Mortgage loan performance data and background: Supports view that low down payments were not the cause of the housing crisis.

October 28, 2014

- Skin in the game
  - Average LTVs did not significantly change in the run-up to the crash
    - JCHS-Harvard study http://housingperspectives.blogspot.com/2013/04/how-much-did-ltvs-actually-rise-during.html
    - The Survey of Consumer Finances (SCF) from the last 20 years finds that there was actually relatively little change in the distribution of LTVs through the boom years.
      - Outstanding mortgage debt did increase substantially; it essentially kept pace with the rise in home prices.
      - The flood of underwater owners was thus less the result of a greater share of owners having little equity cushion and more the result of the tremendous collapse in housing prices.
    - Center for Responsible Lending.
      - Between 1990 and 2009, more than 27 million mortgages were made with low down payments.
      - These loans did NOT carry the risky features found in subprime loans.
      - Increasing down payment requirements would materially shrink the mortgage market with little increase in loan performance.
      - Based on average home prices, it would take 14 years for the typical American family to save enough money for a 20% down payment.
      - Homeownership remains a key driver of personal and national economic prosperity, and will be fostered by responsible low down payment loans.

Loan performance and loss rate stats

GSEs were 4 to 6 times less than commercial banks on average.

Avg loss rates	1971-2007	2008-2011
GSEs	4 bps	52 bps
Commercial Banks	15 bps	184 bps

(Ex: a loss of 1bp on a $1B loan portfolio = $100,000)

FHFA study

Study provided a comparison, on an apples-to-apples basis, GSEs loan originations with those for private label securitizations.

Segmented loans four ways:

1. ARMs-versus-fixed-rate

2. By vintage
3. By FICO score
4. By loan-to-value ratio

In almost every one of 1,800 different comparisons covering years 2001 through 2008, GSE loan performance was exponentially better.

On average:

1. GSE fixed-rate loans performed 4 times better
2. GSE ARMs performed 5 times better

The low down payment blame is a race to the bottom narrative:

1. Theory based on a series of false equivalencies
    a. Low-income borrowers are considered no different from subprime borrowers
    b. No different from those who took out two-year teaser rates or liar loans
2. Implies that GSE securitizations are the same as private label securitizations
    a. As if concepts like, "nonrecourse," or "originate to distribute," versus "buy and hold," are not meaningful.

Risk retention

1. GSEs' retention of credit risk is diversified among huge portfolios of low risk loans booked before, during and after the bubble.
2. By way of contrast, a private label securitization is a single static portfolio in liquidation

HFA lending performance stats

1. State of New York Mortgage Agency (SONYMA)
    a. September 30, 2012, just 3.7% of single-family borrowers 60 days or more delinquent
    b. Compare with 10.9 percent of all borrowers in New York State (MBA).
    c. Prior to the recent economic crisis, SONYMA's 60+ day default rate never exceeded 2%
2. North Dakota Housing Finance Agency
    a. Delinquent mortgages consistently around 4 percent
    b. Nearly identical to the MBA delinquency rates for all mortgage loans in North Dakota, despite NDHFA being focused on serving low- and moderate-income households
3. Pennsylvania Housing Finance Agency Q-3 2012 conventional loans
    a. 90 plus-day delinquency rate 2.98%
    b. Foreclosure rates of 0.99%
    c. Far below the equivalent rates for all conventional loans in Pennsylvania

Relative to other affordable lending channels

1. Limited review of HFA loan data conducted by Fannie Mae in 2011
    a. HFA-financed loans performed significantly better than other Fannie Mae affordable housing loans.

2. Limited study NCSHA 2011 of the relative performance of HFA-financed and non-HFA-financed loans insured by FHA found that, in a large majority of the states, HFA-financed loans had lower long-term delinquency and foreclosure rates than non-HFA loans.

Individual HFAs' loan performance records demonstrate the impact of their responsible underwriting standards and commitment to sustainable homeownership.

For example:

1. FHA-insured loans purchased by the Connecticut Housing Finance Agency have lower foreclosure rates than comparable FHA loans in the northeast.
2. Loans financed by the Delaware State Housing Authority and serviced by U.S. Bank have a 60 days or more delinquency rate of just over 2 percent, compared with a national 60 days or more rate of 8.3 percent.
3. Virginia Housing Development Authority loan foreclosure rates on FHA and conventional loans are both under 1 percent. This is 3.2 percentage points under the national FHA foreclosure rate and 2.5 percentage points lower than the national foreclosure rate for conventional loans.