

## NEW TABLES DOCUMENT THE RISE IN FHA'S SHARE OF THE 1- TO 4-FAMILY MORTGAGE MARKET<sup>1</sup>

This issue of *U.S. Housing Market Conditions* inaugurates new tables, appearing in both the National and Historical Data sections, that report current quarterly and historical estimates of the Federal Housing Administration's (FHA's) share of the 1- to 4-family home mortgage origination market. The FHA has grown to become a major source of market liquidity and its share of the home mortgage market has taken on greater significance recently because the housing crisis has greatly curtailed liquidity in the conventional mortgage market. Despite FHA's rising market presence, little consistency has been evident in how this market share is measured. The tables being introduced in this issue provide a consistent measure of FHA market share, which may be tracked and compared over time.

FHA's market share has seen unprecedented shifts in the past decade, beginning with a share of approximately 9 percent of total mortgage origination dollars at the start of the decade and dropping to a low of less than 2 percent in 2005, because prime and subprime lending soared after 2003. In recent months, FHA's market share has risen dramatically to levels establishing post-1990 highs, peaking at 24 percent in the fourth quarter of 2008 following the subprime mortgage market collapse after 2006, tighter underwriting by conventional prime lenders and private mortgage insurers in response to rising default losses, and already weak housing markets that continue to be affected by the recession.

### FHA's Market Share Fluctuates With Economic Conditions

Since the 1930s, FHA has been an important component of the federal government's involvement in the national housing finance system. FHA adds liquidity to the mortgage market by insuring lenders against loss from borrower default. FHA insurance protects lenders against default risk, thereby making private lenders more willing to originate mortgages at favorable mortgage interest rates.

FHA does not vary price or underwriting standards of its mortgage insurance by region or economic cycle; hence, FHA's home mortgage programs can play an important countercyclical role in the market. Prime conventional lenders typically curtail their risk exposure

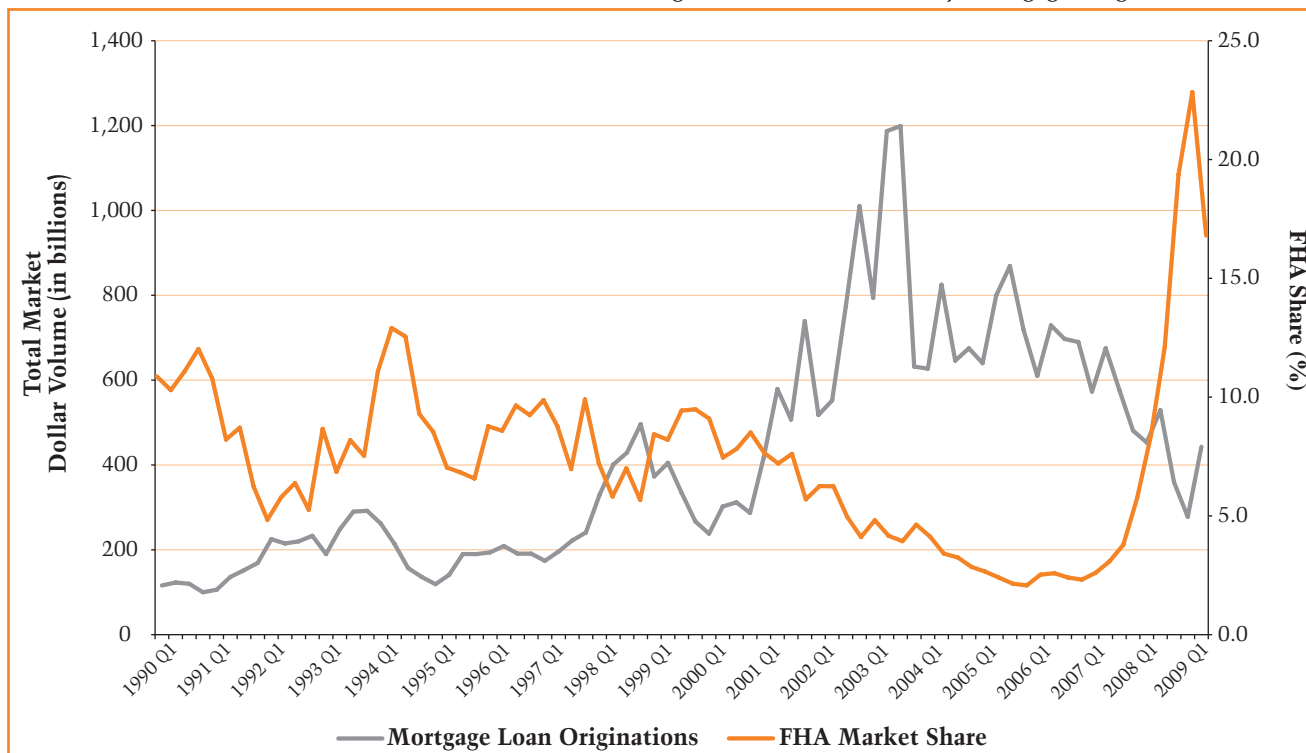
in regions undergoing recession by tightening underwriting standards to limit lending to only the most creditworthy applicants in those regions. FHA, on the other hand, maintains its presence in all markets, providing stability and liquidity even in those markets undergoing recession. Because FHA charges a mortgage insurance premium that all FHA borrowers pay, many borrowers who can qualify for conventional lending with less-costly private mortgage insurance will choose conventional mortgages to purchase homes when the local economy is robust. Thus, in good times, FHA's share of the home purchase market may decline. When the local or national economy is weak, however, and conventional lenders tighten underwriting standards and reduce their exposures in these markets, FHA will see its share of the home purchase market rise as it provides stability and liquidity to the local market. In the current market, all regions of the nation have experienced rising defaults and foreclosures, and conventional mortgage liquidity has been severely affected, which explains why the recent rise in FHA's share of the home purchase market has been so dramatic. FHA's share of refinance originations also rose in response to the mortgage crisis due to a high proportion of borrowers seeking to change product type. For example, borrowers with conventional adjustable-rate loans who faced potentially large rate resets were refinancing into FHA loan products.

FHA's origination market share also fluctuates based on the volume of mortgages being refinanced by the prime mortgage market as homeowners seek to reduce interest rates or shorten loan terms on existing mortgages. During periods when interest rates are falling and total origination volume are rising as many borrowers refinance their existing mortgages to reduce their interest rates and mortgage payments, FHA often loses origination share, because refinancing borrowers frequently have sufficient home equity to refinance without mortgage insurance and thus avoid paying FHA's mortgage insurance premium.

Exhibit 1 provides an illustration of the fluctuations in FHA's share over time by displaying historical data from 1990 through the first quarter of 2009 for a market share measure defined as FHA's origination volume as a percentage of total market origination volume. The measure is calculated from estimates of aggregate mortgage origination dollars. The estimated total origination dollar volume for the entire market is shown as a gray line measured against the scale on the left vertical axis. The percentage share of FHA's origination volume is shown in orange and measured against the right vertical axis. As shown in Exhibit 1, the average quarterly FHA market share during the 1990s was about 8.5 percent. At the start of the current decade (the first quarter of 2000), FHA's share was 9.2 percent. As the subprime lending boom was ramping up, however,



**Exhibit 1. Total Market Dollar Volume and FHA's Percentage Share of 1- to 4-Family Mortgage Originations**



FHA = Federal Housing Administration.

Note: Through first quarter 2009.

Sources: Federal Housing Administration, Department of Housing and Urban Development; Mortgage Bankers Association

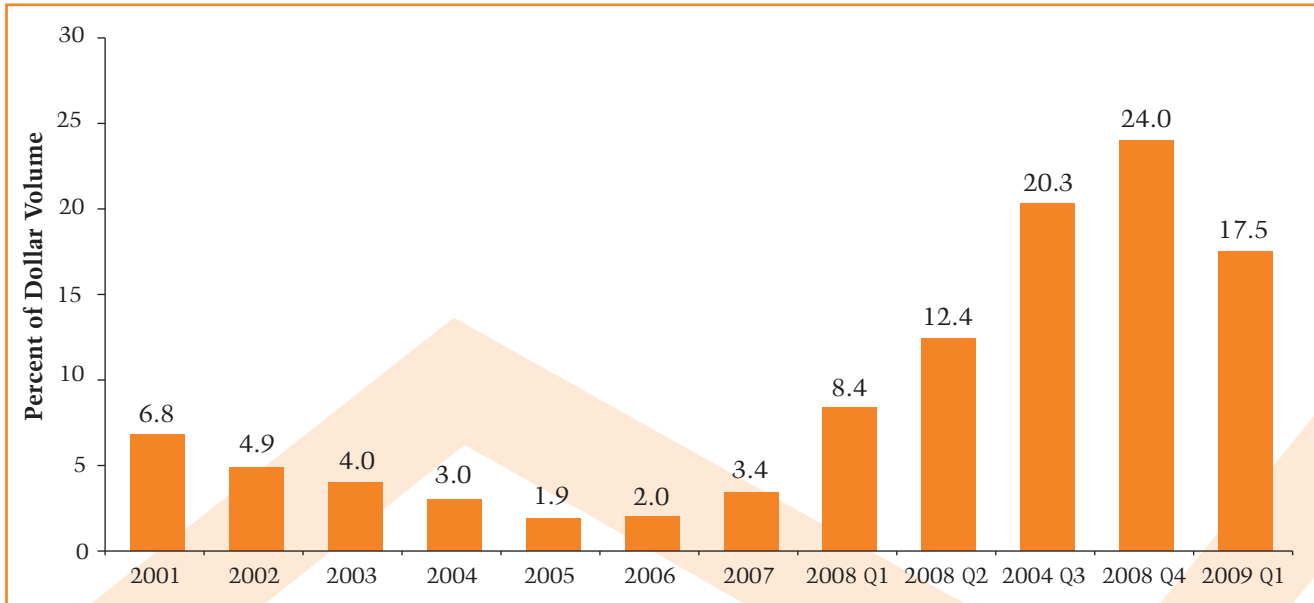
FHA's share of market origination dollar volume began to decline, until it hit a historical low for this period of 1.6 percent in the fourth quarter of 2005. By early 2007, rising defaults on subprime mortgages had caused several large subprime lenders to fail, and soon the mortgage markets began to tighten up.<sup>2</sup> As the economy fell into recession and foreclosures spread from the subprime sector into the prime sector, FHA's market share rose dramatically to a peak of 24.0 percent in the fourth quarter of 2008. Exhibit 1 also shows, however, a subsequent decline in FHA's market share in the first quarter of 2009, brought about by a reduction of FHA's share of refinance originations. This drop in FHA's share of refinance originations reflects a rise in interest-rate-reducing refinances in the market attributable to the low mortgage rates available in early 2009. As noted previously, FHA typically does not capture a high share of interest-rate-induced refinances. In the previous quarter, FHA's share of refinance originations was higher due to a higher proportion of market refinances by borrowers seeking to change product type. Exhibit 2 shows that, in the first quarter of 2009, FHA's share of the home purchase market did not decline.

## Measures of FHA Market Share

Although all measures of FHA market share show a dramatic increase in 2008, articles in industry publications and the popular press often report differences in the magnitude of the increase depending on the definitions and data sources used. These differences can cause confusion when reported out of context or understanding of the component data. The new FHA market share tables in *U.S. Housing Market Conditions* should reduce any confusion by providing the U.S. Department of Housing and Urban Development's (HUD's) own estimates of FHA share. The following text describes the definitions of FHA market share that HUD uses.

Reported estimates of FHA's market share can vary considerably for several reasons. Most reasons relate to how the numerator (FHA activity) or the denominator (total market activity) is measured. In some cases, FHA's activity can vary depending on which FHA processing date is used for the estimate—that is, the actual loan closing date or FHA's insurance endorsement date. FHA's insurance endorsement date can lag the loan

**Exhibit 2. FHA's Percentage Share of Total 1- to 4-Family Mortgage Originations by Dollar Volume, 2001–Present**



FHA = Federal Housing Administration.

Sources: Federal Housing Administration, Department of Housing and Urban Development; Mortgage Bankers Association

closing date by weeks or, in some cases, even months. Lags introduced into the numerator but not the denominator can cause distortions, because mortgage origination volumes vary with time and seasonality. In other cases, the estimates of total market activity may vary, because different market surveys may be used to measure total market activity.

HUD estimates FHA's market share in two ways: (1) by dollar volume (as in Exhibits 1, 2 and 4) and (2) by loan count (as in Exhibits 3 and 5). Because FHA's average loan size tends to be smaller than the average loan size in the overall origination market, FHA's share in terms of loan count tends to be higher than the share in terms of aggregate dollar volume. In addition, FHA tracks its share of the home purchase mortgage market separately. Exhibits 4 and 5 show FHA's home purchase mortgage market shares by dollar volume and loan count, respectively.

The FHA market share by dollar volume is defined as the aggregate dollar amounts of original loan balance for FHA 1- to 4-family home mortgage originations (drawn from FHA's own internal data and measured at loan closing date, not endorsement date) divided by the aggregate dollar amount of 1- to 4-family mortgage originations in the market (first liens only) as estimated by the Mortgage Bankers Association's (MBA's) Mortgage Origination Estimates (MOEs), which is reported quarterly.<sup>3</sup> The MOE data provide breakouts by home purchase and refinance, allowing FHA shares to be calculated for each component.

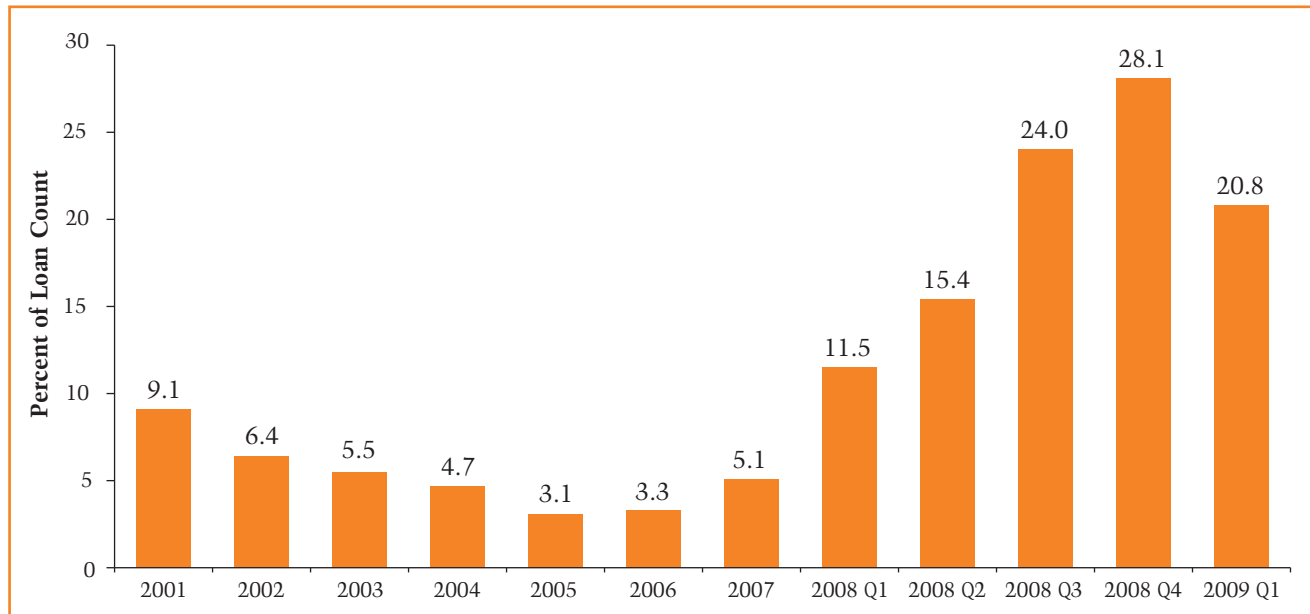
Similarly, the FHA share by loan count is the number of FHA loans (drawn from FHA's internal data and measured at loan closing date) divided by an estimate of the overall number of mortgages originated in the market. The estimate of overall mortgage loans is determined by dividing the conventional dollar volume of loans (by subtracting FHA and U.S. Department of Veterans Affairs dollar volume from the estimated overall mortgage dollar volume as estimated by MBA) by the average loan amount of conventional loans. The average loan amount for conventional loans is estimated using data reported by First American LoanPerformance servicing data.

Finally, Exhibits 6 and 7 compare FHA home purchase origination volumes (in terms of dollar volume and loan count, respectively) with corresponding home purchase origination volumes for the rest of the market—that is, the non-FHA portion of the home purchase market. These exhibits show that FHA origination volumes have risen steadily after 2005, while volumes for the rest of the market have declined.

In the future, the trends in FHA market share will be affected by the timing and robustness of the economic recovery and by changes in the institutional framework of the housing finance industry. The ability to assess FHA's market role during this time of change will be enhanced by the new tables on FHA market share now appearing regularly in *U.S. Housing Market Conditions*.



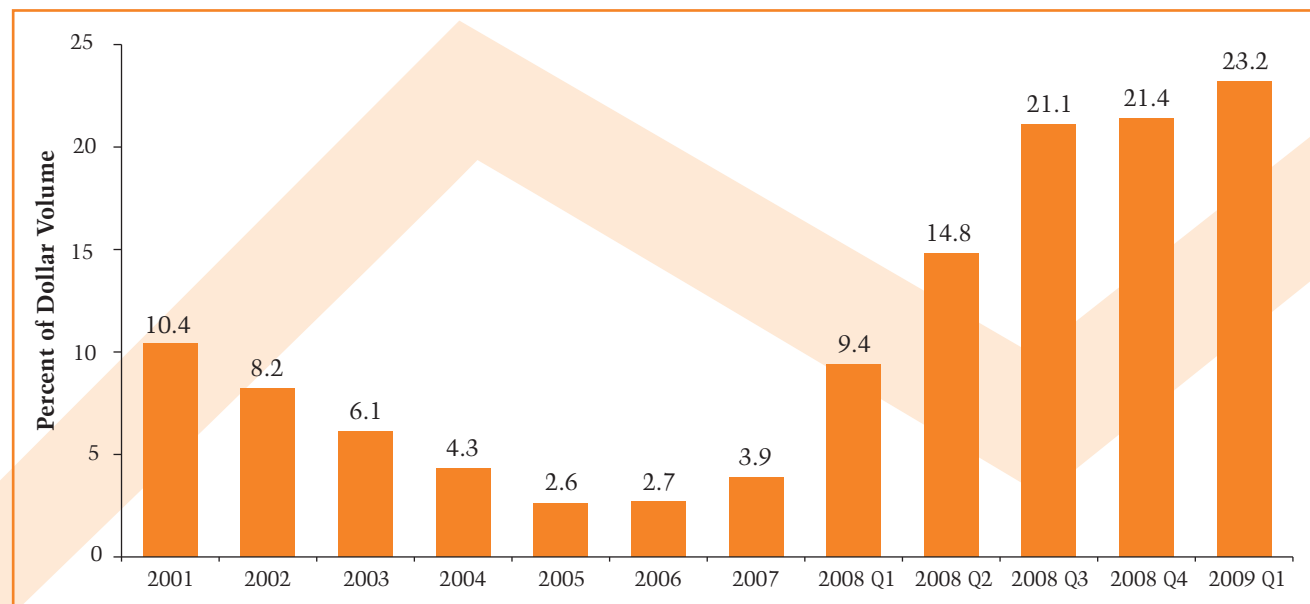
**Exhibit 3. FHA's Percentage Share of Total 1- to 4-Family Mortgage Originations by Loan Count, 2001–Present**



FHA = Federal Housing Administration.

Sources: Federal Housing Administration, Department of Housing and Urban Development; Mortgage Bankers Association; First American LoanPerformance; Department of Veterans Affairs

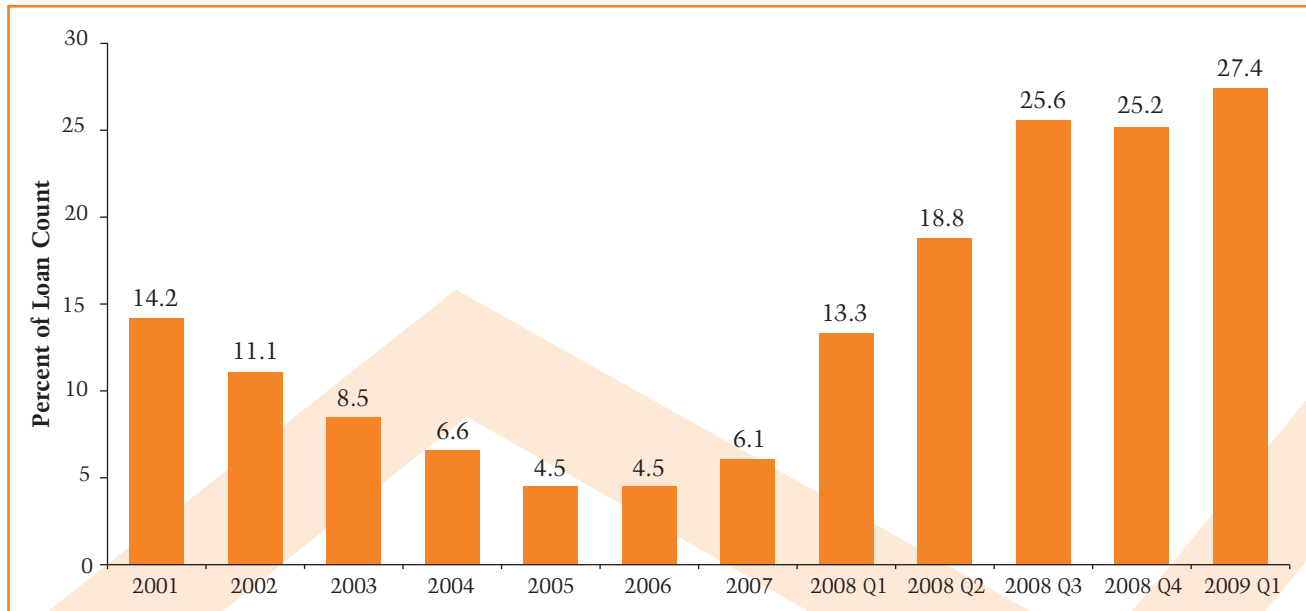
**Exhibit 4. FHA's Percentage Share of 1- to 4-Family Home Purchase Mortgage Originations by Dollar Volume, 2001–Present**



FHA = Federal Housing Administration.

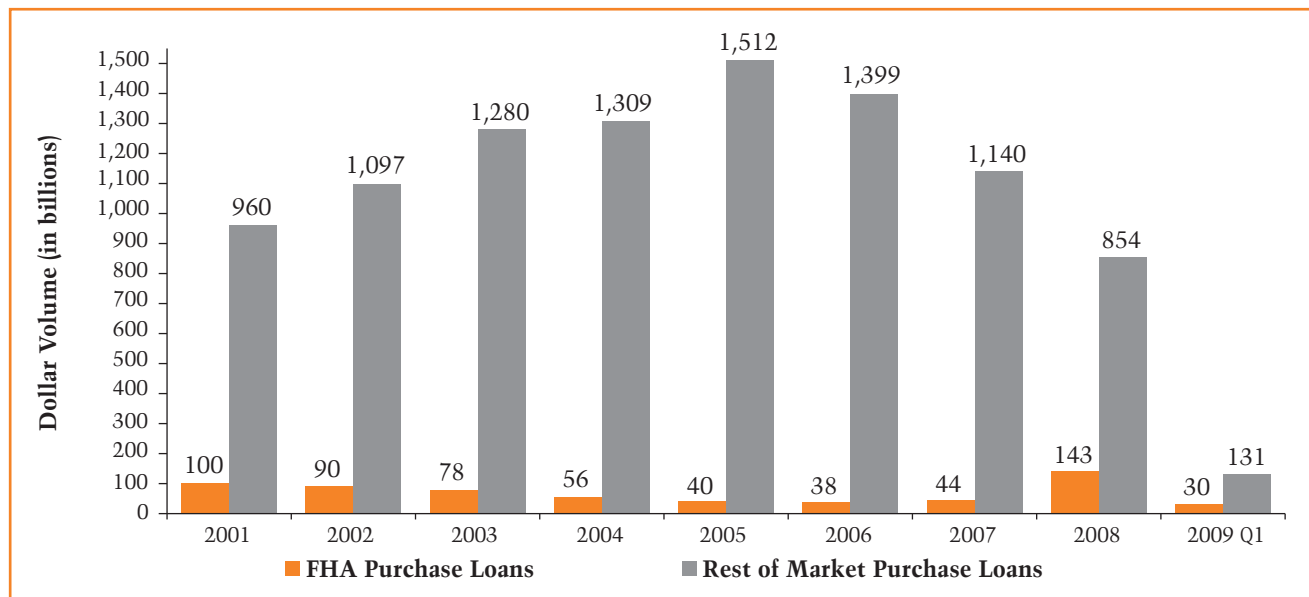
Sources: Federal Housing Administration, Department of Housing and Urban Development; Mortgage Bankers Association

**Exhibit 5. FHA's Percentage Share of 1- to 4-Family Home Purchase Mortgage Originations by Loan Count, 2001–Present**



FHA = Federal Housing Administration.  
 Sources: Federal Housing Administration, Department of Housing and Urban Development; Mortgage Bankers Association; First American LoanPerformance; Department of Veterans Affairs

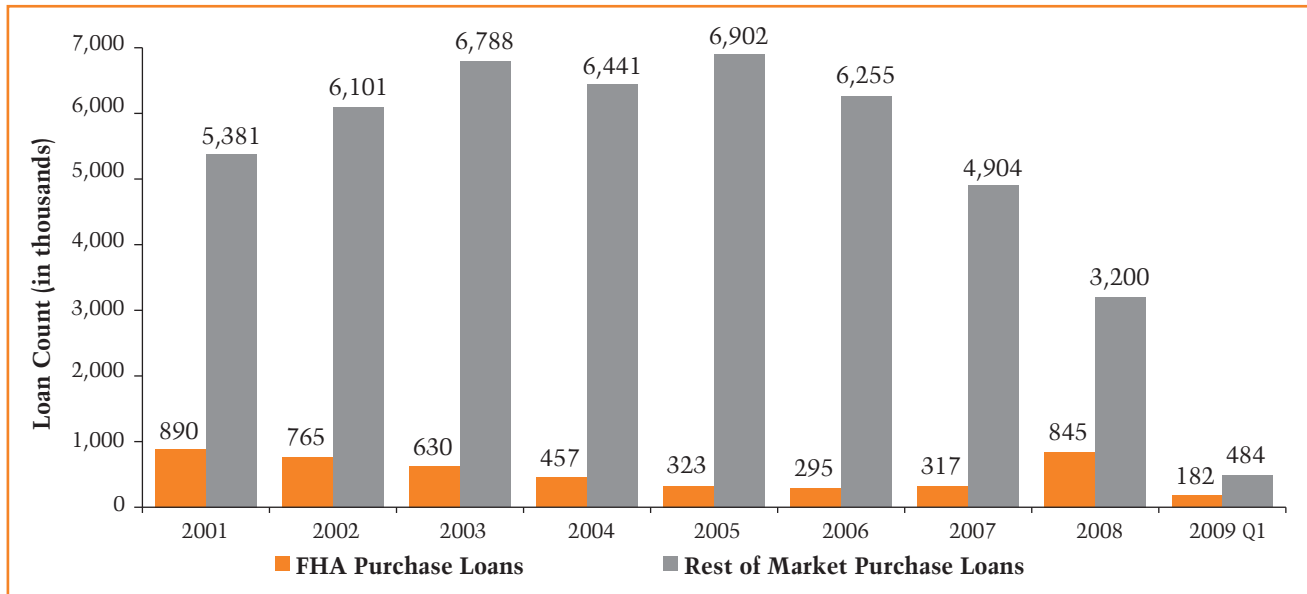
**Exhibit 6. 1- to 4-Family Home Purchase Mortgages by Dollar Volume: FHA Compared With Rest of Market, 2001–Present**



FHA = Federal Housing Administration.  
 Sources: Federal Housing Administration, Department of Housing and Urban Development; Mortgage Bankers Association



**Exhibit 7. 1- to 4-Family Home Purchase Mortgages by Loan Count: FHA Compared With Rest of Market, 2001–Present**



FHA = Federal Housing Administration.

Sources: Federal Housing Administration, Department of Housing and Urban Development; Mortgage Bankers Association; First American LoanPerformance; Department of Veterans Affairs

## Notes

<sup>1</sup> The U.S. Department of Housing and Urban Development (HUD), Office of Policy Development and Research gratefully acknowledges the Federal Housing Administration's (FHA's) Office of Evaluation and specifically economist Randall Scheessele for explaining the methodology developed for FHA's reported market share estimates.

<sup>2</sup> For a detailed account of how the housing and mortgage market crises unfolded, please see HUD's *Interim Report to Congress on the Root Causes of the Foreclosure Crisis*, which can be accessed at [http://www.huduser.org/publications/hsgspec/int\\_foreclosure\\_report.html](http://www.huduser.org/publications/hsgspec/int_foreclosure_report.html).

<sup>3</sup> See <http://www.mbaa.org/ResearchandForecasts/EconomicOutlookandForecasts>.