

Housing Finance Agency Delinquency Is On The Rise, But Improvement May Be Ahead

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Housing Finance Agency Delinquency Is On The Rise, But Improvement May Be Ahead

According to Standard & Poor's Ratings Services' Chief Economist David Wyss, the U.S. housing market appears to be recovering. Housing starts and sales have increased significantly from last April's lows, in our opinion, and home prices showed their first year-on-year gain in three years in February. We expect the market to continue to improve, but believe prices may pull back in coming months due to the expiration of the homebuyer tax credit and the existing large inventory of unsold properties and properties in foreclosure. For more information, see "U.S. Housing Lays The Groundwork For Recovery," published June 7, 2010, on RatingsDirect on the Global Credit Portal.

Our analysis of Standard & Poor's-rated housing finance agency (HFA) single-family programs found that delinquencies have increased significantly through the end of 2009. Although delinquency rates for HFA loans, in most cases, remain below those of the states in which the HFAs operate, state delinquency rates affect HFA loan performance. HFA loans are a subset of loans within a state, and if the real estate market of a state is challenged, HFA loans are not immune. Our analysis for the fourth quarter of 2009 indicates that the overall percentage of HFA loans at least 60 days' delinquent or in foreclosure rose to 6.73% from 6.06% in the third quarter of 2009, compared with respective state rates of 7.93% and 7.41%.

We believe these figures could change should the market improve, and preliminary indications suggest to us that loan delinquencies declined for HFA bond programs in the first quarter of 2010. Not all HFAs have reported their numbers for the first quarter of 2010. We plan to report more thoroughly on first-quarter 2010 data when they're available for all bond programs referenced in this article.

In our view, 2009 was a difficult year for HFAs. The year-over-year increase in delinquency among HFA bond programs was 55% in fourth-quarter 2009, compared with 30% and 13% for the same quarter in 2008 and 2007. The growth in HFA delinquency exceeded that of states, which saw a 44% increase in fourth-quarter 2009 over fourth-quarter 2008. This is the first time since 2006 that HFAs' delinquency rates worsened more quickly than states'.

In fourth-quarter 2009, nine HFA programs had higher delinquency rates than the corresponding states. While this total is up from the previous quarter, when seven HFAs had worse delinquency rates, it remains within the historical range of eight to nine HFAs. More importantly, in our view, growing delinquency influences our analysis of loss reserves. Standard & Poor's methodology for determining loss reserves assumes that all loans 60 days or more delinquent or in foreclosure will default. That increases the loss reserves. Six HFAs have delinquency rates above 10%, and another four have rates over 9%. As reported in fourth-quarter 2008, only two programs reported delinquency rates above 9%. Although we've lowered no ratings on HFAs due solely to a rise in the delinquency rate of their loan portfolios, we will continue to monitor the loan performance of all HFAs that issue Standard & Poor's-rated bonds.

Delinquencies Continue To Rise

Standard & Poor's rates bonds issued under 34 major whole-loan bond resolutions. The average delinquency rate of the loans backing rated HFA bonds issued under these resolutions increased to 6.73% in fourth-quarter 2009 from 4.35% in fourth-quarter 2008. To put these figures in perspective, we assume sufficiency to withstand a foreclosure

rate of 32% at the 'AA' rating for a pool of loans in a large state. When adjusting state figures from the Mortgage Bankers Association (MBA) to reflect a similar proportion based on loan type within each bond resolution, general state delinquency jumped more than two percentage points to 7.93% in fourth-quarter 2009 from 5.51% in fourth-quarter 2008.

Georgia Housing and Finance Authority's (GHFA) delinquency rate on the loans supporting the single-family mortgage bonds grew to 14.5% in the fourth quarter from 12.4% in the previous quarter. GHFA's resolution loans continued to report the highest delinquency rate among all 34 tracked resolutions in fourth quarter of 2009. Data for the first quarter of 2010 show loan delinquency in the Georgia bond program to have declined to 11.8%, which is the lowest rate since the first quarter of 2009, and would rank fourth among HFAs based on fourth-quarter 2009 performance.

California Housing Finance Agency's (Cal HFA) and Michigan State Housing Development Authority's delinquency rates also increased to well above 10%. As of Dec. 31, 2009, both agencies reported delinquency rates of the loans backing the bonds of 13.4%. In fourth-quarter 2009, six HFAs reported delinquency rates on the loans above 10%, compared with one in fourth-quarter 2008.

HFA Bond Programs Outperformed States', But Uncertainty Looms

MBA data from fourth-quarter 2009 indicate that the loan portfolios of six states had delinquency rates above 10% when adjusted to reflect the proportion of loans in the HFA resolution. In fourth-quarter 2009, loan portfolios held under 25 HFA bond resolutions had delinquency rates that compared favorably to a similarly weighted state portfolio based on MBA statistics, while nine compared worse. The split is almost in line with two previous comparisons (27 better versus seven worse in third-quarter 2009, and 25 better compared with nine worse in second-quarter 2009).

In our view, however, the recent acceleration of delinquency rates among HFA loans is of greater concern. In general, the annual percentage increase in HFA loan delinquency rates has lagged that of non-HFA state loans, but that comparison changed in 2009. For example, in the fourth quarter of 2007, the average delinquency rate of loans backing Standard & Poor's-rated HFA bond programs increased by 13% over the previous year. This figure was favorably low compared with the 20% increase in the average delinquency rate for state loans for the same period. This trend continued in 2008, when the HFA delinquency rate increased by 30% compared with 38% for non-HFA state loans. However, the condition changed last year. For the year ended Dec. 31, 2009, HFA average loan delinquency rate increased by 55% compared with a 44% increase in statewide loans (see charts 1 and 2).

Based on our criteria, delinquency close to 12%-14% is not by itself a cause for rating action. Other factors, including debt profile and counterparty and mortgage insurer exposure, also play a large role, in our view. These other factors have been among the major determinants of our recent rating actions.

Chart 1

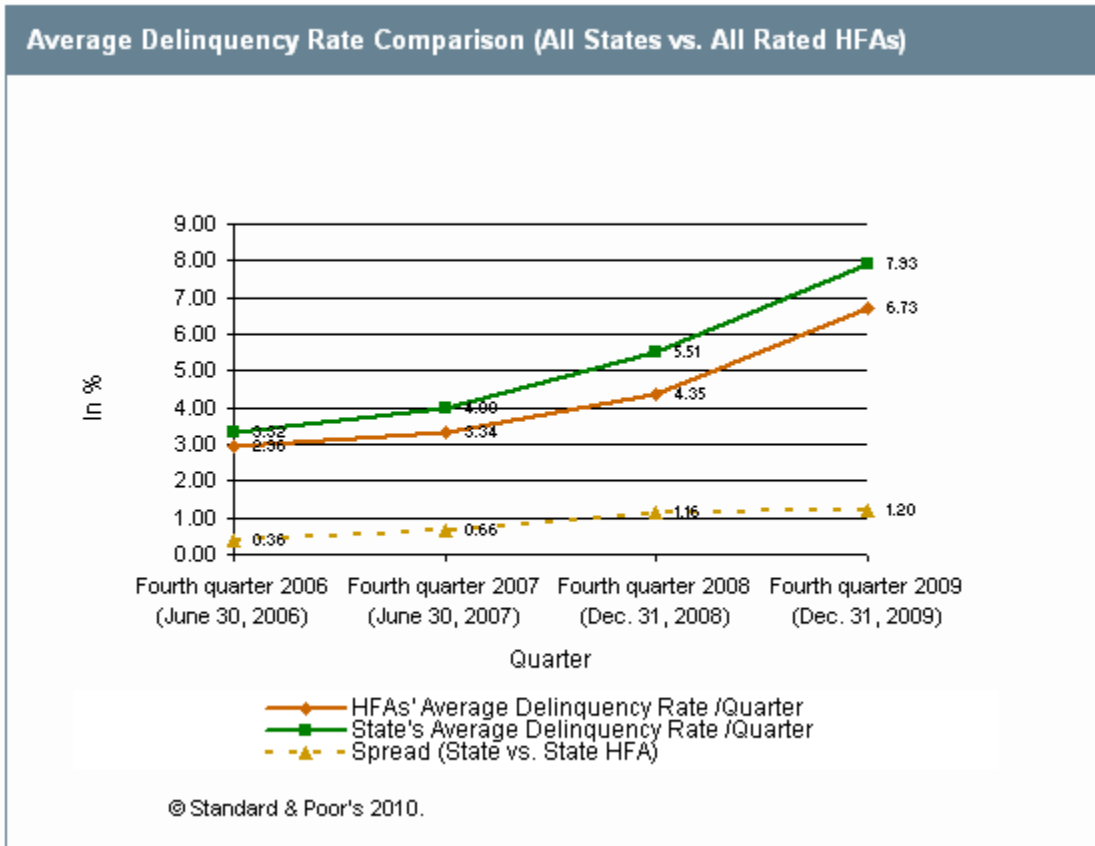
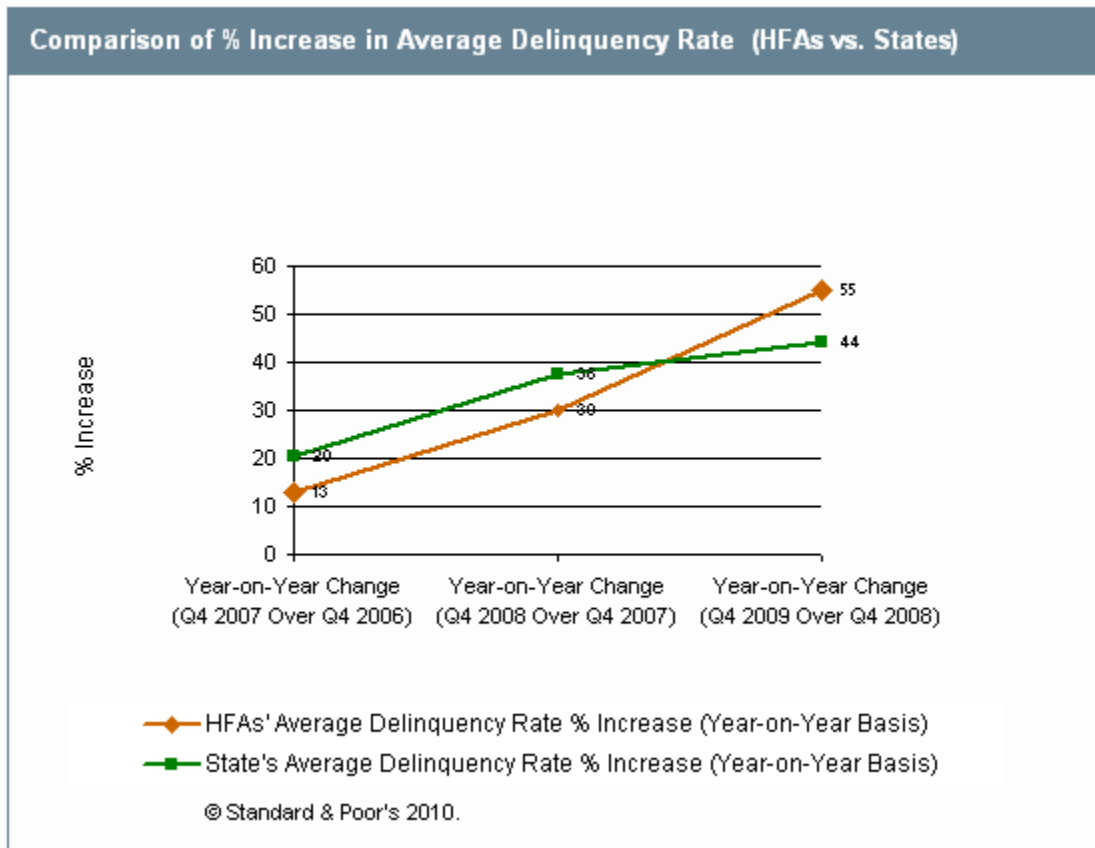


Chart 2



Rankings By State Have Changed

Our analysis shows that loans in most HFA resolutions are consistent in their delinquency rates. As mentioned before, GHFA's resolution has had loans with the highest delinquency rate among the 34 tracked resolutions in each of the last seven quarters, although the rate declined in the first quarter of 2010. On the other end of the spectrum, resolutions from the Alaska Housing Finance Corporation and Wisconsin Housing and Economic Development Authority have had loan portfolios with delinquency rates ranked 32nd through 34th in almost all of the last seven quarters.

Some resolutions have reported what we consider significant changes during that same period. For instance, Utah Housing Corporation's single-family program (2007 indenture) increased 13 positions over the last five quarters. While the ranking for this resolution was 28th as of Dec. 31, 2008, it rose to 15th as of Dec. 31, 2009. In our view, the rate of delinquency for this resolution is still quite low, and we believe the growth is the result of a portfolio of new loans experiencing more typical rates of late payment. However, more seasoned portfolios experienced higher delinquency as well. North Carolina Housing Finance Agency's home ownership revenue bonds (1998 indenture) and Cal HFA's home mortgage revenue program rose by eight and seven places, respectively, over the past five quarters.

Still, we believe that due to strong overcollateralization and a high percentage of loans with 'AAA' quality mortgage

insurance from the Federal Housing Administration or the Veterans Administration, the bonds issued pursuant to most of these resolutions have little risk of rating downgrade. One exception is the Cal HFA's home mortgage revenue bond indenture, whose rating we lowered to 'A' from 'AA-' on April 1, 2010. The rating downgrade reflected our view of a high proportion of loans with insurance from the California Housing Loan Insurance Fund, rising loan delinquency, and financial challenges from significant use of variable-rate debt within the bond program.

Conversely, some resolutions have reported a decline in the delinquency ranking of their loan portfolios over the past five quarters. As of Dec. 31, 2009, Wyoming Community Development Authority's single-family mortgage bonds (1978 indenture) declined 12 spots, while Pennsylvania Housing Finance Agency's single-family mortgage revenue bonds and Tennessee Housing Development Agency's homeownership program bonds each declined by six spots in the last five quarters. Each of these agencies has managed to reduce the delinquency rates of their loan portfolios despite a rise in their respective state delinquency rates in the last five quarters.

Rising Delinquency Rates Aren't Likely To Hurt HFA Ratings

Although HFAs' delinquency rates have increased recently, we don't think that this factor alone will adversely affect their ratings in near future. We believe the delinquency rates are well below the default rates we incorporated in our loan loss calculations during the rating process. In our opinion, the rates are generally well below the levels that would result in a downgrade, but recent increases in poor loan performance have added to the stress that many HFA bond programs are experiencing.

Delinquency is a factor in our loss assumptions, so there's always a possibility that it will affect an HFA's rating. Should a combination of factors squeeze cash flow scenarios, we could take rating action. Nevertheless, the recent Temporary Credit and Liquidity Program has benefited many HFAs because it has bolstered bond payments by somewhat lowering the interest rate and other costs associated with variable-rate demand bonds. Available data from some HFAs indicate to us that the delinquency rates of loans in HFA bond programs declined in the first quarter of 2010. We will report on this when we have complete information on the quarter.

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