Highlights

House Price Declines for Homes with Different Financing and Borrower Characteristics

An OFHEO Research Note published in January found that a significant portion of the difference between recent HPI trends and trends shown in the S&P/Case-Shiller indexes could be attributed to relative price weakness for homes that did not have Enterprise financing.[1] That finding suggested further investigation of how price trends differ for properties financed by loans with different characteristics.

OFHEO has assembled sales transaction data and mortgage information from a variety of different sources and has used it to estimate recent price trends for homes with different financing and borrower characteristics. The analysis, which focuses on price trends in central California and other parts of that state, finds that homes with the riskiest mortgages have seen much greater price declines in recent quarters. For example, since prices peaked in central California, prices have fallen about 30.7 percent for homes whose owners had the highest debt-to-income (DTI) ratios. By contrast, in the same area, prices have fallen about 22.9 percent for homes with low-DTI mortgages.

The empirical analysis reviews trends by FICO scores, DTI and loan-to-value (LTV) ratios. Some comparisons are also performed based on whether the underlying mortgages are fixed or adjustable-rate.

A number of different possible causes for the financing-related performance divergence are discussed in the paper, which can be downloaded at http://www.ofheo.gov/media/research/pricesandfinancing.pdf. The practical application of using financing-specific house price indexes in loan default and prepayment models is also discussed, although no empirical results are shown from such models.

Inclusion of Temporary Jumbo Conforming Mortgages in the HPI

Under the Recovery Rebates and Economic Stimulus for the American People Act of 2008, Fannie Mae and Freddie Mac are temporarily allowed to buy mortgages in certain high-cost areas with loan amounts in excess of the normal loan limit ($417,000 for homes in the continental United States). OFHEO has considered whether house price data from these higher-balance "temporary jumbo conforming" mortgages will be used and, if so, whether they would be later removed from the sample when the temporary limits expire in January 2009.

After considering various options, OFHEO has decided to include these data when it calculates the HPI. The data were included in the estimation of first quarter 2008 HPI figures released in May. The impact of those data on the HPI has been quite small so far.

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[1] See Leventis, Andrew, "Revisiting the Differences between the OFHEO and S&P/Case-Shiller House Price Indexes: New Explanations" available at www.ofheo.gov/media/research/OFHEOSPCS12008.pdf.

A fundamental purpose of the HPI is to track home values for homes *financed by the Enterprises* and thus, because these temporary conforming mortgages are Enterprise loans, the underlying homes values are relevant and ought to be incorporated. Once the temporary limits expire at year's end, loans purchased under the temporary jumbo conforming program will continue to be included in the index.

Under the Housing and Economic Recovery Act of 2008, the successor organization to OFHEO—the Federal Housing Finance Authority—will set loan limits for 2009. For certain "high cost" areas, those limits may exceed limits for the rest of the country. In the HPI calculations, homes with mortgages that have balances exceeding the national limit (but below the localized limit), will be treated exactly the same as other homes.