Residential mortgage market

Mutual Savings Association Advisory Committee
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Economic & Policy Analysis
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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

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

![Origination Chart](chart1)

**Servicing**

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

![Servicing Chart](chart2)

**Funding**

Share of outstanding mortgage balances funded by banks

![Funding Chart](chart3)

**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.

**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.

**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**

*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

- Banks
- Private-label MBS
- Other

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

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

10th percentile

credit score

Median
credit score

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-layering
Risk-layering
Product-risk only

Owner/holder % of 2018
GSE 20%
FHA/VA 62%
PLMBS 0%
Banks 13%
Other 5%
Total 100%

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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