The Residential Mortgage Market in Recent Years: National Trends

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Federal Reserve Board
The analysis and conclusions set forth are solely those of the author and do not indicate agreement by other members of the research staff or the Board of Governors.
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Volume of Lending since 1994

Home purchase

Millions of loans


1.0 2.0 3.0 4.0 5.0 6.0

1.0 2.0 3.0 4.0 5.0 6.0

1.0 2.0 3.0 4.0 5.0 6.0
House Price Growth

Source: Federal Housing Finance Agency.
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**Delinquency Rate for Portfolio Loans**

Source: Board of Governors of the Federal Reserve System (US)
fred.stlouisfed.org
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Mortgage Credit Availability
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**Mortgage Bankers Association**

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**Mortgage Credit Availability Index (NSA, 3/2012 = 100)**
Expanded Historical Series

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**Graph Details:**
- **Index NSA, 3/2012 = 100**
- **2004-2011**
  - Dots = Measurement intervals
  - Between = Interpolation between intervals
- **Jul-16 165.3**

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**Logos:**
- Center for Indian Country Development
- NeighborWorks America
- USDA
- Federal Reserve Bank of San Francisco
Senior Loan Office Opinion Survey

Net Percentage of Domestic Respondents Tightening Standards for Residential Mortgage Loans

- Percent
- All residential mortgage loans
- Prime
- Nontraditional
- Subprime

Net percent

Years: 1990 to 2016
Quarters: Q1 to Q3
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10th Percentile Credit Score on New Loans
Options for Low Down Payment Borrowers

- FHA will insure loans with a 96.5% LTV
  - Minimum FICO of 580
  - Lender overlays generally impose tighter restrictions, however
  - About ¼ of purchase loans in recent years
- Fannie Mae HomeReady loans allow 97% LTV, 50% DTI
  - Low income borrower or neighborhood
  - Launched in late 2015
- VA and RHS loans for qualified borrowers
Demand Factors
Young Home Owners

- Declines larger among the young
- Surveys suggest home ownership is still a goal
- Student loan debt, weak job market may be holding them back

Source: CPS 2005 and 2014 (authors' calculations).
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Senior Loan Office Opinion Survey

Net Percentage of Domestic Respondents Reporting Stronger Demand for Residential Mortgage Loans

- All residential mortgage loans
- Prime
- Nontraditional
- Subprime

Percent


Q1 Q2 Q3 Q4 2015 2016

GSE
Government
QM non-jumbo non-GSE
QM-jumbo
Non-QM jumbo
Non-QM non-jumbo
Subprime

-80 0 20 40 60 80

-80 -60 -40 -20 0 20 40 60 80
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Labor Market Indicators

- Labor Force Participation Rate (left axis)
- Employment-to-Population Ratio (left axis)
- Unemployment Rate (right axis)
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**Borrowers**
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Minority Shares of Home Purchase Loans

- Black
- Hispanic
- White (right)
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Shares by Race and Credit Score

Black Borrowers

<table>
<thead>
<tr>
<th>Credit Score Range</th>
<th>2000</th>
<th>2006</th>
<th>2014</th>
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**Shares by Race and Credit Score**

**Hispanic Borrowers**

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Shares by Race and Credit Score

White Borrowers

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**Lenders**
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Home Purchase Market Share by Lender Type

- Credit Union
- Small Bank
- Large Bank
- Independent Mortgage Company
- Affiliated Mortgage Company
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**Total Bank Branches**

![Graph showing the trend of total bank branches from 1995 to 2015.](chart.png)
Zip Codes with Zero Bank Branches, by Income Level
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Secondary Market
New Originations, by Dollar Volume

Sources: Inside Mortgage Finance and Urban Institute.
Independent Mortgage Companies Selling Directly to GSEs

- IMCs are bypassing commercial banks and selling directly to GSEs
- Similar trend in Ginnie Mae securities
- Large banks have lower appetite for servicing rights
  - Possibly due to Basel III risk-based capital standards

Conventional conforming loans sold to a GSE

- Home purchase
- Refinance

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**Regulation**
Ability to Repay and Qualified Mortgage Rules

• Loans from January 2014 and after are subject to CFPB rules to protect borrowers
• Industry concerned about stringency
• 43% DTI cap for “Qualified Mortgage” status
• GSE conforming, FHA and VA loans exempt from DTI cap
• Reduced high DTI jumbo loans, little other effect
Ability to Repay and Qualified Mortgage Rules
Community Reinvestment Act

- Regulatory agencies rate banks based on quantitative record of meeting community’s credit needs
- Encourages lending to low-to-moderate income households and neighborhoods
- Examination based on lending in assessment areas
  - Typically counties and MSAs in which banks operate a branch
- Rural counties, areas served by non-depositories have less recourse
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Share of Bank Home Purchase Loans Within CRA Assessment Area

- Small bank
- Large bank

- 1990
- 1994
- 1998
- 2002
- 2006
- 2010
- 2014
Banks and FHA Lending

- Originating FHA loans that do not meet underwriting standards can put lenders in violation of False Claims act
- Recent DoJ settlements:
  - $212.5 million from First Tennessee
  - $418 million from SunTrust
- Large banks are exiting FHA market
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**Bank Share of FHA Home Purchase Loans**

![Graph showing the bank share of FHA home purchase loans over time. The share starts around 0.5 in 1995, peaks around 0.6 in 2005, and then declines sharply until 2015.]
Thank you!