Is the FHA Producing Sustainable Homeownership?

2013 Cleveland Fed Policy Summit, September 9th, 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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**Mortgage Perspective:**

- **Success**
  - Purchase mortgage in 2007
- **Failure**
  - Internal refinance in 2008
  - Defaults in 2009
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**Mortgage Perspective:** 1 success & 1 failure

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**Borrower Perspective:**

Failure

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

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<tr>
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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

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<td>0.464</td>
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Does data architecture matter for forecasts?

Baseline Prepayment Hazards: Mortgage vs Borrower

- **By Mortgage**
- **By Borrower Experience**
Forecasts to 10-year since origination:

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

Reference: