FEDERAL HOUSING FINANCE AGENCY OFFICE OF INSPECTOR GENERAL

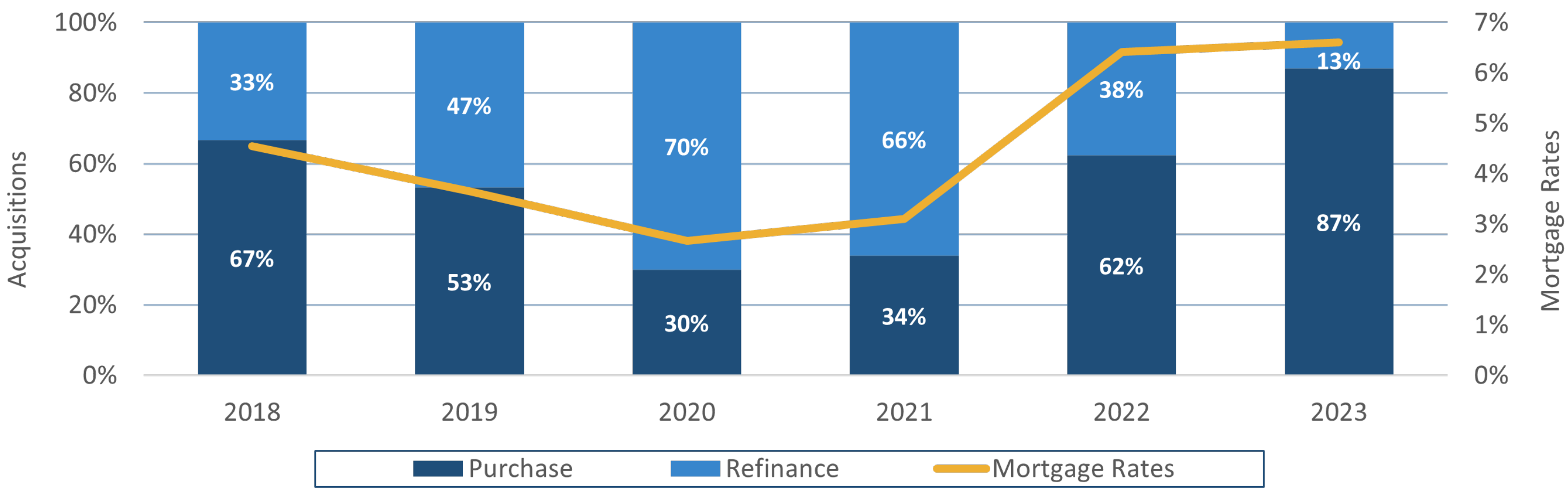
Enterprise Single-Family Mortgage Acquisition Mix

September 2024

Mortgage rates influence the proportion of mortgage purchases versus refinances.

The Enterprises acquire mortgages originated either to **purchase** a home or to **refinance** an existing mortgage. Their proportion of purchases and refinances (called the acquisition mix) shifts based on mortgage rates. Purchase mortgage levels are less sensitive to higher interest rates than refinance levels. As a result, in general, higher mortgage rates reduce the share of refinances and increase the purchase mortgage portion.

Combined Enterprise Acquisition Mix and Mortgage Rates, 2018-2023



Sources: OIG analysis of Fannie Mae and Freddie Mac Annual Reports and Fannie Mae and Freddie Mac Financial Supplements (2018-2023)

Higher mortgage rates in 2022 and 2023 disincentivized some borrowers from refinancing, shifting the Enterprises' acquisitions toward purchase mortgages.

Enterprise Single-Family Mortgage Acquisition Mix

Purchase mortgages typically pose more credit risk than refinances.

The Enterprises report that purchase mortgages generally present more credit risk than refinances (particularly those that do not take cash out).

- Purchase mortgages tend to have **higher debt-to-income ratios** (DTI) than refinanced mortgages.
- Purchase mortgages typically have **higher loan-to-value ratios** (LTV) than refinanced mortgages.

There is no clear credit score trend when comparing the mix of purchase mortgages and refinances.

Key credit risk measures include:

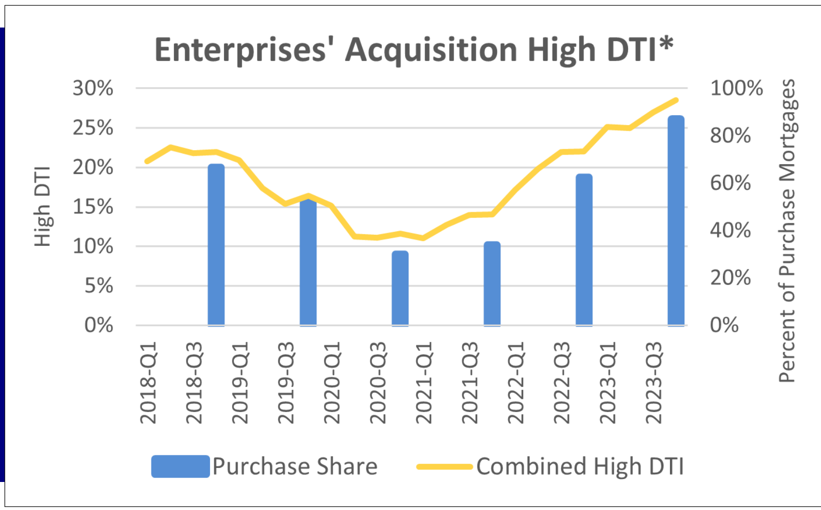
Debt-to-income: Ratio of a borrower's outstanding debt to the income used to qualify for the mortgage. As DTI decreases so does the default risk, especially if other lower-risk factors are present.

Loan-to-value: Ratio of the unpaid principal balance of the mortgage to the value of the property backing the mortgage. LTV ratio is a strong predictor of credit performance. As LTV decreases, so does the default likelihood and the loss severity.

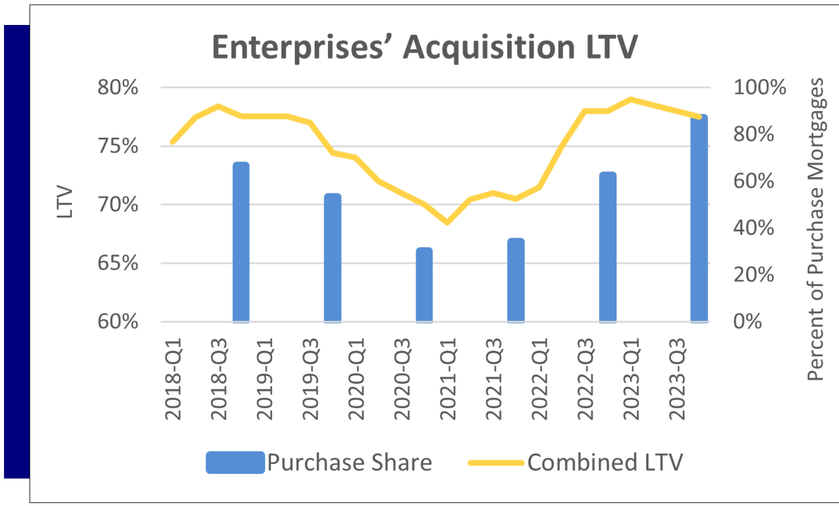
Credit Score*:* A number that represents a borrower's credit quality and the likelihood of repaying future obligations. A higher credit score typically indicates lower credit risk.

Enterprise Single-Family Mortgage Acquisition Mix

High DTI (i.e., DTI >45%) and LTV on the Enterprises' combined acquisitions generally rose as the share of purchase mortgages increased.



Sources: OIG analysis of Fannie Mae and Freddie Mac Annual Reports and Fannie Mae and Freddie Mac Financial Supplements (2018-2023)



Sources: OIG analysis of Fannie Mae and Freddie Mac Annual Reports and Fannie Mae and Freddie Mac Financial Supplements (2018-2023)

The Enterprises say that higher DTI and LTV typically indicate higher credit risk.

**In this report, we used Fannie Mae's and Freddie Mac's combined weighted average data for our high DTI, LTV, and credit score analyses. The high DTI graph displays the percentage of the Enterprises' single-family acquisitions during the applicable period with a high DTI.*

Enterprise Single-Family Mortgage Acquisition Mix

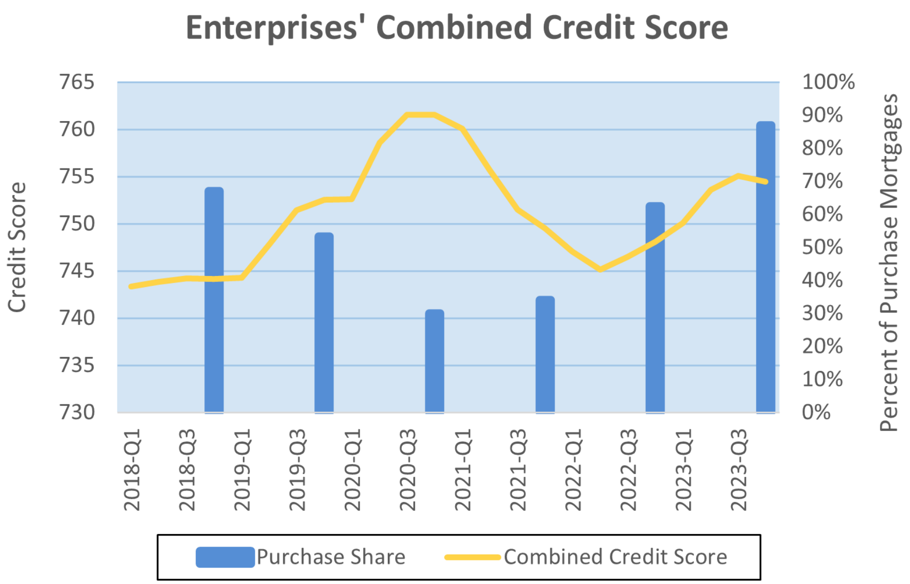
The credit score on the Enterprises' combined acquisitions has not followed a consistent trend with the share of purchase mortgages.

From 2018–2020, the credit score generally increased as the share of purchase mortgages decreased

In 2021, the credit score declined as the purchase share dropped to its lowest level

In 2022, the credit score began rising again as the purchase share climbed

Although there is generally no correlation between credit scores and the purchase share, one Enterprise noted that refinance booms, such as the one in 2020, generally result in improved credit scores



Sources: OIG analysis of Fannie Mae and Freddie Mac Annual Reports and Fannie Mae and Freddie Mac Financial Supplements (2018-2023)

The Enterprises state that higher credit scores generally indicate lower credit risk.

High DTI, LTV, and Credit Score Summary

Enterprise Acquisitions

Measure	General Trend (2022-2023)	Potential Credit Risk Implication
High DTI	Increased	Increased
LTV	Increased	Increased
Credit Score	Increased	Decreased

Sources: OIG analysis of Fannie Mae and Freddie Mac Annual Reports and Fannie Mae and Freddie Mac Financial Supplements (2018-2023).

As part of tracking high DTI and LTV and low credit scores, the Enterprises also monitor for two or more of these individual risk measures in loans, which could indicate additional risk layering.

- In 2023, one Enterprise reached its highest level of layered risk since 2018
- Around 2018, the other Enterprise's risk layering increased and remained higher through 2023

Risk Considerations

The Enterprises must manage credit risk within their risk frameworks. Factors, such as market conditions, affect both the Enterprises' acquisition mix and mortgage credit profiles.

As relatively high mortgage rates prevail and purchase mortgages dominate Enterprise acquisitions, trends of high DTI and high LTV may pose risk to the Enterprises.

Fannie Mae said it adjusts its models supporting its underwriting system to avoid excessive risk layering by considering mortgage profiles, market conditions, and mortgage performance.

Freddie Mac similarly stated it adjusts its underwriting standards for acquired loan characteristics and market factors, noting in 2023 that the shift to purchases pushed LTV and DTI slightly higher.

Key Takeaway: As mortgage rates have risen, a greater proportion of people are taking out new single-family mortgages to buy homes rather than refinancing existing ones. Consequently, the Enterprises' share of purchase mortgage acquisitions in 2023 significantly outweighed refinances. Purchase mortgages might have higher risk factors like elevated LTV and DTI ratios, which increase the risk that borrowers might not pay back their loans. The Enterprises must carefully manage this increased risk.

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