Rise in Purchase Mortgages Boosts Credit Risk

By: Jann Swanson | Tue, Jun 20 2017, 10:20 AM

New home purchase mortgages became a little riskier in the first quarter of 2017 per CoreLogic. The company said its Housing Credit Index (HCI), which measures trends in six mortgage credit risk attributes, edged up to 105.6, a 3.6-point increase from the same quarter in 2016. This puts the HCI at about the same level as its average score of 105.9 over the period of 2001 to 2003, a period that CoreLogic considers **a normal baseline for credit risk**.

The six attributes measured by the HCI are: borrower credit score, debt-to-income ratio (DTI), loan-to-value ratio (LTV), investor-owned status, condo/co-op share and documentation level. The slight loosening in the credit index during the past year was partly due to a shift in the mix of purchase versus refinance originations because purchase loans exhibit higher risk attributes than refinanced loans.

Other factors that led to the uptick were an increase in the share of home-purchase mortgages secured by a condo or coop, from 10 percent in the first quarter of 2016 to 12 percent in the most recent period. There were also slight increases in the share of investor purchase loans, from 4 percent to 5 percent and a 1 point gain in what is still a tiny 3 percent share of low- or no-documentation loans.

Those **increases served to offset credit risk declines in the other attributes**. The average credit score for homebuyers increased 7 points year-over-year, rising from 734 to 741. In Q1 2017, the share of homebuyers with credit scores under 640 was less than 3 percent compared with 25 percent in 2001.

The DTI **held steady** at 36 percent, from the first quarter of 2016 to Q1 2017, but the share of homeowners with DTIs greater than or equal to 43 percent was 24 percent in Q1 of 2017 compared to 25 percent in that quarter of 2016, and 18 percent in 2001.

The **LTV for homebuyers fell by 1.7 percentage points** between the two quarters, from 87.6 percent to 85.9 percent. In Q1 2017, the share of homebuyers with an LTV greater than or equal to 95 percent was 43 percent, down from 49 percent a year earlier, and up from 29 percent in 2001.

"Mortgage rates during the first quarter of 2017 were up about 0.5 percentage points from a year earlier," said Dr. Frank Nothaft, chief economist for CoreLogic. "Since 2009, for every one-half percentage point increase in mortgage rates, the average credit score on refinance borrowers has dipped by 9 points, and this **pattern will likely continue if mortgage rates move higher.** That is because when rates rise, applications drop off and loan officers spend more time with the applicants that have less-than-perfect credit scores, require more documentation or have unique property issues."

Nothaft continued, "Overall credit risk for purchase loans was **slightly higher** compared with a year ago as the investor share and condo/co-op share increased. These increases offset lower-risk signals from the credit score, DTI and LTV attributes to result in an uptick in overall riskiness. Still, overall risk is similar to that of the early 2000s."

Beginning in Q1 2017, the HCI was revised to include a more comprehensive source of loan-level, non-agency, mortgage-backed securities data. The result is that the HCI more accurately captures the loans that exhibited higher risk features during the mid-2000s.

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