



FEDERAL RESERVE BANK *of* NEW YORK

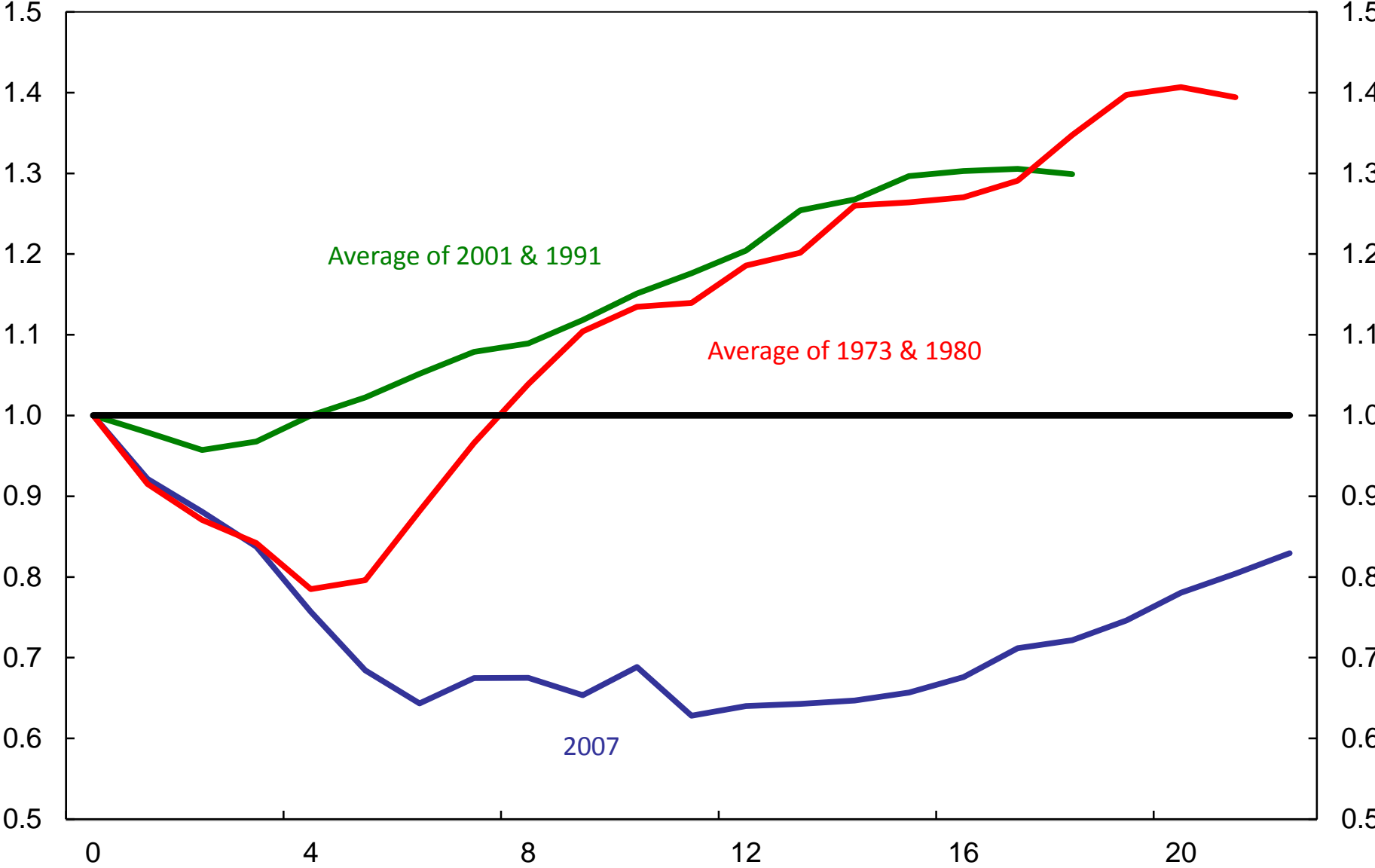
# Housing Market Update

September 23, 2013

# Overview

- **Housing market gradually recovering from the deepest and longest downturn since the Great Depression.**
- **Excess supply of housing largely worked off.**
- **Underlying demographic demand for housing remains relatively strong.**
- **Stock of loans in serious delinquency and in foreclosure now declining.**
  - **Large discrepancy between judicial and non-judicial states.**

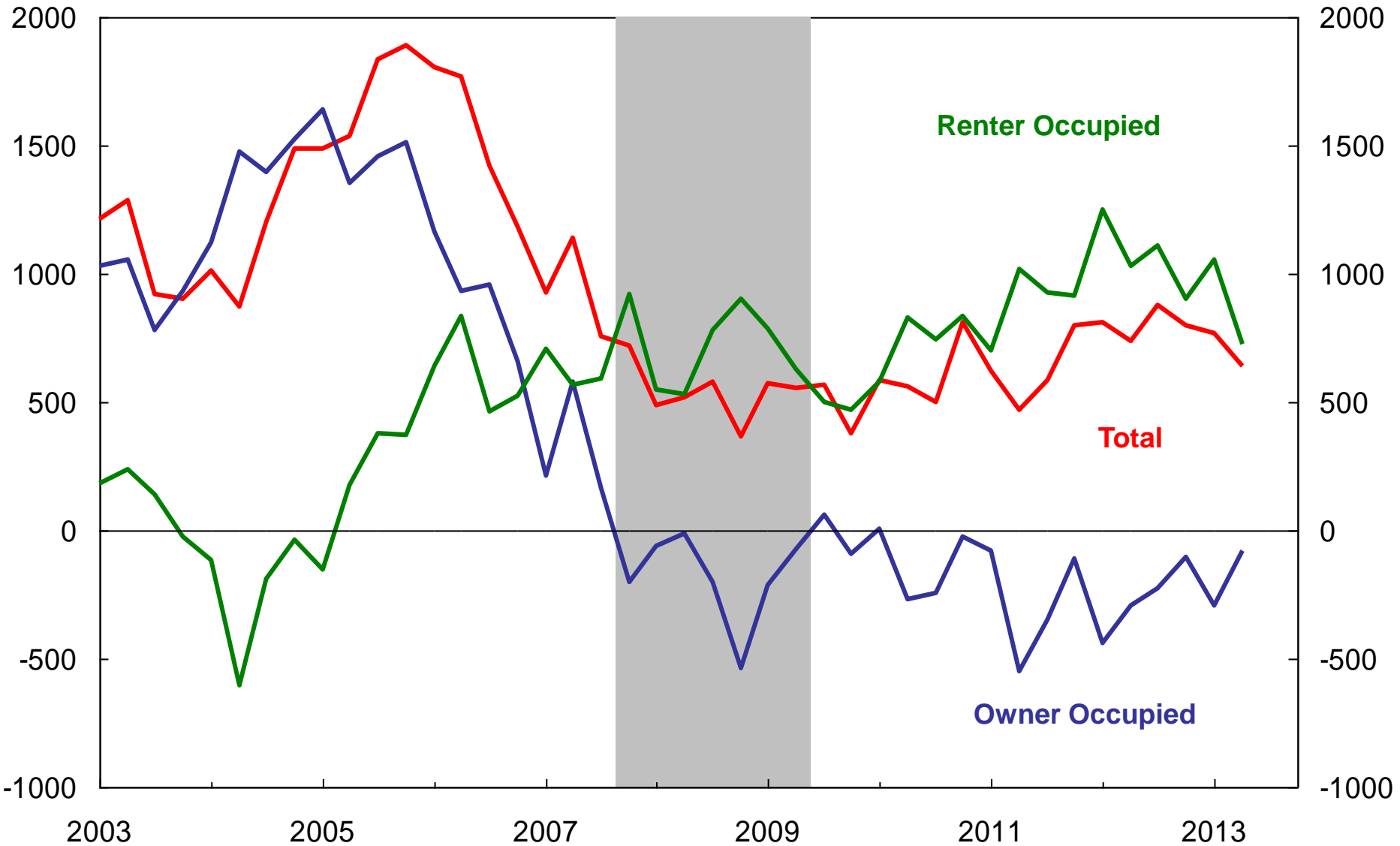
# Real Private Residential Investment



# Household Formations

2 Year Avg. Change

2 Year Avg. Change



Renter Occupied

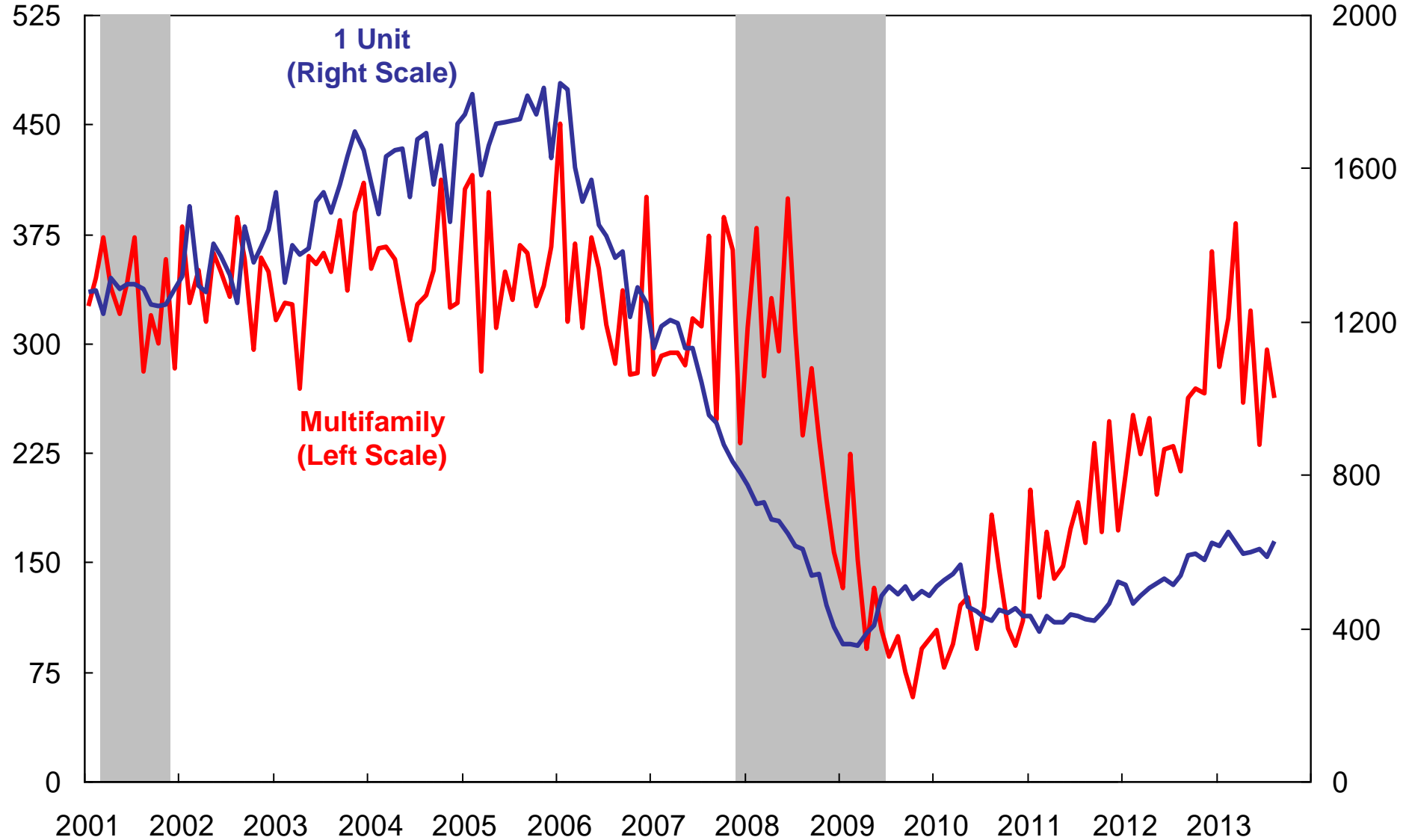
Total

Owner Occupied

# Housing Starts

Units (Thousands)

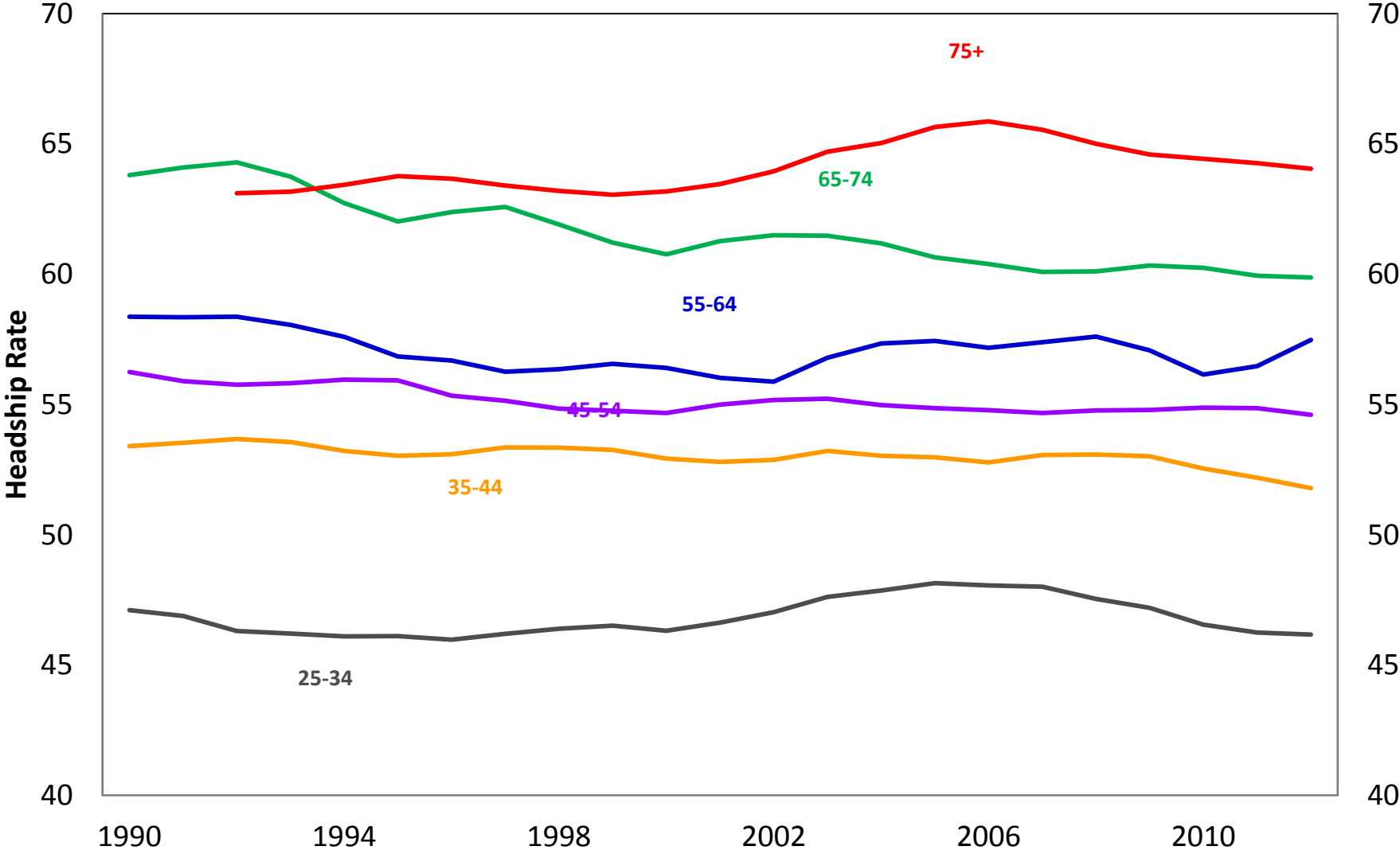
Units (Thousands)



# Headship Rates (by Age)

3 Year Moving Average

3 Year Moving Average



# Age Specific Headship Rates and Population Growth Rates

	1997	2002	2007	2012	2017
Headship Rate-Under 25*	5.27	6.26	6.34	5.80	-
Population Growth Rate-Under 25	-	0.87%	0.57%	0.28%	0.25%
Headship Rate-25-34	46.72	47.55	47.99	46.37	-
Population Growth Rate-25-34	-	-0.69%	0.28%	1.11%	1.06%
Headship Rate-35-44	53.67	53.10	53.17	51.66	-
Population Growth Rate-35-44	-	0.39%	-1.09%	-0.82%	0.25%
Headship Rate-45-54	54.98	55.01	54.75	53.92	-
Population Growth Rate-45-54	-	3.33%	1.78%	0.35%	-1.07%
Headship Rate-55-64	55.67	56.73	57.97	58.62	-
Population Growth Rate-55-64	-	3.65%	4.40%	3.17%	1.71%
Headship Rate-65-74	62.23	61.72	60.06	60.56	-
Population Growth Rate-65-74	-	-0.19%	1.33%	3.84%	4.38%
Headship Rate-75+	62.45	64.10	64.97	63.85	-
Population Growth Rate-75+	-	1.96%	1.14%	1.22%	1.80%
Headship Rate-Total	36.79	37.65	38.19	38.14	-
Population Growth Rate-Total	-	1.12%	0.91%	0.89%	0.79%
Annual Average Household Formations					
Actual	1070	1656	1343	771	-
Projected**	1298	1360	1250	1424	1350

\*Headship Rates are presented for the year (i.e. 1997), and population growth rates are compounded yearly growth rates over the previous 5 years

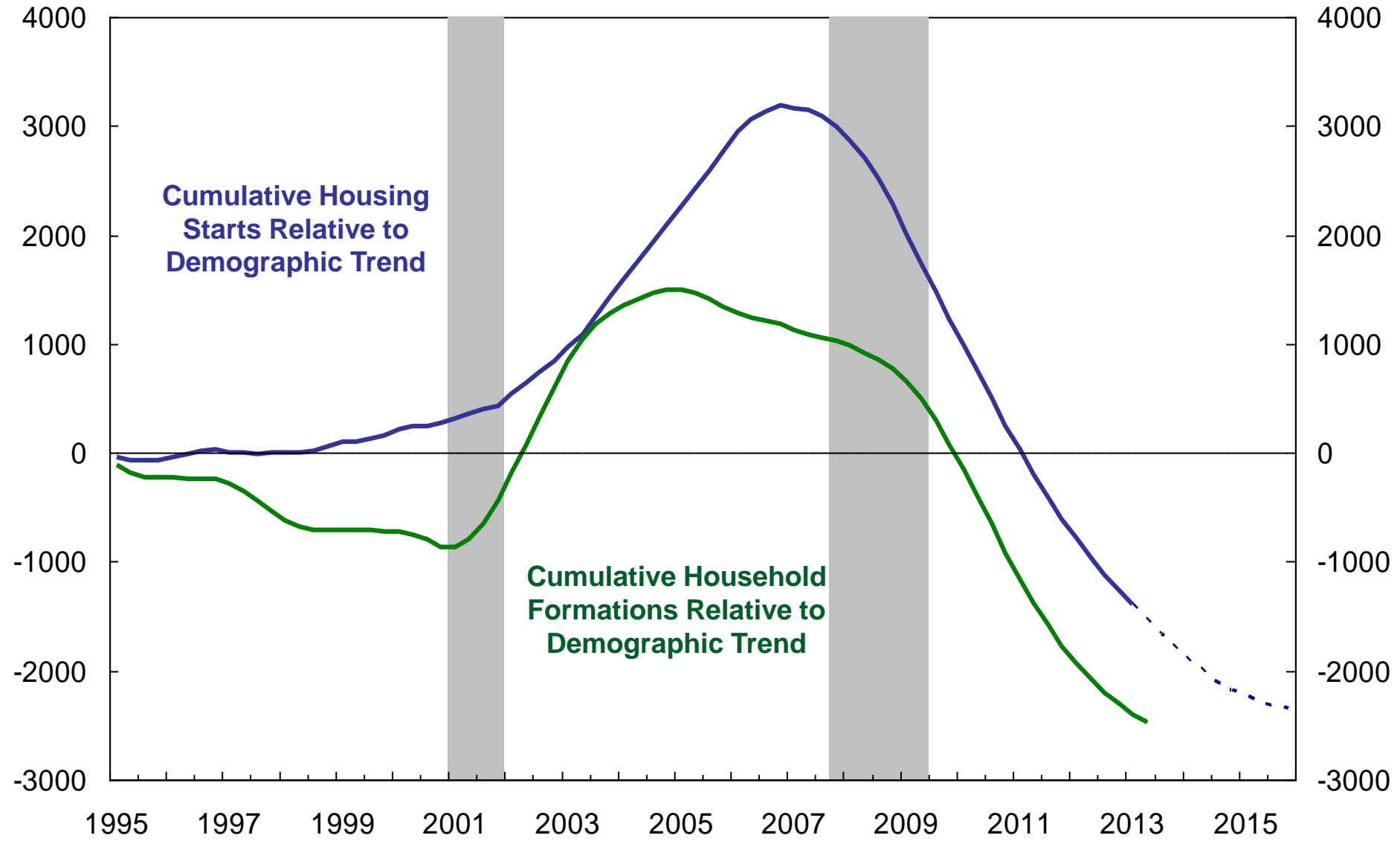
\*\* Based on 1996-2005 average headship rates



# Cumulative Housing Production and Household Formations Relative to Trend

Thousands

Thousands



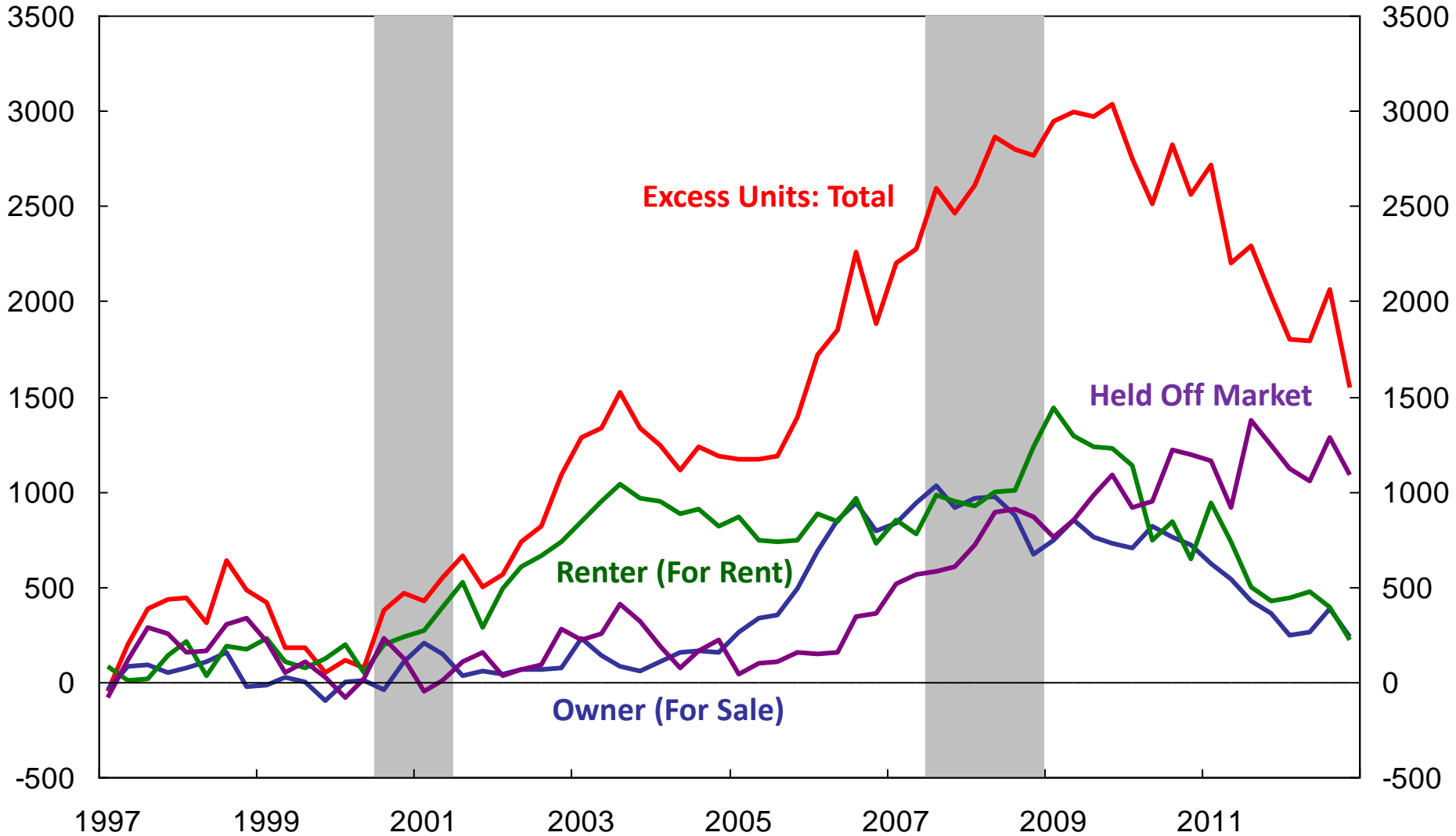
Source: Census Bureau and author's calculations.



# Excess Supply of Housing

Thousands of Units

Thousands of Units



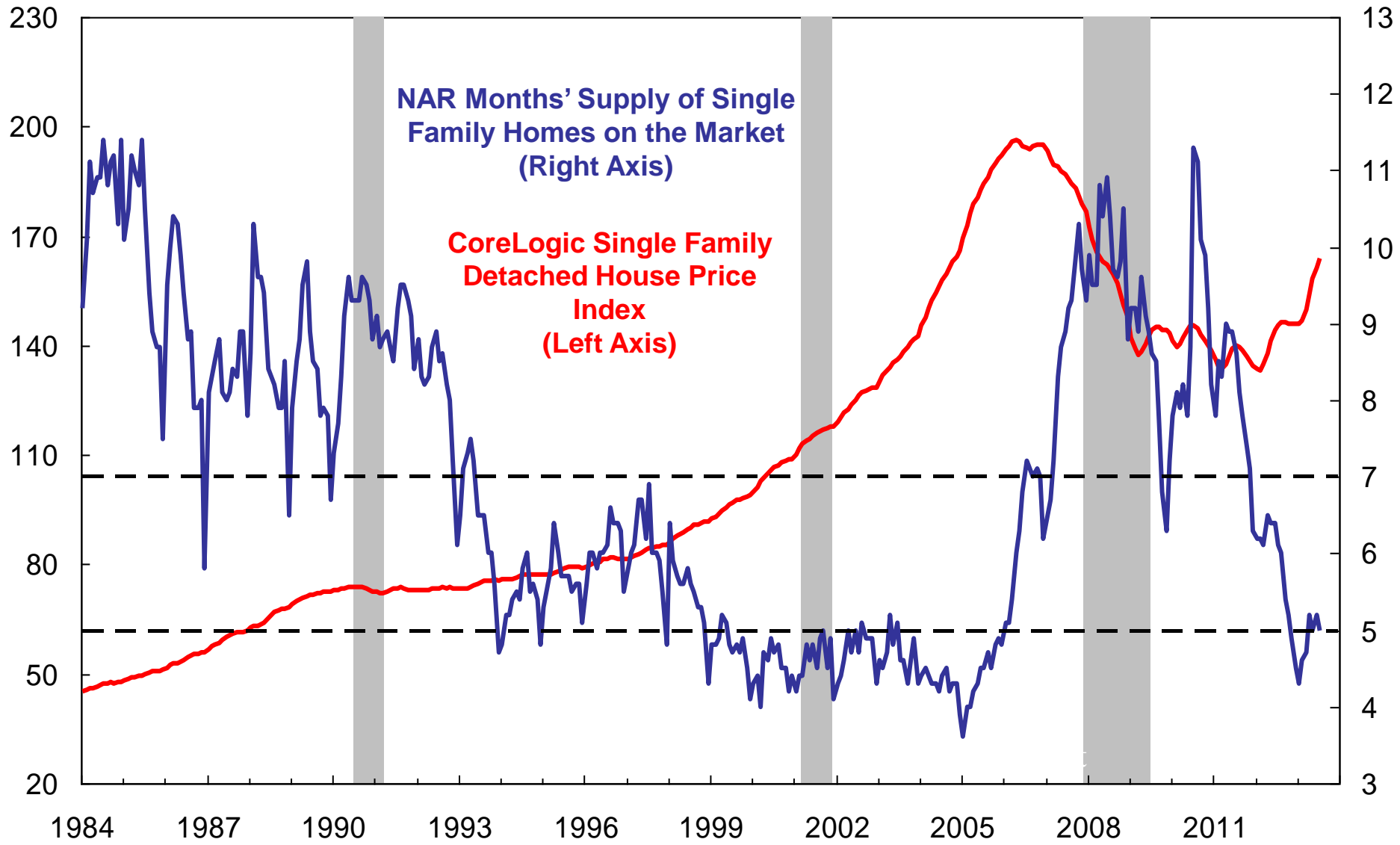
Source: US Bureau of the Census, Housing Vacancy Survey, and author's calculations.

Note: Shading represents NBER recessions.

# Single Family Housing Market

Index

Months' Supply

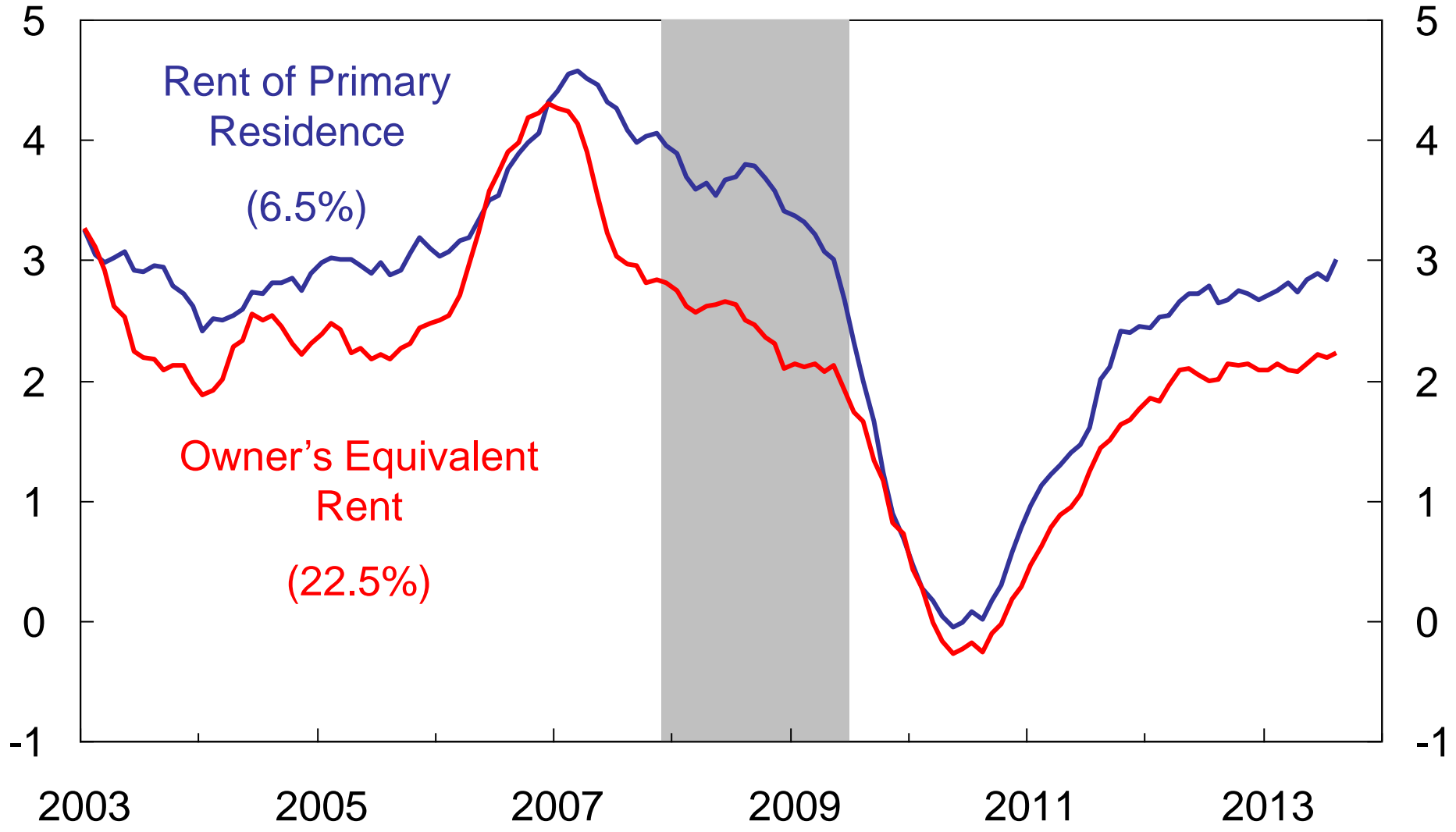


Source: CoreLogic, National Association of Realtors

# Rent of Primary Residence and Owner's Equivalent Rent

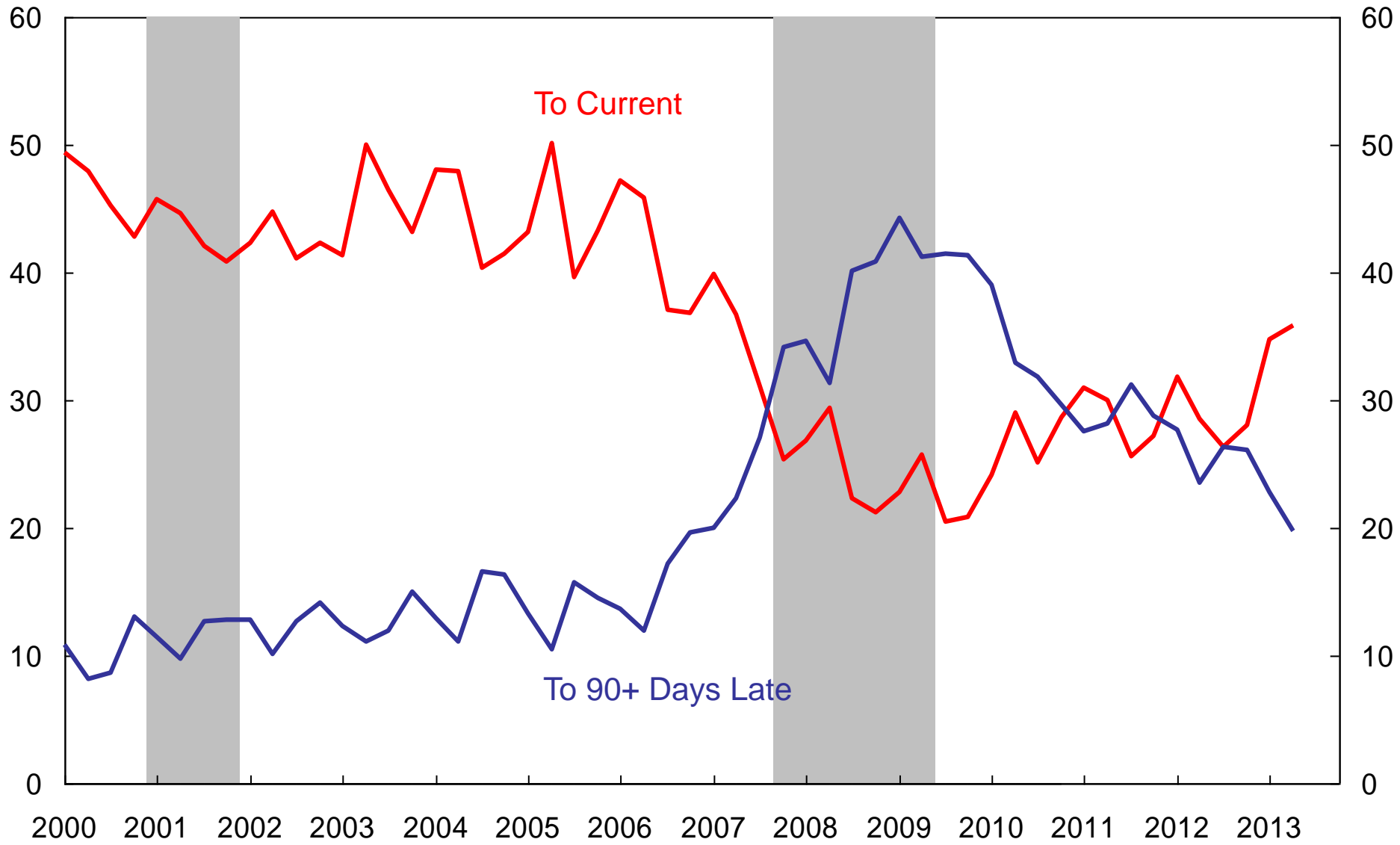
% Change – Year to Year

% Change – Year to Year



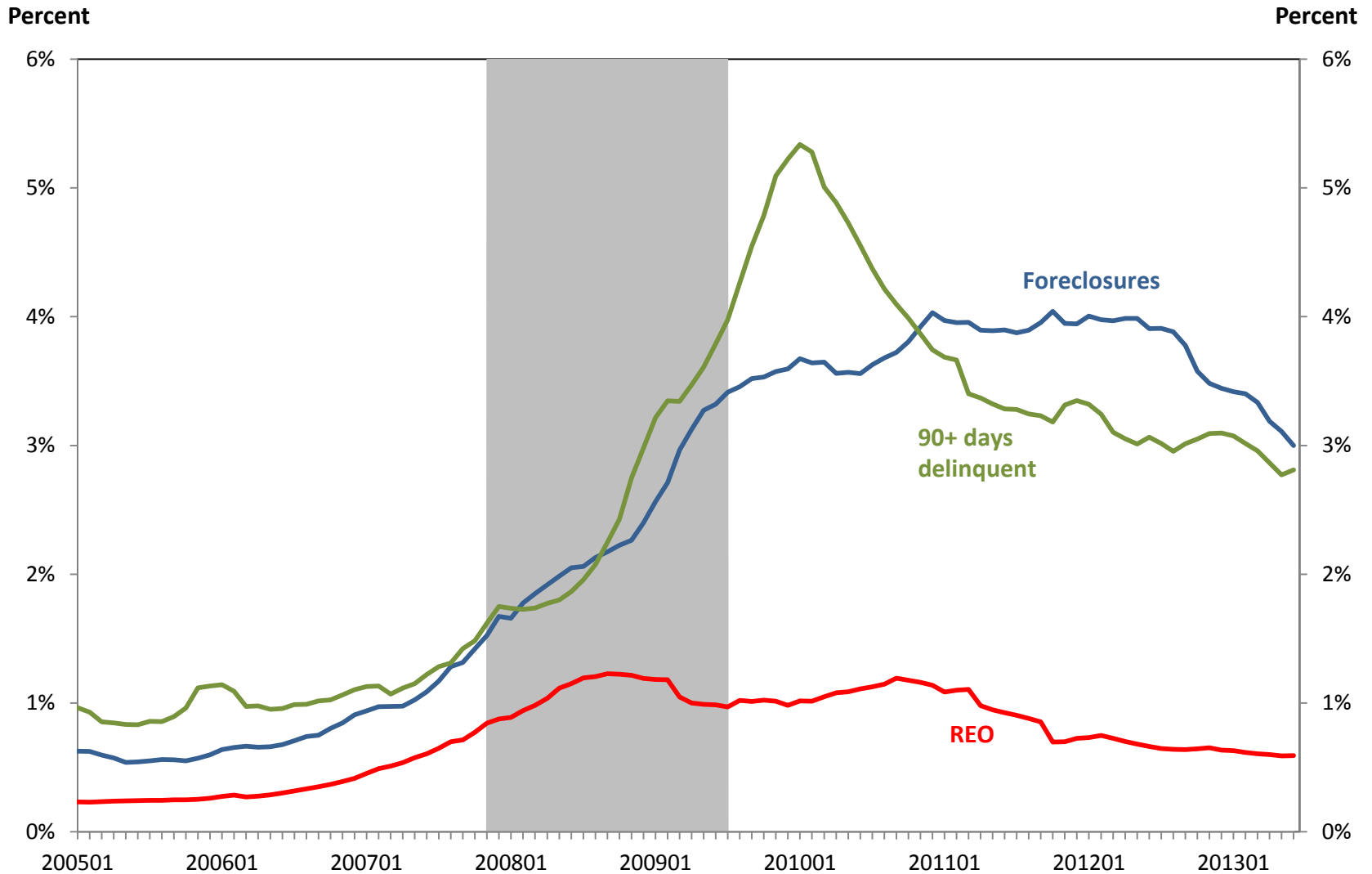
# Transition of Mortgage Accounts from 30-60 Days Late

Percent Percent



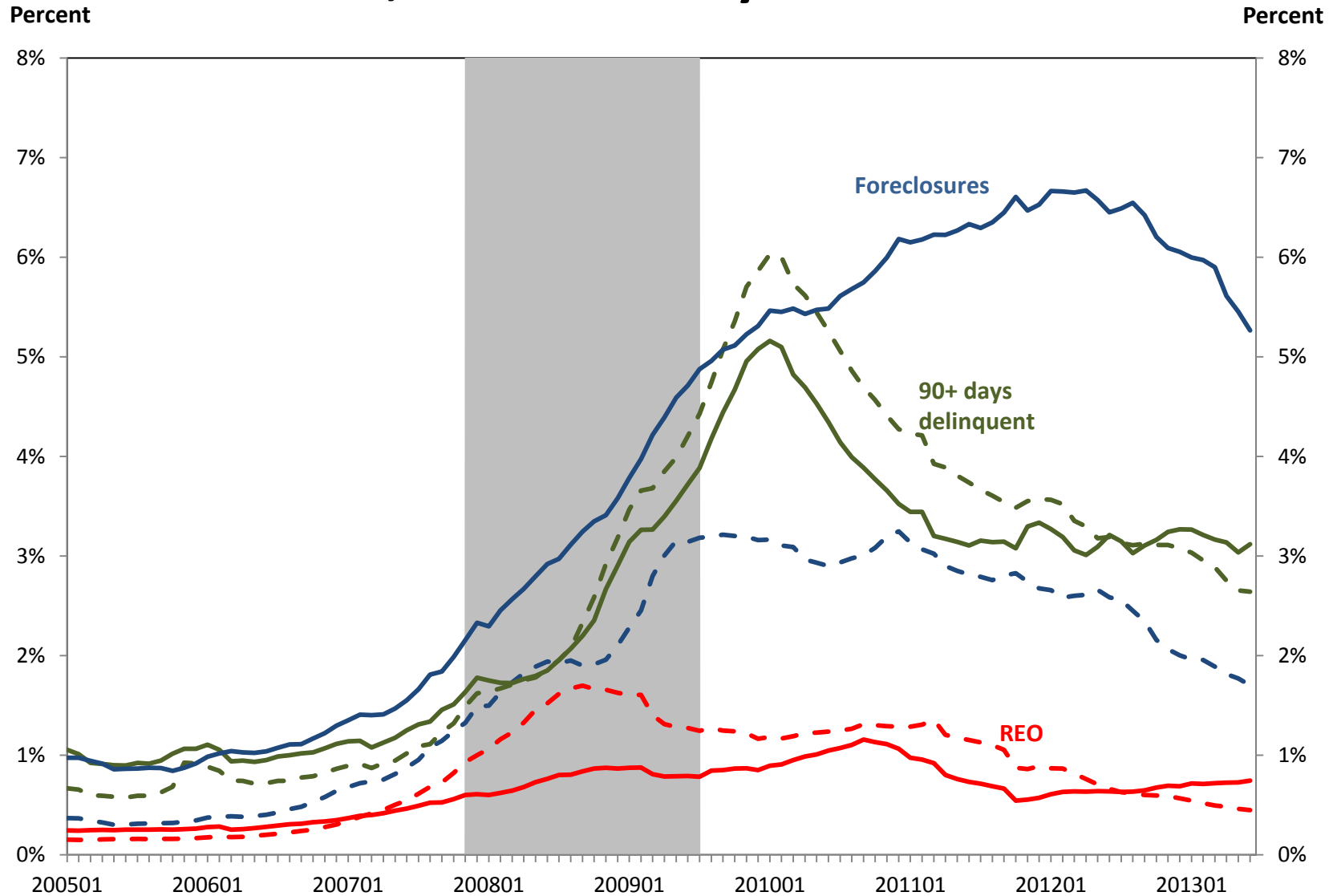
Source: FRBNY Consumer Credit Panel

# Percentage of U.S. Properties Ninety-Plus Days Delinquent, in Foreclosure, and in REO



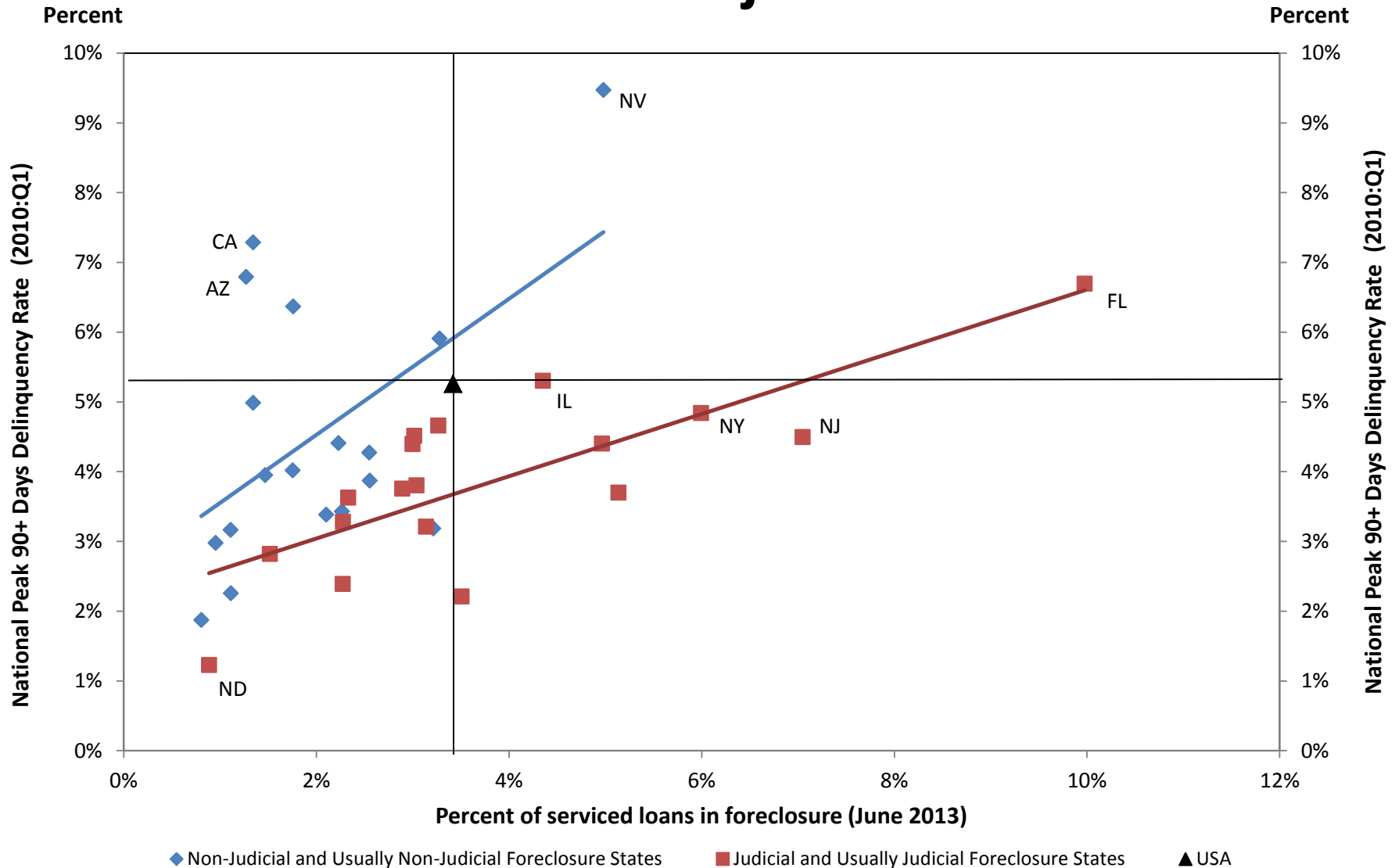
**Note:** Shaded areas denote NBER recessions. Data from CoreLogic and Lender Processing Services.

# Percentage of Properties Ninety-Plus Days Delinquent, in Foreclosure, and in REO by Foreclosure Status



**Note:** Solid line represents judicial and usually judicial foreclosure states; dashed line represents non-judicial and usually non-judicial foreclosure states. Shaded areas denote NBER recessions. Data from CoreLogic and Lender Processing Services.

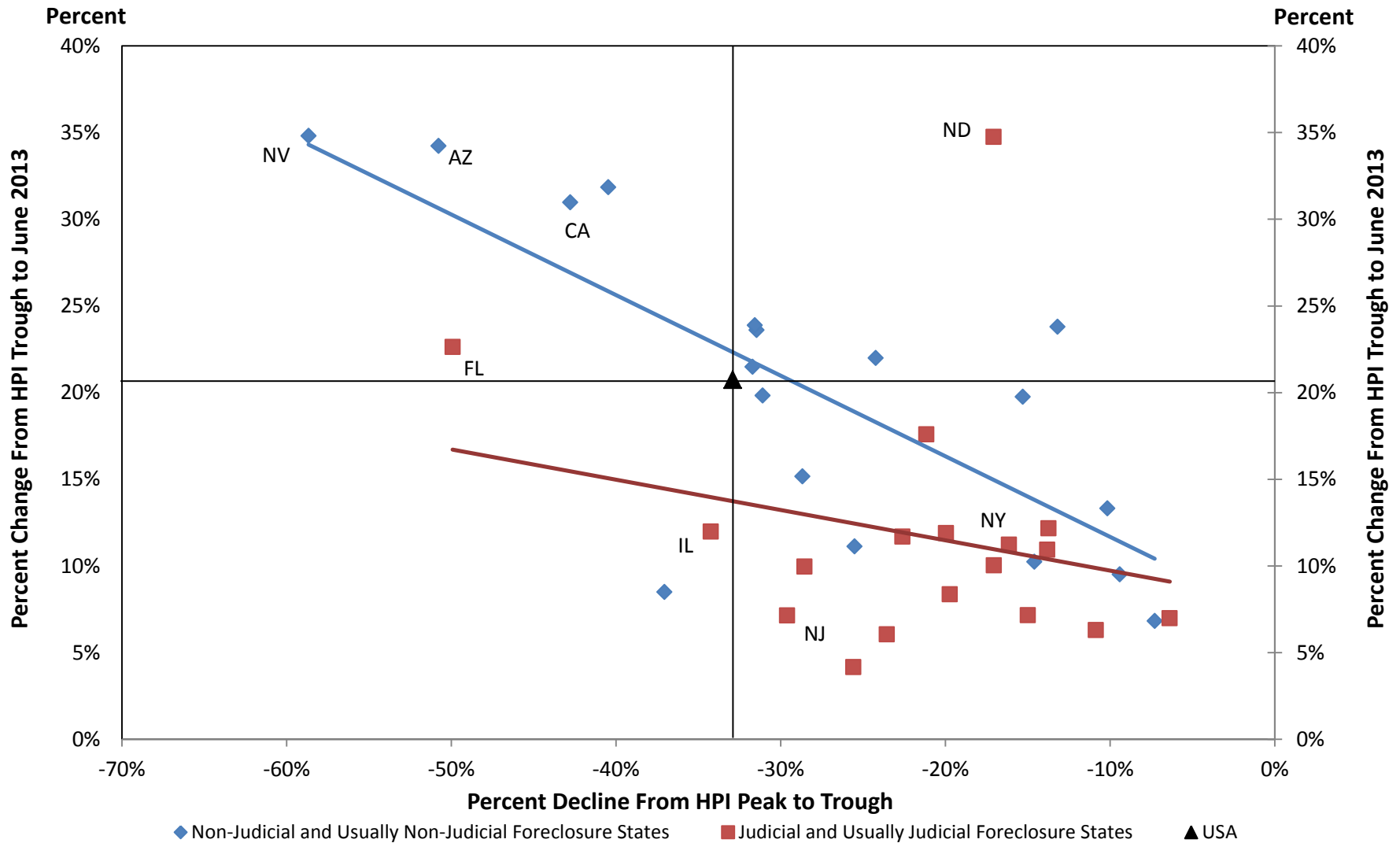
# The Foreclosure Pipeline: Judicial vs. Non-judicial States



Sources: CoreLogic data; Lender Processing Services data.



# Home Price Recovery: Judicial vs Non-Judicial States

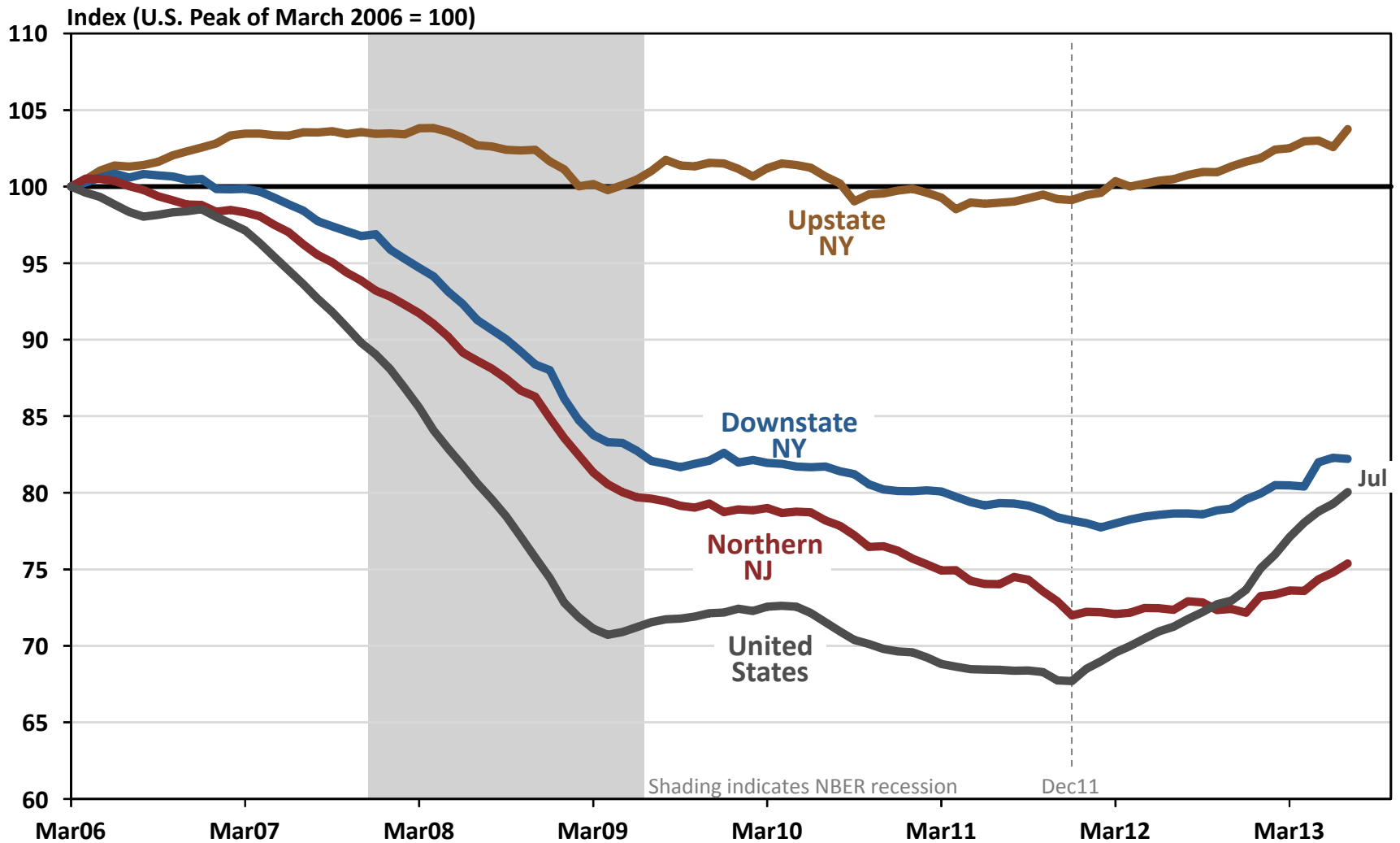


Sources: CoreLogic data; Lender Processing Services data.

Notes: Regression line for judicial and usually judicial foreclosure states excludes North Dakota. HPI is the Corelogic Home Price Index.

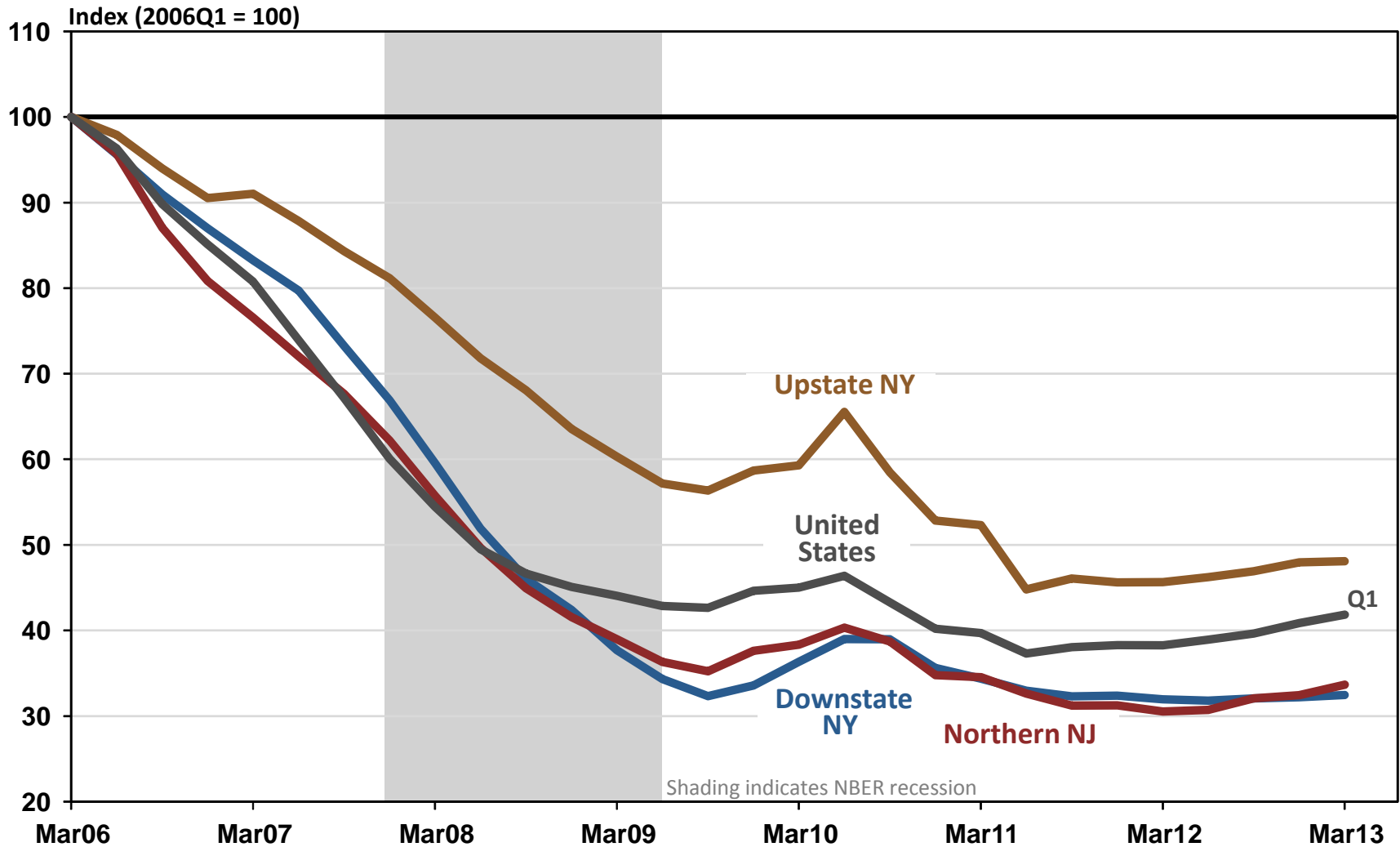
# Regional Home Prices

CoreLogic Single-Family Home Price Index, Seasonally Adjusted



# Regional Home Sales

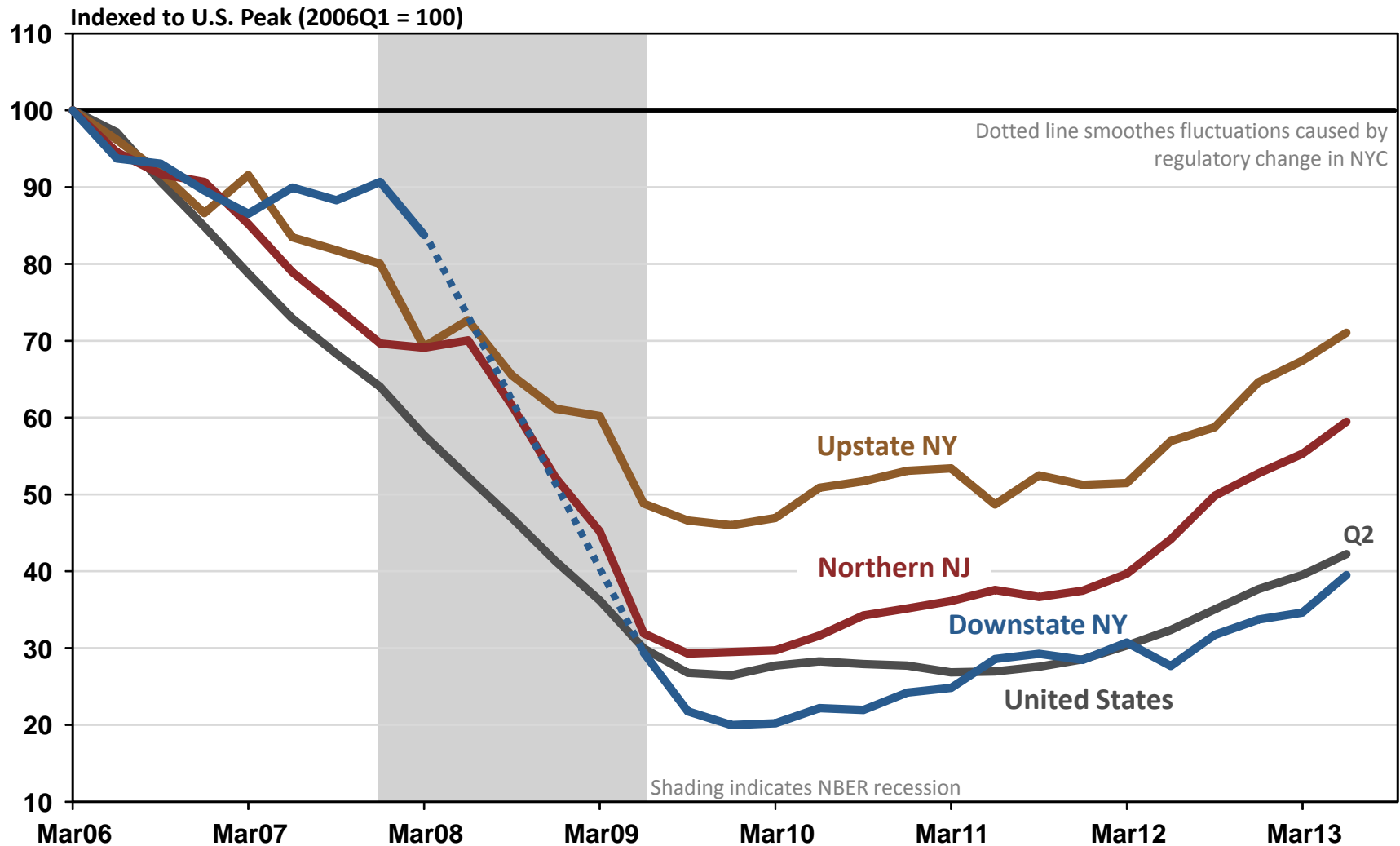
Index of Single-Family Repeat Sales, Four-Quarter Moving Average



Source: CoreLogic.  
Note: Data trimmed to 2013Q1.

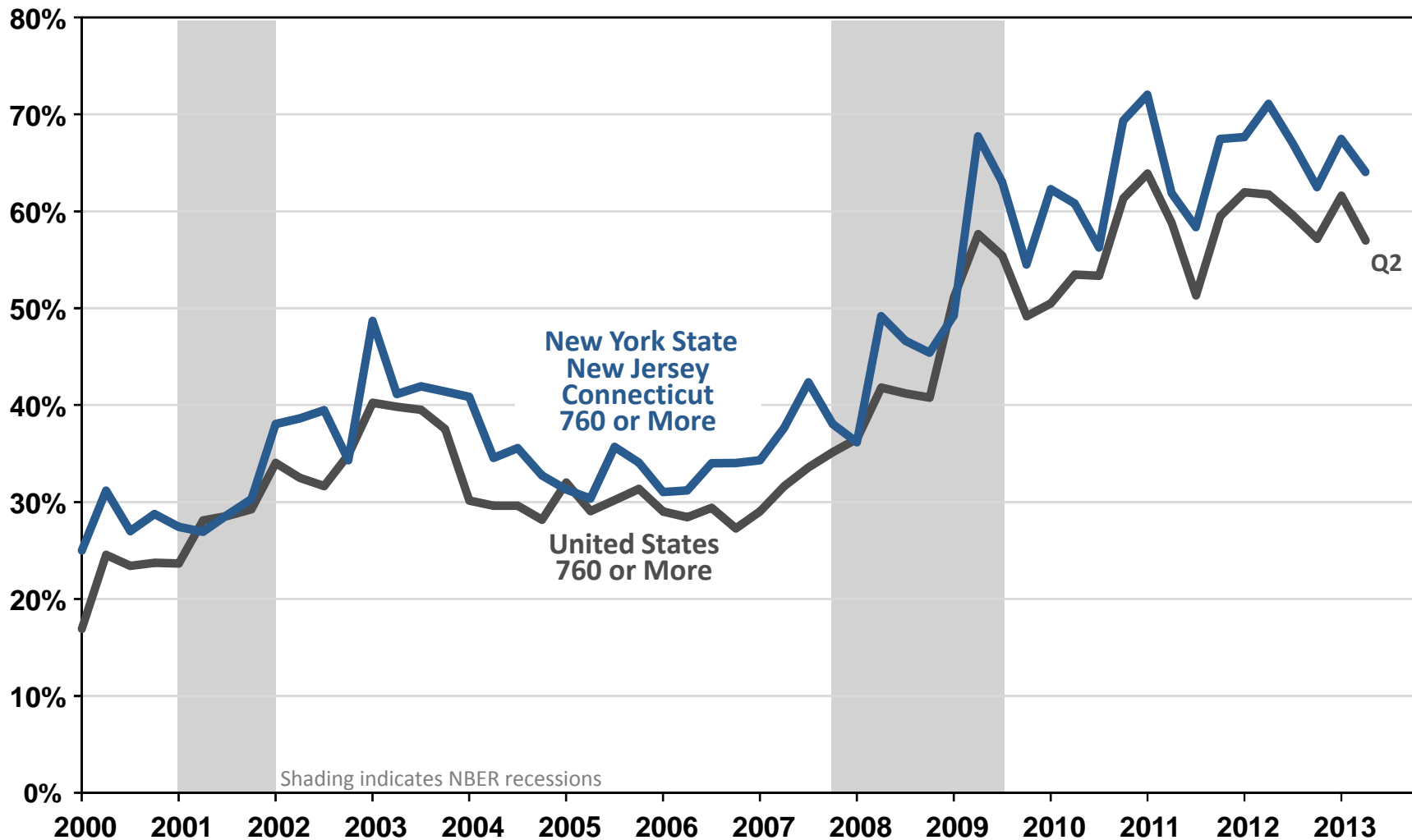
# Regional Home Building Activity

Index of Total Residential Home Permits, Four-Quarter Moving Average



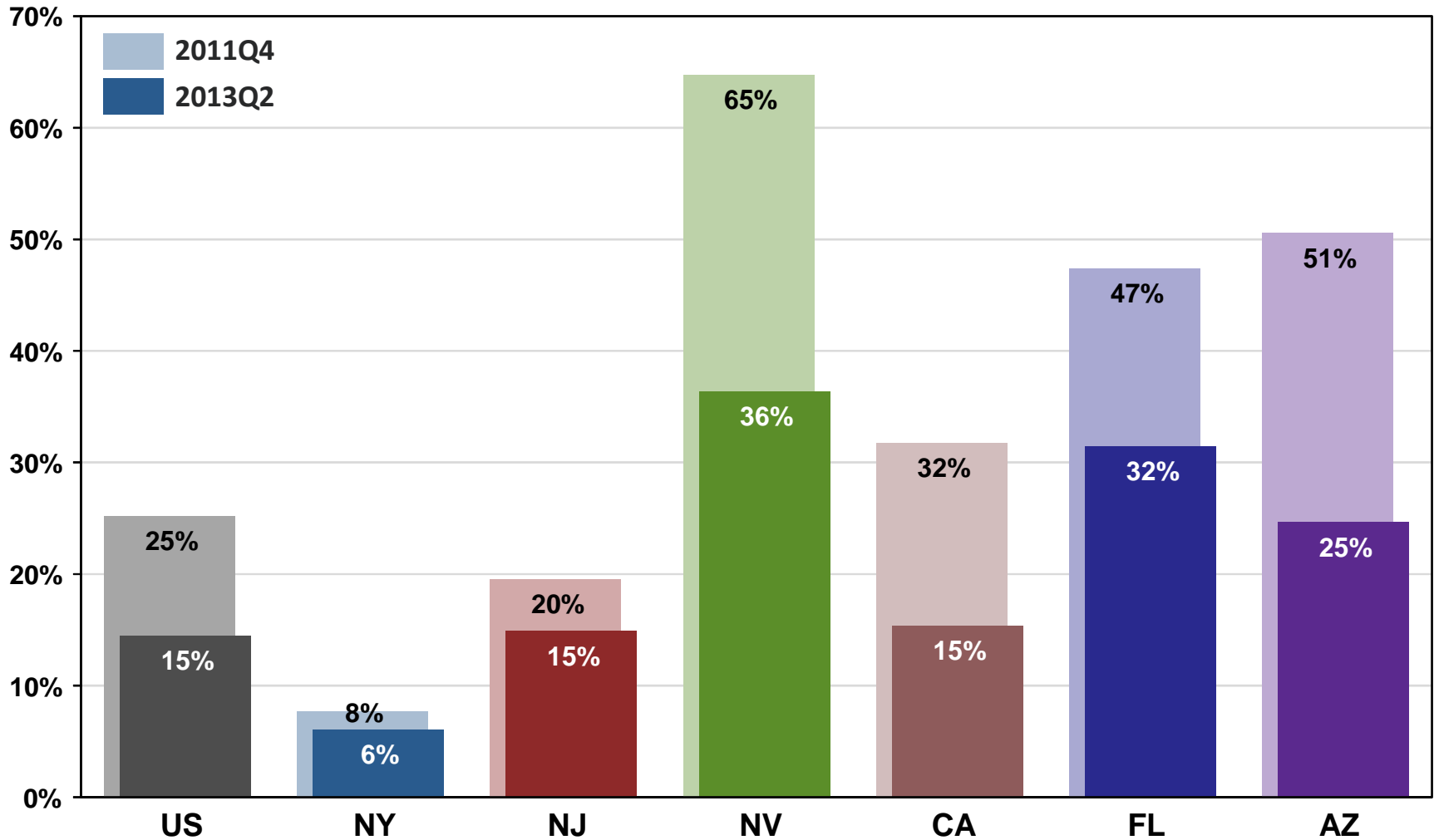
# Mortgage Originations by Credit Score

## Share of First Mortgages



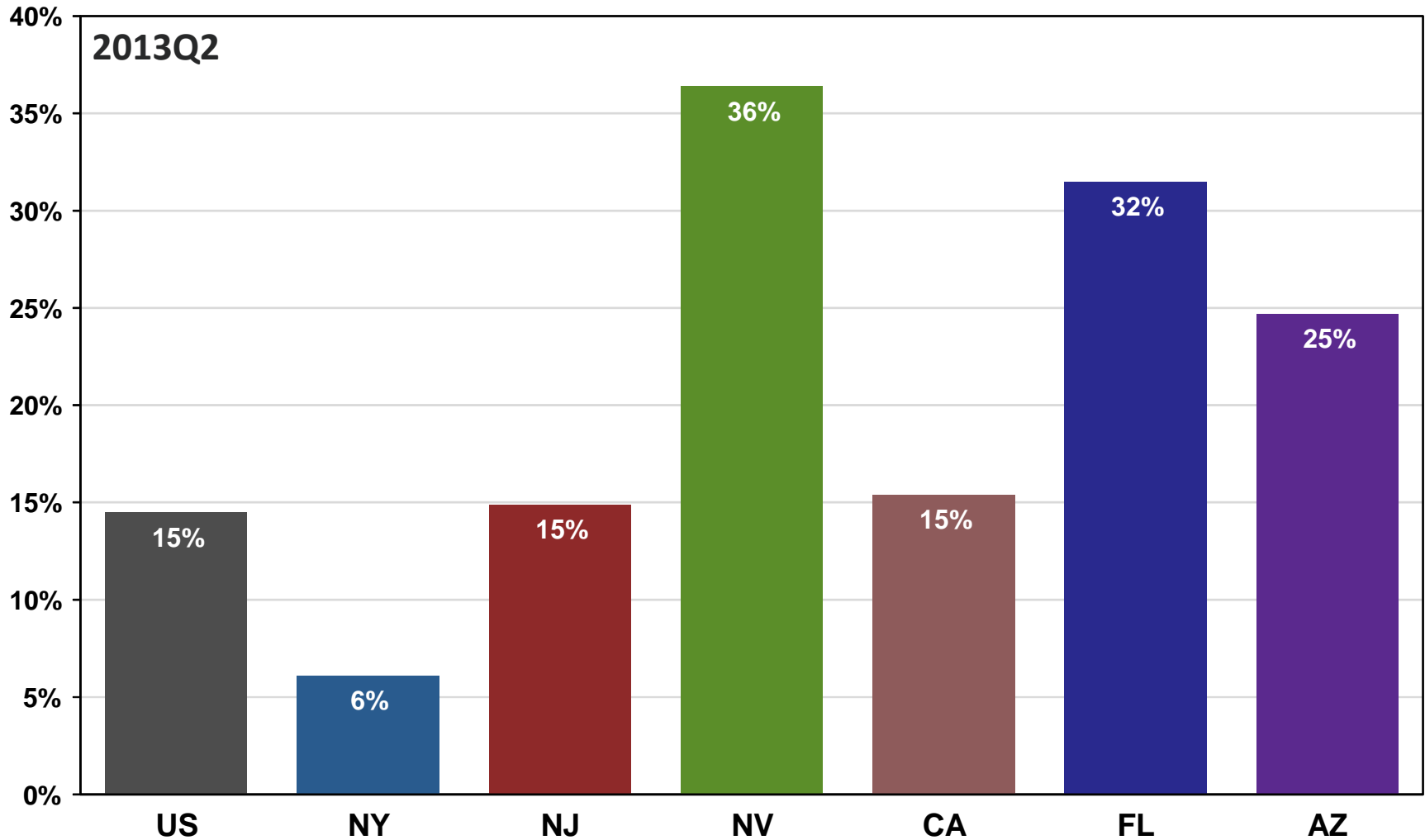
# Negative Equity

Share of Mortgages with Amount Owed Greater Than Home Value



# Negative Equity

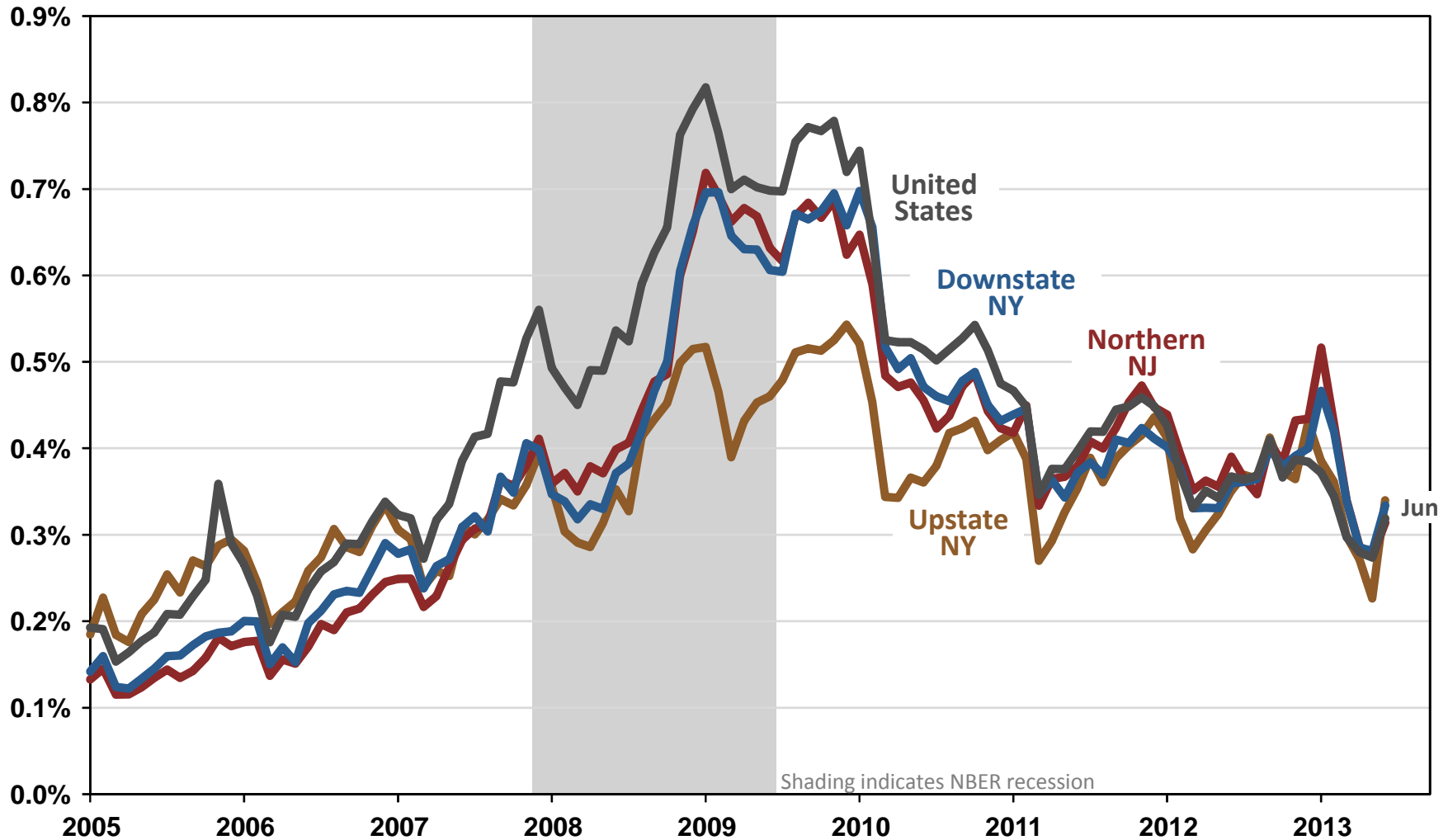
Share of Mortgages with Amount Owed Greater Than Home Value





# Pipeline of New Delinquencies

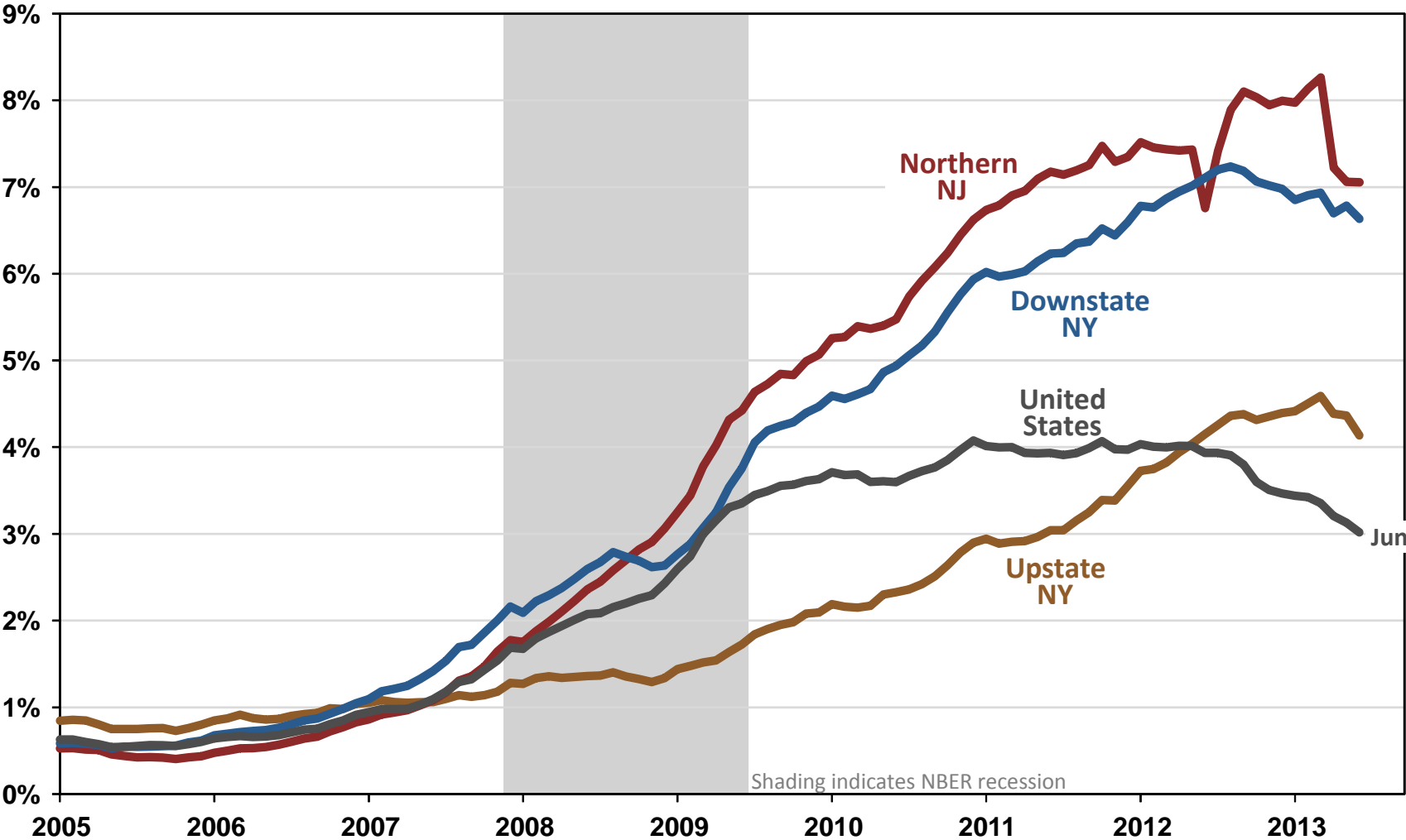
Share of Mortgages Entering Severe Delinquency (90+ Days)  
Since Previous Month



Shading indicates NBER recession

# Backlog of Foreclosures

## Share of Mortgages in Foreclosure

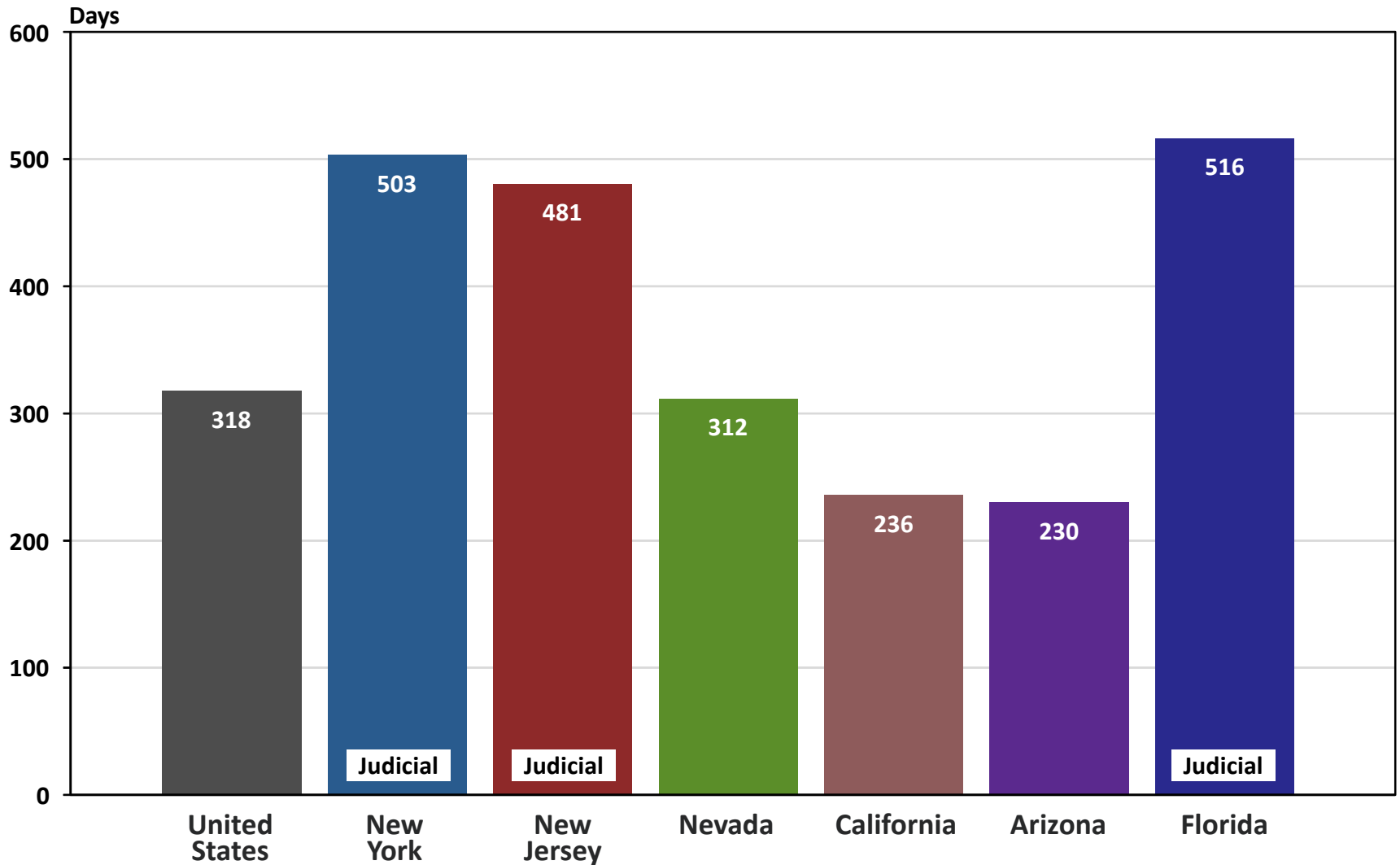


Shading indicates NBER recession

Source: CoreLogic LoanPerformance (LP) and Lender Processing Services Mortgage Performance data (LPS).

# Average Number of Days in Foreclosure

2010 to 2012 Q2



# Reference Charts

**Table 1. State Foreclosure Laws**

<b>Foreclosure Laws</b>	<b>State</b>
Judicial	CT, DE, FL, IL, IN, IA, KS, KY, ME, NJ, NM, ND, OH, PA, SC, WI
Both, usually judicial	NY, VT
Non-Judicial	DC
Both, usually non-judicial	AK, AZ, AR, CA, CO, GA, ID, LA, MN, MT, NV, NH, OR, RI, TN, UT, WA
Both	AL, HI, MD, MA, MI, MS, MO, NE, NC, OK, SD, TX, VA, WV, WY

# Regulatory Issues

## Qualified Mortgage (QM)

- On 1/10/2013 the Consumer Financial Protection Bureau (CFPB) issued the “Qualified Mortgage” rule, which was a requirement of the Dodd-Frank legislation.
- In effect, the rule creates a set of minimum underwriting standards which, if met, provide lenders with some legal protections.
- A “Qualified Mortgage” is generally defined as:
  - ❖ Product features:
    - Excluding loans with negative amortization, interest-only payments, and balloon payments.
    - Terms cannot exceed 30 years.
    - Points & fees for loans greater than \$100,000 are capped at 3%.
      - Excludes bona fide third party fees such as appraisals.
      - Includes maximum prepayment penalty.
    - There are no maximum loan-to-value ratios.

# Regulatory Issues (cont.)

## Qualified Mortgage (QM) (cont.)

### – “Ability-to-repay” requirement

- The lender must make a reasonable and good faith effort to establish that the borrower has a reasonable ability to repay the loan by verifying, from reasonably reliable third-party records, the borrower’s income, assets, employment status, monthly payments on the loan in question, monthly payments on any other loans, other housing related obligations such as property taxes and insurance, other debt obligations, alimony, child support, monthly debt-to-income ratio, and credit history.
- Maximum total obligations ratio (back end ratio) set at 43% of gross income.
- For computation of this ratio, mortgage payments are to be calculated at the highest possible interest rate over the first five years of the loan and by assuming roughly equal, fully-amortizing payments.

# Regulatory Issues (cont.)

## Qualified Mortgage (QM) (cont.)

- Dodd-Frank amended the “Truth in Lending Act” such that borrowers can file suit against lenders within three years of an alleged violation of the ability-to-pay requirements.
- In addition, a borrower can assert an ability to pay violation in a foreclosure proceeding, including against an assignee of the lender, without time limit.
- Safe Harbor for non-higher-priced QMs.
  - QMs with interest rates no more than 150 basis points above the prime offer rate on comparable loans for first liens and no more than 350 basis points for junior liens are provided a safe harbor against ability-to-pay litigation.
- Rebuttable Presumption for higher-priced QMs.
  - Rebuttable presumption is a weaker legal shield.
  - Borrower must prove that lender failed to make a reasonable and good faith determination that of ability to pay by showing that residual income was insufficient to meet living expenses, including any recurring and material non-debt obligations of which the lender was aware at the time of consummation.



# Percent of First Mortgage Loans with CLTV>100

State	2013Q2	State	2013Q2	State	2013Q2	State	2013Q2
Alabama	10.4%	Indiana	6.6%	Nebraska	8.1%	South Carolina	10.5%
Alaska	3.9%	Iowa	7.8%	Nevada	36.4%	South Dakota	NA
Arizona	24.7%	Kansas	6.3%	New Hampshire	14.2%	Tennessee	10.4%
Arkansas	8.3%	Kentucky	7.5%	New Jersey	14.9%	Texas	4.3%
California	15.4%	Louisiana	13.4%	New Mexico	11.9%	Utah	8.1%
Colorado	9.5%	Maine	5.5%	New York	6.1%	Vermont	NA
Connecticut	10.9%	Maryland	17.3%	North Carolina	7.9%	Virginia	12.1%
Delaware	12.3%	Massachusetts	11.5%	North Dakota	4.5%	Washington	10.0%
Florida	31.5%	Michigan	22.5%	Ohio	18.8%	Washington, DC	6.0%
Georgia	20.7%	Minnesota	12.6%	Oklahoma	5.7%	West Virginia	6.9%
Hawaii	6.0%	Mississippi	18.3%	Oregon	10.2%	Wisconsin	12.2%
Idaho	11.6%	Missouri	10.3%	Pennsylvania	7.3%	Wyoming	4.2%
Illinois	20.0%	Montana	3.8%	Rhode Island	18.8%	<b>US</b>	<b>14.5%</b>

**7.1 million property owners are underwater. Another 1.7 million are “near negative equity”, meaning  $95 < \text{CLTV} < 100$ .**