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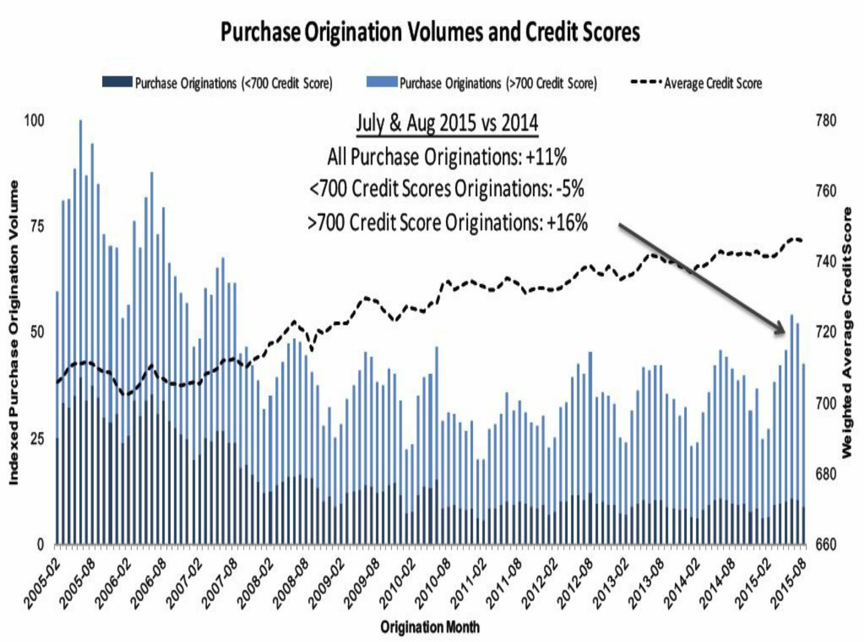
Refi Credit Scores Falling Due to Burnout, Not Credit Availability

Purchase lending in June was at its **highest** level since the beginning of the housing crisis and early reports from the third quarter indicate that this **trend is continuing**. Black Knight Financial Services said today that the 15 percent annual increase in the whole of the second quarter of this year and the apparent 11 percent increase in the third quarter were driven primarily by high credit borrowers, those with credit scores of 700 or better. Only 20 percent of purchase loans in that quarter went to borrowers with lesser scores.

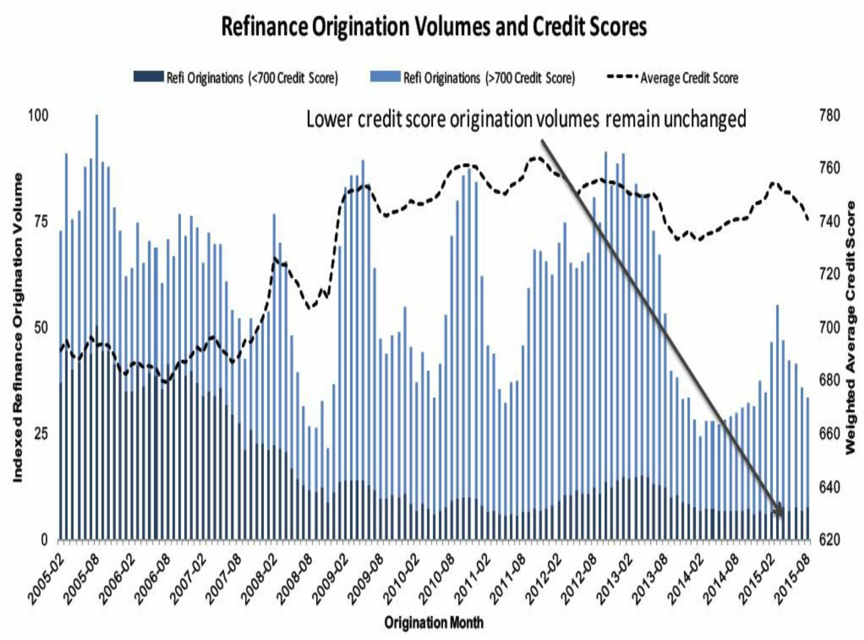
At the same time **refinancing is dropping** among high-credit borrowers, indicating that there is a refinance "burn-out" after such a prolonged period of low rates. This is tipping average credit scores lower. This, Black Knight says in its latest *Mortgage Monitor* based on September data, might be mistakenly interpreted as signaling a loosening of credit.



Recent Housing Data

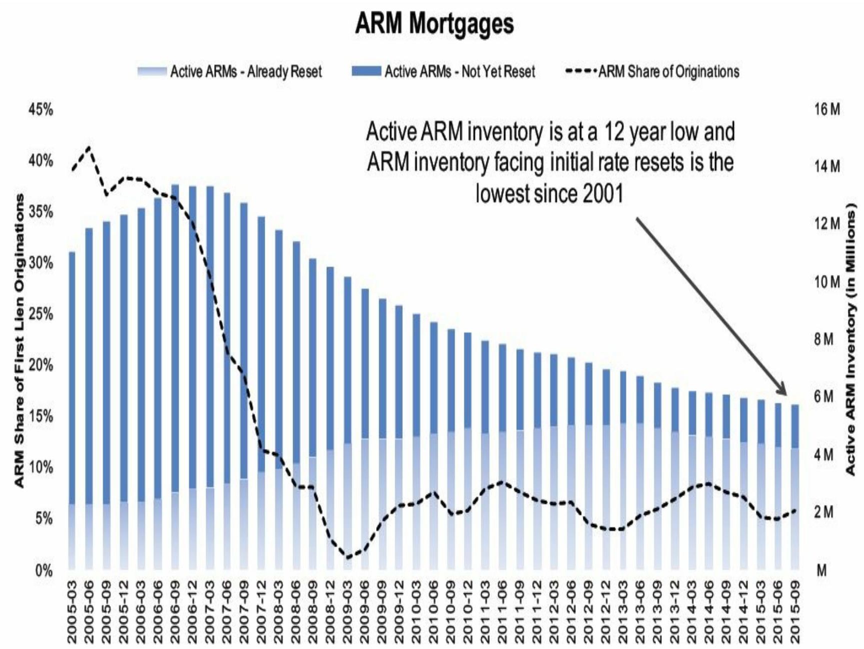
		Value	Change
Mortgage Apps	Aug 28	226.9	+0.49%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%
Builder Confidence	Mar	51	+6.25%

The company's Senior Vice President Ben Graboske explains that the **two factors are related**. He said that role of high credit buyers in the increase in purchase originations means that year-over-year comparisons show that purchase volumes from lower-credit borrowers are actually flat to slightly down. "Only 20 percent of purchase loans originated in the past three months have gone to borrowers with credit scores below 700. That's the lowest level we've seen in well over 10 years. The weighted average credit score for purchase mortgages has also hit an all-time high of about 755," he said



"At the same time, refinance originations have been steadily declining since March, signaling a degree of 'burnout' as those both interested and able to take advantage of currently low interest rates likely already have refinanced. We've also noticed that prepayment speeds - historically a good indicator of refinance activity - as well as refinance originations have been dropping most significantly among these same high-credit borrowers. In contrast to purchase mortgages, we've seen **average credit scores** for refinance originations decline, which has some suggesting that credit is loosening for these products. As these higher-credit borrowers - in many cases, 'serial refinancers' who have repeatedly taken advantage of drops in interest rates and their good credit standings - hit 'refi burnout,' and total originations decline, lower-credit borrowers make up a larger share of total volume, and weighted average credit scores for the total population naturally decline. It's not an indicator of loosening credit standards at all."

Black Knight also looked briefly at **adjustable rate mortgages (ARMs)** which currently have about a 5 percent share of originations, down from a 5 to 10 percent range pre-crisis. There are about 5.7 million active ARMs nationwide, down 57 percent since 2006 and the lowest number outstanding since 2003. Black Knight says this low inventory will limit the market impact of increasing interest rates.

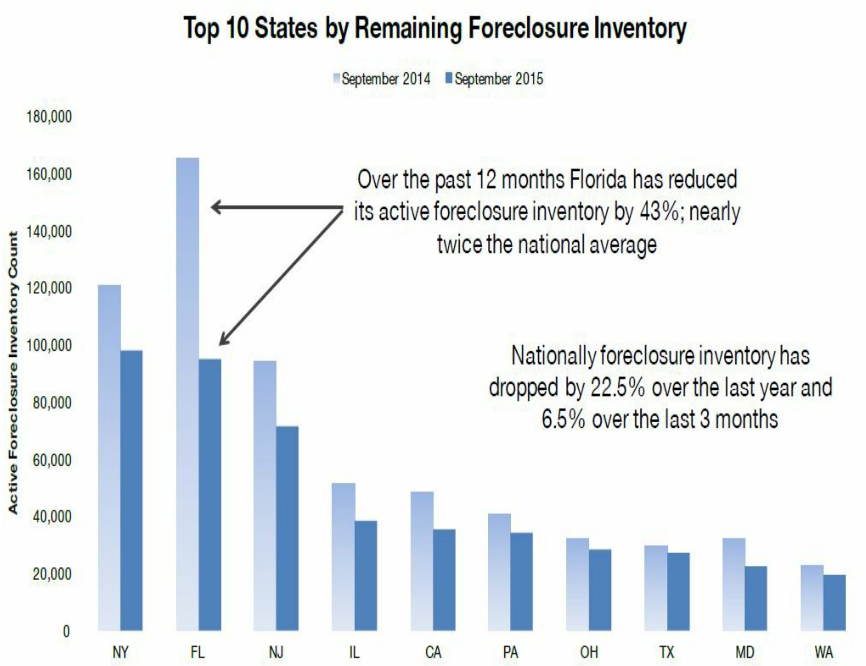


About 1.5 million of the outstanding ARMs are still under **teaser** rates; about three out of four active loans have already reset. In 2006, on the cusp of the crisis, there were 13.3 million outstanding ARMs 10.7 million of which were in pre-reset status. That is 2.5 and 7 times respectively the number in each category today.

In addition to fewer ARMs being originated, the initial term has changed. In 2005-2006 nearly 60 percent of ARMs originated were 3/1 hybrids. Today 90 percent of ARMs are originated with an initial reset of five years. Black Knight says these longer initial fixed terms increase the likelihood that "whether through refinance of the purchase of a new home - many of these loans **won't exist** at the point of an ARM reset."

Black Knight also looked at some key Q3 2015 mortgage performance indicators and found that as of the end of the quarter, **all but five states** had seen reductions in their foreclosure inventories. As Graboske noted, Florida's improvement stands out.

"As of the end of September," he said, "Florida has **ended its 8-year reign** as having the highest number of loans in active foreclosure in the U.S. Over the past 12 months, the state has reduced its inventory of loans in active foreclosure by 43 percent." The state, however, still has the largest number of properties 90 or more days past due but not in foreclosure. That's nearly twice the national average of 22.5 percent. New York - which has seen only a 19 percent reduction in its foreclosure inventory over the past year - is now the state with the most loans in active foreclosure with New Jersey in third place. Outflow or foreclosure completions has been an issue in both New York and New Jersey since the foreclosure moratorium ended in 2010/2011.



While repeated foreclosure starts were up, first time foreclosure starts in the third quarter were at the lowest level in more than 10 years. **Completed foreclosures** also fell in the third quarter, down 10 percent from the second quarter and the lowest they have been since 2006.