

Residential mortgage market

Mutual Savings Association Advisory Committee
September 17, 2019

Economic & Policy Analysis
Daniel Grantham



Highlights

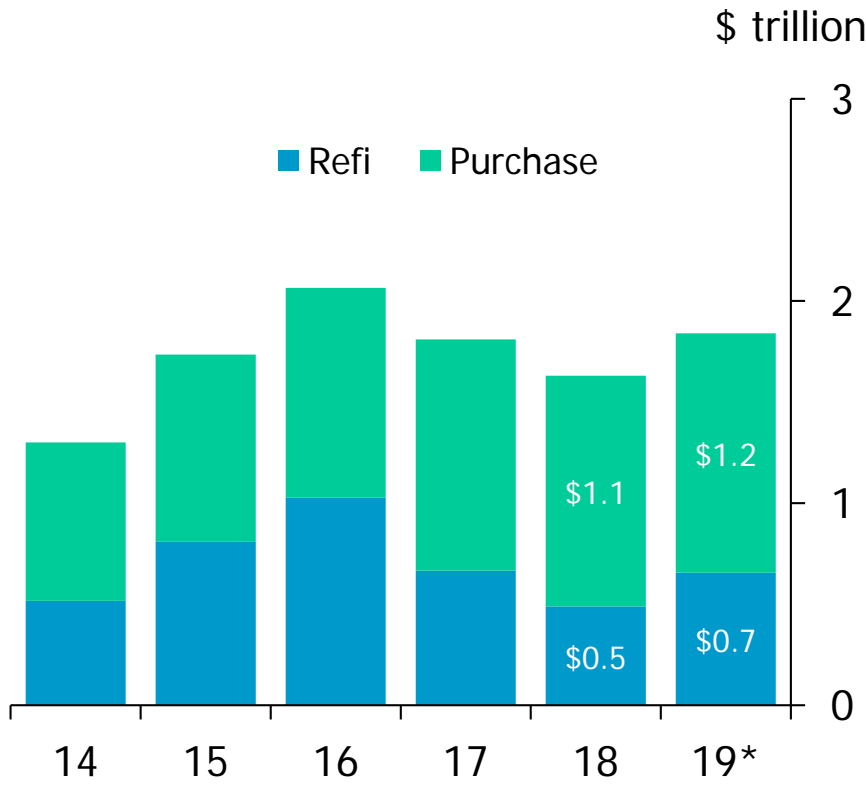
- Mortgage rates at lowest level in three years, a positive for origination volumes
- Banks still active in residential mortgages, but certain programs and activities have become less of a focus
- Residential mortgage standards loosened as the role of nonbanks increased

Lower interest rates support mortgage demand, particularly refinance activity

30-year fixed rate mortgage



Mortgage originations by purpose

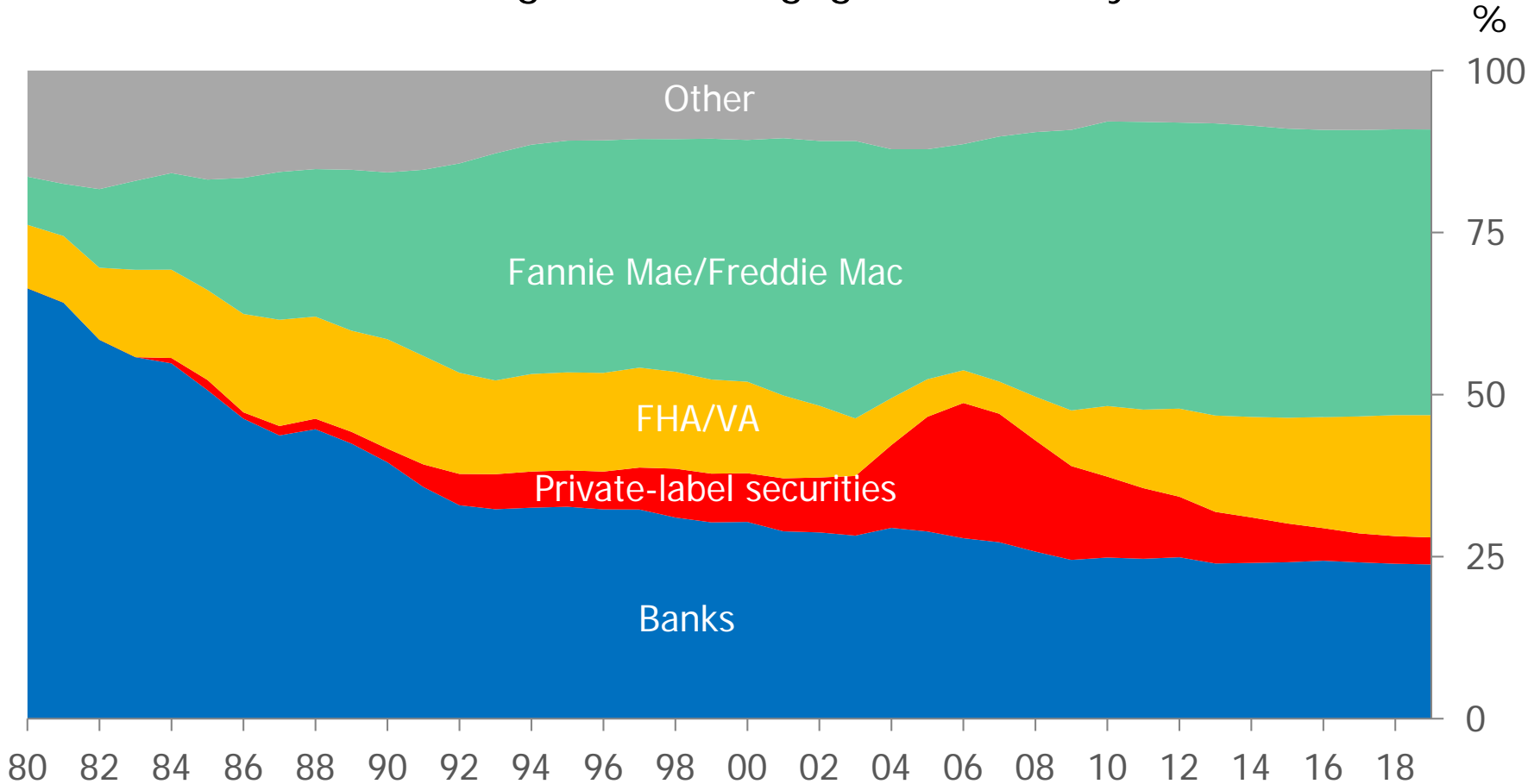


Source: Freddie Mac (data through September 5, 2019); Inside Mortgage Finance (data through 2Q 2019)

*2019 is as of 1H and annualized.

Declining share of banks' outstanding home mortgage balances is a long-term trend

Share of outstanding home mortgage balances by holder/owner

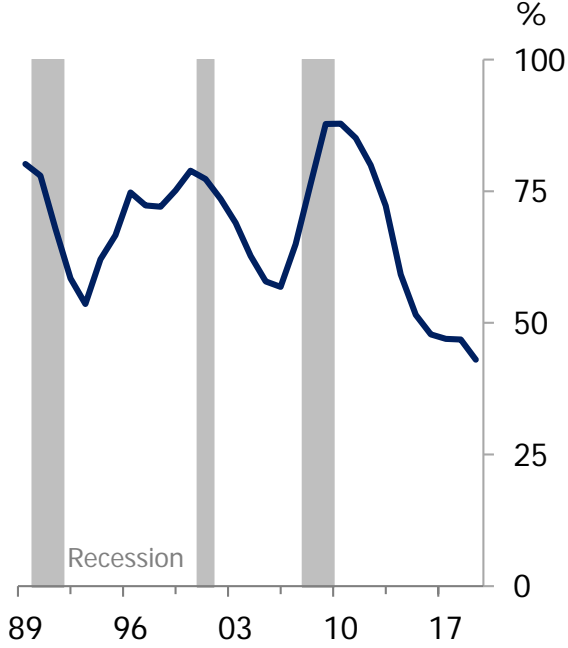


Source: FRB US Financial Accounts, Inside Mortgage Finance, GNMA, and FHFA (data updated through 1Q 2019)

Banks' origination and servicing market shares have declined; home mortgage funding steady

Originations

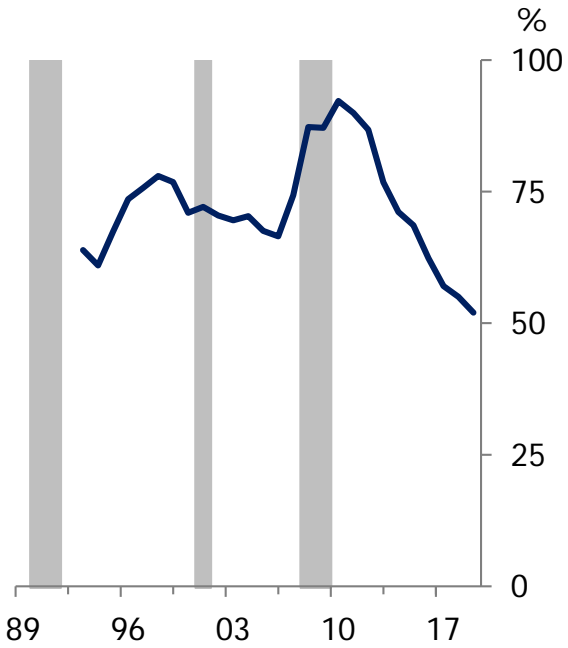
Market share of banks in the top 30 mortgage lenders by volume



Note: Market share statistics are for each type of firm's share of mortgage origination volume relative to total mortgages originated by the top 30 firms in each year.

Servicing

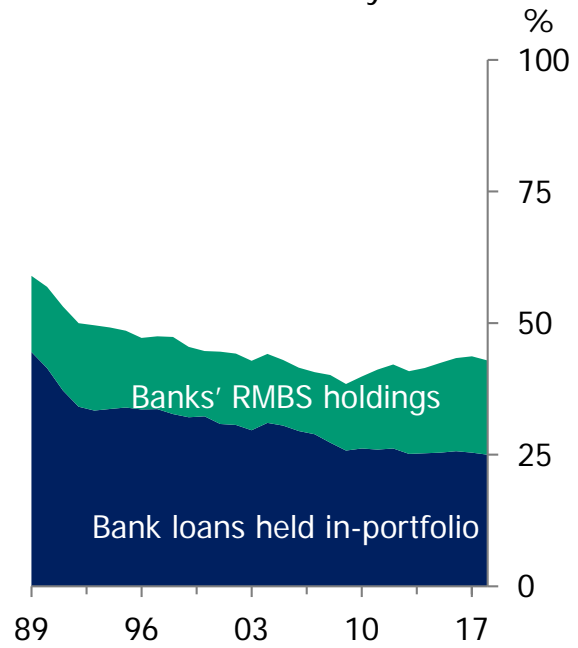
Market share of banks in the top 30 servicers by outstanding balance



Note: Includes all loans serviced by firms, not just those serviced for others. Market share statistics are for banking institutions' share of mortgages relative to total mortgages serviced by the top 30 firms in each year.

Funding

Share of outstanding mortgage balances funded by banks



Note: Banks are defined as all U.S.-chartered depository institutions (excl. credit unions). Bank loans held in-portfolio are those secured by 1-4 family residential collateral (closed-end firsts, HELOCs and HeLoans). Banks' MBS include agency and non-agency CMOs and pass-through securities.

Source: Inside Mortgage Finance for mortgage originations and servicing; FRB US Financial Accounts for banks' mortgage funding (data updated through 1Q 2019)

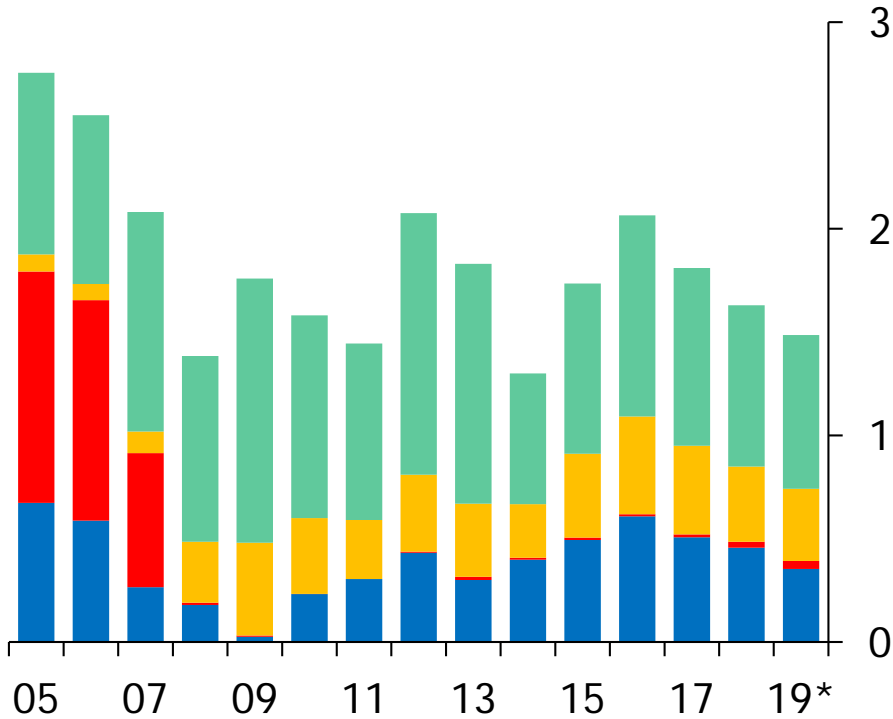
Banks currently originate-and-hold one-quarter of new residential mortgage originations

Residential mortgage originations by owner/holder

- Banks
- Private-label securities
- FHA/VA
- Fannie Mae / Freddie Mac

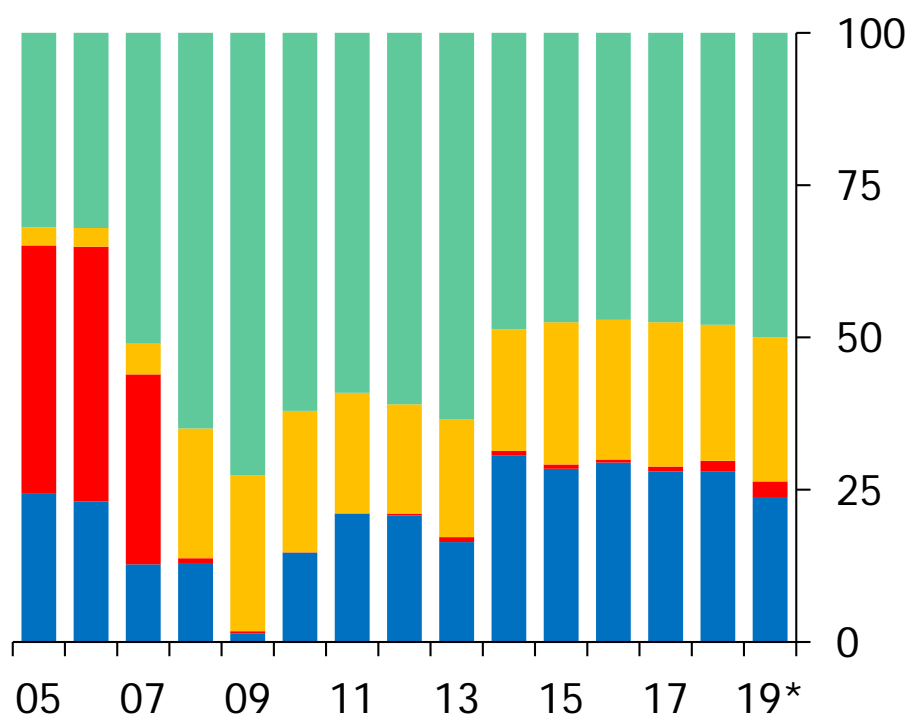
Volume

\$ trillions



Share

%

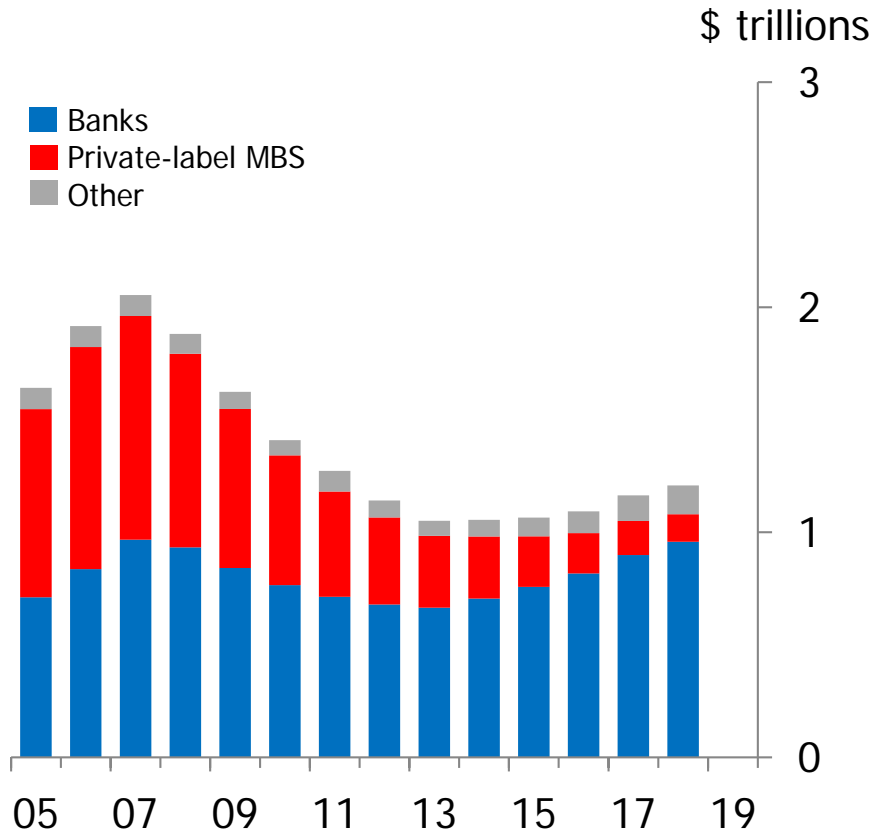


Source: Inside Mortgage Finance (as of 2Q 2019)

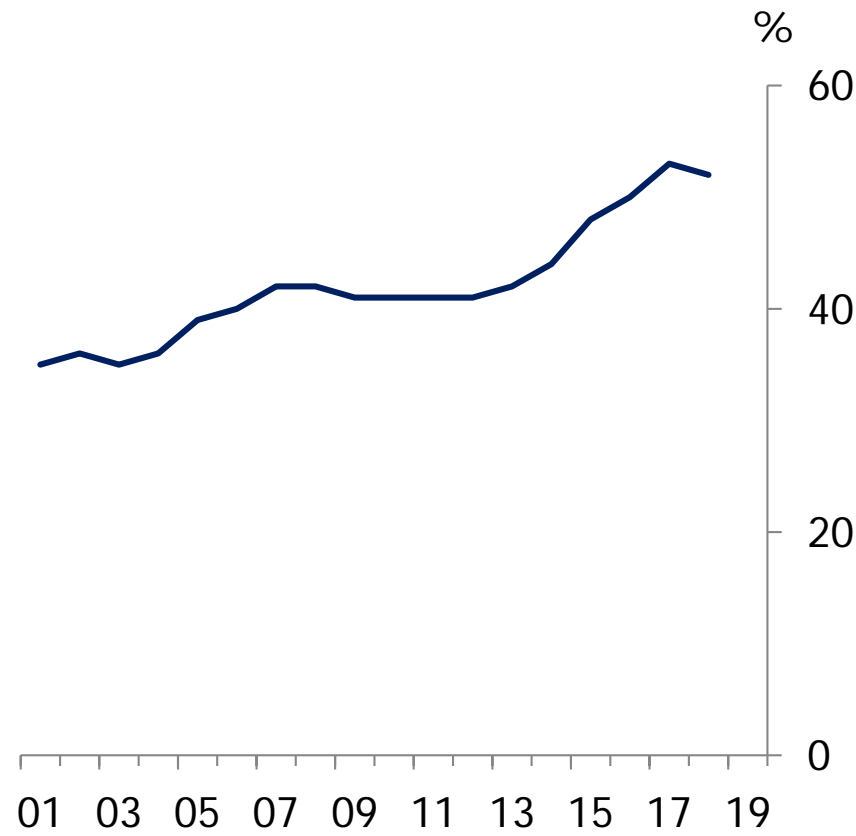
*2019 is as of 1H and annualized.

Banks are the largest provider of jumbos, which make up half of total held-portfolio

Outstanding jumbo mortgage balances by owner/holder



Jumbo share of outstanding bank-held mortgage balances

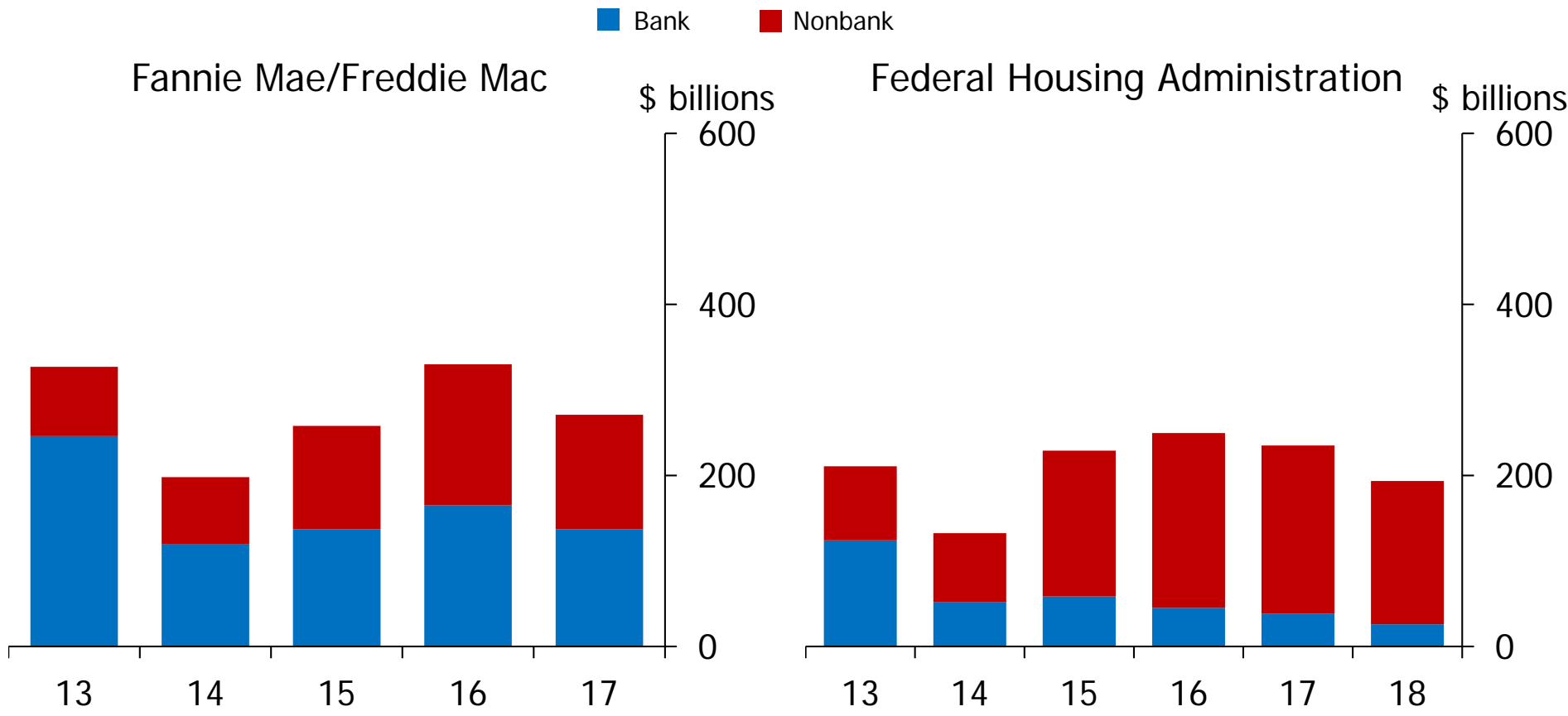


Source: National Mortgage Database (as of 2Q 2019)

Jumbo mortgages = original loan amount above the conventional conforming loan limit

Banks' declining originate-to-sell market share is most pronounced among FHA loans

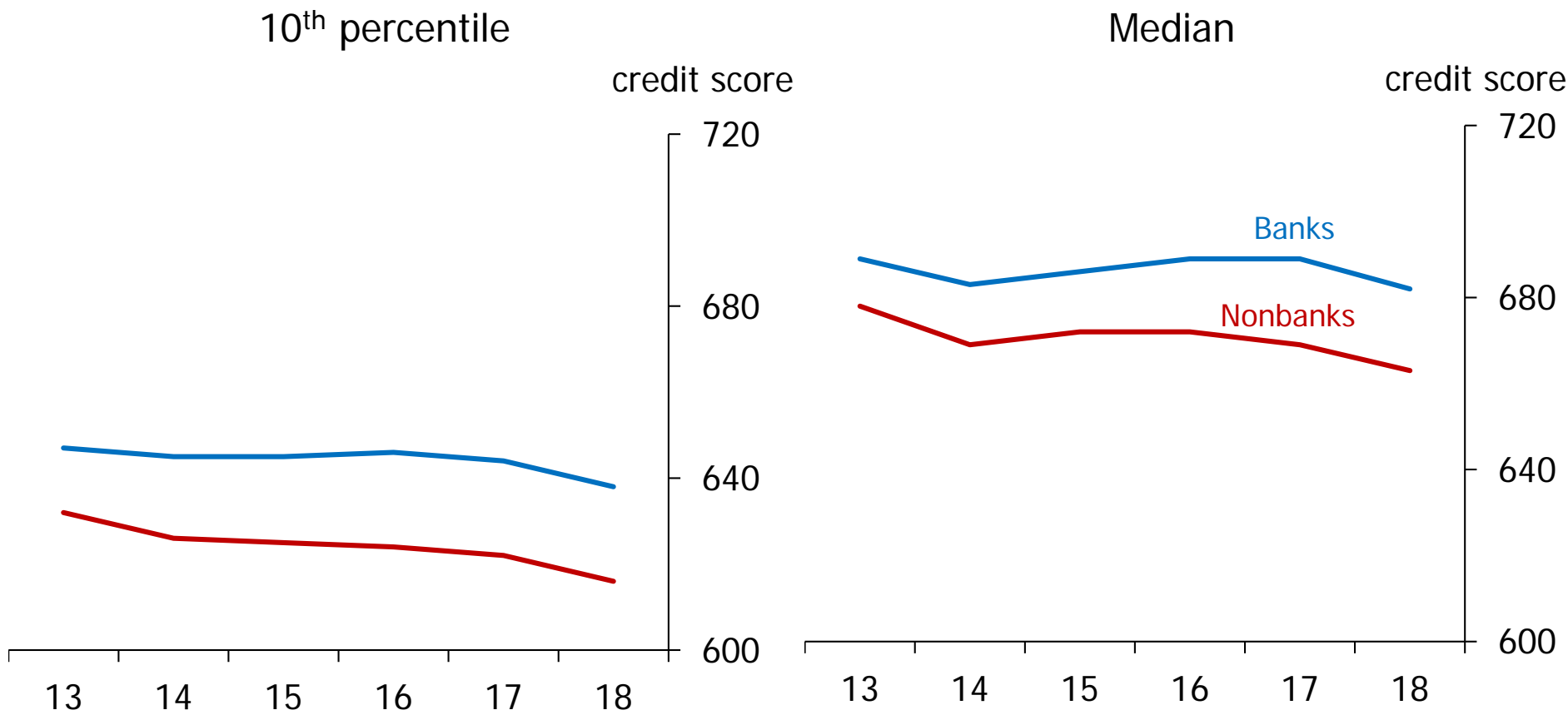
Residential mortgage originations by lender



Sources: FNMA and FHLMC public use data (available through 4Q:2017), GNMA public-use data (available through 4Q:2018)

Those banks that still originate FHA loans report higher credit scores than nonbank originators

Distribution of original FHA credit scores by lender

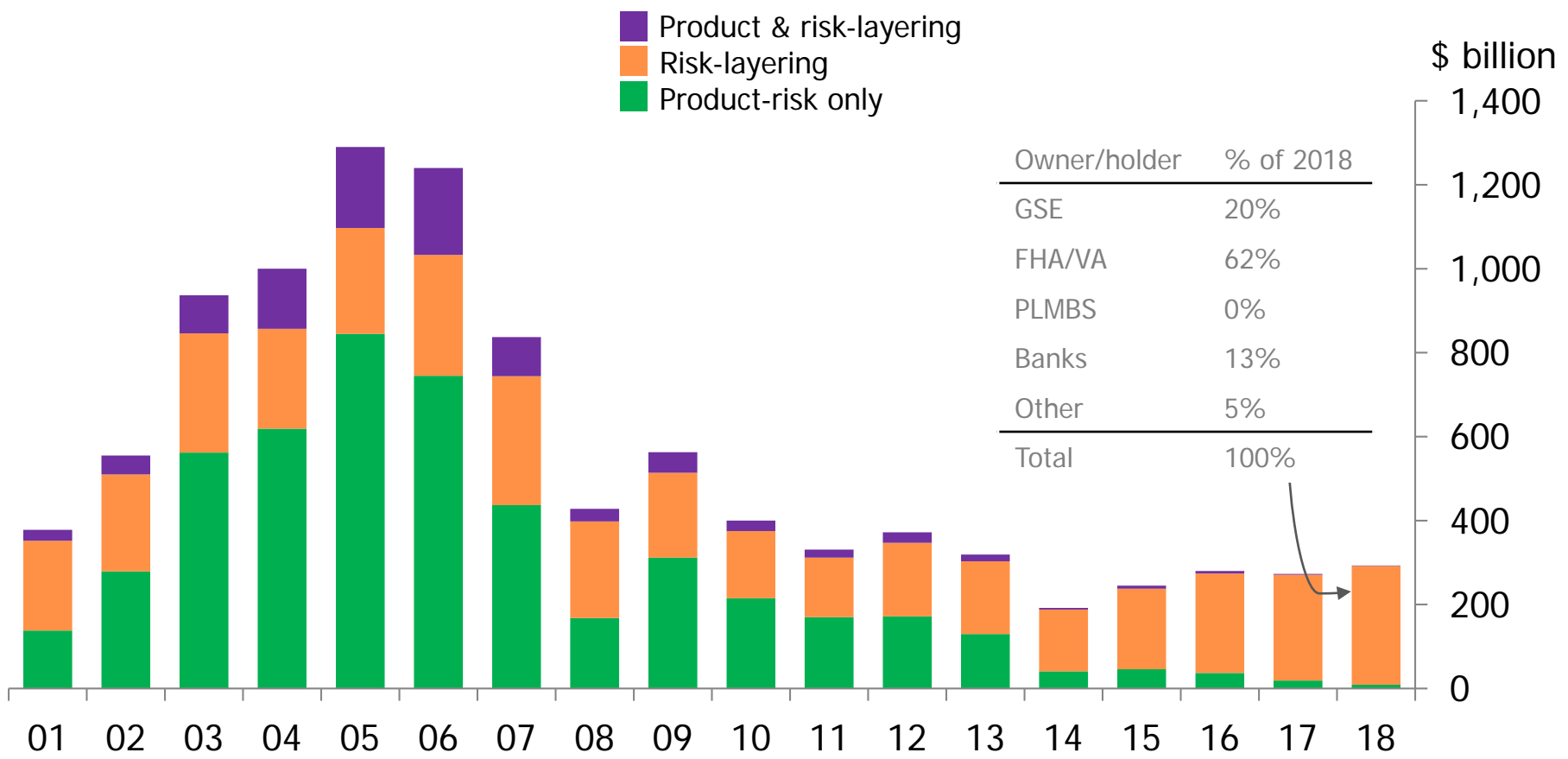


Source: GNMA public-use database (data through 4Q:2018)

Includes 30-year purchase loans only; FHA requires a minimum credit score of 580 to qualify for the low down payment program

High-risk originations have risen from 2014 lows; primarily risk-layering of origination metrics

High-risk mortgage by type of risk



Product risk = mortgage with either a balloon payment, negative amortization, no- or low-documentation, or prepayment penalty
 Risk-layering = a loan with two or more origination characteristics: debt-to-income >43%, credit score <660, or loan-to-value =>95%

Source: National Mortgage Database (data through 4Q 2018)

Summary

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