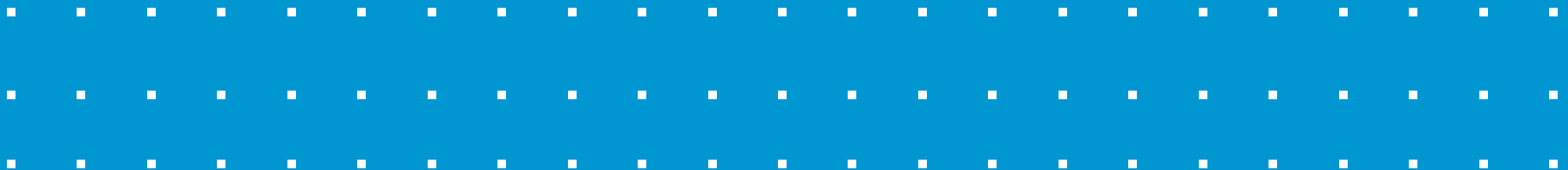




Impact of Post-Crisis Regulations on Market Dynamics, Lending, and Balance Sheets

Laurie Goodman
Director, Housing Finance Policy Center
Urban Institute

Federal Reserve Bank of New York
Financial Advisory Roundtable
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Outline

Mortgage Origination Activity

- In the aftermath of the financial crisis there has been a decline in purchase activity and a contraction in credit availability
- A major reshaping of the mortgage industry has also occurred, including a huge growth of non-bank originators and lower concentration
- Most of this is due to mortgage-specific issues, and not increased bank regulation

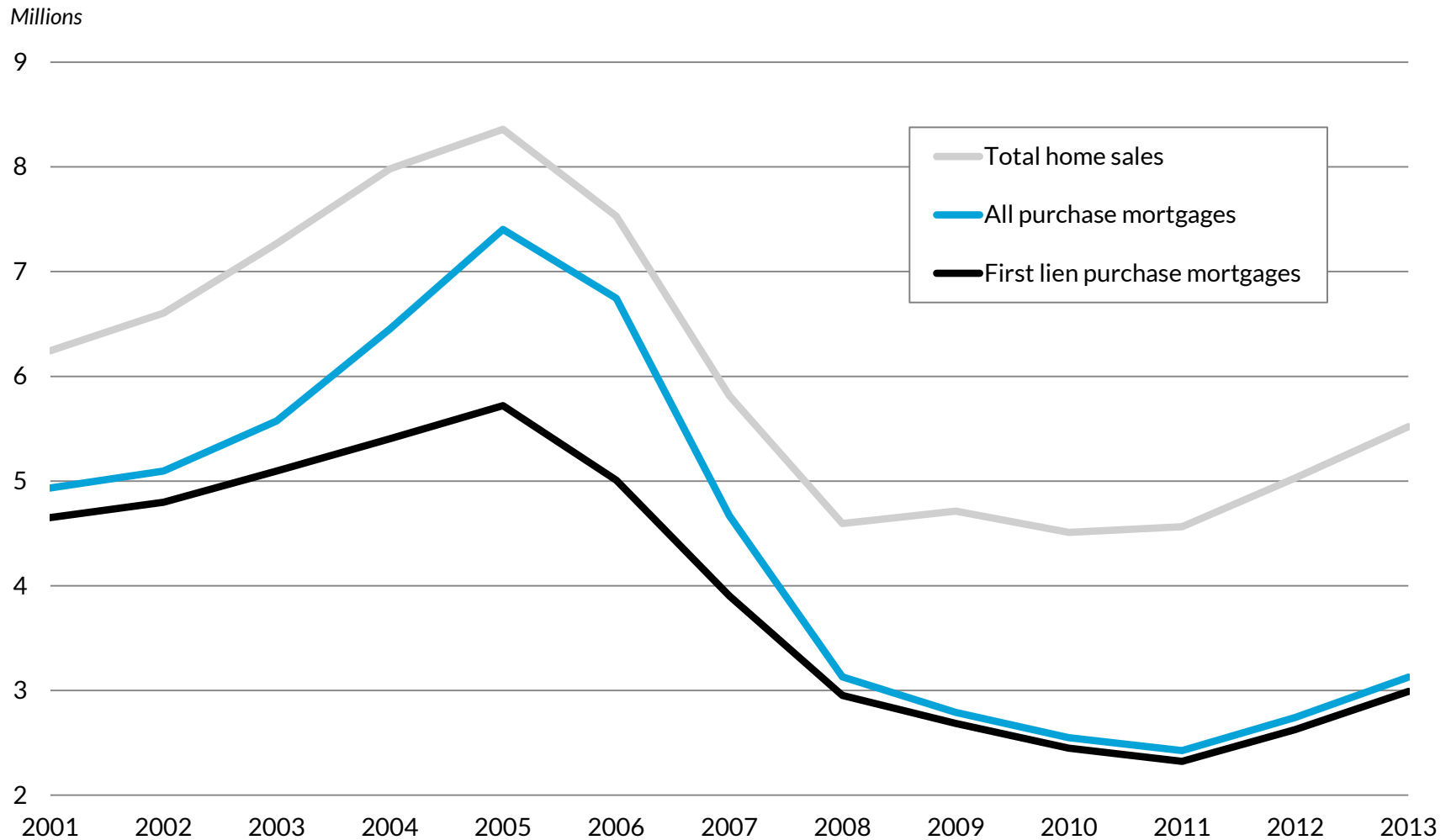
Private-Label Mortgage Securitization Activity

- Private label mortgage securitization activity is low; other asset securitization activity much more robust
- Risk retention is not the issue; the QRM rules have been neutered
- The issuer paid rating agency model did not change
- 2 issues, (1) it is not economic to securitize and (2) there is a lack of investor trust
- Other asset classes did not experience as sharp a rise in delinquencies
- The institutional framework for other assets did not change; they did change for mortgages (extending timelines, mortgage modification activity)
- My prediction—MBS securitization is not coming back for lower quality mortgages, private pools of money will hold the assets in whole loan form.

Agency MBS Activity

- Post crisis, there is not much change in dealer agency MBS net positions, repo activity is down, and transactions volume is down
- Agency MBS transactions volume is still quite high, especially relative to corporates
- Other non-regulatory reasons agency MBS transactions volume is down: decreased refinancing activity and decreased mobility

Home sales and new purchase mortgage volume

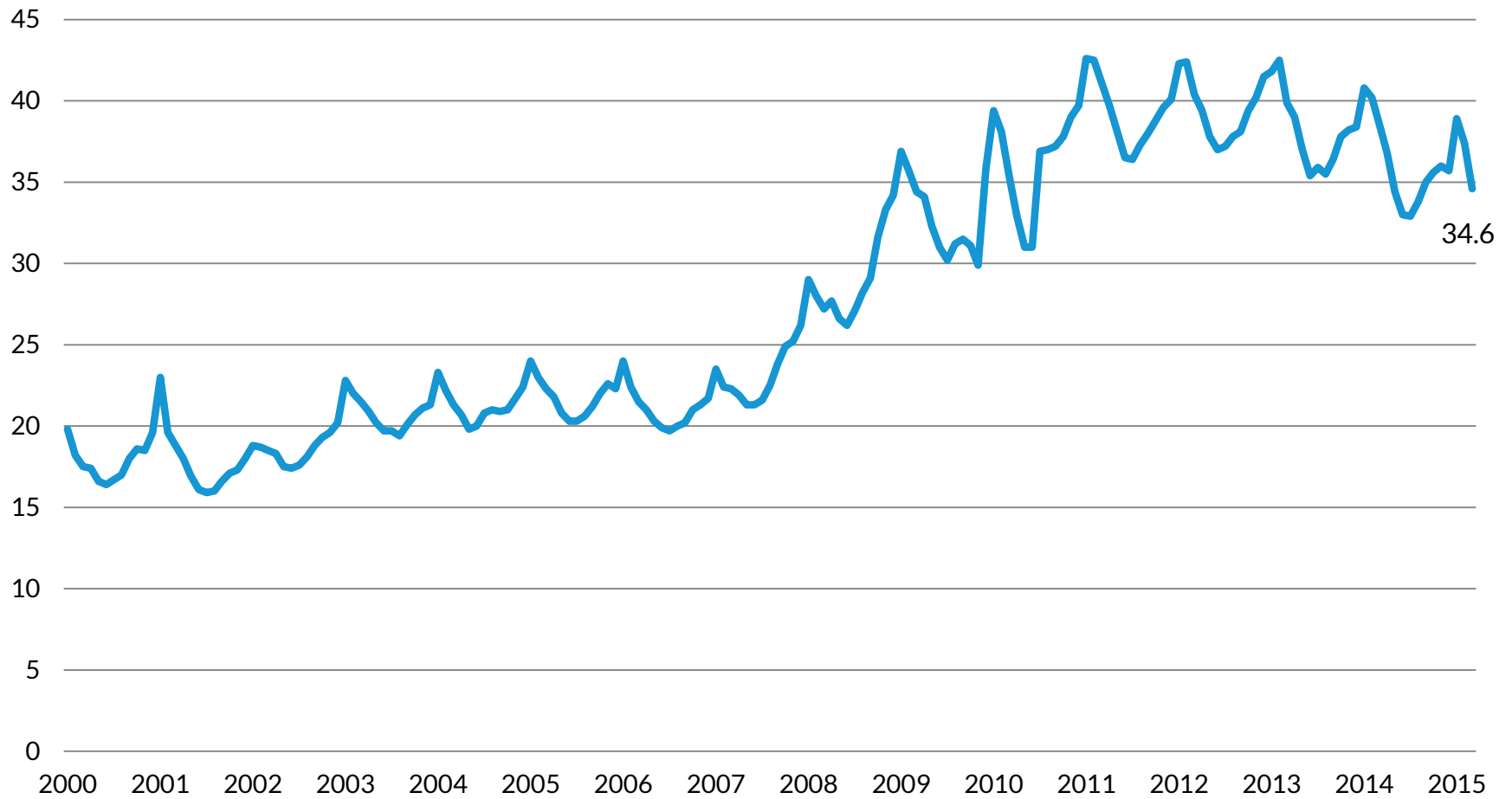


Sources: US Census Bureau, National Association of Realtors, HMDA and Urban Institute.

Note: Purchase mortgage counts derived from HMDA data. First liens for 2001-2003 are Urban Institute estimates.

Cash Sales Share

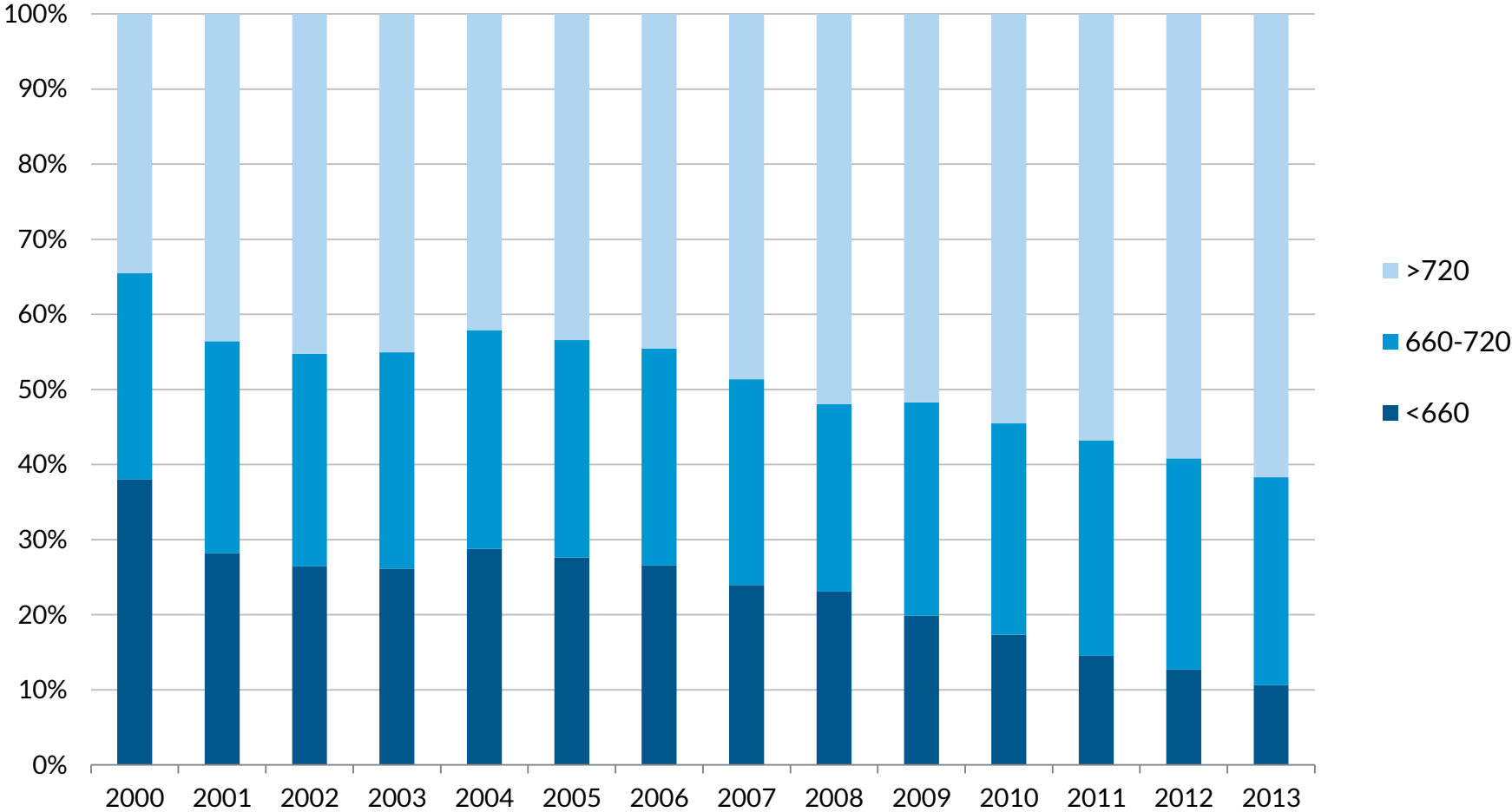
Percent of all home sales



Source: CoreLogic.

FICO score distribution of new borrowers

Percent of borrowers



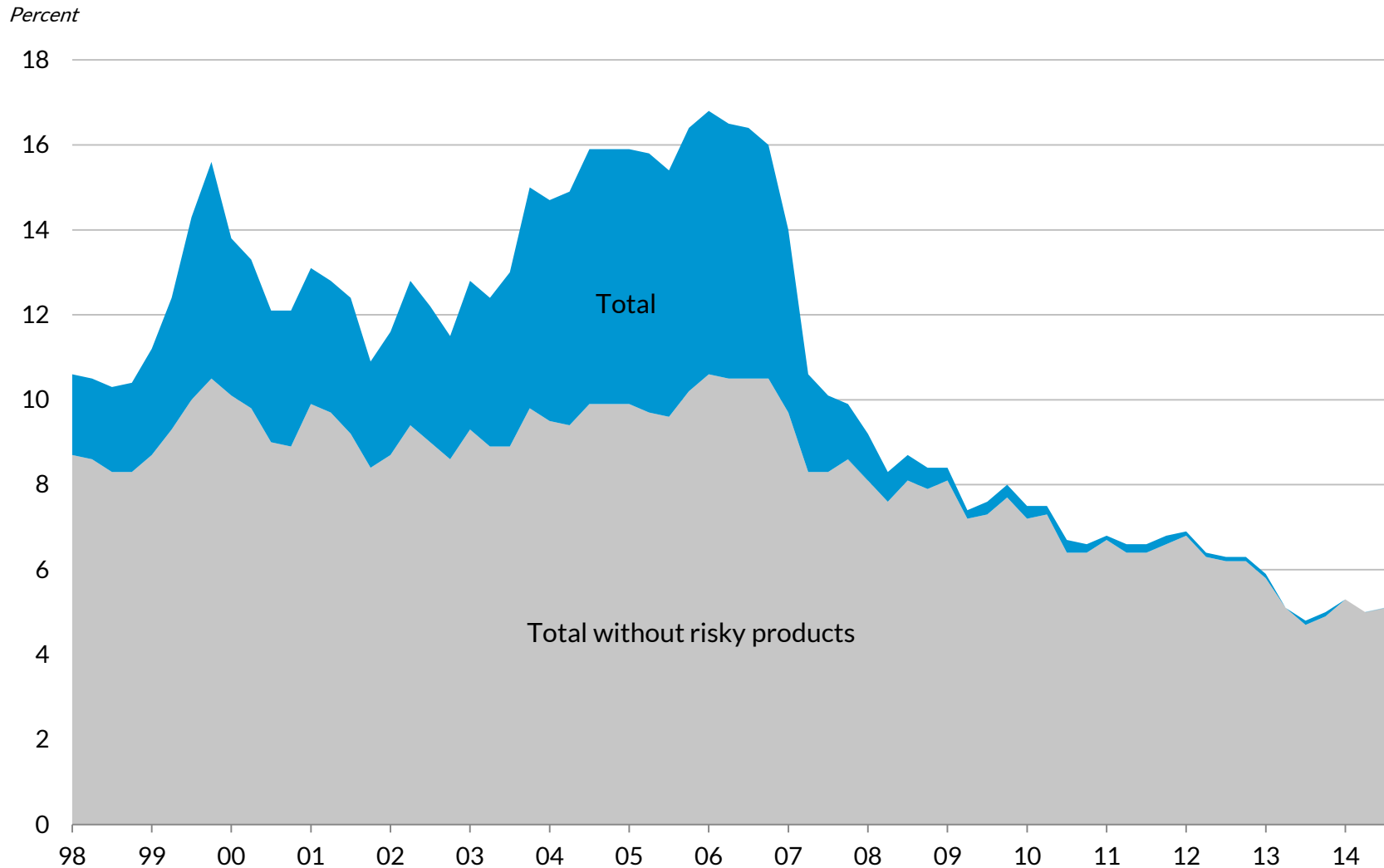
Source: Urban Institute calculations from HMDA and CoreLogic data.

Quantifying the missing loans: 1.2 million in 2013, 4 million 2009-2013

Loan category	2001	2013	2001, scaled to HMDA	2013, scaled to HMDA	Percent decline	2013, assuming 8.9% decline from 2001	Missing loans
CL-HMDA merged loans, <660	720,614	163,692	1,310,317	317,474	75.8%	1,193,697	876,222
CL-HMDA merged loans, 660-720	723,009	427,262	1,314,672	828,657	37.0%	1,197,664	369,007
CL-HMDA merged loans, >720	1,114,387	951,802	2,026,327	1,845,980	8.9%	1,845,980	0
CL-HMDA merged loans, Total	2,558,010	1,542,756	4,651,317	2,992,112	35.7%	4,237,341	1,245,229
HMDA alone total	4,651,317	2,992,112	-	-	-		-
HMDA alone to CL-HMDA merged ratio	1.82	1.94					

Source: Urban Institute calculations from HMDA and CoreLogic data.

HFPC Credit Availability Index shows credit is very tight

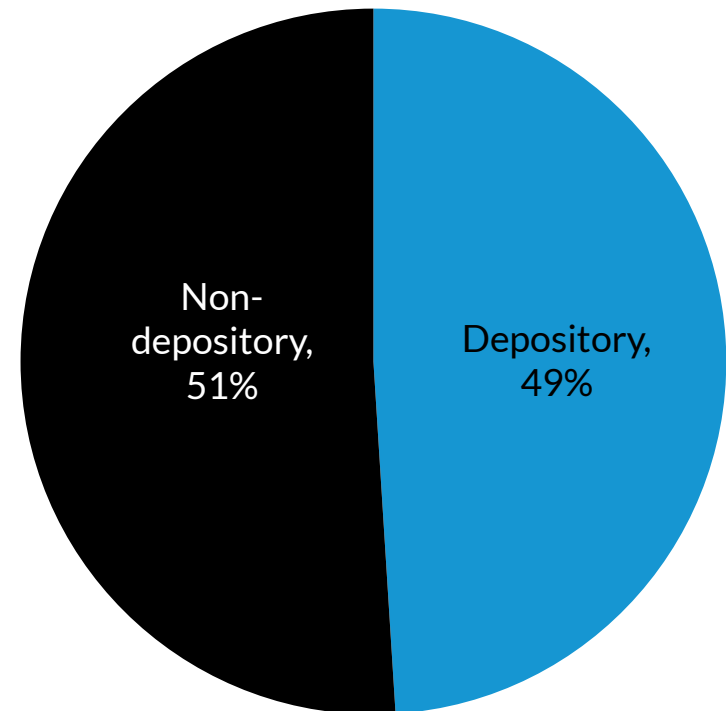
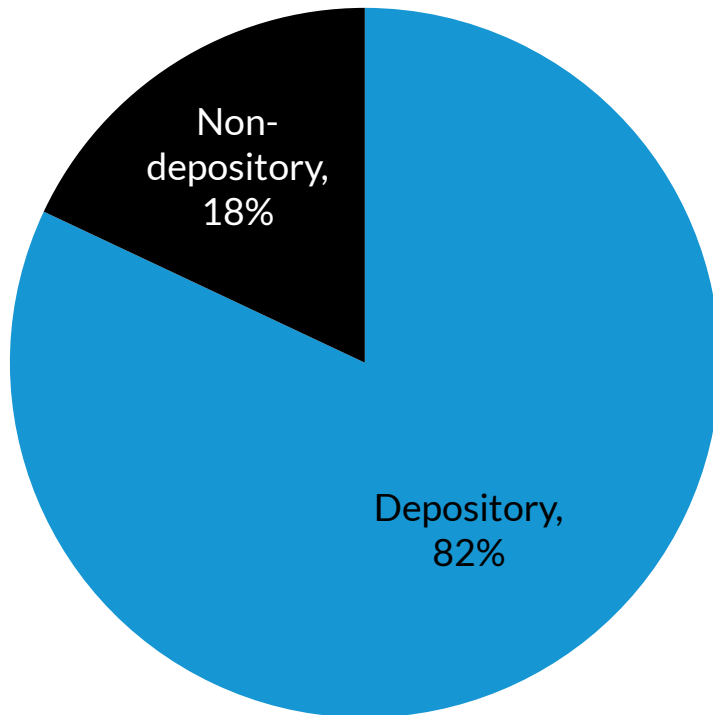


Source: CoreLogic, HMDA and Urban Institute calculations.

Increase in Ginnie Mae non-bank servicing share

FY 2010: \$389 billion in SF issuance

FY 2014: \$277 billion in SF issuance



Source: Ginnie Mae and Urban Institute.

Much less concentration in mortgage origination

Top issuers' Market Share: FHA and GSE loans

	FHA				GSE			
	Top 5	Top 10	Top 25	25th issuer	Top 5	Top 10	Top 25	25th issuer
2011	71.9	83.4	93.4	0.3	60.9	73.6	83.5	0.3
2012	63.9	74.0	87.2	0.6	46.4	59.0	70.7	0.5
2013	53.1	66.3	82.3	0.6	42.3	53.5	67.7	0.5
2014	40.1	55.8	75.1	0.9	32.6	44.7	61.6	0.7
2015 Q1	37.6	50.6	73.8	1.1	32.4	43.2	60.5	0.7

Sources: Inside Mortgage Finance and Urban Institute calculations from eMBS data.

Note: Market share was calculated using total loan balance.

Qualified Mortgage (QM) rules (effective January 10, 2014)

Non-QM:

- Negative Amortization Loans
- Interest Only Loans
- Loans with Balloon Payments (except for small creditors serving rural areas)
- Loans with terms exceeding 30 years
- Loans with no verification of income and no verification of assets
- Loans with upfront fees >3%, higher fees are permitted for smaller loans (up to 2 bona fide discount points are exempt):

Loan Amount	Cap
\$100,000 or more	3%
\$60,000 to \$99,999	\$3,000
\$20,000 to \$59,999	5%
\$12,500 to \$19,999	\$1,000
Less than \$12,500	8%

- Loans > 43% back end Debt to Income Ratio and ineligible for agency execution

QM:

Loans must have standardized features including regular periodic payments that are substantially equal, except for the payment changes on an Adjustable Rate Mortgage. Upfront points can not be more than 3%. Loan must have back-end Debt To Income Ratio $\leq 43\%$ or be eligible for agency execution.



Safe Harbor:

Mortgage Rate $\leq 1.5\%$ above the prime mortgage rate

Rebuttable Presumption:

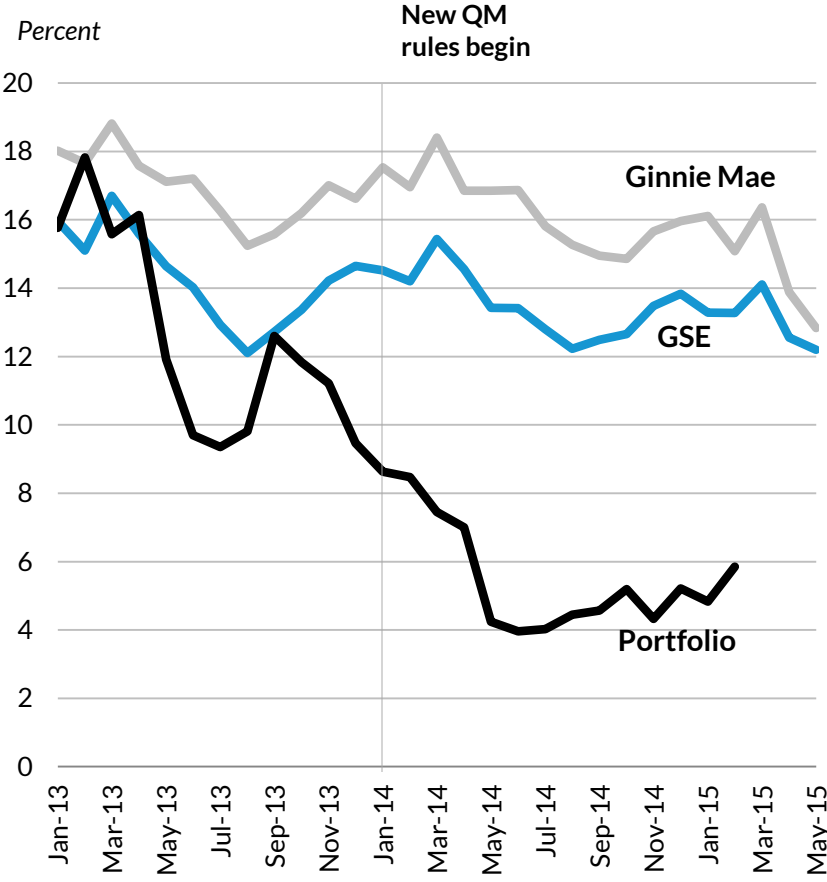
Mortgage Rate $> 1.5\%$ above the prime mortgage rate

How do you rebut a rebuttable presumption?
By showing a borrower has insufficient residual income. Insufficient vs. sufficient residual income is never defined

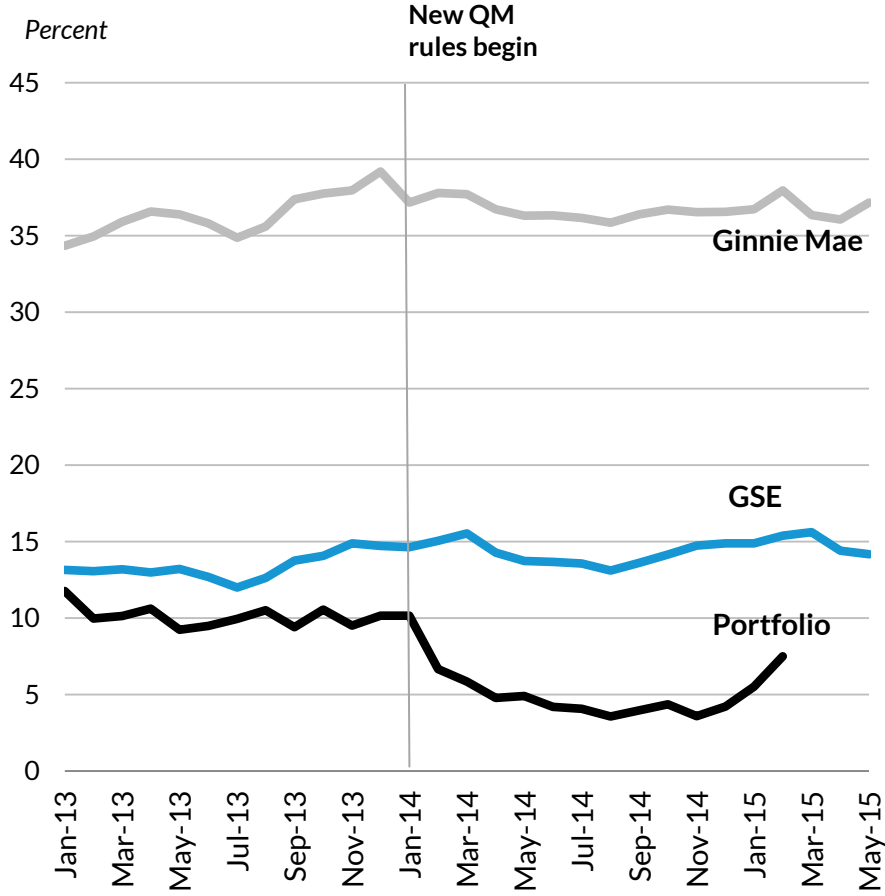
Sources: Amherst Securities and CFPB.

Effect of QM has been muted

Share of loans under \$100,000



Share of Loans with DTI > 43

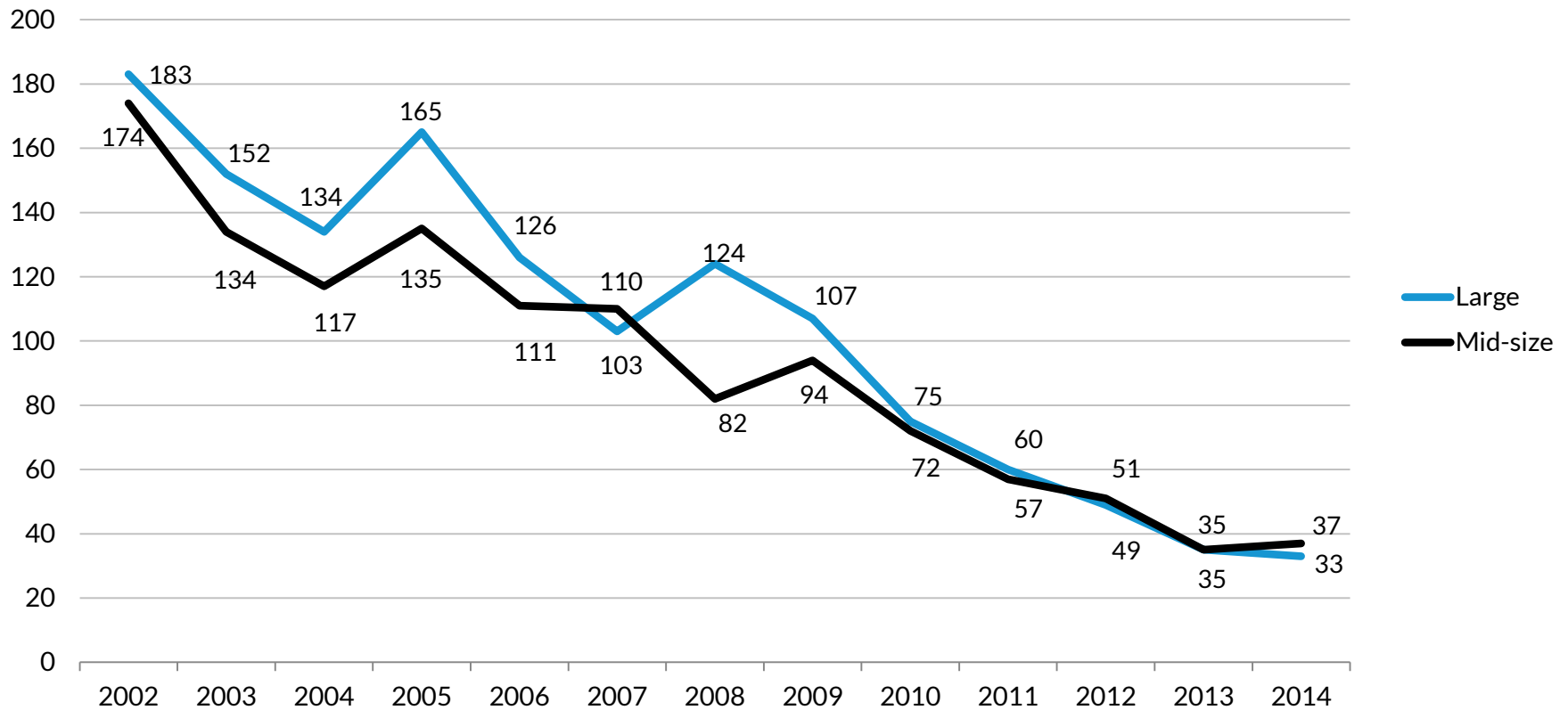


Sources: eMBS, CoreLogic Servicing, and Urban Institute calculations.

Mortgages are more time-consuming to underwrite

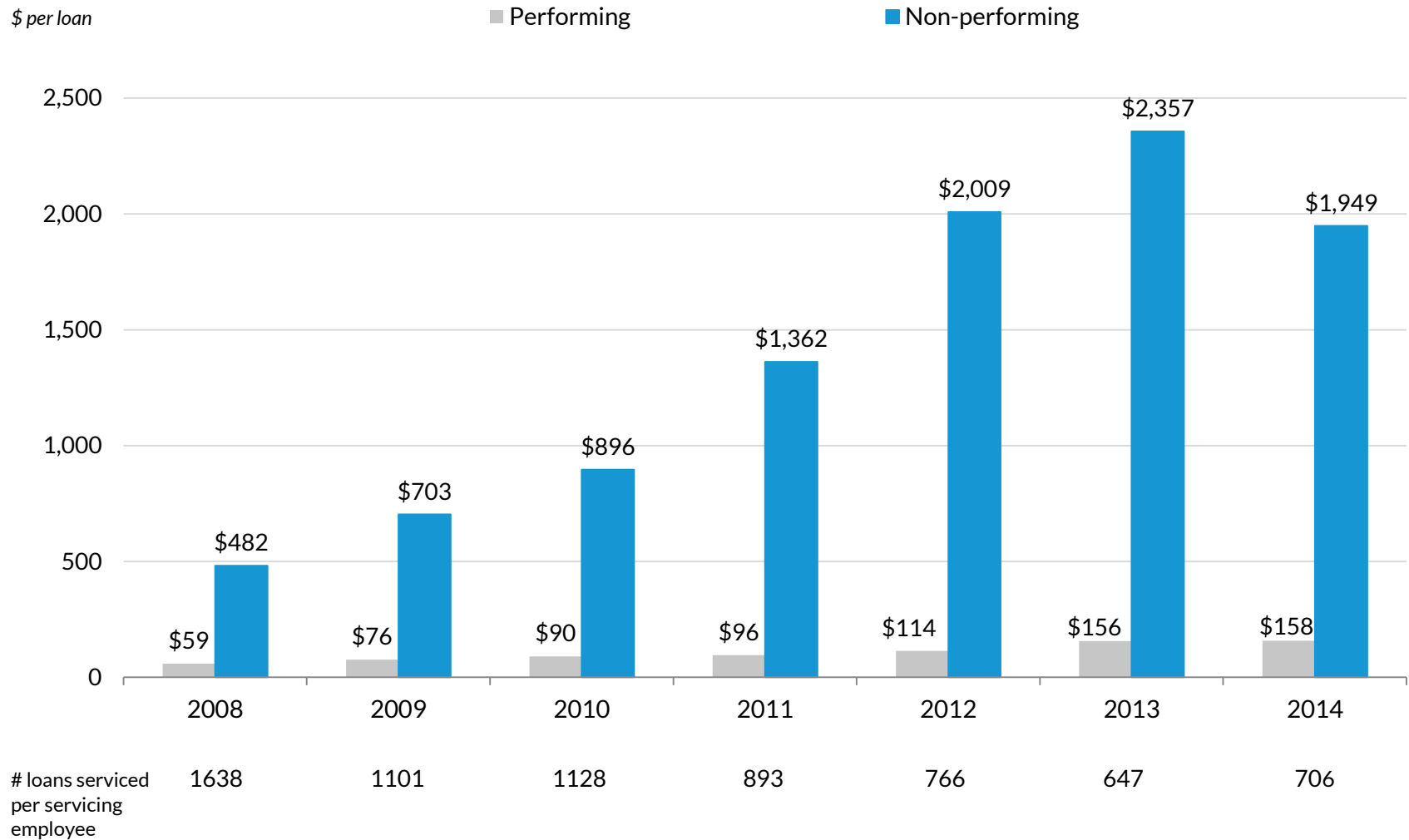
Retail applications per underwriter per month

(applications per retail underwriter per month)



Sources: 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.

Actions to resolve overlays and open the credit box

FHA

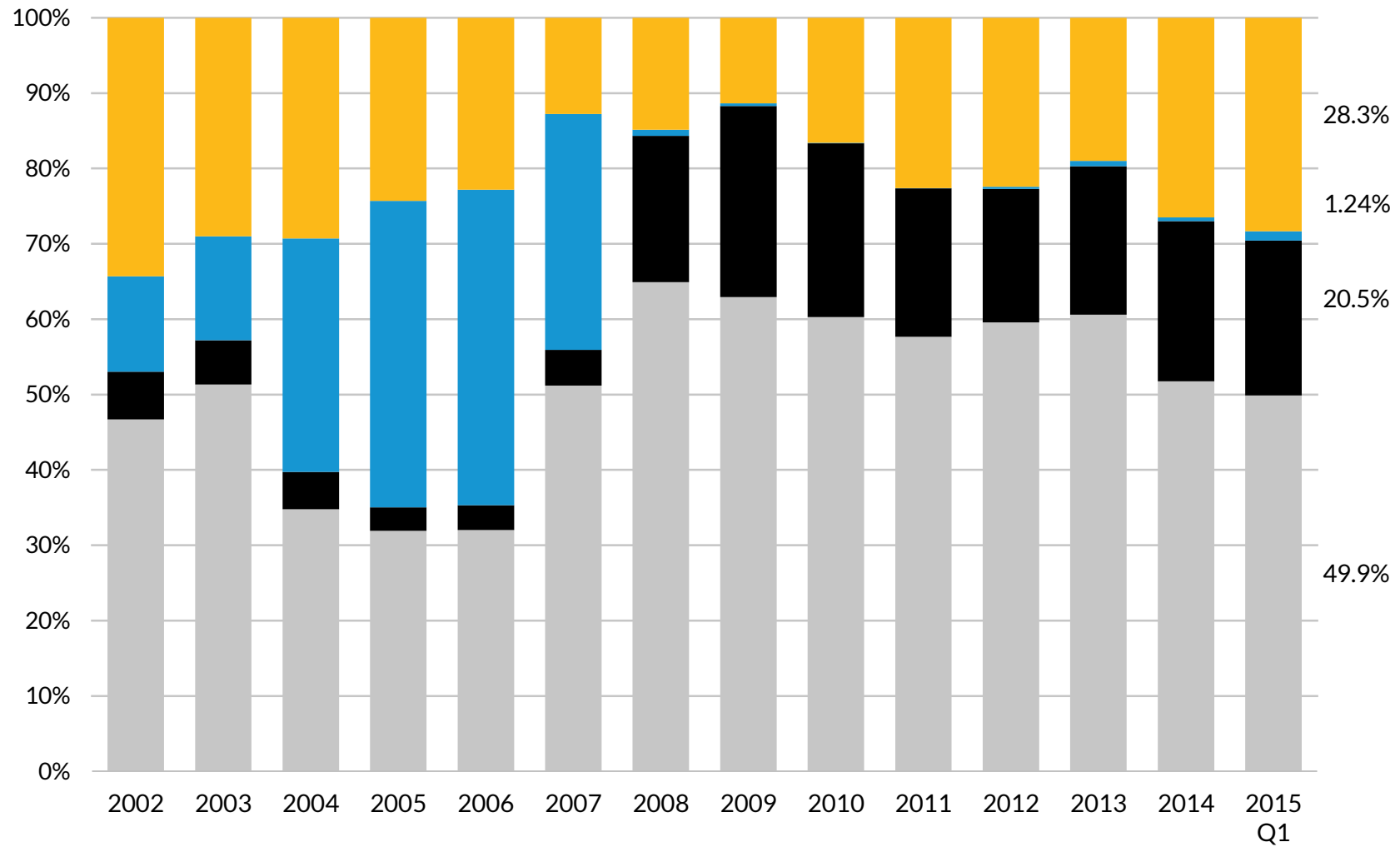
- FHA quality assurance program
 - New FHA guidebook, putting together 900 mortgagee letters (partial draft completed)
 - New method for evaluating underwriting defects and severity
 - Supplemental performance metric to mitigate negative impact of Compare Ratio
- Annual mortgage insurance premium reduction

FHFA

- Relaxed pay rules for rep and warrant sunsets
- Provide additional clarity concerning GSE rep and warrants framework
 - Originations (better definition of life of loan reps)
 - Servicing, remedies for poor performance
- 97 LTV lending reinstated at GSEs

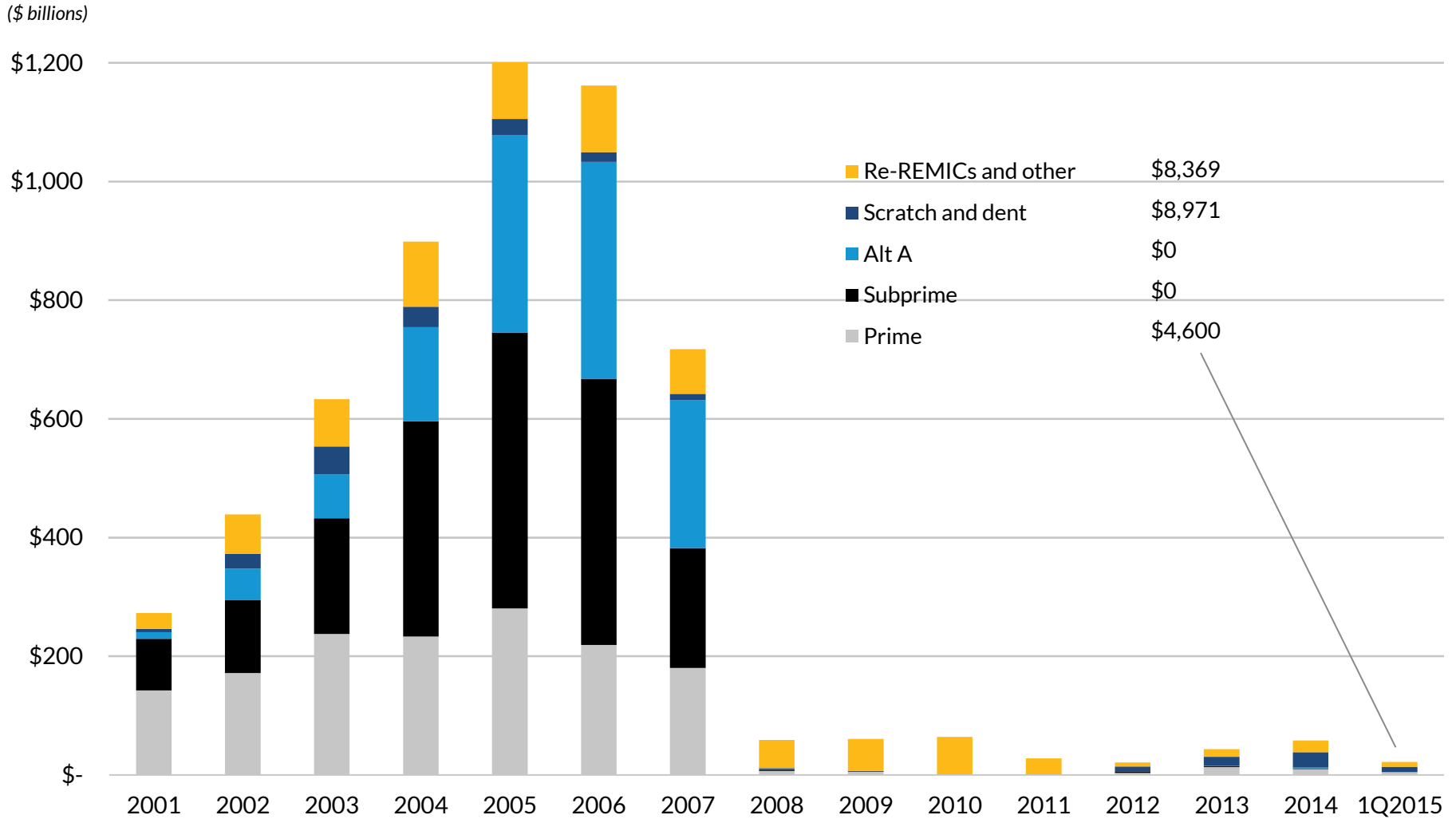
First Lien Origination Share

(Share, percent)



Sources: Inside Mortgage Finance and Urban Institute.

Non-Agency MBS Issuance

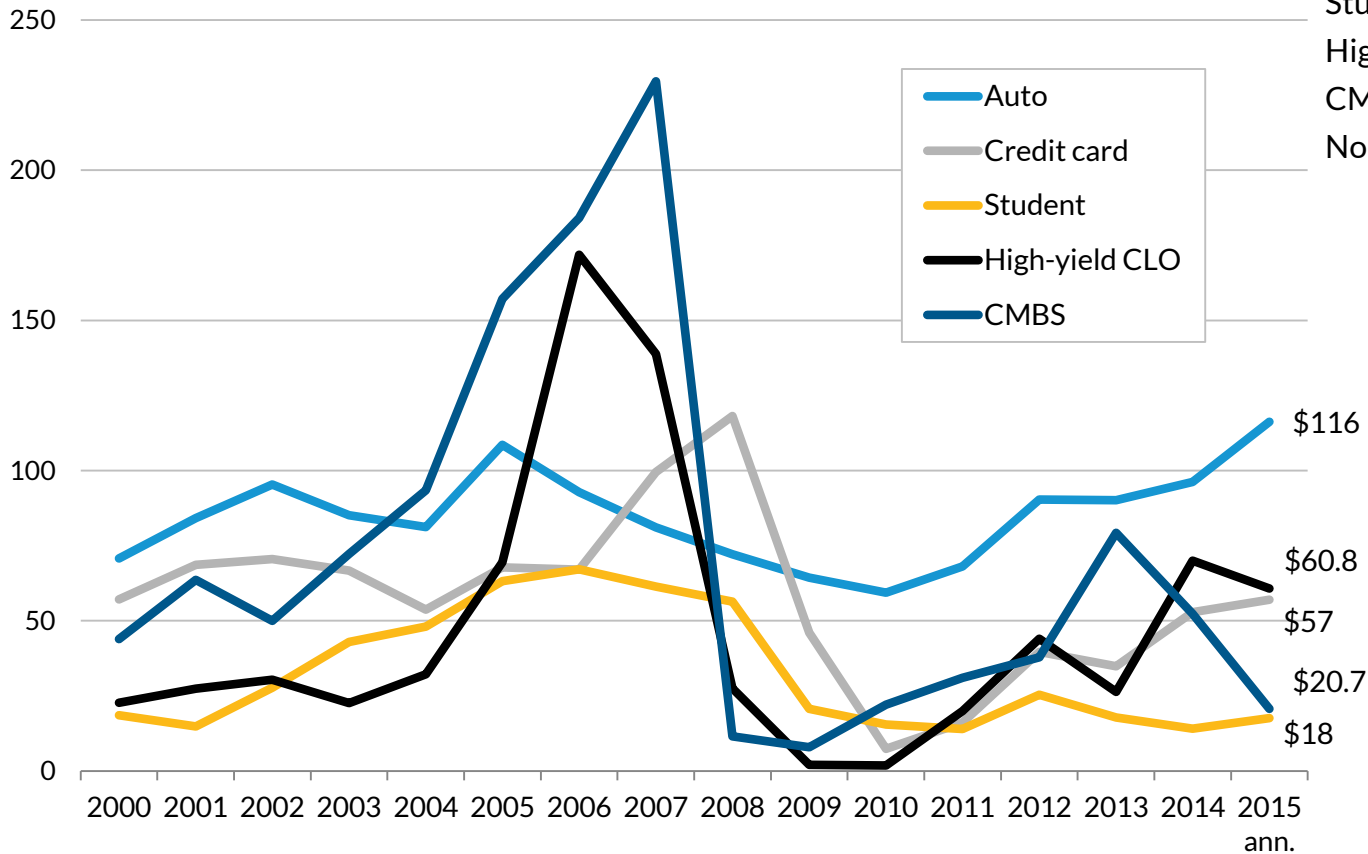


Sources: Inside Mortgage Finance and Urban Institute.

Securitization of non-mortgage asset classes

Securitization of non-mortgage asset classes

\$ billions



Pct change from 2001 to 2014

Auto	14.4%
Credit Card	-22.9%
Student	-5.3%
High-yield CLO	155.8%
CMBS	-17.7%
Non-agency MBS	-84.2%

Sources: Securities Industry and Financial Markets Association and Urban Institute.

Lack of investor trust: some issues solved, some not

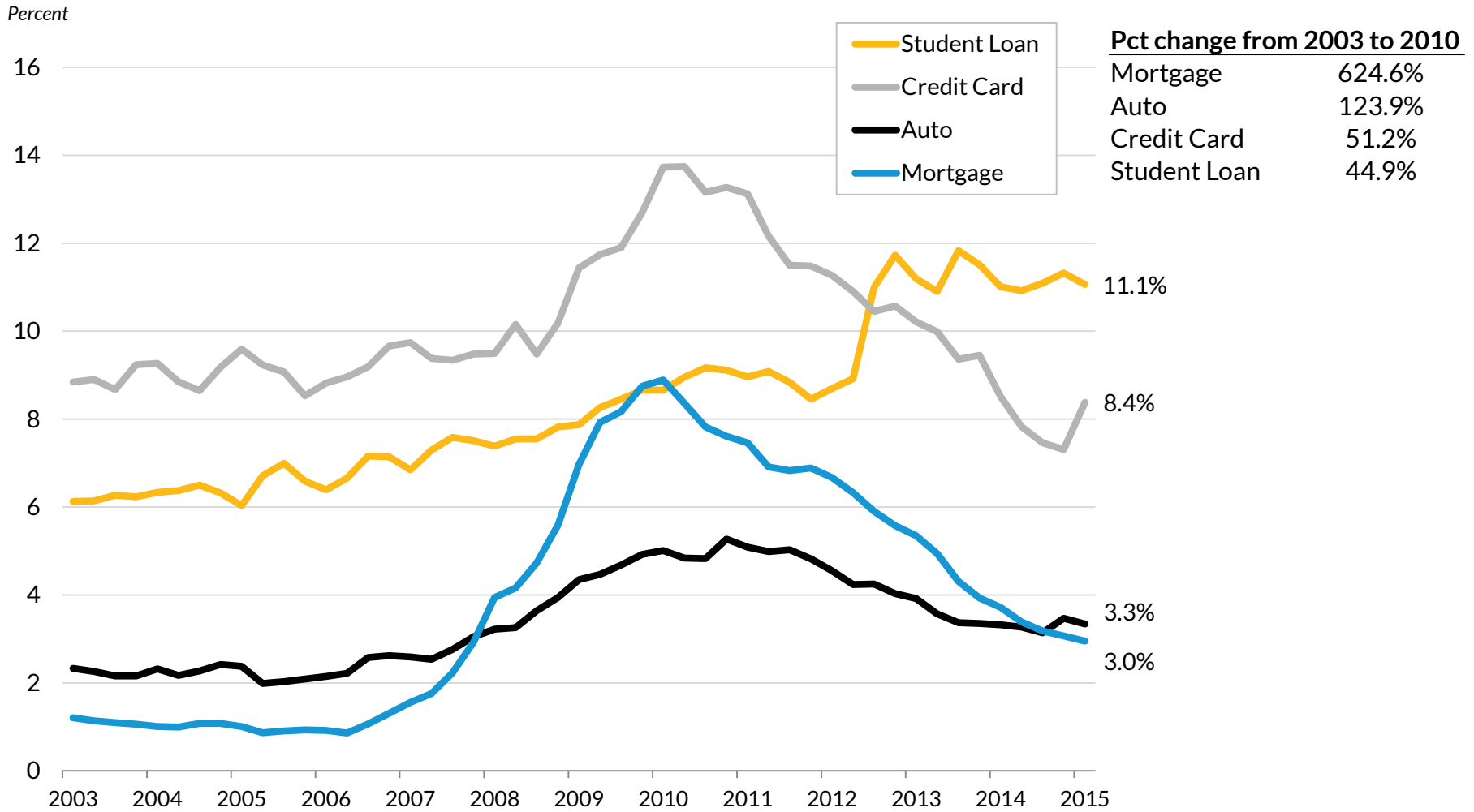
Issues that have been corrected

- Structural flaws in pre-crises securitizations—cash flows were released to the subordinate bonds early in the life of the deal, providing inadequate protection of the AAAs if losses are incurred later in the life of the deal
- Inadequate information at origination—this has been corrected, Project ReStart suggested 157 fields most deals have more.
- Due diligence was not taken seriously—this has been corrected.

Remaining issues

- Lack of standardization
- Reps and warranties: need mechanisms for detection and enforcement
- Who is looking for investor interests?
 - Should there be an independent collateral manager?
 - Should that party have a fiduciary responsibility?
- Lack of disclosure on servicing practices
 - How exactly are the loans being modified?
 - Does the servicer own the second lien?
 - How much is being charged for property preservation?
 - Does the servicer own the lawn mowing service?
 - Who is monitoring the servicer?

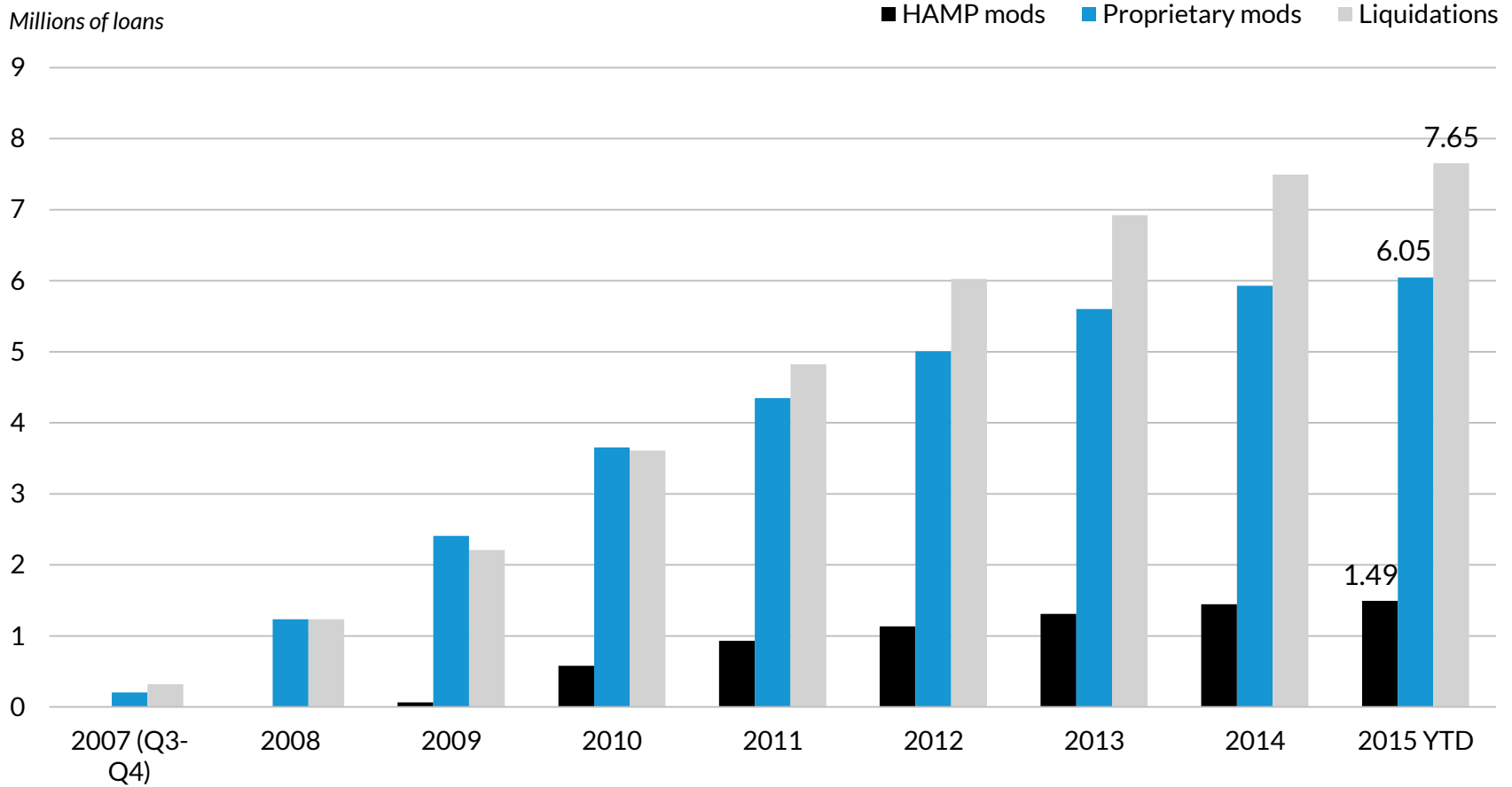
Delinquency rates by loan product



Sources: Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit and Urban Institute.

Documenting the severity of the crisis

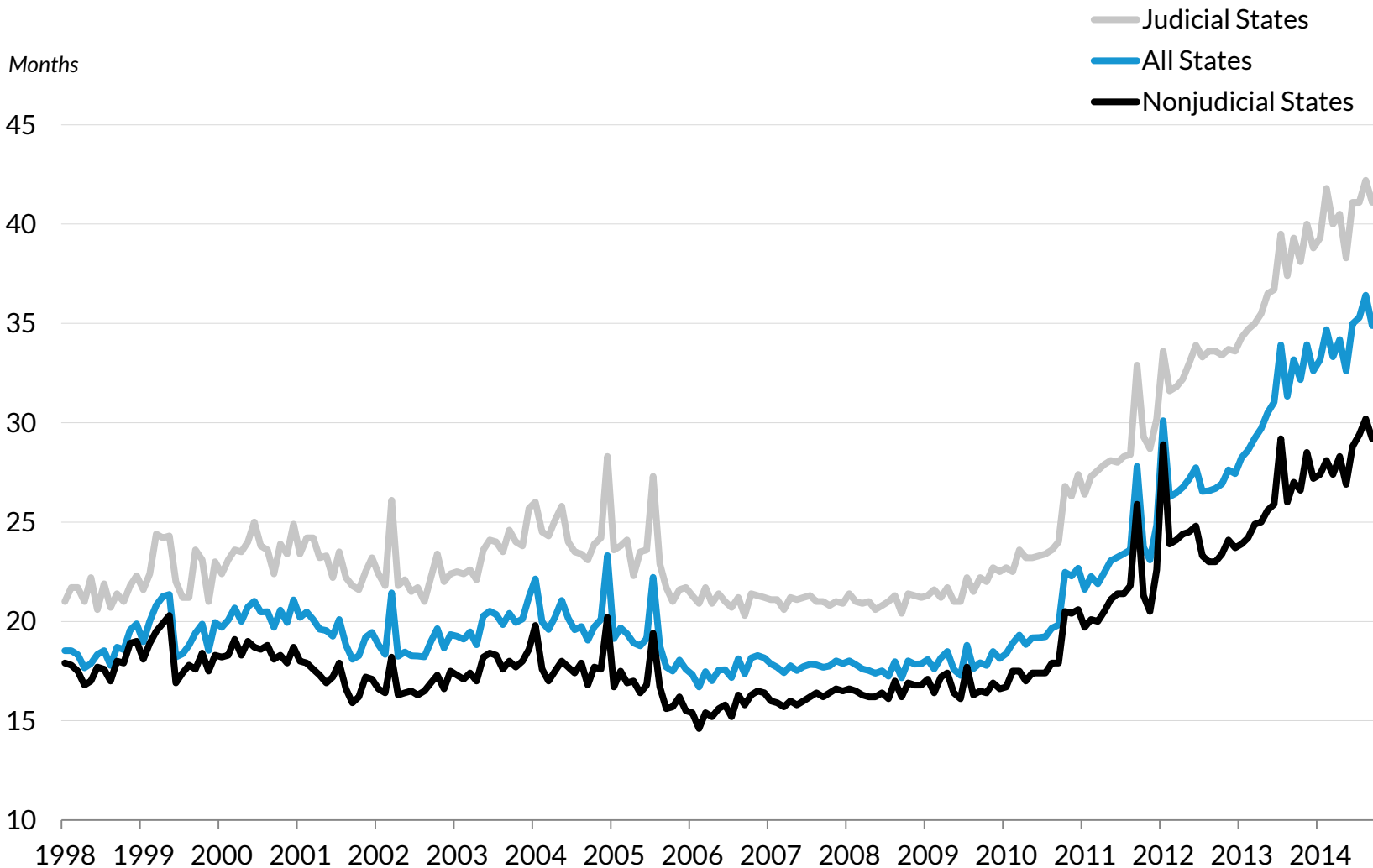
Cumulative Modifications and Liquidations



Sources: Hope Now Reports and Urban Institute.

Note: Liquidations includes both foreclosure sales and short sales.

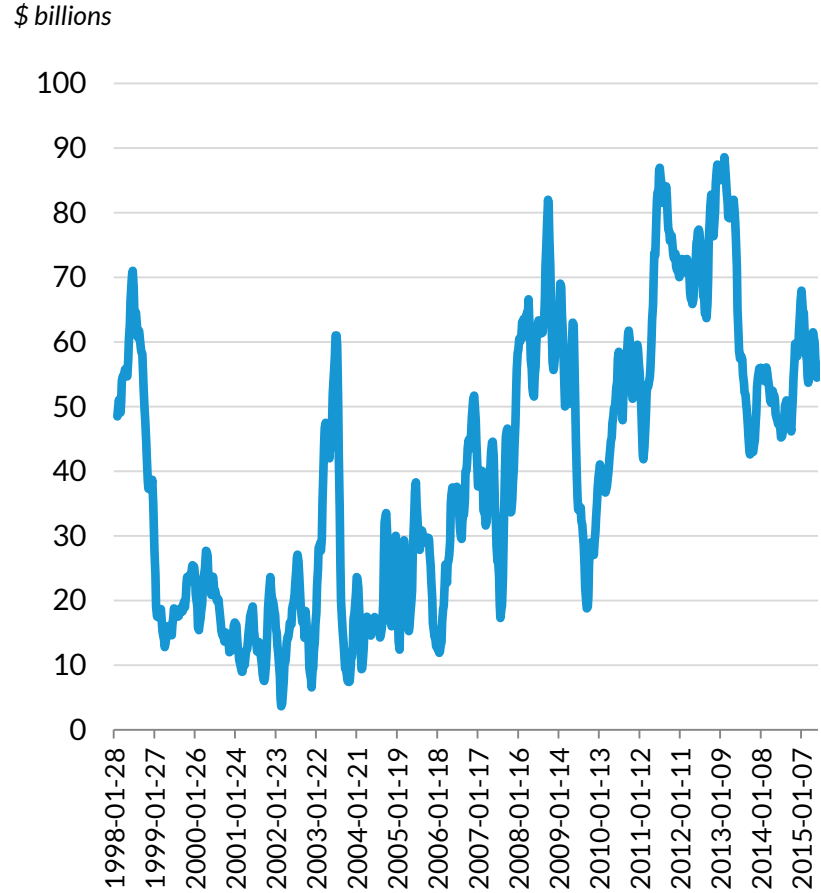
REO timelines by date of liquidation



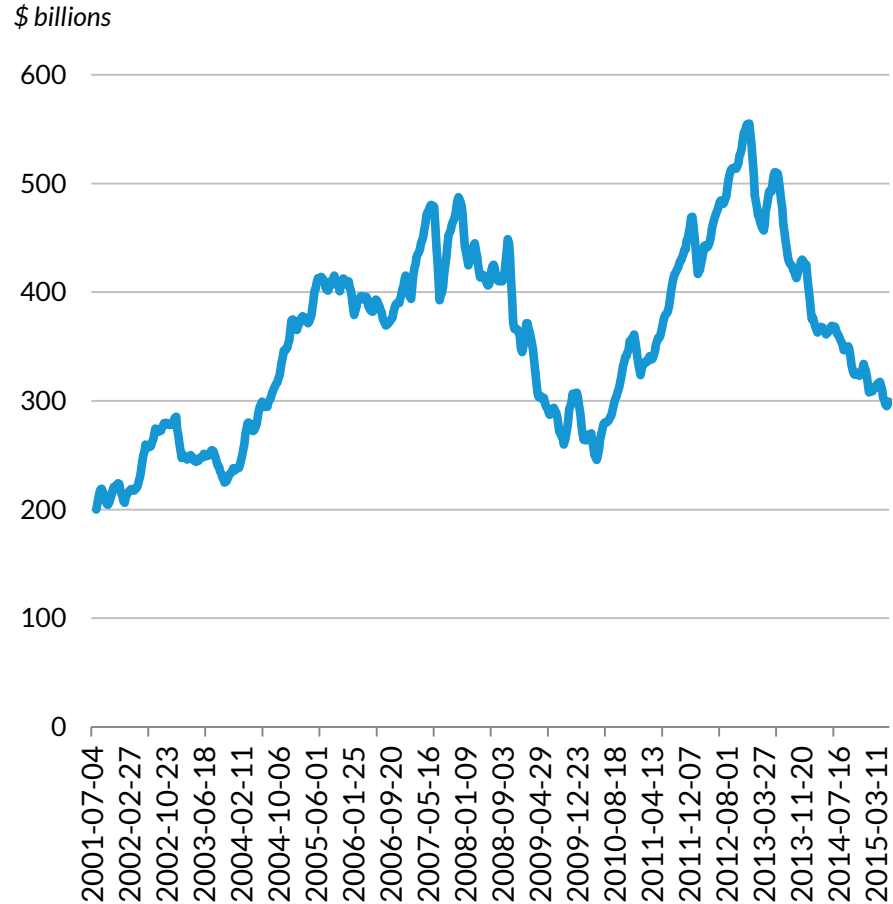
Sources: Black Knight McDash Servicing Data, Federal Reserve Bank of Philadelphia RADAR Group Calculations

Agency MBS dealer activity: net positions unchanged, repos down

Agency MBS Net Positions



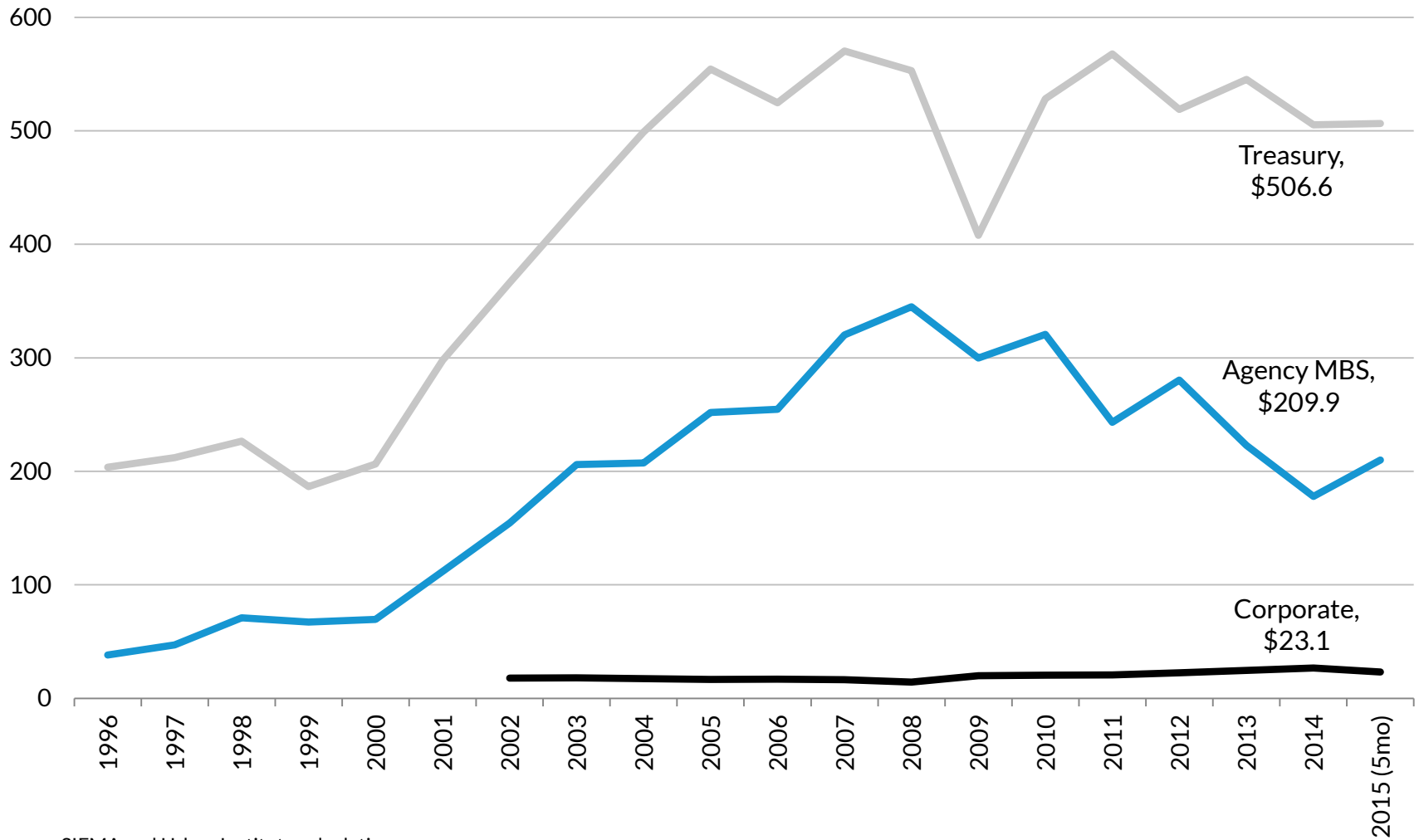
Agency MBS financing- securities in



Sources: Federal Reserve Bank of New York and Urban Institute calculations.
 Note: A five-week moving average of net positions was computed for this figure.

US Bond Markets Average Daily Trading Volume

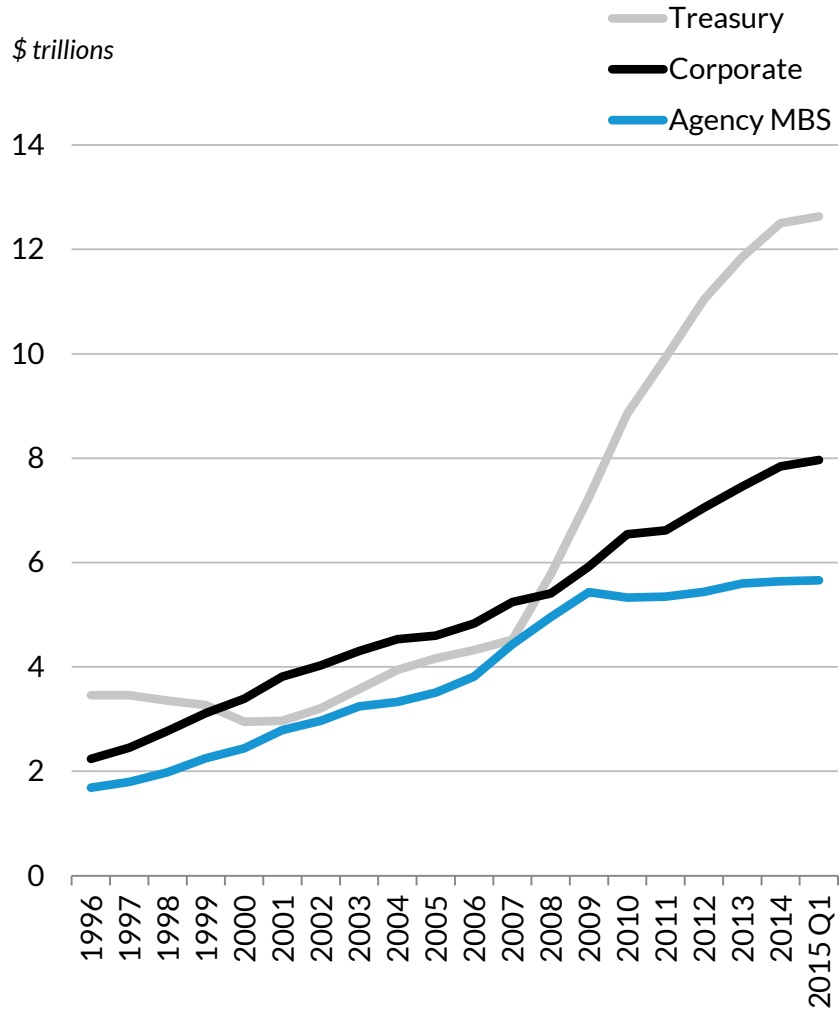
\$ billions



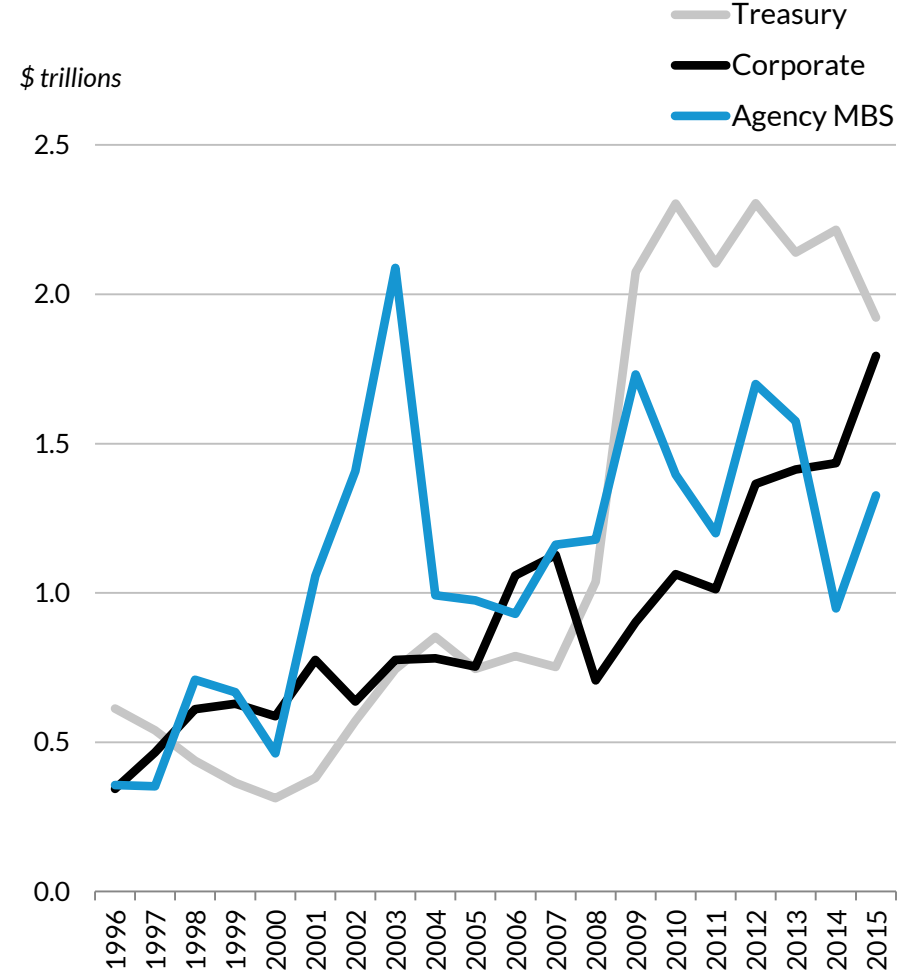
Sources: SIFMA and Urban Institute calculations.

Agency MBS and Corporate markets are similar in size

Outstanding US Bond Market Debt



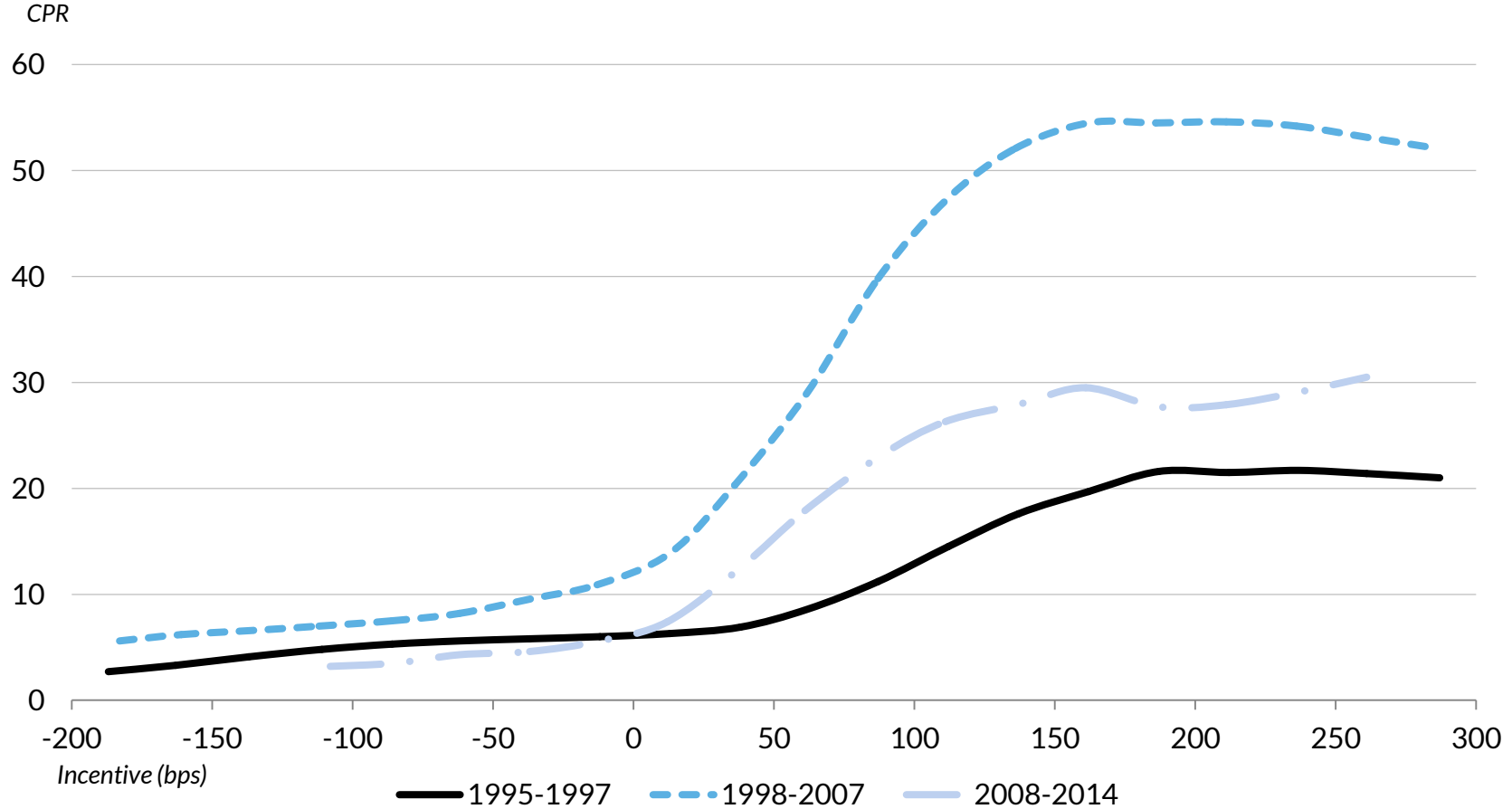
Issuance in the US Bond Market



Sources: SIFMA, Inside Mortgage Finance, eMBS and Urban Institute calculations.

Non-regulatory reason for decline in transactions volume: conventional prepayments less responsive to interest rates

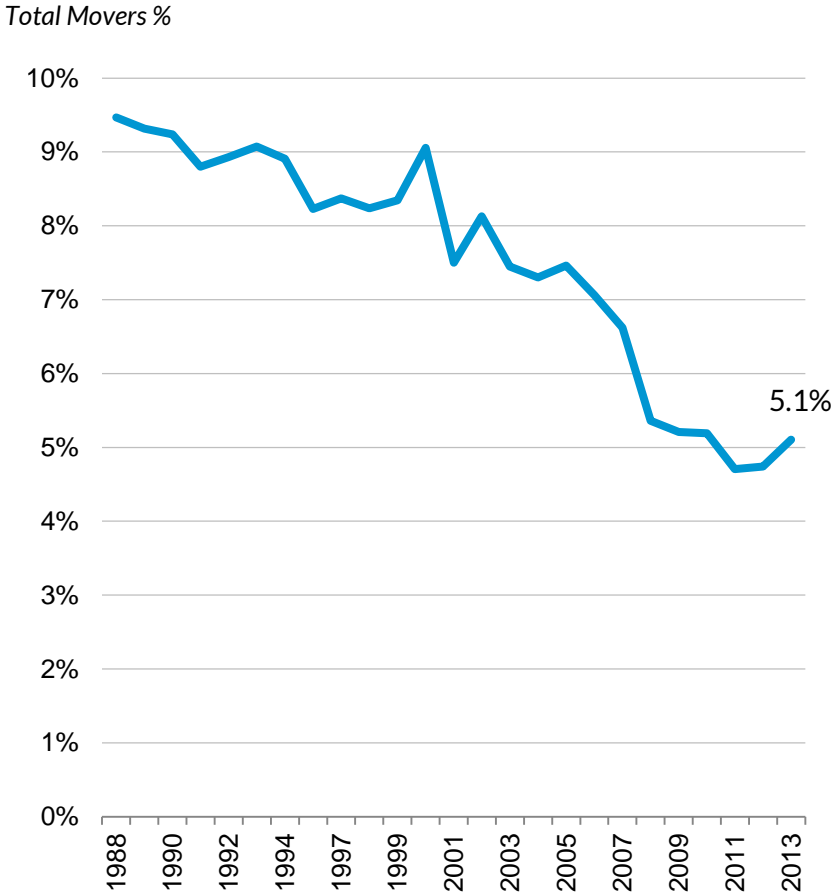
Conventional S-Curves



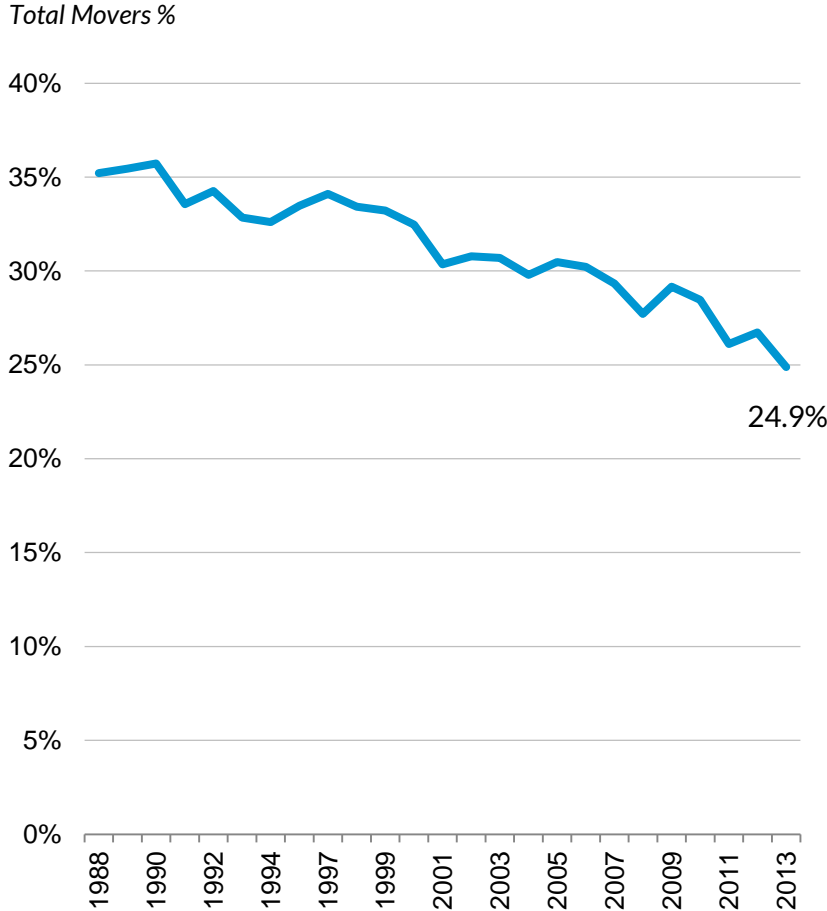
Note: 0-48 WALA
Source: Fannie Mae, Freddie Mac, 1010data, Amherst Pierpont Securities

Non-regulatory reason for decline in transactions volume: Mobility has been declining for decades

Geographical Mobility-- Owner Occupied Units



Geographical Mobility-- Renter Occupied Units



Sources: U.S. Bureau of the Census, CPS Historical Geographical Mobility Tables and Urban Institute.