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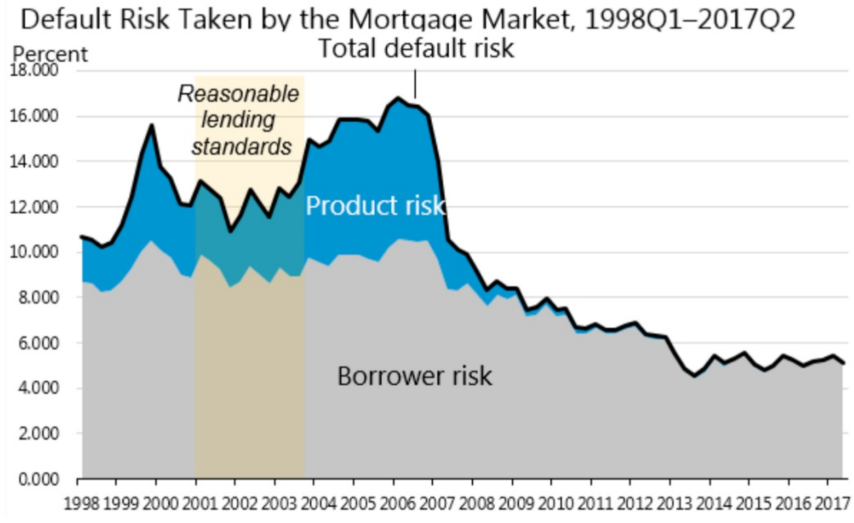
Mortgage Guidelines Could Twice as Loose and it Still Wouldn't be 2007 Again

The Mortgage Bankers Association's Mortgage Credit Access Index, released earlier this week, showed **continued slight easing** in the credit markets, especially in the jumbo loan space. A second similar index from the Housing Finance Policy Center, has credit tightening slightly. The Centers Credit Availability Index (HCAI) moved off the recent peak of 5.4, set in the first quarter of this year, to 5.1 in the second quarter. The Center says the decline was due primarily to a **shift in market composition**, from the government channel to the portfolio channel where lending standards are tighter.



The HCAI measures the share of purchase mortgages that are likely to default, that is, become 90 or more days past due, and lenders' willingness to tolerate it. A lower index indicates a lower tolerance reflected in the imposition of tighter lending standards. A higher number, of course, indicates greater tolerance and an easing of standards. The three channels tracked by the Center are GSE (Fannie Mae and Freddie Mac), FVR (FHA, VA, and USDA, i.e. government loans) and the PP channel, loans held in portfolio or securitized under a private label.

Fannie Mae and Freddie Mac loans constitute, by far, the largest share of mortgage lending. The GSE channel hit a low of 1.4 in 2011 but reversed the downward trend in the second quarter of that year and **has now rebounded** to 2.4, an increase of 73 percent. The Center says the GSE market has expanded the credit box for borrowers more effectively than has the FVR channel.

National Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.44%	-0.04	0.00
15 Yr. Fixed	5.97%	-0.03	0.00
30 Yr. FHA	5.90%	-0.04	0.00
30 Yr. Jumbo	6.66%	-0.02	0.00
5/1 ARM	6.32%	-0.06	0.00
Freddie Mac			
30 Yr. Fixed	6.46%	-0.40	0.00
15 Yr. Fixed	5.62%	-0.54	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.54%	-0.01	0.57
15 Yr. Fixed	5.96%	-0.07	0.65
30 Yr. FHA	6.49%	0.00	0.77
30 Yr. Jumbo	6.78%	+0.01	0.37
5/1 ARM	6.04%	+0.13	0.87

Rates as of: 8/23

Recent Housing Data

		Value	Change
Mortgage Apps	Aug 14	251.3	+16.83%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

Both the government (FVR) channel and portfolio and private-label securities (PP) channel remain close to or at record lows. During the housing boom both took **significantly higher product risk** than the GSE Channel. Post-crisis, the total default risk the government loan channel was willing to take bottomed out at 9.6 percent in Q3 2013 and it has fluctuated at or above that number since then. In Q2 2017, the risk in the government channel rose from 10.0 to 10.7 percent, which is still about half the pre-bubble level.

The PP channel's product and borrower risks dropped sharply after the crisis and the numbers stabilized starting in 2013. Product risk has fluctuated below 0.6 percent and borrower risk around 2.0 percent. The PP channel took only 0.19 percent product risk in Q2 2017. The total default risk taken by this market remains low, at 2.1 percent in Q2 2017.

The Center says **significant space remains** to safely expand the credit box. If the current default risk was doubled across all channels, risk would still be within the pre-crisis (2001-03) standard of 12.5 percent for the whole mortgage market.