



Collateral Risk

Collateral Risk Network

June 27, 2017

Richard Koss

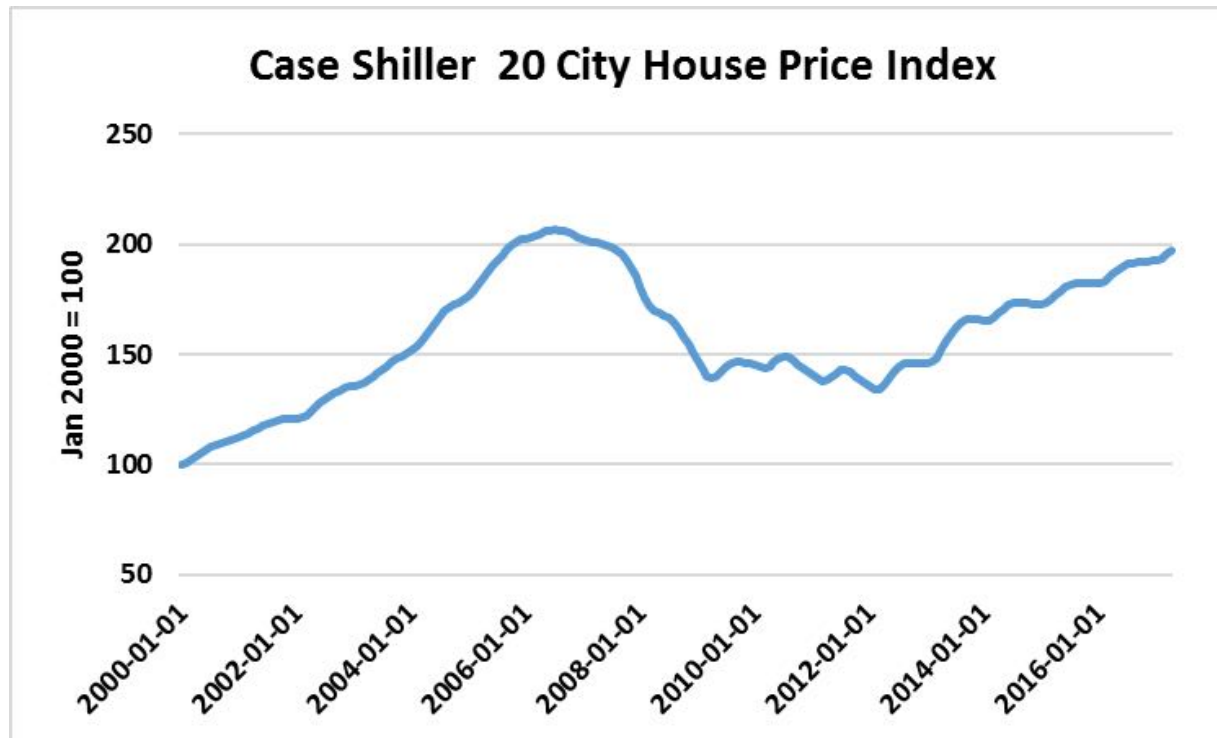
International Monetary Fund

THE VIEWS EXPRESSED IN THIS PRESENTATION ARE THOSE OF THE PRESENTER AND SHOULD NOT BE ASCRIBED TO THE IMF OR IMF POLICY.

Flavors of collateral risk: I. Market risk

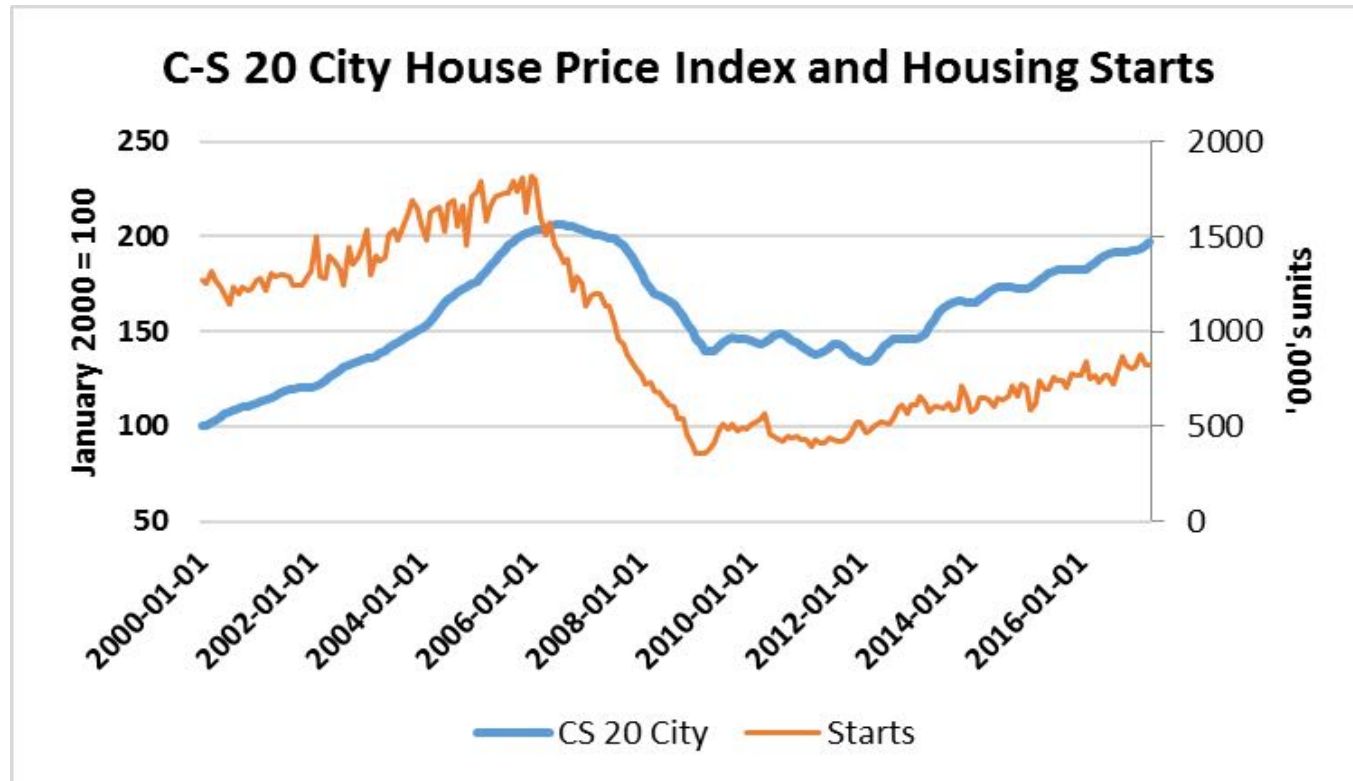


Most house price indexes are back near their peak. Are we in a new bubble?



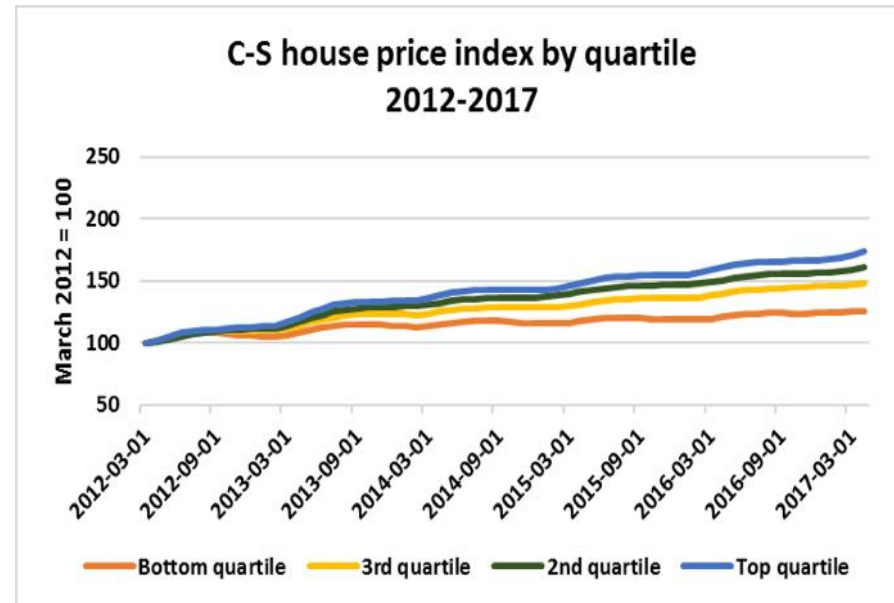
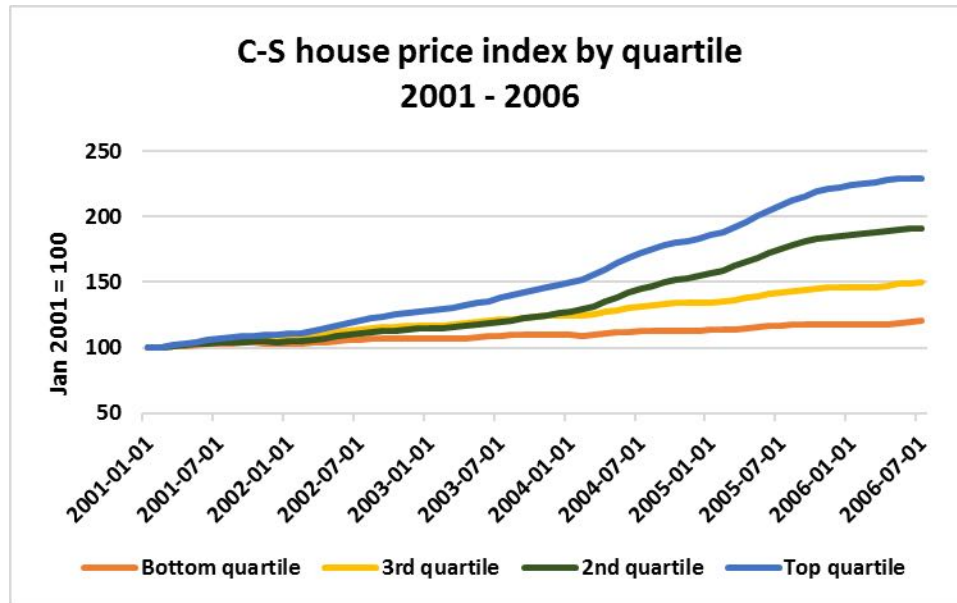
Source: S&P Case Shiller

It doesn't seem like 2006



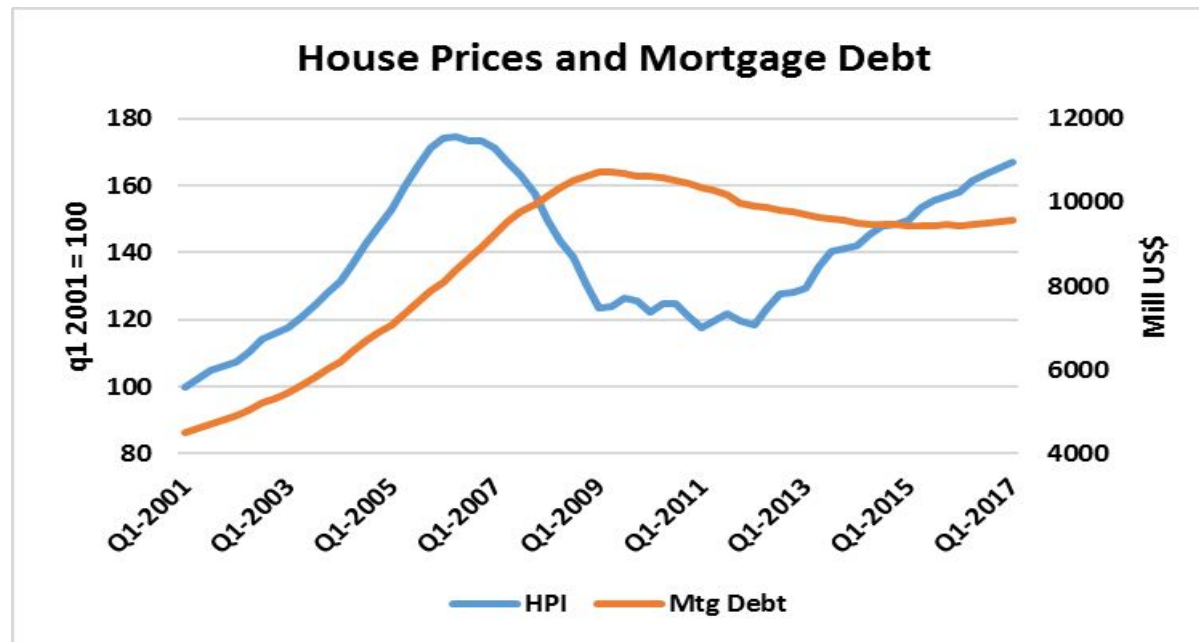
Source: S&P Case Shiller, Census Bureau

It doesn't seem like 2006



Source: S&P Case Shiller

It doesn't seem like 2006

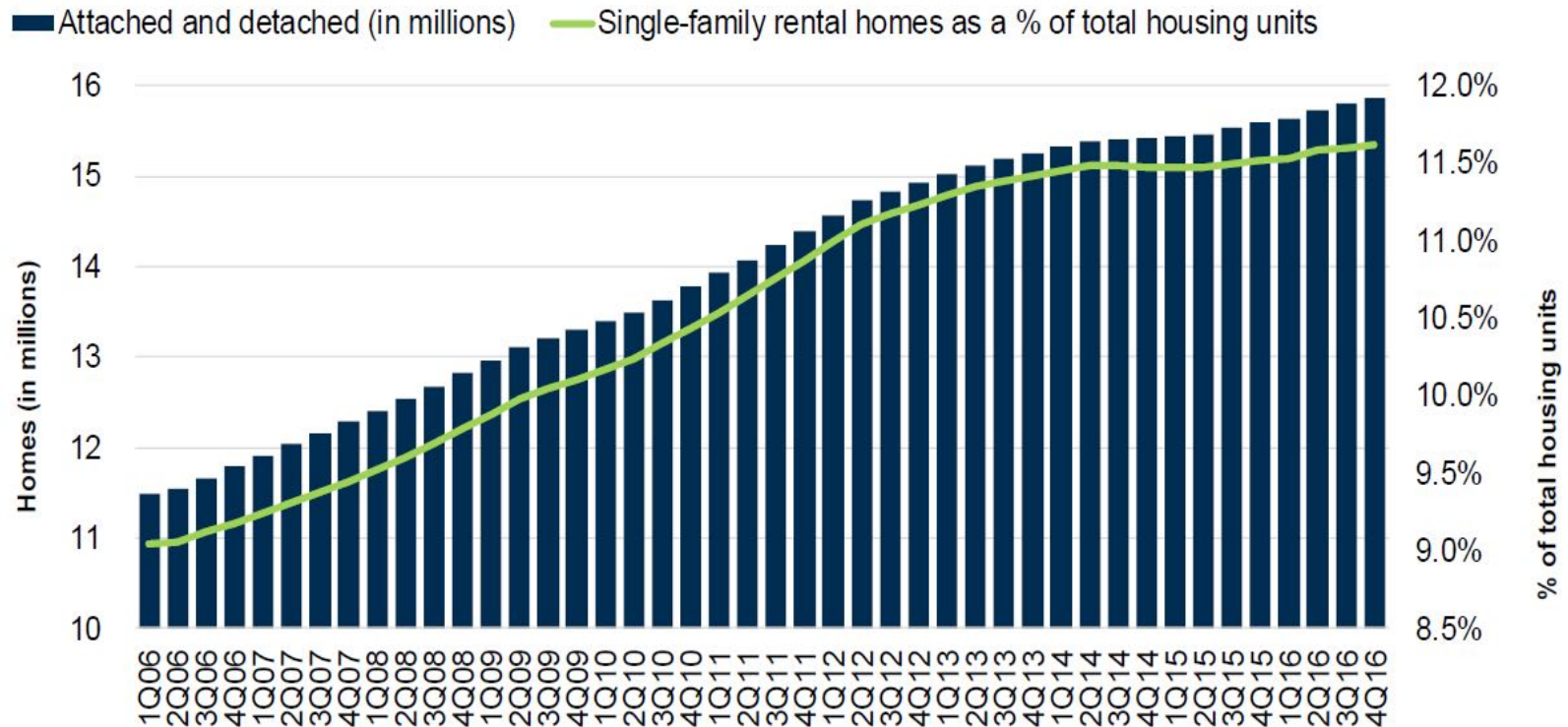


Source: Core Logic, Federal Reserve

Technology and innovation are changing market dynamics

A. Buy to Rent

Single-Family Rental Homes



JBREC estimates using 2010 Census figures and trending data from ACS / HVS.

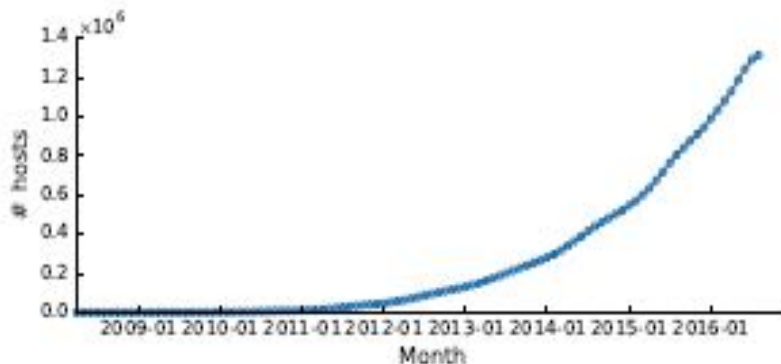
Sources: U.S. Census Bureau ACS; John Burns Real Estate Consulting, LLC estimates for 2014 and 2015 data.

Data is a rolling 4-qr. average (Data: 4Q16, Pub: Mar-17)

Technology and innovation are changing market dynamics

B. Buy to host

Cumulative number of Airbnb global hosts*



Google Searches for Airbnb in US

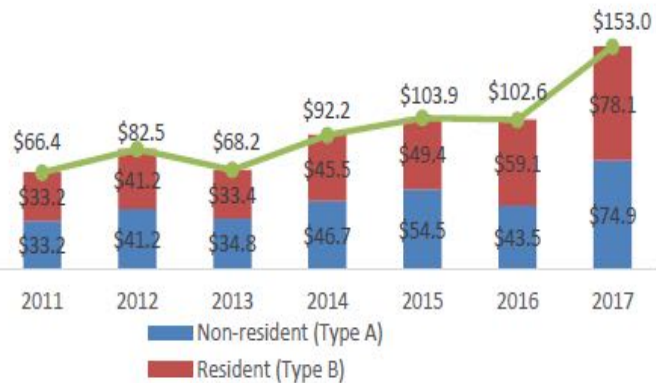


Source: Google Trends

* Qing Ke, Sharing Means Renting?: An Entire-marketplace Analysis of Airbnb, Websci 17 June 2017

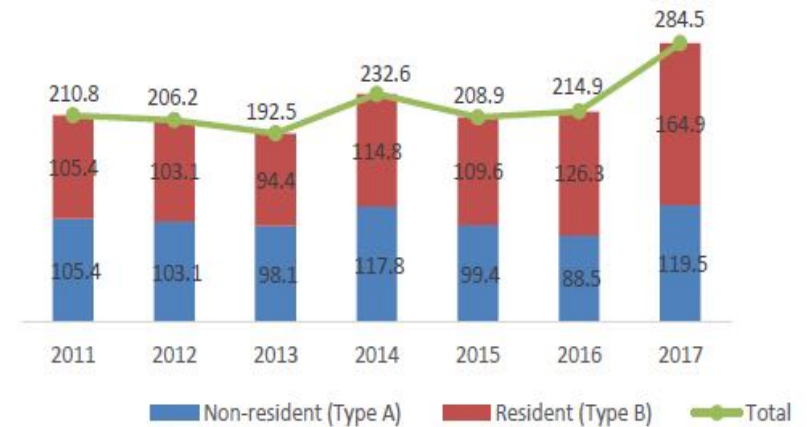
Buy to leave

Dollar Volume of Foreign Buyer Residential Property Purchases (In Billion Dollars)



Note: Based on transactions in the 12 months ending March of each year.

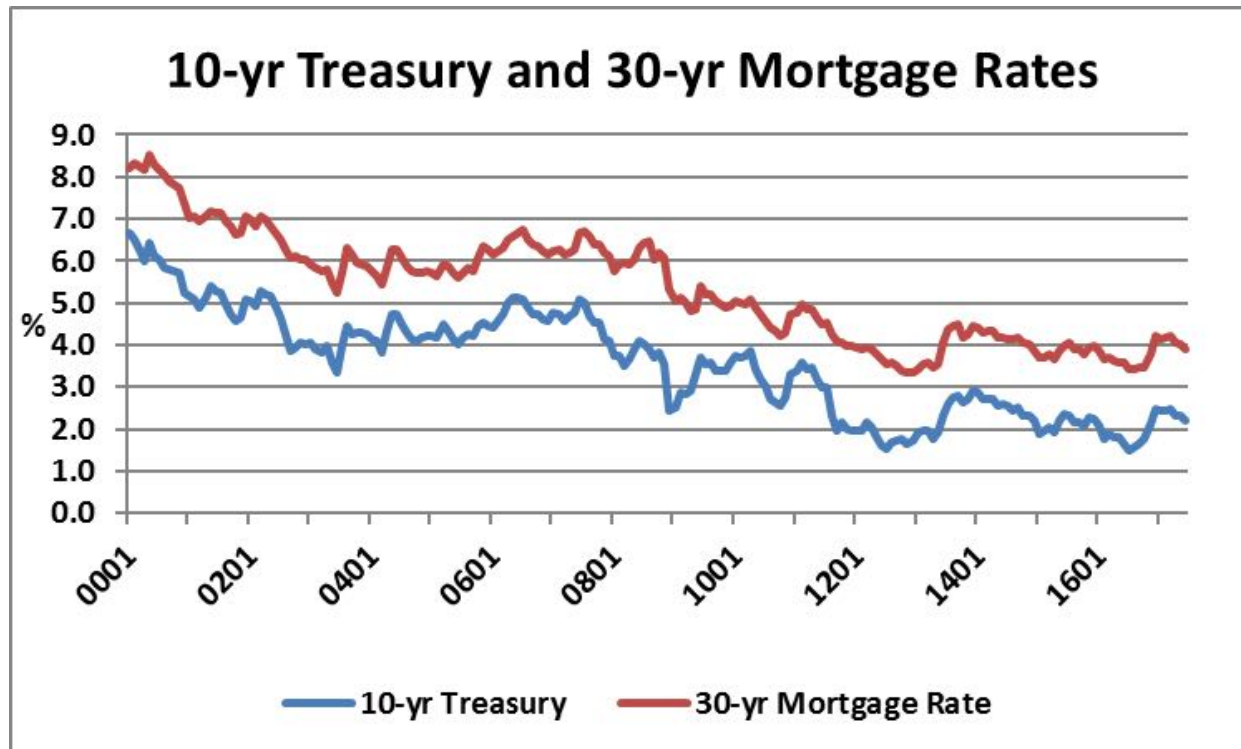
Number of Foreign Buyer Residential Property Purchases (In Thousand Units)



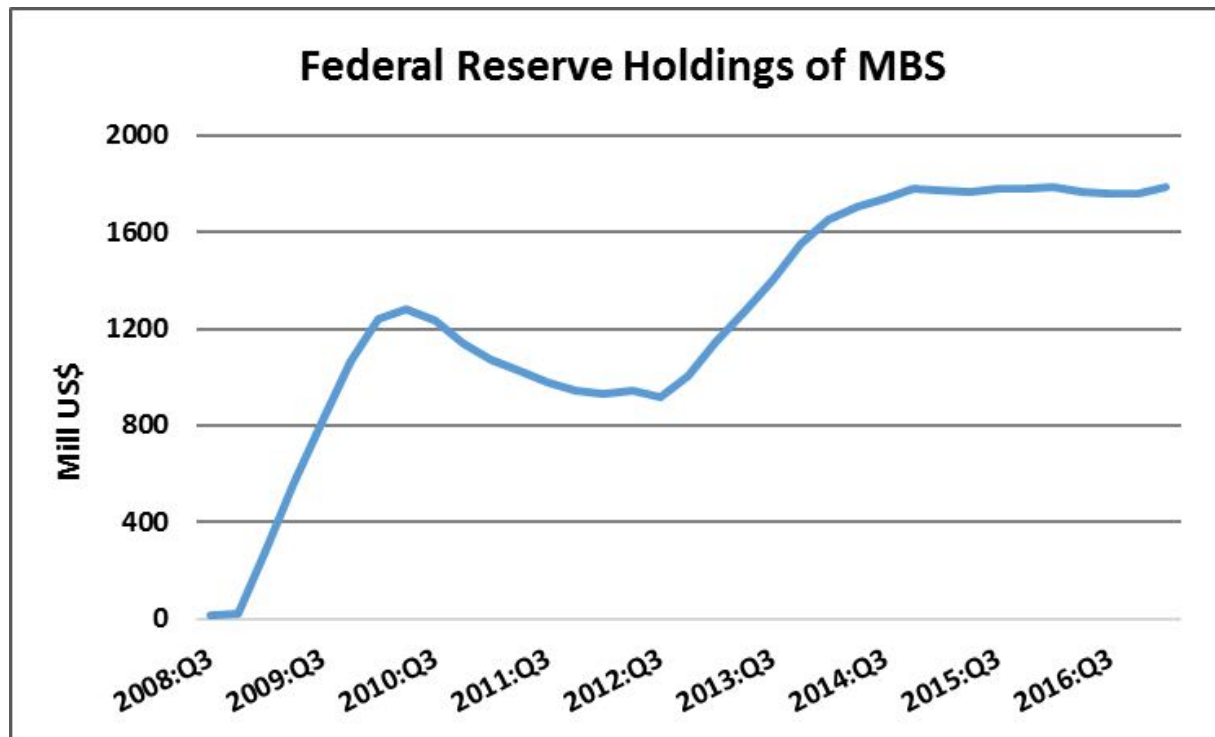
Note: Based on transactions in the 12 months ending March of each year.

Source: National Association of Realtors

Low interest rates have been a key support for housing, will they ever rise?

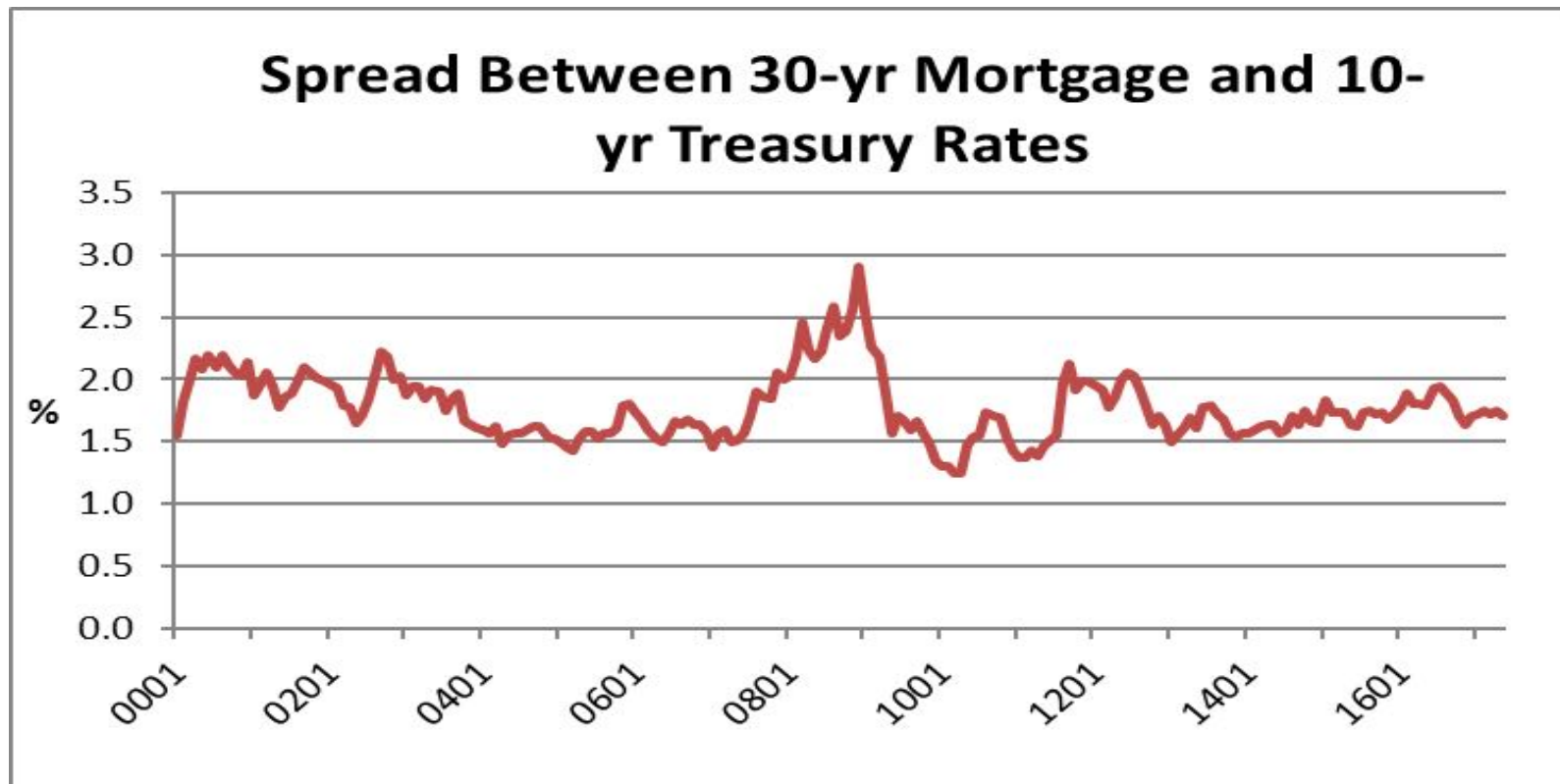


A key factor is the market response to a reduction in Federal Reserve holdings of MBS



Source: Federal Reserve

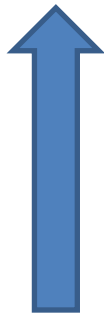
The spread between mortgage costs and Treasury yields is near pre-crisis levels



Source: FRBNY

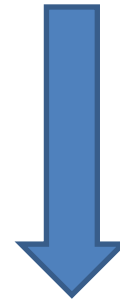
The relative stability in the mortgage spread reflects two offsetting trends

Upward pressure from higher
G-fees and servicing costs



Change from 2007 = +60 bps

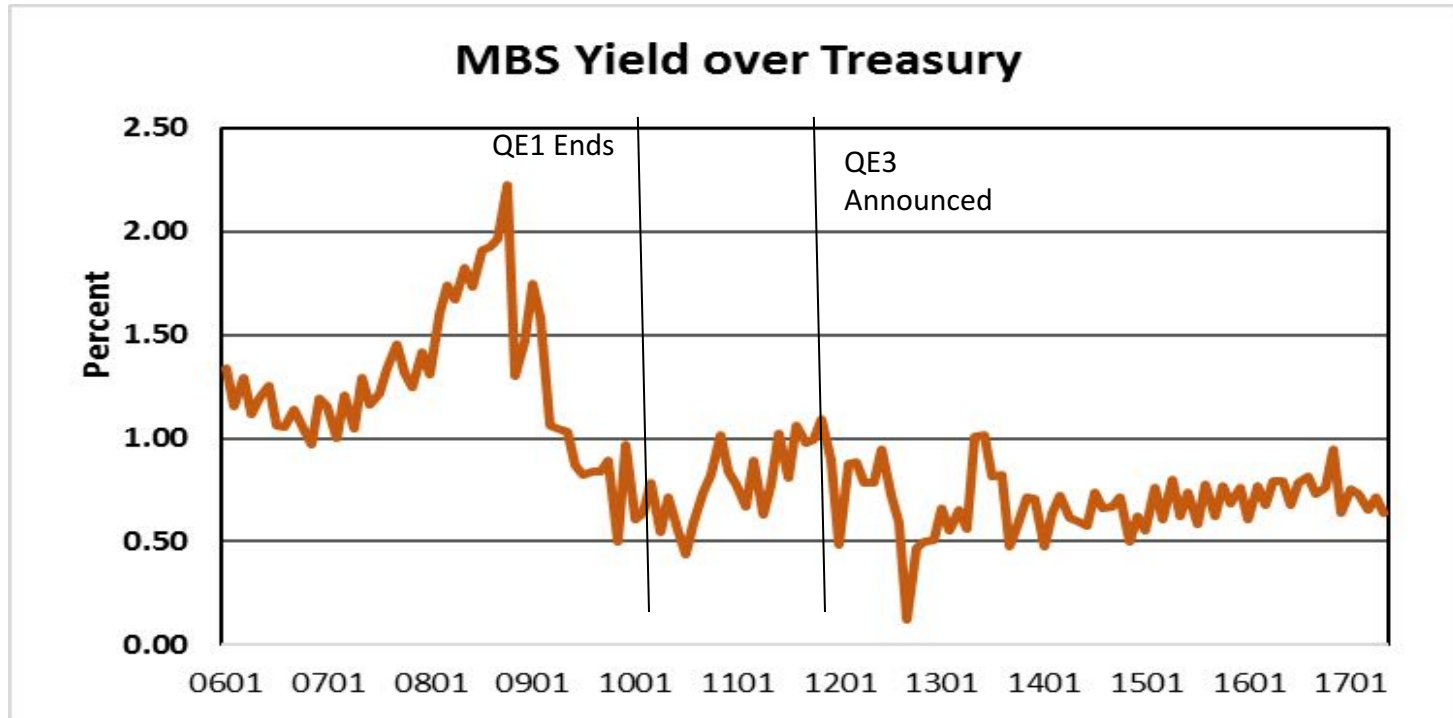
Downward pressure from QE
and low market volatility



Change from 2007 = -75 bps

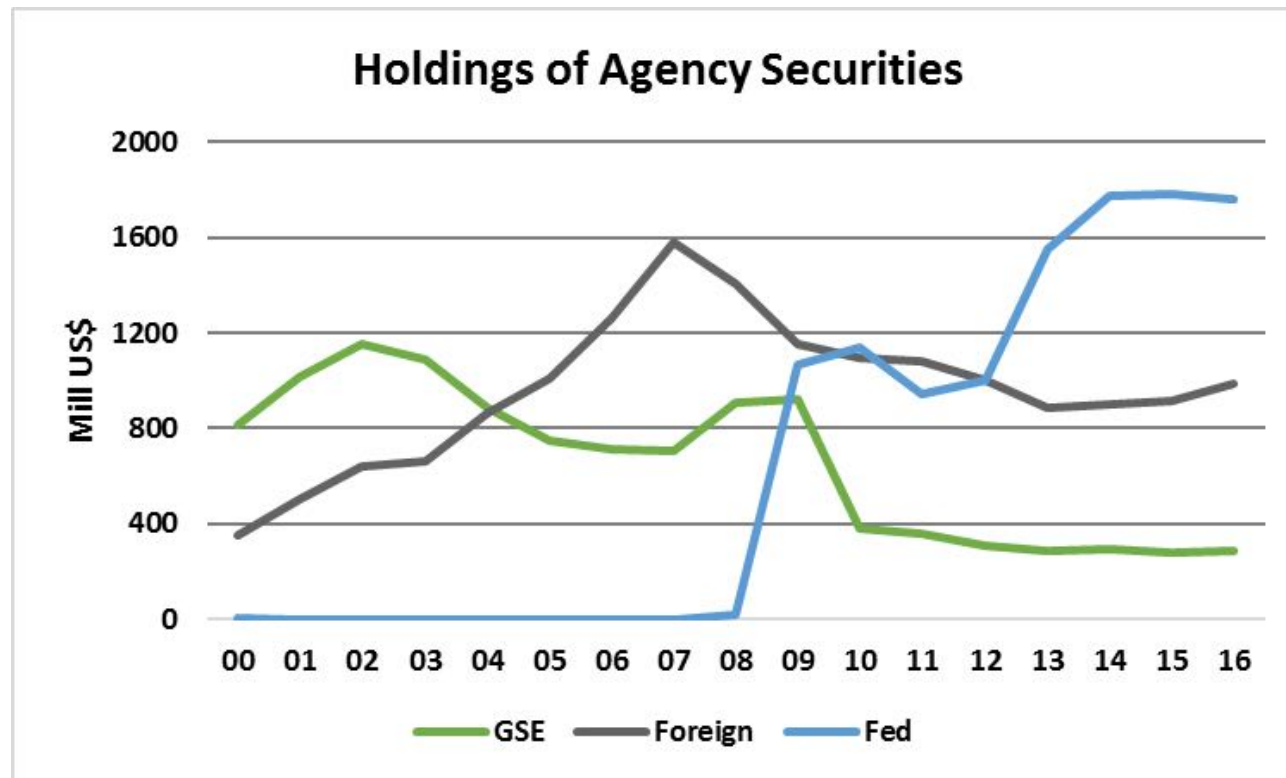
Source: Author's calculations

The excess return investors earn over Treasuries is historically very low



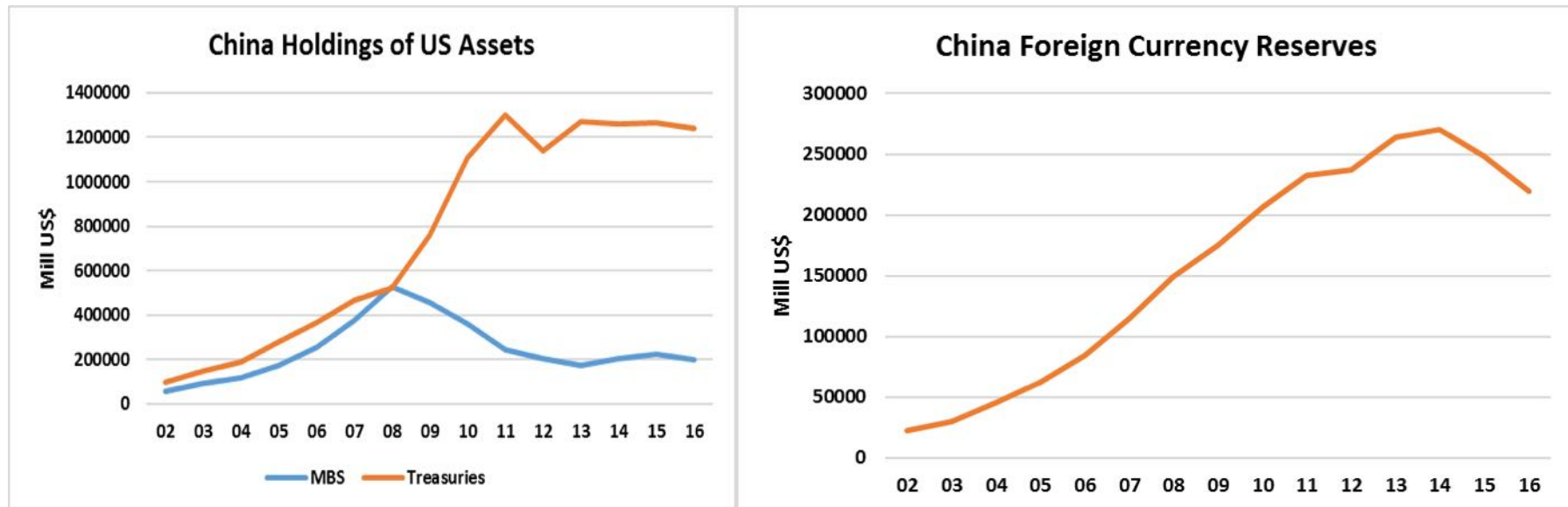
Source: FRBNY, Bloomberg

The Fed will soon start to shrink its MBS holdings – who will buy? At what price?



Source: Federal Reserve

Focus on China



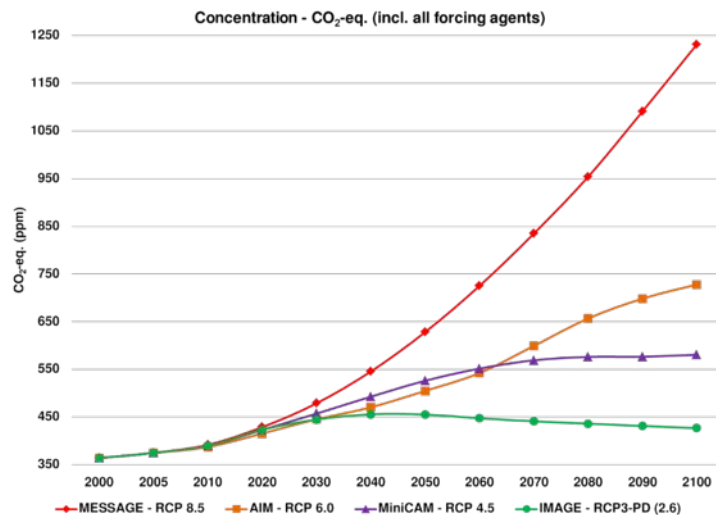
Source: US Treasury, People's Bank of China

Flavors of collateral risk: **II. Property condition**

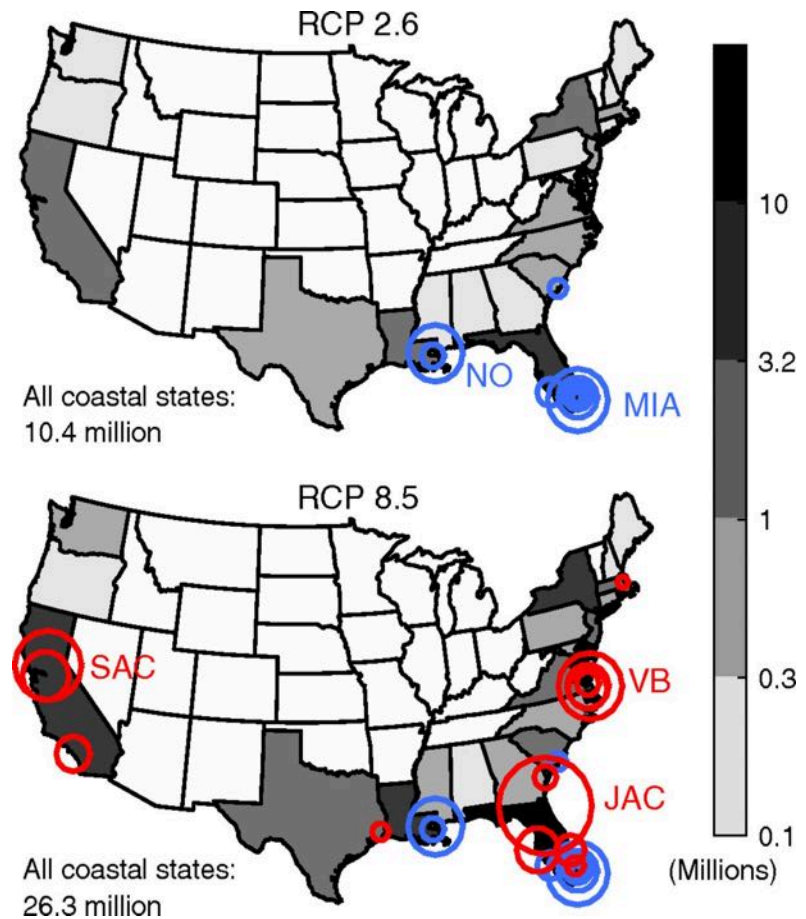


Climate change impacts are being carefully mapped out around the world

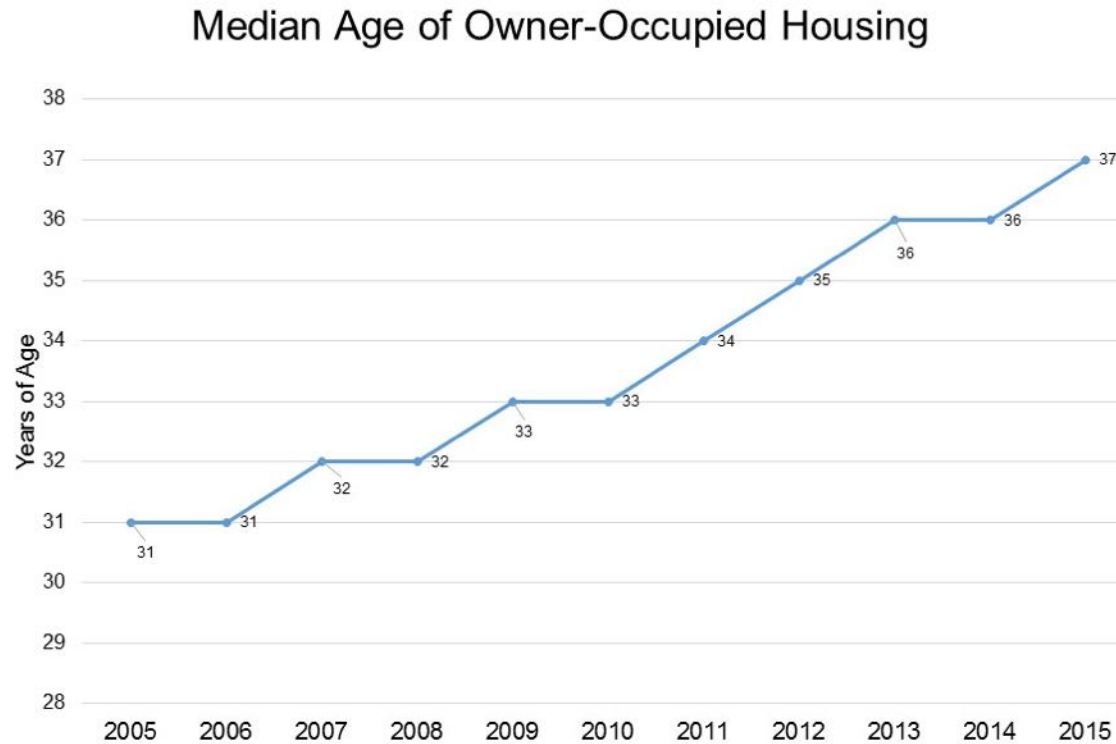
Cities with majority of populations estimated to fall under high tide lines



Source: Benjamin H. Strauss et al. PNAS 2015

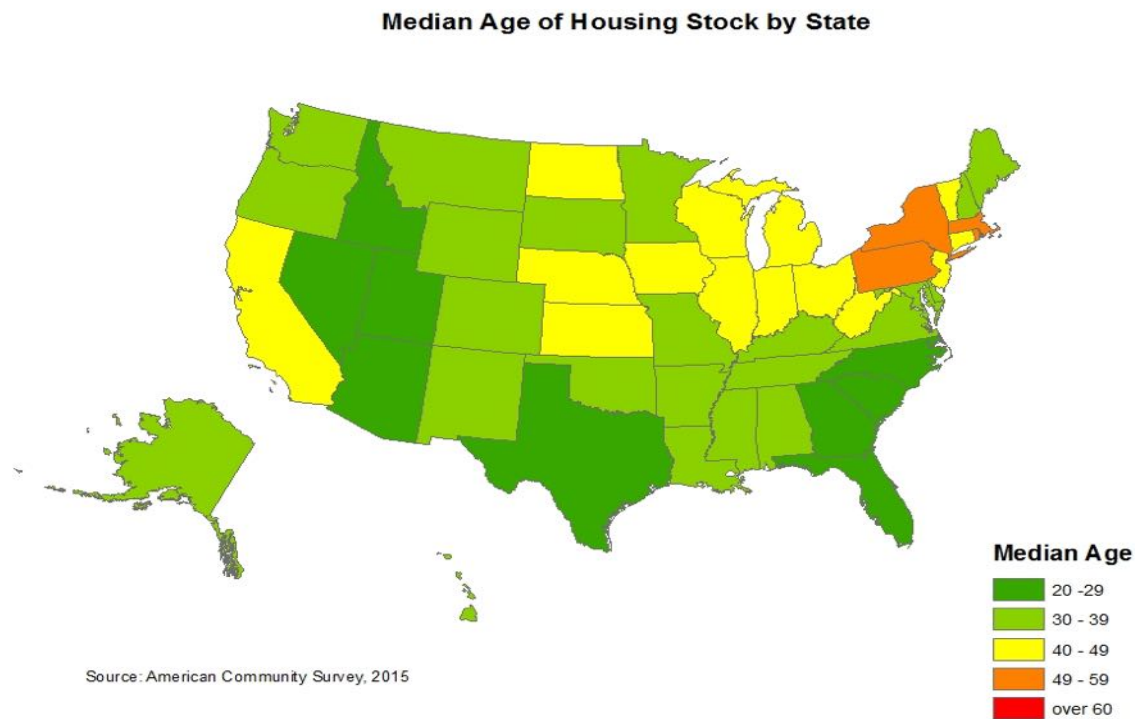


And the housing stock is aging

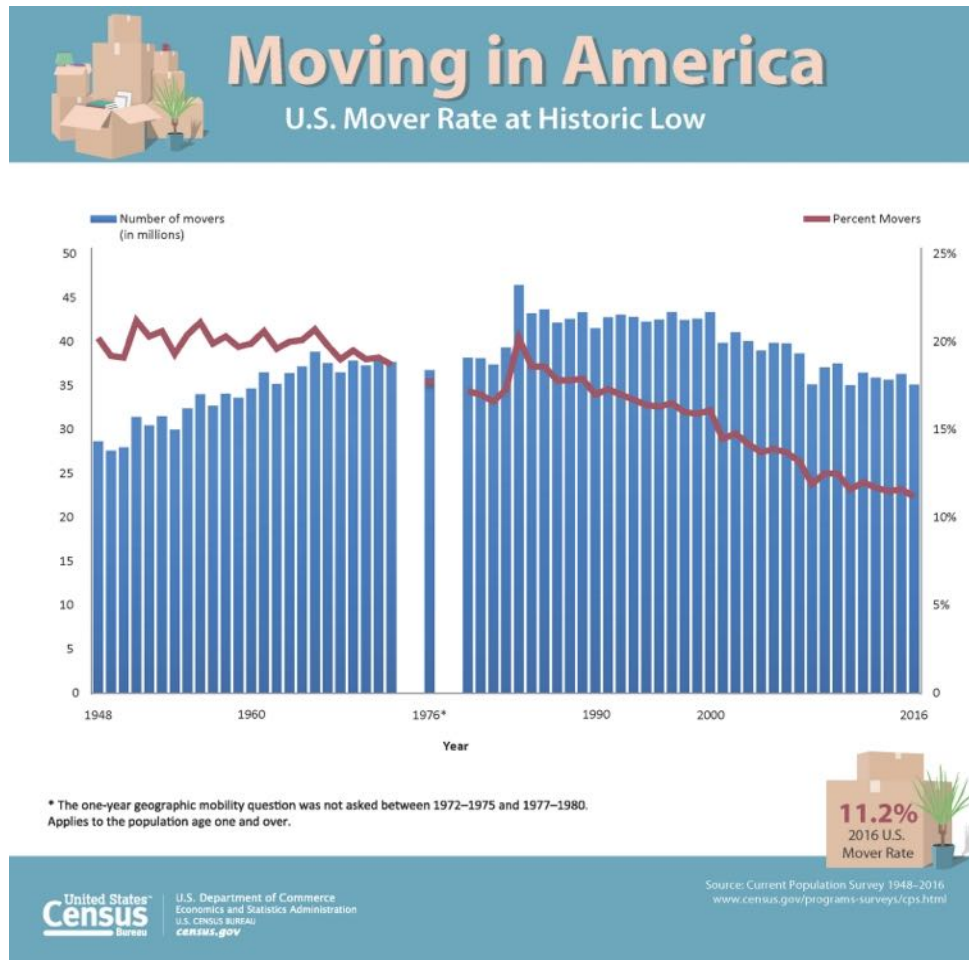


Source: 2015 1-year ACS Estimates

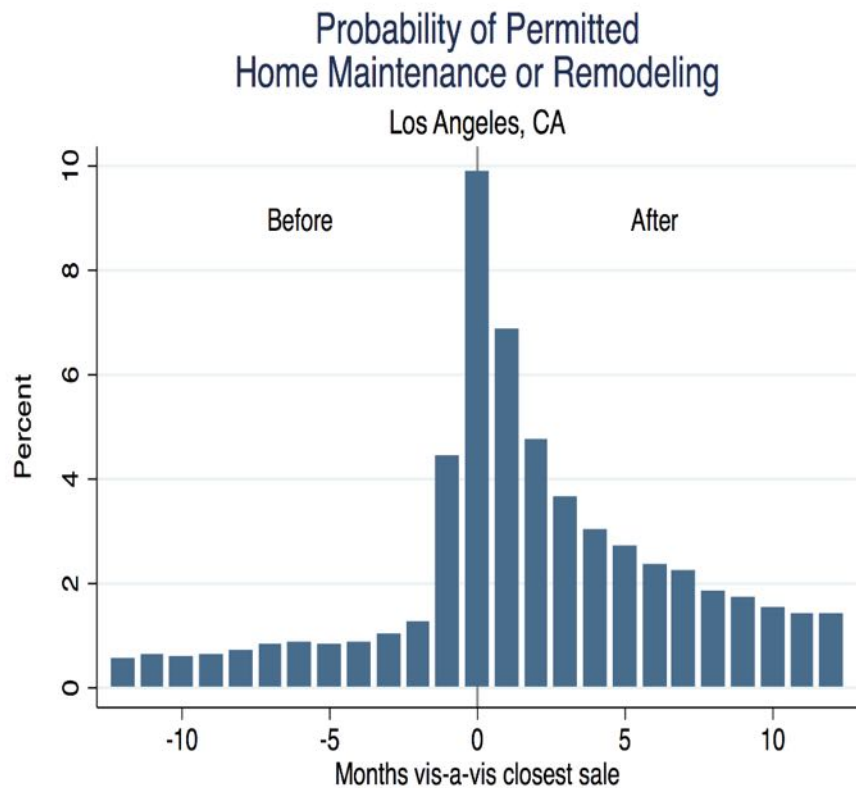
Houses in the Midwest, California and Northeast are quite old



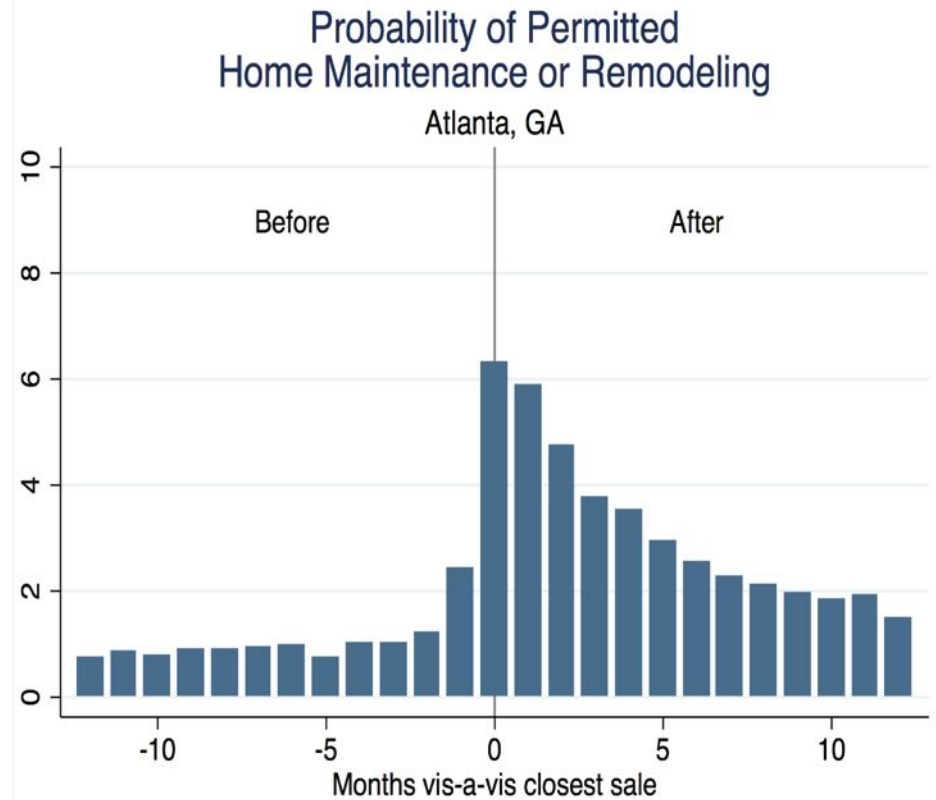
People aren't moving



Once again it comes down to millennials



Source: BuildZoom.

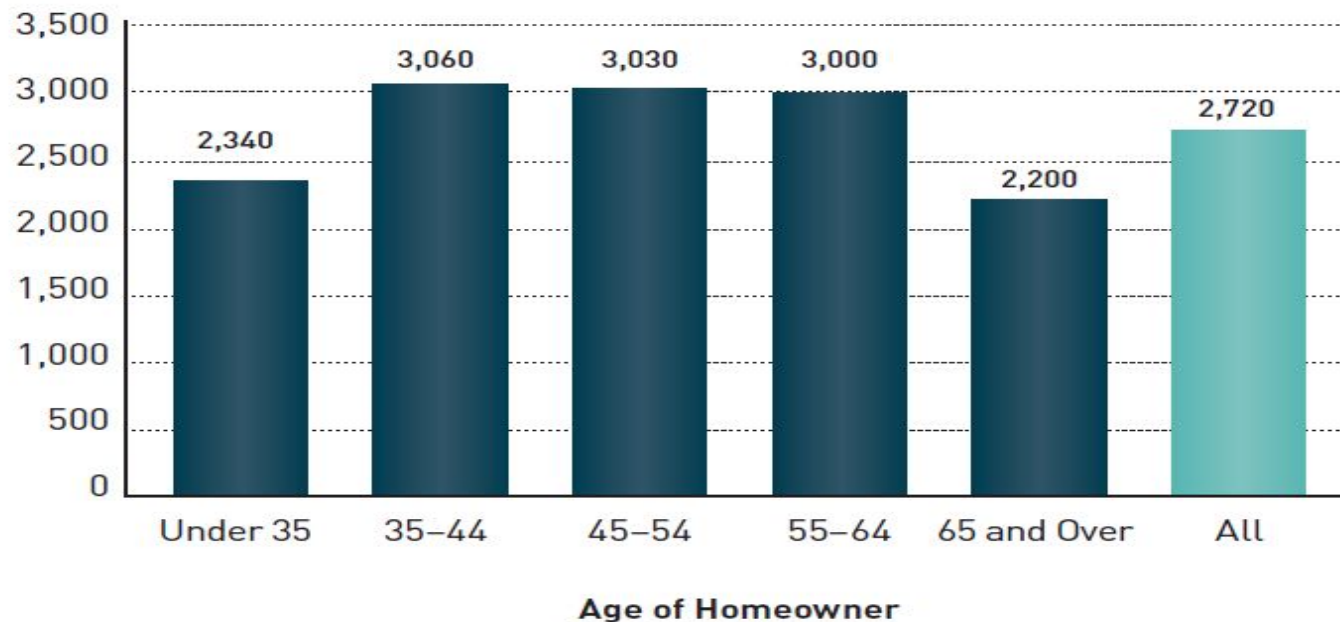


Source: BuildZoom.

Once again it comes down to millennials

Outlays for Home Renovations Increase Sharply After Owners Reach Their Mid-30s

Average Annual Per Owner Improvement Spending, 2011–2015 (2015 dollars)

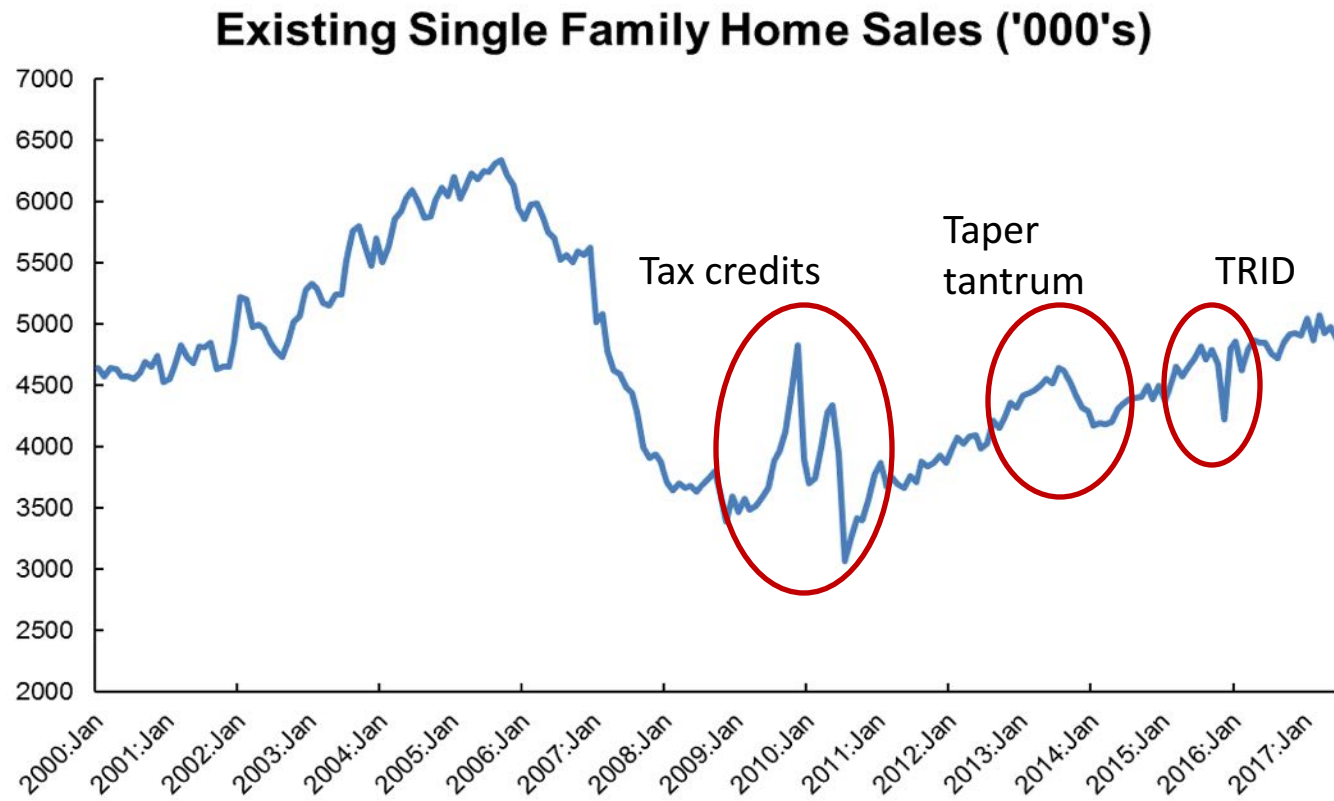


Source: JCHS tabulations of HUD, American Housing Surveys.

Flavors of collateral risk: **III. Regulatory Uncertainty**

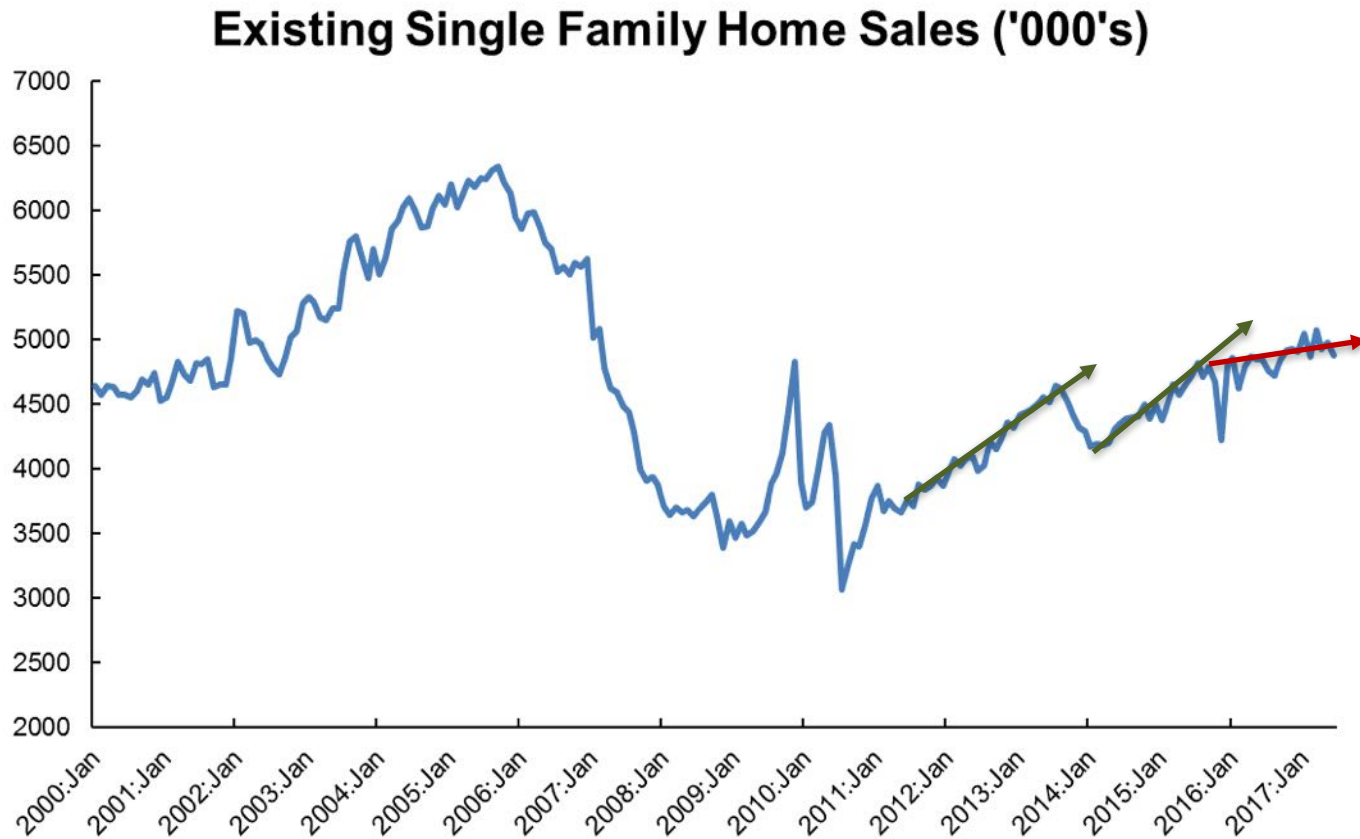


The US housing market has experienced a modest, choppy recovery since the crash



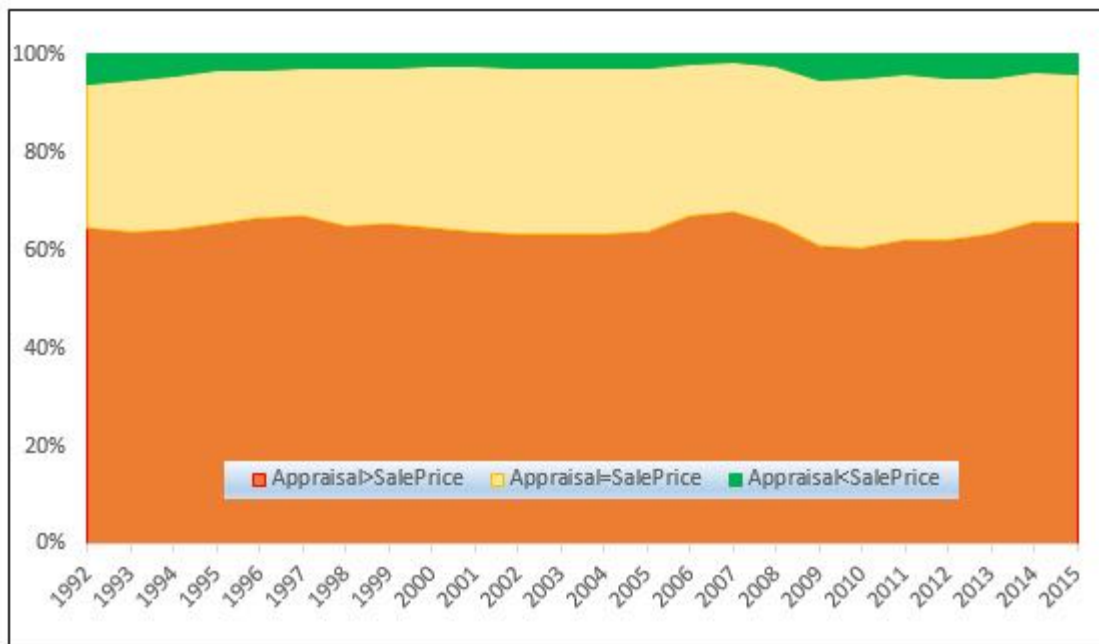
Source: National Association of Realtors, Haver Analytics

The developing trend is worrisome



Appraised values are seldom below contract

Figure 1. Percent of Appraisals at or Above Sales Price per Year from 1992 until 2015



Source: Fannie Mae

Appraisals pre- and post-contract

FIGURE 4. PROBABILITY THAT FINAL APPRAISED VALUE IS GREATER THAN AVERAGE OF ADJUSTED SALES PRICE OF COMPARABLE PROPERTIES

Panel A. Pre-Contract Appraisal (n = 8,533)



Panel B. Post-Contract Appraisal Where a Pre-Contract Appraisal Exists (n = 8,533)



Source: Eriksen, Fout, Palim and Rosenblatt, "Contract Price Confirmation Bias" Fannie Mae, 10/2016

Conclusions and lessons

- Focus on interest rates
- Physical condition is an increasing challenge
- Embrace the change

Prospects for comprehensive GSE reform remain highly uncertain.

Questions?
