



FEDERAL RESERVE BANK *of* NEW YORK

# Is the FHA Producing Sustainable Homeownership?

2013 Cleveland Fed Policy Summit, September 9<sup>th</sup>, 2013  
Affordable Housing, Mortgage Underwriting, and Default: The Case of the FHA  
Joseph Tracy, FRBNY

These views are my own and do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve System.

# FHA focused on sustainability not just affordability

- Former FHA Commissioner David Stevens in a speech on 12 December 2009 described the FHA's mission as follows.

“As a mission-driven organization, FHA's goal is to provide sustainable homeownership options for qualified borrowers.”

- What constitutes a sustainable FHA homeownership experience?
  - Minimum condition is that the borrower can successfully pay off the mortgage by either selling the house or refinancing to a non-FHA mortgage
- Simple question: What is the FHA's recent record on sustainable homeownership?
  - Challenge in answering this question is taking into account the FHA's internal refinance programs

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Purchase mortgage in  
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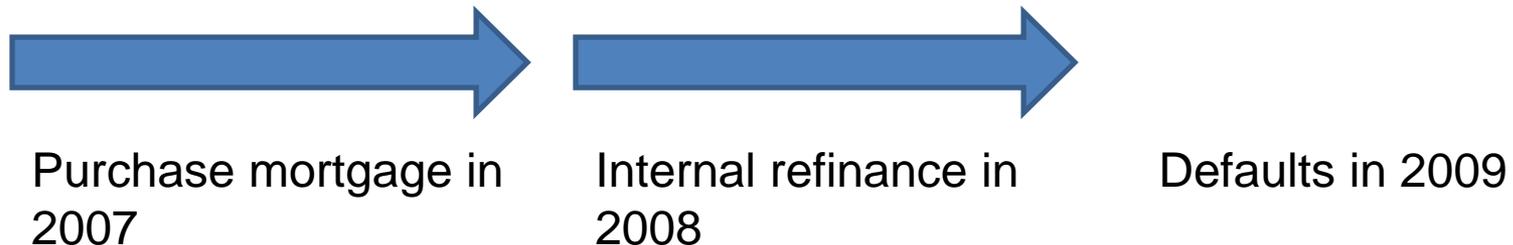
Purchase mortgage in  
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Internal refinance in  
2008

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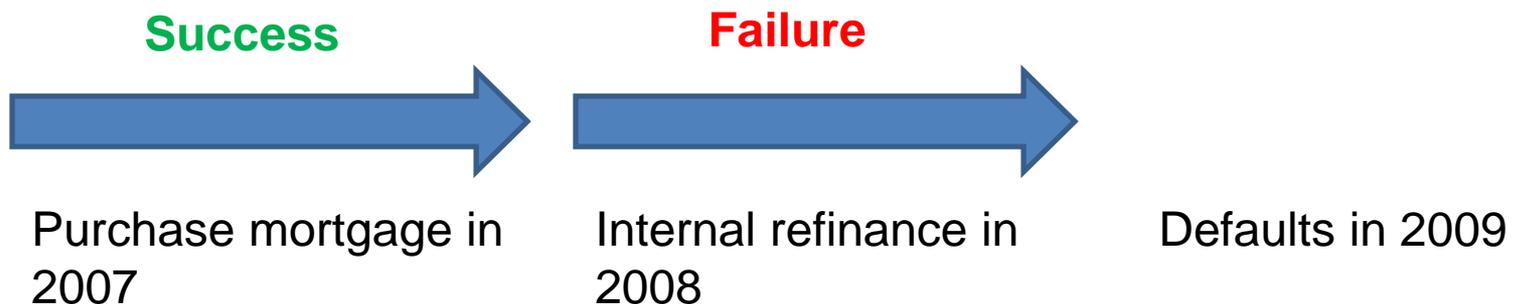
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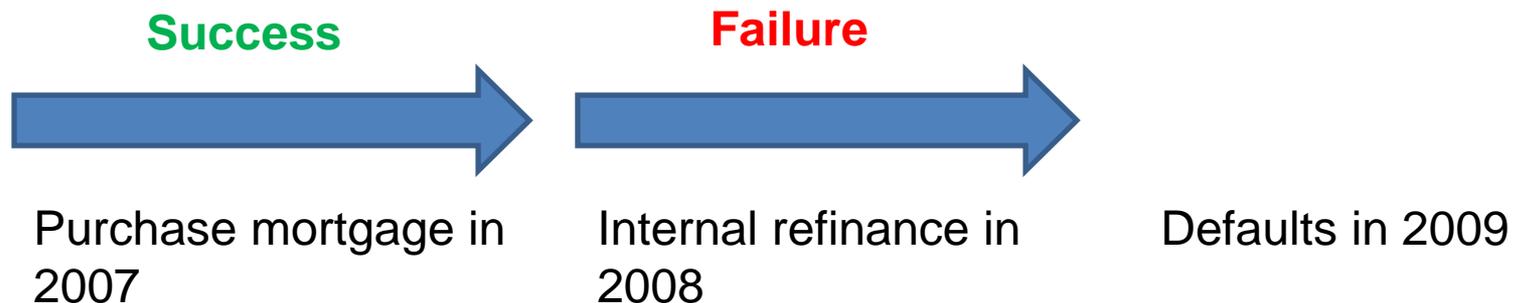
## Mortgage Perspective:



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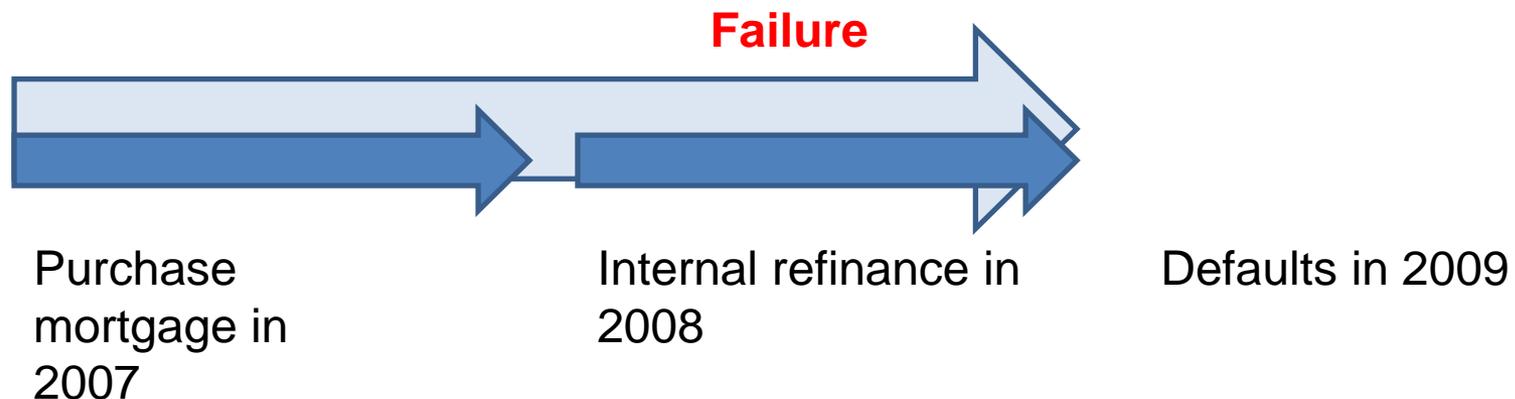
**Mortgage Perspective:** 1 success & 1 failure



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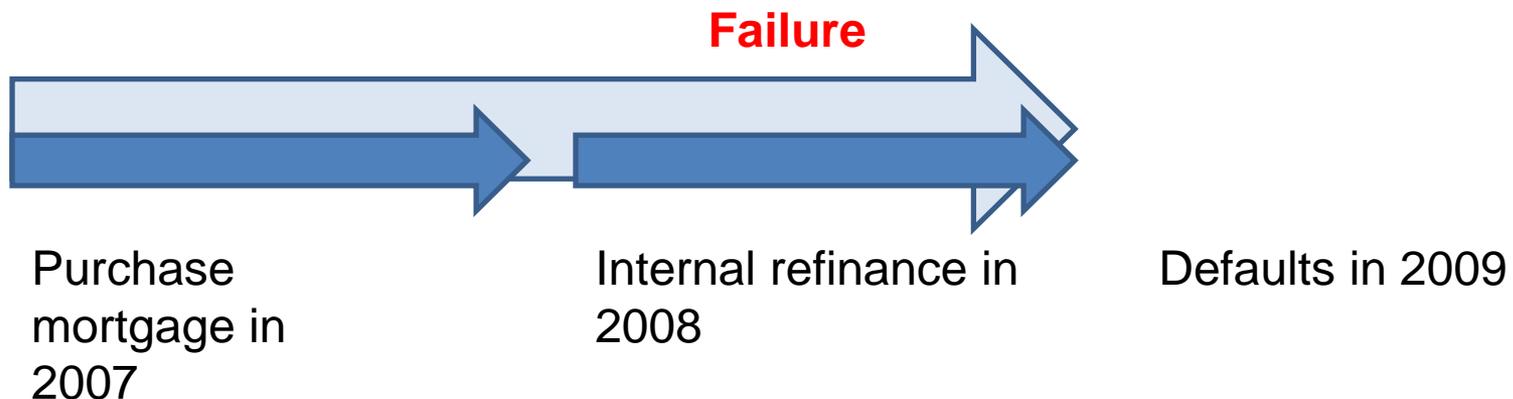
## Borrower Perspective:



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**Borrower Perspective:** 0 success & 1 failure



# Borrower based data architecture is required:

- CoreLogic identified through deeds records analysis adjacent FHA mortgages for the same property
- Created a 5% random sample of FHA mortgages where we can analyze the data at either the borrower or the mortgage level
  - Follow the 2007, 2008 and 2009 vintages of FHA borrowers – performance data through September 2011
  - Closely match published FHA data on characteristics of mortgage originations by fiscal year
- Relative frequency of FHA borrowers with multiple mortgages:
  - 2 mortgages: 18.32 percent
  - 3 mortgages: 0.62 percent
  - 4 mortgages: 0.03 percent

# Comparison of mortgage and borrower performance

Data: FHA originations from 2007 – mid 2010;  
performance data through Sept 2011

Mortgage data:			
	Active	Default (90+)	Prepay
Combined	0.645	<b>0.161</b>	<b>0.194</b>
2007	0.350	0.323	0.327
2008	0.420	0.210	0.370
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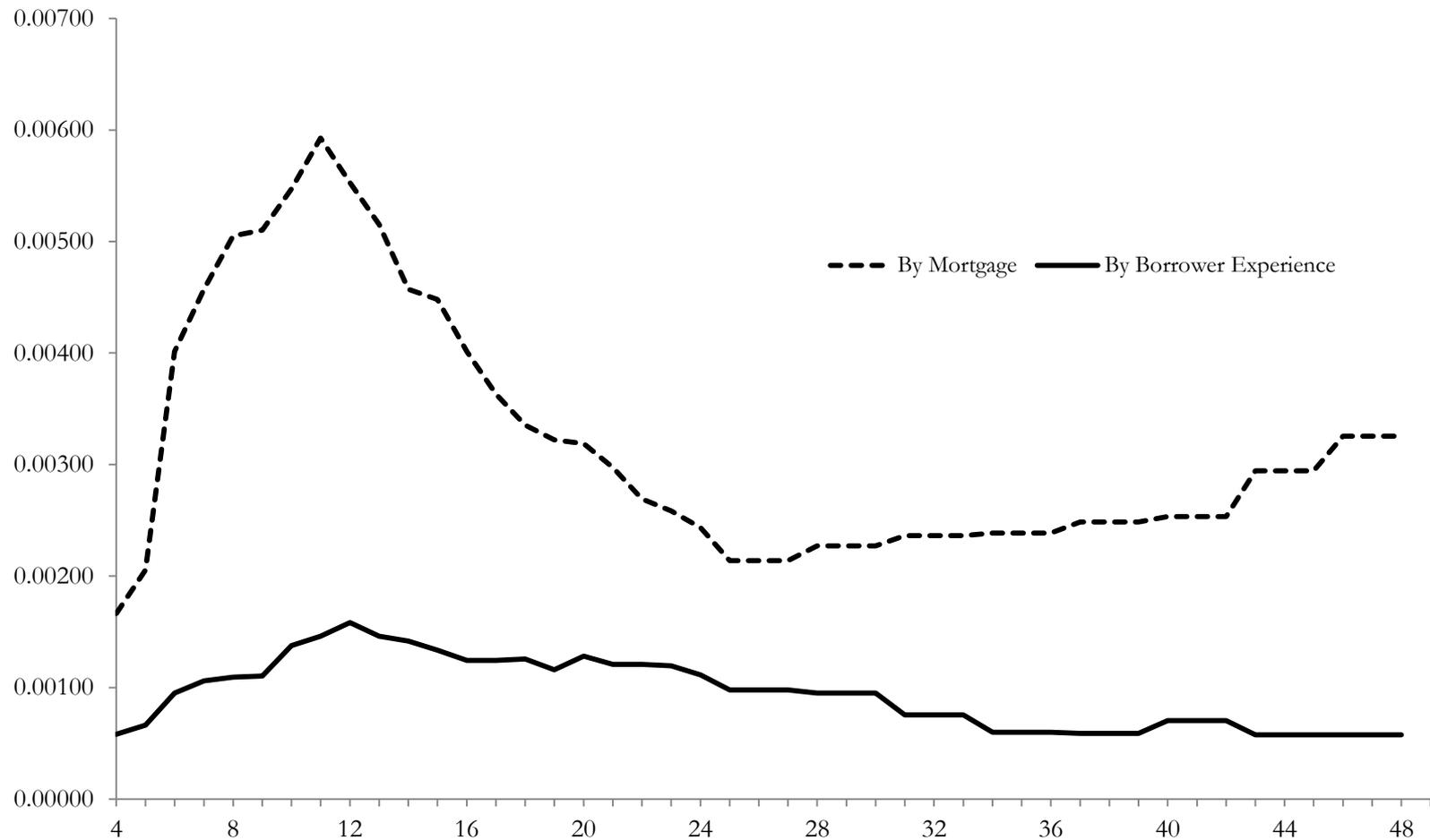
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Borrower data:			
	Active	Default (90+)	Prepay
Combined	0.750	0.186	0.064
2007	0.464	<b>0.427</b>	<b>0.109</b>
2008	0.593	0.296	0.112
2009	0.869	0.095	0.036

# Does data architecture matter for forecasts?

## Baseline Prepayment Hazards: Mortgage vs Borrower



# Forecasts to 10-year since origination:

**Table 6. Vintage projections at 10 years from origination**

	Still Active	Default	Prepay	Maximum Sustainability Rate
<b>Combined: 2007-2009</b>	39.0	31.0	29.2	74.8
<b>2007</b>	17.8	<b>51.8</b>	30.4	58.9
<b>2008</b>	23.5	<b>40.5</b>	36.0	67.9
<b>2009</b>	50.4	24.4	25.3	80.7

**Note: Vintages represent calendar years. Maximum sustainability rate = Still Active + Prepay + Default\*cure rate.**

## Reference:

Caplin, Andrew, Anna Cororaton and Joseph Tracy. "Is the FHA Creating Sustainable Homeownership?" NBER Working Paper No. 18190, June 2012.