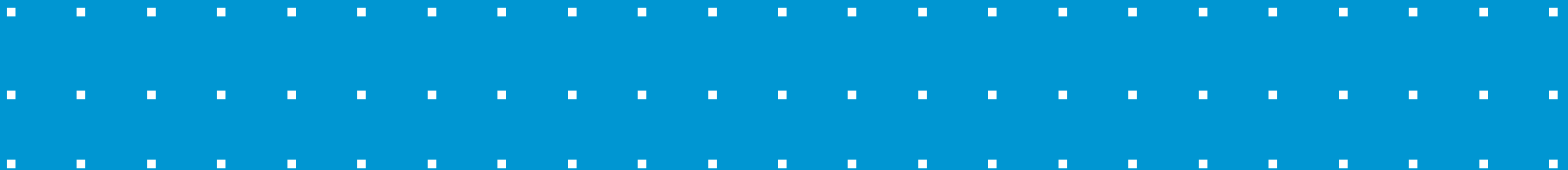




Mortgage Origination and Servicing Issues Affecting Low - and Moderate- Income Homeowners

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July 12, 2016



Outline

Demographic changes: we expect that from 2010-2030 there will be 22 million net new households. 13 million will be renters while only 9 million will be homeowners, a much higher proportion of renters compared to the last few decades. The homeownership rate will continue to fall, reaching 61.3 percent by 2030. These new homeowners will be disproportionately non-white.

These projections reflect overall population aging and greater minority population growth.

Factors exerting a downward pull on the homeownership rate include:

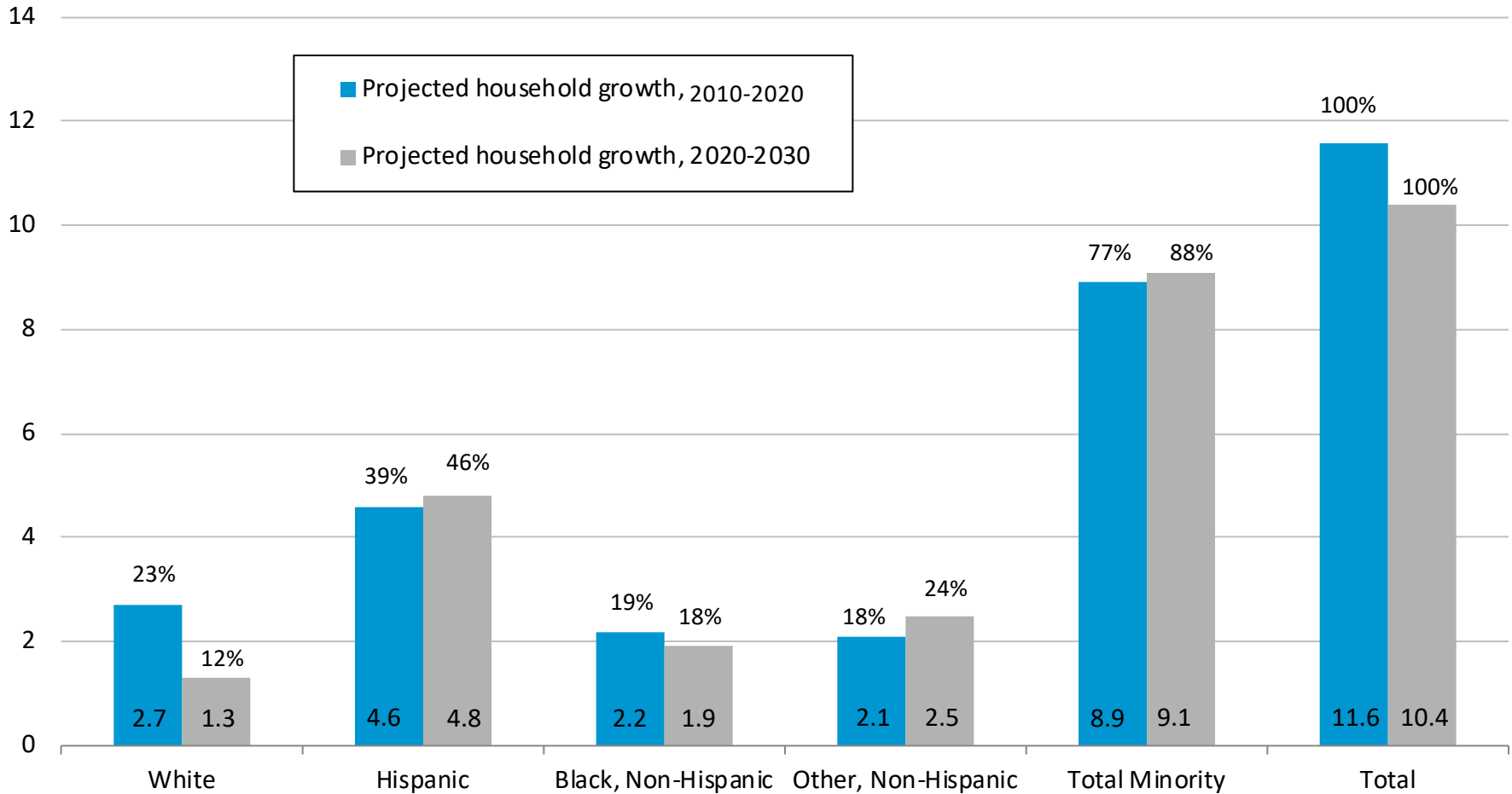
- The Great Recession
- A higher median age at first marriage
- No increase in real incomes
- Very tight mortgage credit
- Student loan debt for those who do not graduate
- Subtle change in attitude toward homeownership

Supply/demand gap

Out of all of the trends contributing to low homeownership, the only one that can be addressed by the FHA and GSEs is tight credit. There are three factors contributing to this—representation and warranty issues, the costs of servicing delinquent loans, and legal liability issues under the False Claims Act. The FHFA and GSEs have gone a long way toward addressing those issues. The FHA has done comparatively less.

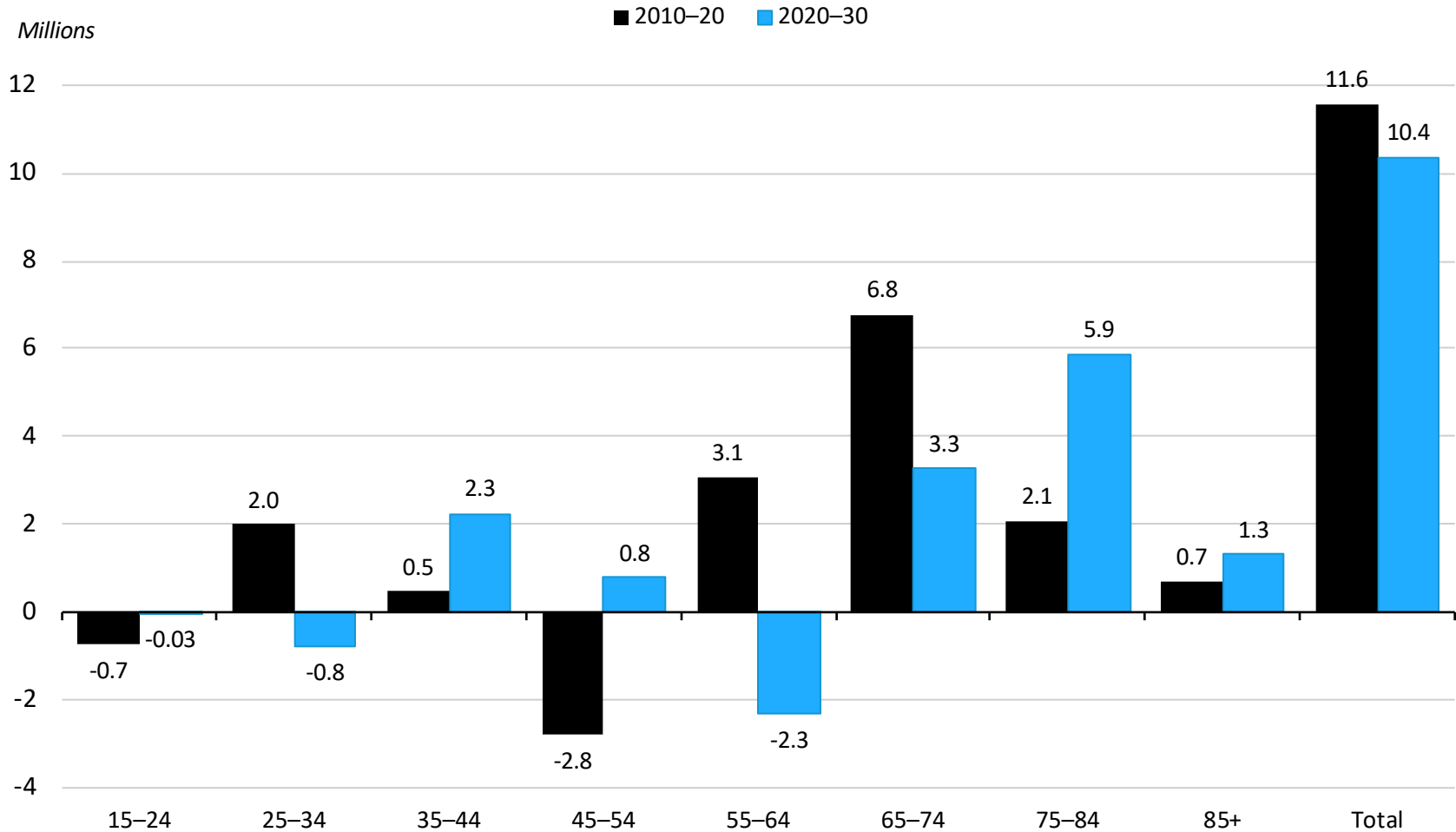
Projected Household Growth by Race and Ethnicity

Net new households, millions



Source: Urban Institute.

Net Household Growth by Age Group



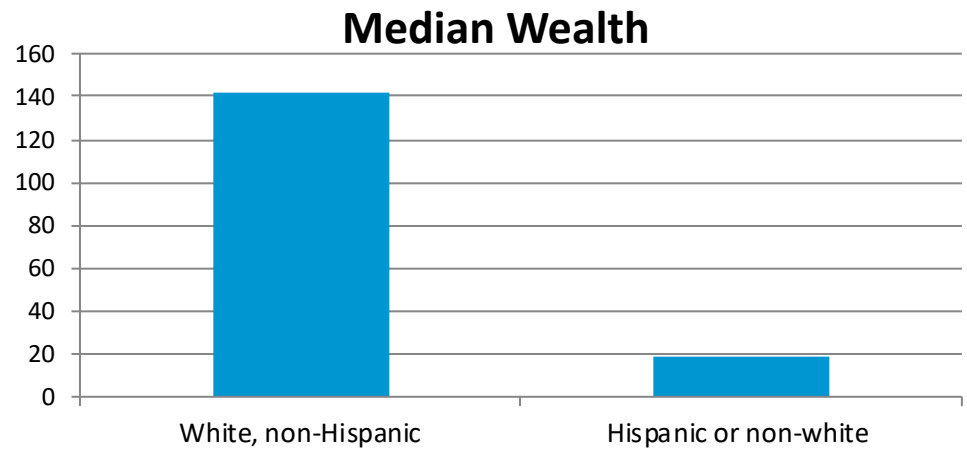
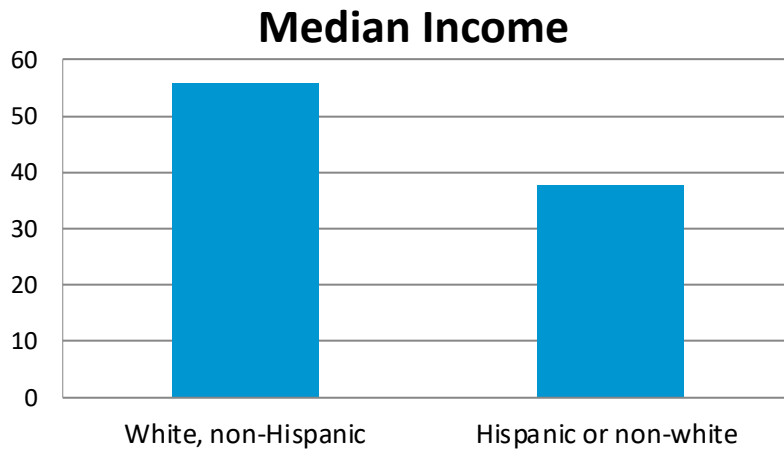
Source: “Headship and Homeownership: What Does the Future Hold?” by Laurie Goodman, Rolf Pendall, and Jun Zhu. June 2015. Urban Institute.

Homeownership differs by race, partly due to income and wealth

Homeownership Rate by Race

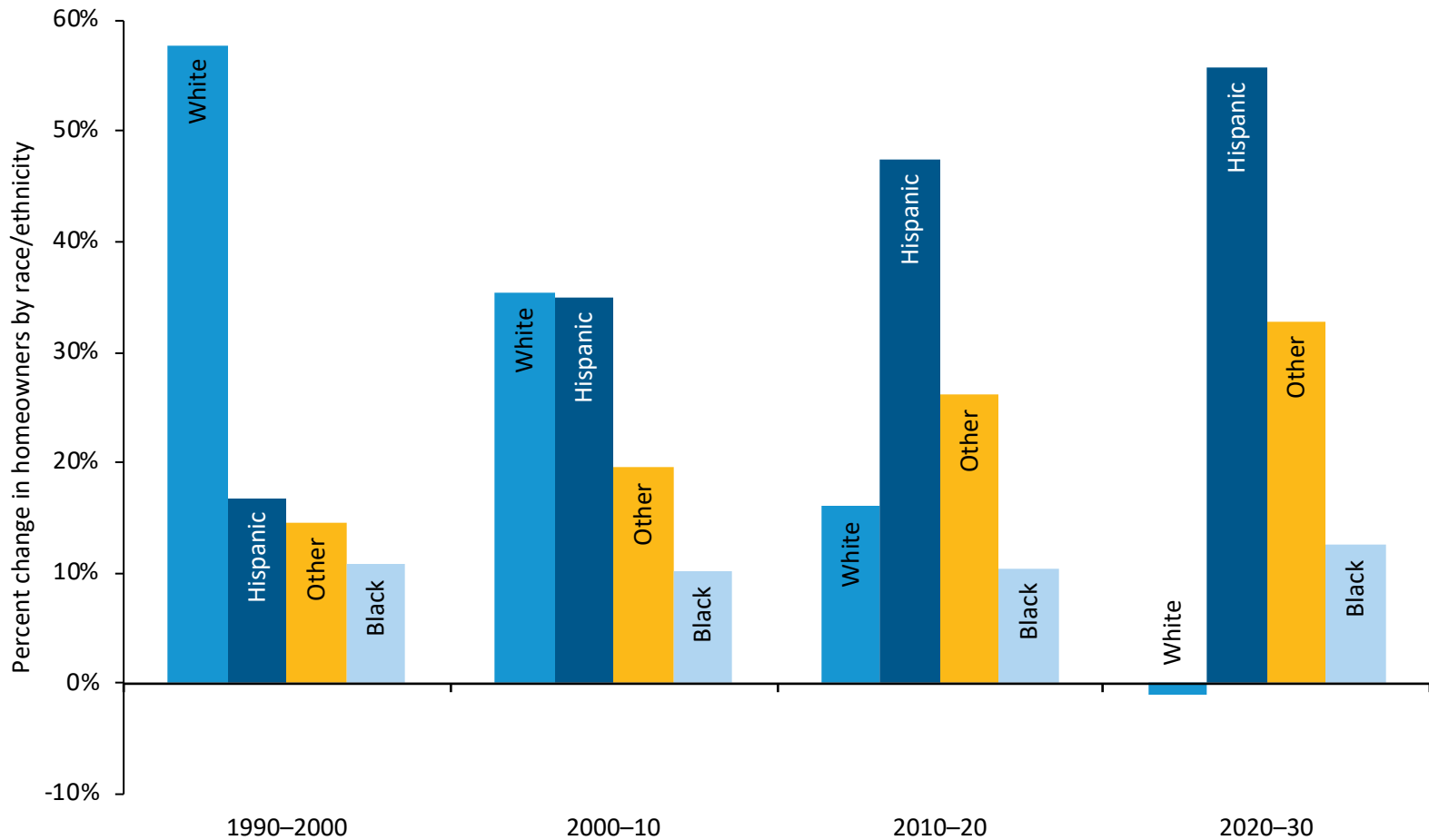
	1990	2000	2010	2020f	2030f
Total	65.3	66.2	65.1	62.7	61.3
Hispanic	43.3	45.7	47.3	46.9	48.2
White	70.1	72.4	72.2	70.8	69.7
Black	45.2	46.3	44.3	41.1	40.0
Other	53.7	53.0	56.3	55.9	56.9

Household Financial Characteristics by Race and Ethnicity, 2013



Sources: top: U.S. Census, Urban Institute Projections; bottom: Federal Reserve Bulletin, September 2014.
f refers to forecast

By the 2020s, minorities will account for all growth in homeownership



Source: U.S. Census 1990-2010, Urban Institute projections.

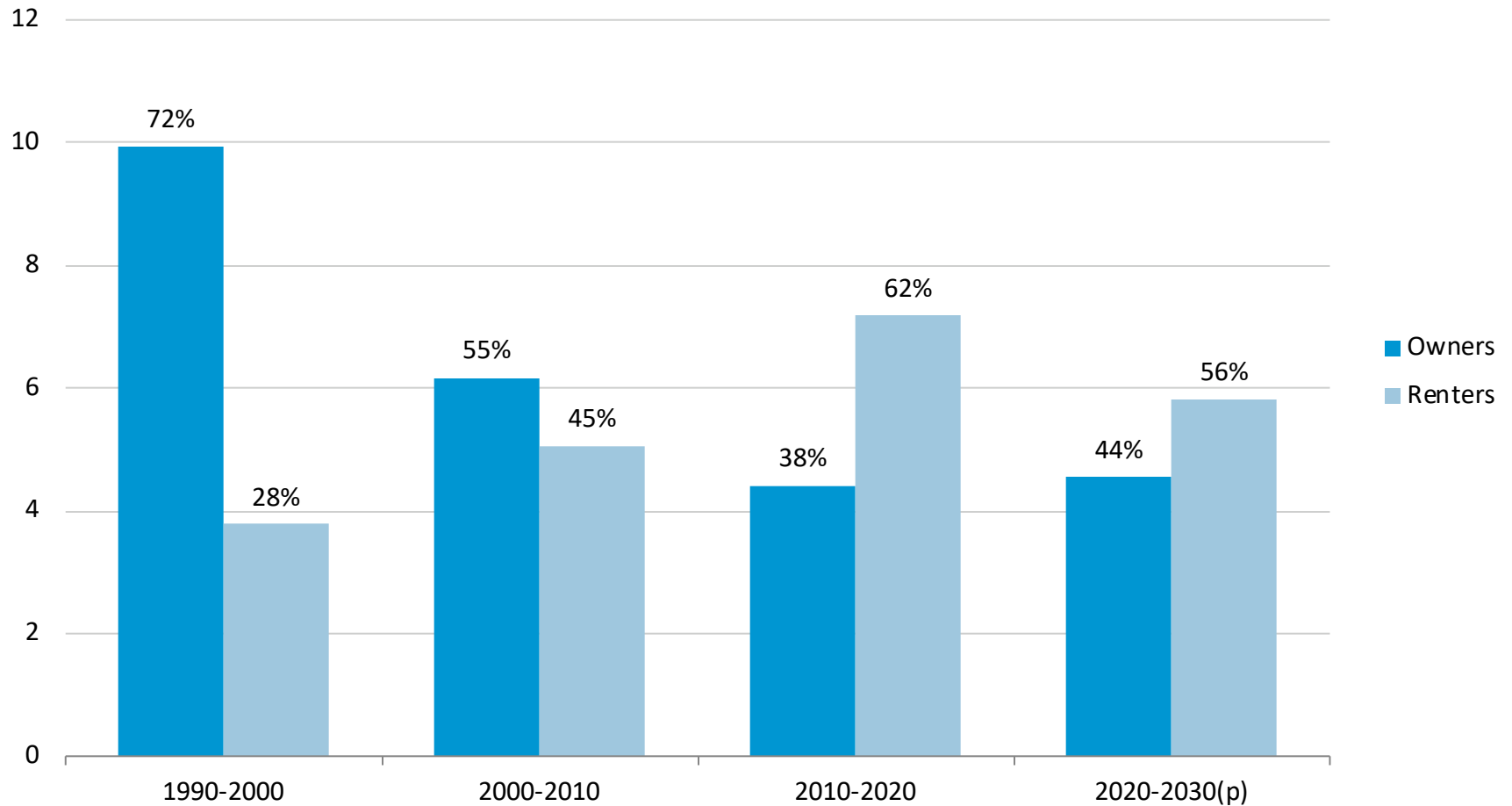
Homeownership rates will decline for most age groups

Homeownership Rate by Householder Age					
	1990	2000	2010	2020f	2030f
15-24	16.9	17.9	16.1	13.5	13.3
25-34	46.4	45.6	42.0	37.5	37.7
35-44	67.4	66.2	62.3	58.0	55.1
45-54	76.3	74.9	71.5	66.6	64.5
55-64	80.6	79.8	77.3	73.3	69.6
65-74	79.4	81.3	80.2	77.2	73.9
75-84	72.5	77.3	77.9	77.5	74.4
85+	63.8	66.1	66.2	69.8	68.4
Total	65.3	66.2	65.1	62.7	61.3

Source: Urban Institute estimates.

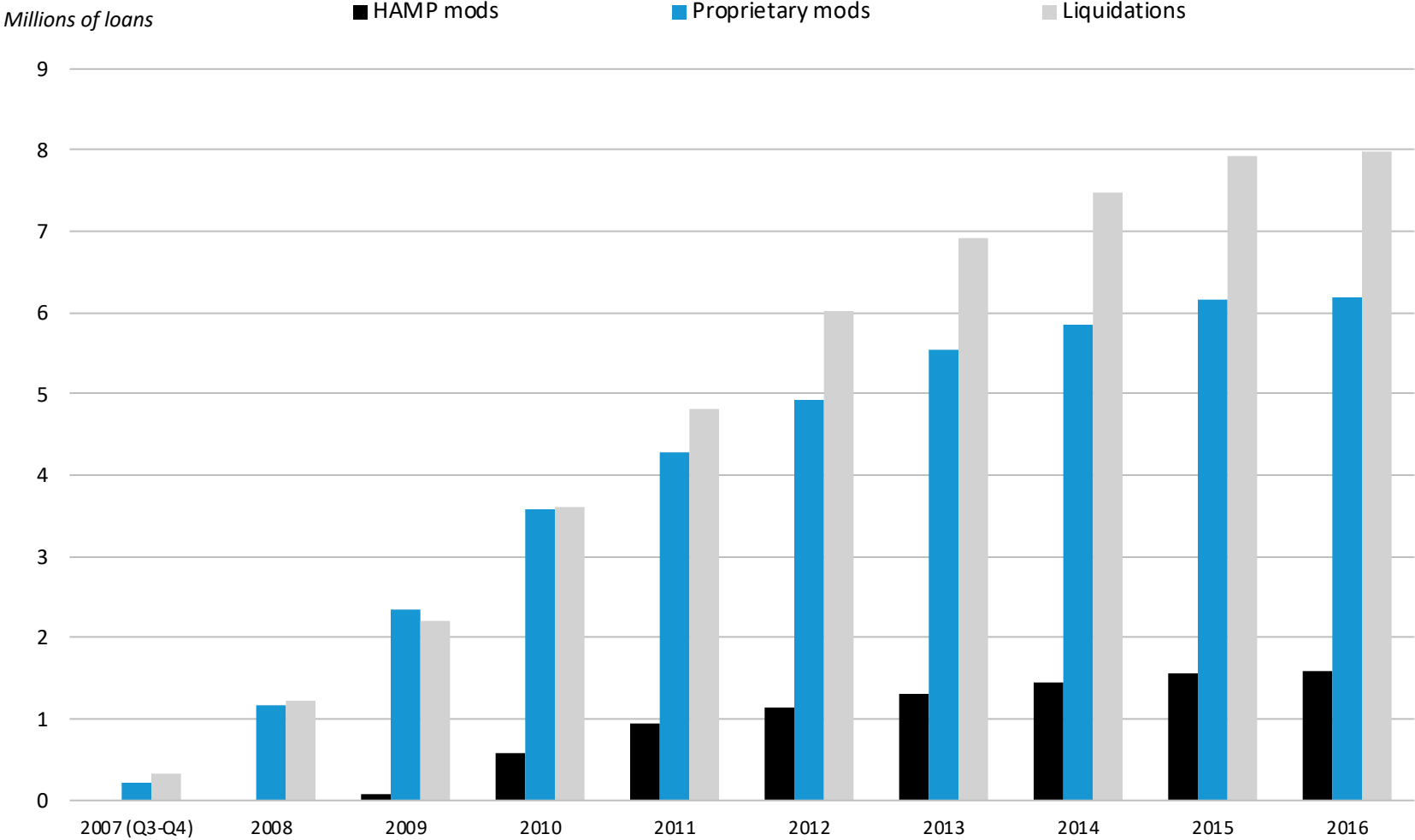
Rental Housing Demand High From 2010 to 2030

Household growth (millions)



Source: U.S. Census 1990-2010, Urban Institute projections (p).

Cumulative Modifications and Liquidations

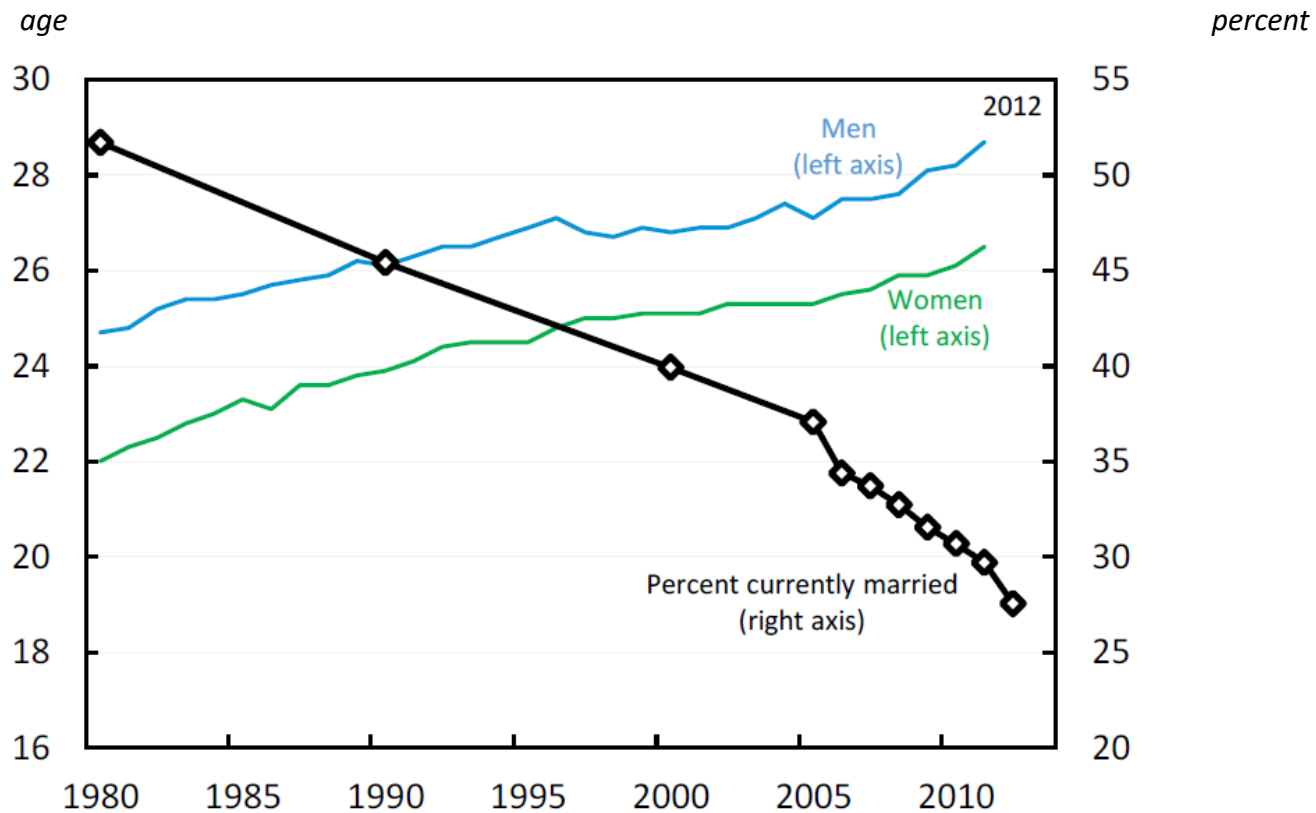


Sources: Hope Now Reports and Urban Institute.

Note: Liquidations includes both foreclosure sales and short sales.

Age at first marriage has increased

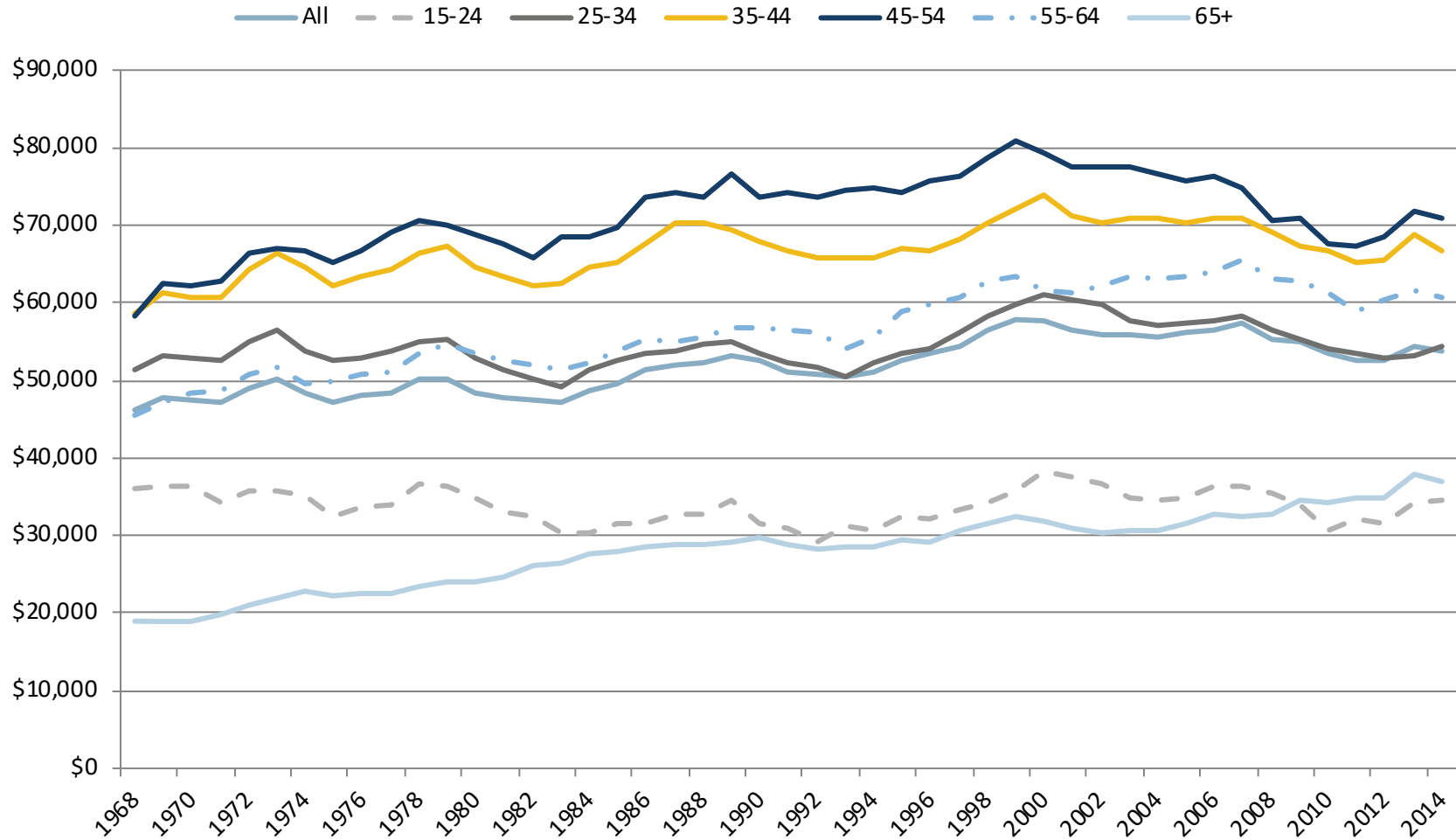
Share of 18-34 Year Olds Currently Married and Age at First Marriage



Source: U.S. Census and American Community Survey; CEA calculations

Real incomes are flat

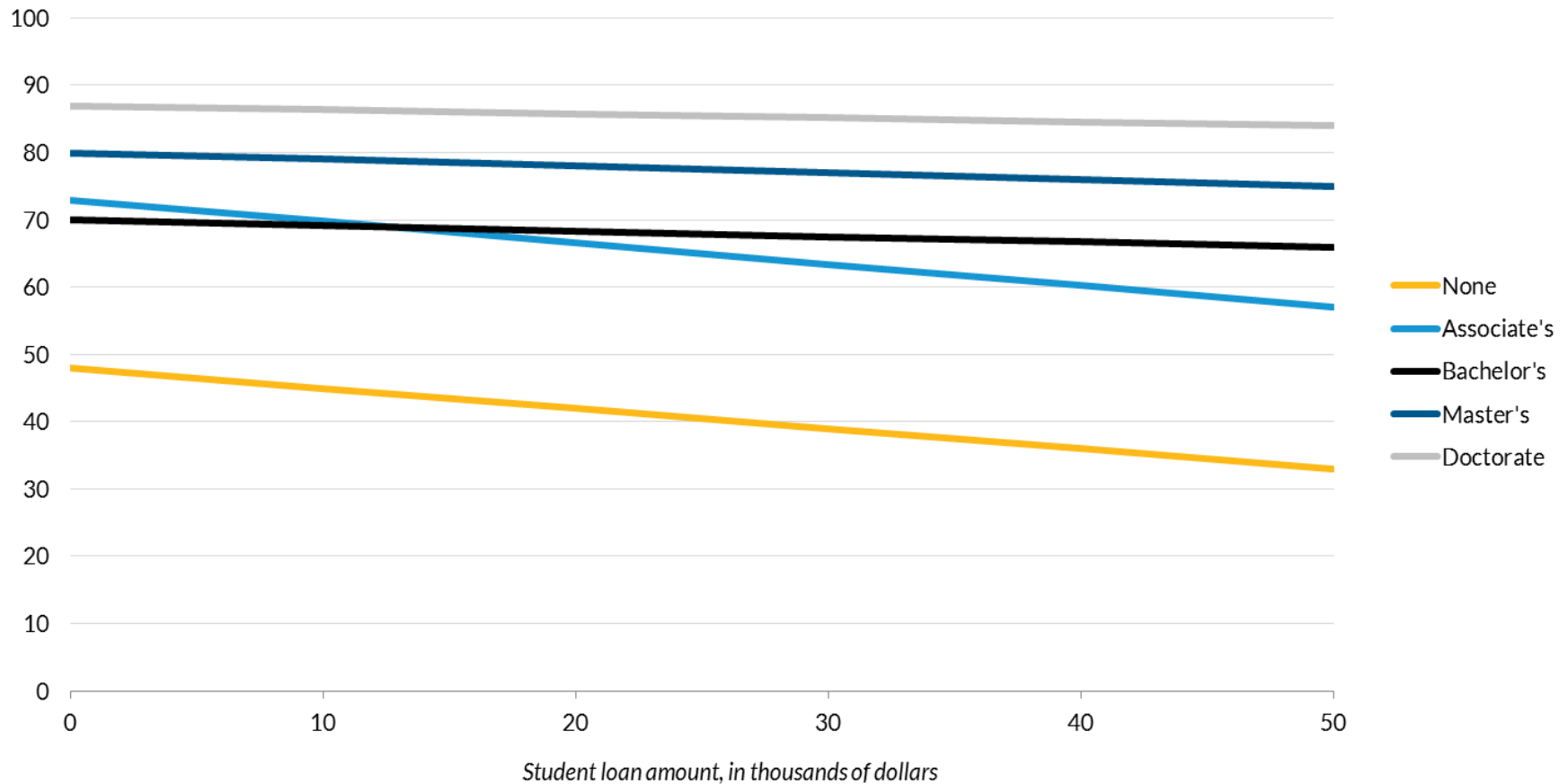
Median Household Income, Real 2014 \$ in Thousands, by Age of Householder



Sources: U.S. Census Bureau Current Population Survey and Urban Institute.

Homeownership sensitivity to student debt

Probability of homeownership

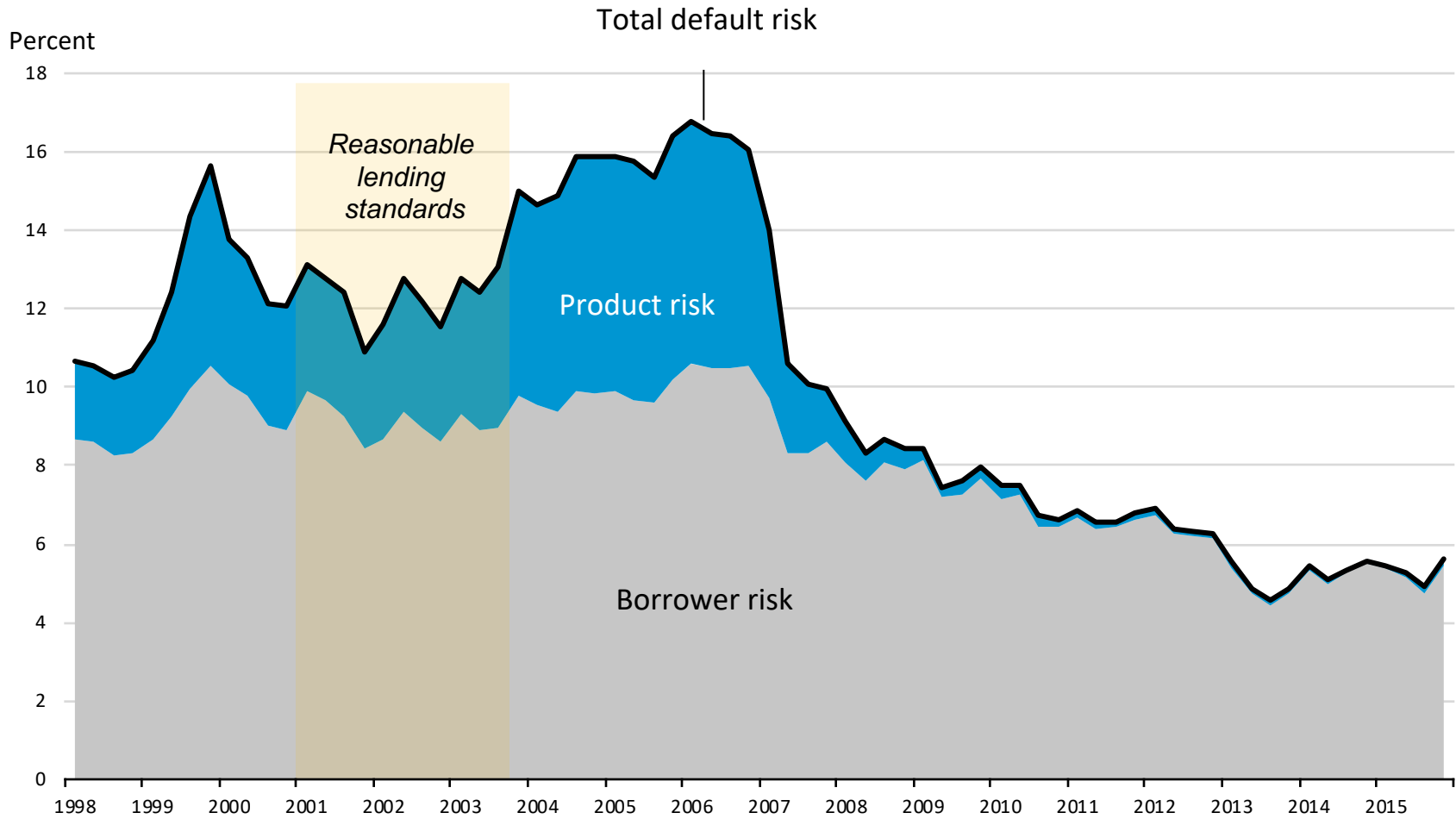


Source: "Yes, First-Time Buyer Demand is Weak. But Stop Blaming Student Debt," Zillow Real Estate Research, September 16, 2015. <http://www.zillow.com/research/student-debt-homeownership-10563/>

Housing Credit Availability Index (HCAI) Methodology

- HCAI indicates the difficulty of getting a mortgage in the United States by precisely measuring lenders' tolerance for risk.
- To determine the default risk of mortgage loans, the HCAI uses a database of historical loans to find the loans that most closely match the characteristics of the new loans being studied. The characteristics include:
 - borrower characteristics (credit score, loan-to-value, debt-to-income ratio)
 - loan risk, separating loans with and without risky features (less than five years to the reset, interest-only loans, negatively amortizing loans).
- The HCAI incorporates maps characteristics, by origination quarter, into the behavior of mortgages in 2001-2002 and 2005-2006, weighting for the likelihood of economic scenarios
 - Normal-year default rate (2001 and 2002) : 90% weight
 - Stressed-year default rate (2005 and 2006): 10% weight
- A lower HCAI indicates that lenders are unwilling to tolerate defaults and are imposing tighter lending standards, making it harder to get a loan. A higher HCAI indicates that lenders are willing to tolerate defaults and are taking more risks, making it easier to get a loan.

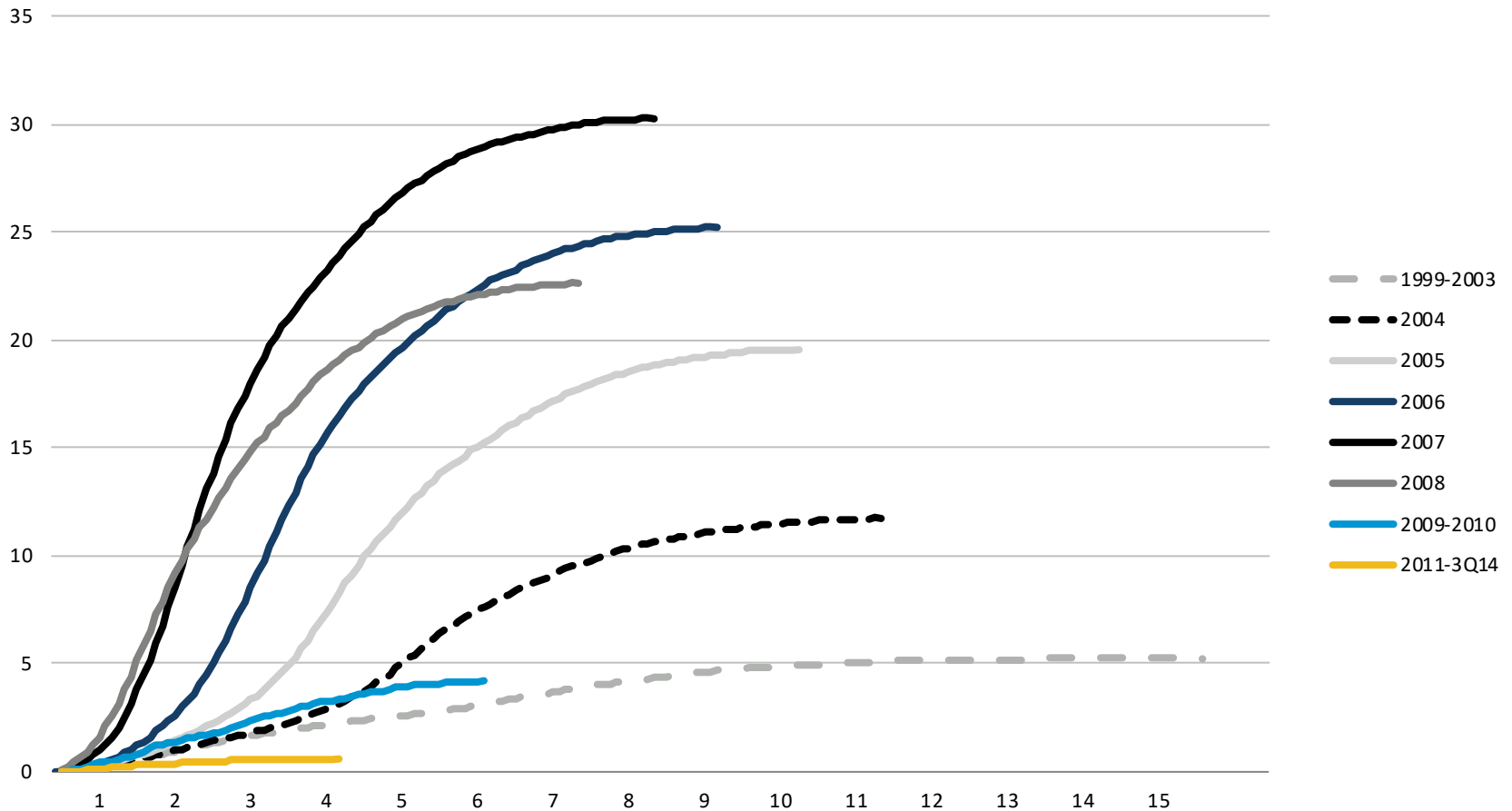
HFPC Credit Availability Index Shows Credit Is Very Tight



Sources: eMBS, CoreLogic, HMDA, IMF, and Urban Institute.

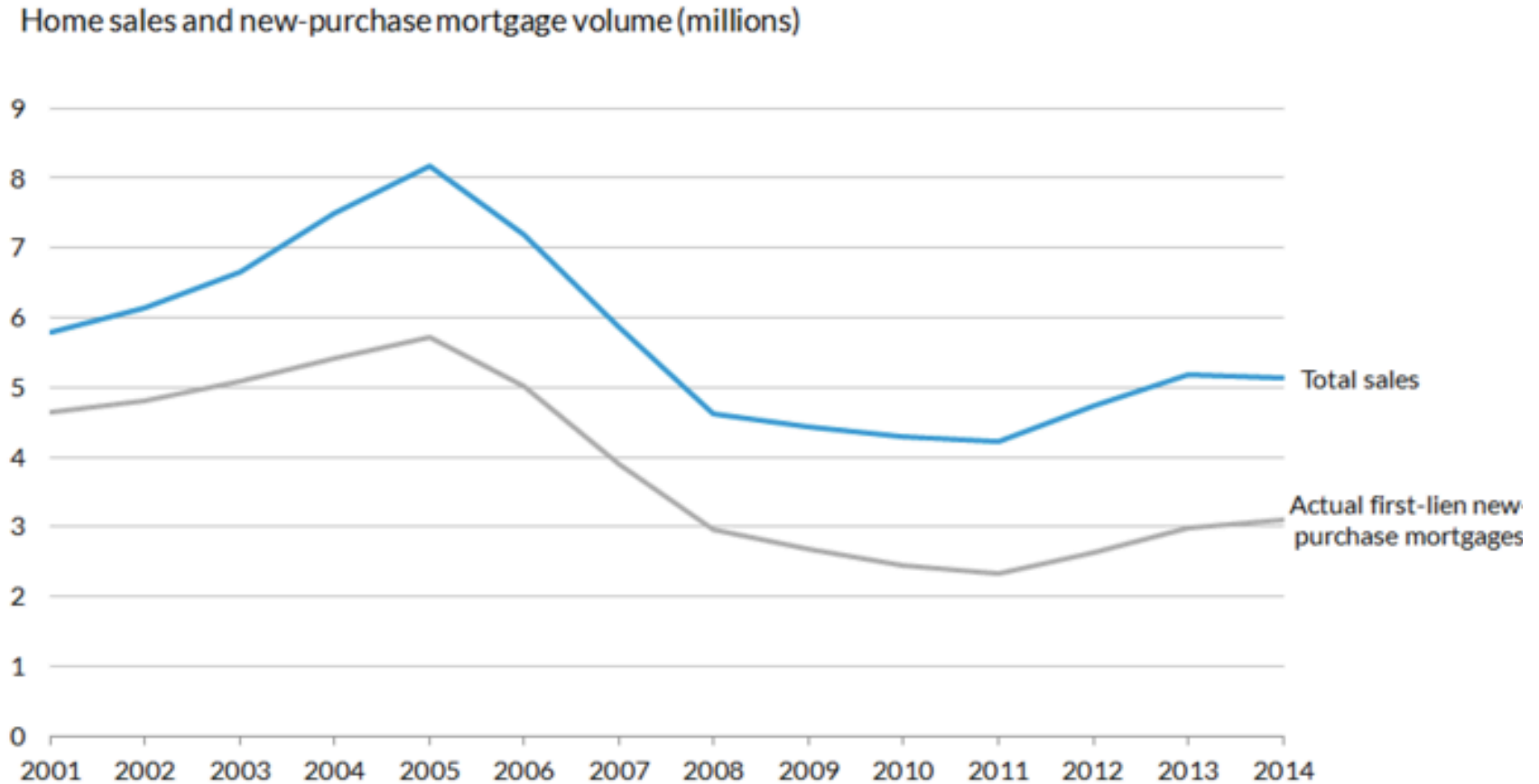
URBAN INSTITUTE

Cumulative Default Rate by Vintage Year: Fannie Mae loans with FICO<700 and 80-90 LTV



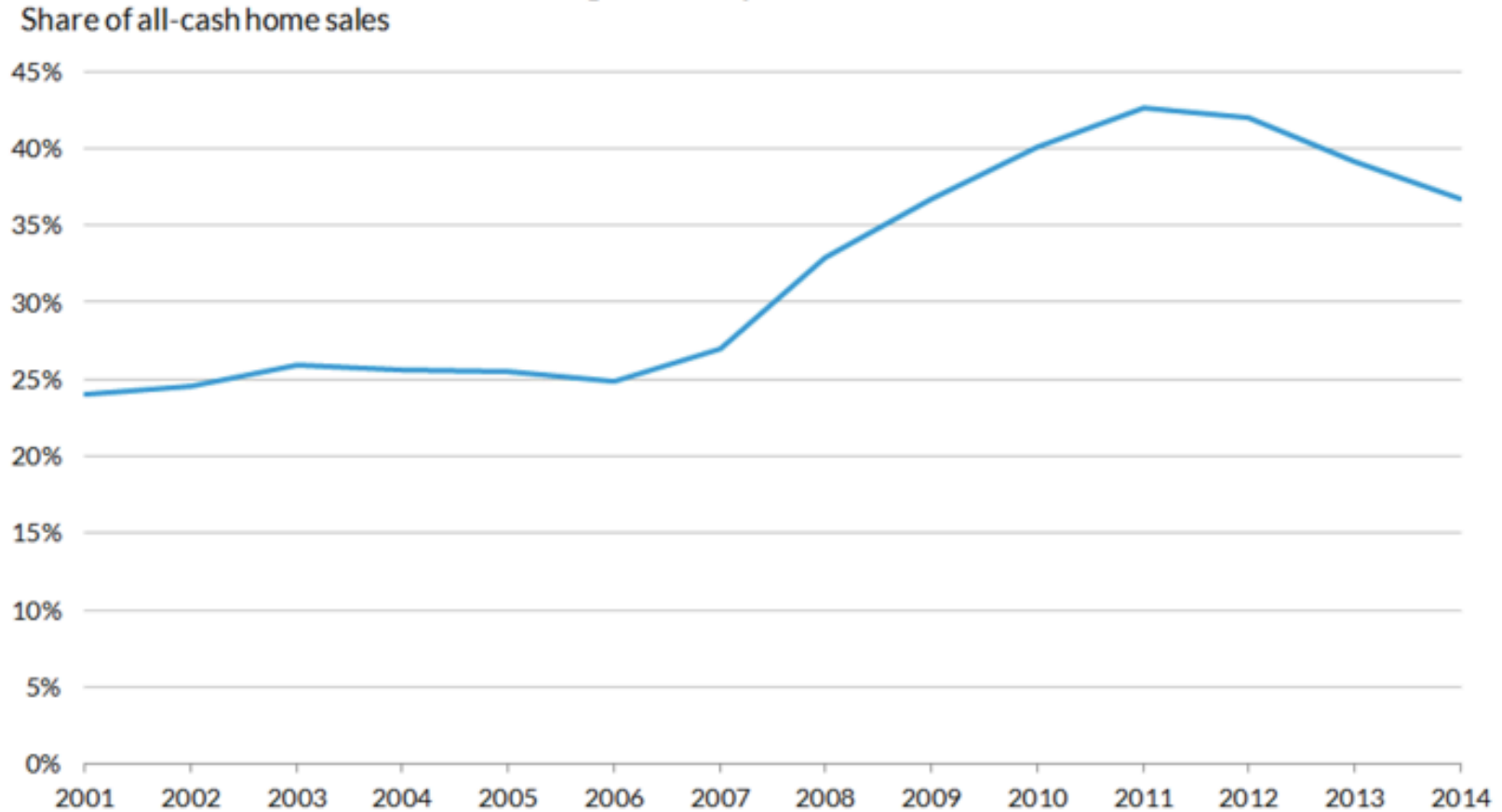
Sources: Fannie Mae Single Family Loan-Level Dataset and Urban Institute calculations

Purchase mortgages dropped from 4.65 million to 3.1 million 2001-14



Source: CoreLogic database, HMDA, Urban Institute Calculations

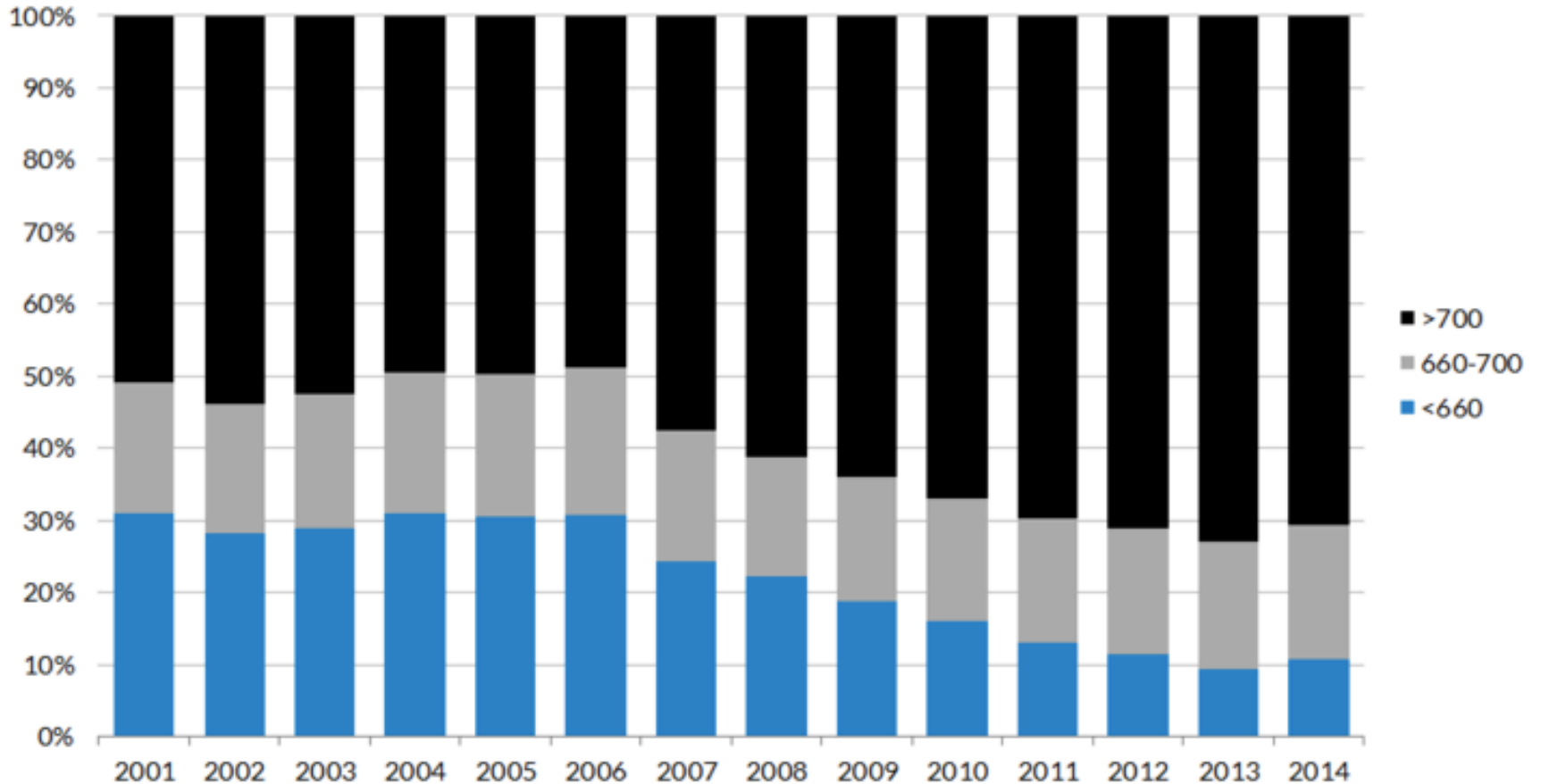
Cash sales from investors rose significantly



Source: CoreLogic database, HMDA, Urban Institute Calculations

The share of borrowers with strong credit dramatically increased

FICO score distribution of new-purchase borrowers



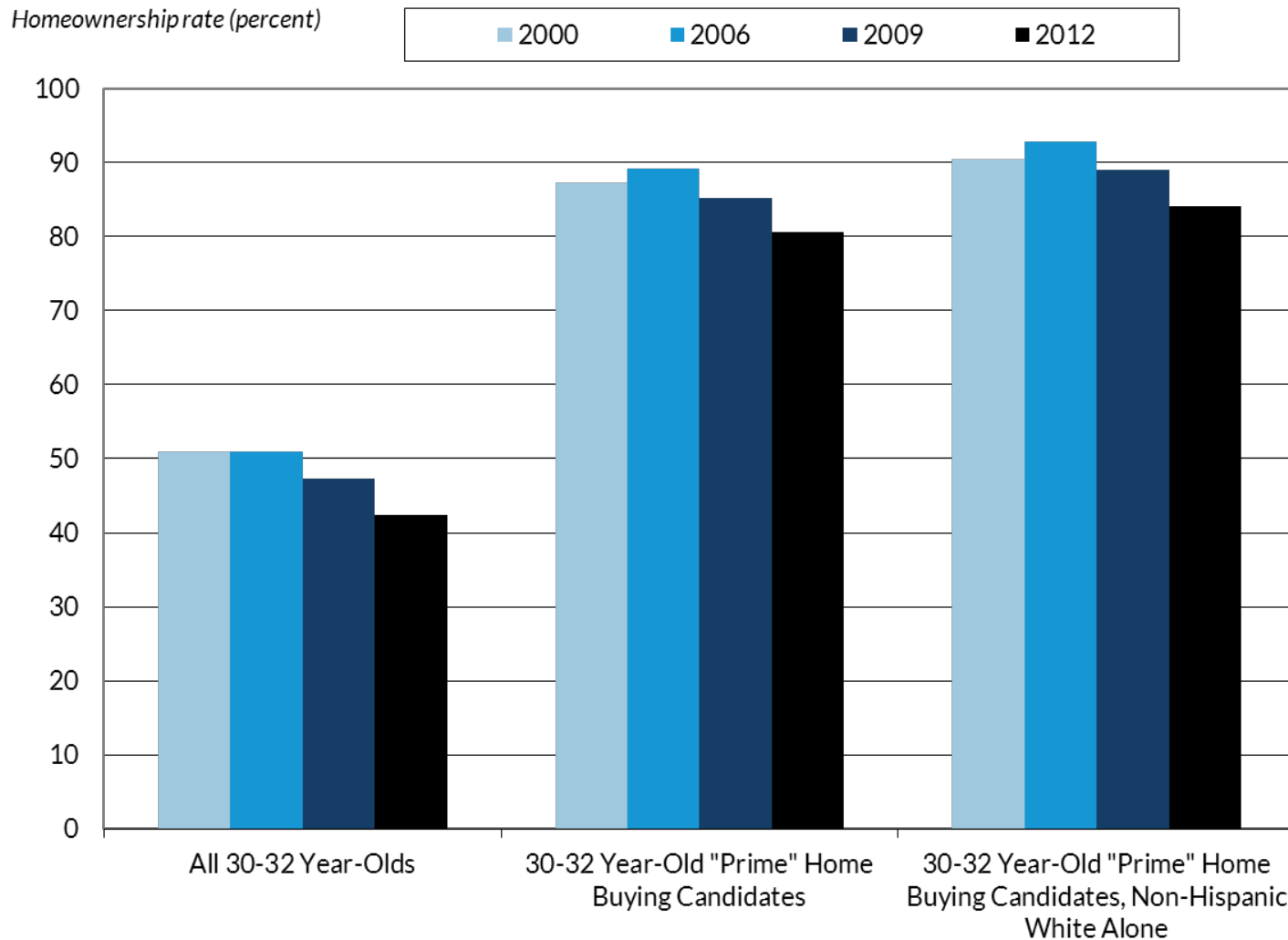
Source: CoreLogic database, HMDA, Urban Institute Calculations

How many purchase loans are missing because of credit availability?

Loan Category		2001 Total	2014 Total	% Decline	Assumed Decline for missing loans analysis	2014, assuming no constraint >700	Missing Loans
CoreLogic-HMDA Merged Database	<660	1,445,629	329,961	77%	7.50%	1,337,023	1,007,062
	660-700	838,610	583,816	30%	7.50%	775,607	119,791
	>700	2,367,078	2,189,247	7.50%	7.50%	2,189,247	0
	Total	4,651,317	3,103,024	33%	.	.	1,198,854

Source: Urban Institute Calculations from HMDA and CoreLogic data

Homeownership falling among young adults, even “prime” home buying candidates



Source: Fannie Mae Economic and Strategic Research. “Housing Insights” brief Volume 4 Issue 4, August 18, 2014.

Supply/Demand Gap 2015

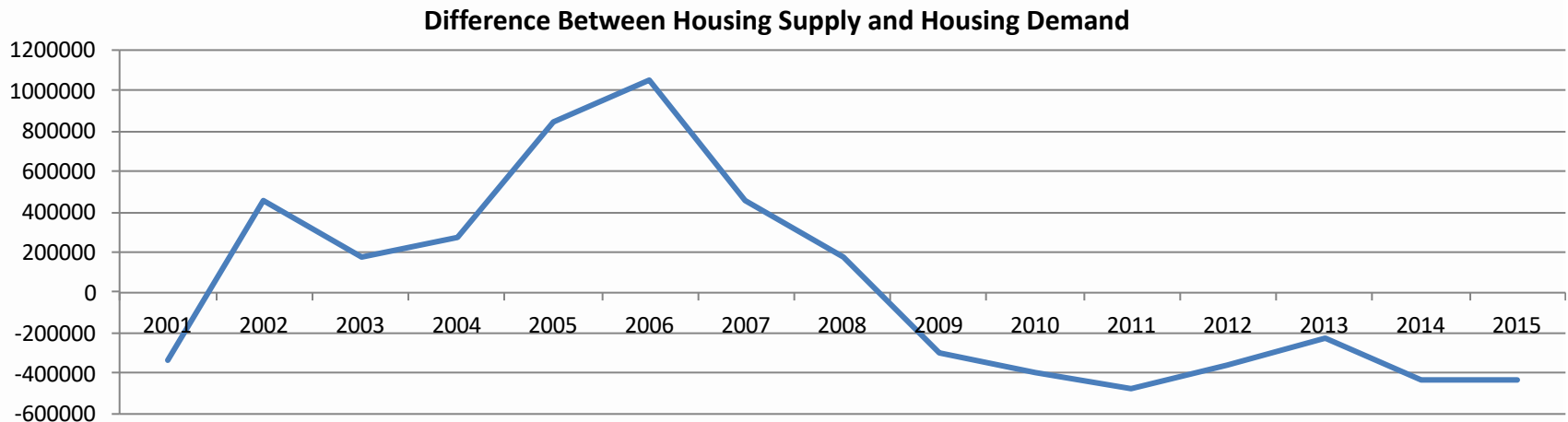
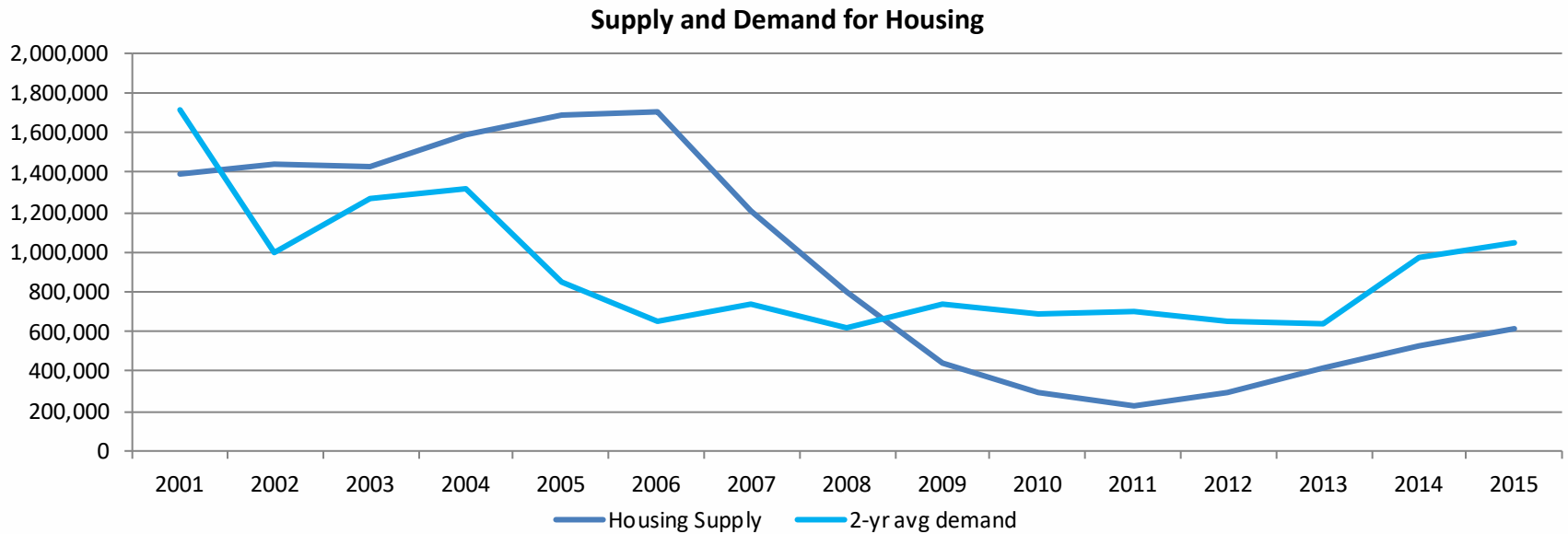
(Thousands of Units)

	I-4 family	5+ family	Total
Private Residential Completions	657	310	968
Manufactured Houses			69
Gross New Supply			1037
Less: Obsolescence Rate*			418
Net New Units			619
Household Formation			1050
Supply/Demand Gap			-431

* 0.31% of existing stock

Source: US Census Bureau, U.S. Department of Housing and Urban Development(obsolescence rate)

The Supply/Demand Picture, A Time Series

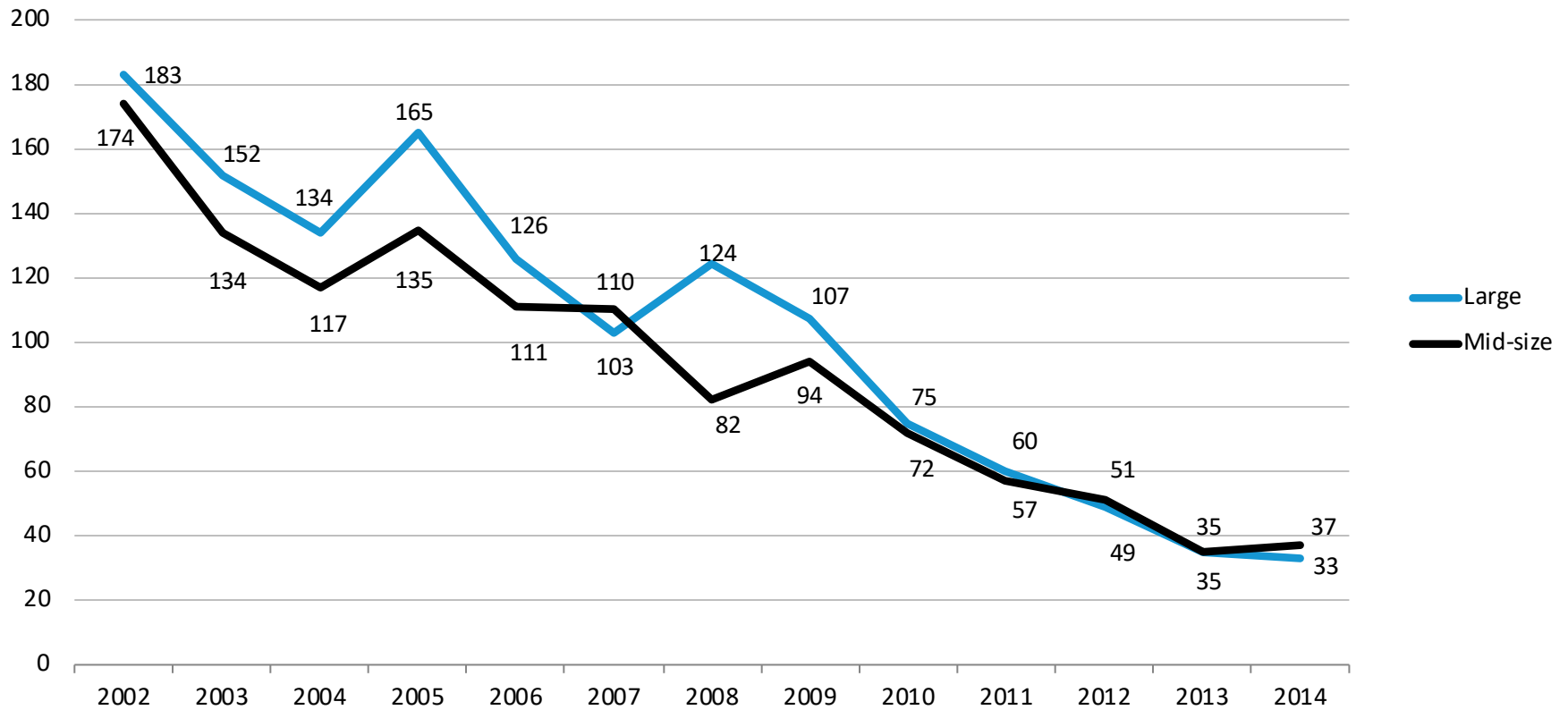


Source: US Census data, Urban Institute Calculations

Mortgages are more time-consuming to underwrite

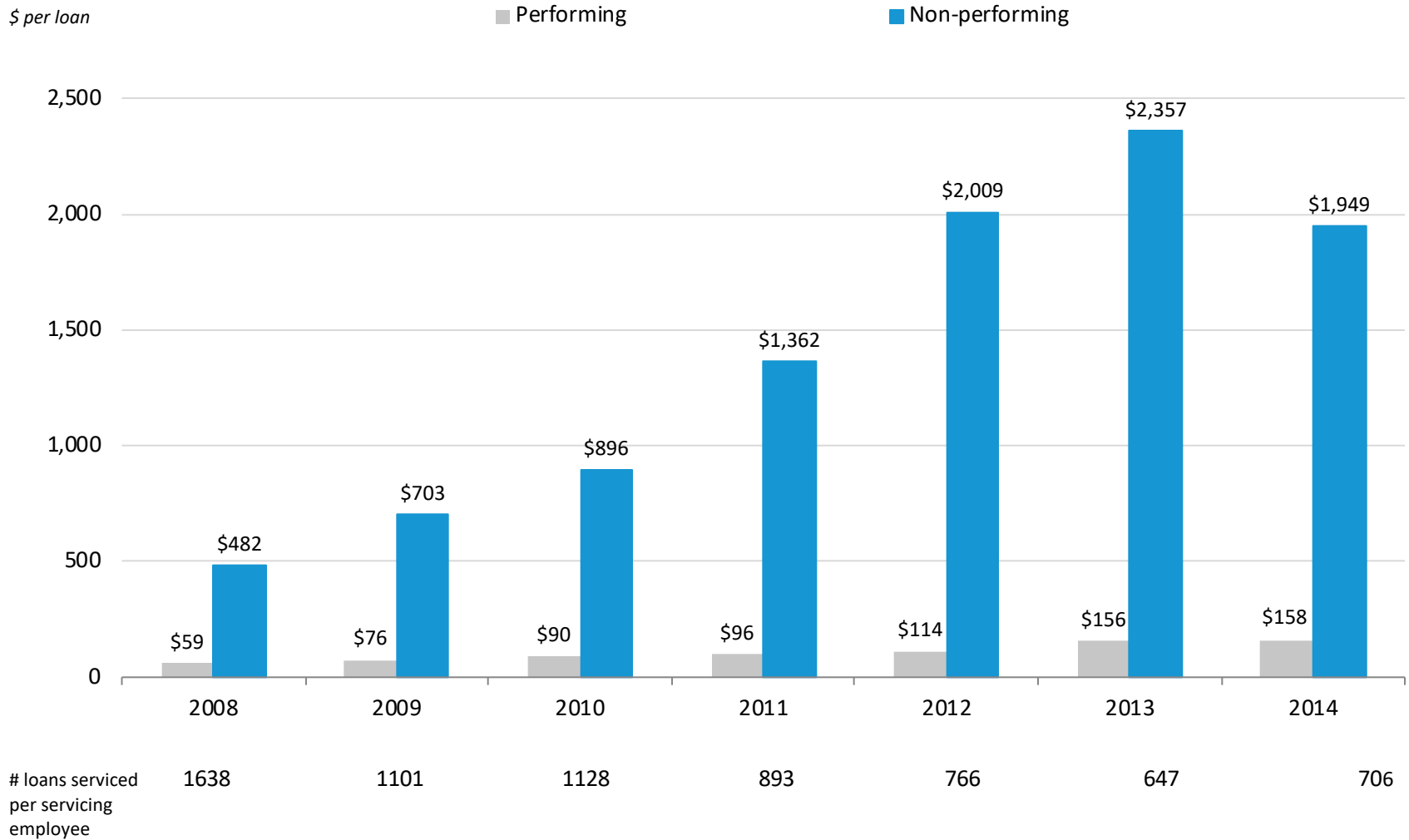
Retail Applications per Underwriter per Month

(applications per retail underwriter per month)



Source: Peer Group Program conducted by Mortgage Bankers Association and STRATMOR Group

Servicing costs per loan are way up, productivity down



Sources: Mortgage Bankers Association and Urban Institute calculations

False Claims Act Settlements and Litigation

Settlements		
Firm	Settlement Date	Amount
Citi	February 2012	\$158.3 mil
Flagstar Bank	February 2012	\$132.8 mil
Bank of America	February 2012 (NMS), August 2014 (broader settlement)	\$1 bil (NMS), \$1.85 bil (broader settlement)
DB/Mortgage IT	May 2012	\$202.3 mil
Chase	February 2014	\$614 mil
US Bank	June 2014	\$200 mil
SunTrust	September 2014	\$418 mil
MetLife	February 2015	\$123.5 mil
First Horizon/First Tennessee	June 2015	\$212.5 mil
Walter Investment Management Corp	September 2015	\$29.6 mil
Wells Fargo	April 2016	\$1.2 bil
Freedom Mortgage	April 2016	\$113 mil
M&T Bank	May 2016	\$64 mil
Litigation in Process		
Quicken Loans	--	--

Other DOJ Investigations: PNC Financial Services Group, Regions Financial, BB&T

Source: Urban institute, various press releases from the U.S. Department of Justice Office of Public Affairs, and other press reports

GSE Actions to Open Up the Credit Box

Reps and Warrants

- September, 2012—New rep and warrant framework.
 - Sunset for loans with a 36 month clean pay history, HARP loans with a 12 month clean pay history.
 - Commitment to review loans earlier in the process.
- October, 2013—All rep and warrant claims on pre-conservatorship loans need to be filed by the end of 2013.
- May, 2014—Relaxed the sunset eligibility requirements to allow for no more than two 30-day delinquencies and no 60 day delinquencies during the applicable 36- or 12- month period.
- November, 2014—Provided detailed clarifications of the life of loan reps and warrants that do not sunset.
- October, 2015—Defect taxonomy established, allows for correction of some defects.
- February, 2016—Allow for an independent dispute resolution process for rep and warrant disputes

Servicing

- November, 2014—Increased timelines before compensatory charges apply, lowering the number of loans for whom the fees apply from 67% to 40%. Lenders with less than \$25,000 (up from \$1000) in compensatory fees in a single month will not be billed, effectively exempting most small lenders.
- September, 2015—Further increases in the timelines in 33 states before compensatory charges apply.
- December, 2015—New framework for grading servicing violations; clarifies when servicing violations can trigger repurchases.

Other Actions--General

- December, 2014—Re-introduction of 97 LTV lending
- August, 2015—Fannie announces Home Ready program; takes account of incomes of family members not on the mortgage, effective December 2015.

FHA Actions to Open Up the Credit Box

FHA Blueprint for Access

- September, 2015—Release of the new FHA guidebook, which put together 900 mortgagee letters.
- June, 2015—Released the defect taxonomy, which is a new method for grading defects and severity.
- August, 2015—Released the new supplemental performance metric to complement the Compare Ratio.

Other Actions

- January, 2015—Annual mortgage insurance premium was reduced.
- February, 2016—First legal action deadline no longer inconsistent with CFPB rules.
- February, 2016—Due diligence timelines for each stage were lengthened.
- February, 2016—Addressed vague and problematic property preservation and conveyance standards.
 - Defined conveyable condition
 - Increased repair allowances

Still to Do

- Tie the taxonomy to the False Claims Act and to indemnification.
- FHA servicing needs to be revamped.
 - Due diligence timelines are still too short, and are set for each stage rather than the entire process.
 - The conveyance requirements are onerous.
 - Lender responsibility after conveyance is also an issue.

Conclusion

- A rental surge is coming: 59 percent of the 22 million new households that will form between 2010 and 2030 will rent, rather than buy their homes. We are not prepared for this, and rents will likely continue to increase.
- We expect the homeownership rate to drop from 65.1 percent in 2010 to 61.3 percent by 2030. A larger proportion of minority households is offset by the aging population. However, the great recession means the current number of homeowners is lower, the marriage age has increased, real incomes have been flat, mortgage credit is tight, student loan debt is an issue for those who do not graduate, and there is a subtle change in attitude toward homeownership.
- We expect the supply of new homes to fall at least 400 K units under household formation, putting upward pressure on rents and home prices.
- Out of all of the trends, the only one that can be addressed by policymakers is tight credit. The GSE and FHFA have done a great deal to give lenders clarity. FHA has addressed some of the issues but has much more to do.. Discussions such as the one today should help address these issues.