Affordable Housing Goals and the Performance of Single-Family Mortgages Acquired by Fannie Mae and Freddie Mac, 2004-2008

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Disclaimer

- This presentation summarizes a preliminary analysis prepared by staff of the Federal Housing Finance Agency (FHFA). The views expressed are my own and not those of FHFA.

Limitations of the Analysis

- The analysis addresses only single-family mortgages acquired by the Enterprises through their guarantee business and, thus, does not give a complete picture of how they achieved the goals or of the performance of assets they acquired through the portfolio investment business. A more complete analysis would look at
  - The multifamily segment of the guarantee business and
  - The portfolio investment business (purchases of PLS and CMBS)
- The analysis does not provide a sufficient basis for reaching conclusions with respect to causal relationships between Enterprise or private-label financing of single-family mortgages and contemporaneous or later developments in housing and financial markets or the broader economy.

Structure of the Goals

- **Low- and Moderate-Income Goal** targeted borrowers or renters earning no more than area median income (AMI)
- **Special Affordable Goal** targeted borrowers or renters earning no more than 60 percent of AMI or residing in low-income census tracts and earning no more than 80 percent of AMI
- **Underserved Areas Goal** targeted borrowers or renters residing in lower-income areas (tract MI no more than 90 percent of AMI in metro areas and 95 percent of AMI in nonmetro areas) or higher-minority areas (tract minority percentage at or above 30 percent where the tract MI is no more than 120 percent of AMI)

Changes in the Goals in 2005-2008

	Low- and Moderate-Income Goal[1]	Low- and Moderate-Income Purchase Subgoal[2]	Special Affordable Goal[1]	Special Affordable Purchase Subgoal[2]	Underserved Areas Goal[1]	Underserved Areas Purchase Subgoal[2]
2001	50%	N/A	20%	N/A	31%	N/A
2002	50%	N/A	20%	N/A	31%	N/A
2003	50%	N/A	20%	N/A	31%	N/A
2004	50%	N/A	20%	N/A	31%	N/A
2005	52%	45%	22%	17%	37%	32%
2006	53%	46%	23%	17%	38%	33%
2007	55%	47%	25%	18%	38%	33%
2008	56%	47%	27%	18%	39%	34%

N/A = not applicable

[1] Share of all units financed with 1) single-family mortgages a) acquired by the Enterprise (through a cash purchase or the guarantee of a MBS or structured securitization), b) financed with private-label MBS acquired by the Enterprises, or c) financed with mortgage-revenue bonds acquired by the Enterprise; or 2) multifamily mortgages a) acquired by the Enterprise; b) financed with commercial mortgage-backed securities (CMBS) acquired by the Enterprise; or c) financed with mortgage-revenue bonds acquired by the Enterprise.

[2] Share of all 1-4 unit properties on owner-occupied properties in metropolitan areas financed with single-family purchase mortgages a) acquired by the Enterprise (through a cash purchase or the guarantee of a MBS), b) financed with private-label MBS acquired by the Enterprises, or c) financed with mortgage-revenue bonds acquired by the Enterprise.

Source: Federal Housing Finance Agency

Share of Units Financed by Asset Type

Analysis is Limited to the Single-Family Guarantee Business

	Share of Units Financed by Fannie Mae and Freddie Mac Combined			
	Units Financed with Acquisitions of Mortgages[1]		Units Financed with Acquisitions or Credit Enhancements of Mortgage-Related Securities[2]	
	Single-Family	Multifamily	Single-Family	Multifamily
2004	79%	8%	11%	2%
2005	72%	8%	16%	4%
2006	70%	9%	15%	7%
2007	75%	13%	5%	7%
2008	80%	16%	2%	2%
Average	75%	11%	10%	4%

[1] Includes cash purchases and guarantees of MBS backed by pools of mortgages through the guarantee business.

[2] Includes acquisitions of private-label MBS and CMBS and acquisitions or credit enhancements of mortgage revenue bonds.

Source: Federal Housing Finance Agency based on data from Fannie Mae and Freddie Mac

Focus and Dataset

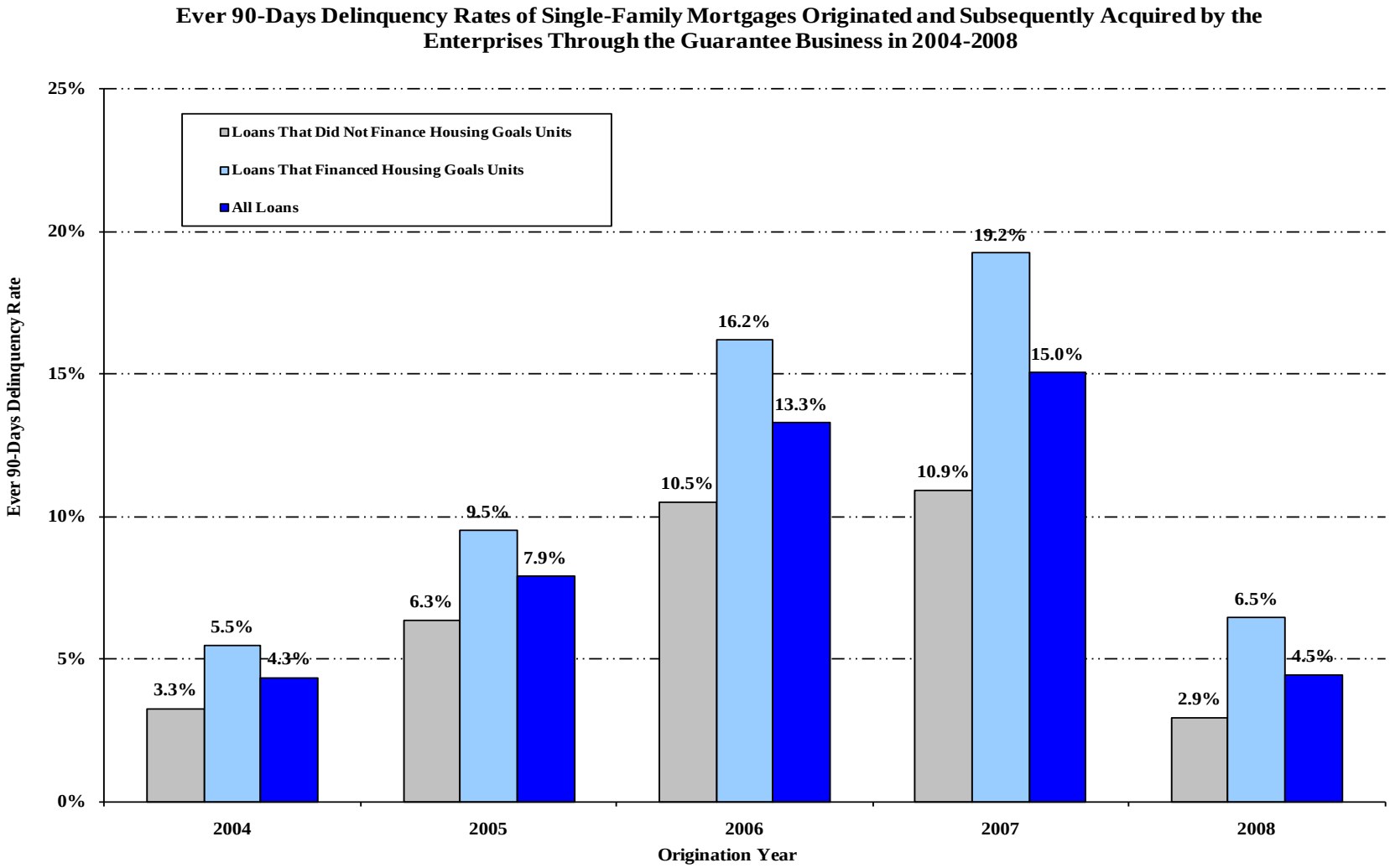
- Focus is on single-family mortgages purchased for cash or that collateralized Enterprise-guaranteed MBS (i.e., the guarantee business)
- Key research questions
  - How have those loans performed by origination-year cohort?
  - How has the performance of mortgages that financed goal-qualifying units differed from the performance of other loans?
  - What accounts for those differences?
- 99 percent sample of mortgages acquired in 2004 through 2008 (UPB at acquisition of $4.8 trillion)
- Performance measure: percent of an origination-year cohort (measured by UPB at origination) that was ever delinquent 90 days or more, entered foreclosure processing, or entered REO status through December 2009

Basic Findings

- Ever-90-days-delinquency rates for mortgages acquired through the single-family guarantee business increase from the 2004 through the 2007 origination-year cohorts, then decline for the 2008 cohort
- For each origination-year cohort, ever-90-days-delinquency rates of single-family loans that financed goal-qualifying units are higher
- Single-family mortgages that financed units that qualified for the Underserved Areas goal (or that goal and other goals) have performed worst
- What accounts for those differences?
  - The timing of the end of the price boom and start of the bust
  - A deterioration in the credit profile of 2004-2007 acquisitions
  - Worse house price busts in Underserved Areas

Note: Based only on single-family mortgages acquired through the Enterprises' guarantee business

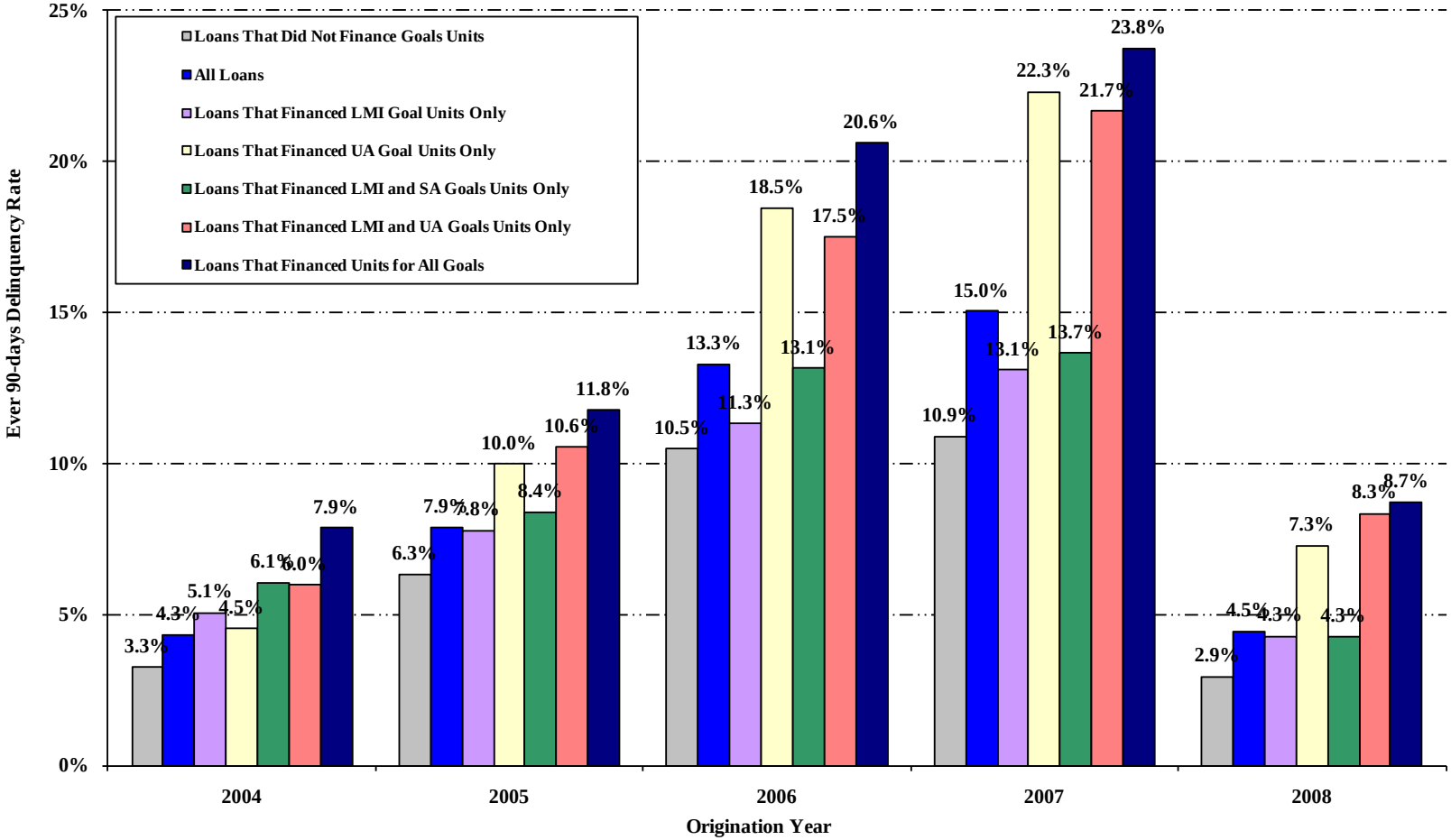
Performance Through Year-End 2009 (1)



Note: Based only on single-family mortgages acquired through the Enterprises' guarantee business

Performance Through Year-End 2009 (2)

Ever 90-Days Delinquency Rates of Single-Family Mortgages Originated and Subsequently Acquired by the Enterprises Through the Guarantee Business in 2004-2008, by Goal Status of Units Financed



Note: Based only on single-family mortgages acquired through the Enterprises' guarantee business

What Explains the Differences? (1)

1. The timing of the house price bust
   - Mortgages originated in the early years of the period accumulated more equity and were easier to refinance
   - Loans originated in later years accumulated less equity and have performed worse
2. A deterioration in the credit profile of mortgages acquired through the single-family guarantee business between 2004 and 2008
   - A rise in the Alt-A and nontraditional (particularly IO) shares of acquisitions
     - Accounted for 18.5 percent of acquisitions in those years
     - Combined share reached 28 percent in 2006 and 26 percent in 2007
     - Alt-A and IO made it *harder* to achieve the goals, but easier to achieve the purchase subgoals

Note: Based only on single-family mortgages acquired through the Enterprises' guarantee business

What Explains the Differences? (2)

- A worsening of the distributions of the LTV ratios and FICO scores of loans that were acquired under baseline activities and, thus, qualified under standard Enterprise underwriting guidelines
  - A larger share of mortgages with LTV ratios above 95 percent
  - A larger share of borrowers with FICO scores below 660
- Modest growth in acquisitions of mortgages under targeted programs, e.g., Fannie's MyCommunityMortgage, Freddie's Home Possible, and adjustments to each Enterprise's automated underwriting system to accept more loans that financed goals-qualifying units
  - Targeted-program acquisitions never comprised a very large share of total single-family mortgages acquired through the guarantee business—6.4 percent in 2007, the peak year, and 3.5 percent in 2005 through 2008.

Note: Based only on single-family mortgages acquired through the Enterprises' guarantee business

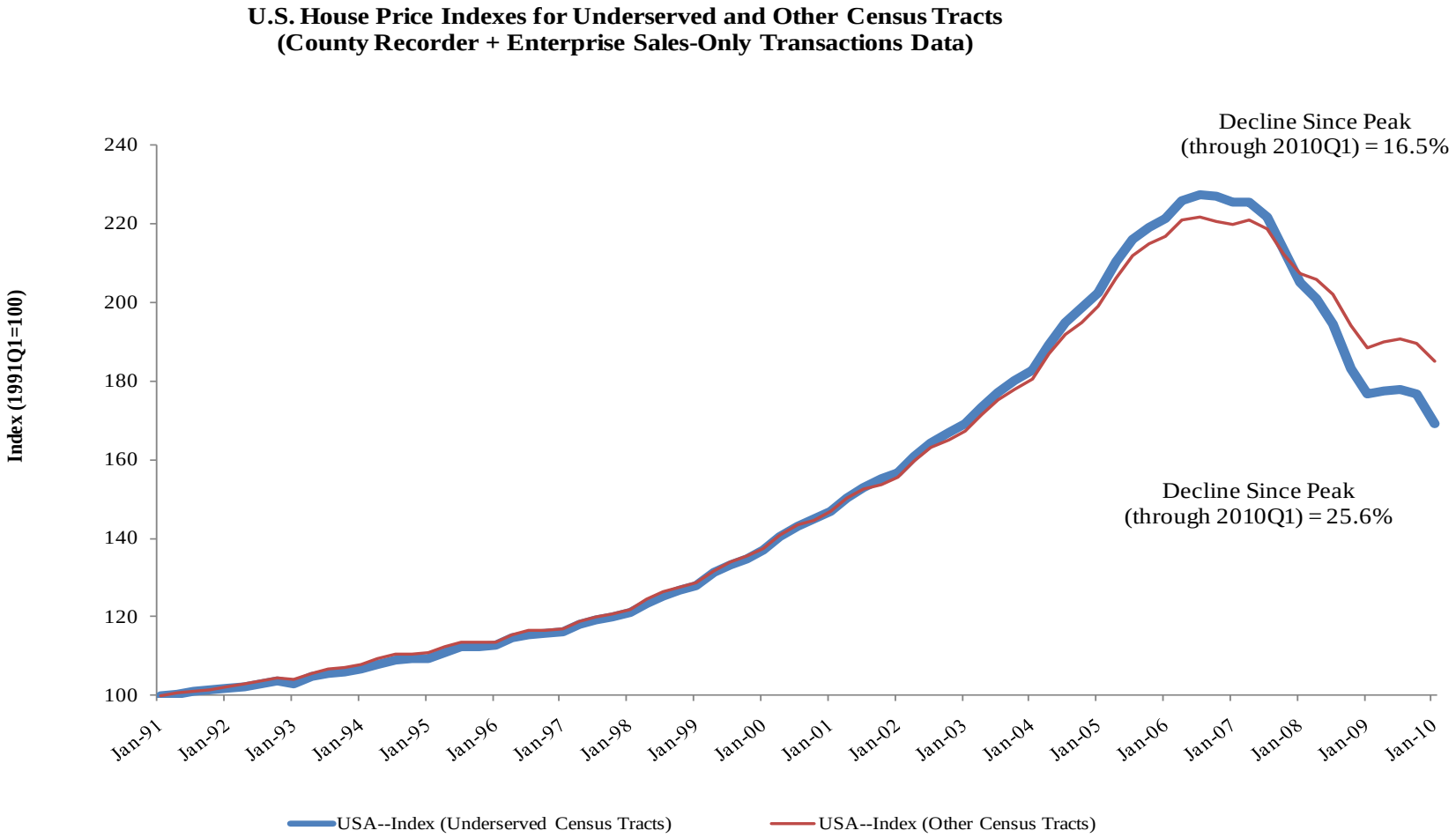
What Explains the Differences? (3)

- Targeted programs focused on low-income and minority borrowers, particularly homebuyers and, thus, were especially helpful in meeting the new purchase subgoals
- Many targeted-program loans had high LTV ratios and low FICO scores

3. Mortgages that financed units that qualified for the Underserved Areas Goal
   - Alt-A and IO loans accounted for a larger share of those loans
   - The lower-income and higher-minority census tracts targeted by that goal have experienced more severe house price depreciation

Note: Based only on single-family mortgages acquired through the Enterprises' guarantee business

Worse Booms and Busts in Underserved Areas



Note: The national indexes were formed as weighted averages of state indexes where the stock of housing units in 2000 was the basis for weighting. The state indexes for underserved census tracts were estimated using data for homes in tracts ever designated as underserved by HUD, for Enterprise affordable housing goals purposes, in 2001 through 2009. The state indexes for other census tracts were estimated using data for homes in all other tracts.

Effects of Goals and Subgoals on Performance (1)

- Targeted-program mortgages are less than 8 percent of the single-family loans acquired by the Enterprises through the guarantee business in 2005 through 2008 that have ever been 90-days delinquent. Only those problem mortgages can be clearly attributed to the increases in the goals and the new purchase subgoals.
- About 53 percent of ever-90-days-delinquent mortgages acquired through the single-family guarantee business in those years are traditional, fully-amortizing loans that the Enterprises would likely have acquired in similar volumes absent the higher goals and new subgoals.
  - Of those mortgages, 31 percent financed goal-qualifying units; 22 percent did not.

Note: Based only on single-family mortgages acquired through the Enterprises' guarantee business

Effects of Goals and Subgoals on Performance (2)

- The higher goals and new subgoals were among several factors that contributed to the deterioration of the credit risk profile of traditional single-family loans acquired through the guarantee business from 2004 through 2007 and, thus, to the ever-90-days delinquency rates they have experienced.

- About 39 percent of the single-family mortgages acquired through the guarantee business in 2005 through 2009 that have ever been 90-days delinquent are Alt-A and nontraditional mortgages
  - The Enterprises acquired those loans primarily to increase their market share and profits
  - Acquiring Alt-A and nontraditional loans made it harder to achieve the goals (they were less likely than other loans to be goal-qualifying), but easier to achieve the subgoals (if purchase loans, they were more likely to be goal-qualifying)

Note: Based only on single-family mortgages acquired through the Enterprises' guarantee business

Conclusion

- The analysis addresses only mortgages acquired by the Enterprises in 2004 through 2008 through their single-family guarantee business. A more complete analysis would also look at
  - The multifamily segment of the guarantee business and
  - The portfolio investment business (purchases of PLS and CMBS)
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