

Mortgage Experience of Borrowers in Non-Metro Counties: Insights from the National Survey of Mortgage Originations

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What is the NMDB and NSMO?



- National Mortgage Database (NMDB) is a FHFA and CFPB jointly funded project to satisfy HERA and Dodd-Frank requirements.
 - The database consists of monthly loan performance, quarterly borrower credit scores, original loan balance and terms, borrower age, and county location.
 - Database of credit bureau, property, demographic, credit score and administrative records associated with a 1-in-20 sample of all first lien residential mortgages.
- Starting with 2013 originations, quarterly consumer survey of 6,000 (about 1-in-300) new mortgagees in National Survey of Mortgage Originations (NSMO).
 - Survey objective is to obtain information NMDB cannot like:
 - Mortgage and borrower characteristics
 - Expectations
 - Mortgage Knowledge and Shopping
 - Satisfaction

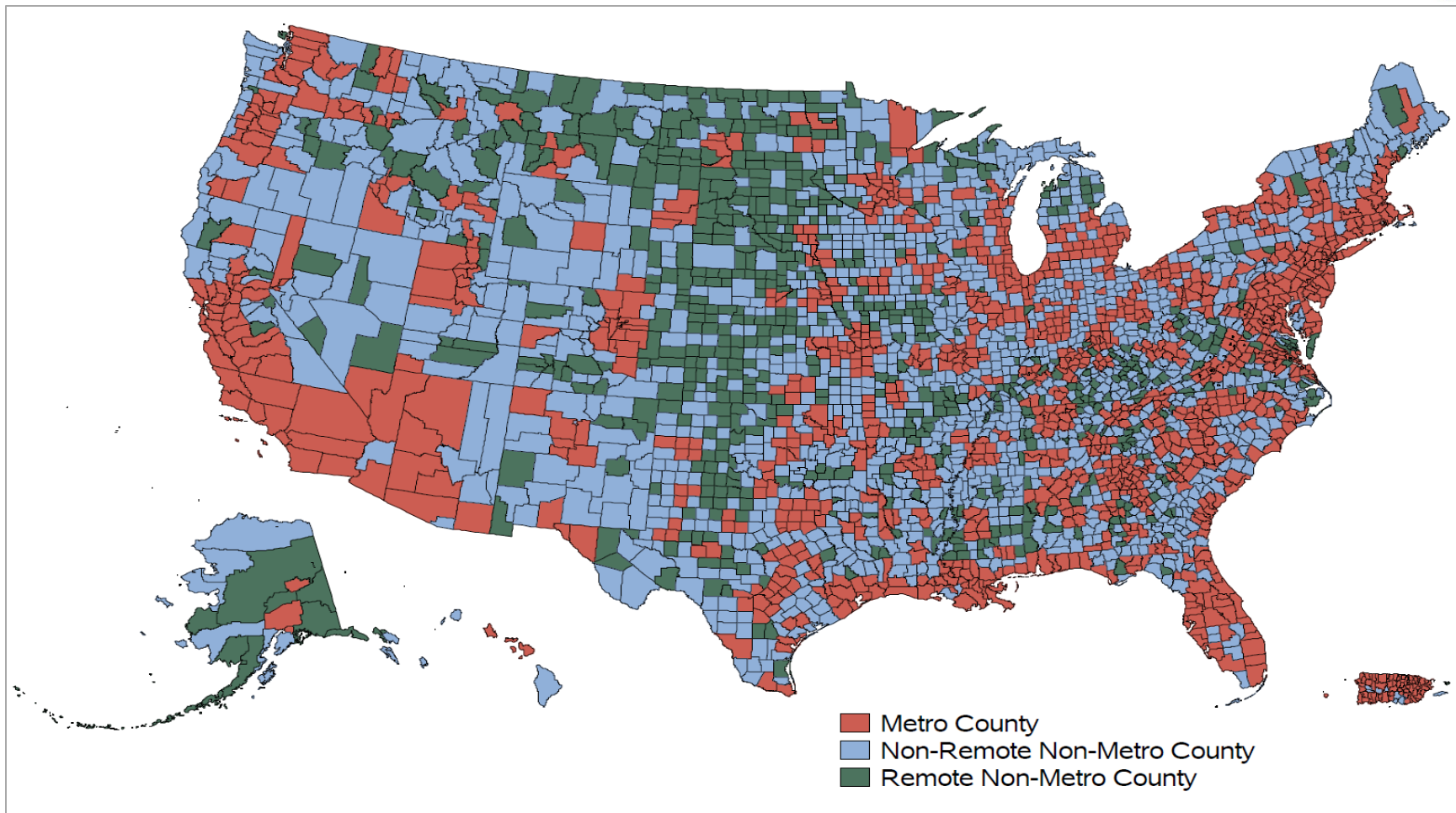
Project Introduction

- Understand how metro and non-metro counties differ within and across groups
 - Socio-demographic and economic characteristics
 - Borrower perceptions, knowledge, shopping and satisfaction
 - Preliminary descriptive findings to inform future research in this area
- Two sources of data
 - Special NSMO (2014) sample of 1,000 mortgage borrowers in remote non-metro counties
 - Assembly of additional demographic, economic, housing, lending, and mortgage data at county level from multiple sources

NSMO Survey Data (2014)

- Four types of mortgages
 - First-time homebuyers
 - Repeat buyers
 - Cashout refinances
 - Regular refinances
- Compared both simple and controlled differences
 - Controlled for age, race/ethnicity, education and credit score, household type, annual income, mortgage loan amount, and property type.

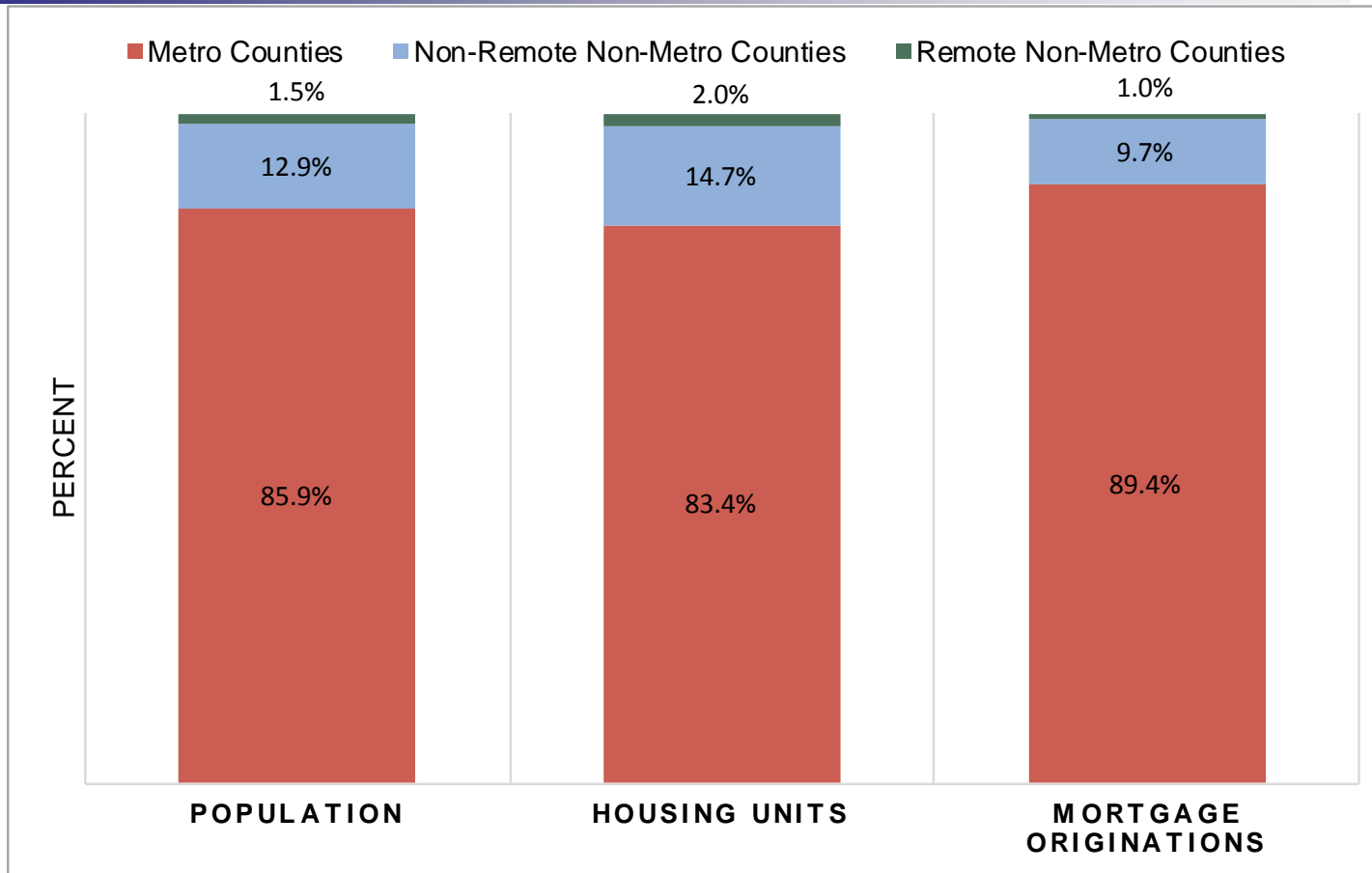
Geographic Classification of Counties



Source: U.S. Department of Agriculture Rural Urban Continuum Code (RUCC) data, 2013.

- Three broad groups based on size of largest population center using USDA's Rural Urban Continuum Codes (RUCC)
 - » Metro (M), Non-remote Non-metro (NRNM) and Remote Non-metro (RNM)

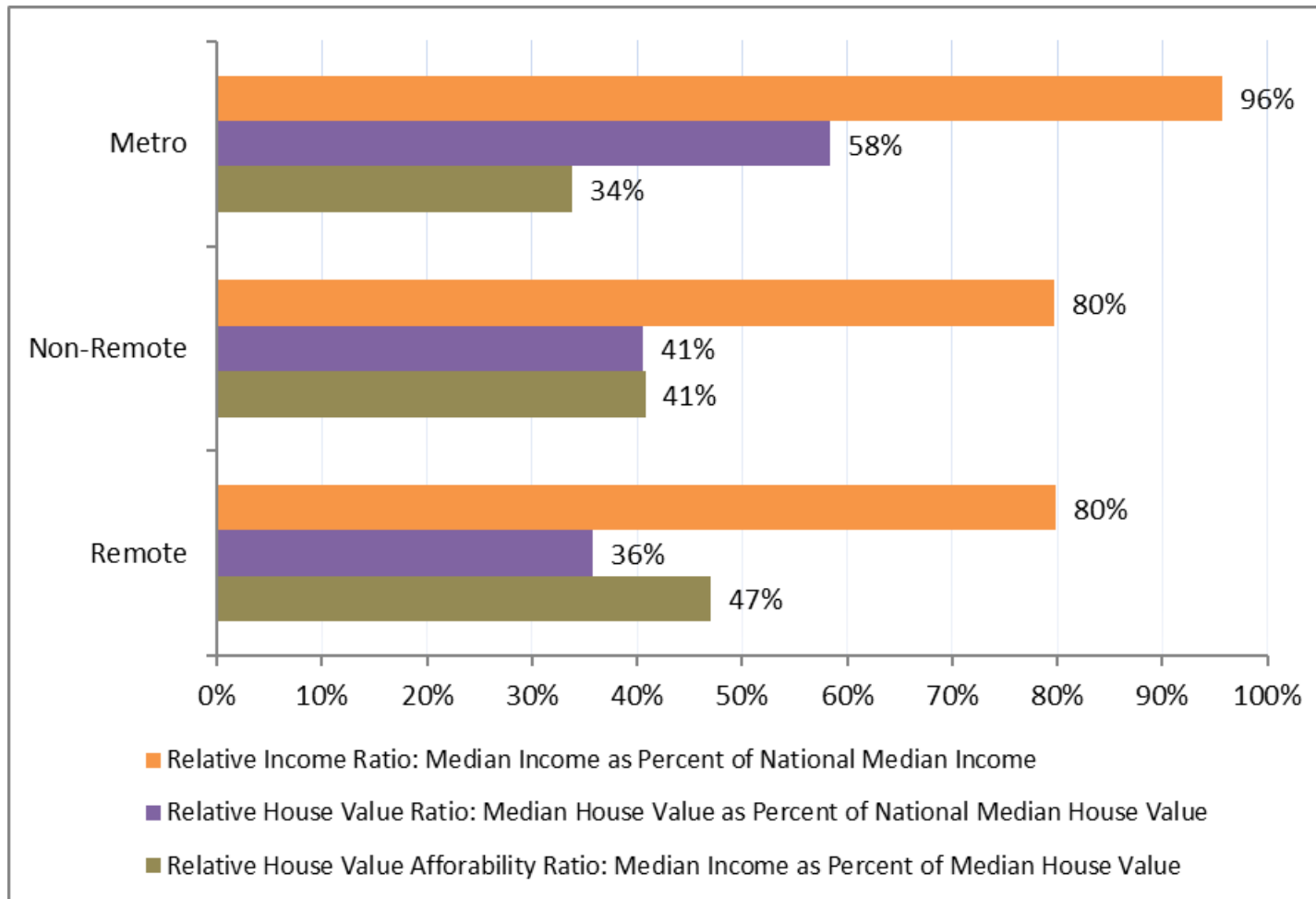
Population, Housing Unit and Mortgage Origination Shares



Source: Census Bureau American Community Survey (ACS) 2010-2014 5-year estimates data for population and housing units by county, and Home Mortgage Disclosure Act (HMDA) data for first-lien mortgage originations by county.

- Remote non-metro counties constituted only 2 percent of the U.S. population and housing units.

Relative Income, House Value, and Affordability Ratios



Source: Census Bureau and FFIEC data

- Remote counties more affordable than other county-types.

Property and Mortgage Characteristics

Percentage or Median	First-Time Purchases			Repeat Purchases			Cashout Refinances			Regular Refinances		
	M	NRNM	RNM	M	NRNM	RNM	M	NRNM	RNM	M	NRNM	RNM
Property Type												
<i>Single-Family Detached</i>	78%	87%	97%	87%	91%	83%	86%	91%	83%	86%	86%	80%
<i>Attached*</i>	20%	11%	2%	12%	5%	1%	12%	3%	6%	13%	3%	2%
<i>Mobile or Manufactured</i>	2%	1%	1%	1%	3%	11%	1%	6%	11%	1%	11%	17%
<i>Land Only</i>	0%	1%	0%	0%	1%	5%	0%	0%	0%	0%	0%	0%
Property Value (in 1000s)	180	111	102	263	165	155	250	160	160	256	154	149
Loan Amount (in 1000s)	162	102	96	218	146	112	175	100	116	176	104	85
Terms in Months	360	360	360	360	360	360	360	240	180	360	300	180
Loan to Value Ratio	94	98	98	85	87	89	73	70	72	71	75	68
Payment to Income Ratio	24	21	17	19	17	14	20	16	16	19	16	18
Interest Rate	4.25	4.35	4.25	4.25	4.25	4.25	4.13	4.20	4.13	4.12	4.25	4.12

Source: 2014 NSMO data. Number of first-time purchasers: M=846, NRNM=94, RNM=54; number of repeat purchasers: M=1,910, NRNM=221, RNM=94; number of cashout refiners: M=857, NRNM=107, RNM=95; number of regular refiners: M=1,432, NRNM=172, RNM=87.

- Manufactured housing most prevalent in remote counties except for first-time buyers.
 - » Chattel often do not appear as mortgages, both in NMDB and other databases
- Generally, median property value, loan amount, terms to maturity, interest rate lowest in remote counties.
- For purchases, while median loan to value ratio was highest in remote counties, median payment to income ratio was lowest in remote counties.

Borrower and Household Characteristics

Percentage or Median	First-Time Purchases			Repeat Purchases			Cashout Refinances			Regular Refinances		
	M	NRNM	RNM	M	NRNM	RNM	M	NRNM	RNM	M	NRNM	RNM
Age	31	31	28	46	45	43	51	47	51	50	52	55
Couple	71%	66%	72%	78%	77%	77%	73%	80%	76%	76%	83%	70%
Hispanic and Non-White	33%	20%	1%	21%	10%	8%	26%	8%	8%	25%	8%	9%
College Degree or Higher	67%	51%	58%	65%	51%	52%	55%	32%	39%	61%	37%	43%
Household Employment	95%	97%	99%	81%	71%	73%	77%	72%	66%	77%	69%	68%
Underwriting Income (in 1000s)	60	41	46	91	71	65	79	63	64	89	60	48
Vantage Score	729	687	699	754	757	730	729	711	697	743	727	732

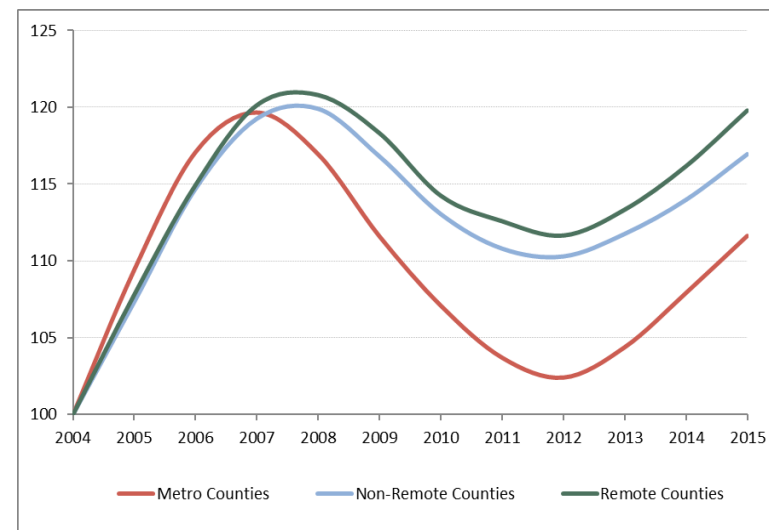
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- Borrowers in non-metro counties were older, less diverse, less educated, with lower employment, income and credit score.
 - » Purchasers in remote counties younger, but refinancers were older.
 - » Non-remote counties were worse off in some aspects.

Expectations: In the next couple of years, how do you expect house prices to change?

Percent Expecting Prices Will	M	NRNM	RNM
First-Time Purchases			
Lot ↑	18%	5%	13%
Little ↑	62%	61%	47%
↔	18%	34%	28%
Little ↓	2%	0%	5%
Lot ↓	0%	0%	6%
Repeat Purchases			
Lot ↑	19%	11%	4%
Little ↑	63%	65%	46%
↔	16%	22%	47%
Little ↓	1%	3%	3%
Lot ↓	0%	0%	0%
Cashout Refinances			
Lot ↑	17%	15%	7%
Little ↑	60%	49%	53%
↔	18%	33%	32%
Little ↓	3%	2%	2%
Lot ↓	2%	1%	5%
Regular Refinances			
Lot ↑	17%	9%	5%
Little ↑	62%	47%	47%
↔	17%	35%	42%
Little ↓	3%	8%	5%
Lot ↓	1%	1%	1%

Source : 2014 NSMO data.



Source : FHFA House Price Index (HPI) county level data.

- Borrowers in remote non-metro counties were least optimistic about house prices.

Mortgage Knowledge: How firm an idea did you have and how concerned were you about qualifying for a mortgage?

Percent	M	NRNM	RNM
First-Time Purchases			
Not at All Concerned	30%	26%	27%
Have Firm Idea	38%	32%	33%
Repeat Purchases			
Not at All Concerned	52%	49%	50%
Have Firm Idea	59%	53%	54%
Cashout Refinances			
Not at All Concerned	53%	41%	50%
Have Firm Idea	62%	53%	43%
Regular Refinances			
Not at All Concerned	57%	45%	45%
Have Firm Idea	67%	56%	62%

Source : 2014 NSMO data.

- Refinancers, in particular regular refinancers, in non-remote counties less certain about qualifying and about desired mortgage than metro counties.

Mortgage Knowledge: How familiar are you about different loan features?

Percent Very Familiar	M	NRNM	RNM
First-Time Purchases			
Credit History or Score	64%	60%	54%
Mortgage Types Available	26%	24%	18%
Down Payment to Qualify	39%	29%	23%
Money Needed for Closing	29%	24%	23%
Repeat Purchases			
Credit History or Score	80%	79%	79%
Mortgage Types Available	54%	40%	39%
Down Payment to Qualify	70%	62%	57%
Money Needed for Closing	57%	51%	57%

Source : 2014 NSMO data.

- Most purchasers were “very familiar” with their own credit history, down payment. Less familiar with the different mortgage products available.

Mortgage Knowledge: How familiar are you about different loan features?



Percent Very Familiar	M	NRNM	RNM
Cashout Refinances			
Credit History or Score	74%	70%	64%
Mortgage Types Available	46%	41%	28%
Down Payment to Qualify	54%	49%	38%
Money Needed for Closing	50%	46%	32%
Regular Refinances			
Credit History or Score	77%	75%	74%
Mortgage Types Available	51%	40%	41%
Down Payment to Qualify	59%	50%	50%
Money Needed for Closing	56%	47%	46%

Source : 2014 NSMO data.

- Refinancers are more familiar than purchasers about most loan features.

Mortgage Knowledge: How well could you explain to someone the following?

Percent Very Well	M	NRNM	RNM
First-Time Purchases			
Fixed versus Adjustable Rate	58%	59%	60%
Consequence of Not Paying	57%	60%	68%
Interest Rate versus APR	19%	12%	18%
Prime versus Subprime	13%	9%	16%
Repeat Purchases			
Fixed versus Adjustable Rate	70%	66%	63%
Consequence of Not Paying	69%	69%	67%
Interest Rate versus APR	29%	20%	18%
Prime versus Subprime	21%	13%	14%

Source : 2014 NSMO data.

- Most borrowers were more knowledgeable about simple concepts than complex concepts.

Mortgage Knowledge: How well could you explain to someone the following?

Percent Very Well	M	NRNM	RNM
Cashout Refinances			
Fixed versus Adjustable Rate	71%	67%	51%
Consequence of Not Paying	64%	67%	51%
Interest Rate versus APR	30%	30%	19%
Prime versus Subprime	22%	16%	13%
Regular Refinances			
Fixed versus Adjustable Rate	73%	58%	47%
Consequence of Not Paying	69%	56%	62%
Interest Rate versus APR	30%	27%	21%
Prime versus Subprime	23%	18%	11%

Source : 2014 NSMO data.

- Refinancers in the remote non-metro counties were the *least* knowledgeable, even compared to purchasers in those counties.

Lender Selection: What best describes your shopping process?

Percent	M	NRNM	RNM
First-Time Purchases			
Picked Lender before Loan	73%	78%	79%
Applied Directly to a Lender	56%	59%	69%
Borrower Initiated Contact	61%	64%	76%
Considered Multiple Lenders	57%	52%	53%
Applied to Multiple Lenders	30%	24%	25%
Repeat Purchases			
Picked Lender before Loan	70%	74%	78%
Applied Directly to a Lender	56%	68%	79%
Borrower Initiated Contact	63%	81%	83%
Considered Multiple Lenders	53%	44%	58%
Applied to Multiple Lenders	24%	15%	29%

Source : 2014 NSMO data.

- Most borrowers were proactive with lender selection and applied to multiple lenders less often.

Lender Selection: What best describes your shopping process?

Percent	M	NRNM	RNM
Cashout Refinances			
Picked Lender before Loan	67%	72%	82%
Applied Directly to a Lender	64%	89%	86%
Borrower Initiated Contact	71%	83%	79%
Considered Multiple Lenders	51%	39%	41%
Applied to Multiple Lenders	21%	19%	18%
Regular Refinances			
Picked Lender before Loan	70%	76%	70%
Applied Directly to a Lender	72%	81%	79%
Borrower Initiated Contact	68%	74%	72%
Considered Multiple Lenders	50%	43%	39%
Applied to Multiple Lenders	18%	13%	15%

Source : 2014 NSMO data.

- Refinancers engaged with multiple lenders less than purchasers.

Lender Selection: How important were the following in choosing the lender you used?

Percent Very Important	M	NRNM
First-Time Purchases		
Reputation	40%	44%
Established Bank Relationship	36%	44%
Local Office or Branch	38%	49%
Agent/Builder Recommended	38%	31%
Operated Online	22%	14%
Repeat Purchases		
Reputation	40%	44%
Established Bank Relationship	38%	47%
Local Office or Branch	34%	52%
Agent/Builder Recommended	35%	25%
Operated Online	15%	21%

Source : 2014 NSMO data.

- Established bank relationship and local offices more important for purchasers in non-metro counties.

Lender Selection: How important were the following in choosing the lender you used?

Percent Very Important	M	NRNM
Cashout Refinances		
Reputation	44%	45%
Established Bank Relationship	47%	64%
Local Office or Branch	33%	46%
Agent/Builder Recommended	7%	3%
Previously Used	39%	47%
Regular Refinances		
Reputation	44%	41%
Established Bank Relationship	50%	60%
Local Office or Branch	33%	44%
Agent/Builder Recommended	5%	3%
Previously Used	46%	47%

Source : 2014 NSMO data.

- Local offices, prior use and having a banking relationship were important for many refinancers in non-remote counties. Refinancers tend to rely less on recommendations.

Satisfaction: Overall, how satisfied are you with the following?

Percent Very Satisfied	M	NRNM	RNM
First-Time Purchases			
Lowest Interest Rates Qualified	65%	70%	64%
Lowest Closing Costs	56%	59%	56%
Lender	75%	78%	79%
Settlement Agent	66%	75%	62%
Repeat Purchases			
Lowest Interest Rates Qualified	70%	69%	58%
Lowest Closing Costs	55%	56%	51%
Lender	75%	76%	76%
Settlement Agent	71%	72%	69%
Cashout Refinances			
Lowest Interest Rates Qualified	66%	74%	70%
Lowest Closing Costs	55%	61%	50%
Lender	74%	81%	70%
Settlement Agent	71%	67%	64%
Regular Refinances			
Lowest Interest Rates Qualified	73%	77%	73%
Lowest Closing Costs	65%	66%	58%
Lender	79%	83%	81%
Settlement Agent	72%	75%	74%

Source : 2014 NSMO data.

- Most borrowers were very satisfied.
 - » Borrowers in remote counties less satisfied with some aspects of mortgage.

Conclusion

- Preliminary descriptive study indicates interesting differences across non-metro counties.
 - » Remote counties appear to be diverse: they appear to be worse off than other county types in several aspects but better off than non-remote counties in some aspects.
- Need to study manufactured housing in more details.
 - » Collaborate with property and credit data vendors to develop methods to identify lending for manufactured housing.
- Additional Research.
 - » Future work can delve into and corroborate/dispute these preliminary descriptive findings.
 - » Potential for additional research papers in specific topics using the county-level or NSMO survey data.