HOUSING AND MORTGAGE MARKETS IN 2012

December 2013

Preface

This Federal Housing Finance Agency (FHFA) research paper reviews developments in the housing sector and mortgage markets in the United States in 2012. The paper is part of FHFA's ongoing effort to enhance public understanding of the nation's housing finance system. The paper was prepared by staff of the Office of Policy Analysis and Research—William Doerner, Ken Lam, Andrew Leventis, Saty Patrabansh, Valerie Smith, and Jesse Weiher—under the supervision of Robert S. Seiler, Jr. Peter Alex, Colin Shelby, and Colleen Yeskovich provided research assistance.

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Summary

The U.S. economy continued to show signs of improvement in 2012. Economic growth, as measured by real gross domestic product (GDP), was positive throughout the year. Inflation, as measured by the consumer price index (CPI), remained low. Most market interest rates declined further. Financial market liquidity improved as well, and credit spreads remained close to their levels before the onset of the financial crisis in 2008. Labor market conditions continued to improve. The unemployment rate declined to 7.8 percent at the end of 2012 from 8.5 percent one year before but remained high by historical standards for this point after the end of a recession.

Conditions in the housing sector strengthened significantly in 2012. Fueled by historically low mortgage interest rates and low inventory levels, real estate prices rose significantly during the year. Delinquency rates for both single- and multifamily mortgages fell. Foreclosure starts for prime and subprime mortgages also declined. Housing starts and sales were at much higher levels than in 2011. The homeownership rate continued to fall, despite very low mortgage rates and rising household incomes. Home affordability reached a new high.

Single-family mortgage originations surged in 2012, primarily reflecting an increase in refinancing. The government-insured segment of the origination market showed a slight contraction, but there was improvement in jumbo lending and in new business written by private mortgage insurers. The multifamily mortgage market had another strong year.

Mortgage purchases and issuance of mortgage-backed securities (MBS) by Fannie Mae and Freddie Mac (the Enterprises) increased in 2012 along with the increase in mortgage originations, and the Enterprises continued to dominate the secondary market for conventional single-family mortgages. The Enterprises and Ginnie Mae were once again the dominant issuers of single-family MBS as private-label issuance volume continued to decline, falling to its lowest

level in decades due to a drop in re-securitizations. Private-label securitization of newly originated single-family mortgages showed renewed signs of life, though on a small scale. Issuance of multifamily MBS was up sharply again last year. Lending by the Federal Home Loan Banks (FHLBanks) rose slightly last year but continued to be limited by the availability of alternative sources of financing.

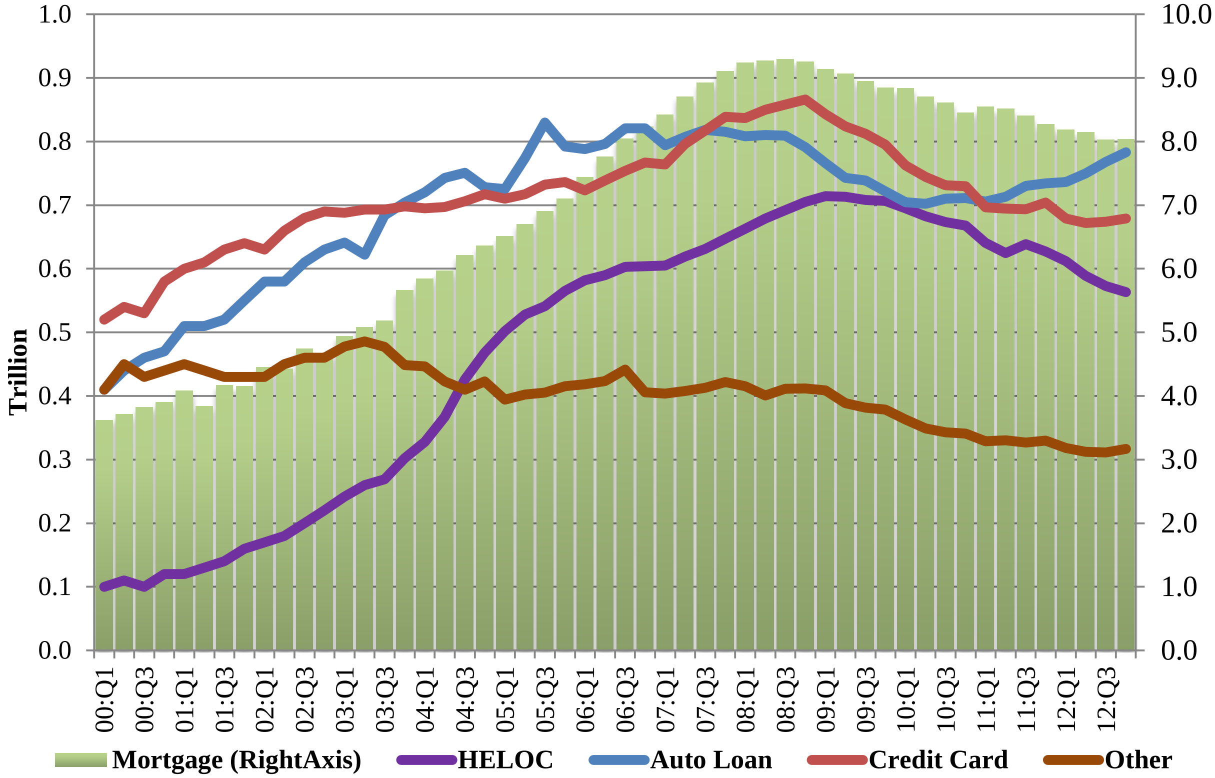
Developments in the Broader Economy

The U.S. economy continued to recover slowly in 2012 from the severe recession that ended in mid-2009. Core Inflation remained low. Financial markets gained strength, and financial market liquidity improved. However, job growth remained weak and unemployment remained high. The Federal Reserve continued its quantitative easing efforts, which helped to bolster financial market liquidity and keep interest rates very low.

Economy Expands and Households Deleverage, but Recovery Remains Jobless; Financial Conditions Improve

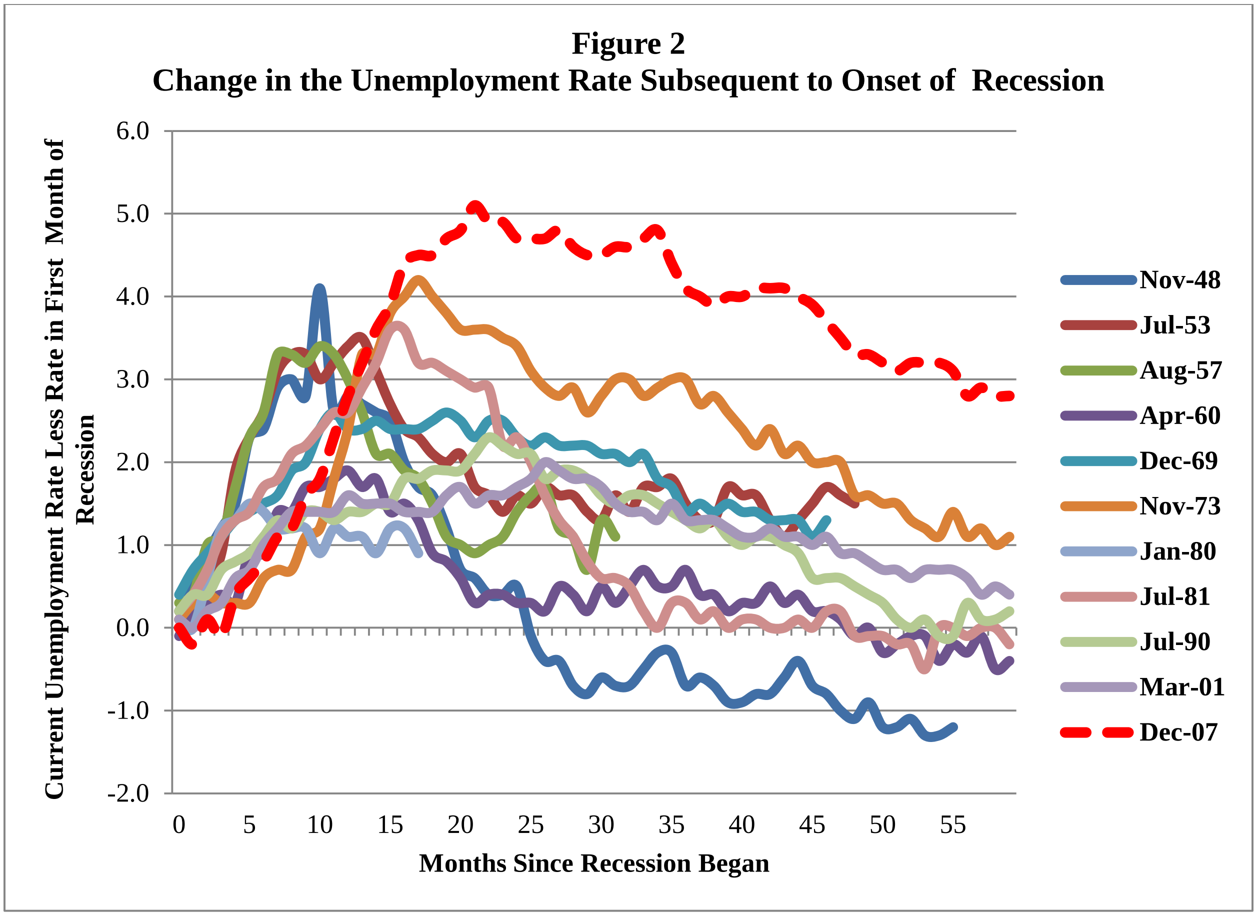
Economic growth was stronger in 2012 than in 2011. Real gross domestic product grew by 2.2 percent, up from 1.8 percent in the previous year. Most sectors of the economy expanded at a faster pace than in 2011. Residential fixed investment rose $34.8 billion dollars from the fourth quarter of 2011 to the fourth quarter of 2012. Households continued to reduce debt accumulated before the financial crisis. Total household debt fell by $196 billion, which was more than the $176 billion drop in 2011, reflecting a continued decline in mortgage debt (Figure 1). The reduction in household debt in 2012 was due more to write-offs of defaulted loans than to net repayment by consumers of their debt obligations. More than $548 billion in loans became seriously delinquent (past due for more than 90 days) during the year. That amount was lower than in 2011, when there were more than $624 billion in new serious delinquencies.

Figure 1
Household Debt by Loan Type



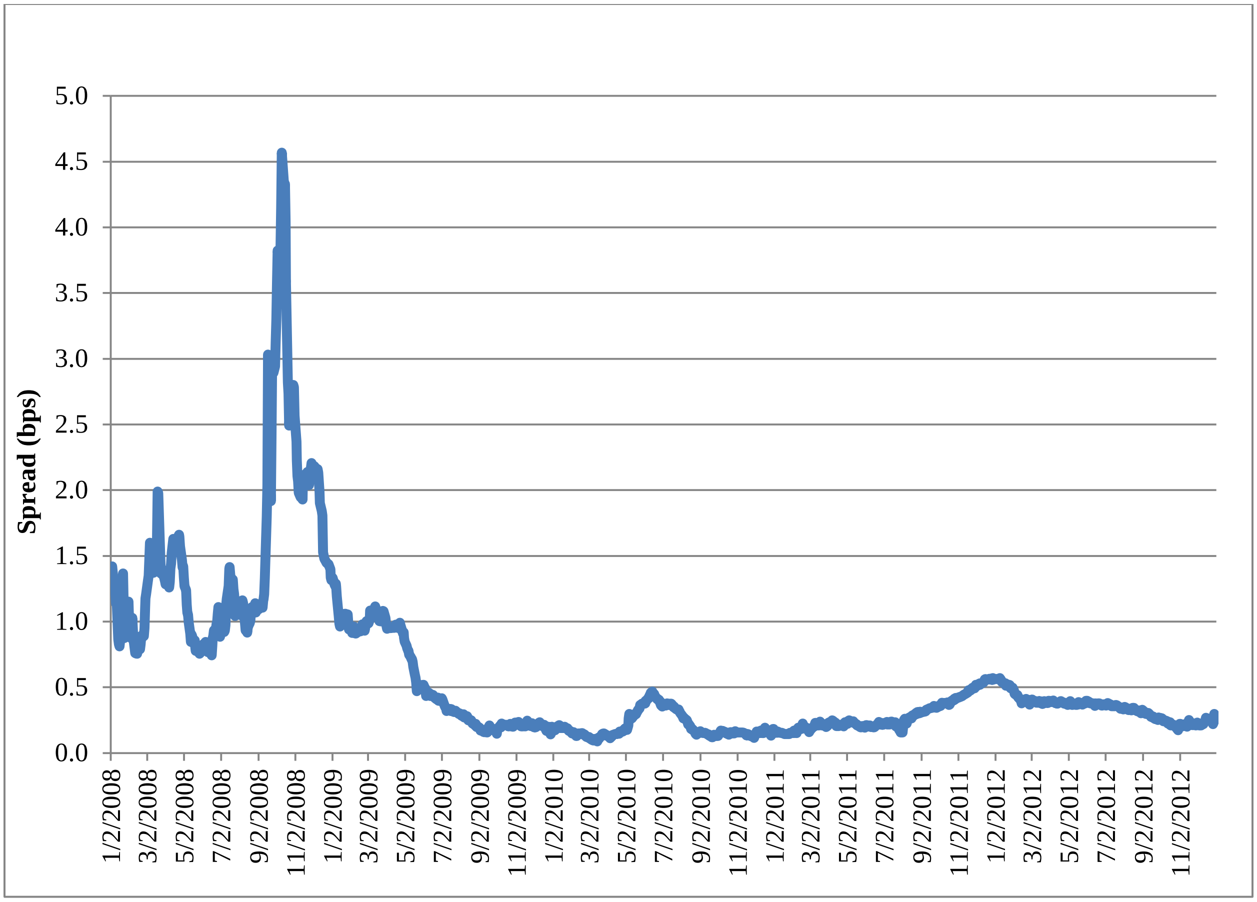
Source: Federal Reserve Bank of New York

The unemployment rate fell from 8.5 percent in December 2011 to 7.8 percent in the last two months of 2012. Unemployment was unusually high in 2012 for this stage of an economic recovery. The unemployment rate ranged from 3.3 to 2.8 percentage points higher than the 5 percent rate just before the start of the recession in December 2007.



Source: Bureau of the Census and National Bureau of Economic Research

In previous recessions in the period since World War II, the unemployment rate was only that far above the pre-recession level that long afterward following the recessions that began in July 1953 and December 1969 (Figure 2). Reducing unemployment to a degree in 2012 was a further slight decline in the labor force participation rate, which fell to 63.6 percent at the end of 2012 from 64.0 percent at year-end 2011. That rate has declined steadily since its peak in July 1997 of 67.3 percent, a trend that has lowered the unemployment rate.



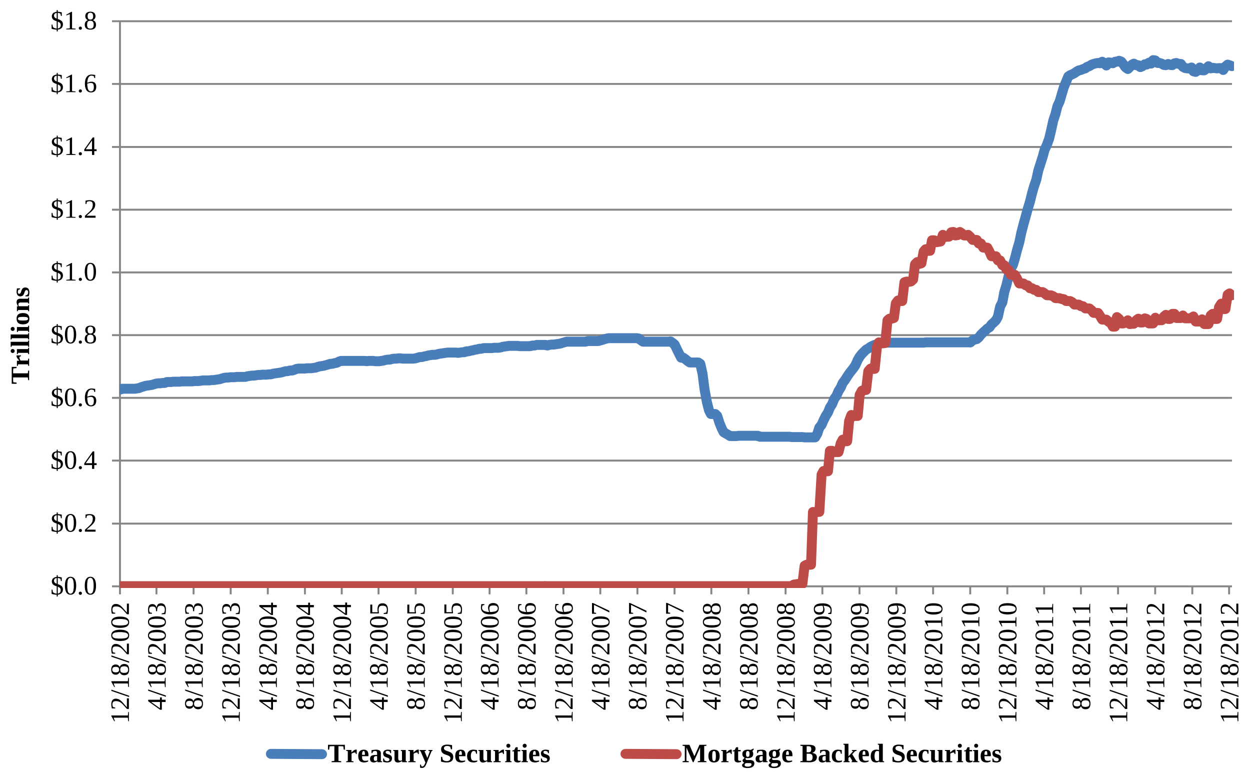
Source: Bloomberg and Federal Reserve System

Financial market performance was more robust in 2012 than in the previous year. The S&P 500, which had fallen in 2011, rose 13 percent for the year, and the Dow Jones Industrial Average gained 7 percent, up from 5 percent in 2011. The spread between the three-month London Interbank Offered Rate (LIBOR) and the three-month Treasury bill rate ranged from 17 to 57 basis points. That spread was very close to the spread in 2011, when it ranged from 14 to 57 basis points, but still well below spreads in the fourth quarter of 2008 (Figure 3).

Prices Rise and Interest Rates Remain Low in Response to Federal Reserve Actions

In a continued effort to provide liquidity and stimulate aggregate demand, the Federal Reserve kept the federal funds target rate between 0 and 25 basis points for all of 2012 and continued its policy of quantitative easing through purchases of U.S. Treasury securities; MBS guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae; and, to a lesser extent, long-term debt issued by government-sponsored enterprises (GSEs). The Federal Reserve's balance sheet expanded in 2012 as a result of growth in its MBS holdings. At the end of 2011, the Federal Reserve held $1.67 trillion in Treasuries and $837 billion in Enterprise and Ginnie Mae MBS. By the end of 2012, the Federal Reserve held over $1.65 trillion in Treasury securities and nearly $927 billion in MBS (Figure 4).

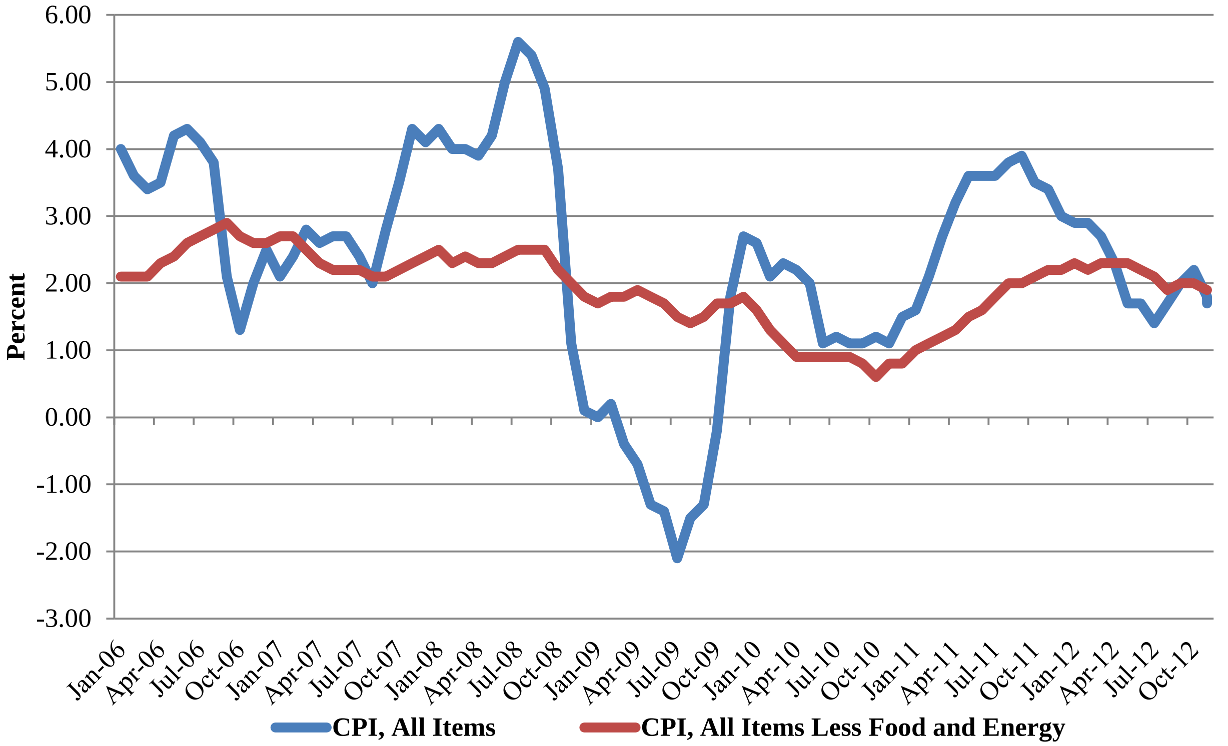
Figure 4
Federal Reserve Holdings of Treasury Securities and Mortgage-Backed Securities



Source: Federal Reserve System

As measured by the Consumer Price Index (CPI), the general price level, excluding food and energy, rose 1.9 percent in 2012. That was a decrease from 2.2 percent in 2011 (Figure 5). General price inflation was still low relative to the average 12-month change in the CPI from 1958 to 2012 of 3.8 percent.

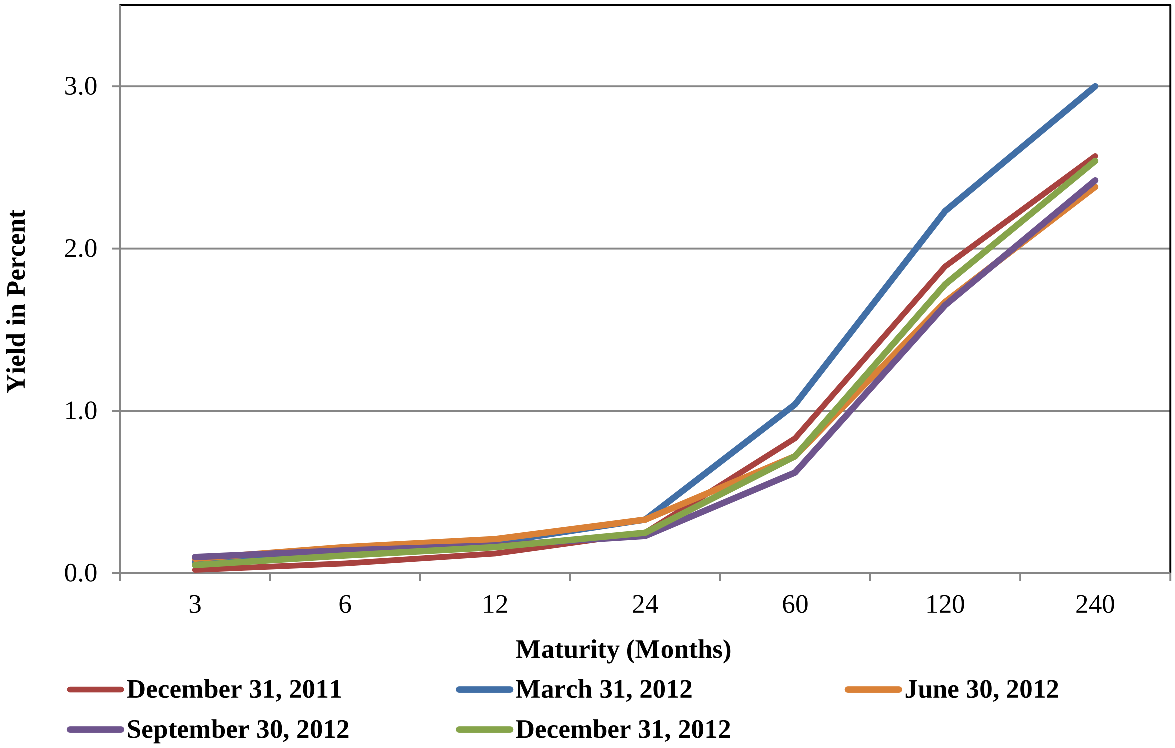
Figure 5
Inflation, Price Change from 12 Months Earlier



Source: Bureau of Labor Statistics

The Federal Reserve's actions continued to keep interest rates very low in 2012. The quarterly yield on the one-year Constant Maturity Treasury (CMT) was 19 basis points in the first quarter of 2012 and 16 basis points in the fourth quarter. Long-term interest rates rose in the first quarter but in the next three quarters fell to levels lower than those in the fourth quarter of 2011. The yield on the 10-year CMT ended the fourth quarter of 2012 at 1.78 percent, 11 basis points lower than in the fourth quarter of 2011. Because long-term interest rates rose more than short-term rates in 2012, the Treasury yield curve steepened slightly over the course of the year (Figure 6).

Figure 6
Treasury Yield Curve in 2011 and 2012

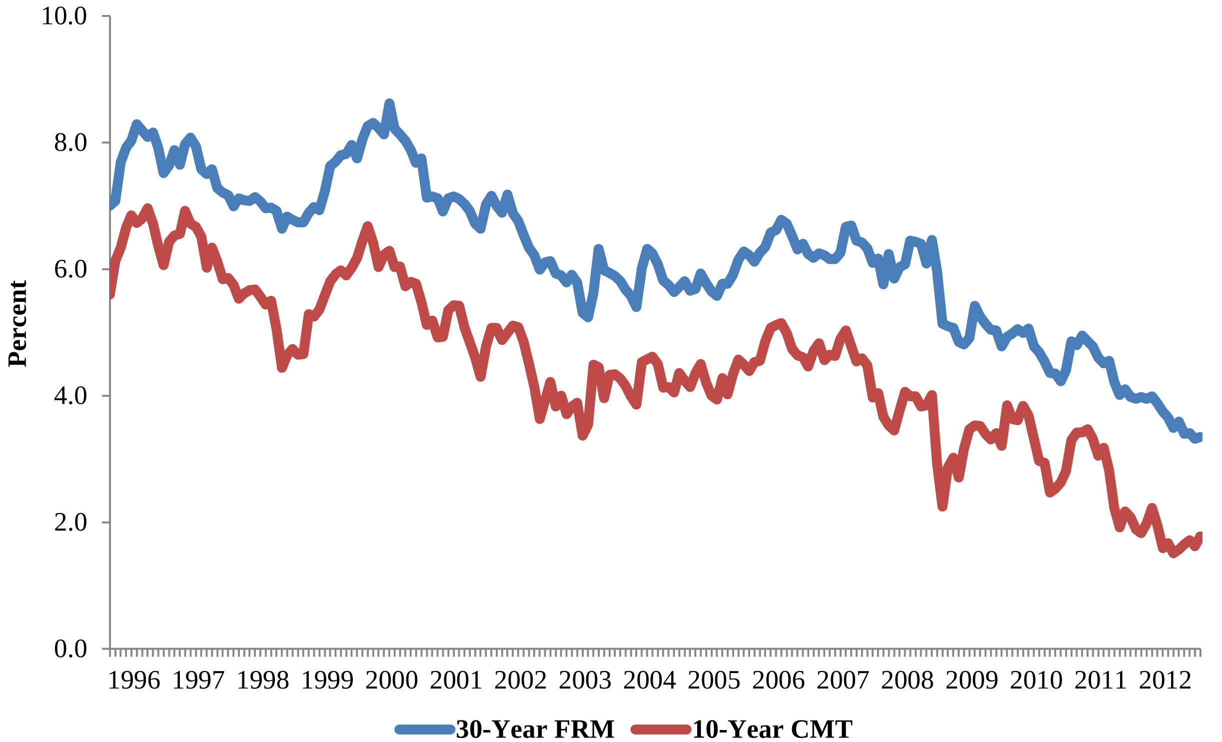


Source: Federal Reserve System

Mortgage Rates Fall

Mortgage interest rates, which generally have followed the trend of long-term Treasury rates, fell to historically low levels in 2012. According to Freddie Mac's Primary Mortgage Market Survey (PMMS), the average commitment rate on 30-year fixed-rate mortgages (FRMs) fell from 3.98 percent in January to a low in December of 3.35 percent, 60 basis points lower than at year-end 2011 (Figure 7).

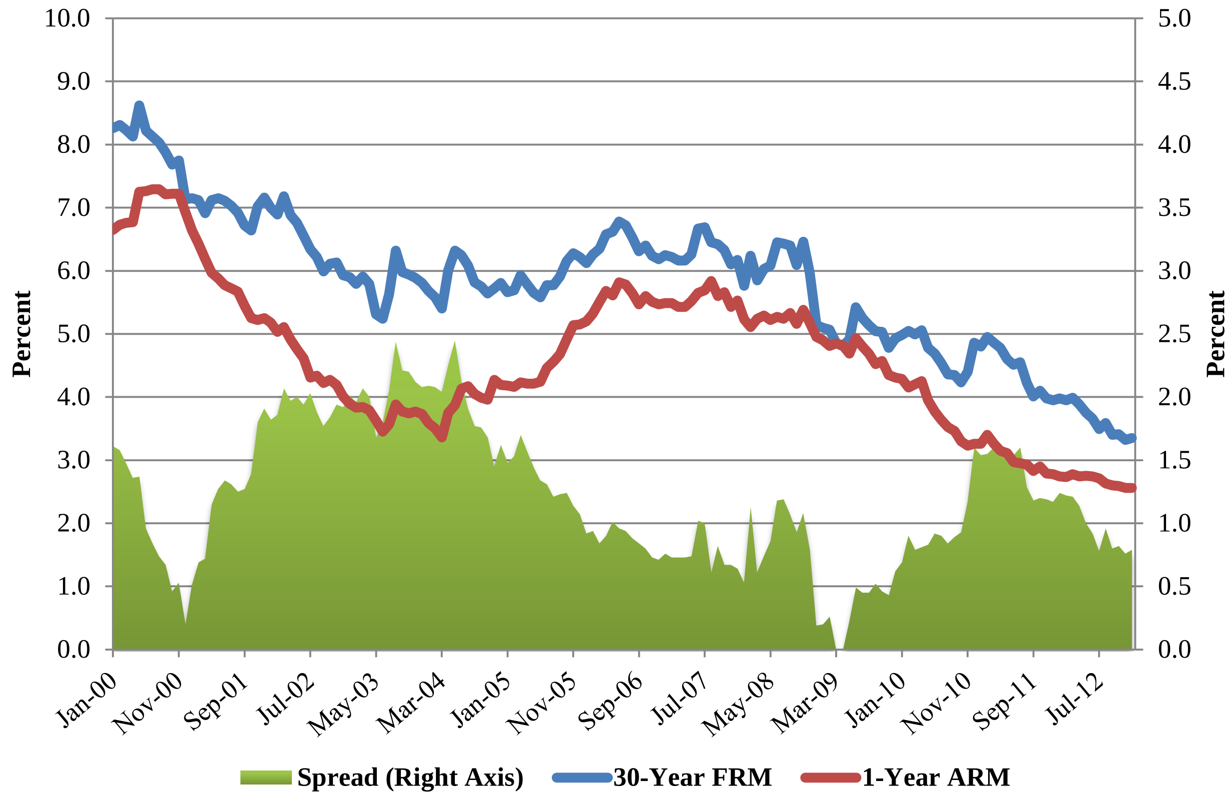
Figure 7
Commitment Rates on 30-Year Fixed Rate Mortgages and Yields on the 10-Year Constant Maturity Treasury



Source: Freddie Mac's Primary Mortgage Market Survey

For the year, the 30-year FRM commitment rate averaged 3.65 percent, 80 basis points below the average for the previous year. The average commitment rate on one-year Treasury-indexed adjustable-rate mortgages (ARMs) also decreased in 2012 (Figure 8). For the year, the one-year ARM commitment rate averaged 2.68 percent, 35 basis points lower than the year before. The spread between commitment rates on FRMs and ARMs held relatively stable throughout the first three months of 2012, at about one and one-quarter percentage points. However, the FRM-ARM spread fell to 76 basis points in November, as FRM commitment rates fell while ARM commitment rates were stable.

Figure 8
Commitment Rates on Single-Family Mortgages



Source: Freddie Mac's Primary Mortgage Market Survey

Housing Market Developments

Despite a sluggish macro-economy and only minor improvements in the labor market, housing market conditions were relatively strong in 2012. Growing optimism about long-run prospects for home prices spurred housing demand, which in turn bolstered construction activity for new homes. Other indicators, including mortgage delinquencies, shadow inventories, and vacancy rates, also improved substantially during the year. Although still far from normal levels, those statistics and trends in other indicators suggest that the housing market "healing" of the previous two years accelerated significantly in 2012.

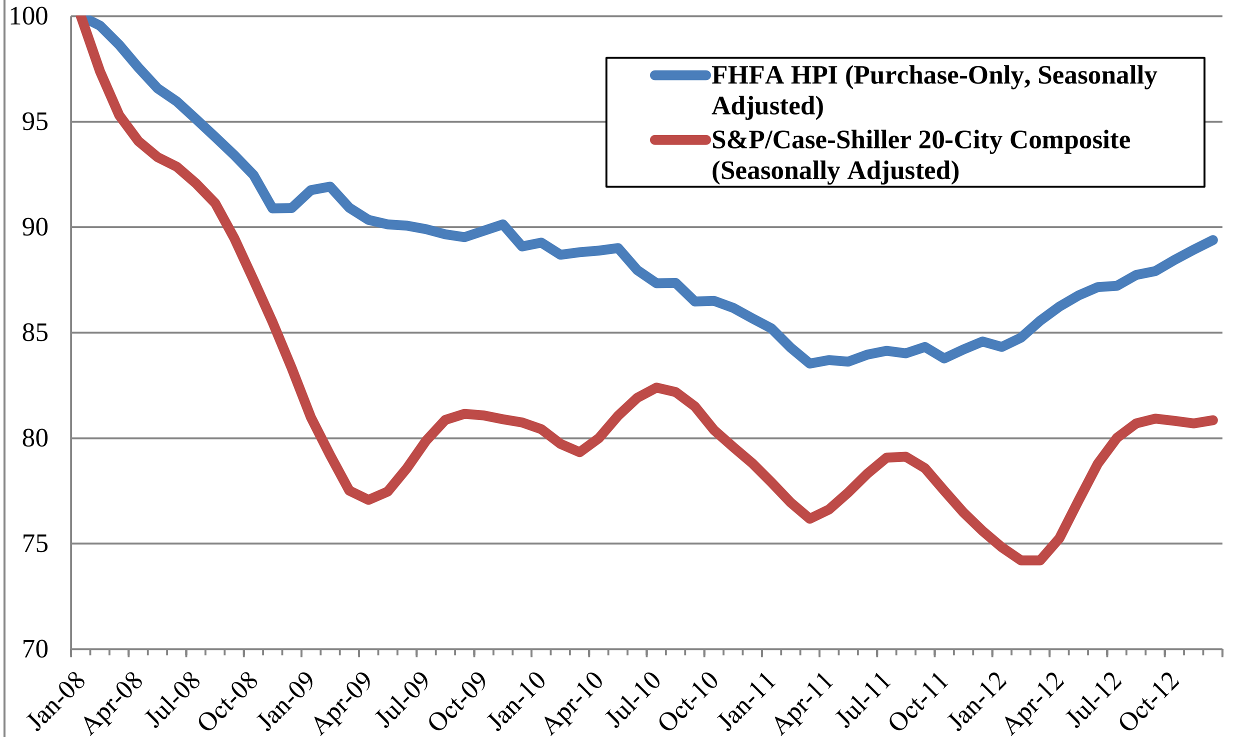
Much of the acceleration reflected the continued heavy support to mortgage markets by the federal government. The Federal Reserve's continued quantitative easing contributed to the decline of mortgage rates to historically low levels in 2012. Enhanced Enterprise mortgage modification and refinance programs continued to reduce payments for struggling borrowers and homeowners whose home values remained below their outstanding loan amounts. Without those efforts, developments in 2012 the housing market would likely have been significantly different than they were.

Home Values Accelerate, Posting Significant Gains

Fueled by very low mortgage rates, improved real estate affordability, and low inventory levels, real estate prices rose significantly in 2012. The Federal Housing Finance Agency's purchase-only monthly house price index, which is calibrated using sales price information from Enterprise-guaranteed mortgages, rose a robust 5.7 percent between December 2011 and December 2012 (Figure 9). That growth was very steady during the year as seasonally adjusted price changes were positive in every month except January, when prices dipped slightly. The S&P/Case-Shiller "Composite 20" house price index—an alternative measure of price growth that reflects price movements in 20 large metropolitan areas—showed similarly consistent appreciation. The string of monthly price increases for that series ultimately generated an increase of 7.0 percent between December 2011 and December 2012.

Although the magnitude of house price increases was uneven across the country, price growth was strong in most states. The areas with the most significant appreciation included some of the states that were hardest hit in the housing bust (Figure 10). For example, California, Nevada, Arizona, and Florida experienced price increases of between 9.8 percent and 21.6 percent. Some of the appreciation in those states likely reflected a change in the types of transactions that were occurring; data suggest that distressed sales—sales of bank-owned properties and short sales—comprised a decreasing proportion of transactions in those states during the year. As distressed sales tend to occur at significant discounts relative to other properties, the decreasing share of such transactions in 2012 helped to push prices higher. Box A discusses the effect of distressed sales on FHFA's purchase-only index in recent years.

Figure 9
FHFA House Price Index and S&P/Case-Shiller House Price Index, January 2008 - December 2012



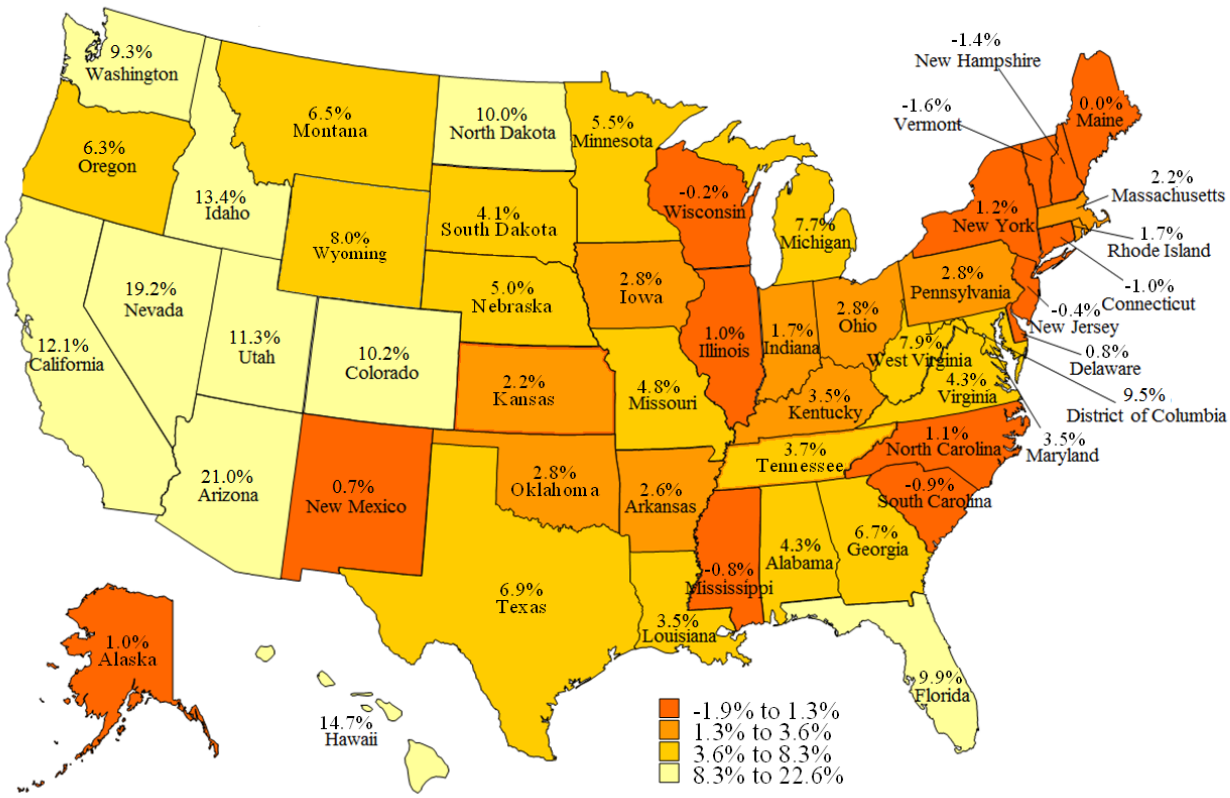
Note: For purposes of comparison, both indexes have been re-based to equal 100 in January 2008.

Source: FHFA and Standard and Poor's

Although income growth and unemployment remained high in much of the country, strong local economic conditions contributed to rapid house price appreciation in some states. In Texas, North Dakota, Montana, and Wyoming, for example, robust energy markets contributed to price increases of between 6.5 percent and 10.0 percent. Prices in West Virginia grew 7.9 percent.

The weakest housing markets were generally in parts of the mid-Atlantic and New England. Prices were relatively flat over the year in New Hampshire, Vermont, and Maine, and grew only modestly (1.3-2.8 percent) in New York and Pennsylvania. While price growth was slightly greater in Maryland and Virginia, farther south in North and South Carolina, persistently high unemployment dampened appreciation. With unemployment rates in excess of eight percent, the two Carolinas saw prices remain essentially flat during the year.

Figure 10
Four-Quarter Price Change by State: Purchase-Only Index (Seasonally Adjusted)



Source: FHFA

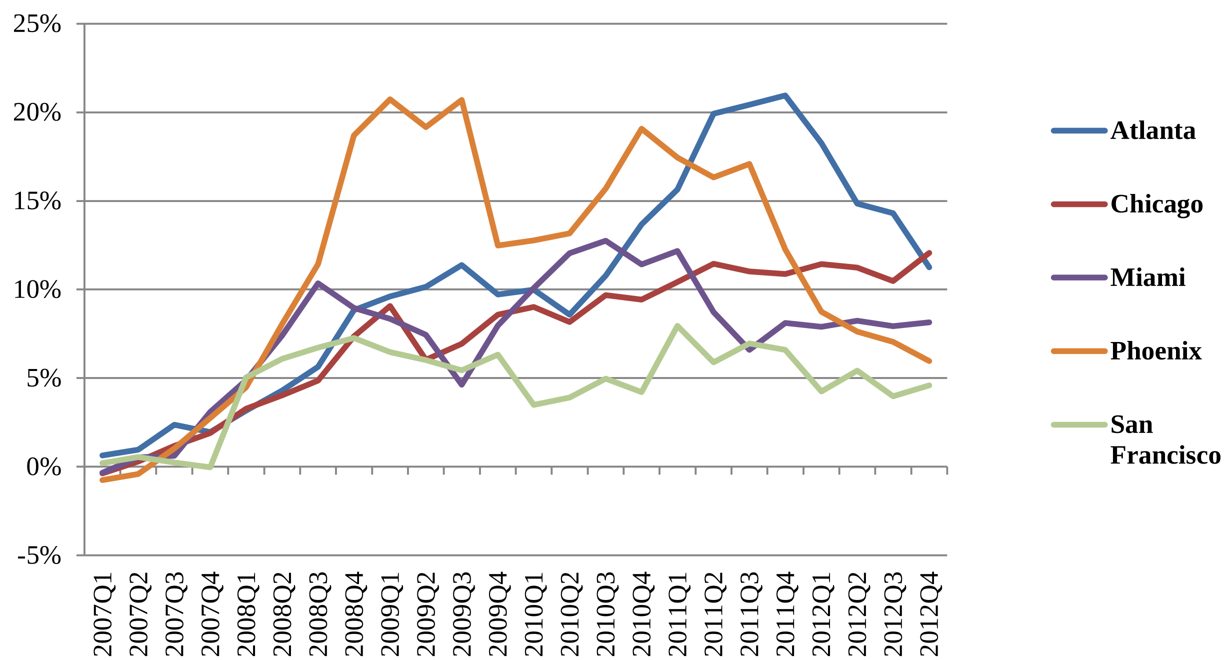
The rise in house prices in 2012 made buying a house more expensive relative to renting. The home price-to-rent ratio, a commonly cited measure of the cost of buying homes relative to the cost of renting, rose 3.4 percent in 2012 after declining in each of the previous six years (Figure 11). The increase in the ratio means that purchasing a home became relatively less affordable than renting during the year. During the height of the housing boom in 2006, the home-price-to-rent ratio was more than 40 percent above its level in January 2000. Despite the gains in 2012, in December the relative cost of home purchases were only about 10 percent above January 2000 levels.

Box A:
Distressed Sales and Home Prices

FHFA introduced "distress-free" house price indexes for select metropolitan statistical areas (MSAs) in 2012. Those indexes omit the direct effects of distressed sales—including short sales and sales of bank-owned properties—on FHFA's house price indexes. Generally, distressed sales depress house price index values, and the greater the share of distressed sales, the greater the effect. The new "distress-fee" indexes give market observers a way to gauge the impact of such sales on measured price trends in select markets.

Comparison of FHFA's traditional "purchase-only" indexes and the new distress-free measures reveals significant differences. Analyzing the percentage differences between the respective index levels, one finds that the distress-free index level has exceeded the purchase-only index for every MSA since 2008Q1 (Figure A-1, which shows data for five of the twelve select MSAs). When the housing market was near its peak in the first quarter of 2007, the average difference between the two indexes was close to 0 percent, reflecting the very low level of distressed sales. One year later, in the first quarter of 2008, the distress-free indexes were, on average, 6 percent higher than the purchase-only indexes. The average difference rose to 12 percent in 2011 and fell to 10 percent in 2012, declining in eight of the twelve MSAs. The drop in the difference in 2012 reflected a fall in the distressed share of all sales used to estimate FHFA's purchase-only index relative to 2011.

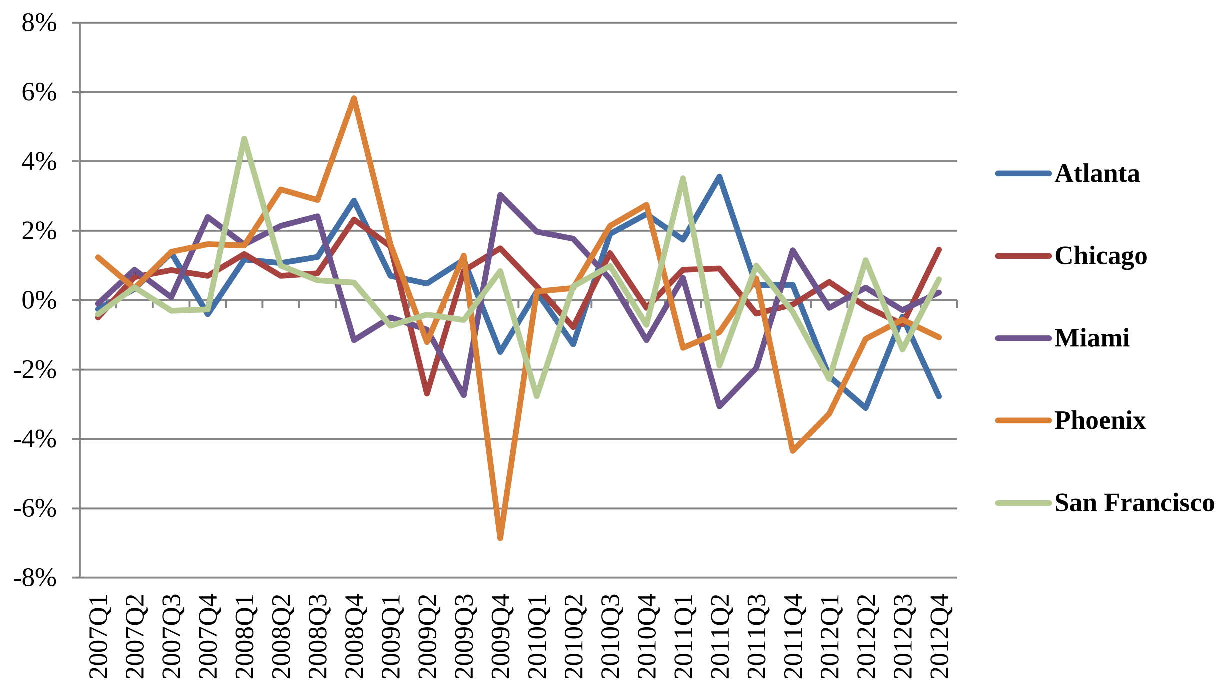
Figure A-1
Percentage Difference Between Distress Free and Purchase-Only House Price Indexes for Select MSAs



Source: FHFA

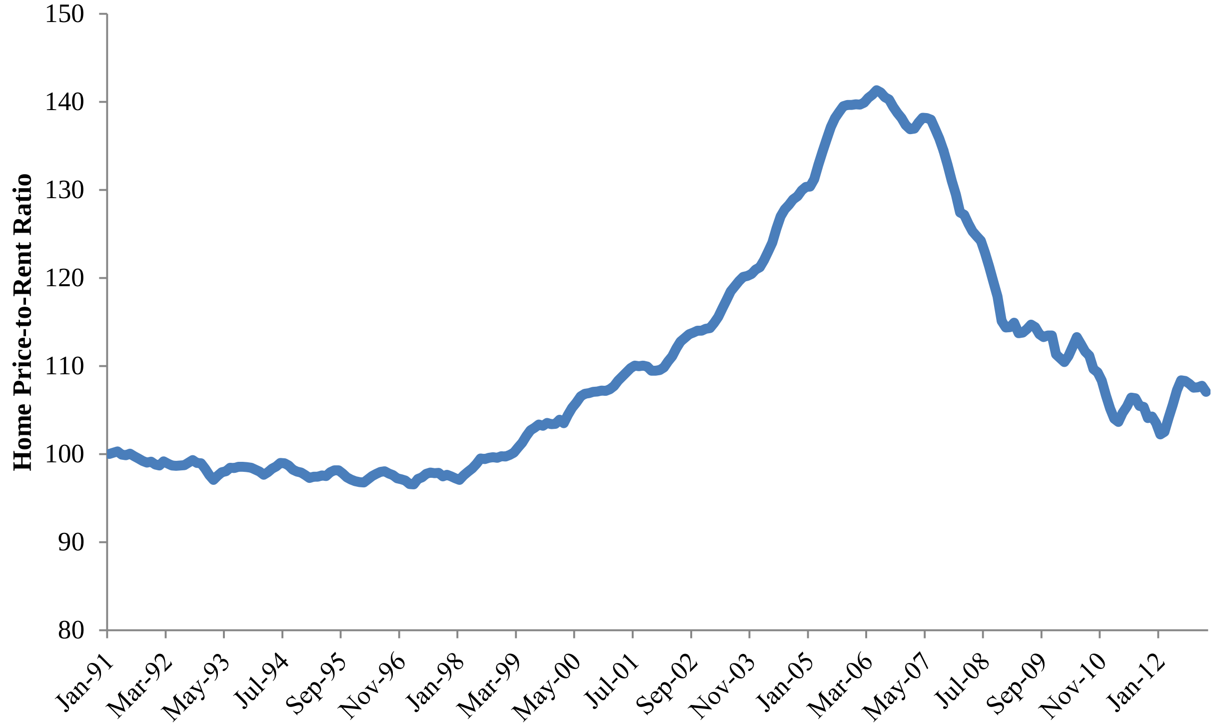
Comparison of the quarter-over-quarter price changes estimated in the distress-free and purchase-only indexes also yields useful insights (Box Figure A-2, which shows data for five of the twelve select MSAs). The average difference between the respective measures was positive in twelve of the 20 quarters from 2007 through 2011, meaning that the distress-free index generally showed greater appreciation than the standard metric. That implies that distressed sales generally comprised a growing share of all sales over the five years. By early 2012, however, the gap between the measures generally turned negative. In the first quarter of 2012, for example, the distress-free index on average showed price increases that were roughly three-quarters of a percentage point lower than the change showed in the standard index. The implication is that the decline in the distressed share of sales in 2012 increased appreciation as measured by the standard purchase-only index.

Figure A-2
Difference Between the 1Q Changes in the Distress Free and Purchase-Only House Price Indexes for Select MSAs



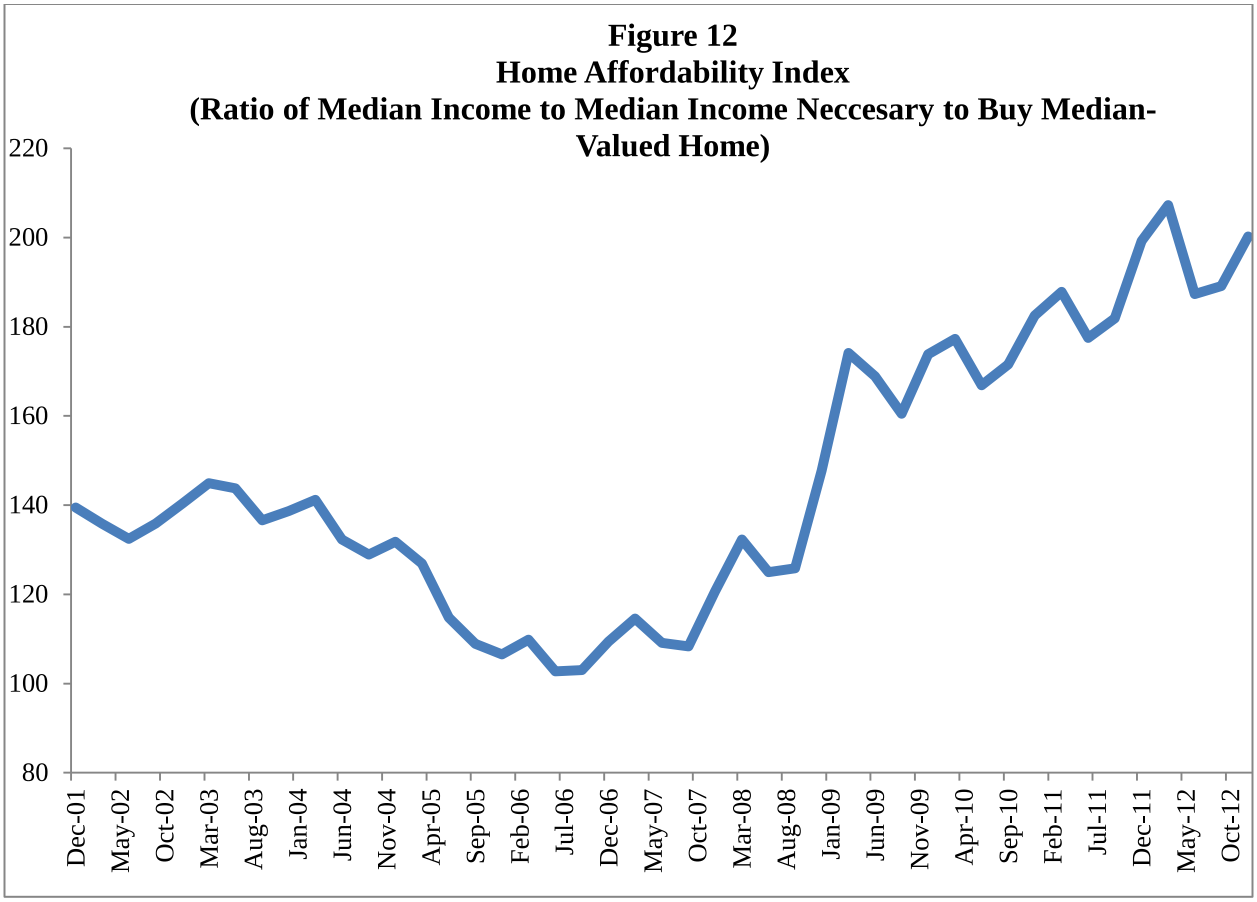
Source: FHFA

Figure 11
Ratio of FHFA (Purchase-Only, Not Seasonally Adjusted) House Price Index to Owners' Equivalent Rent
January 2000 = 100



Source: FHFA and Bureau of the Census

Another measure of housing affordability—one that is focused on affordability relative to incomes—did not change much in 2012 (Figure 12). The Housing Affordability Index (HAI) published by the National Association of Realtors on a quarterly basis expresses the ratio of the median household income to the income that would be necessary to support mortgage payments on a median-valued home. That measure evidenced its usual intra-year seasonality, but comparing its fourth quarter 2011 value to its fourth quarter 2012 value, one finds little change. While house prices rose substantially during the year, the reduction in mortgage rates that occurred during the year almost perfectly offset the impact of those price increases on affordability.

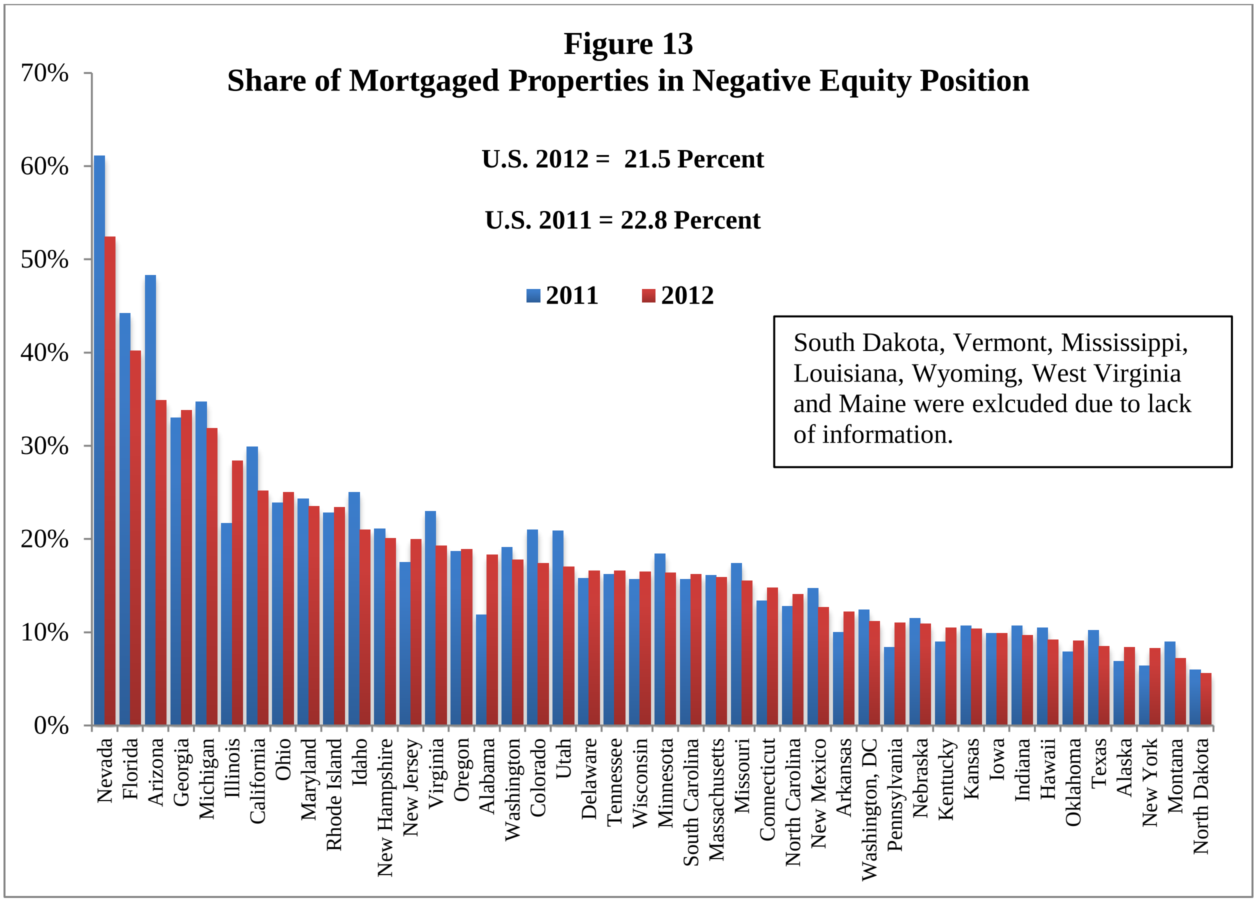


Source: National Association of Realtors

Prevalence of Negative Equity Declines Significantly

The share of mortgaged homes with negative equity—the value of the home was less than the outstanding mortgage amount—declined in 2012. According to estimates from CoreLogic, the share of mortgaged homes with negative equity (sometimes described as "underwater" homes) fell from 22.8 percent in the fourth quarter of 2011 to 21.5 percent in the fourth quarter of 2012. House price appreciation and the steady termination (frequently through foreclosure) of mortgages where properties were underwater were key factors in the large reduction.

As home price increases and foreclosure activity varied sharply across states in 2012, so did the reductions in the share of underwater homes. The largest reductions in negative equity shares occurred in states that started the year with the largest share of underwater properties. In Nevada, for example, data from CoreLogic suggest that increases in home values contributed to a more than eight percentage point decline in the proportion of underwater properties (Figure 13). The share of underwater homes in that state fell from 61.1 percent in the fourth quarter of 2011 to 52.4 percent in the fourth quarter of 2012. Arizona and Florida, which ended 2011 with the second and third largest negative equity shares (48 and 44 percent respectively), saw share reductions of 14 and 4 percentage points over the course of the year.

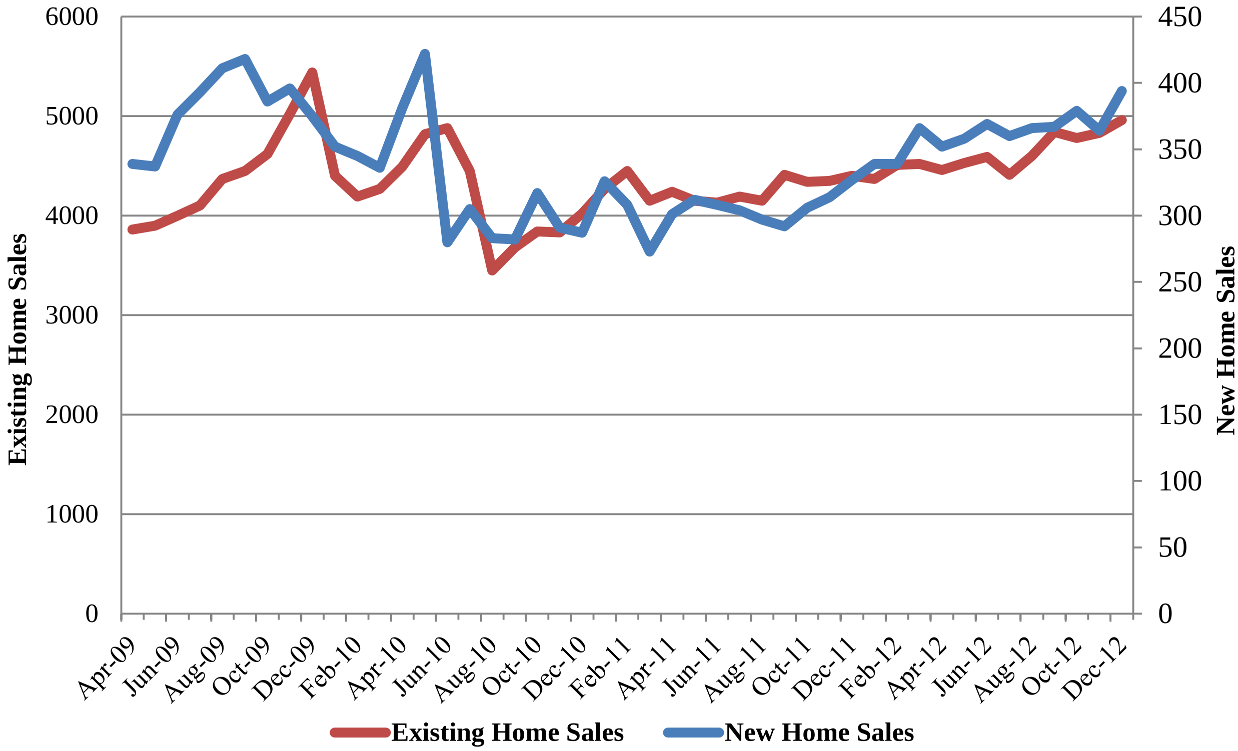


Source: CoreLogic

Real Estate Sale Volumes Increase Steadily

Low mortgage rates and improving buyer sentiment pushed real estate sales volumes higher in 2012. For both new and existing homes, the rate of sales activity grew substantially and steadily. For both types of properties, the seasonally adjusted annualized rate of sales grew roughly twelve percent between December 2011 and December 2012. By the end of 2012, the seasonally adjusted annualized rate of new home sales, an estimate produced by the Bureau of the Census, was at 396,000 units (Figure 14). That was the quickest pace of new home sales since mid-2010. As reported by the National Association of Realtors, the annualized rates of existing home sales in November and December 2012 were 4.96 and 4.90 million units respectively. Those were the highest values since late 2009.

Figure 14
New and Existing Home Sales
(Thousands of Units)



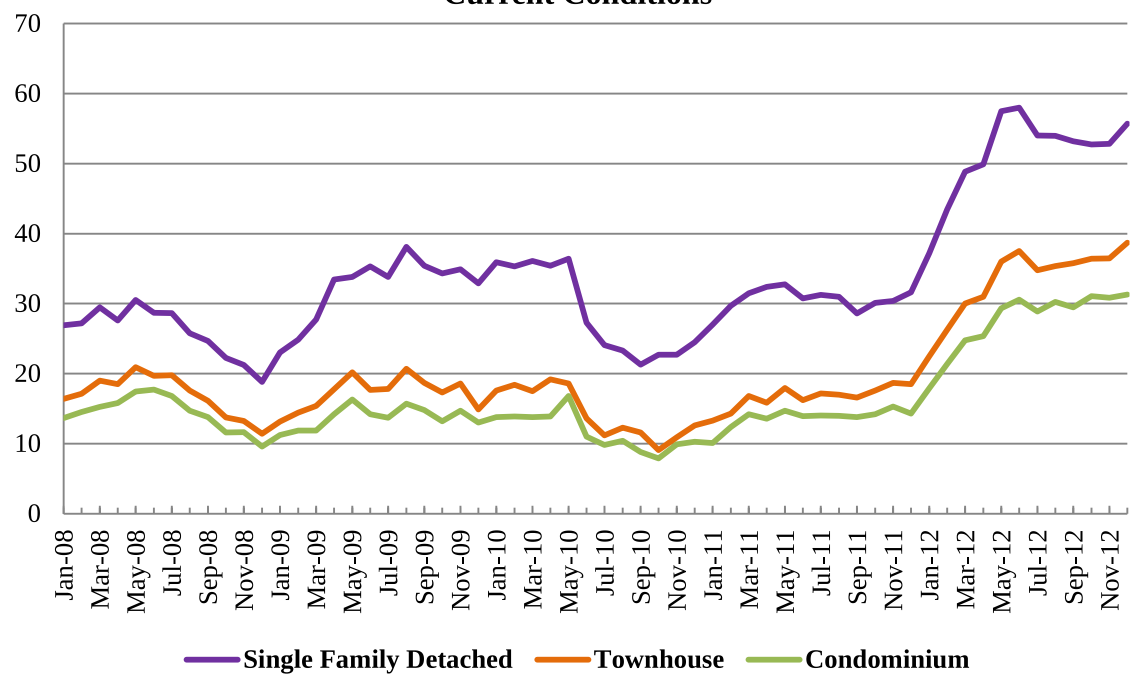
Source: Bureau of the Census and National Association of Realtors

Box B:
Housing Market Confidence Grows

Housing market confidence improved sharply from January through June 2012 but leveled off in the second half of the year, according to the National Association of Realtors' Confidence Index (RCI). The RCI for current conditions is an indicator of current housing market strength based on a monthly survey of several thousand real estate professionals nationwide. The survey respondents describe the current housing market in their region with scores from 0 for weak conditions to 100 for strong conditions with a benchmark of 50 for moderate conditions. Those scores are then averaged into the RCI for current conditions.

Throughout 2012 housing market confidence was higher for single-family detached houses than for townhouses and condominiums. During the first half of the year the RCI for current conditions increased somewhat faster for single-family detached houses than for townhouses and condominiums. Moreover, the RCI for current condition exceeded the moderate benchmark level for single-family detached houses after the first quarter but stayed below the moderate benchmark level for townhouses and condominiums throughout the year. While optimism for townhouses and condominiums continued to increase in the second half of the year, albeit at a moderate rate, optimism for single-family detached houses dampened slightly but never dipped below the moderate confidence benchmark level.

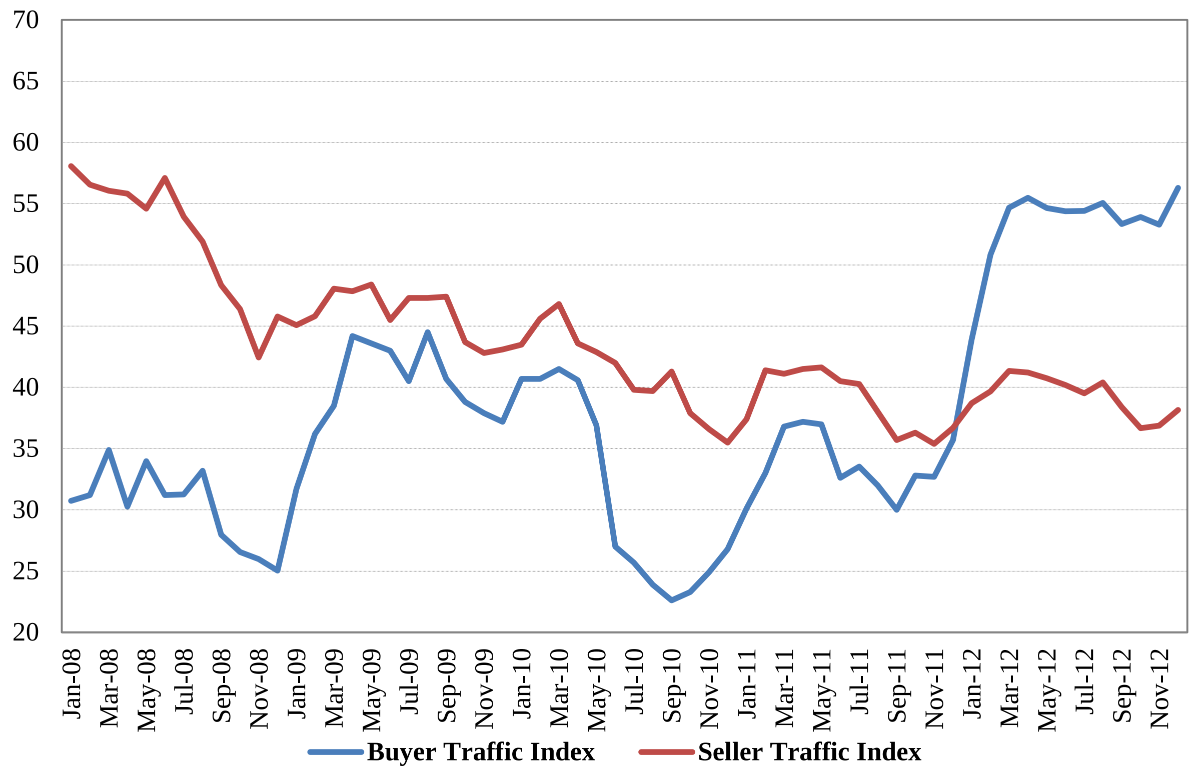
Figure B-1
National Association of Realtors Confidence Index - Current Conditions



Source: National Association of Realtors' Confidence Index Report and Market Outlook

In the same survey, real estate professionals also rate the buyer and seller traffic in their region. They can assign a score from 0 for weak traffic to 100 for strong traffic with a benchmark score of 50 for moderate traffic. The scores are then averaged into the buyer and seller traffic indexes. According to the National Association of Realtors, buyer traffic jumped in January, February, and March of 2012 to surpass the moderate benchmark level and stayed stable thereafter. In contrast, seller traffic did not improve and stayed below the moderate benchmark level in 2012.

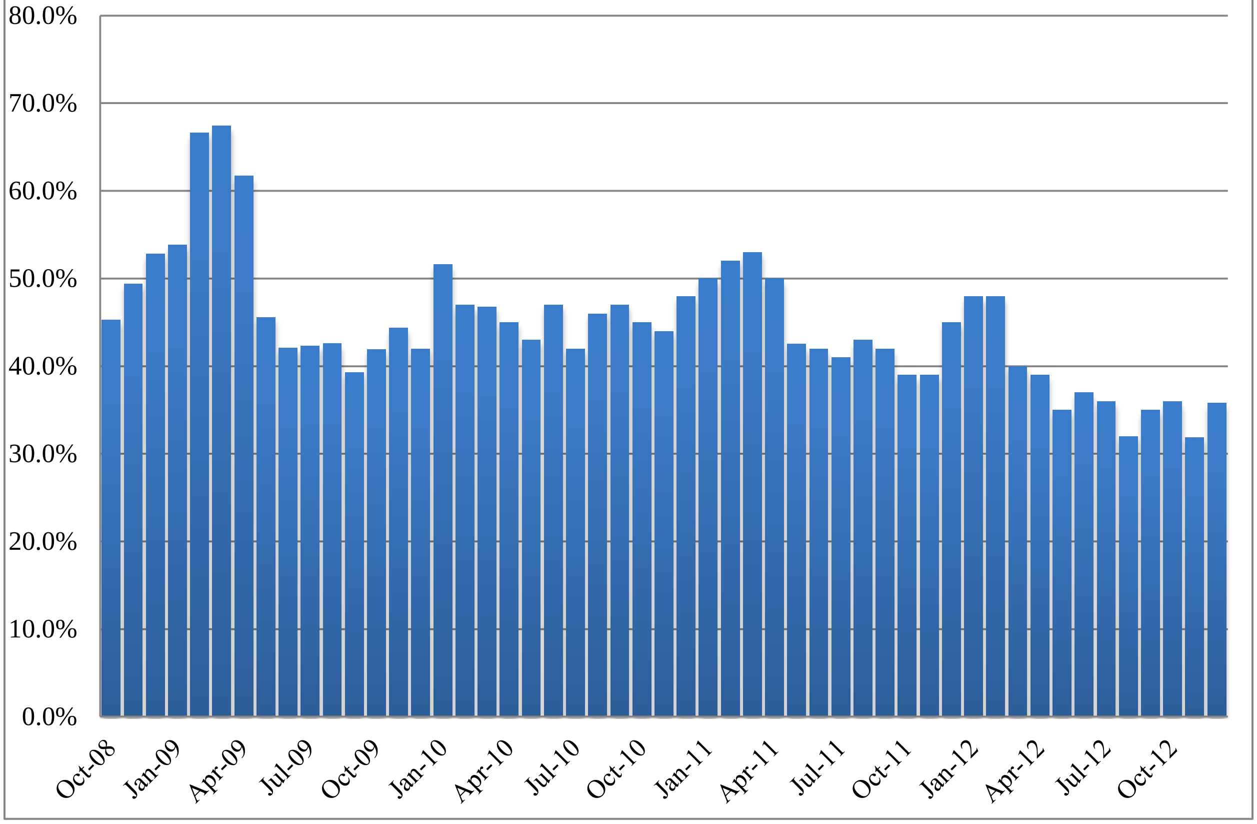
Figure B-2
Indexes of Buyer and Seller Traffic



Source: National Association of Realtors' Confidence Index Report and Market Outlook

Overall home sales activity was robust in 2012, and distressed sales comprised a smaller share of transactions. Robust sales activity for traditional (non-distressed) transactions and constrained foreclosure activity collectively led to the reduction in the distressed-sales share. According to National Association of Realtors estimates, the share of distressed sales in the final three months of 2011 ranged from 39 to 45 percent (Figure 15). After spiking in the first two months of 2012 (a common seasonal effect), the share then declined to about 35 percent in May. The distressed-sales share then fluctuated in a relatively tight range of 32-37 percent over the remainder of the year. The share ended the year at below 36 percent, 9 percentage points below the 45 percent share in December 2011. Short sales accounted for about 11 percent of total sales throughout 2012.

Figure 15
Distressed Sales as a Share of Total Home Sales

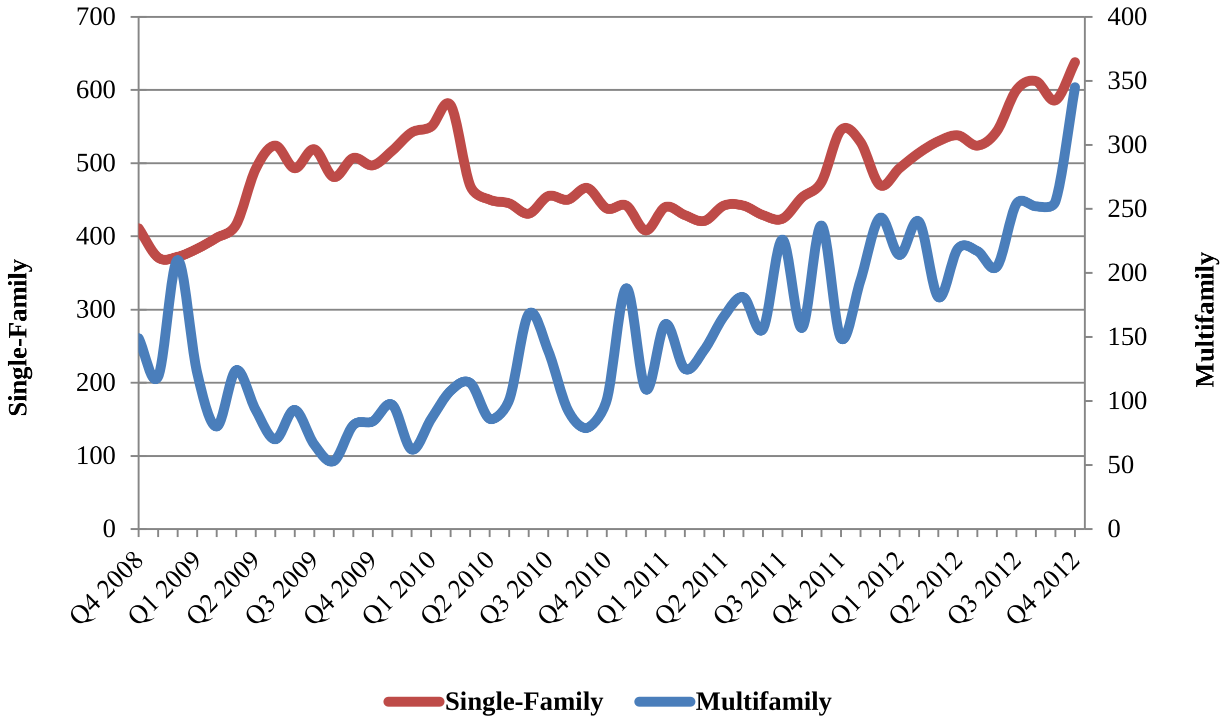


Source: CoreLogic

Single-Family Construction Activity Grows Significantly; Multifamily Strengthens Further

Reflecting strong builder confidence, in large part fueled by price increases and tight inventories, building activity for single-family homes (properties with one to four units) and multifamily dwellings grew sharply in 2012. Those increases continued momentum gained in late 2011. As estimated by the Bureau of the Census, the seasonally adjusted annualized rate of starts for single-family dwellings was 638,000 units in December, almost 100,000 units above the December 2011 estimate (Figure 16). The December 2012 value represented the third estimate above the 600,000 mark since 2008.

Figure 16
Housing Starts
(Thousands of Units, Seasonally Adjusted Annual Rate)



Source: Bureau of the Census

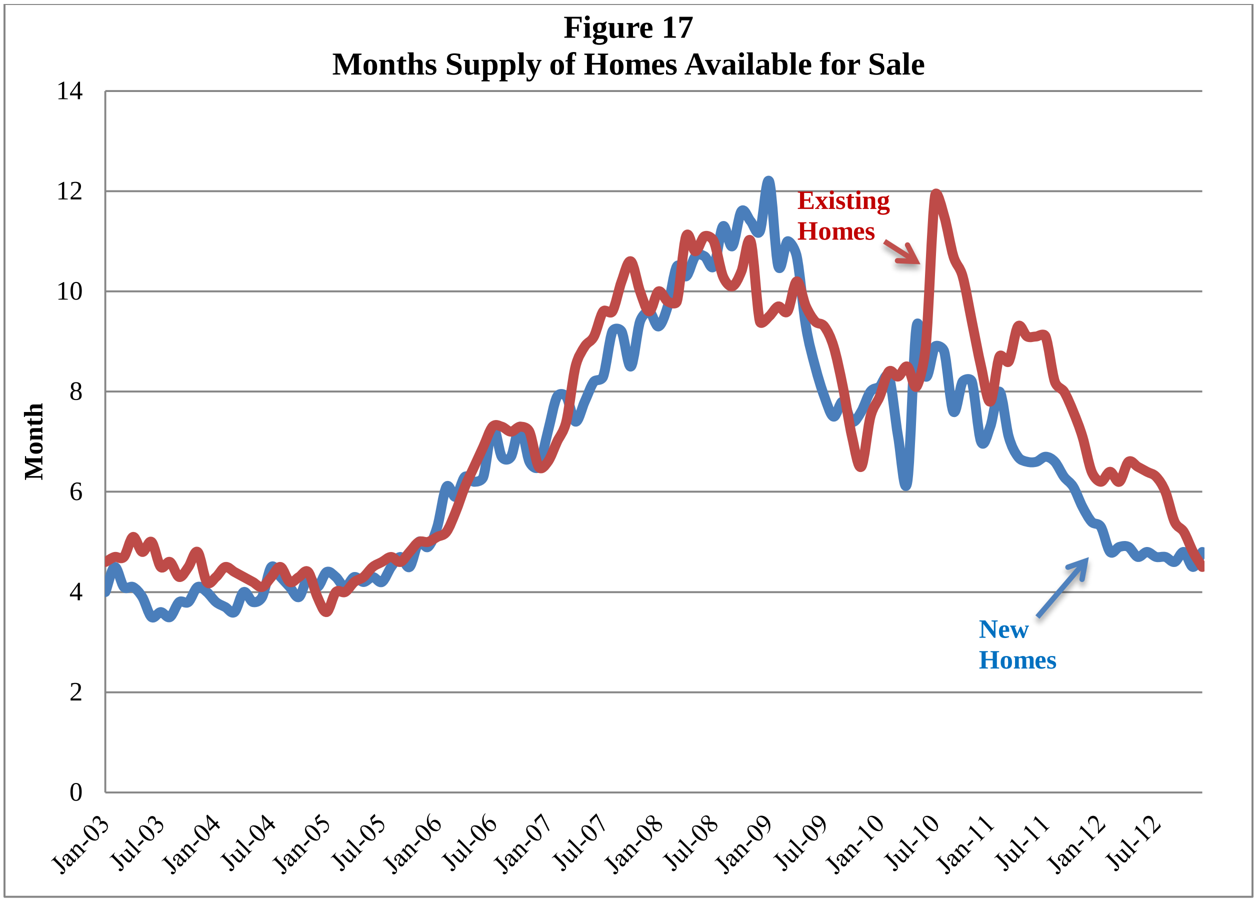
In percentage terms, growth in new construction activity for multifamily properties outstripped growth for single-family dwellings. Bureau of the Census estimates indicate that, between December 2011 and 2012, the seasonally adjusted annualized rate of new housing starts for multifamily properties more than doubled. The December-to-December increase may overstate underlying trends, as the monthly multifamily data series is volatile and the December 2011and December 2012 values represent clear outliers (December 2011 was sharply lower than surrounding months and December 2012 was sharply higher). Comparing multifamily housing starts estimates in January and November, however, verifies that the year showed strong construction activity; between those two months, the annualized rate of multifamily starts grew more than 35 percent.

Real Estate Inventories Shrink from Already-Low Levels

Inventories of homes available for sale dropped to extremely low levels in 2012. Relative to the pace of sales, inventories of for-sale properties—both existing homes and new homes—were at levels not seen since the height of the housing boom. The tight relative inventory reflected the increased pace of home sales and the fact that many prospective sellers were unable to market their properties because, despite recent price gains, they remained underwater.

For existing homes, the National Association of Realtors reported that only 4.5 months of supply were available for sale in December 2012 (Figure 17). That was down from 6.4 months in December 2011 and nearly 12 months in July 2010. The last time in which the market held a comparably low inventory was in mid-2005.

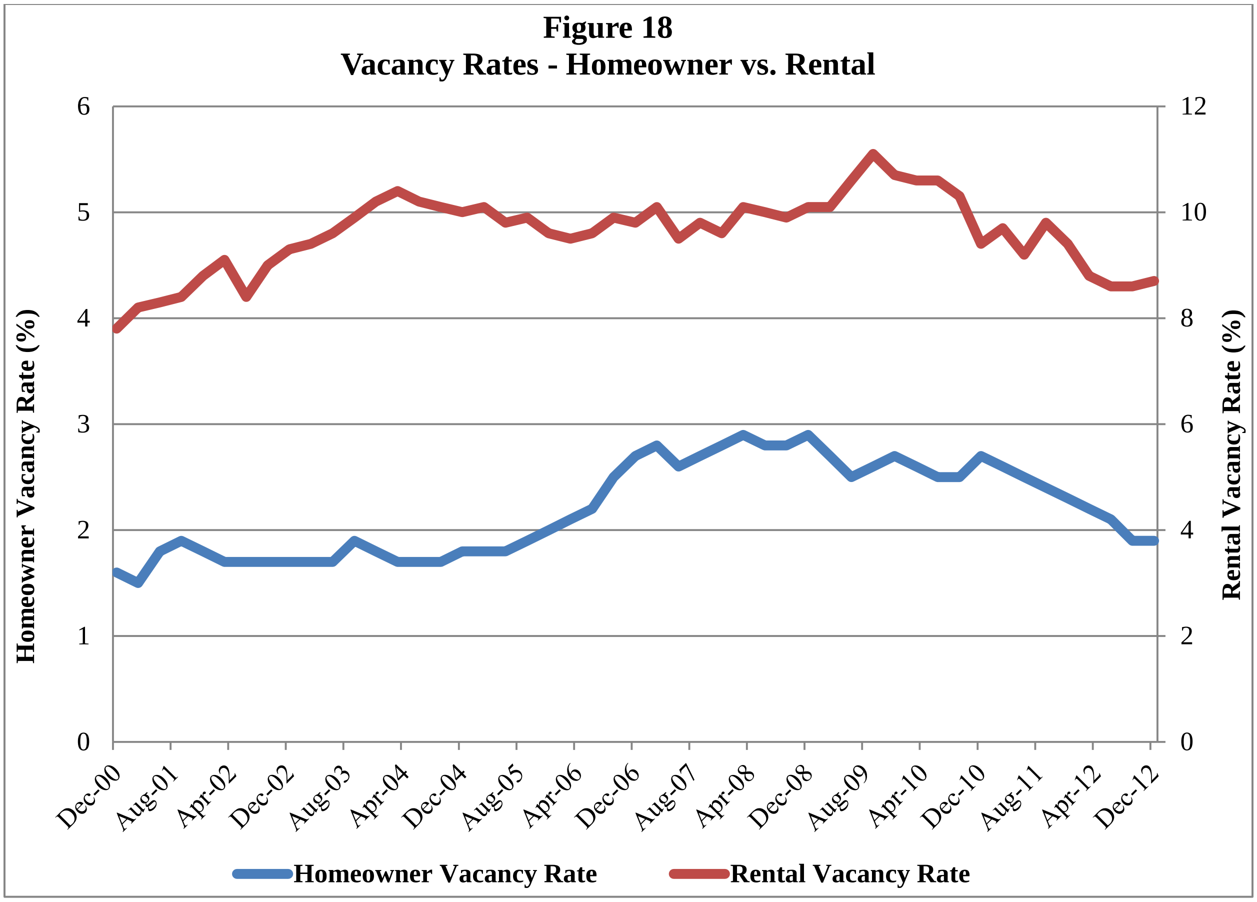
While the relative inventory of existing homes for sale declined steadily throughout the year, the inventory of new homes dropped in the first two months of the year and then remained at very low levels throughout the rest of the year. The Bureau of the Census estimates suggests that, between December 2011 and February 2012, the relative inventory of new homes declined by about one-half month. In February 2012, the relative inventory stood at 4.8 months—the lowest level since October 2005. For the remainder of the year, the relative inventory vacillated between 4.5 and 4.8 months.



Source: Bureau of the Census

Vacancy Rates Continue to Drift Downward

Housing vacancy rates continued to improve in 2012. Higher home prices and tight inventory meant that there was strong motivation for homeowners to sell homes that were unoccupied. As indicated earlier, rental markets remained strong as well, keeping downward pressure on rental vacancy rates.



Source: Bureau of the Census

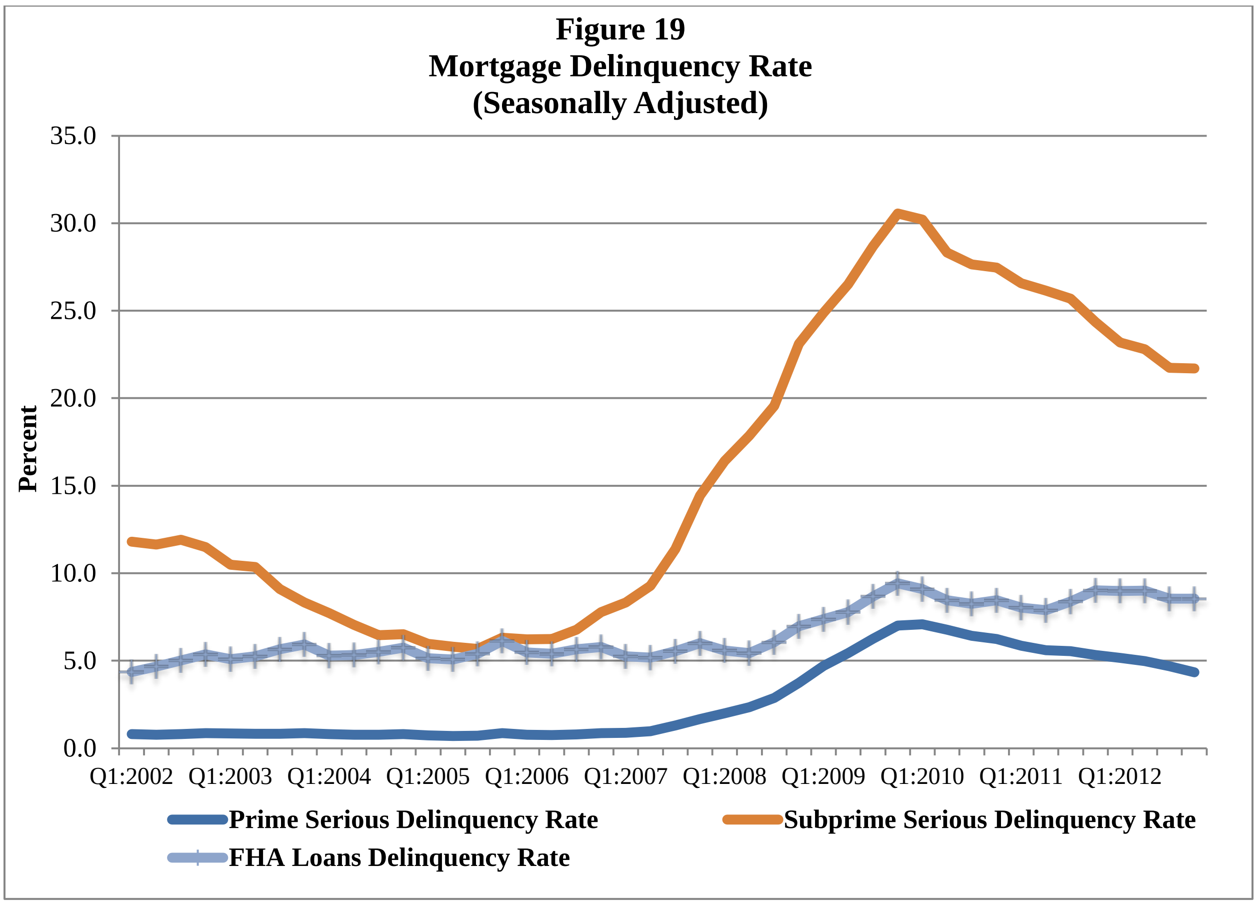
The homeowner vacancy rate ended 2012 at 1.9 percent, 0.4 percentage points below the rate in December 2011 and a full percentage point below the peak rate in December 2008 (Figure 18). The decline in rental vacancies in 2012 was also substantial. Unlike the decline in the homeowner vacancy rate, however, the rental rate did not decline evenly throughout the year. The rental vacancy rate dropped sharply between December 2011 and June 2012, falling from 9.4 percent to 8.6 percent. In the second half of 2012, the rate generally drifted sideways, ending the year at 8.7 percent.

Mortgage Delinquencies Ease Further

Rising home prices, lower interest rates, and more stringent underwriting standards in recent years combined to push down mortgage delinquency rates in 2012. The declines, which occurred across virtually all loan types, were a continuation of improvements since late 2009.

Delinquency rates for FHA loans, which had shown little trend in preceding years, also fell in 2012.

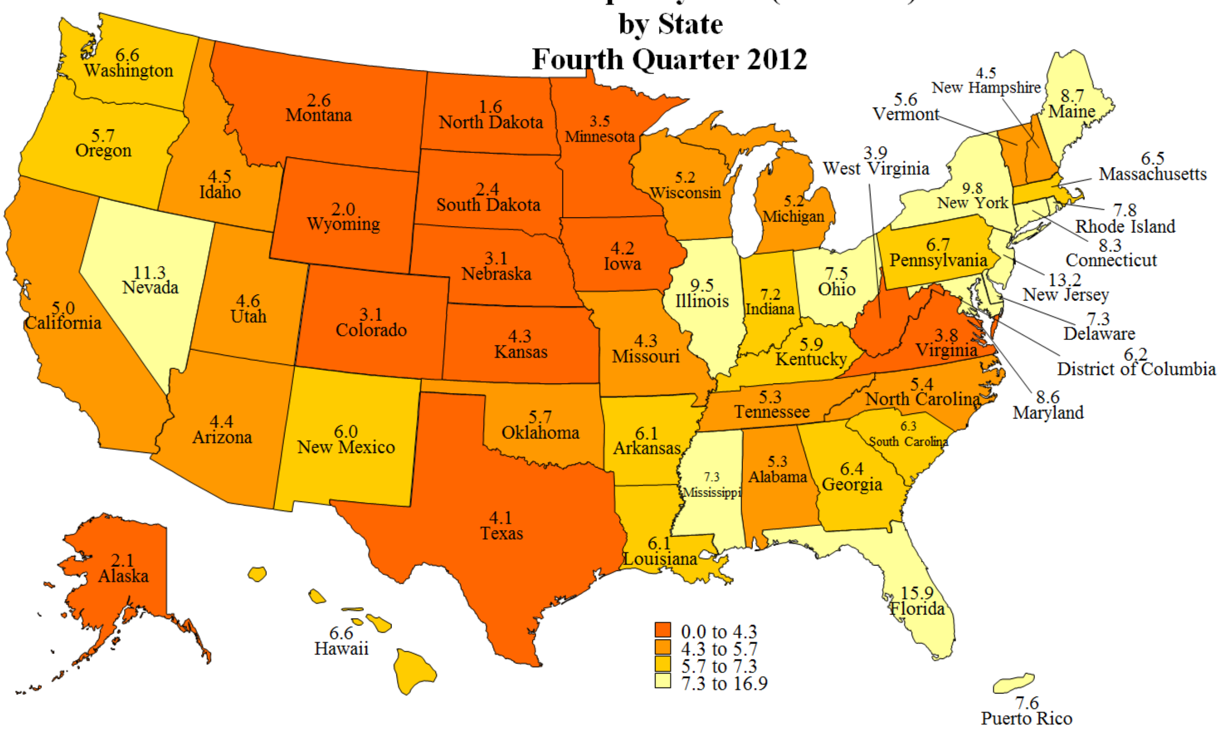
For subprime and prime mortgages, statistics published by the Mortgage Bankers Association showed steady declines in the rate of mortgage delinquency throughout the year. Declines occurred in each quarter of the year, continuing a long string of improvements in the respective rates. For prime mortgages, the serious delinquency rate fell steadily from 5.3 percent to 4.3 percent between the fourth quarters of 2011 and 2012 (Figure 19). The decline in the fourth quarter was the 11th consecutive quarterly drop in the prime delinquency rates. For subprime loans, the fourth quarter's decline was the 12th consecutive quarterly decrease.



Source: Mortgage Bankers Association

In contrast to the steady quarterly decline in overall delinquency for prime and subprime loans, delinquency of FHA-endorsed loans only fell in the second half of 2012. Unlike the prime and subprime rates, in the first half of the year the FHA delinquency rate was close to the highest that had been observed since the housing bust. In the second half, however, the FHA delinquency rate fell roughly one-half of a percentage point to 8.5 percent. The difference in trend reflects the much smaller portion of FHA's loans that were originated before 2008.

Figure 20
Serious Delinquency Rate (All Loans)
by State
Fourth Quarter 2012



Source: Mortgage Bankers Association

Although the rate of serious mortgage delinquency—the share of loans past due three months or more—varied sharply across the country, the variation across states was less dramatic in 2012 than in the prior year. Serious mortgage delinquency rates eased throughout the country, according to data published by the Mortgage Bankers Association, but the sharpest declines were in states that had the highest levels. States such Arizona, California, Nevada, and Florida, though still plagued by historically high rates, saw large improvements during the year. In Arizona, for example, the fourth quarter rate for all loans was 4.4 percent, 2.7 percentage points below the 7.1 percent rate from the same quarter in 2012. In Florida, the rate fell from 18.4 percent in the fourth quarter of 2011 to 15.9 percent in the fourth quarter of 2012.

The lowest rates of mortgage delinquency were generally in the central part of the country. States in the Great Plains and Upper Rocky Mountain areas generally had very modest rates—many below three percent (Figure 20). Not coincidentally, in most of those states house price appreciation has been quite strong in the recent recovery and remained so in 2012. Box C discusses data from Fannie Mae and Freddie Mac on the concentration in four states of mortgages delinquent for at least a year. Those states have exceptionally slow foreclosure processes.

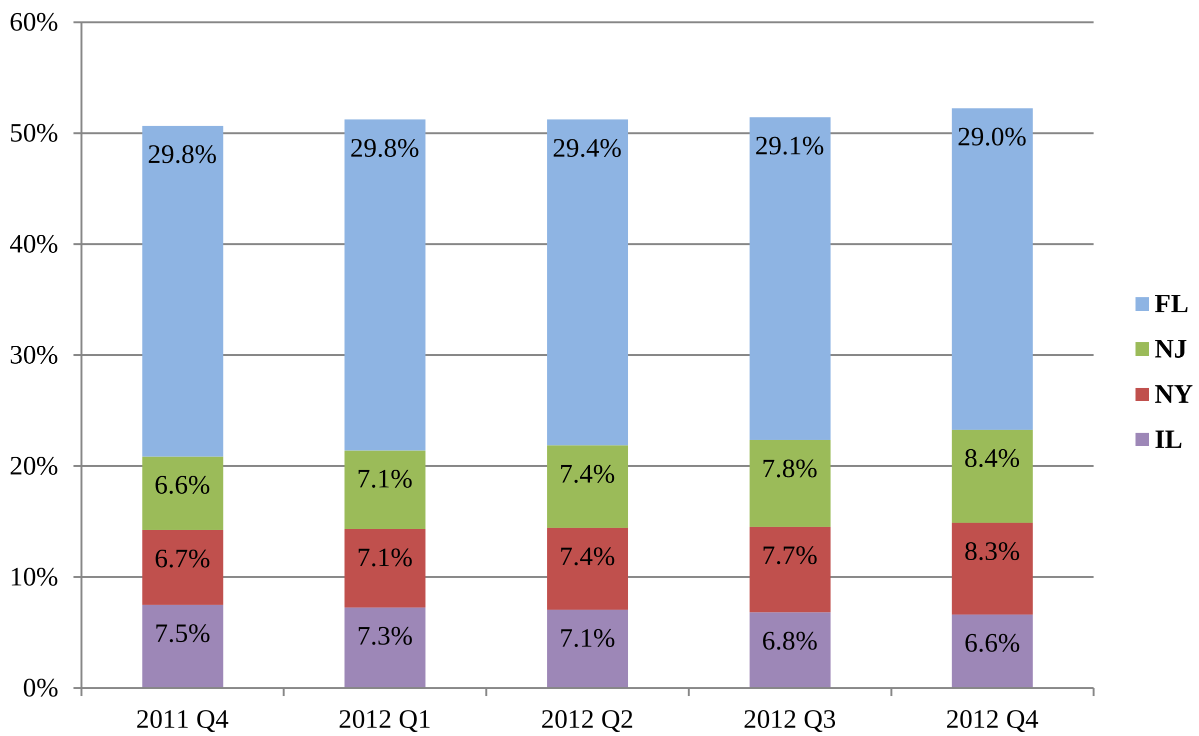
Consistent with the reduction in serious delinquency rates in 2012, the relative frequency of foreclosure starts for prime and subprime mortgages also fell, according to seasonally adjusted estimates from the Mortgage Bankers Association (Figure 21). In both the fourth quarter of 2011 and the first quarter of 2012, about 0.77 percent of prime mortgages saw initiations of foreclosure actions. By the fourth quarter of 2012, foreclosure starts were down to less than 0.5 percent of prime loans. Foreclosure starts as a share of subprime loans declined from 2.84 percent in the fourth quarter of 2011 to 2.16 percent four quarters later.

The intra-year pattern of foreclosure starts for FHA mortgages was significantly different in 2012. Whereas the overall prime and subprime statistics saw steady declines throughout the year, foreclosures starts were roughly the same at the start and end of the year for FHA loans. Moreover, 1.5 percent of FHA mortgages experienced foreclosure starts in the second quarter—a sharply elevated rate. In the other quarters, by contrast, the rate of foreclosure starts for FHA loans was about 1 percent.

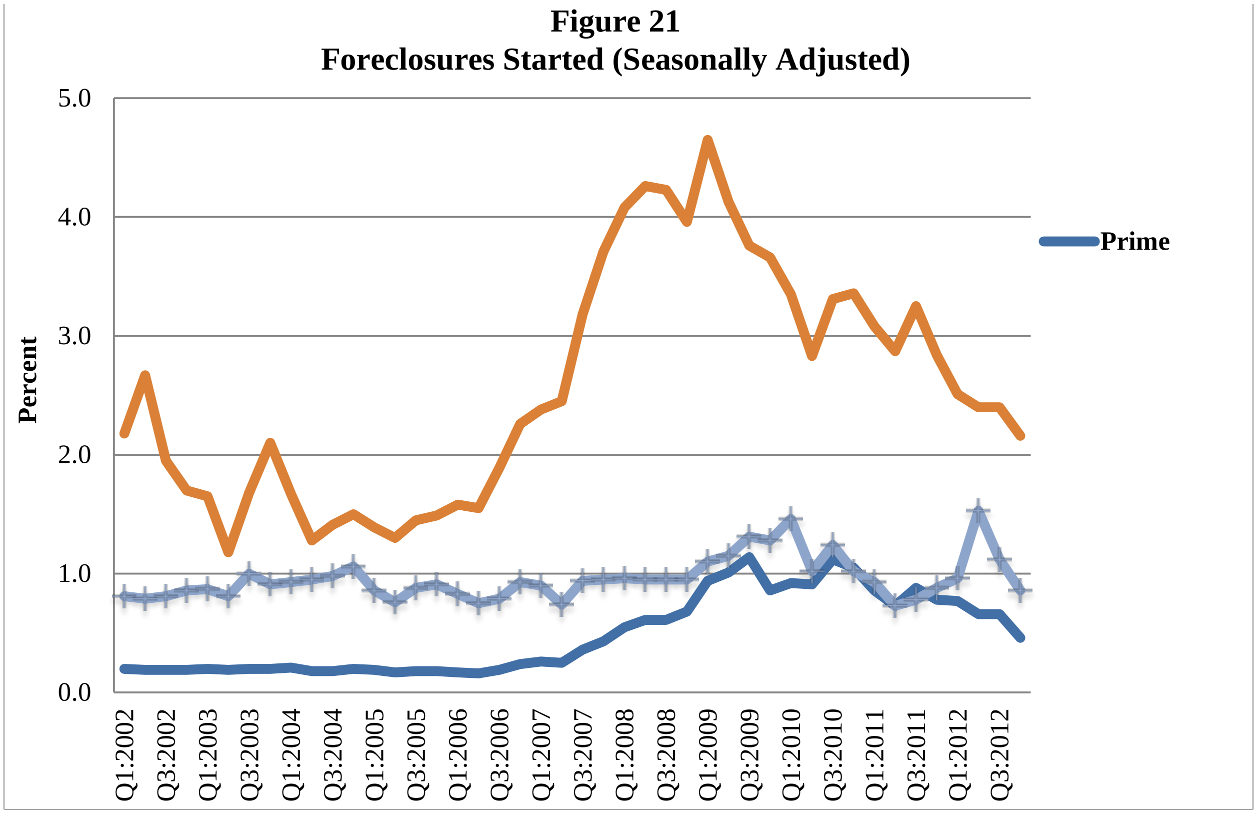
Box C:
Enterprise Mortgages Delinquent One Year or More Concentrated in Four States

Four states—Florida, New Jersey, New York, and Illinois—have recently accounted for more than one-half of the single-family mortgages owned or guaranteed by Fannie Mae and Freddie Mac that have been delinquent for one year or more. The share in those four states rose from 50.6 percent in the fourth quarter of 2011 to 52.3 percent in the fourth quarter of 2012 as the number of such loans nationwide steadily declined. The increase in that share was driven by moderate yet steady quarterly increases in the share and count of New Jersey and New York loans delinquent one year or more. In contrast, the share and count of Florida and Illinois loans delinquent one year or more decreased moderately each quarter. Collectively, the four states have about one-fifth of all Enterprise loans and a comparable share of recently delinquent loans. However, each of the states has an exceptionally slow foreclosure process. Based on the most recent Servicing Alignment Initiative timelines published by the Enterprises, the average time from the last payment on a loan to completion of the foreclosure process is 668 days in the four states, much higher than the national average of 405 days.

Figure C-1
Aggregate Four-State Share of All 365+ Days DLQs from Enterprises' Single-Family Book Profile



Source: FHFA Foreclosure Prevention Reports



Source: Mortgage Bankers Association

Mortgage Modification Activity Remains Substantial

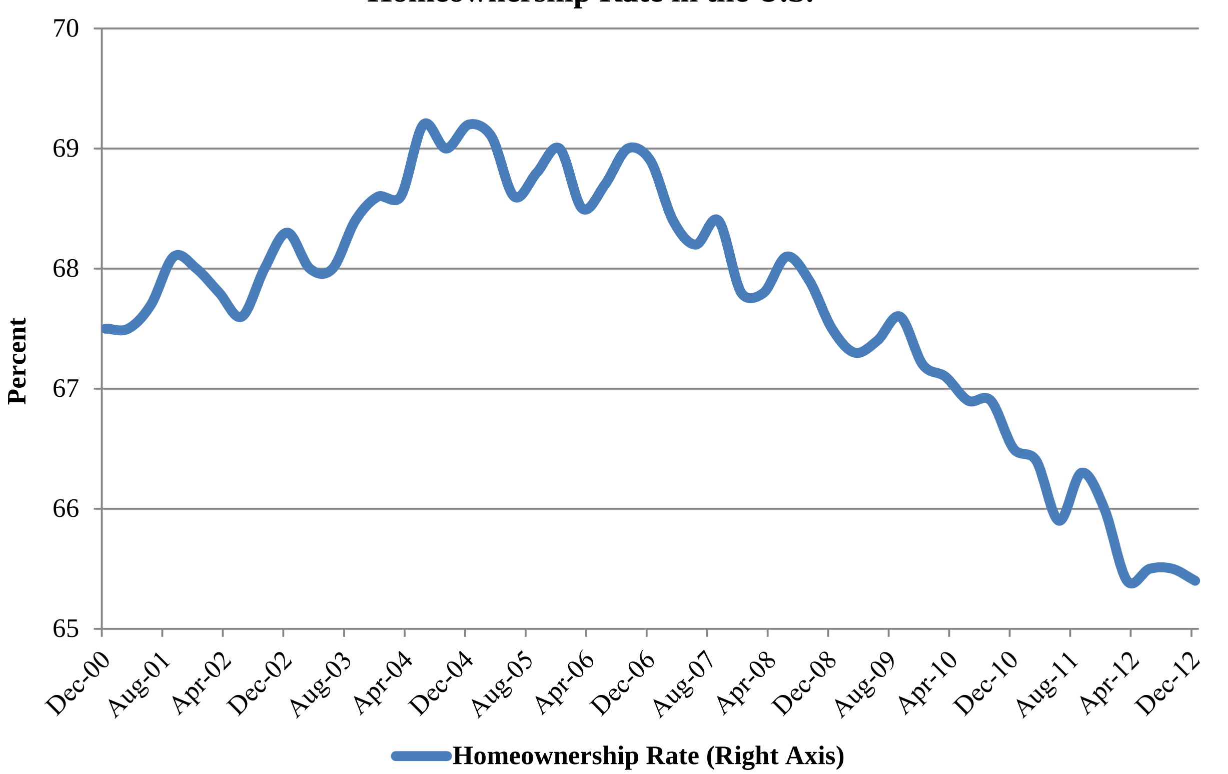
Mortgage modification activity declined somewhat in 2012. That drop was not unexpected given falling mortgage delinquency rates and the high levels of modifications in recent years. About 850,000 delinquent mortgages were permanently modified in 2012, according to HOPE NOW, a mortgage industry trade group. That count, which includes modifications done under the Home Affordable Modification Program (HAMP) as well as proprietary loan modifications, represented a 19 percent drop from the 2011 level. The 2012 modification count was just under half (48 percent) of the count of 2010, the year with the greatest mortgage modification activity. HAMP modifications accounted for about 24 percent of all modifications, down from 34 percent in 2011. Box D provides detail on HAMP modification activity in 2012. To put that activity in a broader context, Box E examines the status, as of year-end 2012, of single-family mortgages owned or guaranteed by Fannie Mae or Freddie Mac that were active as of the third quarter of 2008, before the initiation of HAMP or its companion, the Home Affordable Refinance Program (HARP).

The remaining 76 percent of loan modifications in 2012 were proprietary modifications performed by lenders, guarantors, and the Federal Housing Administration (FHA) on loans deemed ineligible for HAMP. About 90 percent of such modifications were fixed-rate modifications with an initial fixed-interest rate period of five years or more. Modifications that involved a reduction of the principal and interest payments accounted for 82 percent of all proprietary modifications in 2012. Both figures were up from those reported for 2011. Modifications with a reduction in principal and interest payments of 10 percent or more represented 75 percent of modifications in 2012, up from 63 percent in 2011.

Homeownership Rate

The national homeownership rate—defined as the share of non-vacant housing units occupied by homeowners—continued to decline in 2012. It fell to 65.4 percent as of December 2012 (Figure 22). That was over 0.5 percent below the rate in the fourth quarter of 2011 and 3.8 percentage points below the all-time high posted in the fourth quarter of 2004.

Figure 22
Homeownership Rate in the U.S.



Source: Bureau of the Census

Box D:
The Home Affordable Modification Program in 2012

Launched in February 2009 as part of the Administration's efforts to stabilize the housing market and avoid unnecessary foreclosures, the Home Affordable Modification Program (HAMP) offers eligible homeowners opportunities to work with lenders and servicers to modify the terms of their mortgages to make the payments more affordable.

A HAMP loan modification reduces a homeowner's monthly mortgage payment to 31 percent of his verified gross (pre-tax) income. To create an affordable payment, the servicer modifies the loan in the following steps: (1) a reduction in the interest rate to as low as two percent, (2) an extension of the term to up to 40 years, and (3) principal forbearance. A portion of the principal on non-Enterprise loans can also be forgiven, although that is optional on the part of the servicer. Qualified homeowners must complete a trial period of three to four months to show they will be able to make their reduced payments on time before their loan modification may become permanent.

According to the Making Home Affordable Program Performance Report Through December 2012 issued by the Treasury Department, about 2 million homeowners had entered HAMP trial periods, up 18 percent from the end of 2011. A total of 1.1 million borrowers had permanently modified their mortgages, representing a 22 percent increase from year-end 2011. New trial modifications averaged about 16,800 per month and new permanent modifications 17,000 per month in 2012. In comparison, the monthly volumes in 2011 were 23,000 for trial modifications and 28,000 for permanent modifications. At year-end 2012, the cumulative estimated reduction in monthly mortgage payments for homeowners with permanent modifications reached $17.3 billion, up from $10.5 billion one year before. The median monthly savings was $545 as of December 2012—more than one-third of the median monthly payment before modification—and both figures were comparable to those reported for the end of 2011.

Homeowners who received permanent modifications with some form of principal reduction have been granted an estimated $8.8 billion in principal reduction. Of all the non-Enterprise loans eligible for principal reduction that started a HAMP trail modification in December 2012, 71 percent received principal reduction.

Homeowners that received HAMP permanent modifications continued to exhibit lower re-default rates than all borrowers who received modifications. Twelve months after receiving permanent modifications, 14.3 percent of homeowners have missed three consecutive payments.

According to FHFA's 2012 Fourth Quarter Foreclosure Prevention Report, HAMP modifications carried out by Fannie Mae and Freddie Mac accounted for about half of the overall HAMP volume in 2012, as in the previous year. Both Enterprises have also been aggressively carrying out their own loan modifications and other home retention actions for homeowners determined ineligible for HAMP and related programs. During 2012, the Enterprises completed a total of 232,993 loan modifications, down 28 percent from the 2011 volume. HAMP modifications comprised 37 percent of all modifications completed by the Enterprises in 2012.

Box E:

The Year-End 2012 Status of Single-Family Mortgages Active as of September 2008

In 2012 Fannie Mae and Freddie Mac continued to focus on initiatives aimed at helping borrowers refinance or modify their mortgages and prevent unnecessary foreclosures. Many of the borrowers targeted by those initiatives obtained their loans during the height of the mortgage lending boom. Figure E-1, which displays data on the status as of year-end 2012 of mortgages owned or guaranteed by the Enterprises of September 30, 2008, provides some interesting insights.

The combined single-family book of business of Fannie Mae and Freddie Mac on September 30, 2008 included 30.3 million loans with an aggregate unpaid principal balance of $4.5 trillion. Of those loans, 96 percent were current and 4 percent were delinquent. Of the delinquent loans, 75 percent had been delinquent less than 90 days.

Four and one quarter years later, at year-end 2012, only 42 percent of the mortgages in the September 2008 single-family book of business remained active. Of the loans that had terminated, the vast majority—roughly 90 percent—had been repaid in full. Roughly one out of nine of the terminated loans were repaid through a HARP refinance. Among the 10 percent of terminated loans that were not repaid in full, roughly six out ten became real-estate-owned (REO) after foreclosure. Other terminated loans included “non-foreclosure” resolutions, such as pre-foreclosure sales or third-party sales, and loans that were written off by the Enterprises.

Although many of the loans that remained active as of December 2012 were “underwater” (the loan balance exceeded the home’s value), a very large percentage of those remained “current.” Only about 11 percent of active, September 2008-era loans were delinquent at the end of 2012, and only about 6.5 percent were delinquent by more than two months.

Figure E-1
Loan Status of September 30, 2008 Book as of December 31, 2012

	Unpaid Principal Balance* (in billions)	Loan Count (in thousands)	Share of All Loans	Share of Active or Terminated or Modified Loans
All Loans	**$4,041**	**30,337**	**100.0%**	
Active Loans	**$1,482**	**12,859**	**42.4%**	**100.0%**
Current	$1,253	11,402	37.6%	88.7%
Delinquent	$230	1,457	4.8%	11.3%
1-2 months	*$84*	*621*	*2.0%*	*4.8%*
3-12 months	*$63*	*391*	*1.3%*	*3.0%*
13+ months	*$83*	*446*	*1.5%*	*3.5%*
Terminated Loans	**$2,558**	**17,478**	**57.6%**	**100.0%**
Paid In Full	$2,226	15,662	51.6%	89.6%
HARP	*$380*	*1,818*	*6.0%*	*10.4%*
Non-foreclosure Resolutions	$113	514	1.7%	2.9%
REO	$188	1,105	3.6%	6.3%
Other	$31	197	0.6%	1.1%
Modified Loans	**$261**	**1,318**	**4.3%**	**100.0%**
Active	$213	1,067	3.5%	80.9%
Current	$149	737	2.4%	55.9%
Delinquent	$63	330	1.1%	25.0%
Terminated	$49	251	0.8%	19.0%

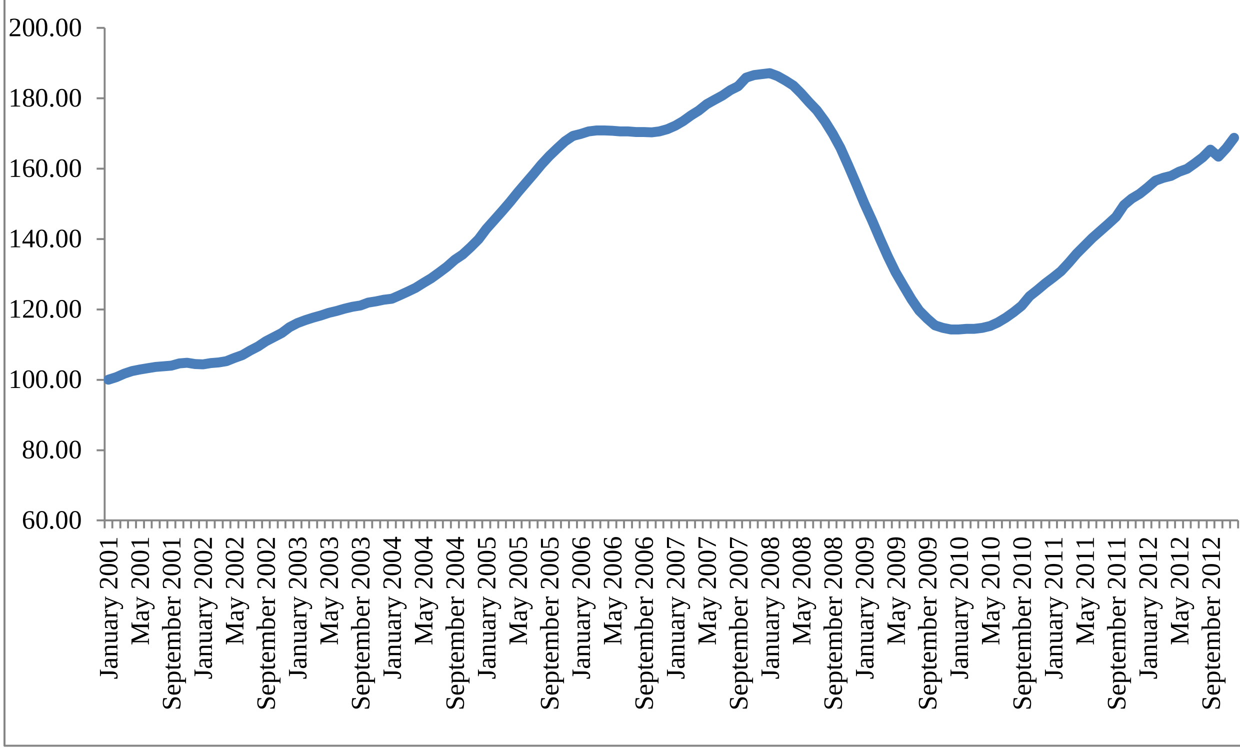
Source: FHFA based on data from Fannie Mae and Freddie Mac
* Unpaid principal balance (UPB) are calculated on liquidation date for terminated loans and December 31, 2012 for active loans.

Approximately 4 percent of the mortgages in the September 2008 single-family book of business were modified by Fannie Mae and Freddie Mac to prevent unnecessary foreclosures. In contrast to the overall September 2008 book, 81 percent of the modified loans were still active and only 19 percent had terminated at the end of 2012. Furthermore, 69 percent of the modified loans that were still active at the end of 2012 were also current at that time and the remaining 31 percent were delinquent, including 16 percent that were delinquent by more than two months.

Multifamily Market Continues to Rebound

Strong demand for apartments and pricing momentum from 2010 and 2011 led to higher multifamily property prices in 2012, although price growth was less robust than in the previous year. A commonly-cited metric of price movements for apartment buildings valued at $2.5 million or more, the Moody's/Real Commercial Property Price Index (CPPI), rose 10.4 percent between December 2011 and December 2012 (Figure 23). That increase followed a 20.0 price rise in the preceding twelve months. As of December 2012, apartment building prices were up 53.5 percent from their low point in December of 2009. That large increase contrasts sharply with the single-family market, in which over the same time interval home prices have declined and then gradually climbed back up to their December 2009 level.

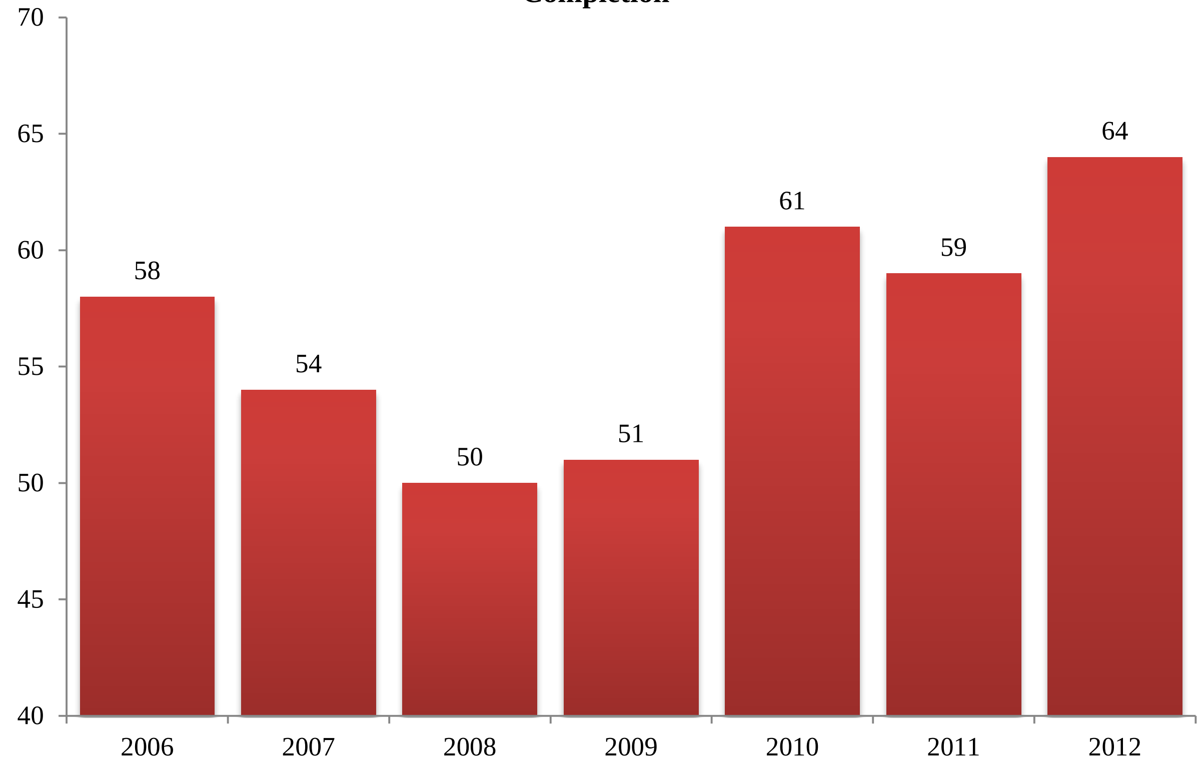
Figure 23
Prices for Apartment Buildings
2001-2012



Source: Massachusetts Institute of Technology Center for Real Estate

The demand for apartments remained robust in 2012, as indicated by the historically high level of the rate at which newly constructed units were absorbed in the market. In 2012 (through the third quarter), roughly 64 percent of newly completed unfurnished apartments were rented within 3 months, according to data released by the Bureau of the Census (Figure 24). That rate exceeded the extraordinary 61 percent logged in 2010 and was well above the 50-54 percent range that characterized the rental market in 2007-2009.

Figure 24
Percentage of Newly-Constructed Apartments Rented within 3 Months of Completion

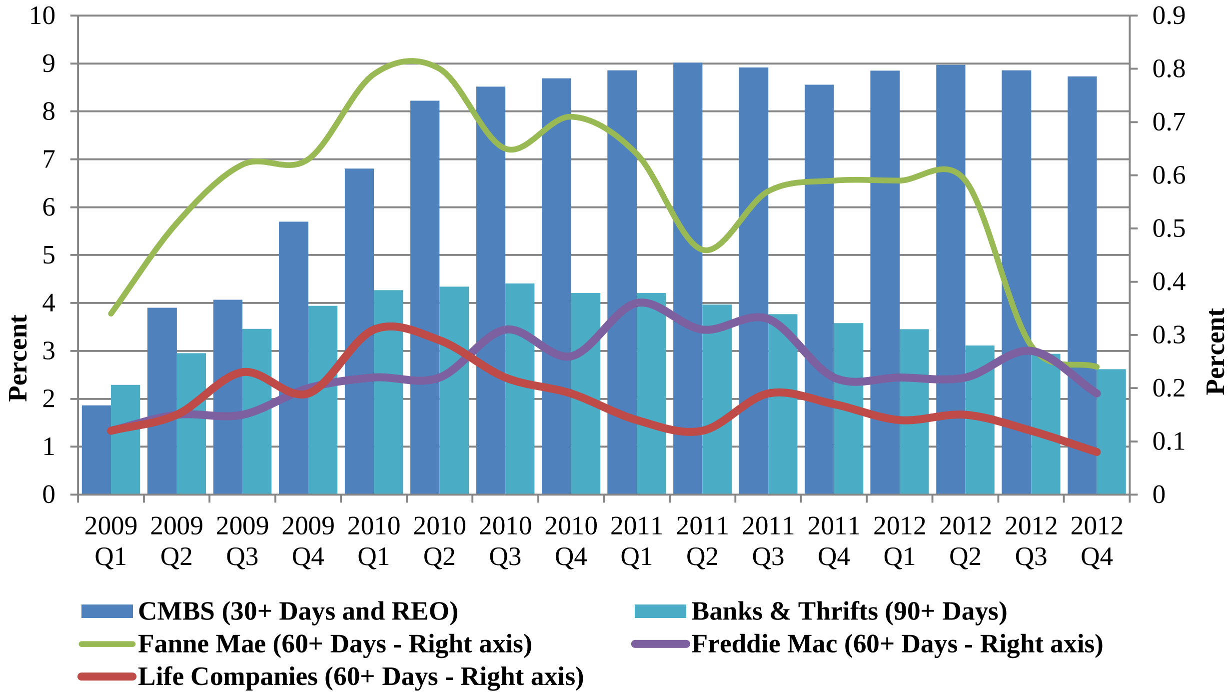


Source: Bureau of the Census

The performance of commercial and multifamily mortgages continued to improve in 2012. After rising several-fold between 2008 and 2010, delinquency rates have been falling for commercial/multifamily loans held by all investor types, according to estimates published by the Mortgage Bankers Association, likely as a result of an improving macro-economy and increases in apartment rental rates. Defining delinquency to include mortgages that were more than 60 days late or in the foreclosure process, Fannie Mae's multifamily delinquency rate was 0.24

percent in the fourth quarter of 2012, down from 0.59 percent four quarters before (Figure 25). Also under that definition of delinquency, Freddie Mac's multifamily delinquency rate fell from 0.22 percent to 0.19 percent over that period. Banks and life Insurance companies saw similar declines in proportional terms. Even loans financed with commercial MBS (CMBS)—the investor group that experienced the most modest improvement in loan performance—saw measurable declines in delinquency rates.

Figure 25
Multifamily Delinquency Rates by Investor Group



Sources: Fannie Mae, Freddie Mac, and Mortgage Bankers Association

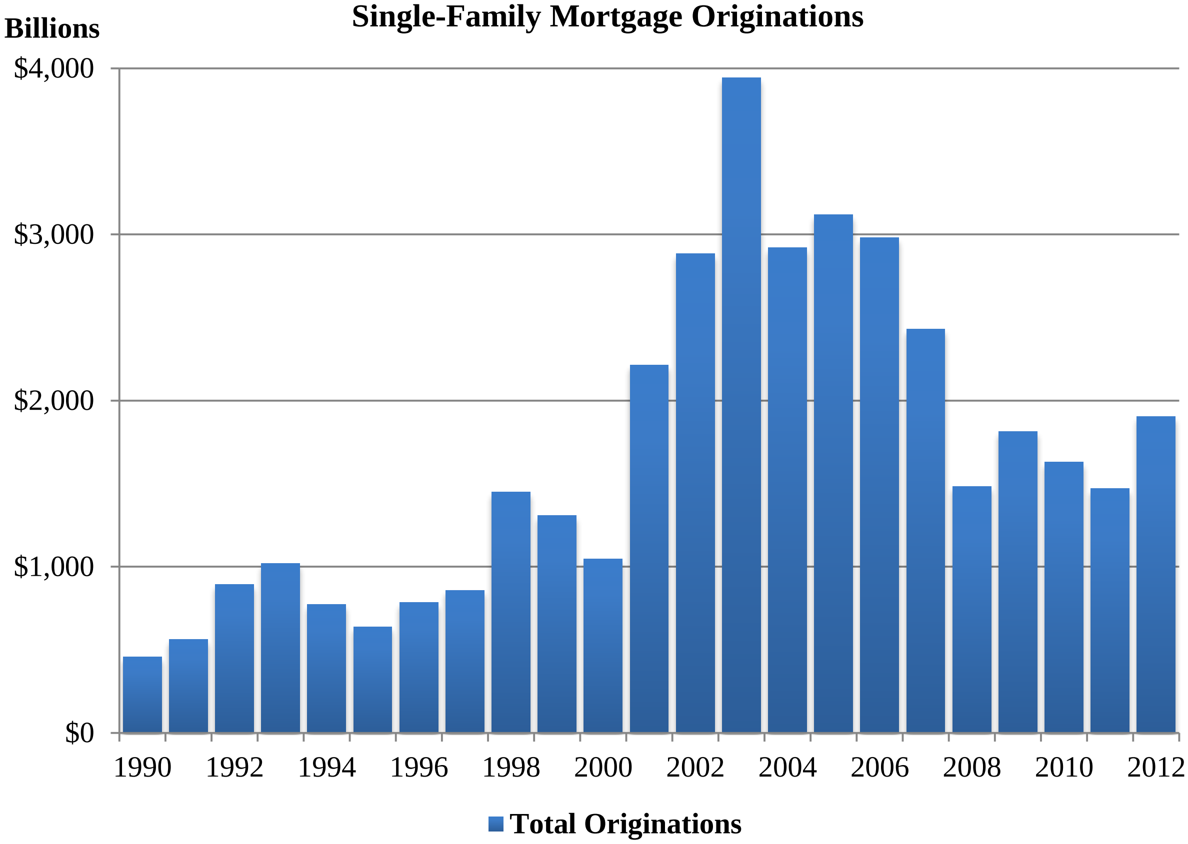
Developments in the Primary Mortgage Market

Improving economic conditions, historically low mortgage rates, and generally stable lending standards resulted in a sharp increase in single-family mortgage lending in 2012. The government-insured segment of the origination market showed a slight contraction, but there was improvement in the jumbo market (both agency and non-agency) and in new business written by private mortgage insurers. Increased HARP activity helped to keep the volume of mortgage refinancing high, which again drove single-family lending activity. Multifamily originations were strong again in 2012. Continued rising home prices and ongoing household deleveraging resulted in a sharp rise in homeowner equity. Borrowers continued to choose fixed-rate mortgages (FRMs) overwhelmingly over adjustable-rate mortgages (ARMs). The retail channel share of originations continued to grow in popularity.

Single-Family Mortgage Originations Rise Sharply

Historically low mortgage interest rates and increased participation in government-supported refinance programs contributed to a sharp rise in single-family mortgage originations in 2012. According to Inside Mortgage Finance publications, single-family originations rose 29 percent to $1.9 trillion, the highest level since 2007 (Figure 26).

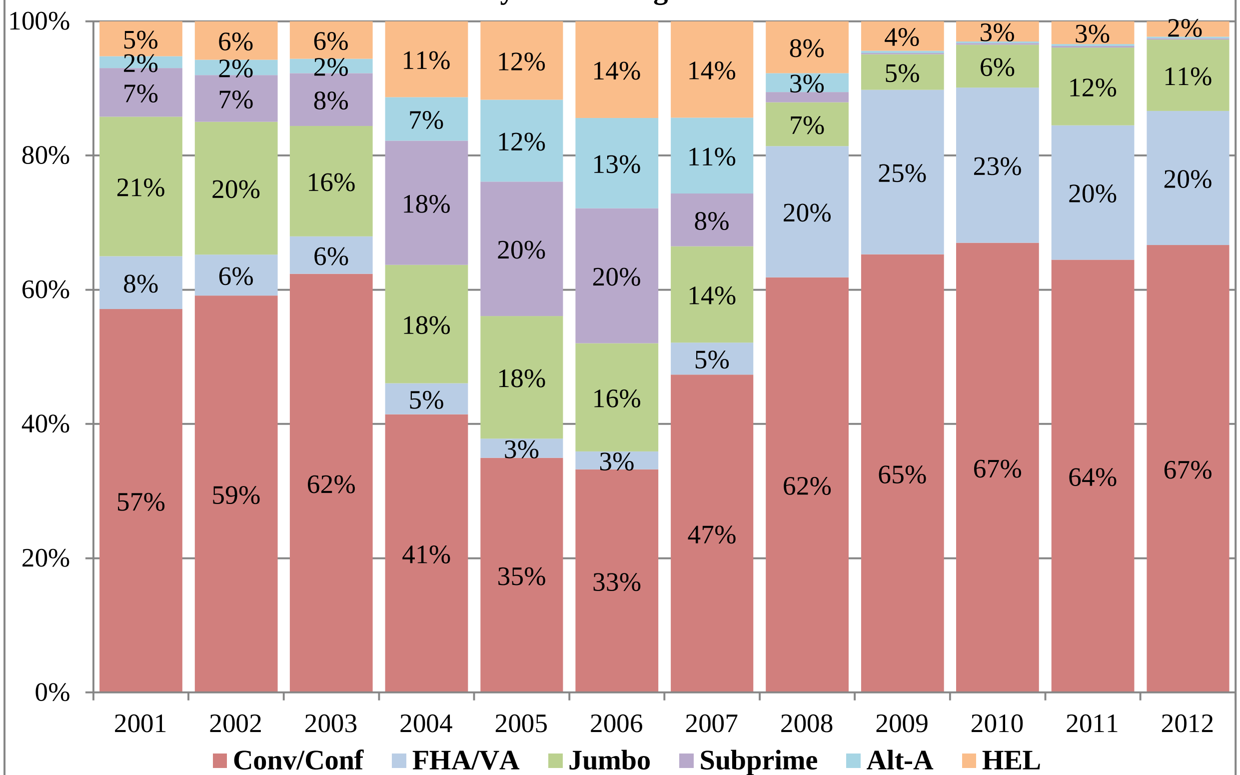
Figure 26
Single-Family Mortgage Originations



Source: Inside Mortgage Finance

Conventional/conforming mortgages—those that meet Enterprise underwriting and purchase eligibility criteria—continued to dominate single-family lending in 2012, accounting for more than two-thirds of originations (Figure 27). The government-guaranteed segment of the mortgage market accounted for 19.9 percent of originations, similar to the year before. After falling in 2011, the dollar volume of Federal Housing Administration (FHA) endorsements rose 19 percent in 2012 to $244 billion, which represented about 13 percent of total originations.

Figure 27
Share of Single-Family Originations
by Market Segment



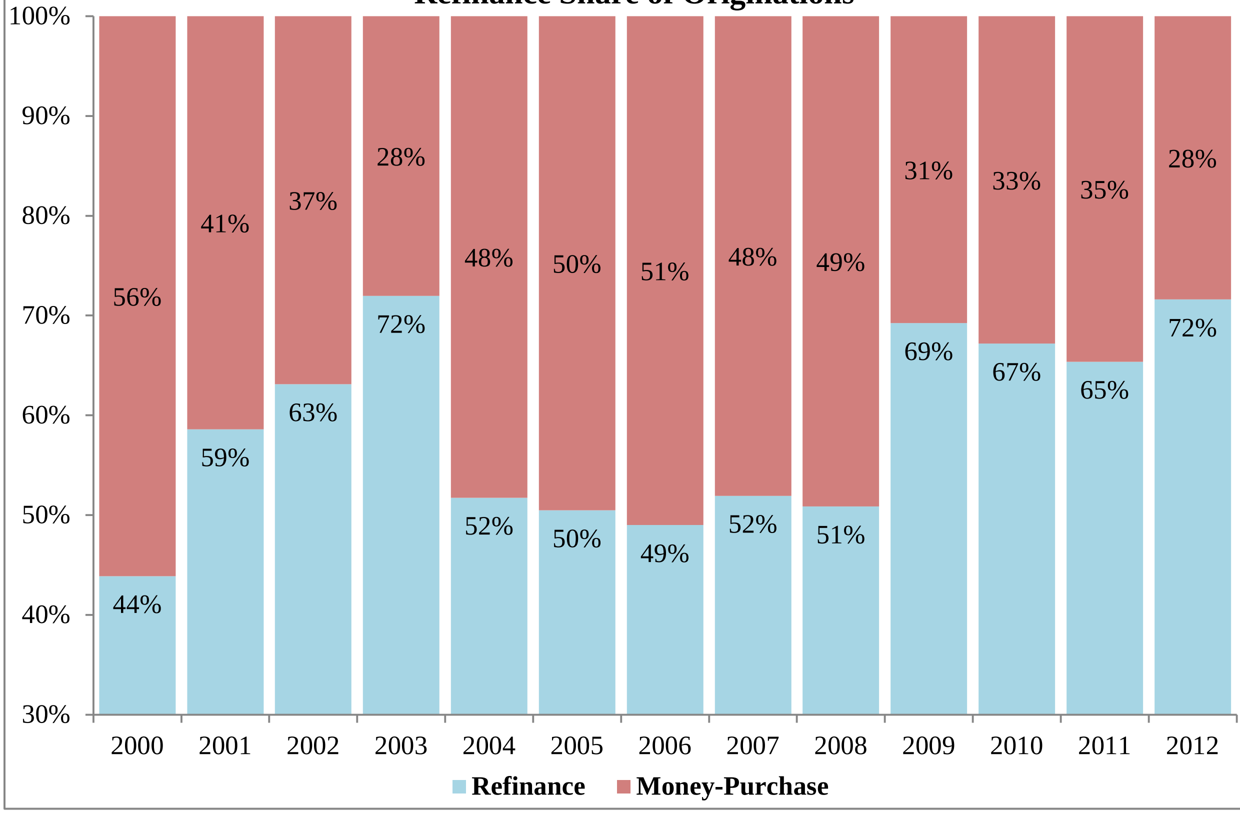
Source: Inside Mortgage Finance

Mortgages guaranteed by the Department of Veterans Affairs (VA) were up 60 percent last year, to a record high of $129 billion, due largely to the popularity of the VA's Interest Rate Reduction Refinance Loans program. Other factors may have contributed to the growing popularity of VA loan guarantees. For instance, although only available to veterans, VA mortgages do not require down payments, mortgage insurance, or a minimum borrower credit score; lenders often have their own requirements for such loans.

Refinance and Jumbo Lending Rise, Private Mortgage Insurance Gains Strength

Refinances drove single-family lending again in 2012, as the refinance share of originations rose to 72 percent from 65 percent in 2011 (Figure 28). Historically low mortgage rates and increased participation in HARP were primary factors behind the surge in refinance activity. Box F discusses HARP activity in 2012.

Figure 28
Refinance Share of Originations



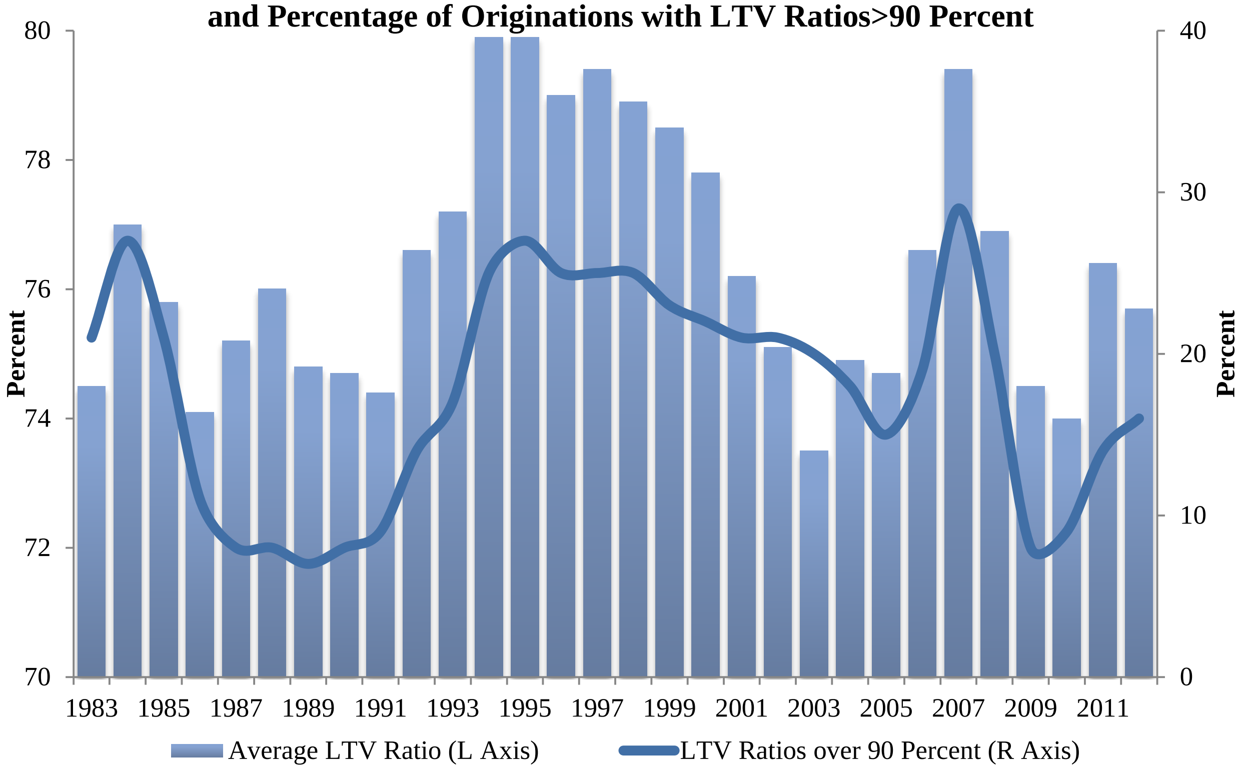
Source: Mortgage Bankers Association

Jumbo mortgage lending also increased again last year, although volume remained far below the level reached at the peak of the cycle. According to Inside Mortgage Finance publications, jumbo originations increased about 26 percent in 2012 to $321 billion, or about 17 percent of total single-family lending. Non-agency jumbo lending increased more than 19 percent to $203 billion, or about 11 percent of mortgages originated in the year. Originations of agency jumbo loans—single-family mortgages that have principal balances above the national conforming loan limit but are eligible for Enterprise acquisition because the properties are in designated "high-cost" areas—rose 39 percent in 2012 to $118 billion. Fannie Mae accounted for more than half of the year's volume.

Credit Quality of Conventional Purchase-Money Mortgages Remains Strong

Measures of the credit quality of conventional single-family mortgages taken out to purchase homes remained strong in 2012. According to FHFA's Monthly Interest Rate Survey (MIRS), the average LTV ratio of conventional fixed-rate, purchase-money mortgages was 75.7 percent in 2012, down slightly from 76.4 percent in 2011. The proportion of such loans with LTV ratios greater than 90 percent was 16 percent, up from 14 percent the previous year (Figure 29).

Figure 29
Average LTV Ratios of Conventional Single-Family Mortgages and Percentage of Originations with LTV Ratios>90 Percent



Source: Federal Housing Finance Agency

Box F:
The Home Affordable Refinance Program in 2012

The Home Affordable Refinance Program (HARP) was introduced by the Enterprises in early 2009 in association with the Administration's Making Home Affordable Program. The primary goal of HARP was to enable homeowners whose homes had lost value to reduce their monthly principal and interest payments, reduce the interest rate or amortization period on their mortgages, or move them from a riskier loan product (such as an interest-only mortgage or a short-term adjustable-rate loan) to a more stable product (such as a fixed-rate mortgage). Program eligibility requirements include the following:

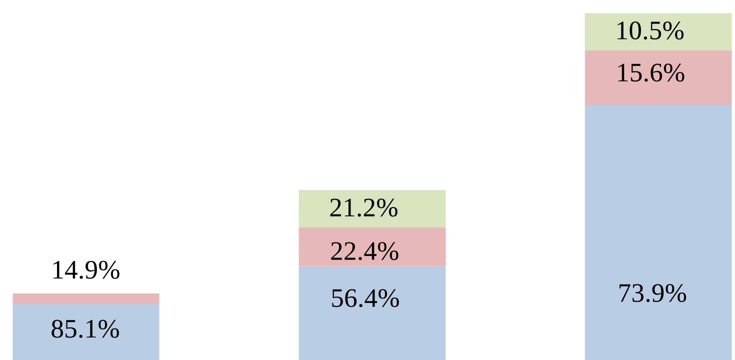
- Loans must be owned or guaranteed by Fannie Mae or Freddie Mac and must have been delivered to the Enterprises on or before May 31, 2009;
- The current loan-to-value (LTV) ratio must be greater than 80 percent; and
- The refinancing homeowner has no more than one late payment in the past 12 months and the late payment did not occur in the six months prior to the refinancing.

In 2011, FHFA worked collaboratively with the Enterprises and other industry participants to increase access to HARP for responsible borrowers. Those discussions resulted in the following program enhancements:

- Elimination of certain risk-based fees for borrowers who refinanced into shorter-term mortgages and a reduction in fees for others;
- Removal of a ceiling of 125 percent on the LTV ratio of the refinanced loan;
- Waiver of certain representations and warranties that lenders ordinarily provide on mortgages delivered to the Enterprises;
- Elimination of the need for a new property appraisal where the acquiring Enterprise provides a reliable automated valuation model (AVM) estimate; and
- Extension of the program's end date until the end of 2013 for loans delivered to the Enterprises on or before May 31, 2009.

The 2011 enhancements increased HARP activity significantly in 2012. According to FHFA's January 2013 Refinance Report, about 1.1 million mortgages were refinanced through HARP in 2012, about one and one-half times the volume of activity in 2011, bringing inception-through-2012 HARP activity to 2.2 million (Figure F-1). Notable in 2012 was the growth in refinancing of loans with LTV ratios above 105 percent and, especially, 125 percent. Over one-fifth of mortgages refinanced in 2012 had a LTV ratio above 125 percent, up from zero in prior years. In April 2013, FHFA extended HARP by two years through the end of 2015.

Figure F-1
HARP Activity - Number of Loans Refinanced, by LTV Category

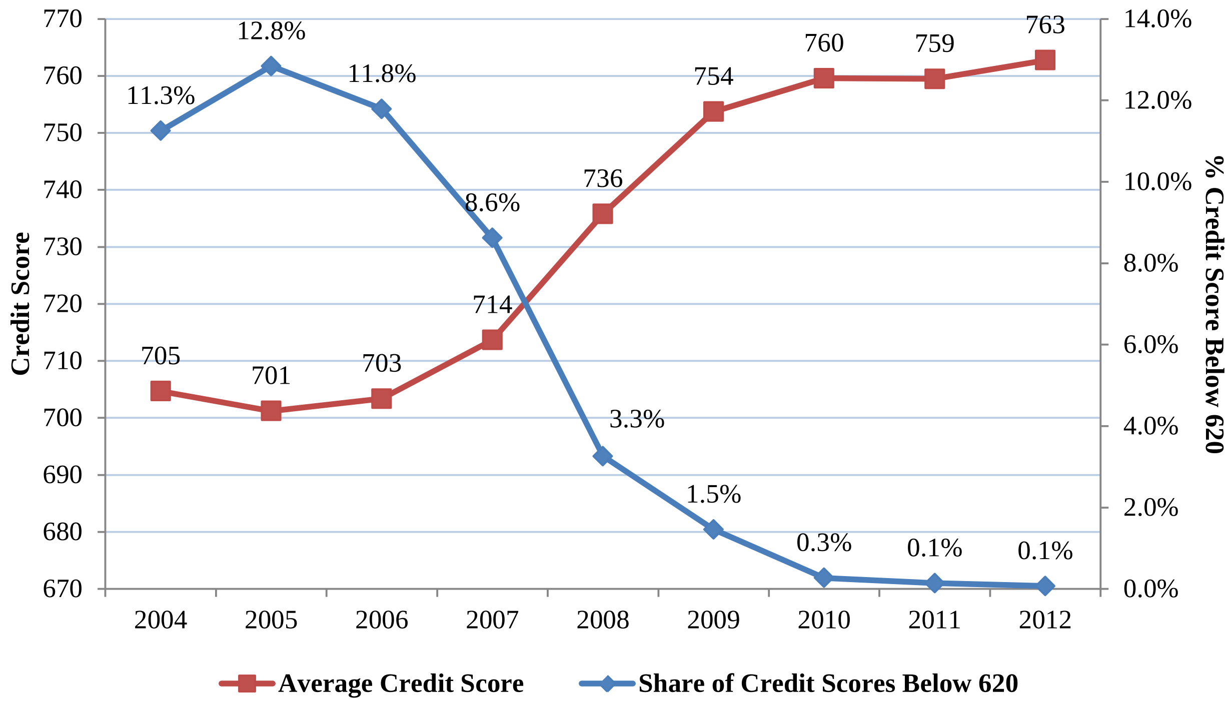


	2011	2012	Inception through 2012
HARP LTV >125%	-	228,144	228,144
HARP LTV >105% - 125%	65,135	240,665	337,899
HARP LTV >80% - 105%	373,093	605,946	1,598,978

Source: FHFA Refinance Reports for December 2012 and January 2013

According to data from CoreLogic, the average credit score of borrowers who took out conventional, purchase money-mortgages, calculated using models developed by Fair Isaac Corporation (FICO), has remained high and generally steady over the last four years. The average credit score of those borrowers, which reached a low of 701 in 2005, rose slightly in 2012 to 763 (Figure 30). At the opposite end of the credit spectrum, the share of conventional, purchase money loans made to borrowers with credit scores below 620, which had reached 12.8 percent in 2005, remained steady at 0.1 percent.

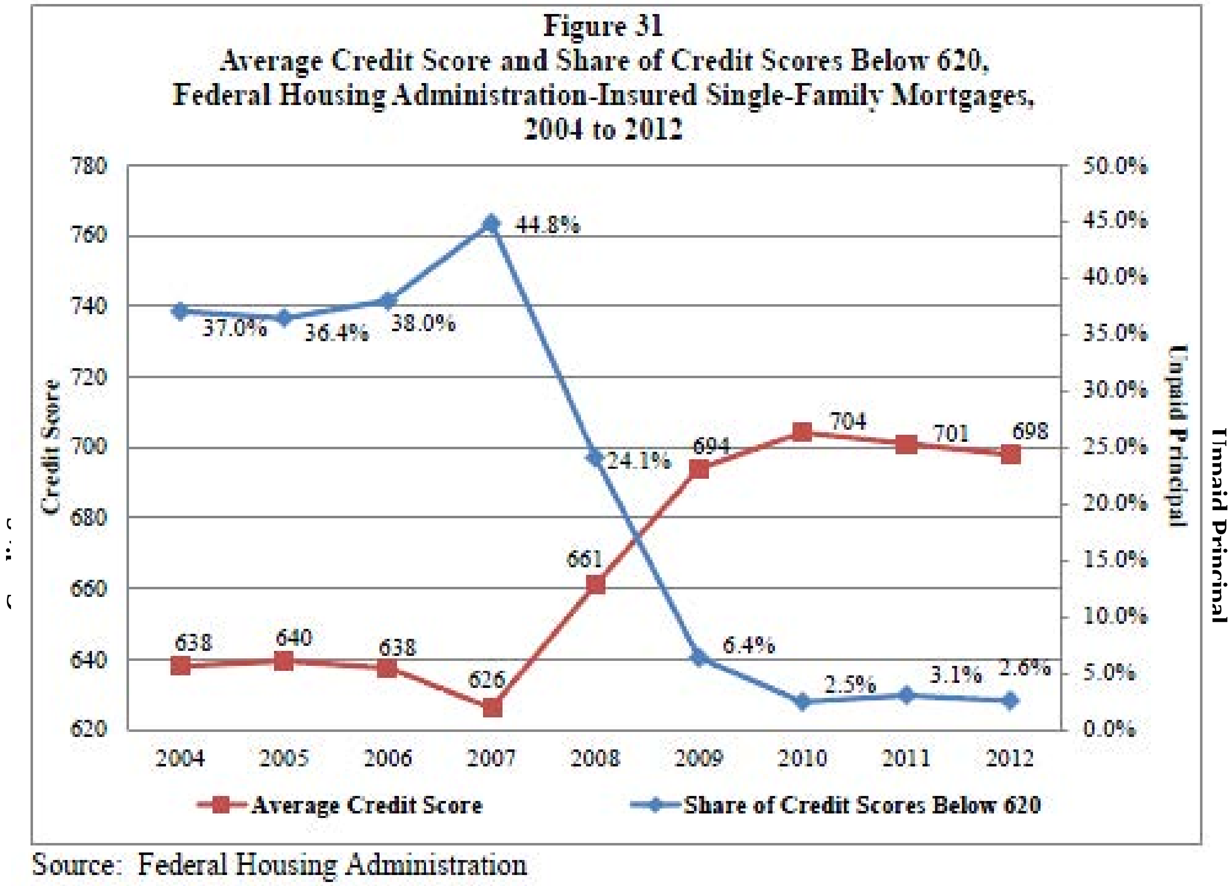
Figure 30
Average Credit Score and Share of Credit Scores below 620,
Conventional Purchase-Money Mortgages, 2004-2012



Source: FHFA based on data from CoreLogic

Credit Quality of Borrowers Who Take Out FHA-Insured Mortgages Is Stable

The credit scores of borrowers who obtain FHA-insured single-family mortgages has also remained high and generally steady over the past four years, with some slight deterioration noted in the last fiscal year. The weighted average credit score of FHA borrowers, calculated using models developed by Fair Isaac Corporation (FICO), fell from 701 in FY 2011 to 698 in FY 2012, but was still much higher than the average of 626 in FY 2007. At the lower end of the credit score spectrum, the share of FHA-insured borrowers with credit scores below 620 fell to 2.6 percent from 3.1 percent for FY 2011. That compares to about 45 percent of a much smaller volume in 2007 (Figure 31).

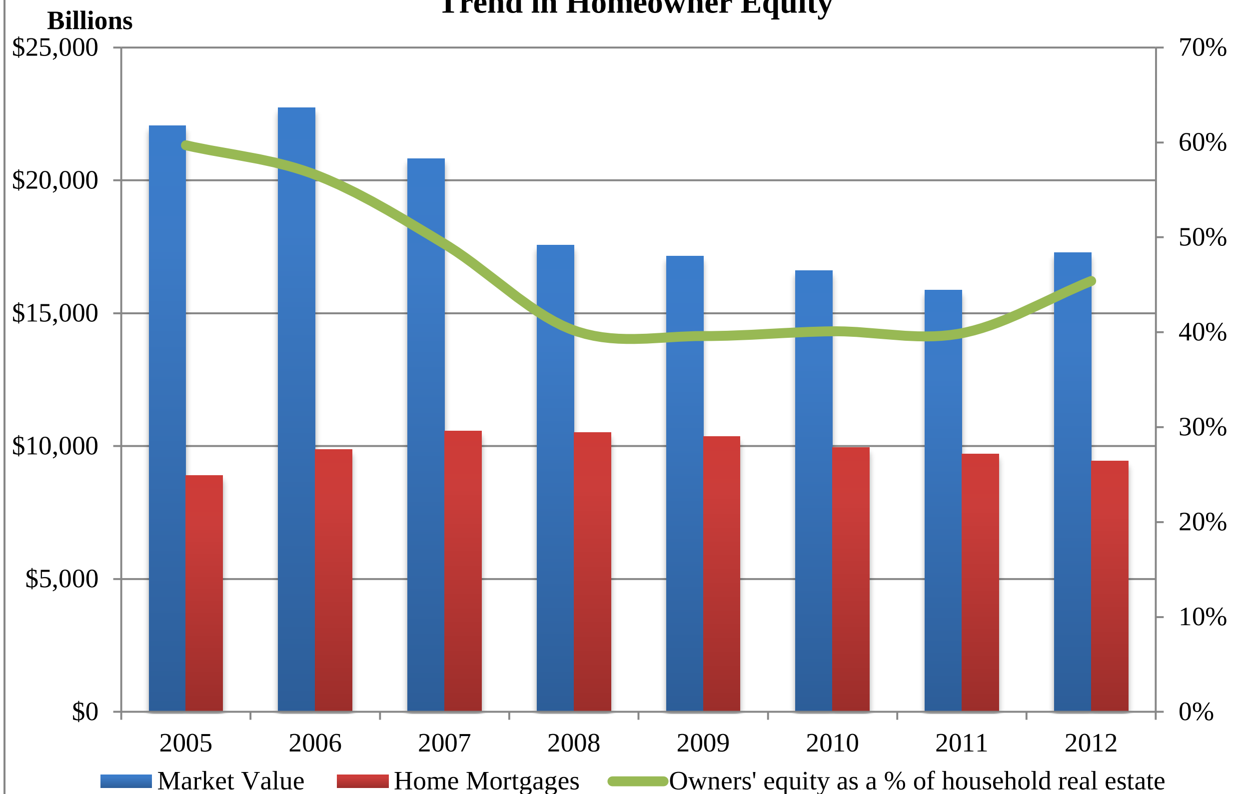


Source: Federal Housing Administration

Homeowner Equity Rises at a Double-Digit Rate

Rising home values and lower mortgage debt caused homeowner equity to rise sharply in 2012. According to the Federal Reserve's Flow of Funds Accounts, homeowner equity increased more than 1 percent each quarter of 2012, almost 6 percent over the course of the year. That increase reflects an increase in real estate value of $1.4 trillion, or 8.9 percent, and a decline in mortgage debt of about $.2 trillion. For the year, household real estate equity rose to $7.8 trillion, the highest level since the second quarter of 2008. That amount represented approximately 45 percent of the value of that real estate at the end of 2012 (Figure 32).

Figure 32
Trend in Homeowner Equity



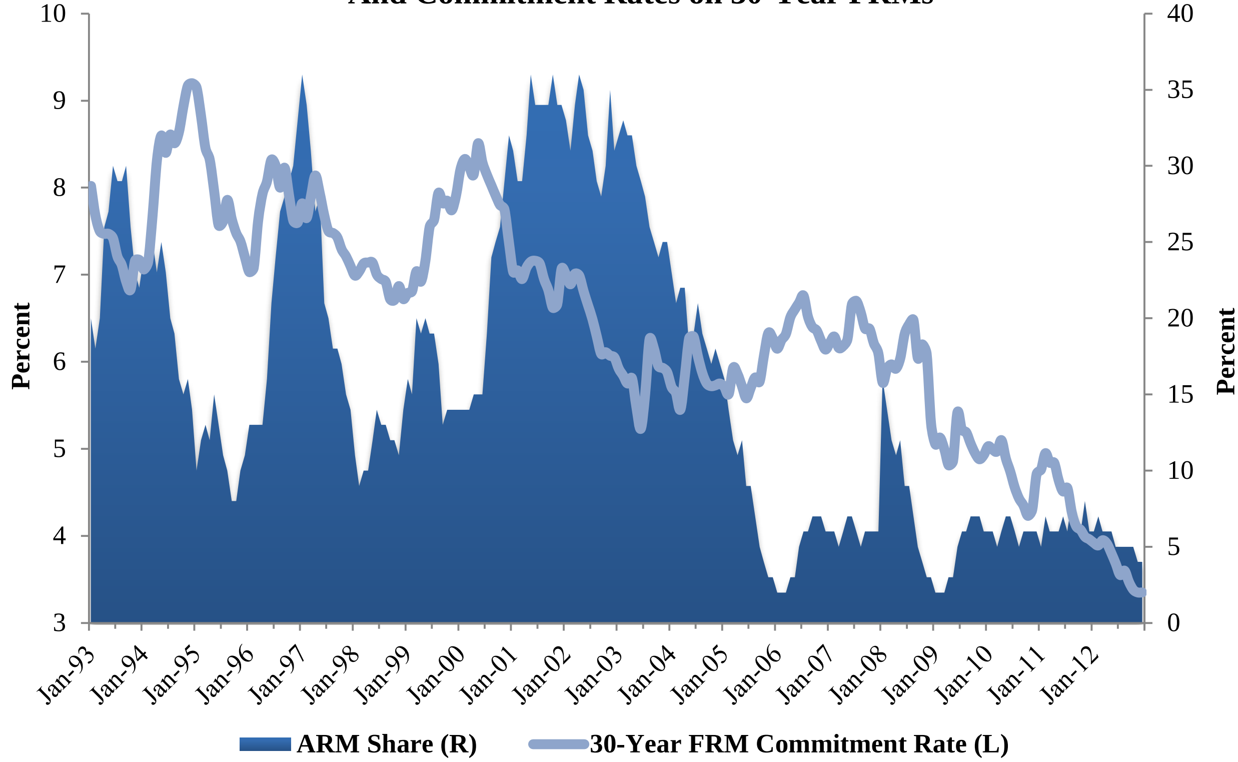
Sources: FHFA, Federal Reserve Flow of Funds, Federal Reserve Bank of Saint Louis

Adjustable-Rate Share of Applications Remains in Single-Digits

Applications for single-family mortgages with adjustable rates fell in 2012. According to Freddie Mac's PMMS, the ARM share of single-family applications was five percent in 2012 (Figure 33). As noted above, spreads between commitment rates on fixed- and adjustable-rate mortgages narrowed in 2012 as rates on fixed-rate mortgages hit historical lows. Those historically low fixed rates provided strong incentives for borrowers to lock in those rates.

According to Freddie Mac survey results, the 5/1 hybrid ARM continued to be the most popular adjustable-rate loan product offered by lenders, followed by the 3/1 and 7/1 hybrid ARMs. Homebuyers continued to shy away from traditional 1-year ARMs because of the potential for larger payments if future short-term interest rates are significantly higher.

Figure 33
ARM Share of Conventional Nonjumbo Single-Family Loan Applications And Commitment Rates on 30-Year FRMs

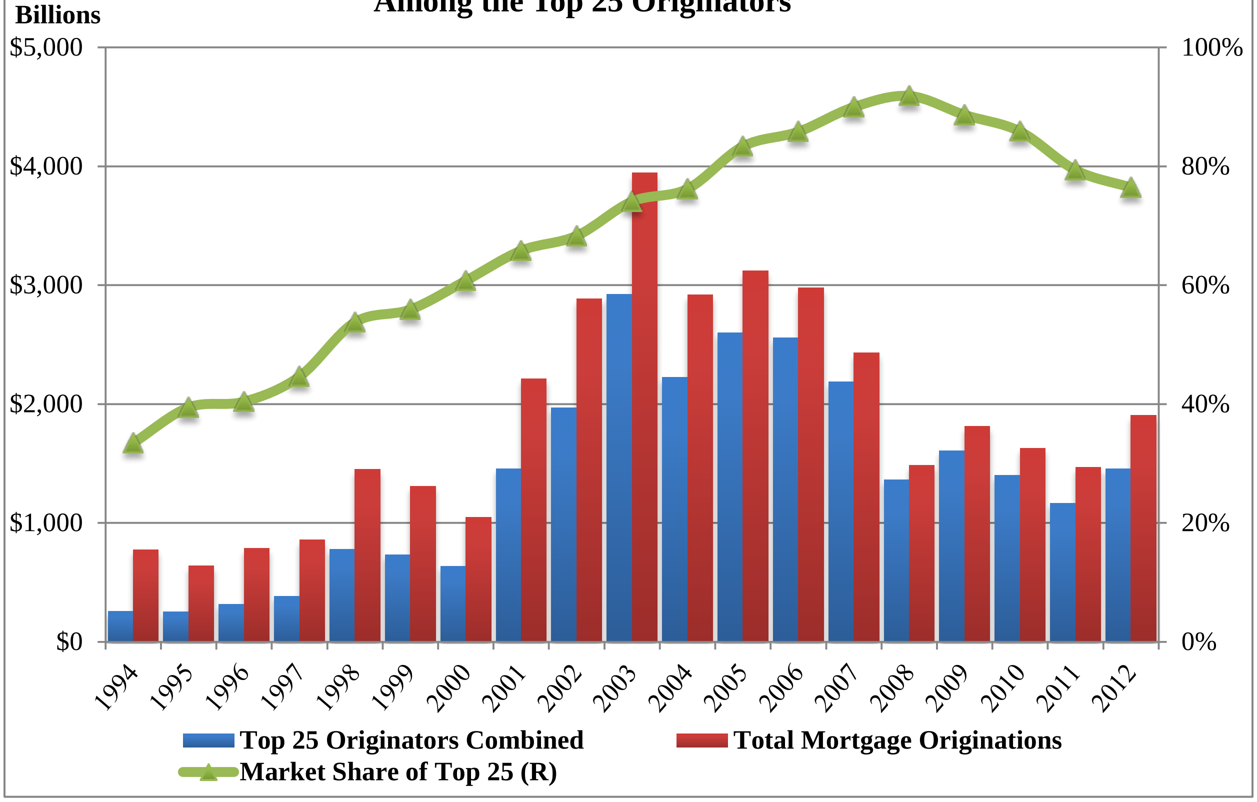


Source: Freddie Mac's PMMS

Concentration of Origination and Servicing Markets Falls, Retail Channel Remains Strong

Although very large banks dominated residential mortgage finance again in 2012, the origination and servicing markets become a bit less concentrated. According to Inside Mortgage Finance publications, the top 25 lenders' share of originations declined from 79 percent in 2011 to 76 percent in 2012 (Figure 34). The top ten originators decreased their share of originations from 67 percent in 2011 to 63 percent in 2012. The share of the top five originators fell from 54 percent in 2011 to 50 percent last year. The largest lender, Wells Fargo, garnered about 28 percent of the market last year, more than the combined share of the next four largest originators. Three of the top five lenders each accounted for less than five percent of the market.

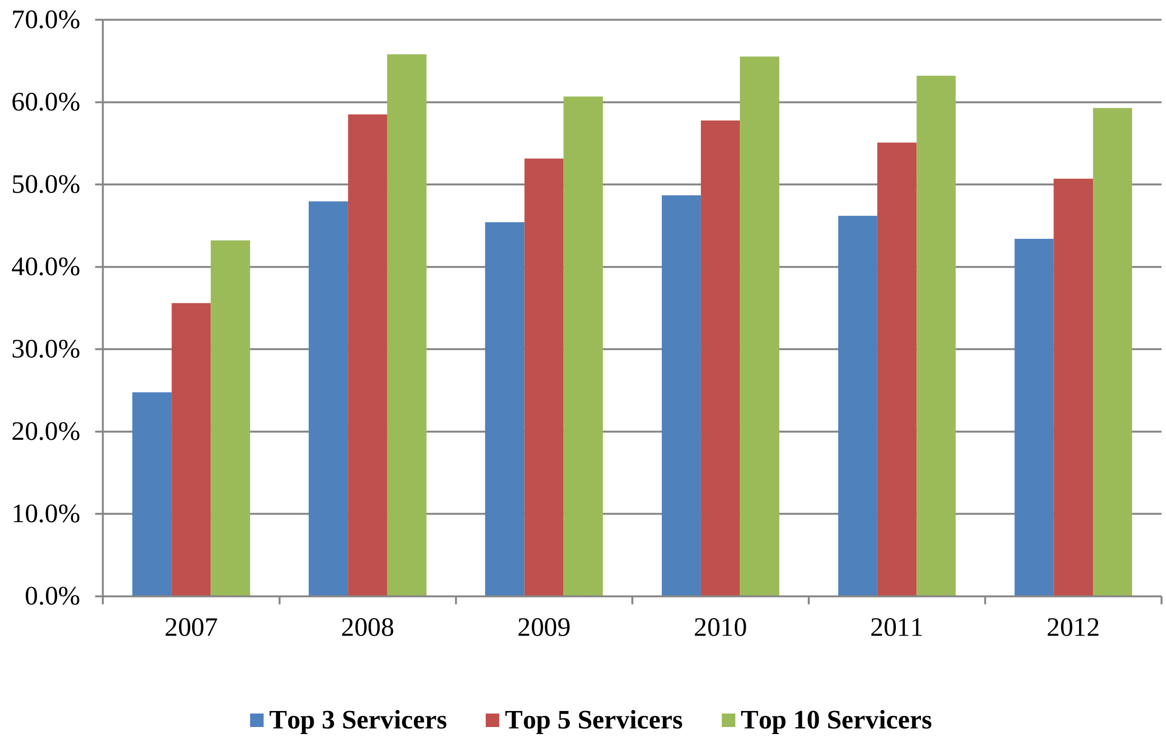
Figure 34
Concentration of Mortgage Originations
Among the Top 25 Originators



Source: Insider Mortgage Finance Publications

In recent years a number of the largest mortgage servicers have reduced the size of their servicing portfolios through the sales of servicing rights to smaller servicers, often firms that specialize in handling delinquent loans. In addition, implementation of Basel III is expected to result in higher capital charges for depositories holding mortgage servicing rights. That likely increase in capital charges may be inducing large bank servicers to sell their servicing rights to non-depositories. Sales of servicing rights have resulted in less concentration at the very top of the servicing market. For instance, the market share of the top 10 servicers dropped from 63 percent in 2011 to 59 percent in 2012. The share of the top five servicers dropped from 55 percent to 51 percent during the year. The share of the top three servicers fell from 46 percent to 43 percent (Figure 35).

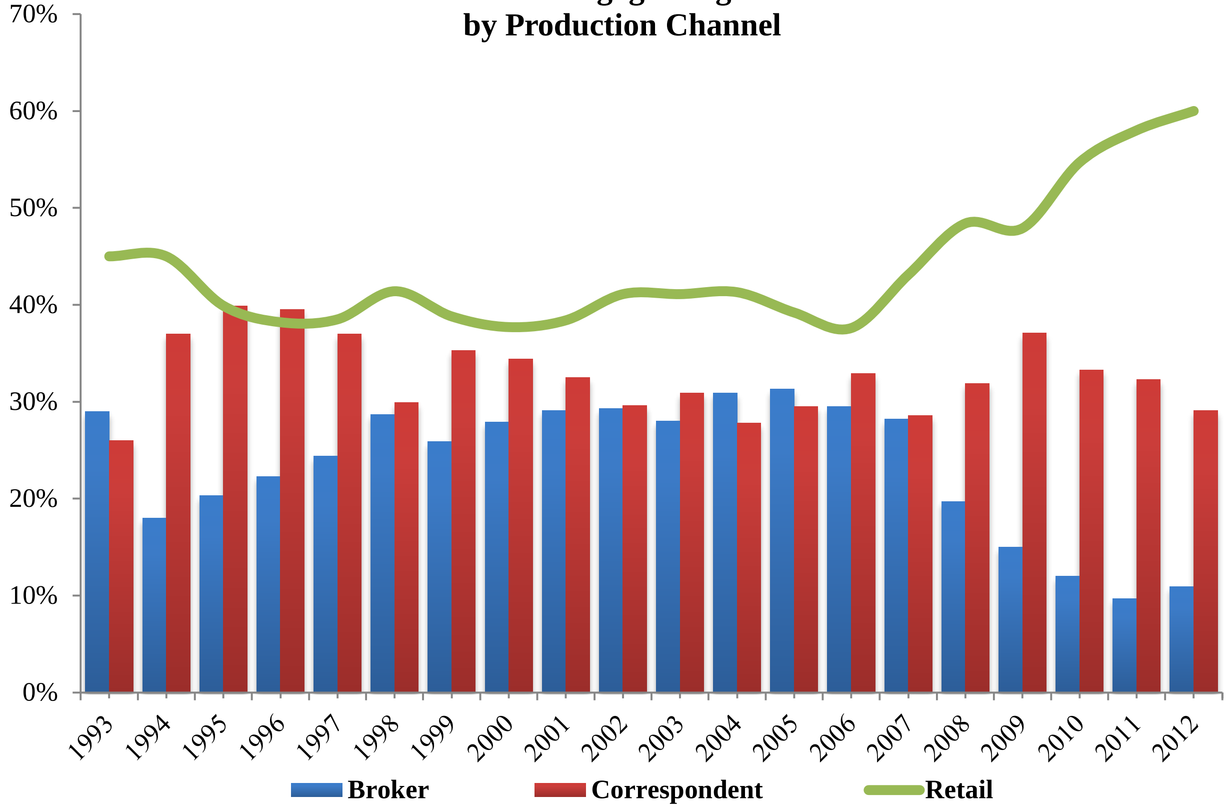
Figure 35
Market Share of Mortgage Servicers



Source: Inside Mortgage Finance

While mortgage lenders continue to rely on multiple channels of production to originate single-family loans, the retail channel has become increasingly popular and the correspondent and broker channels less so. According to Inside Mortgage Finance publications, the retail share of originations increased to 60 percent in 2012. The share of loans acquired from correspondents (lenders that close loans in their own name and sell them) declined for the third consecutive year to 29 percent, down from 32 percent in 2011. After six consecutive years of decline, the broker share of originations reversed course and rose slightly in 2012, to 11 percent, up from 10 percent in 2011. That was still far below the 31 percent peak level reached in 2005 (Figure 36).

Figure 36
Share of Mortgage Originations by Production Channel

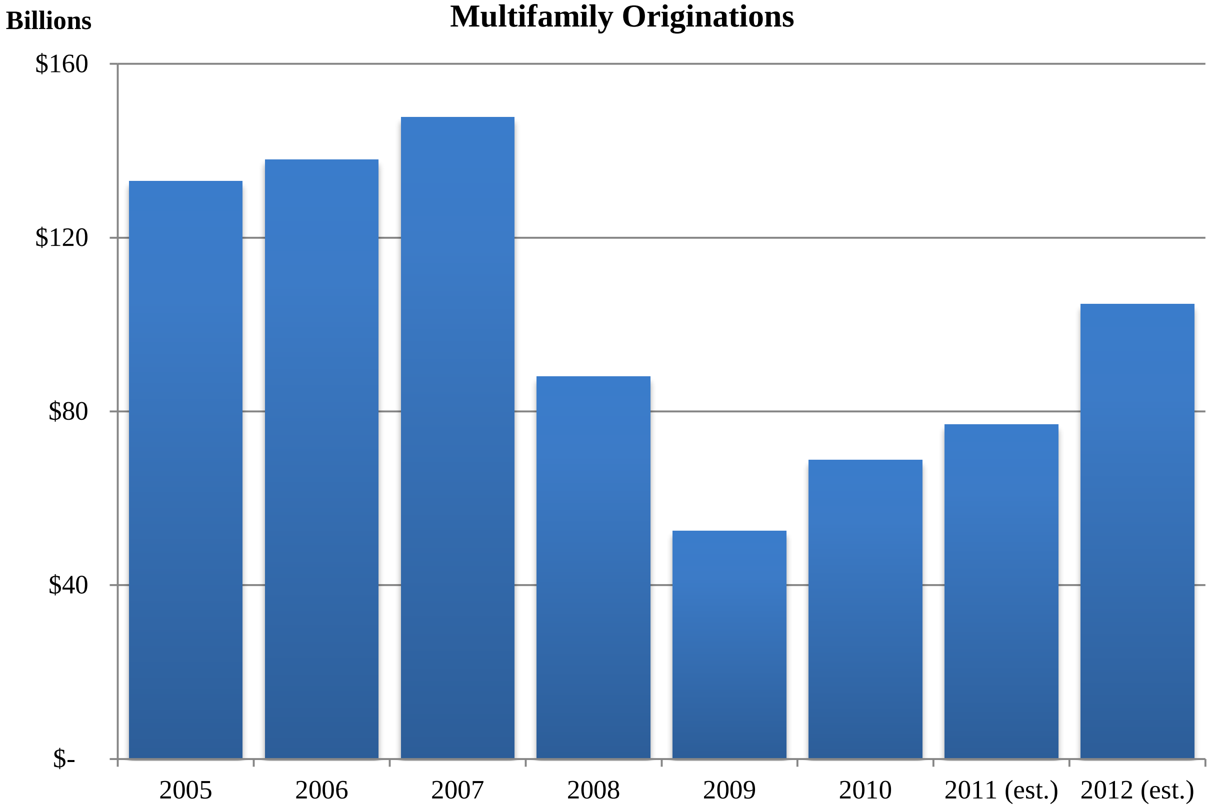


Source: Inside Mortgage Finance Publications

Multifamily Lending Continues to Recover

Multifamily mortgage originations rose for the third consecutive year in 2012. According to the Mortgage Bankers Association, originations of multifamily loans increased about 36 percent in 2012 to a preliminary estimate of $105 billion (Figure 37). Contributing to the growth of multifamily lending were low mortgage interest rates and improving apartment-sector economics. Fannie Mae and Freddie Mac provided considerable support to the multifamily market through their cash purchases and securitization activities, as did FHA and Ginnie Mae through their insurance and securitization activities, respectively.

Figure 37
Multifamily Originations



Source: Mortgage Bankers Association

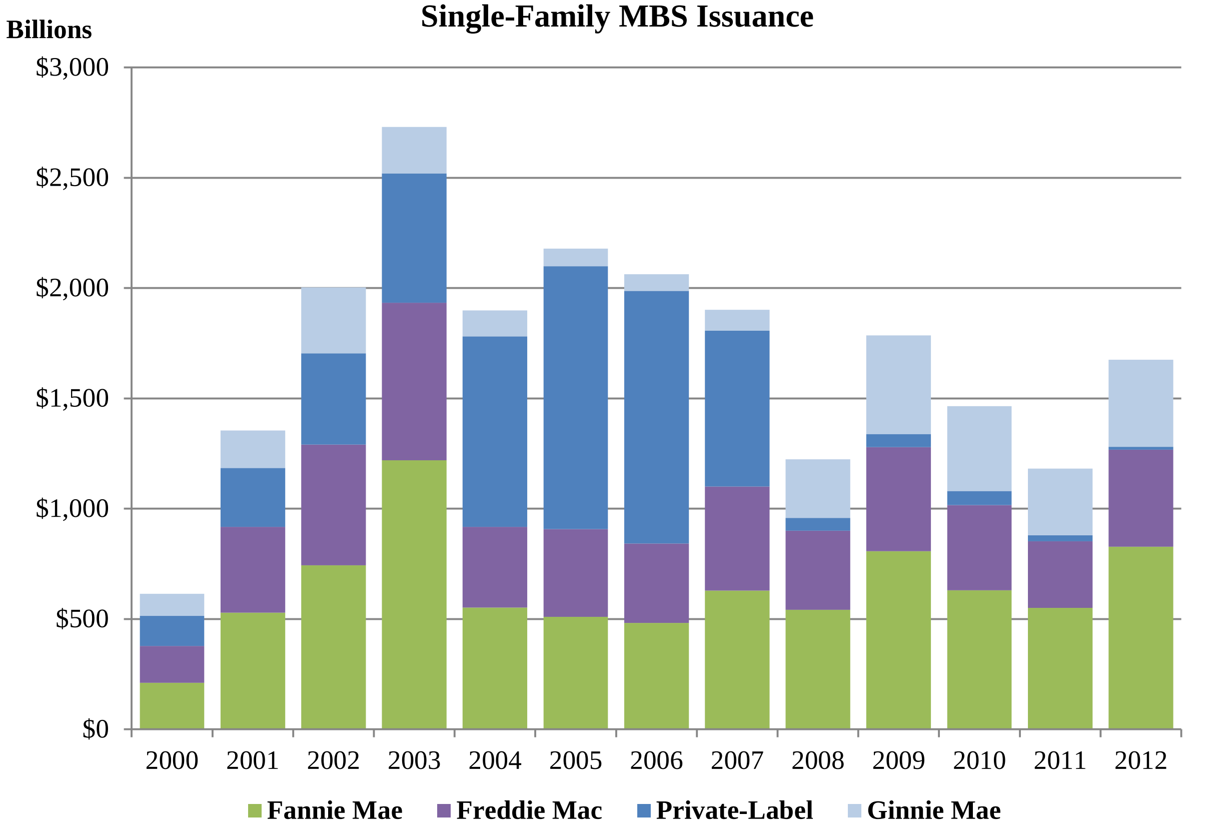
Secondary Mortgage Market Developments

Activity in the secondary market for single-family mortgages paralleled that of the primary market in 2012. Fannie Mae and Freddie Mac both had double-digit increases in their issuance of single-family mortgage-backed securities (MBS). Activity at Ginnie Mae rose similarly. The Enterprises and Ginnie Mae were also very active in the multifamily secondary market in 2012, and their issuance of multifamily MBS improved significantly over the previous year.

Enterprise Issuance of Single-Family and Multifamily MBS Surges

After falling for the last two years, issuance of MBS backed by single-family mortgages rose sharply in 2012 to about $1.7 trillion (Figure 38). The Enterprises and Ginnie Mae again overwhelmingly dominated mortgage securitization during the year. Fannie Mae showed the largest increase (almost 50 percent), while Freddie Mac and Ginnie Mae each increased their issuance more than 20 percent. Private-label activity remained minimal in 2012; issuance of $13 billion was less than one-half the 2011 level and about one percent of total activity. However, the decline reflected fewer re-securitizations. New securitizations rose sharply, up 144 percent from 2011, to the highest level since 2009. Enterprise issuance of multi-class securities, mostly Real Estate Mortgage Investment Conduits (REMICs), declined again in 2012, due to lower activity at Freddie Mac. Fannie Mae showed an increase in its multiclass issuance of eight percent to $151 billion, whereas issuance at Freddie Mac's was down 25 percent to $124 billion.

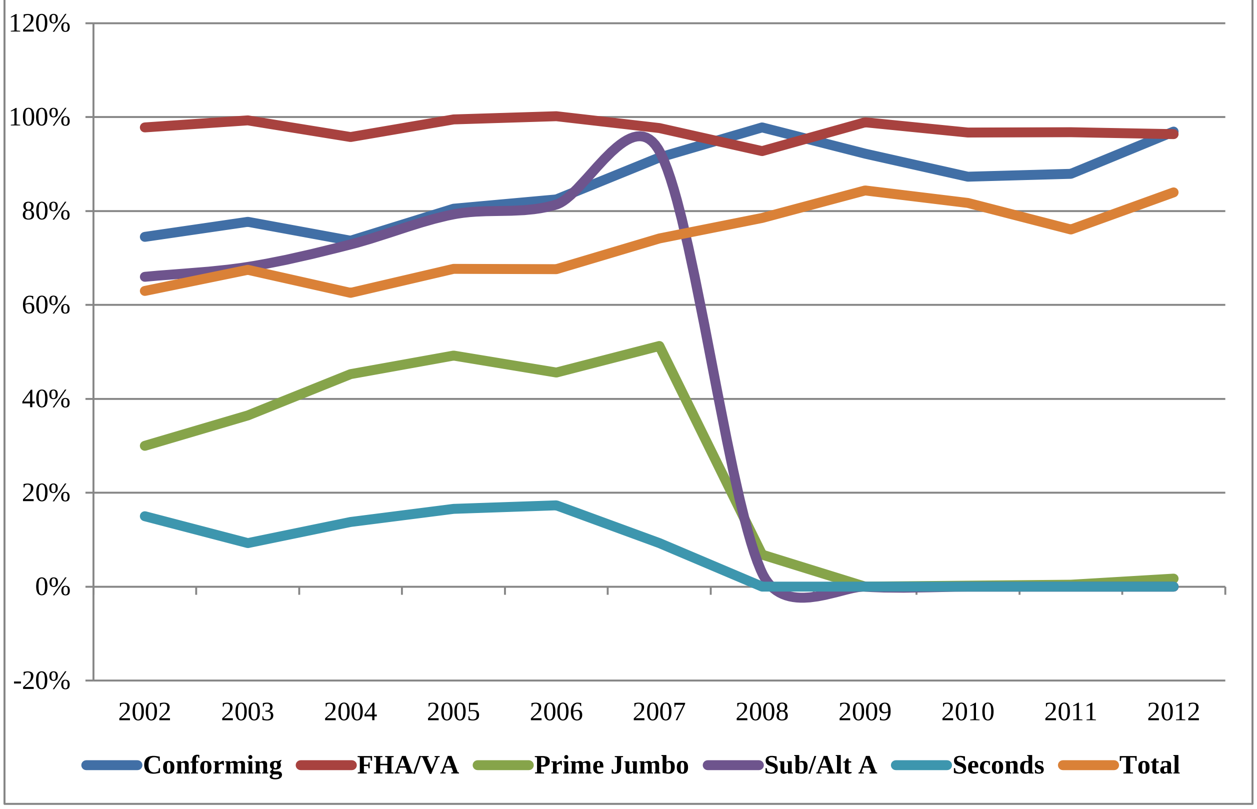
Figure 38
Single-Family MBS Issuance



Source: Inside Mortgage Finance Publications

According to Inside Mortgage Finance publications, 84 percent of the estimated $1,905 billion of mortgages originated in 2012 were securitized (Figure 39). An estimated 97 percent of conforming loans were securitized, as was a similar share of FHA/VA mortgages. However, less than two percent of prime jumbo loans were securitized last year.

Figure 39
Securitization Rates for Single-family Mortgages

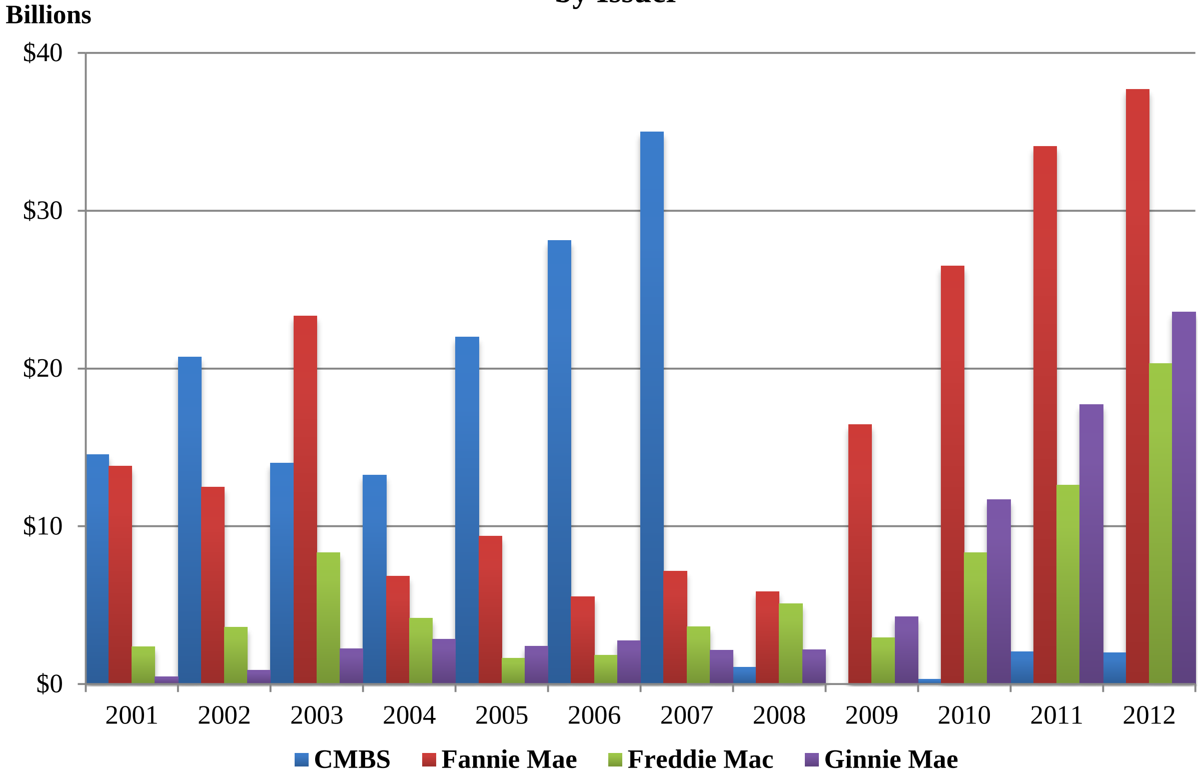


Source: Inside Mortgage Finance publications

Issuance of MBS backed by multifamily mortgages rose by nearly 26 percent to $84 billion in 2012. Enterprise and Ginnie Mae MBS accounted for more than 97 percent of total issuance. The Enterprises issued record volumes of multifamily MBS during the year. Fannie Mae issuance increased 11 percent to $38 billion, and Freddie Mac's issuance was up 61 percent to over $20 billion. Based on the Mortgage Bankers Association's preliminary estimate of originations, Enterprise multifamily issuance as a share of multifamily originations declined to 55 percent in 2012 from about 60 percent in the previous year.

Ginnie Mae MBS provided considerable liquidity to the multifamily sector in 2012. According to Inside Mortgage Finance publications, Ginnie Mae's new multifamily MBS guarantees rose by about one-third to an all-time high of $24 billion in 2012. Issuance of commercial multifamily MBS came in below the $2 billion level reached in 2011, which was far below the $35 billion peak volume reached in 2007 (Figure 40).

Figure 40
Distribution of Issuance of Multifamily MBS by Issuer

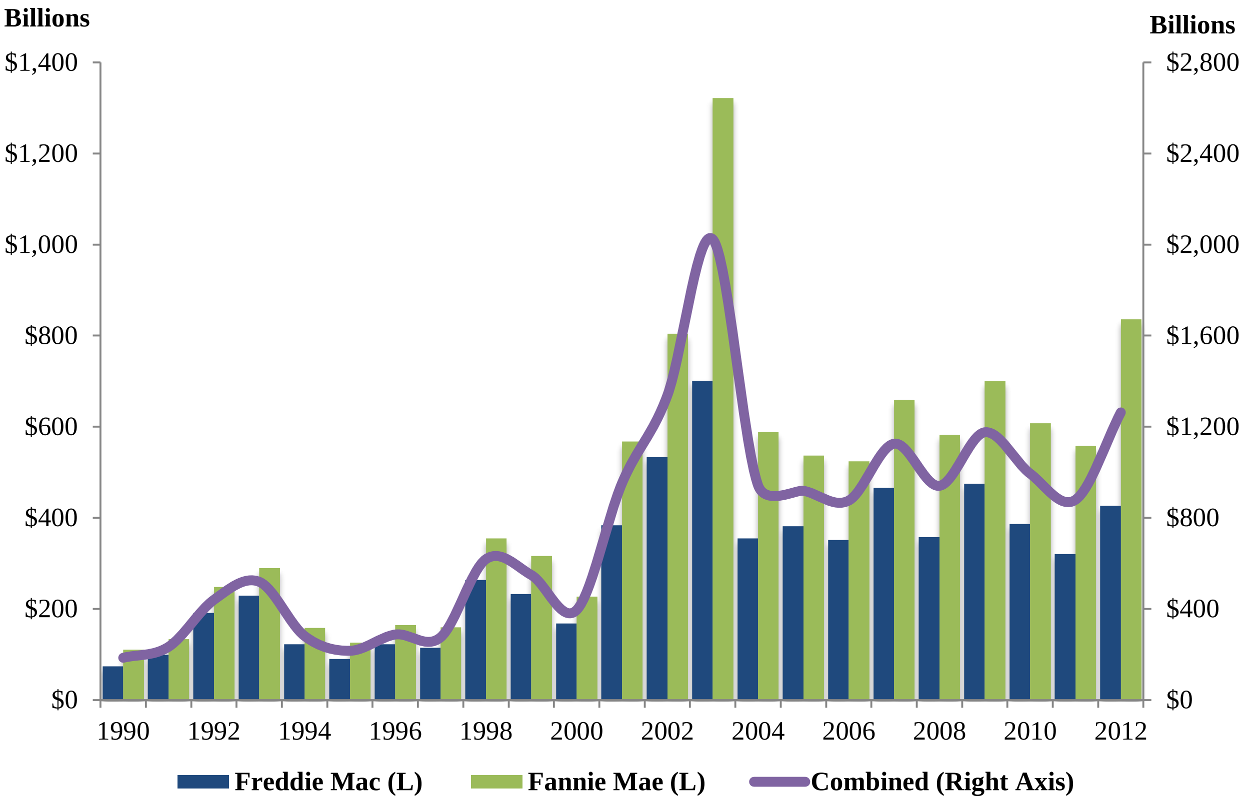


Source: Fannie Mae, Freddie Mac, and Inside Mortgage Finance

Enterprises' Mortgage Purchase Volume Increases

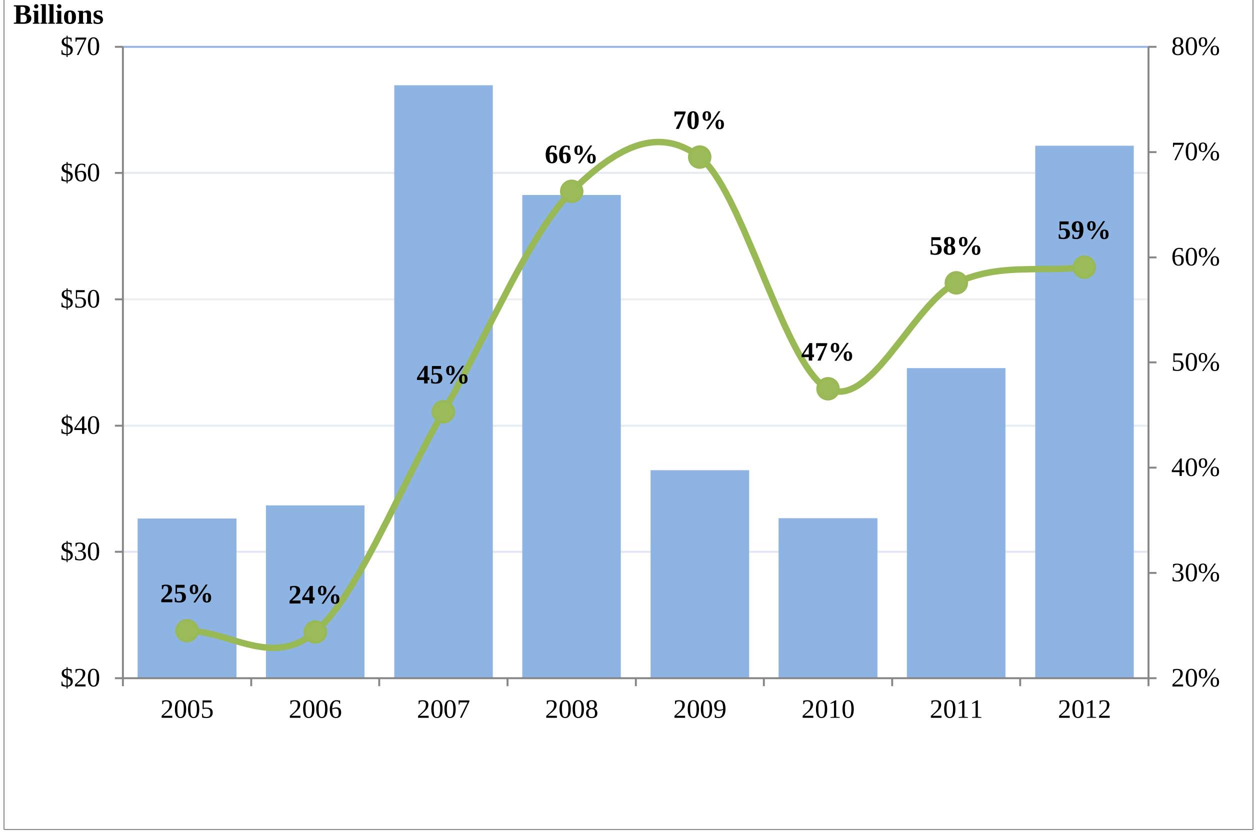
Consistent with the rise in single-family mortgage originations, both Fannie Mae and Freddie Mac increased their purchases of single-family loans in 2012. Combined Enterprise single-family purchases increased 44 percent to about $1,263 billion (Figure 41). Freddie Mac's purchases totaled $427 billion in 2012, up 33 percent to the highest level since 2009. Fannie Mae's purchases were almost double those of Freddie Mac, $836 billion, up 50 percent from 2011 to the highest level since 2003. The substantial increase in HARP volume contributed to the Enterprises' increased purchase activities. According to Freddie Mac, the volume of HARP loans purchased increased to $87 billion in 2012, compared to about $40 billion in 2011. Those purchases represented 20 percent of the Enterprise's single-family purchases in 2012.

Figure 41
Enterprise Single-Family Mortgage Purchases



Source: Fannie Mae and Freddie Mac

Enterprise multifamily purchases increased about 40 percent in 2012, to about $62 billion. Fannie Mae provided $33 billion of multifamily financing in 2012, an increase of 38 percent from the previous year. Freddie Mac's multifamily purchases increased to an all-time high of about $29 billion from $20 billion in 2011. Based on the Mortgage Bankers Association's preliminary estimate of originations, combined Enterprise purchases of multifamily mortgages represented about 59 percent of multifamily lending in 2012 (Figure 42).

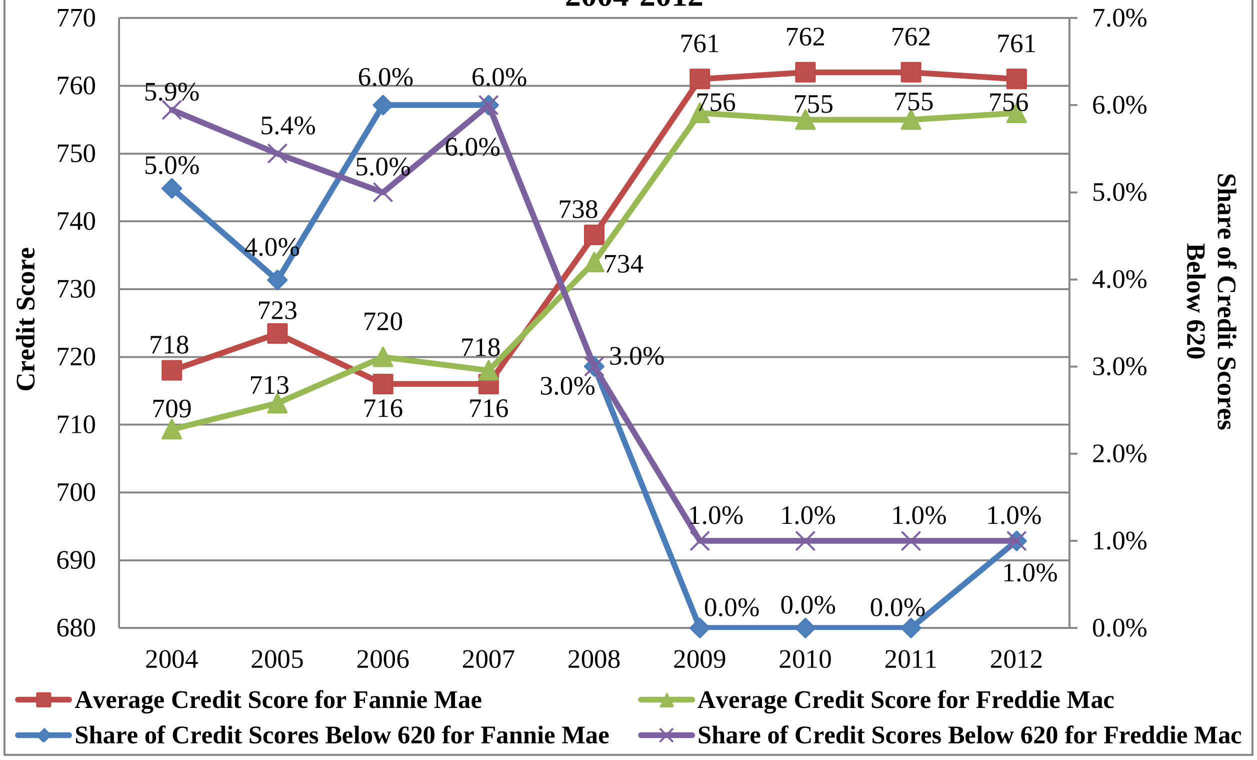


Source: FHFA, Fannie Mae, Freddie Mac, Mortgage Bankers Association

Credit Quality of Enterprise Single-Family Purchases Shows Little Change

The credit quality of single-family mortgages purchased by Fannie Mae and Freddie Mac remained high in 2012. The average credit score, calculated using models developed by Fair Isaac Corporation (FICO), of borrowers whose mortgages Fannie Mae purchased decreased slightly to 761, down from 762 the year before (Figure 43). The share of loans of borrowers with credit scores below 620 that Fannie Mae purchased increased to one percent. In both years, HARP and other flexible refinance loans comprised 98 percent of all mortgages acquired by Fannie Mae that had credit scores below 620. Trends for Freddie Mac were similar. Specifically, the weighted average credit of borrowers whose loans Freddie Mac purchased rose from 755 in 2011 to 756 in 2012, while the share of mortgages whose borrowers had credit scores below 620 remained at one percent. HARP and flexible refinance loans accounted for 54 percent and 87 percent of loans acquired by Freddie Mac in 2011 and 2012, respectively, whose borrowers had credit scores below 620.

Figure 43
Average Credit Score and Share of Credit Scores Below 620, Single-Family Mortgages Acquired by Fannie Mae and Freddie Mac, 2004-2012

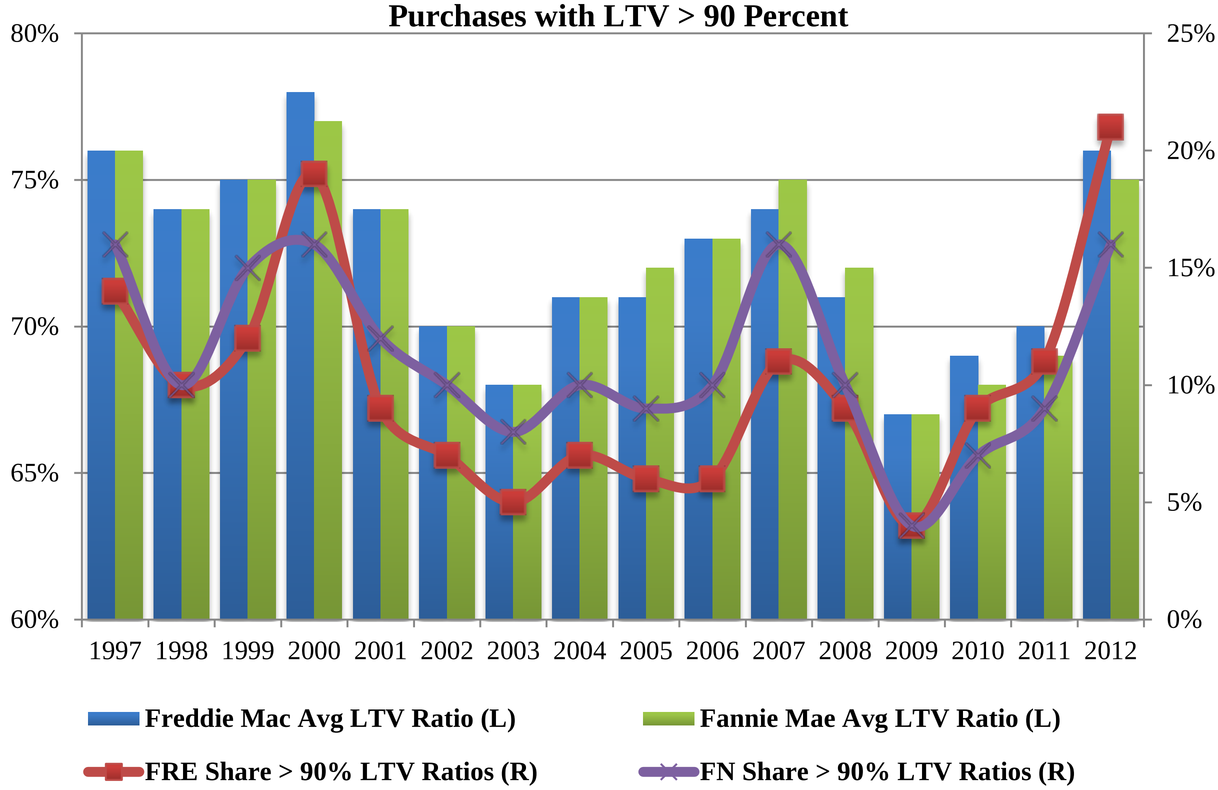


Source: Fannie Mae and Freddie Mac

The weighted average loan-to-value (LTV) ratio of single-family mortgages purchased by Fannie Mae rose from 69 percent in 2011 to 75 percent in 2012. The comparable values for Freddie Mac were 70 percent and 76 percent, respectively. The proportion of single-family mortgages with high LTV ratios purchased by each Enterprise also rose in 2012 year (Figure 44). The share of loans with LTV ratios greater than 90 percent purchased by Fannie Mae rose from nine percent in 2011 to 16 percent in 2012. The proportion for Freddie Mac increased to 21 percent from 11 percent the year before.

Those changes in LTV ratios reflect the increase in Enterprise acquisition of refinance mortgages under HARP and other flexible refinance programs in 2012. The refinance share of Enterprise single-family purchases rose during the year, due principally to higher HARP volumes. Despite the increase in homeowner equity from rising house prices during the year, the cash-out share of refinance loans purchased by the Enterprises declined. Fannie Mae's refinance share of purchases increased to 79 percent, up from 76 percent in 2011. Cash-out refinancing accounted for 18 percent of refinance loans purchased by that Enterprise, compared with 22 percent the year before. Freddie Mac's refinance share of purchases rose to 82 percent. Cash-out refinancing accounted for 18 percent of that Enterprise's refinance mortgages purchased in 2012, compared to 23 percent the year before.

Figure 44
Average LTV Ratios of Enterprise Single-Family Purchases and Percentage of Purchases with LTV > 90 Percent



Source: Fannie Mae and Freddie Mac

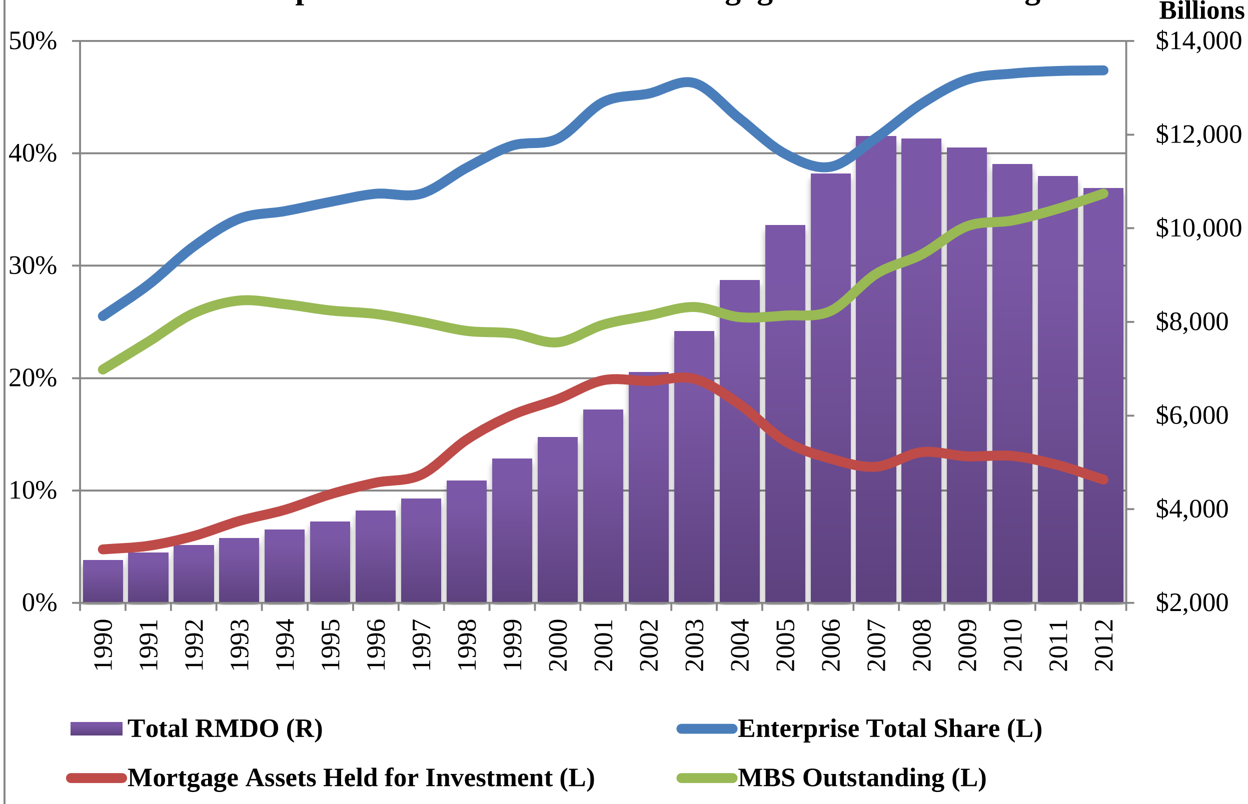
Total Residential Mortgage Debt Outstanding Continues to Fall

Total residential mortgage debt outstanding fell again in 2012, to $10.8 trillion, the lowest level since before the financial crisis began. That decline was driven by a two percent drop in single-family mortgage debt, to $9.9 trillion, the fifth consecutive annual decline. Write-offs due to foreclosures, short sales, and loan modifications contributed to the decline in single-family mortgage debt outstanding. Multifamily debt outstanding rose almost three percent in 2012 to $866 billion, the highest level ever.

The total mortgage books of business of Fannie Mae and Freddie Mac—mortgage assets held for investment plus MBS held by others—moved in different directions in 2012. Fannie Mae's total book of business grew by less than 0.5 percent to $3.2 trillion, driven by an increase in MBS held by third parties. Freddie Mac's total book of business contracted again last year by almost 6 percent to approximately $2.0 trillion. The decline in that Enterprise's book of business reflects decreases both in the volume of mortgage assets held for investment and in MBS held by third parties. Despite the decrease in Freddie Mac's book of business, the Enterprises together continued to maintain a high share of the residential mortgage market in 2012, holding or guaranteeing over 47 percent of the nation's outstanding residential mortgage debt at the end of that year (Figure 45).

As a group, Fannie Mae, Freddie Mac, Ginnie Mae, and other federal agencies continued to be the largest investors in or securitizers of multifamily mortgage debt in 2012. According to the Federal Reserve Flow of Funds Accounts, that group's share of multifamily debt outstanding increased during the year, while the share held by commercial banks declined for the sixth consecutive year and the share securitized by ABS issuers fell for the fifth year in a row, dropping below 10 percent (see Figure 46).

Figure 45
Enterprise Share of Residential Mortgage Debt Outstanding

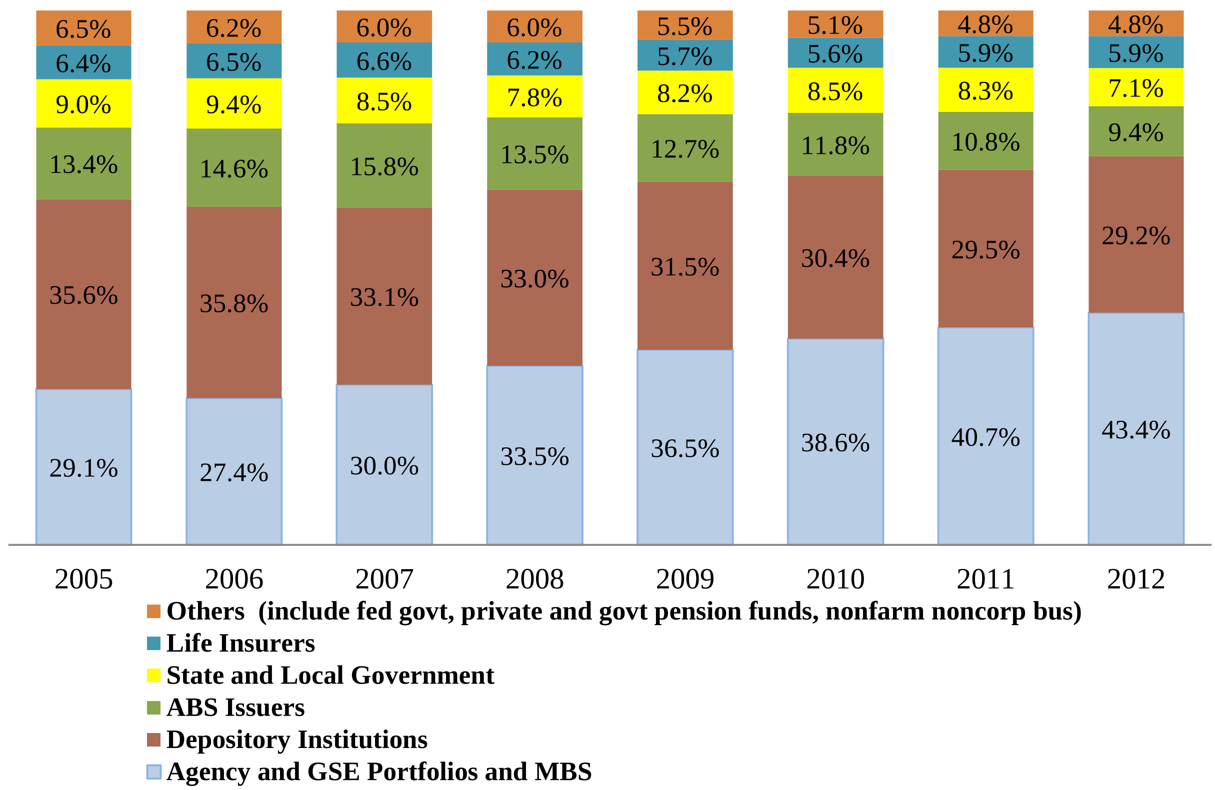


Source: Fannie Mae, Freddie Mac, and the Federal Reserve System Flow of Funds Accounts

Enterprises' Mortgage Asset Holdings at Lowest Level in over a Decade

The Enterprises' Senior Preferred Stock Purchased Agreements (PSPAs) with the Department of the Treasury were amended again in August 2012 to impose new requirements on Fannie Mae and Freddie Mac. One such requirement was to accelerate the annual reduction in each Enterprise's mortgage asset holdings from 10 percent to 15 percent from the level of those assets each was allowed to hold as of the end of the previous year until the maximum size of the assets reaches $250 billion. Under the prior Agreements, Fannie Mae and Freddie Mac each were allowed to hold a maximum of $729 billion of mortgage assets as of the end of 2011. Under the amended Agreements, the limit on the amount of mortgage assets each Enterprise could hold as of year-end 2012 was set at $650 billion.

Figure 46
Holder's Share of Multifamily Debt Outstanding

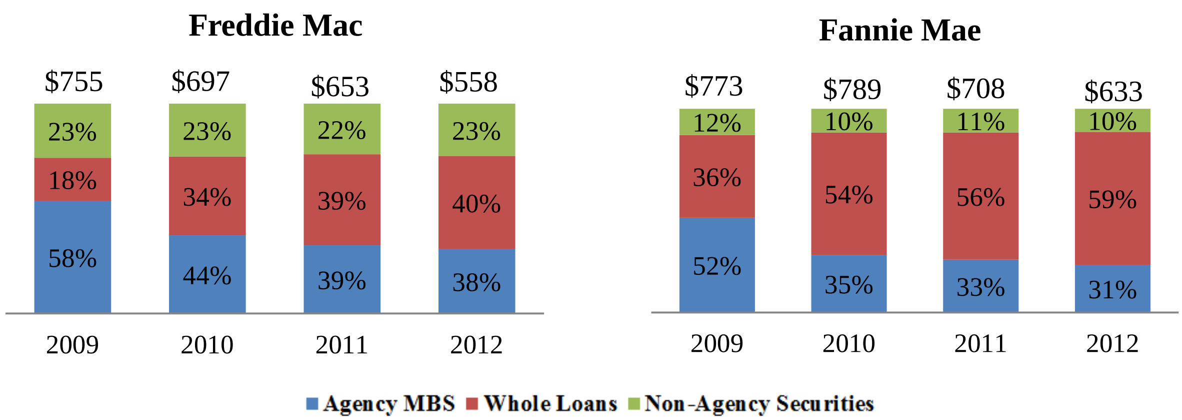


Source: Federal Reserve System Flow of Funds Accounts (March 2013)

During 2012, Fannie Mae decreased its holding of mortgage investment assets by more than 10 percent to $633 billion. That was below the level required by the amended PSPA and the lowest level since 2000 (Figure 47). The decrease occurred in all asset groups—whole loans, agency (Enterprise and Ginnie Mae) mortgage securities, and private-label mortgage securities. The largest decline occurred in agency securities—primarily Fannie Mae's own securities—followed by private-label securities. Whole loans, largely delinquent loans purchased out of pools backing securities, continued to account for more than one-half of the Enterprise's holdings.

In 2012, Freddie Mac reduced its holding of mortgage assets almost 15 percent to $558 billion, the lowest level since 2001. As with Fannie Mae, all types of mortgage assets declined, with the largest decrease in Freddie Mac's holdings of agency securities.

Figure 47
Enterprise Mortgage Asset Holdings (Billions)



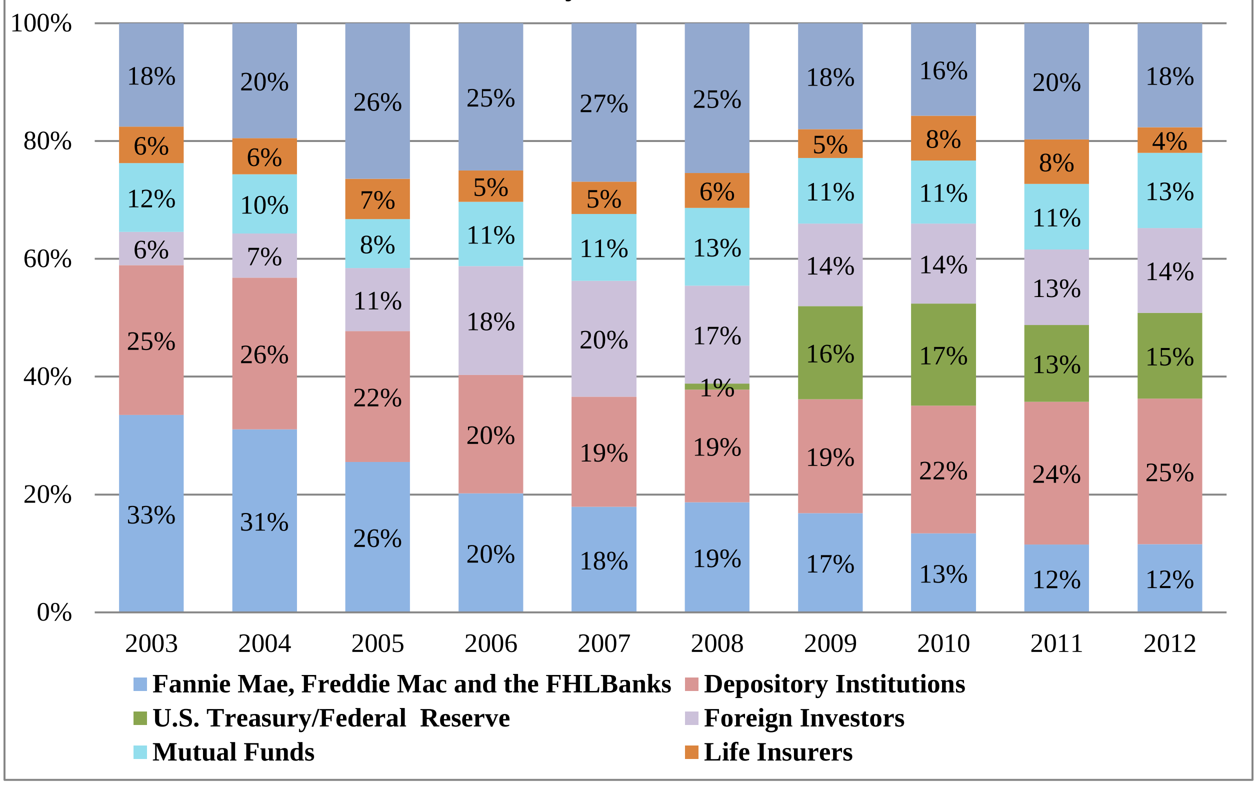
Source: Fannie Mae and Freddie Mac

The Mortgage Securities Market Shrinks Further

The U.S. single-family mortgage securities market contracted again in 2012 by over one percent to $6.4 trillion. The decline was driven by a decrease in private-label MBS outstanding. Outstanding private-label MBS had peaked in 2007 at about $2.2 trillion, representing at that time about one-third of the market. After declining 15 percent in 2011, outstanding private-label securities declined more than 16 percent in 2012 to less than $1.0 trillion, the lowest level since 2003. Total outstanding agency MBS reversed course and rose last year by about two percent to $5.4 trillion. The outstanding securities of both Fannie Mae and Ginnie Mae rose, while those of Freddie Mac fell again by about five percent.

According to Inside Mortgage Finance publications, banks and savings institutions continued to be the leading group of investors in U.S. mortgage securities in 2012. That group's share of outstanding MBS increased to almost 25 percent. The Federal Reserve was also a net purchaser of MBS. As a result, the combined holdings of the Federal Reserve and the U.S. Treasury rose to about 15 percent in 2012 from 13 percent the previous year. The continued run- and sell-off of mortgage assets by Fannie Mae and Freddie Mac last year caused their share of the market to fall further to 9.4 percent (Figure 48).

Figure 48
Share of Mortgage-Related Securities Held by Investors



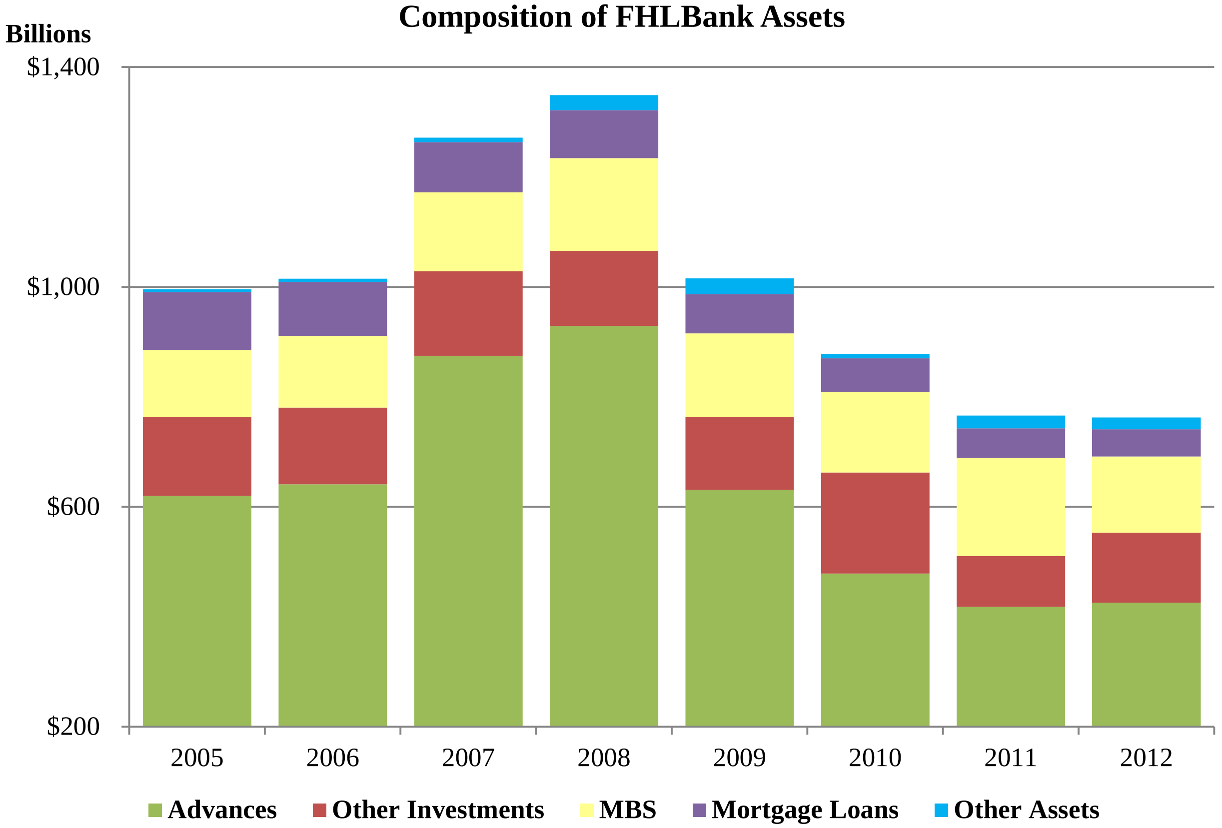
Source: Inside Mortgage Finance

Federal Home Loan Bank Lending Activity Remains Subdued

The combined balance sheet of the Federal Home Loan Banks (FHLBanks) shrunk further in 2012; combined assets declined by less than one percent. FHLBank advances outstanding reversed course and rose slightly, by less than two percent, to $426 billion. Advances represented about 56 percent of FHLBank combined total assets (Figure 49). Demand for FHLBank advances is affected by, among other things, the cost of other sources of liquidity available to FHLBank members, including deposits. Each FHLBank individually competes with its members' depositors as well as suppliers of secured and unsecured wholesale funding. FHLBank members typically have access to brokered deposits and repurchase agreements, each of which presents a competitive alternative to advances. Larger members also have greater access to other competitive sources of funding and hedging in domestic and global credit markets, including subordinated debt, interbank loans, covered bonds, interest-rate swaps, options, bank notes, and commercial paper. The FHLBanks' competitive environment continues to be affected by the low level of interest rates and the extent to which FHLBank members use advances as part of their core financing, rather than just as a back-up source of liquidity.

In addition to advances, MBS, and liquid investments, the FHLBanks also hold a portfolio of whole loans, primarily conventional single-family loans, which they purchase from their members through the Mortgage Purchase Program (MPP) or the Mortgage Partnership Finance (MPF) program. Those mortgage investment programs are subject to significant competition, the most direct of which comes from Fannie Mae and Freddie Mac. The FHLBanks' combined portfolio of mortgage loans declined again in 2012, to $50 billion, the lowest level since 2001.

Figure 49
Composition of FHLBank Assets



Source: Federal Home Loan Banks Office of Finance and FHFA