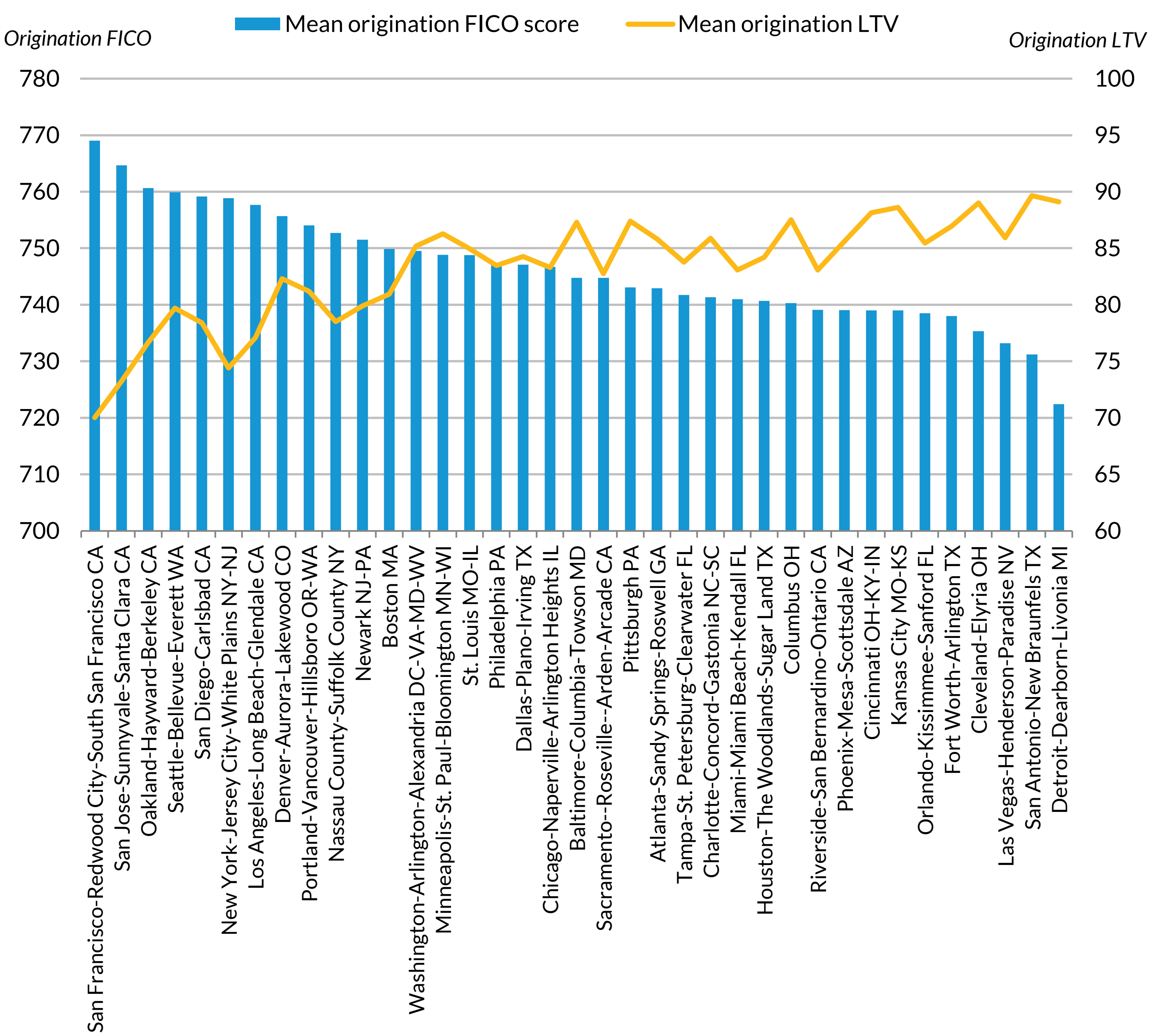
Sources: CoreLogic Servicing and Urban Institute.
Note: Purchase-only loans.

September 2015

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 769, while in Detroit-Dearborn-Livonia, MI it is 722. 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



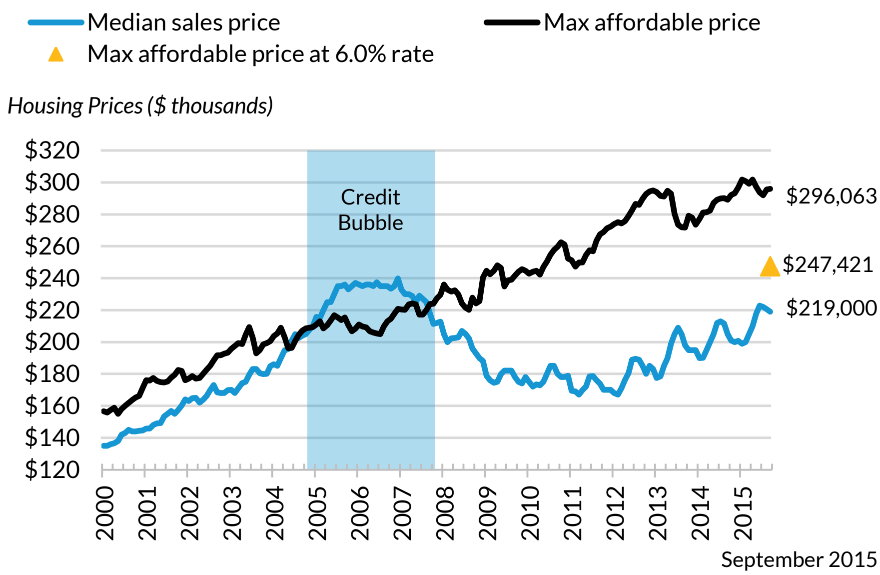
Sources: CoreLogic Servicing as of September 2015 and Urban Institute.
Note: Purchase-only loans.

STATE OF THE MARKET
HOUSING AFFORDABILITY

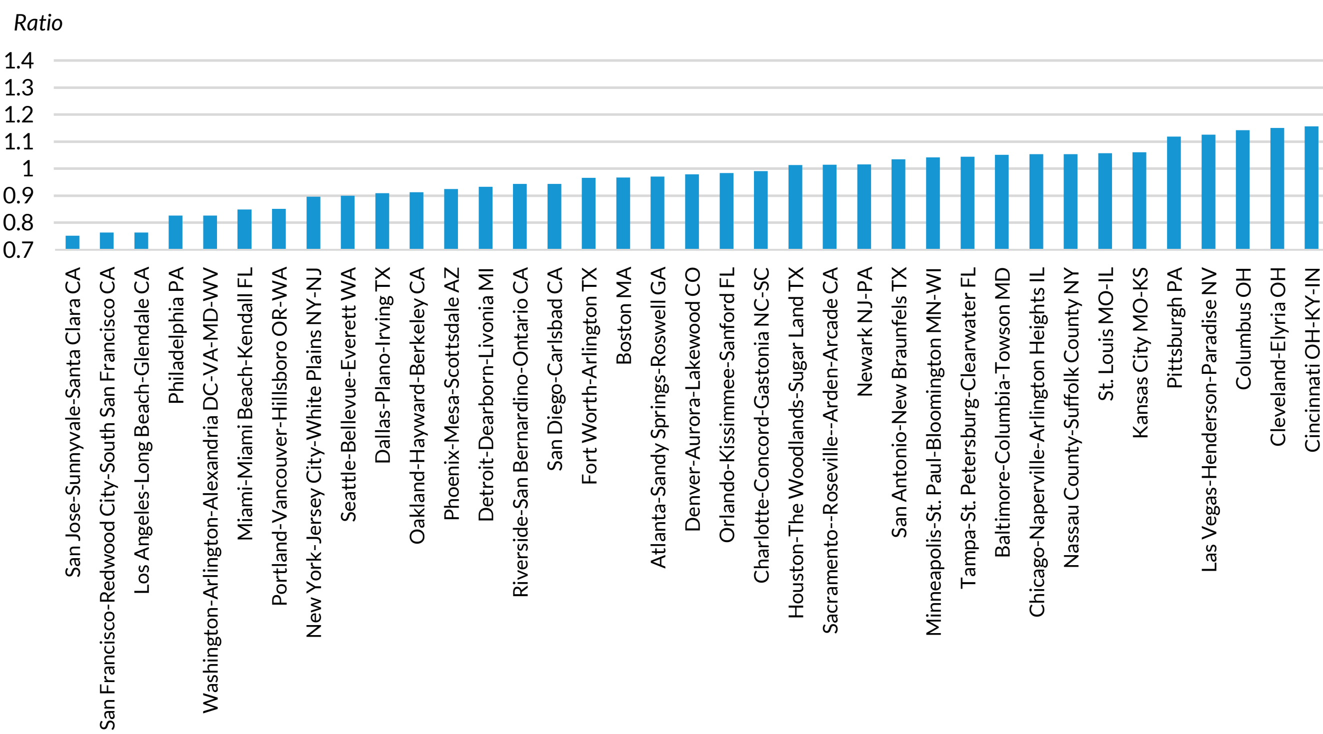
National Housing Affordability Over Time

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

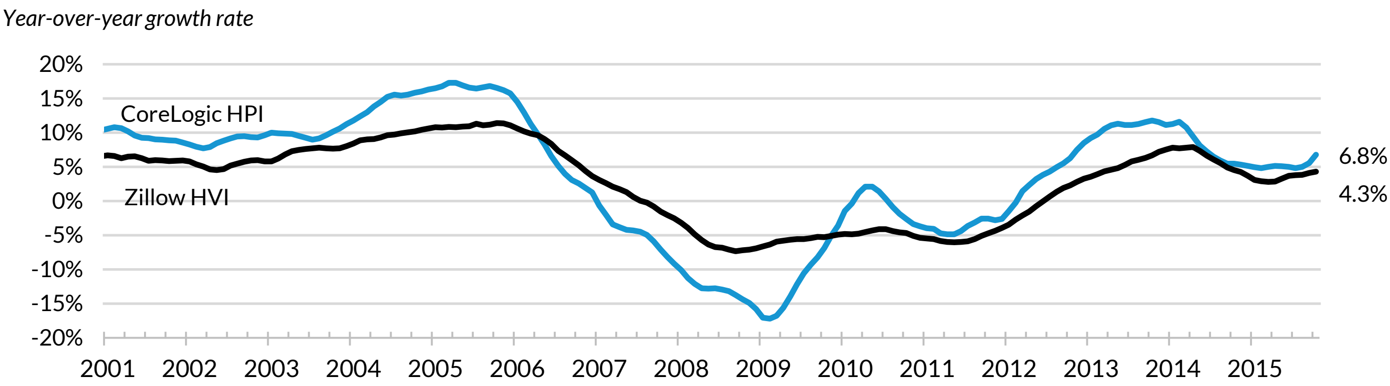


Sources: CoreLogic, US Census, Freddie Mac and Urban Institute calculations based on NAR methodology.
Note: Index is calculated relative to home prices in 2000-03. A ratio above 1 indicates higher affordability in September 2015 than in 2000-03.

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 repeat-sales index from CoreLogic and hedonic index from Zillow.



Sources: CoreLogic, Zillow, and Urban Institute.

Changes in CoreLogic HPI for Top MSAs

Despite rising 37 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 33 and 35 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	98.5	-32.0	37.1	7.3
New York-Jersey City-White Plains NY-NJ	113.9	-19.9	24.5	0.2
Los Angeles-Long Beach-Glendale CA	180.8	-38.8	53.2	6.7
Chicago-Naperville-Arlington Heights IL	64.9	-36.2	27.7	22.7
Atlanta-Sandy Springs-Roswell GA	40.7	-33.2	46.7	2.0
Washington-Arlington-Alexandria DC-VA-MD-WV	159.1	-33.1	32.	13.2
Houston-The Woodlands-Sugar Land TX	44.8	-12.6	39.2	-17.8
Phoenix-Mesa-Scottsdale AZ	126.4	-52.5	58.9	32.6
Riverside-San Bernardino-Ontario CA	194.3	-53.2	57.8	35.3
Dallas-Plano-Irving TX	38.4	-13.5	37.4	-15.9
Minneapolis-St. Paul-Bloomington MN-WI	73.8	-30.3	30.6	9.8
Seattle-Bellevue-Everett WA	93.8	-31.5	48.9	-2.0
Denver-Aurora-Lakewood CO	36.5	-14.3	50.4	-22.5
Baltimore-Columbia-Towson MD	128.8	-25.7	10.2	22.1
San Diego-Carlsbad CA	148.1	-37.9	45.2	10.9
Anaheim-Santa Ana-Irvine CA	161.9	-36.7	43.9	9.8

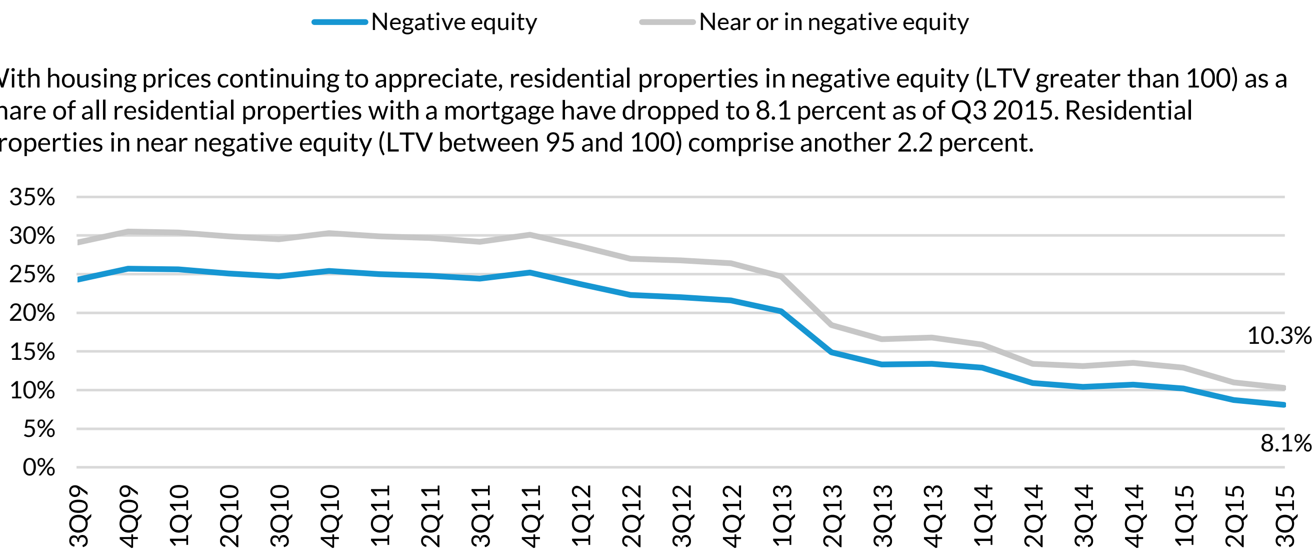
Sources: CoreLogic HPIs as of October 2015 and Urban Institute.
Note: This table includes the largest 15 Metropolitan areas by mortgage count.

STATE OF THE MARKET

NEGATIVE EQUITY & SERIOUS DELINQUENCY

Negative Equity Share

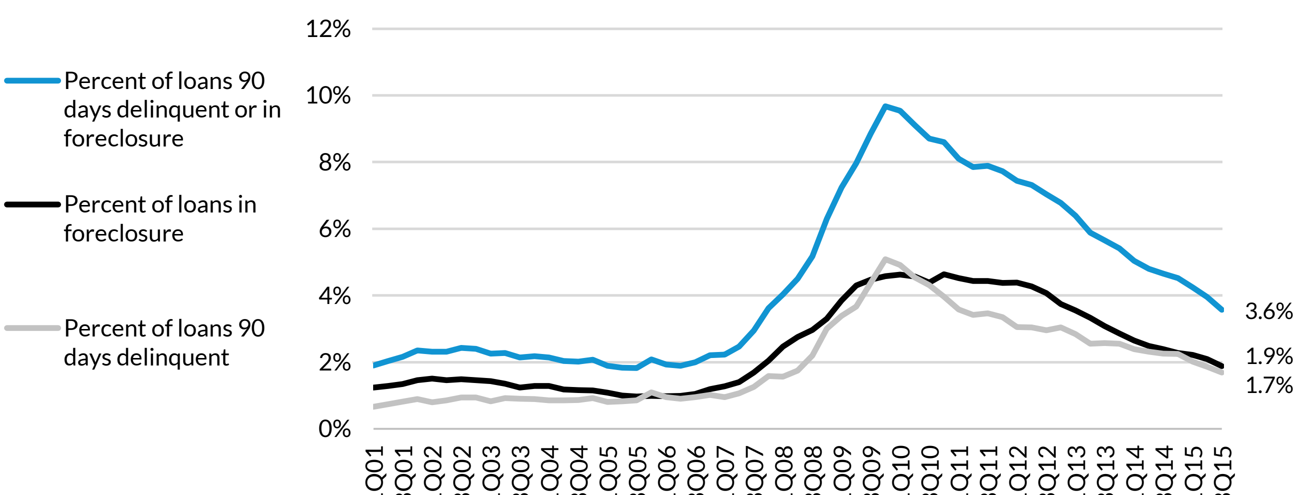
With housing prices continuing to appreciate, residential properties in negative equity (LTV greater than 100) as a share of all residential properties with a mortgage have dropped to 8.1 percent as of Q3 2015. Residential properties in near negative equity (LTV between 95 and 100) comprise another 2.2 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 3.6 % in the third quarter of 2015, down from 4.7% for the same quarter a year earlier.



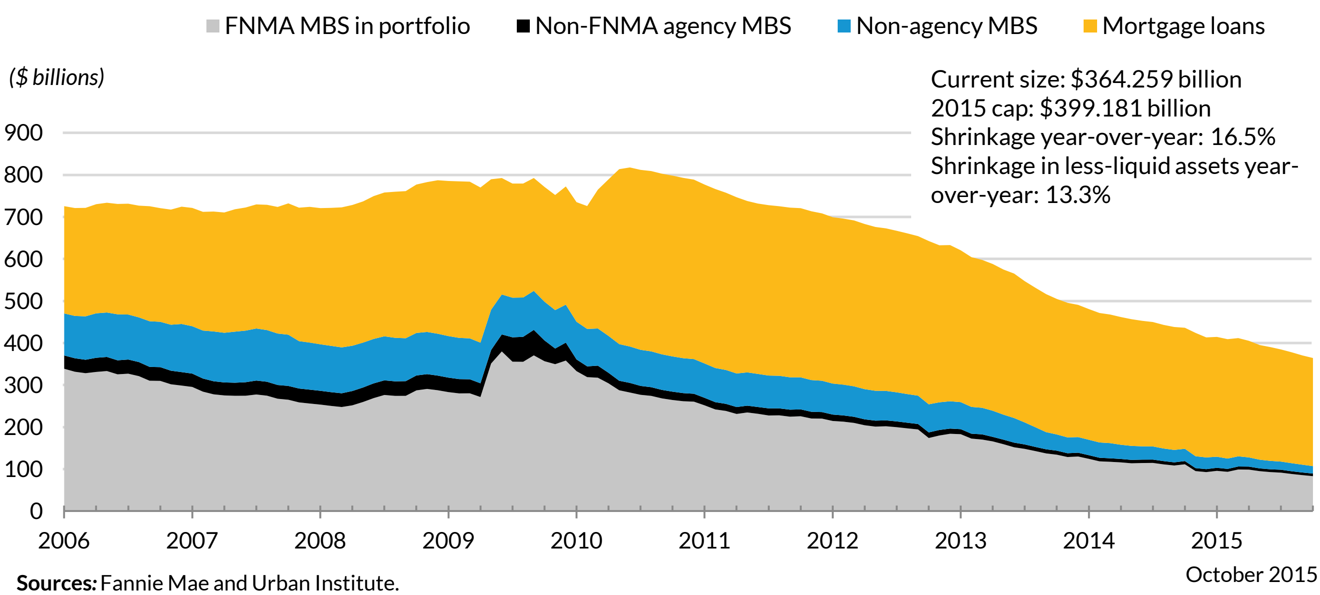
Sources: Mortgage Bankers Association and Urban Institute.

GSES UNDER CONSERVATORSHIP

GSE PORTFOLIO WIND-DOWN

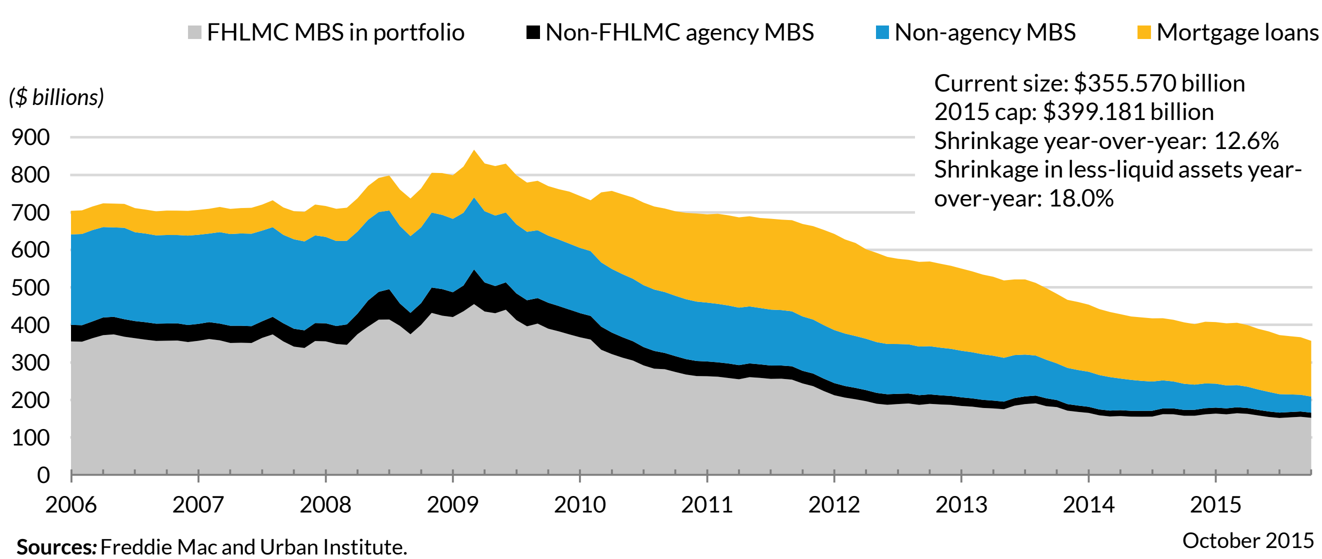
Fannie and Freddie ended 2014 with portfolios totaling $413.3 billion and $408.4 billion, respectively, well below the 2014 cap and just above the 2015 cap of $399 billion. In October 2015, the portfolio size for both GSEs were well below the 2015 cap and the GSEs continue to reduce their portfolio size. Relative to October 2014, Fannie contracted by 16.5 percent, and Freddie Mac by 12.6 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



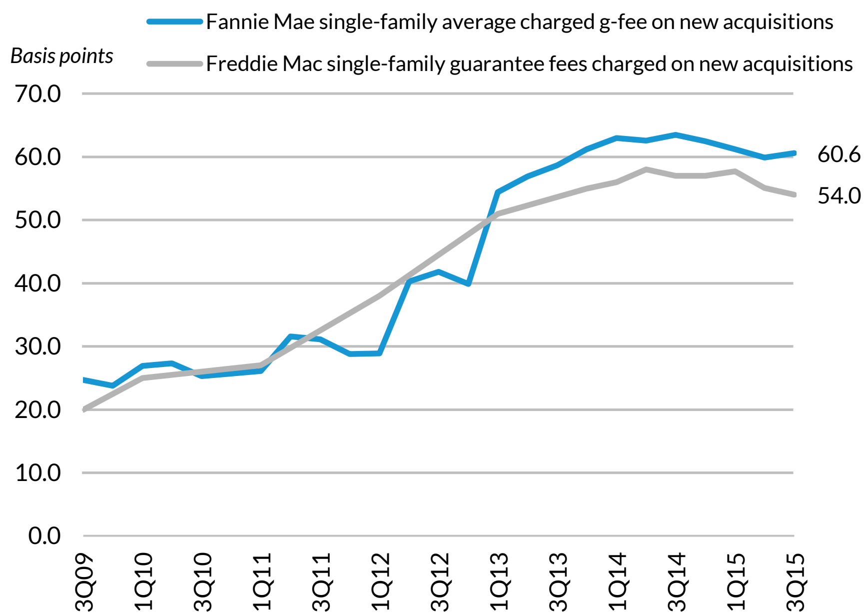
Sources: Freddie Mac and Urban Institute.

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 rose slightly to 60.6 bps in Q3 2015, up from 59.9 bps in the previous quarter. Freddie's fee fell this quarter, to 54.0 bps from 55.1 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 are 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)

Credit Score	LTV							
	≤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 and Freddie have been doing back-end credit risk transfer deals with capital market participants since 2013. In addition to the CAS and STACR transactions detailed here, the GSEs are laying off back-end credit risk on re-insurers, and have done some front end risk sharing arrangements with originators. The FHFA scorecard calls for Fannie Mae to lay off at least $150 billion and Freddie Mac to lay off at least $120 billion, in at least two types of transactions. Both GSEs have more than met their goals.

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
October 2015	CAS 2015 – C04	$43,598.60
Fannie Mae Total Reference Collateral		**$484,714.70**
Percent of Fannie Mae's Total Book of Business		**17.34%**

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
September 2015	STACR Series 2015 – HQA1	$19,376.90
November 2015	STACR Series 2015 – DNA3	$34,706.30
December 2015	STACR Series 2015 – HQA2	$17,100.0
Freddie Mac Total Reference Collateral		**$414,553.3**
Percent of Freddie Mac's Total Book of Business		**24.39%**

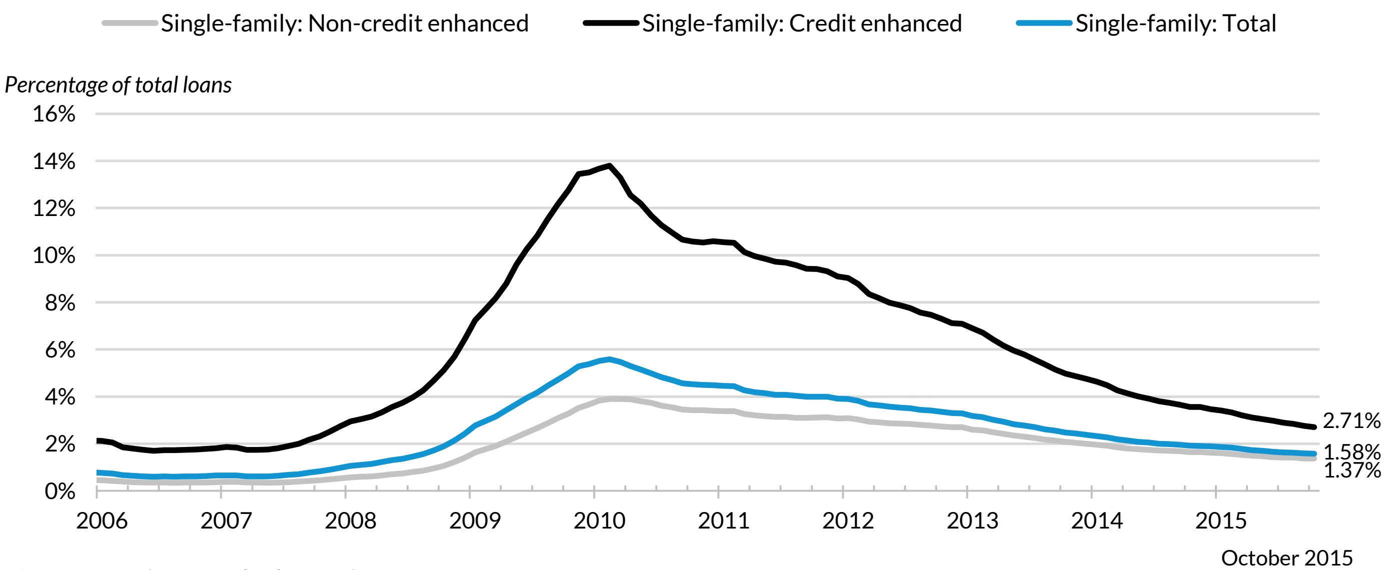
Sources: Fannie Mae, Freddie Mac and Urban Institute.
Note: Classes A-H, M-1H, M-2H, and B-H are reference tranches only. These classes are not issued or sold. The risk is retained by Fannie Mae and Freddie Mac. "CE" = credit enhancement.

GSES UNDER CONSERVATORSHIP

SERIOUS DELINQUENCY RATES

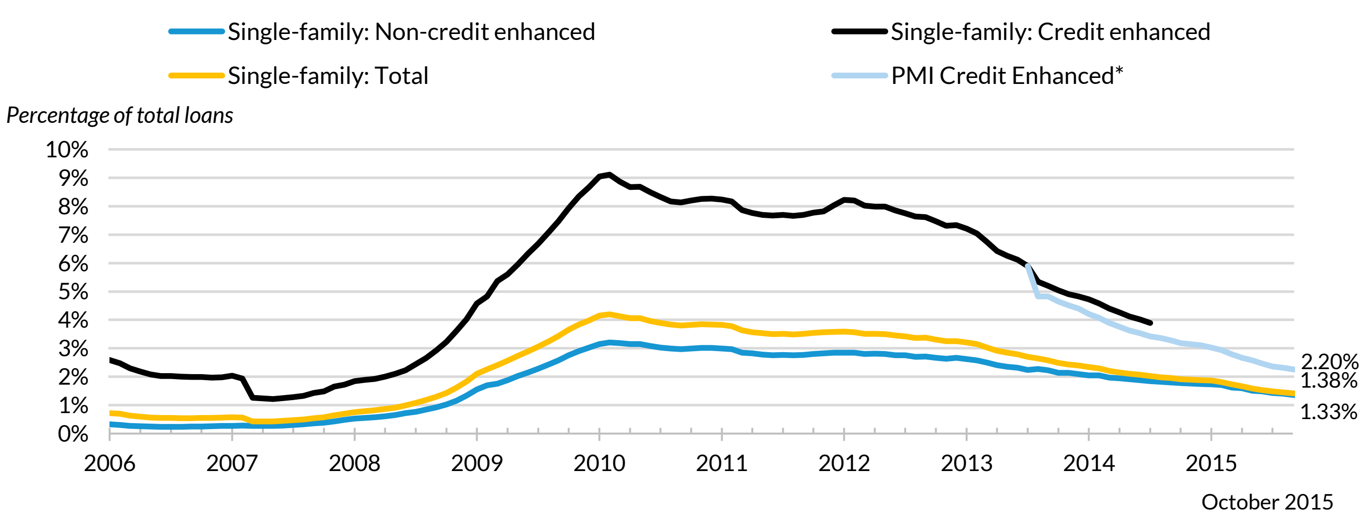
Serious delinquency rates of GSE loans continue to decline as the legacy portfolio is resolved and the pristine, post-2009 book of business exhibits very low default rates. As of October 2015, 1.58 percent of the Fannie portfolio and 1.38 percent of the Freddie portfolio were seriously delinquent, down from 1.96 percent for Fannie and 1.91 percent for Freddie in October 2015.

Serious Delinquency Rates–Fannie Mae



Sources: Fannie Mae and Urban Institute.

Serious Delinquency Rates–Freddie Mac

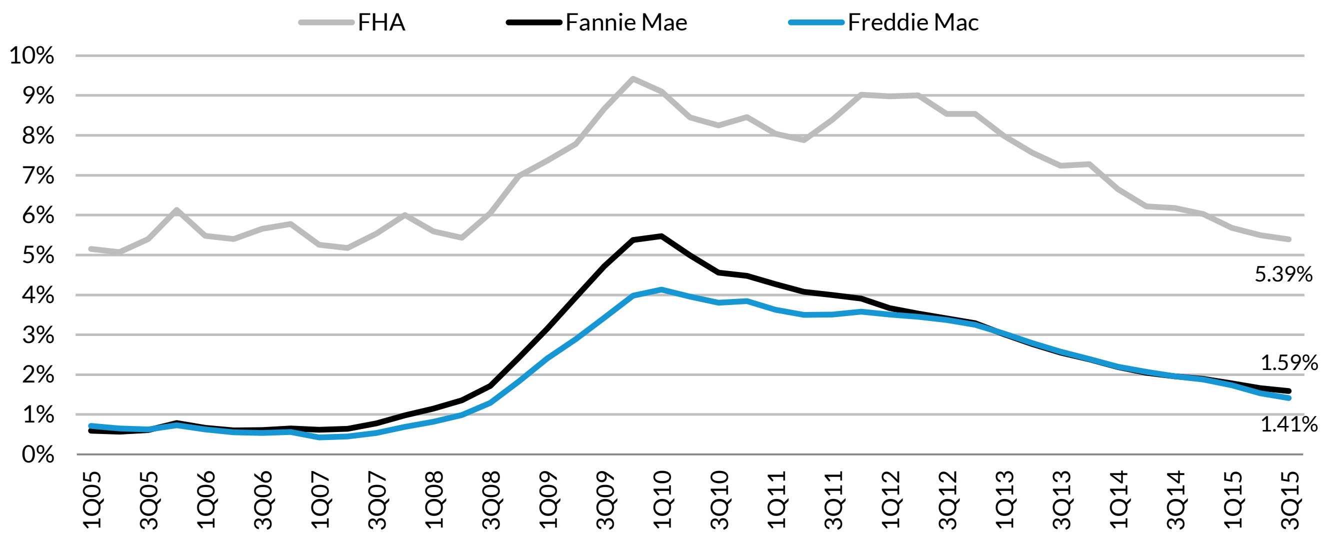


Sources: Freddie Mac and Urban Institute.
Note*: Following a change in Freddie reporting in September 2014, we switched from reporting credit enhanced delinquency rates to PMI credit enhanced delinquency rates.

SERIOUS DELINQUENCY RATES

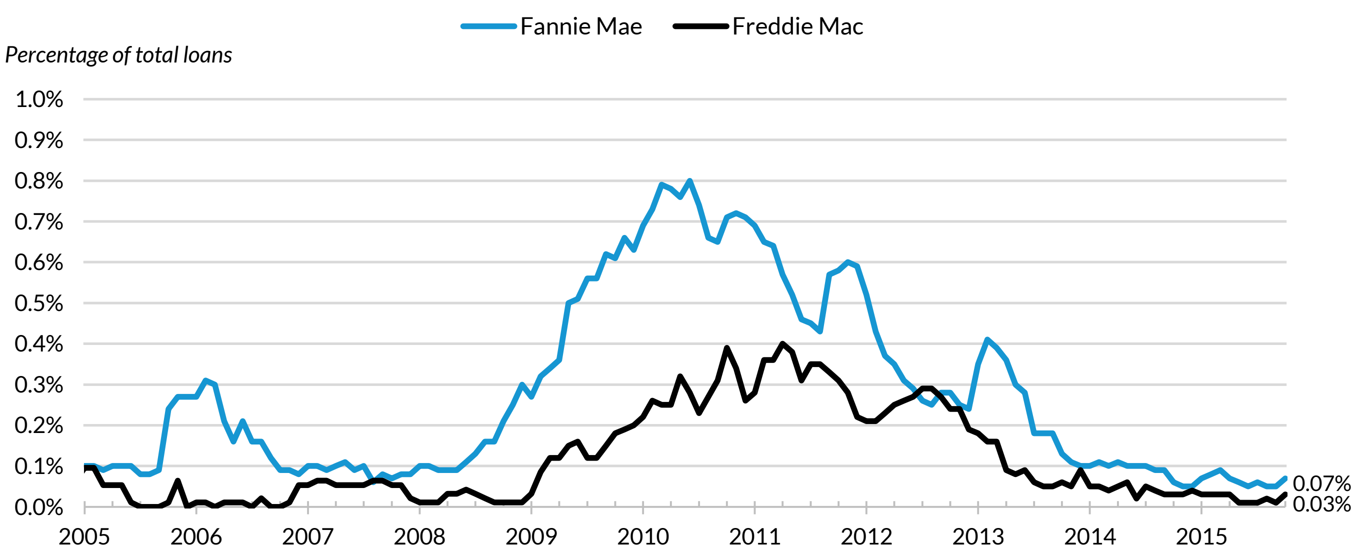
Serious delinquencies for FHA and GSE single-family loans continue to decline. GSE delinquencies remain higher relative to 2005-2007, while FHA delinquencies (which are much higher than their GSE counterparts) are now at levels similar to 2005-2007. GSE multifamily delinquencies have declined to pre-crisis 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



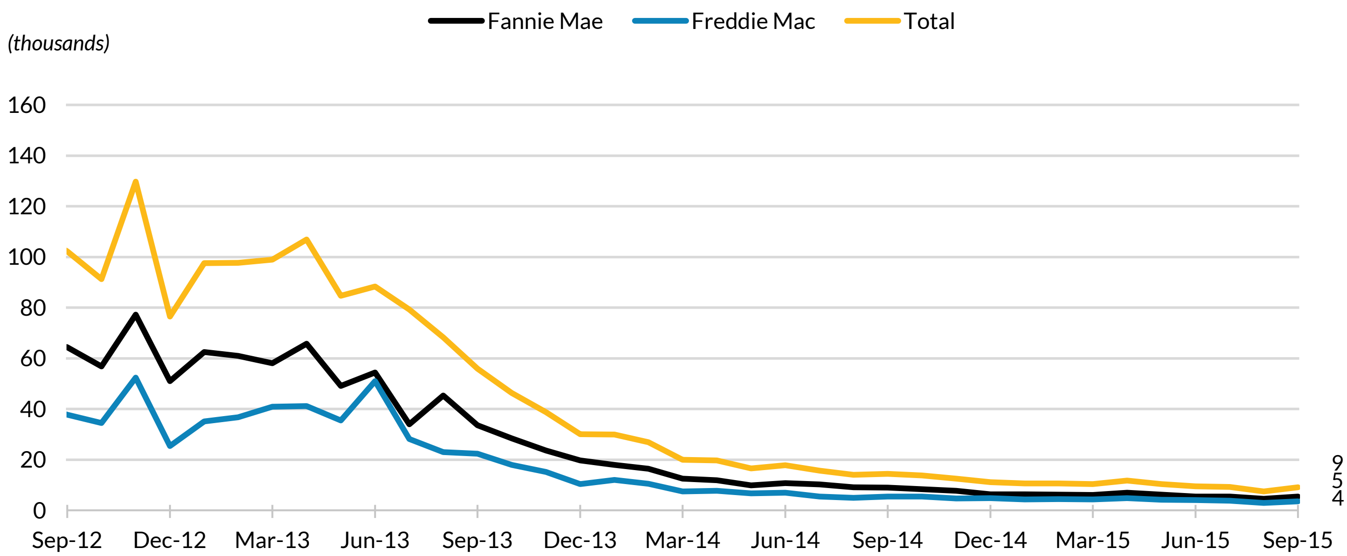
October 2015

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 3.4 million, accounting for 15 percent of all GSE refinances in this period.

Total HARP Refinance Volume



Sources: FHFA Refinance Report and Urban Institute.

September 2015

HARP Refinances

	September 2015	Year-to-date 2015	Inception to date	2014	2013	2012
Total refinances	143,342	1,656,642	22,065,674	1,536,788	4,081,911	4,750,530
Total HARP refinances	9,061	89,033	3,359,471	212,488	892,914	1,074,769
Share 80–105 LTV	77.2%	76.4%	70.1%	72.5%	56.4%	56.4%
Share 105–125 LTV	3.7%	14.5%	17.2%	17.2%	22.4%	22.4%
Share >125 LTV	8.1%	8.0%	12.7%	10.3%	21.2%	21%
All other streamlined refinances	17,222	175,614	3,696,847	268,026	735,210	729,235

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 418,520 eligible loans, but 48 percent are out-of-the-money because the closing cost would exceed the long-term savings, leaving 219,717 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 5,617,262 loans in this category, 4,512,620 are in-the-money.

More than 75 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.

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Total loan count	27,078,597
Loans that do not meet pay history requirement	1,322,102
Loans that meet pay history requirement:	25,756,495
Pre-June 2009 origination	6,035,782
Post-June 2009 origination	19,720,713

Loans Meeting HARP Pay History Requirements

Pre-June 2009			
LTV category	*In-the-money*	*Out-of-the-money*	*Total*
≤80	4,512,620	1,104,642	5,617,262
>80	219,717	198,802	418,520
Total	4,732,337	1,303,445	6,035,782
Post-June 2009			
LTV category	*In-the-money*	*Out-of-the-money*	*Total*
≤80	3,171,737	14,021,356	17,193,093
>80	568,220	1,959,400	2,527,620
Total	3,739,958	15,980,756	19,720,713

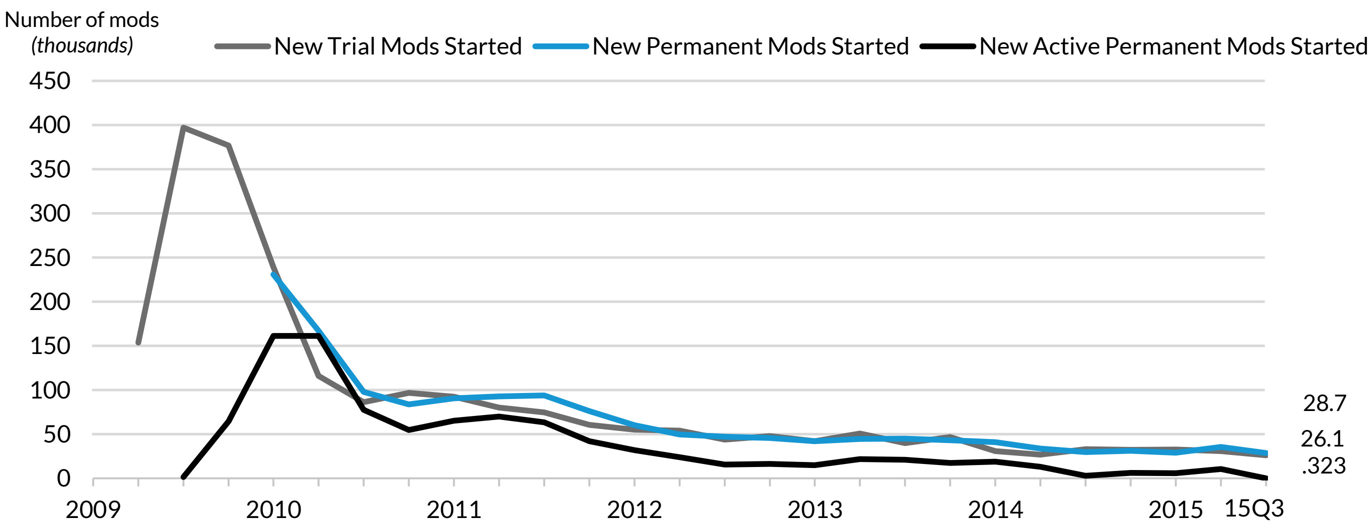
Sources: CoreLogic Prime Servicing as of October 2015 and Urban Institute.
Note: Figures are scaled up from source data to account for data coverage of the GSE active loan market (based on MBS data from eMBS). Shaded box indicates HARP-eligible loans that are in-the-money.

MODIFICATION ACTIVITY

HAMP ACTIVITY

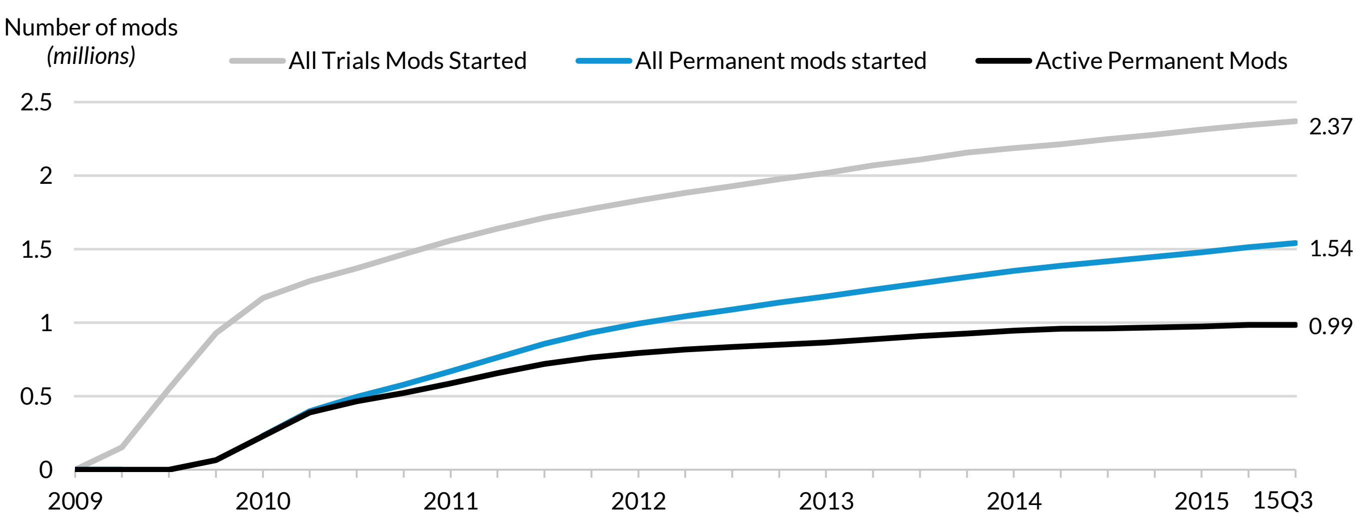
In the third quarter of 2015, both new HAMP trial mods and new permanent mods exhibited their lowest quarterly total ever at 26,107 and 28,748, respectively. Cumulative permanent HAMP mods started now total 1.54 million. New active permanent mods experienced even sharper decline to 323 in Q3 2015, compared to 3,200 the same quarter a year ago. As a result, active permanent mods have remained constant at 0.99 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 BY TYPE OF ACTION AND BEARER OF RISK

The share of modifications that received principal reductions fell to 8.1 percent in Q3 2015, after its sharp increase from 6.6 percent in Q4 2014 to 14.7 percent in Q1 2015. There are two reasons for this decline. First, a lower share (1.4 percent) of government loans are now getting principal reductions, down from 5.8 percent in the first quarter of 2015. Second, the share of portfolio loans receiving principal reductions has decreased significantly, from 50.3 percent in Q1 2015 to 29.2 percent in Q3 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
	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3		
Capitalization	58.7	71	84	88.8	89.9	88.2	-1.9	24.3
Rate reduction	71.9	66.4	65	68.1	68.8	69.2	0.6	4.2
Rate freeze	7.2	7.6	8.4	7.5	7.6	10.3	35.6	35.9
Term extension	84.5	82.4	84.3	85.3	82.0	85.8	4.6	4.2
Principal reduction	5	6.9	6.6	14.7	10	8.1	-19	17.3
Principal deferral	11.5	16	10.5	9.9	9.8	10.4	6.8	-34.8
Not reported*	0.7	0.5	0.4	0.4	0.4	0.4	-1.7	-28.3

Sources: OCC Mortgage Metrics Report for the Third 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

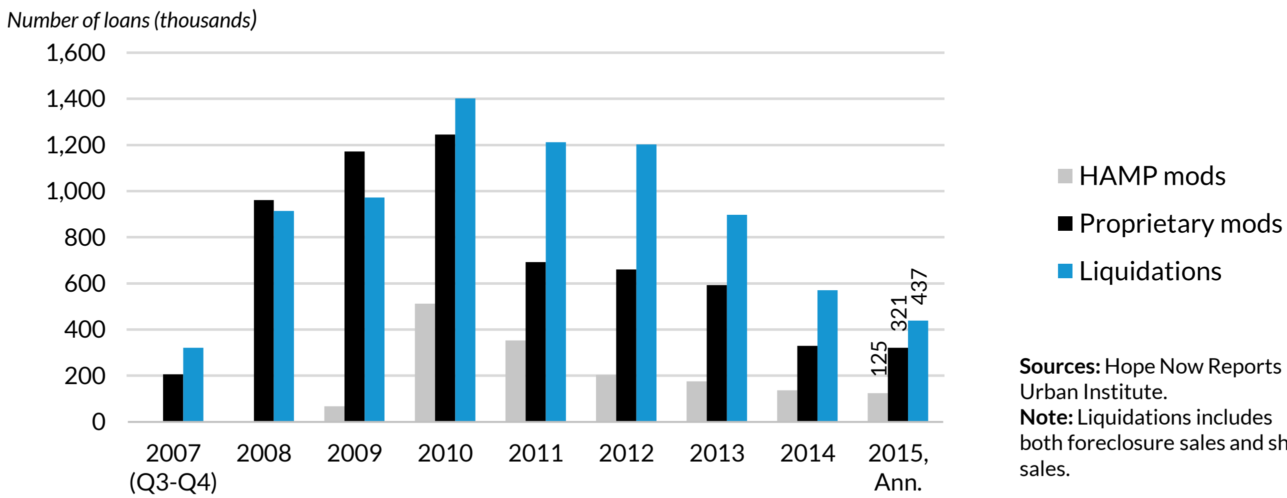
	Fannie Mae	Freddie Mac	Government-guaranteed	Private Investor	Portfolio	Overall
Capitalization	98.6%	98.7%	76.8%	92.9%	96.1%	88.2%
Rate reduction	41.5%	14.7%	86.4%	73.1%	72.5%	69.2%
Rate freeze	19.9%	14.6%	3.4%	19.1%	9.3%	10.3%
Term extension	96.4%	97.1%	97.9%	42.3%	62.9%	85.8%
Principal reduction	0.1%	0.1%	1.4%	25.1%	29.2%	8.1%
Principal deferral	15.9%	12.6%	0.3%	26.3%	19.1%	10.4%
Not reported*	0.01%	0.03%	0.2%	1.2%	0.8%	0.4%

Sources: OCC Mortgage Metrics Report for the Third 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).

MODIFICATIONS AND LIQUIDATIONS

Total modifications (HAMP and proprietary) are now roughly equal to total liquidations. Hope Now reports show 7,644,883 borrowers have received a modification since Q3 2007, compared with 7,822,417 liquidations in the same period. Modification activity slowed significantly in 2014 and remained level in 2015, averaging 36,402 monthly through September. Liquidations have continued to decline, averaging 36,552 per month over this period compared to 47,515 per month in 2014.

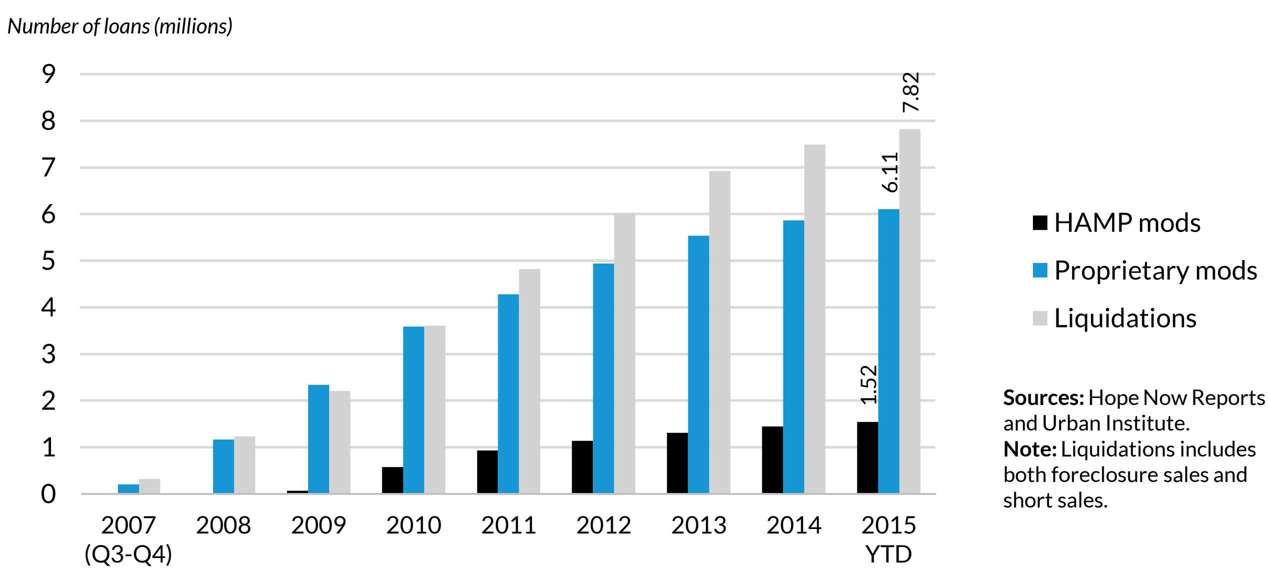
Loan Modifications and Liquidations



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

September 2015

Cumulative Modifications and Liquidations



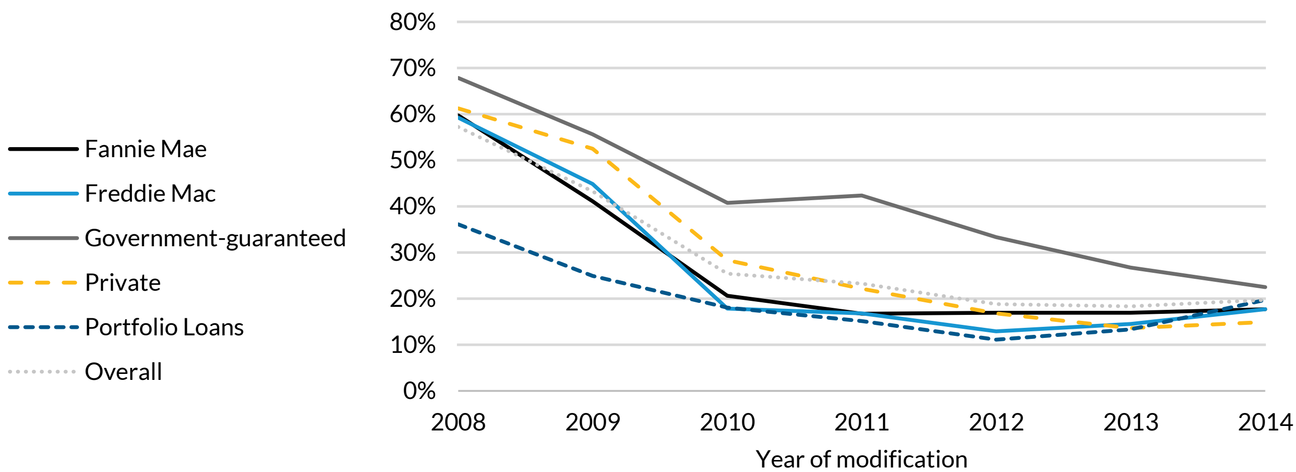
Sources: Hope Now Reports and Urban Institute.
Note: Liquidations includes both foreclosure sales and short sales.

September 2015

MODIFICATION REDEFAULT RATES BY BEARER OF THE RISK

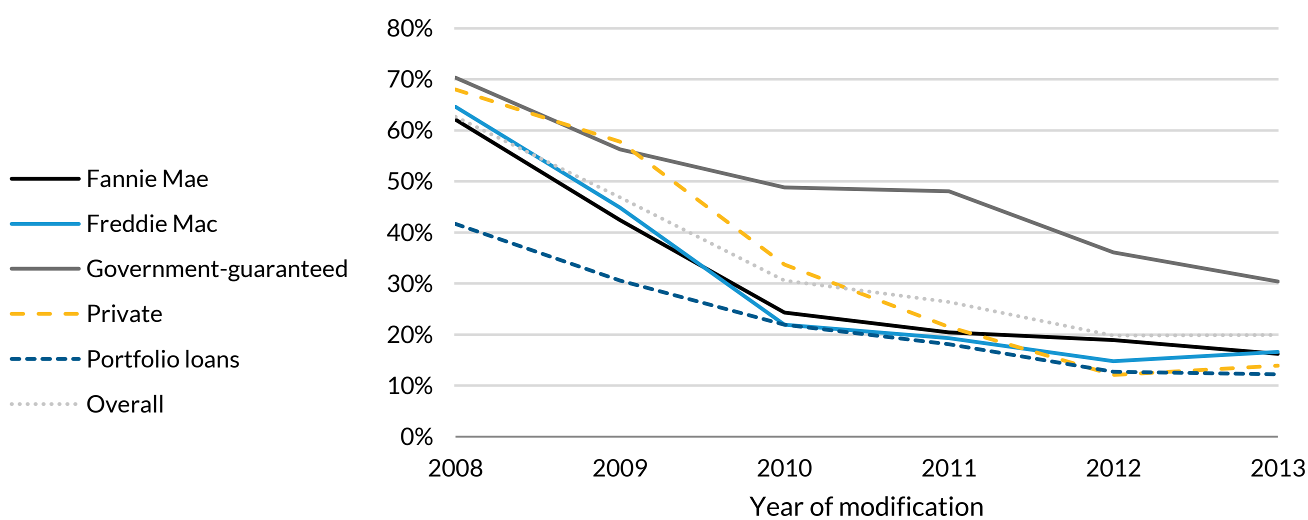
Redefault rates on modified loans have come down dramatically from 2008 to 2014. For the period as a whole, the steepest drops have been on private label modifications. More recently, there have been sharp declines in the redefault rates on government-guaranteed modifications, although this product type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

Redefault Rate 12 Months after Modification



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

Redefault Rate 24 Months after Modification



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

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 $1,189 billion in the first eleven months of 2015, a 39 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	$783.2	$406.0	$1,189.2
%Change year-over-year	33.6%	50.6%	39.0%
2015 Ann.	$854.4	$442.9	$1,297.3

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	$64.7	$86.5	$151.2
%Change year-over-year	247.9%	54.7%	102.9%
2015 Ann.	$70.6	$94.4	$165.0

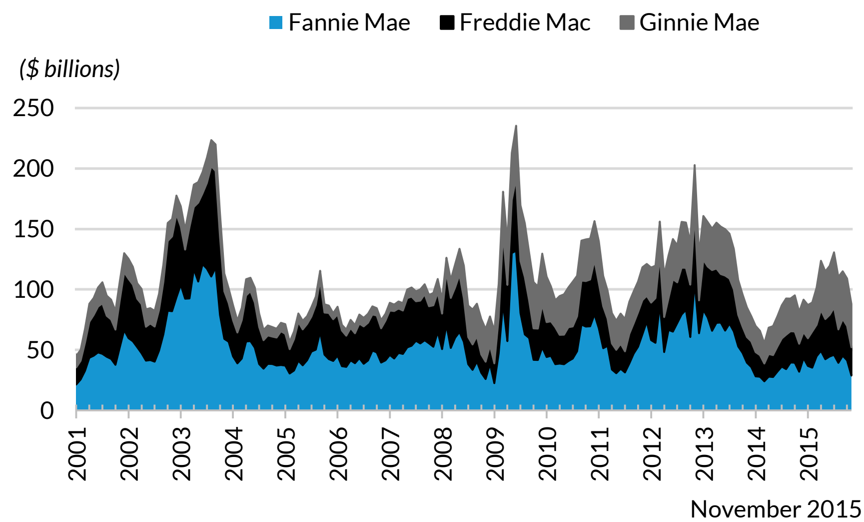
Sources: eMBS and Urban Institute.
Note: Dollar amounts are in billions. Annualized figure based on data from November 2015.

AGENCY ISSUANCE

AGENCY GROSS ISSUANCE & FED PURCHASES

Monthly Gross Issuance

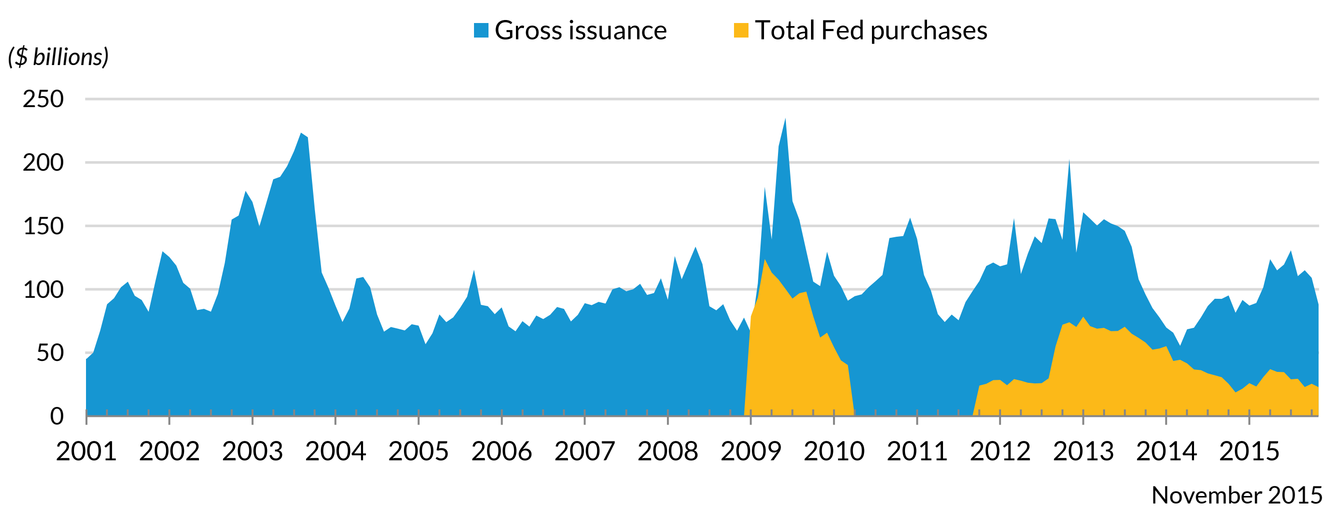
While government and GSE lending have dominated the mortgage market since the crisis, there has been a change in the mix. The Ginnie Mae share reached a peak of 28 percent of total agency issuance in 2010, declined to 25 percent in 2013, and has bounced back sharply since then. The Ginnie Mae issuance stood high at 41 percent in November 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, 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 20 and 30 percent. In November 2015, total Fed purchase was down, but less than the drop of overall gross issuance, yielding Fed absorption of gross issuance of 26 percent, up from 23 percent last month.

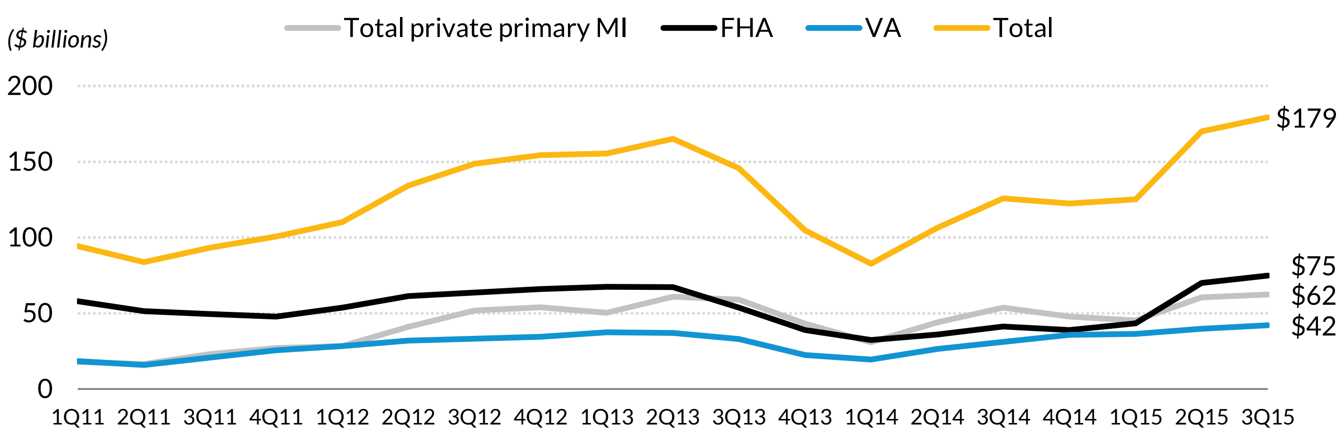


Sources: eMBS, Federal Reserve Bank of New York and Urban Institute.

MORTGAGE INSURANCE ACTIVITY

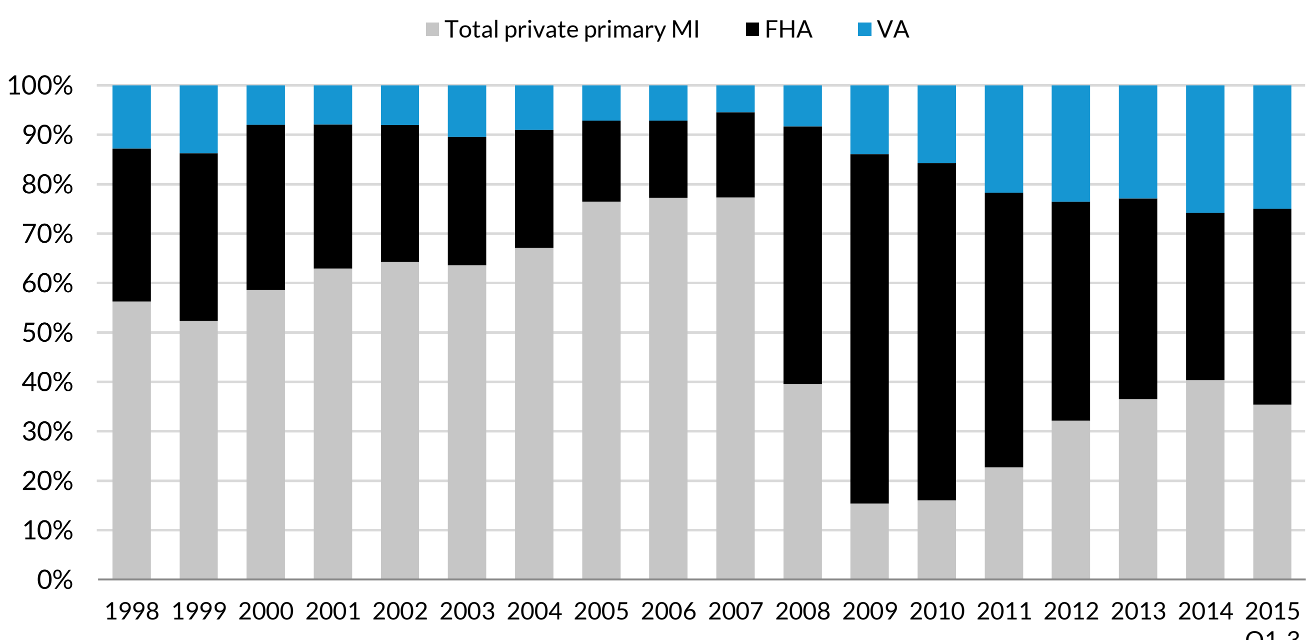
MI Activity

In 2015 Q3, mortgage insurance activity via the FHA, VA and private insurers continued to expand and now total $179.4 billion. While all three MI channels experienced growth, FHA led the pack, bolstered by lower premiums. FHA's market share now stands at 40 percent year to date, compared to the private insurance market's 35 percent. 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.

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.

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