ABOUT

Real Estate Research provided analysis of topical research and current issues in the fields of housing and real estate economics. Authors for the blog included the Atlanta Fed's Jessica Dill, Kristopher Gerardi, Carl Hudson, and analysts, as well as the Boston Fed's Christopher Foote and Paul Willen.

In December 2020, content from *Real Estate Research* became part of *Policy Hub*. Future articles will be released in *Policy Hub: Macroblog*.

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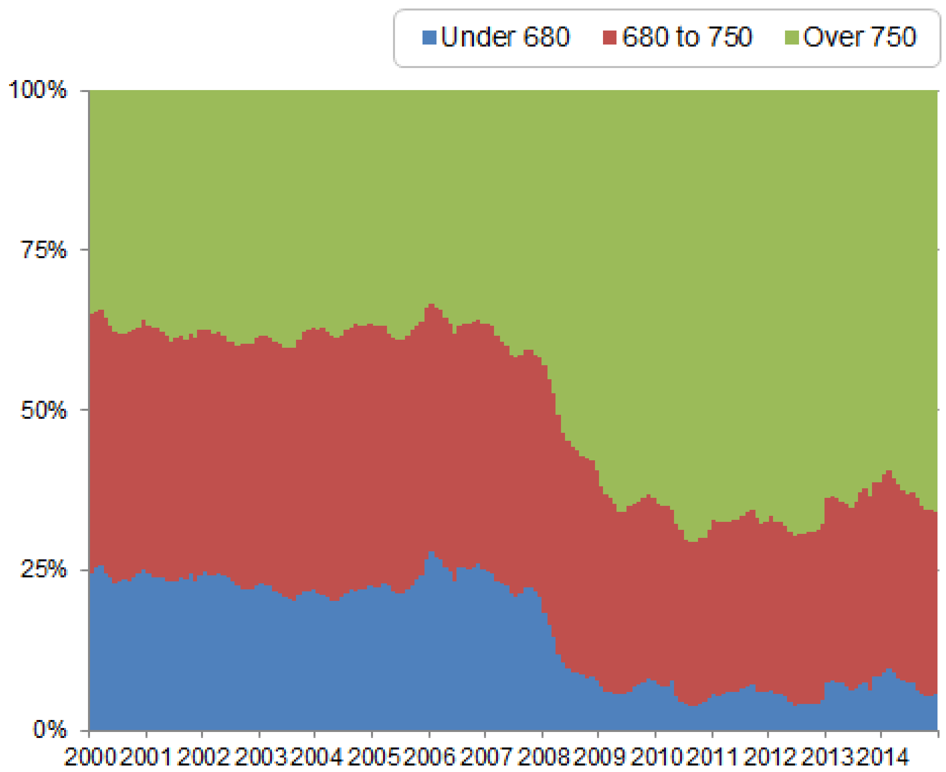
March 25, 2015

Where Is the Credit Availability Pendulum Now? (Part 2 of 2)

In our previous post, we considered survey-based and index measures of mortgage credit availability. We concluded that availability has slowly but steadily been improving since early 2013. In this post, we focus on borrower characteristics for originated mortgages. We think of availability of credit as the willingness of lenders to lend while borrower characteristics shape the quantity of purchasers that are qualified to buy. By turning to mortgage origination data, we can look at the "credit box" and track changes (that is, expansions and contractions) in the credit box over time. We do this acknowledging that this approach fails to capture variation in loans that have been declined and allows us only to observe variation in loans that have been originated.

Looking at trends in credit characteristics of purchase mortgages originations, we find data that support the idea that the credit box, which tightened during the Great Recession, has not gotten looser. For one, the distribution of FICO scores on conventional mortgages shifted during the housing downturn to a distribution dominated by borrowers with higher credit scores—those above 680—and has yet to show much movement in the other direction.

Distributions of Credit Scores on Conventional Mortgage Originations
January 2000-December 2014



Source: Lender Processing Services (LPS) Applied Analytics

Yet credit scores represent just one dimension of a multidimensional credit box. To paint a fuller picture, consider loan-to-value (LTV) ratios before and after the housing downturn. The table shows summary statistics of this data. Comparing the distributions of LTV ratios of mortgages originated in 2006 and 2014, it seems somewhat counterintuitive that the share of conventional mortgages with high LTVs was greater in 2014 (35.3 percent) than in 2006 (21.2 percent).

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2006		FICO Score Category			
Loan-to-Value	Total	**Not reported**	**Over 750**	**680 to 750**	**Under 680**
80 and under	77.5%	15.3%	25.0%	24.8%	12.4%
Over 80	21.2%	4.7%	3.3%	5.6%	7.6%
Not reported	1.3%	0.3%	0.3%	0.3%	0.4%
Total		20.3%	28.6%	30.7%	20.4%

2014		FICO Score Category			
Loan-to-Value	Total	**Not reported**	**Over 750**	**680 to 750**	**Under 680**
80 and under	64.7%	2.6%	43.5%	15.5%	3.0%
Over 80	35.3%	1.3%	16.8%	13.1%	3.9%
Not reported	0.1%	0.039%	0.008%	0.008%	0.003%
Total		4.0%	60.4%	28.7%	6.9%

Source: Lender Processing Services (LPS) Applied Analytics

Layering the distribution of FICO scores on the distribution of LTVs helps to explain away some of this peculiarity. A sizable share of the 2006 loans that were originated with an LTV greater than 80 percent fell on the lower end of the credit score spectrum. In contrast, most of the loans originated in 2014 with LTVs greater than 80 percent fell on the higher end of the credit score distribution.

One thing that is not in our data set is the extent to which these mortgages had piggyback mortgages. Data provided by Inside Mortgage Finance indicates that second-mortgage originations decreased from $430 billion in 2006 to $59 billion in 2013 (the most recent year for which data are available). That is, seconds shrank from 14 percent of total originations to just 3 percent of total originations. So it is possible that the share of conventional mortgages with an LTV greater than 80 percent is understated—especially in 2006.

So what are the takeaways? Clearly, there has been a shift in conventional mortgage originations towards borrowers with better credit records. Also, we have to be careful in interpreting the trend in LTV ratios when information on second and third liens is not available. Finally, while survey-based and index measures of availability of credit may be improving, evidence from borrower characteristics of originated mortgages tells a less compelling story and suggests the pendulum still has some distance to go before we can consider it in the loosening range.

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