

Mortgage Credit Availability Index

Methodology Update August 2016

MBA

The Partnership



What is the MCAI?

The MCAI has become a valuable source of information for market participants, policymakers and researchers:

- **For lenders:**
 - The MCAI provides an industry wide summary statistic regarding trends in mortgage credit availability.
- **For policymakers:**
 - The MCAI can be an informative gauge regarding the impact of policy changes on the availability of mortgage credit.
- **For economists and other researchers:**
 - “The MCAI provides a benefit in terms of its ability to capture credit trends, a vitally important component of the macroeconomic environment,” said Michael Fratantoni, MBA’s Chief Economist

The Goal

To measure the quantity and quality of mortgage credit supplied to the market over time and for different segments of the market.

The Data

- Information on more than 4,000 unique investor offerings each month (quantity of offerings)
- Across more than 100 broker, correspondent and MI investors who invest in credit risk
 - Includes Fannie, Freddie, FHA, MI Co's, and other large, medium, and small investors.
- Loan detail (quality of offerings):
 - Purpose (purchase, refinance, refi with cash-out)
 - Type (fixed rate, ARM, balloon)
 - Allowable occupancy status (owner-occupied, 2nd home, investor)
 - Other (interest-only, Term, FICO, LTV, documentation)
- Loan origination type:
 - Government or conventional
 - Conforming or jumbo

Quality: Seven Dimensions of Risk

Amortization

Product_Type	Weight
FIXED	
ARM	
BALLOON	

IO/Amortization

Int_Only_Flag	Product_Type	Weight
NON-IO	FIXED	
NON-IO	ARM	
NON-IO	BALLOON	
INTEREST ONLY	FIXED	
INTEREST ONLY	ARM	
INTEREST ONLY	BALLOON	

Loan Purpose

purpose_ROLLUP	Weight
Allows Rate/Term Refi, Not Cash Out	
Allows Cash Out Refi	
Purchase Transactions Only	

Loan Term

term_ROLLUP	Weight
Max Term <= 30	
Max Term >30	

Doc.Type

Doc_Type_ROLLUP	Weight
FULL/ALT DOC	
STATED DOCUMENTATION (Anywhere the word *Stated* appears)	
NO DOC (Anywhere the word *NO* is mentioned, excludes any entries with the word *STATED*)	

LTV / Occupancy Joint

Max_LTV_Bracket	occupancy_ROLLUP	Weight
LTV <=90	Allows Investor Homes	
LTV >90 and <=95	Allows Investor Homes	
LTV >95	Allows Investor Homes	
LTV <=90	Allows Second Homes, Not Investor	
LTV >90 and <=95	Allows Second Homes, Not Investor	
LTV >95	Allows Second Homes, Not Investor	
LTV <=90	Owner Occupied Only	
LTV >90 and <=95	Owner Occupied Only	
LTV >95	Owner Occupied Only	

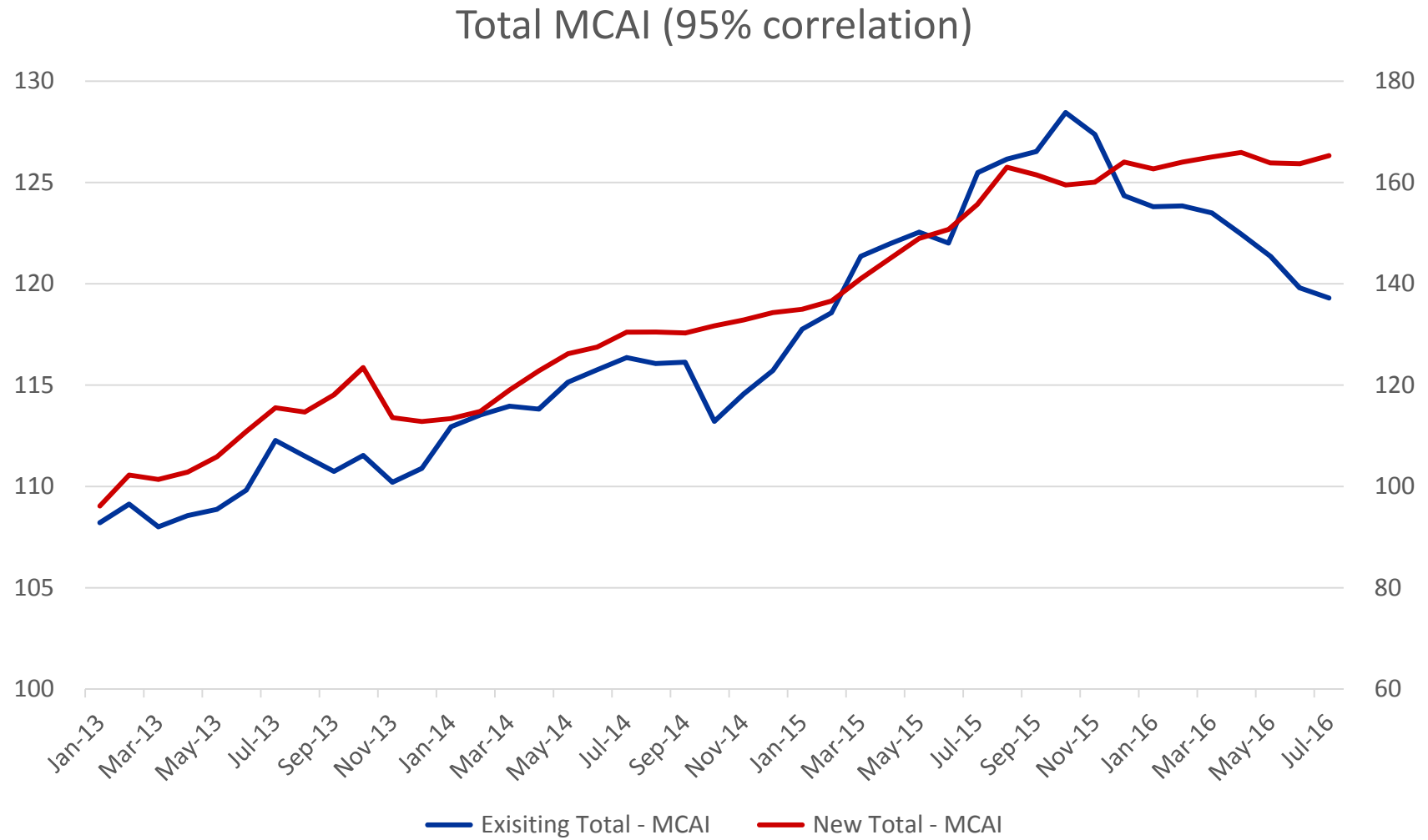
FICO / LTV Combo

Max_LTV_Bracket	Min_FICO_Bracket	Weight
LTV <=90	FICO <=620	
LTV >90 and <=95	FICO <=620	
LTV >95	FICO <=620	
LTV <=90	FICO >620 and <=680	
LTV >90 and <=95	FICO >620 and <=680	
LTV >95	FICO >620 and <=680	
LTV <=90	FICO >680	
LTV >90 and <=95	FICO >680	
LTV >95	FICO >680	

Time for an Update After 4 Years

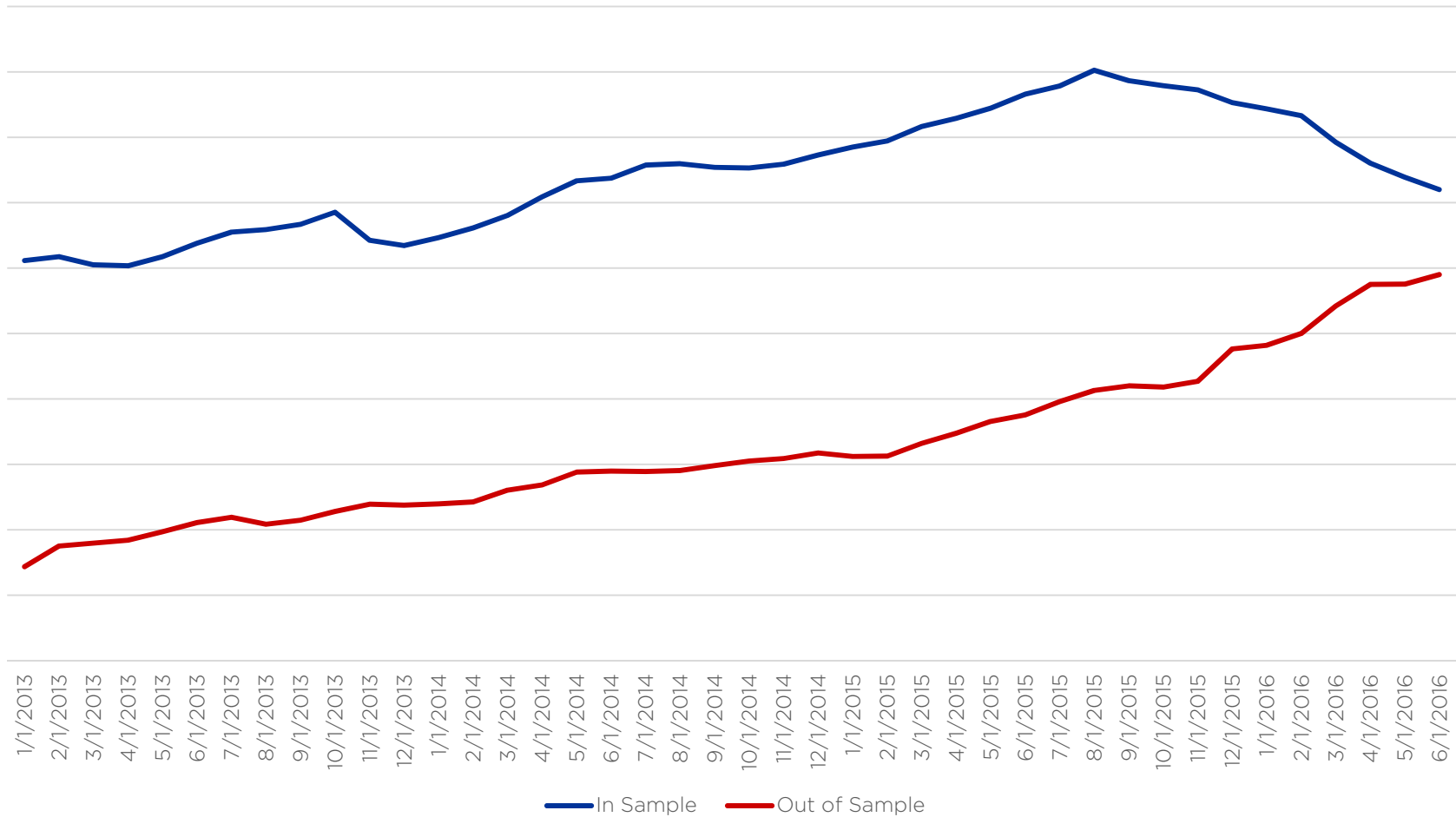
- After working on the MCAI prior to its introduction in 2013 and subsequently, we believe that it is time to update our methodology to incorporate recent changes in the marketplace.
- What programs are we tracking?
 - Previously: A fixed set of programs (present in March 2012) over time
 - Now: All programs over time
- Why the change?
 - The market has evolved and investors are willing to buy a more diverse set of credit risks in 2016 as compared to 2012
 - Jumbo programs in particular have rapidly expanded credit into programs not previously tracked
- In addition, jumbo and conforming loans are now defined to exclude government insured mortgages (FHA, VA, and USDA).
 - This provides better alignment with industry norms.

Comparison: Old Versus New



Index Differences Since 2015 Driven by Shift in Jumbo Offerings

Classification of Jumbo Investor Offerings in Old Methodology

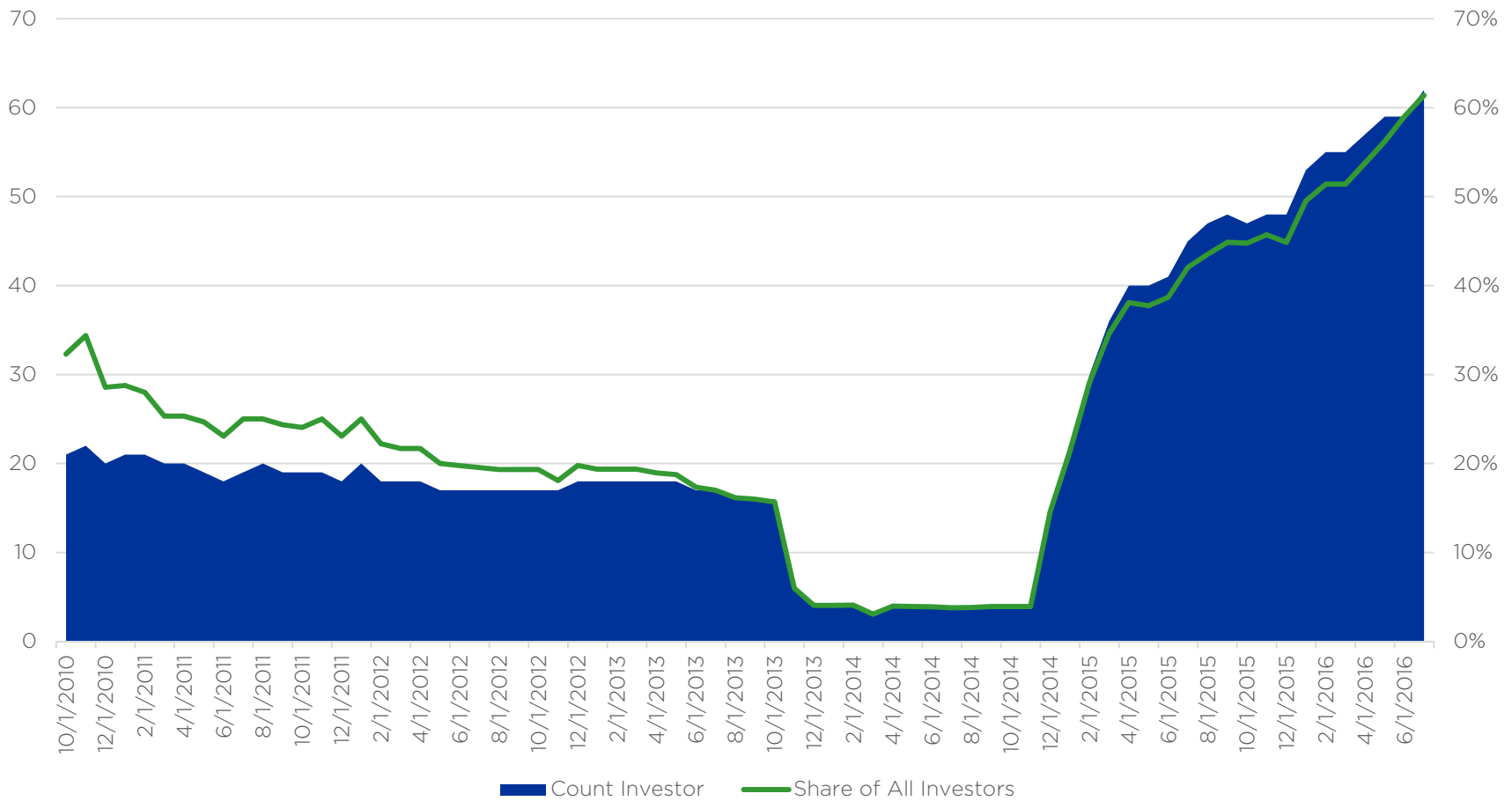


What are the Implications of the New MCAI?

- After mostly increasing for 20 months, total credit availability fell in October and November of 2015 and then was mostly flat through the first half of 2016
- The relative slowdown is comprised of two offsetting forces on the Conventional side:
 - Conforming credit availability has contracted since August 2015
 - TRID, PMEIRs
 - Jumbo credit availability has expanded since November 2015
 - Supply has increased even as reports of demand for these new offerings has been weak
 - The Jumbo segment has driven an increase in the Conventional Index
- Little impact from the change in methodology on the Government index

What About the Supply of 97 LTV Conventional Programs?

Share of Broker/Correspondent Investors Offering 97 LTV Conventional Affordable Loan Products



Source: Ellie Mae's AllRegs Market Clarity Business Information tool

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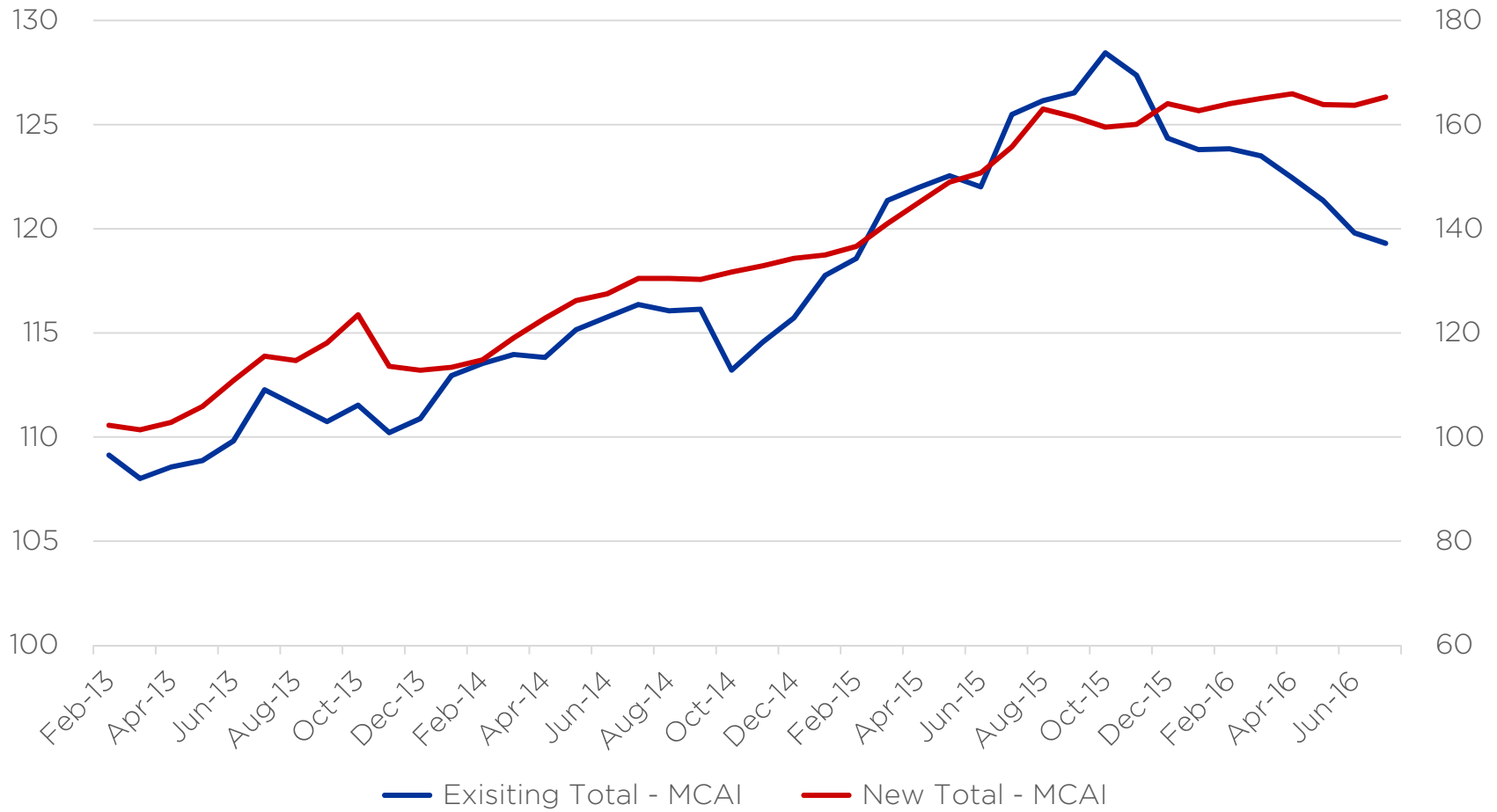
What does the difference in index levels mean?

- Between two periods in the **same index**, a decline in the MCAI indicates that lending standards are tightening, while increases in the index are indicative of a loosening of credit
- Because the old methodology and the new one track a different set of programs and are calculated differently, their levels are inherently different and **are not comparable**.

Comparisons of Total Index and Sub-Indexes

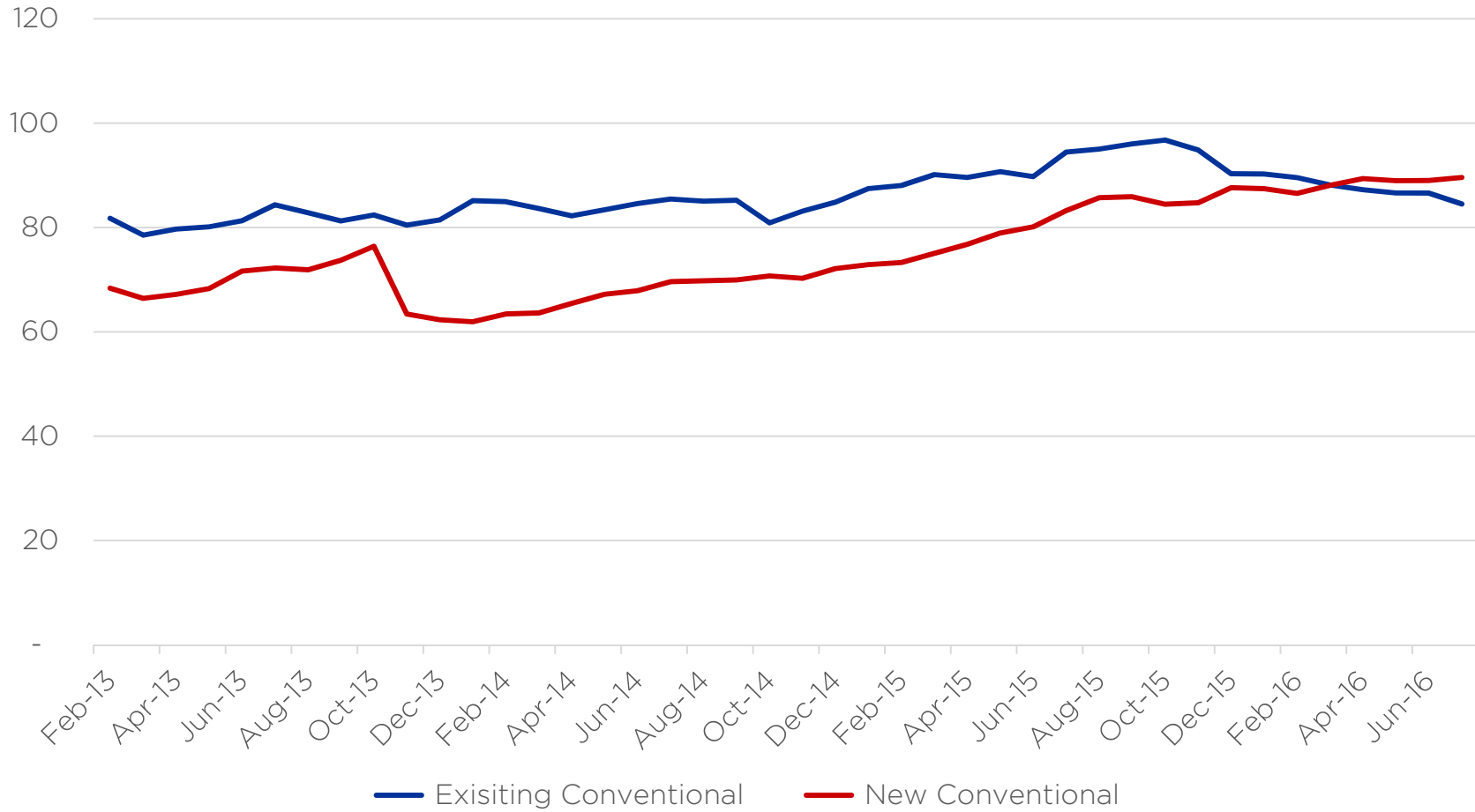
Total MCAI

Total MCAI (95% correlation)



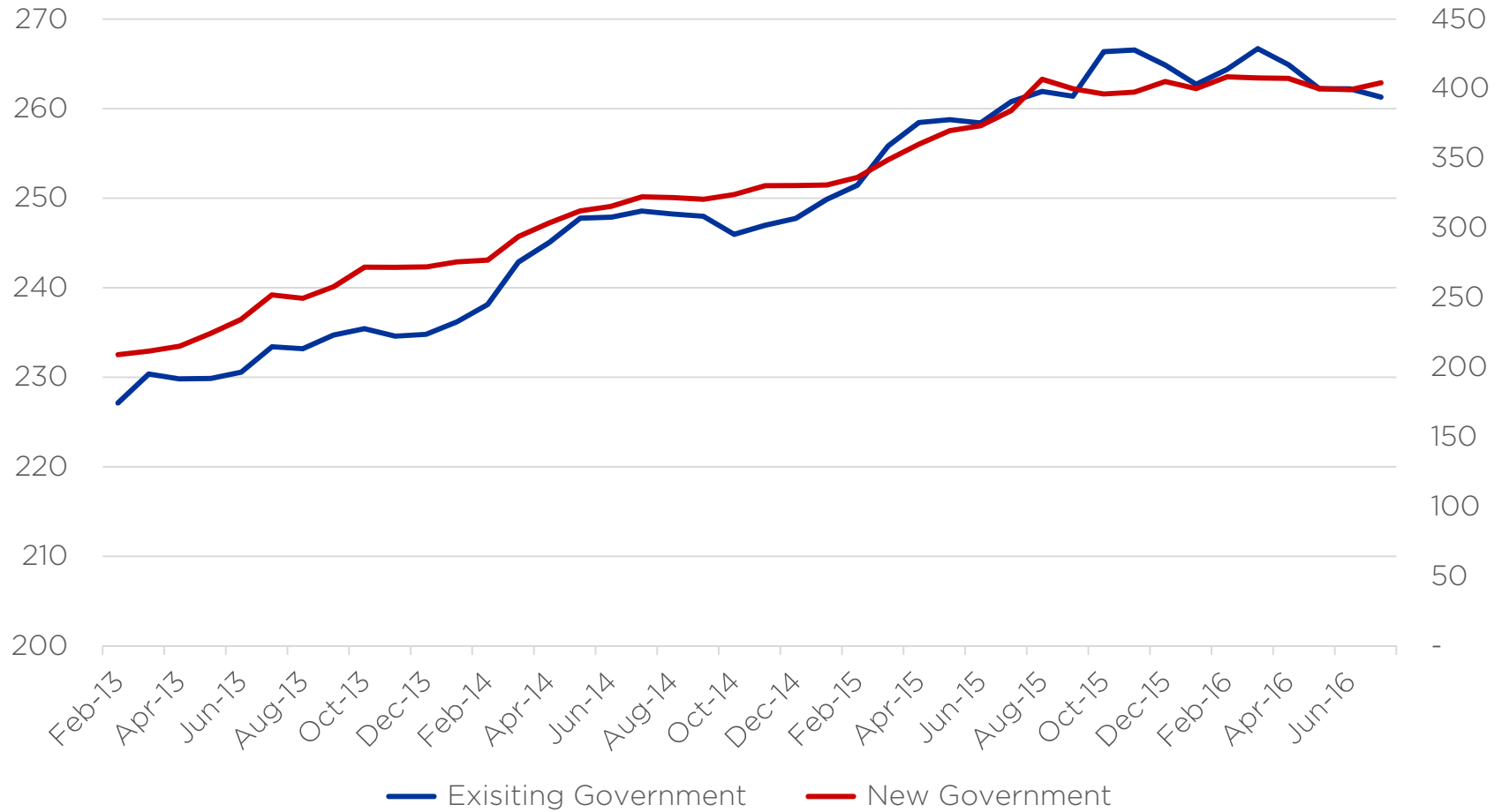
Conventional MCAI

Conventional (71% correlation)



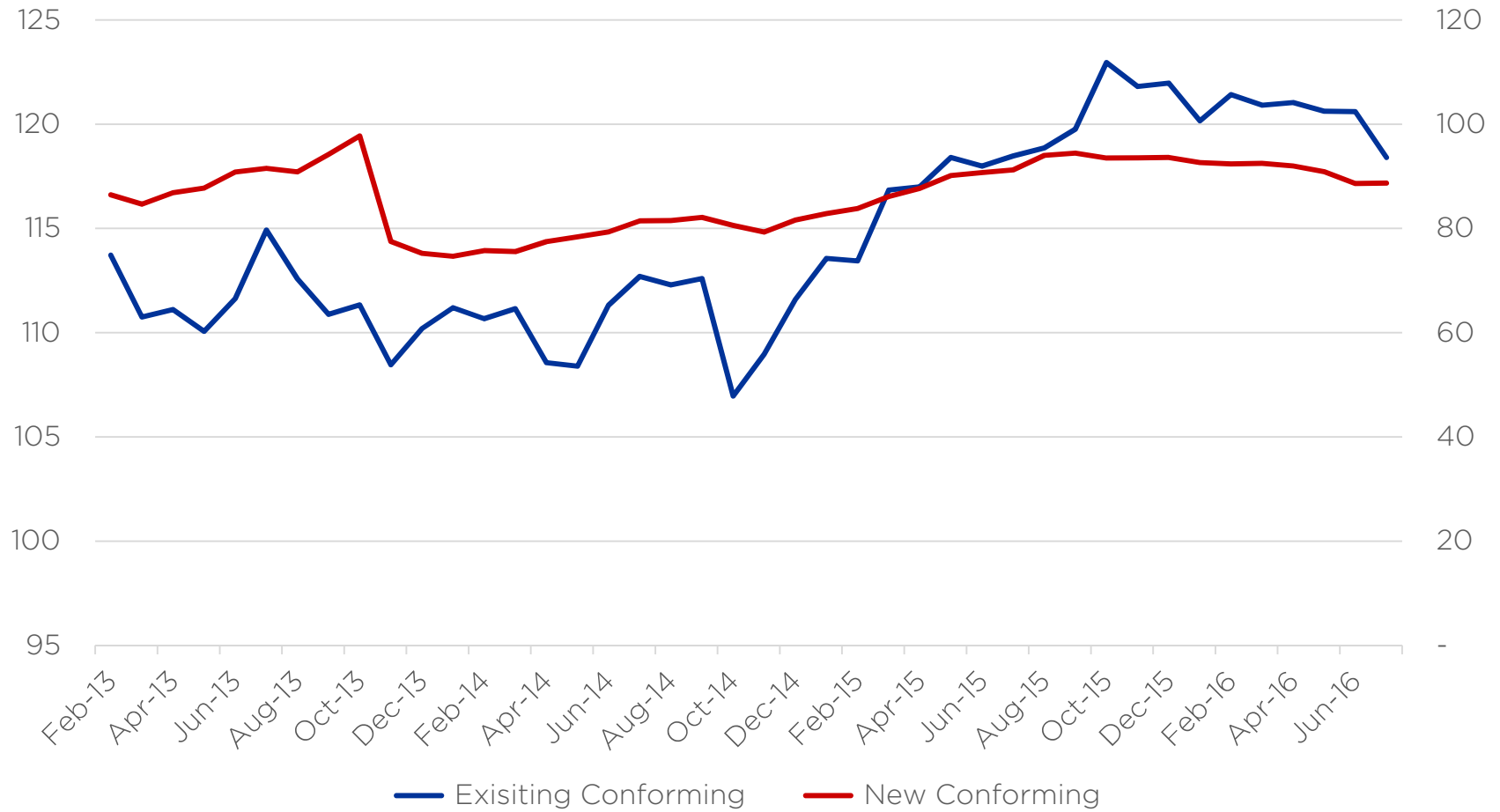
Government

Government (99% correlation)



Conforming

Conforming (71% correlation)



Jumbo

Jumbo (79% correlation)

