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Fitch: HFA Loan Performance Compares Favorably to RMBS Loans

Fitch Ratings-New York/San Francisco-13 March 2023: Loans originated by state housing finance agencies (HFAs) show strong performance, with generally lower delinquencies than securitized loans with similar credit characteristics in residential mortgage-backed securities (RMBS) pools, due in part to HFAs' pre-mortgage engagement with potential borrowers and continued engagement after the mortgage is closed, Fitch Ratings says.

Fitch compared HFA loan performance with alt-A, subprime, and reperforming loans (RPLs), which have similar attributes to HFA loans, including weighted average interest rates and FICO scores. We assessed HFA and RMBS loans across 15 states representative of a range of geographic and economic conditions. The performance comparison is based on aggregate delinquency rate reporting by the HFAs, rather than the more granular loan-by-loan payment information for RMBS portfolios.

Most HFA single family programs are secured by a pool of first lien, fixed-rate, 30-year mortgages on primary residences for first time homebuyers. HFA loans have home price and income limit restrictions, and subsequently lower average balances relative to other mortgage loans. Strong HFA loan performance is attributable to underwriting standards that require full documentation and mortgage insurance for any loans with 80% or lower LTVs, as well as keeping the loans on balance sheet, which gives the HFAs ownership of the loans and a vested interest in ensuring that they perform well. This includes active oversight of the loan portfolios, with early follow-ups for delinquent loans to help keep borrowers in their homes and the loans performing.

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