

THDA MORTGAGE REPORT: CALENDAR YEAR 2022


Tennessee Housing
Development Agency

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THDA MORTGAGE REPORT

Calendar Year 2022

THDA RESEARCH AND PLANNING

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EXECUTIVE SUMMARY

This report uses data on THDA funded loans to answer primarily following research questions:

- How do trends in THDA's loan production compare between 2018 and 2022, e.g. before the pandemic and later?
- How did THDA loan production vary by program type?
- What percent of eligible borrowers in the market were served by THDA before and after the pandemic?
- What were the demographic and economic characteristics of THDA borrowers, such as race, ethnicity, income, credit score and so on?
- How did median price of homes purchased with THDA loans compare to median price of all homes sold in the market?
- What were the characteristics of the properties purchased with THDA loan?
- Who were the lenders originated THDA loans, and what were their loan volume in the market? Were there any major mortgage lenders with large volumes of single family loan origination that were not approved THDA lenders?

To answer these research questions, we incorporate analytic frames that consider trends by social demographic characteristics and geography.

THDA created Great Choice Home Loan programs to make homeownership available and affordable for Tennesseans of middle/moderate income. In 2022, both the total number and dollar amount of loans funded were higher than last year, although the loan production was only half of the pre-pandemic level. Availability of homes within THDA's purchase price limits impacted the loan production adversely.

Since September 2021, THDA borrowers have been able to choose between a deferred payment (no payment) option and an amortizing (payment) option when they need DPA. Even with increasing interest rates that apply to both first and second mortgage loans, THDA borrowers increasingly prefer the amortizing option, a sign that borrowers are having difficulty to come up with enough cash to cover downpayment and closing costs.

In 2021, the most recent year the data were available, THDA funded 1,426 FHA-insured loans for first-time homebuyers, which represented 18 percent of 9,454 FHA-insured first lien home purchase loans originated for homebuyers eligible for a THDA loan based on income and purchase price. This share was down from the 24 percent in 2020 and 37 percent in 2019. Among Black homebuyers eligible for a THDA loan, THDA's market share was 22 percent in 2021 while it was nearly 50 percent in 2019.

KEY FINDINGS

- **THDA's loan production, which was experiencing a downward trend recently reversed course in 2022.** Following a robust loan production of 2018 and 2019, the pandemic's impact was felt after the first quarter of 2020. In 2021, as the compounding effects of the pandemic continued, THDA reached to the second lowest year of production of the last 10 years, behind 2014. In 2022, both the total number and dollar amount of loans funded were higher than last year, although the loan production was only half of the pre-pandemic level (p.6).
- **Increased interest rates and low inventory of homes for sale within THDA's purchase price limit adversely impacted homebuyers who would use THDA loans.** The average interest rate THDA charged on Great Choice loans was 4.60 percent in 2022, which was significantly higher than the 2.92 percent charged in 2021. However, this parallels the market interest rate, which increased to 5.34 percent in 2022 from 2.96 percent in 2021. In all four major MSAs (Chattanooga, Knoxville, Memphis and Nashville), the median price of existing homes sold increased in the third quarter of 2022 from the same quarter in 2021 (p.7).
- **In 2022, 75 percent of all THDA loans funded were FHA-insured compared to 79 percent in 2021.** In recent years, the percent of FHA-insured THDA loans declined while the share of USDA- and VA-insured loans increased. This is similar to the overall mortgage market in which the share of FHA-insured loans declined in recent years. According to the quarterly reports from U.S. Department of Housing and Urban Development (HUD), in fiscal year 2022, FHA-insured loans represented 13.84 percent of home purchase loans originated in the market, down from 14.90 percent in fiscal year 2021 (p.8).
- **In 2021, the most recent year the data were available, THDA funded FHA-insured loans for first-time homebuyers represented 18 percent of 9,454 FHA-insured first lien home purchase loans originated for income and purchase price eligible for THDA programs.** This share was down from the 24 percent in 2020 and the 37 percent share in 2019. THDA's market share varied by race. For example, 22 percent of Black first time homebuyers who were income and purchase price eligible for THDA programs were served by THDA in 2021, down from nearly 50 percent in 2019 (p.9).
- **In 2022, 18 percent of all THDA borrowers were Black, declined from 20 percent in 2021.** White applicants were 78 percent of all THDA borrowers in 2022, up from 76 percent in 2021. The percentage of all THDA borrowers who identified themselves as of Hispanic origin was 7.1 percent, an increase compared to 5.9 percent in 2021 (p.10).
- **Compared to the overall mortgage market, a greater percentage of THDA borrowers were Black.** In 2021, 7.6 percent of all single family mortgages originated in Tennessee were for Black borrowers, while 20 percent of all THDA borrowers were Black (p.12).
- **Increasing home prices coupled with high interest rate made homeownership difficult for THDA eligible homebuyers in 2022.** The average price paid by a THDA borrower was nearly \$215,000, an increase from \$190,000 in 2021, not adjusted for inflation. In 2022, the median price of an existing home purchased with a THDA loan in the Nashville MSA was \$270,000, 20 percent higher than the previous year. The National Association of Realtors (NAR) reports that, in 2022, the median priced existing home was \$408,300 for all homebuyers in the Nashville MSA (not just buyers who used THDA loan products), 17 percent higher than 2021 (p.12).
- **THDA funded at least one loan in each of 93 counties, increased from 85 counties in 2021.** Only in Johnson and Pickett Counties were there no THDA funded loans. In some rural counties outside of an MSA, THDA funded loans more than doubled in 2022. Considering that home prices are still high in some

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large urban areas even after a slowdown in the appreciation rate, home buyers can find homes priced within THDA price range in rural counties (p.14).

- **In the overall mortgage market, less than 30 lenders originated more than half of all first-lien single family residential home purchase loans in Tennessee.** A majority of lenders with high origination numbers were also approved THDA lenders (p.15).

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INTRODUCTION

The home buying frenzy that started in the second half of 2020 ended in 2022 mainly due to the rapid increases in mortgage rates. In November 2022, nationwide existing home sales decreased by 35.44 percent from the same month in 2021.¹ Consequently, home price appreciations, driven by increased demand and limited supply, started to slow down across the nation. Even with a considerable deceleration in house price growth, the prices stayed flat in 2022.² Although fewer home sales increase the available inventory, fewer listings by current homeowners who are discouraged by higher interest rates constrict the housing supply. Therefore, in 2022, the housing markets were still tight, and home buying was difficult for many, especially for the low to moderate income households.

This report aims to analyze the reflection of these housing market dynamics in THDA's loan production in the last five years, including years both before and after the COVID-19 pandemic. This report will provide details on the property, borrower and loan characteristics involved in THDA single family homeownership programs, including the Great Choice, New Start and FHA Advantage³ programs and the second loan companion program, Great Choice Plus. Property and borrower characteristics of second loans are captured in the discussions of first loans, in lieu of providing duplicate analysis. Each THDA program is intended to provide an avenue to homeownership for households with moderate or low incomes.

The primary research questions of interest include the following. How do trends in THDA's loan production compare between 2018 and 2022, e.g. before the pandemic and later? How did THDA loan production vary by program type? What percent of eligible THDA borrowers in the market were served by THDA, and how did this market share changed after the pandemic? What were the demographic and economic characteristics of THDA borrowers, such as race, ethnicity, income, credit score and so on? How did median price of homes purchased with THDA loans compare to median price of all homes sold in the market? What were the characteristics of the properties purchased with THDA loan? Who were the lenders originated THDA loans, and what were their loan volume in the market? Were there any major mortgage lenders with large volumes of single family loan origination that were not approved THDA lenders?

FINDINGS

A. THDA's Annual Loan Production

THDA's loan production, which was experiencing a downward trend, reversed course in 2022. Following a robust loan production of 2018 and 2019,⁴ the first quarter of 2020 experienced a downward trend due to the pandemic's impacts. In 2021, as the compounding effects of the pandemic continued, THDA dropped to the second lowest year of loan production of the last 10 years, behind 2014. In 2022, both the total number and dollar amount of loans funded were higher than the previous year, although the loan production was only half of the pre-pandemic level.

Table 1: THDA's First Mortgage Loans Funded, 2018-2022

Year	Count	Total Loan \$*	ANNUAL % CHANGE	
			Count	Loan\$
2018	4,473	\$601,155,314		
2019	4,510	\$666,972,333	1%	11%
2020	2,972	\$513,320,243	-34%	-23%
2021	1,839	\$339,687,461	-38%	-34%
2022	2,225	\$466,081,121	21%	37%

* Total Loan Amount does not include the second mortgages funded for downpayment and closing costs.

¹ National Association of Realtors ® Existing Home Sales report, available at <https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales>

² Federal Housing Finance Agency (FHFA) House Price Index (HPI) Quarterly Report, Q3-2022, available at https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/HPI_2022Q3.pdf.

³ In April 1, 2022, THDA changed the name of "Freddie Mac GC 97" program to utilize Freddie Mac's program name of HFA Advantage. And it is now called Freddie Mac FHA Advantage

⁴ Hardest Hit Fund Downpayment Assistance (HHF DPA) loans stimulated the THDA's loan production in 2018 and 2019

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In 2022, THDA funded 2,225 first mortgage loans totaling nearly \$470 million. During the same period, for 2,145 borrowers who needed assistance for downpayment and closing costs, THDA provided \$22.2 million in second mortgages. THDA's loan production was 21 percent higher than it was in 2021. Similarly, the total dollar amount of first mortgage loans increased (not inflation adjusted) by 37 percent in 2022 from the previous year.

Among several factors that influence THDA's loan production, three key factors are the interest rates, the THDA program offerings such as the amount and structure of downpayment and closing costs assistance (DPA) and the availability of homes within THDA's purchase price limits. THDA's interest rate is linked to factors affecting financial markets (such as Federal Reserve Bank's rate increases to curb inflation) through the interest rate for the tax-exempt mortgage revenue bonds (MRBs).⁵ Excluding the zero interest rate New Start program loans and the Veterans Homeownership for the Brave Loan Program loans with rate discounts, the average interest rate THDA charged on Great Choice loans was 4.60 percent in 2022. This was a significant increase from the 2.92 percent charged in 2021. However, this parallels the market interest rate, which was also increasing. The average interest rate on 30-year fixed rate mortgages was 5.34 percent in 2022, up from 2.96 percent in 2021.⁶ In the first quarter of 2022, expectations of higher future interest rates possibly stimulated THDA loan production as borrowers could be trying to take advantage of low interest rates before they were set to increase. Therefore, THDA's loan production in the first half of 2022 was strong.

The changes in the DPA structure THDA made in September 2021 could also have contributed to the rise in loan production in the first half of 2022. Before this change, THDA borrowers who needed DPA were able to get a second mortgage of \$6,000 if the price of the home they purchased was less than \$150,000 or a second mortgage in the amount of \$7,500 if the purchase price was greater than \$150,000. With the change in September 2021, borrowers were allowed to choose between a flat \$6,000 second mortgage with deferred payment (no payment) option and a second mortgage in the amount of six percent of purchase price with amortizing (payment) option.⁷ Even with the required monthly payment, amortizing option provides a higher amount of DPA to assist many THDA borrowers who do not have sufficient cash reserves for downpayment and closing costs when purchasing their homes. Under the current housing market conditions, cash-strapped homebuyers welcomed the higher amount of assistance for downpayment and closing costs.

Availability of homes within THDA's purchase price limits impacted the loan production adversely. According the latest National Association of Realtors®' quarterly Metropolitan Median Area Prices and Affordability and Housing Affordability Index⁸, in the third quarter of 2022, median price of existing homes sold increased in majority of metro areas. Chattanooga, Knoxville, Memphis and Nashville MSAs are among 185 metros tracked in NAR's quarterly report. In all four major Tennessee MSAs, median price of existing homes sold increased in the third quarter of 2022 from the same quarter in 2021, making it difficult to find an affordable home to purchase using one of THDA's loan products.

B. THDA's Loan Production by Program

Downpayment and closing costs assistance (DPA) continues to incentivize homebuyers to choose THDA loans, especially in this high mortgage rate and high price environment. More than 96 percent of borrowers in 2022 received a second mortgage loan for DPA, down from 98 and 99 percent in 2018 and 2019, respectively. Of 80 borrowers in 2022 who did not need DPA, 30 borrowers used New Start Program and 18 borrowers took advantage of rate discount through Homeownership for the Brave Program. Only two borrowers without DPA used Freddie Mac HFA Advantage Program. Davidson County with 14 loans had the majority of no-DPA borrowers followed by Rutherford County with nine borrowers. Besides Habitat for Humanity Organizations that originated New Start Program loans, Mortgage Investors Group (MIG) with 19 loans was the lender with the most no-DPA borrowers. Excluding the New Start Program loans, half of no-DPA loans were USDA- or VA-insured with low or no downpayment.

⁵ The interest rate is also based on IRS limitations on what THDA is allowed to earn on its bonds. The New Start and Homeownership for the Brave programs are two examples of programs for which the interest rate is not based on bond activity. THDA's New Start loan program is designed to promote the construction of new homes for low- and very low-income Tennesseans and delivered through non-profit organizations. It has zero interest rate. The Veterans Homeownership for the Brave Loan program offers a below market interest rate to qualified members of the United States military, National Guard, Veterans and some spouses. A 50 basis point rate reduction is applied to the THDA Great Choice loan based on the current rate at time of loan submission.

⁶ Primary Mortgage Market Survey, Freddie Mac, <https://www.freddiemac.com/pmms>.

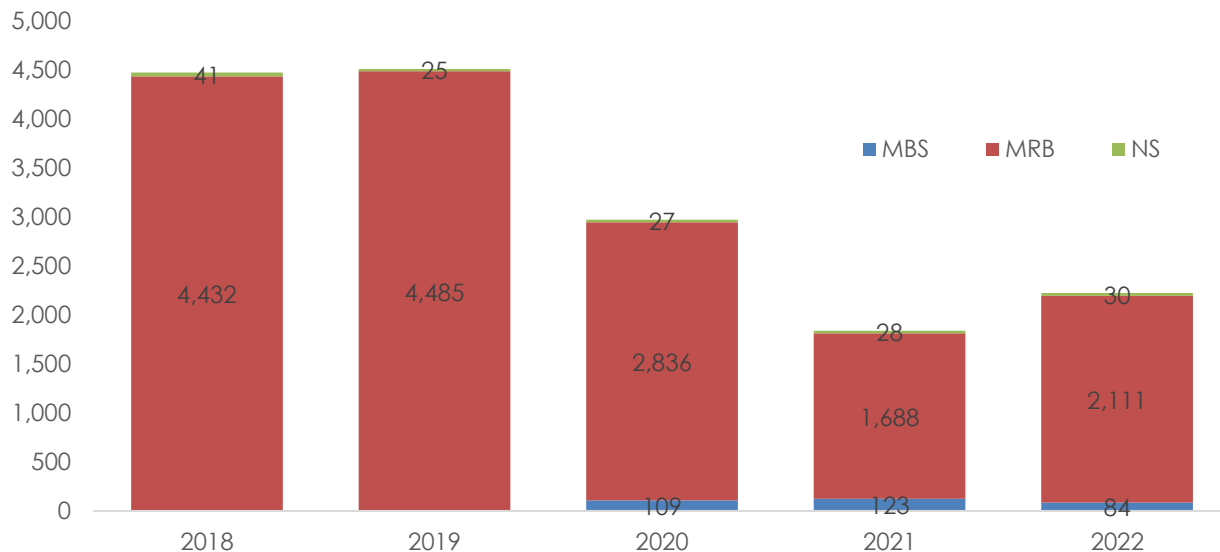
⁷ "The Great Choice Plus-Deferred" program offers a flat \$6,000 second mortgage loan amount over a 30-year term *without monthly payments* and the loan is forgiven at the end of the 30-year term. "The Great Choice Plus- Amortizing" is a second mortgage loan for six percent of the sales price, *with a monthly payment* over a 15-year term. The amortizing second mortgage loan offers borrowers more assistance for covering downpayment and closing costs, but also requires monthly payments for 15 years at the same interest rate of the first mortgage loan.

⁸ National Association of Realtors® (NAR) quarterly Metropolitan Median Area Prices and Affordability report is available at <https://www.nar.realtor/research-and-statistics/housing-statistics/metropolitan-median-area-prices-and-affordability>

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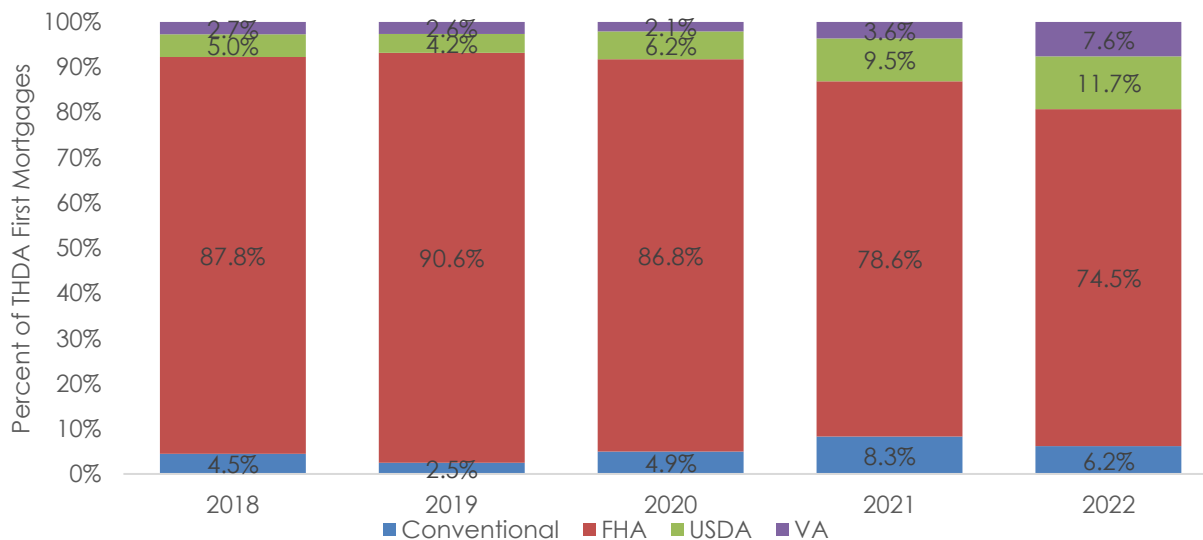
In 2022, there were 84 HFA Advantage loans (THDA's conventional loan product), which represented four percent of total THDA loan production. Conventional loans reached their highest share, nearly seven percent of all THDA loans funded, in 2021. In 2022, while THDA's borrowers using mortgage revenue bonds (MRBs) and New Start loans increased from the previous year, HFA Advantage loan borrowers declined.

Figure 1: THDA's First Mortgage Loans Funded by Program, 2018-2022



In 2022, 75 percent of all THDA loans funded were FHA-insured compared to 79 percent in 2021. In recent years, the percent of FHA-insured THDA loans declined while the share of USDA- and VA-insured loans increased. This is similar to overall mortgage market in which the share of FHA-insured loans declined in recent years. According to the quarterly reports from U.S. Department of Housing and Urban Development (HUD), in fiscal year 2022, FHA-insured loans represented 13.84 percent of home purchase loans originated in the market, down from 14.90 percent in fiscal year 2021.⁹

Figure 2: THDA's First Mortgage Loans Funded by Loan Type, 2018-2022



⁹ FHA-insured single family mortgage market share reports can be found at https://www.hud.gov/program_offices/housing/rmra/oe/rpts/fhamktsh/fhamktqtrly

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In 2022, VA-insured THDA loans more than doubled, increasing from 67 loans in 2021 to 170 loans in 2022. Accompanying the increase in VA-insured loans, the number of Homeownership for the Brave Program loans, which offers an interest rate discount for veterans, increased in 2022. In 2021, 73 borrowers took advantage of rate discounts. However, in 2022, Homeownership for the Brave loans increased to 177.

Since September 2021, THDA borrowers have been able to choose between a deferred payment (no payment) option and an amortizing (payment) option when they need DPA.¹⁰ In 2022, even with the required monthly payment, 55 percent of THDA borrowers who used DPA chose payment option over the deferred option to receive more assistance for downpayment and closing costs. Even with increasing interest rates that apply to both first and second mortgage loans, THDA borrowers increasingly prefer the amortizing option. This might be a sign that borrowers are having difficulty to come up with enough cash to cover downpayment and closing costs. Thus, they are attracted to the amortized option, which allows them to cover these costs, despite a monthly payment requirement. While over 90 percent of all THDA loans were FHA-insured, among the loans with deferred payment, 24 percent were USDA-insured and 14 percent were VA-insured.

C. THDA's Market Share, 2021¹¹

We measured THDA's share in the home purchase loan market using Home Mortgage Disclosure Act (HMDA) data. Market share refers to the proportion of loans funded by THDA to all home purchase loans originated by financial institutions and reported in Tennessee. Knowing THDA's share in the home loan market is important in determining how competitive THDA loan products are compared to similar loan products available in the market. Knowledge of where THDA's business is relative to the market is also useful when making decisions around marketing and planning to fill unmet need. The methodology for calculating THDA's market share is explained in Appendix.

Using HMDA data to measure THDA's share in the home loan market presents some limitations because of the nature of the HMDA data and THDA's loan program eligibility requirements. Keeping these limitations in mind, we estimated the market share based on THDA's income and purchase price limits for each county. Because the majority of THDA loans are FHA-insured, we compared THDA FHA-insured mortgage loans to FHA-insured loans in the market. First-time homebuyer data is not readily available through HMDA so we used FHA estimates of first time homebuyers to help us estimate the market share. While there are some estimation issues to be found in these assumptions, the estimates serve as a good overall barometer.

In 2021, the most recent year the data were available, THDA funded 1,426 FHA-insured loans for first-time homebuyers, which represented 18 percent of 9,454 FHA-insured first lien home purchase loans originated for homebuyers who met THDA's income limit requirements and purchased homes that were priced less than or equal to THDA's purchase price limit in each county. This share was down from the 24 percent in 2020. THDA funded FHA-insured loans for first-time homebuyers decreased by 44 percent in 2021, while in the market, all lenders reporting to HMDA originated 26 percent fewer FHA-insured loans in 2021 compared to the previous year for borrowers estimated to be THDA-eligible. It is true that high home prices fueled mainly by increased demand for housing and low mortgage rates made finding and buying a home within THDA's purchase price limits difficult for households at THDA's income limit range. However, THDA funded FHA-insured loans declined even more, leading to a significant decline in THDA's share in FHA-insured loans market. THDA can assist even more home buying Tennesseans by expanding its conventional loan offering.

THDA's market share of FHA loan production varied greatly across Tennessee's counties. In 2021, in some counties with a large THDA market share, the high share was attributable to the small size of the overall market, rather than a high volume of THDA loans in the county. Among the counties with 50 or more THDA funded FHA-insured loans in 2021, Knox County's 31 percent market share was the highest, which was slightly lower than the share in 2020. THDA was able to attract 15 percent or more of the potential FHA borrowers in each of Davidson, Hamilton, Knox, Madison, Rutherford and Shelby Counties, while THDA's market share was relatively low in Williamson County. In Davidson County, the number of FHA-insured THDA loans funded declined by 67 percent while the comparable FHA-insured loans originated in the market declined by 45 percent compared to the previous year, leading to a nearly 11 percentage points decline in THDA's market share in the county. The annual market share gains were primarily in small rural counties with relatively small mortgage loan markets, while THDA's market share declined in 2021 nearly in two thirds of the counties.

¹⁰ "The Great Choice Plus-Deferred" program offers a flat \$6,000 second mortgage loan amount over a 30-year term *without monthly payments* and the loan is forgiven at the end of the 30-year term. "The Great Choice Plus- Amortizing" is a second mortgage loan for six percent of the sales price, *with a monthly payment* over a 15-year term. The amortizing second mortgage loan offers borrowers more assistance for covering downpayment and closing costs, but also requires monthly payments for 15 years at the same interest rate of the first mortgage loan.

¹¹ Because HMDA data come with a lag, we were able to look at THDA's market share in 2021.

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Table 2: THDA's Market Share in FHA-Insured Loans Market, 10 Counties with the Highest THDA Loan Originations in 2021

County	FHA-Insured Loans								THDA's Market Share in FHA-Insured Loans Market			
	Market				THDA							
	2018	2019	2020	2021	2018	2019	2020	2021	2018	2019	2020	2021
Knox	1,341	1,002	859	633	471	405	222	164	42%	49%	31%	30%
Rutherford	1,665	1,425	1,551	866	352	390	328	122	26%	33%	25%	17%
Shelby	2,100	1,249	1,065	801	521	432	174	102	30%	42%	20%	15%
Davidson	1,511	1,254	1,356	752	350	352	300	98	28%	34%	27%	15%
Montgomery	1,028	716	695	505	329	305	136	93	39%	51%	24%	22%
Hamilton	864	648	589	420	192	187	95	60	27%	35%	19%	17%
Sumner	747	638	565	384	158	164	140	54	26%	31%	30%	17%
Sullivan	337	351	347	274	94	129	62	40	34%	44%	22%	17%
Anderson	214	205	199	166	67	73	64	37	38%	43%	39%	26%
Blount	306	202	188	162	52	61	49	36	21%	36%	31%	26%
TENNESSEE	16,996	13,287	12,798	9,454	3,859	4,042	2,549	1,426	27%	37%	24%	18%

THDA's share in FHA-insured loans market also varied by race. In 2021, THDA served 22 percent of Black first time homebuyers who were income and purchase price eligible for THDA programs, while it was nearly 50 percent in 2019. THDA's market share among White borrowers was 19 percent in 2021. In all race categories, except "other minority," THDA's market share in 2021 declined from 2020.

Table 3: THDA's Market Share in FHA-Insured Loans Market by Race

County	FHA-Insured Loans						THDA's Market Share in FHA-Insured Loans Market		
	Market			THDA					
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Asian	150	176	108	28	22	9	23%	15%	10%
Black	2,066	2,200	1,609	822	525	295	48%	29%	22%
White	9,892	9,167	6,727	3,040	1,917	1,068	37%	25%	19%
Other Minority	191	241	169	20	14	12	13%	7%	8%
NA/Missing	1,001	1,014	841	132	71	42	16%	8%	6%
TENNESSEE	13,287	12,798	9,454	4,042	2,549	1,426	37%	24%	18%

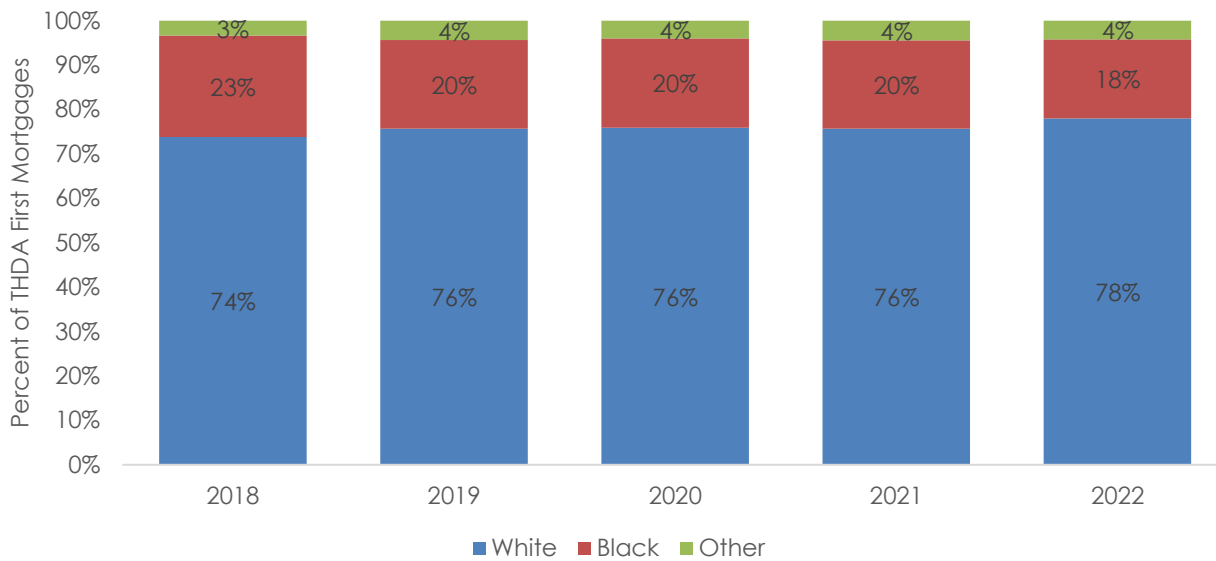
D. Demographic and Economic Characteristics of THDA Borrowers

Race and Ethnicity

In 2022, 18 percent of all THDA borrowers were Black, a decline from 20 percent in 2021. White applicants were 78 percent of all THDA borrowers in 2022, up from 76 percent in 2021. In 2018, Black borrowers represented 23 percent of all THDA borrowers.

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Figure 3: THDA's First Mortgage Loans Funded by Borrower's Race, 2018-2022



With 56 percent of total borrowers, Shelby County had the highest percent of THDA borrowers who were Black followed by Haywood County with 55 percent and Davidson County with 46 percent. These counties have been at the top of the list for the share of Black THDA borrowers since 2018. This correlates strongly with each county's existing population. More than 50 percent of the population in Shelby and Haywood counties are Black and in Hardeman County, 41 percent of all people were Black in 2021.¹²

The following table compares the racial distribution of total population and THDA borrowers in ten counties with the highest percent of Black people in total population. A proportional analysis of Black THDA borrowers and Black population in each county reveals that in seven of the 10 counties with the highest shares of Black population, the percent of THDA loans to Black borrowers was greater than or equal to the percent of Black people in the county. In Shelby County, 54 percent of the total population is Black, the highest share in the state followed by Haywood County. In Shelby and Haywood Counties, Black borrowers also represented the highest percent of total borrowers in each county. Hardeman and Lake Counties had relatively low representation of Black borrowers in THDA loan origination compared to their share in total population. For example, nearly 41 percent of the total population in Hardeman County is Black, while there were no THDA loans originated in the county for Black applicants.

Table 4: Total Population in 2021 and THDA Loans Originated in 2022 by Race

	Total Population			Loans Originated		
	White	Black	Other	White	Black	Other
Shelby	37.5%	53.8%	8.7%	41.4%	56.4%	2.3%
Haywood	44.6%	50.4%	5.0%	45.5%	54.5%	0.0%
Hardeman	54.4%	40.9%	4.7%	50.0%	0.0%	50.0%
Madison	56.1%	37.1%	6.8%	63.2%	36.8%	0.0%
Lauderdale	61.2%	34.1%	4.7%	60.0%	40.0%	0.0%
Fayette	67.9%	27.2%	4.8%	56.3%	43.8%	0.0%
Davidson	61.1%	26.7%	12.2%	50.0%	45.7%	4.3%
Lake	67.1%	25.9%	7.0%	100.0%	0.0%	0.0%
Montgomery	67.1%	19.8%	13.1%	64.4%	29.8%	5.8%
Hamilton	73.1%	18.5%	8.4%	68.0%	29.3%	2.7%
Tennessee	75.8%	16.5%	7.7%	78.0%	17.8%	4.2%

¹² American Community Survey (ACS), 5-year estimates, 2016-2020.

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Compared to the overall mortgage market, a greater percentage of THDA borrowers were Black. In 2021,¹³ 7.6 percent of all single family mortgages originated in Tennessee were for Black borrowers, while 77 percent were for White borrowers.¹⁴ Among THDA borrowers, 20 percent of all borrowers were Black and 76 percent were White, in 2021.

The percentage of all THDA borrowers who identified themselves as of Hispanic origin was 7.1 percent, an increase compared to 5.9 percent in 2021. Montgomery County, with 26 borrowers, had the highest number of Hispanic THDA borrowers, followed by Rutherford and Shelby Counties, with 14 and 12 Hispanic borrowers, respectively.

Age

In 2022, the average age of a THDA borrower was 36, and Generation Z (borrowers born after 1996)¹⁵ made up 20 percent of all THDA borrowers, increasing from 15 percent in 2021, becoming an important home buying group for THDA. Millennials comprised 52 percent of all THDA borrowers, forming the majority. While the percent of THDA borrowers in every generation category declined or remained unchanged in 2022, the share of Generation Z borrowers increased.

Income

In 2022, median income¹⁶ of THDA borrowers was \$60,000 and the average income was \$62,000. The average income of THDA borrowers in the Nashville MSA was greater than the THDA overall average income, not unexpected given the area's higher income eligibility limits. In the Nashville MSA, an average THDA borrower had income of nearly \$76,000 while in the Jackson MSA, the average income of THDA borrowers was little more than \$52,000.

Credit Score

Overall, THDA borrowers had an average credit score of 696, which was higher than the previous year. Based on FHA reporting,¹⁷ this score is higher than the average credit score of 663 for all nationwide FHA loan endorsements in the fourth quarter of 2022. The average and median credit scores of THDA borrowers have been trending upward in recent years.¹⁸ There was a slight decline in the average credit score of all THDA borrowers in 2019, but then it inched up again in 2020, remained consistent in 2021 and increased again in 2022. Older THDA borrowers, those who were born before 1965, had the highest average credit score, while Gen X borrowers had the lowest score. An average HFA Advantage (conventional) Program borrower had higher credit score than the average MRB Program borrower.

E. Property Characteristics of THDA Mortgages

Purchase Price and Loan Amount

Increasing home prices coupled with high interest rate made homeownership difficult for THDA eligible homebuyers in 2022. The average price paid by a THDA borrower was nearly \$215,000, increased from \$190,000 in 2021, not adjusted for inflation. The average price paid by THDA borrowers who purchased a home in the Nashville MSA was nearly \$275,000.

In 2022, the median price of an *existing* home purchased with a THDA loan in the Nashville MSA was \$270,000, 20 percent higher than the previous year. The National Association of Realtors (NAR)¹⁹ reports that, in 2022,²⁰ the median priced existing home was \$408,300 for all homebuyers in the Nashville MSA (not just buyers who used THDA loan products), 17 percent higher than 2021. Based on these data, the median THDA borrower in the Nashville MSA paid 66 percent of what all homebuyers paid for an existing home in the MSA. Figure 4 shows

¹³ Based on HMDA data. See "Tennessee Home Loan Trends: 2021," available at: https://thda.org/pdf/2021-HMDA-Report_final.pdf

¹⁴ Consistent across years, HMDA data has significant missing demographic information about borrowers, particularly race and ethnicity.

¹⁵ In 2018, Pew Research Center identified 1996 as the last birth year for Millennials and determined the cutoff points among generations accordingly. Those who were born before 1946 are considered as Silent Generation, born between 1946 and 1964 as Baby Boomers, born between 1965 and 1980 as Generation X (Gen X), born between 1981 and 1996 as Millennials and born after 1996 as Generation Z (Gen Z). We followed Pew Research Center's generational cutoff points. For more information about Pew Research Center's generations definition, see <http://www.pewresearch.org/fact-tank/2018/03/01/defining-generations-where-millennials-end-and-post-millennials-begin/>

¹⁶ The income reported here for the homebuyers who used THDA's new conventional loan product, GC97 is qualifying income, not the household income. In 2021, for MRB borrowers also income reporting changed and now it is also showing the "qualifying income." Therefore, the comparison to previous year may not be meaningful.

¹⁷ Quarterly Report to Congress on FHA Single-Family Mutual Mortgage Insurance Fund Programs, https://www.hud.gov/program_offices/housing/rmra/oe/rpts/rtc/fhartcqrly

¹⁸ Credit score minimum requirement first added in April 2009. Effective June 15, 2015, minimum credit score requirement for THDA loans increased to 640. The minimum credit score requirement for New Start loans is 620. In 2015, the minimum credit score for THDA borrowers was changed from 620 to 640, which may have contributed to this upward trend in the past few years.

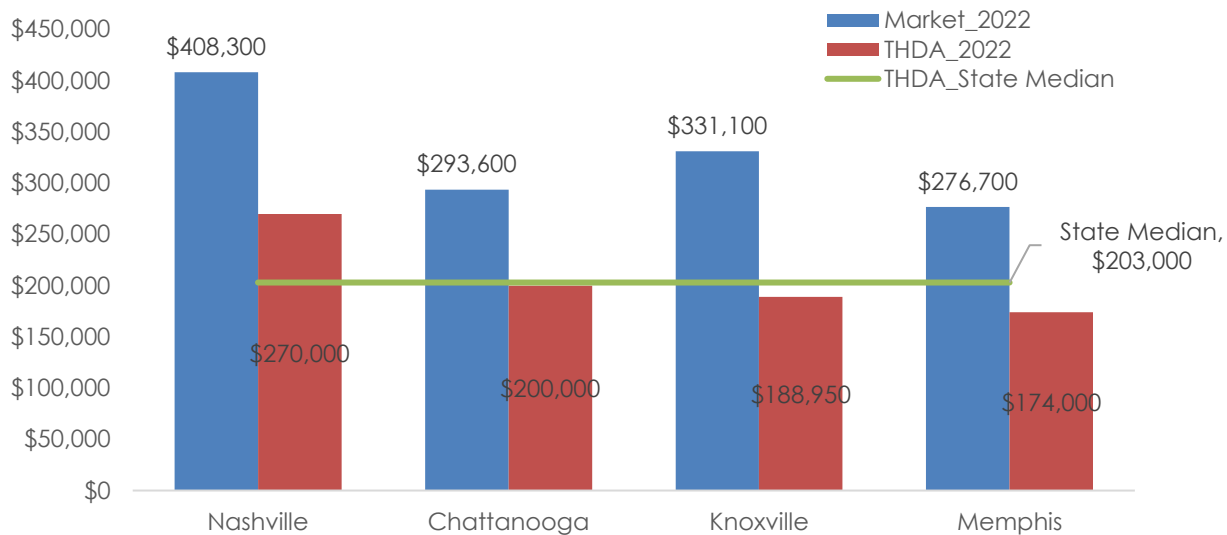
¹⁹ The data for the existing homes median prices are from the National Association of Realtors (NAR) quarterly Metropolitan Median Area Prices and Affordability report for the second quarter of 2021 available at <https://www.nar.realtor/research-and-statistics/housing-statistics/metropolitan-median-area-prices-and-affordability>.

²⁰ 2022 data is for the third quarter of 2022 and data is preliminary and subject to revision.

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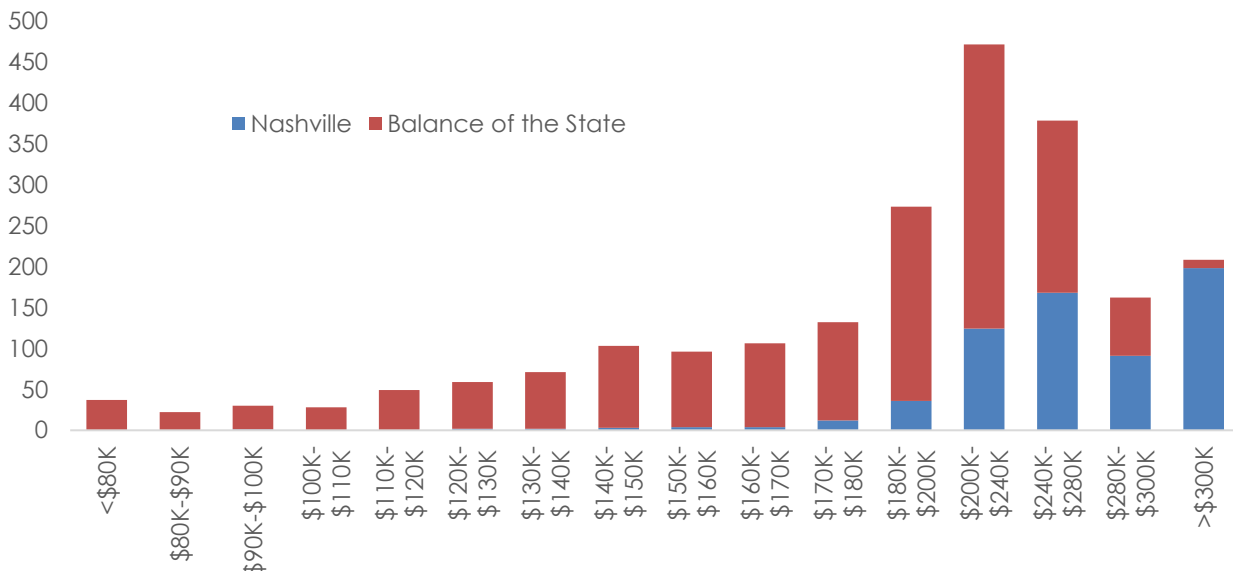
the difference between the median prices of existing homes that THDA borrowers purchased and those purchased by all homebuyers in the major MSAs in Tennessee. Even though the THDA median home price was higher in the Nashville MSA than what THDA borrowers paid elsewhere, it was still lower than the overall median home price in the Nashville MSA. In all of these major MSAs, the median price paid for an existing home by THDA borrowers was less than the median price paid by all homebuyers in the market, while the median priced homes purchased by both borrower groups were higher than the previous year.

Figure 4: Median Price of Existing Homes, Major MSAs, THDA and Market, 2022



THDA mortgages are for moderately priced homes, therefore, borrowers have to purchase homes within THDA's purchase price limits for each county. While THDA borrowers can purchase a home priced as high as \$350,000 in majority of counties, only 69 THDA borrowers' purchase price was \$350,000 or higher, and they all purchased a home in one of 13 Nashville MSA counties. Figure 5 depicts the distribution of sales prices for all THDA customers, in the Nashville MSA and in the balance of the state. The patterns are consistent with the larger housing price increases seen in the Nashville MSA housing market.

Figure 5: Distribution of THDA Loans by Purchase Price, Nashville MSA and Balance of the State, 2022



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In line with increasing purchase prices, the loan amount of THDA borrowers also increased in 2022. The average loan amount for the first mortgages, including the New Start loans, was nearly \$210,000 in 2022 compared to \$185,000 in 2021. On average, a THDA borrower who needed assistance for downpayment and closing costs received a second mortgage in the amount of \$10,325, an increase from \$7,680 in 2020. This increase in the average second mortgage loan amount is mostly related to the change in the DPA structure THDA instituted in September 2021, which increased the DPA amount to six percent of the purchase price for the amortized second mortgages. In 2022, 55 percent of THDA borrowers with a second mortgage chose the amortized loan option.

Property Type

In 2022, 11 percent of homes purchased with a THDA loan were new construction, declined from 13 percent in 2021. Among the counties with 50 or more THDA borrowers in 2022, Wilson County was the county with the highest share of new homes purchased followed by Davidson County, 40 and 31 percent of all loans, respectively. None of the THDA borrowers in Shelby County purchased a new home. While 75 percent of THDA borrowers purchased a single family home, 13 percent of the homes were manufactured homes, and 10 percent of homes were in planned unit development (PUD)²¹. In Sumner County, 19 THDA borrowers purchased a manufactured home, the highest number of manufactured home purchased by THDA borrowers in 2022. While the majority of THDA loans for a manufactured home were in East Tennessee, only nine percent were in West Tennessee.

Debt-to-Income Ratio (DTI) and Loan-to Value Ratio (LTV)

The maximum debt-to-income ratio (DTI) is 45 percent for THDA borrowers. In 2022, an average THDA borrower had a 39.4 percent DTI, increased from 38.4 percent in 2021. The average DTI for all FHA endorsements²² was 44.89 percent in the fourth quarter of FY2022, compared with 44.42 percent the previous quarter. THDA borrowers who purchased in the large MSAs like Clarksville, Nashville and Chattanooga had, on average, relatively higher DTI than the rest of the borrowers. For example, while an average borrower in the Clarksville MSA had DTI of 39.2, the average DTI in the Morristown MSA was 36.9.

THDA follows FHA, VA and USDA/RD guidelines for maximum loan-to-value ratio (LTV), and allows uninsured conventional portfolio loans with a maximum LTV of 78 percent. In 2022, the average LTV of all THDA borrowers was 96 percent, unchanged from the previous two years.

Monthly Payment (PITI)

In 2022, including principal, interest, real estate taxes and insurance (hazard and mortgage), an average THDA borrower's monthly payments (PITI) was nearly \$1,400, up from \$1,000 in 2021. On average, PITI was 26.7 percent of income, increased from 22.7 percent in 2021. The increasing monthly housing payments in 2022 also impacted the cost burden of THDA borrowers. On average, 33 percent of THDA borrowers paid 30 percent or more of their income in 2022. In 2021, 15 percent of THDA borrowers paid 30 percent or more of their income for monthly housing expenses.

F. GEOGRAPHIC DISTRIBUTION

Once again, Middle Tennessee was home to the largest portion of THDA loan production across the three grand divisions. Fifty-two percent of all THDA loans and 60 percent of all loan dollars (including the second mortgage amounts) were made in Middle Tennessee, an increase from 49 percent and 57 percent, respectively, in the previous year. Share of THDA loans originated in East Tennessee declined from 40 percent in 2021 to 33 percent in 2022. The remaining 15 percent of borrowers were in West Tennessee. Although THDA's 2022 loan production compared to the previous year was higher in all three grand divisions, West Tennessee experienced the greatest increase with 61 percent more THDA borrowers in 2022.

THDA funded at least one loan in each of 93 counties, an increase from 85 counties in 2021. Only in Johnson and Pickett Counties were there no THDA funded loans. While in a majority of the counties THDA funded more loans in 2022 than in 2021, a few counties with substantial THDA presence in 2021 experienced large declines in loan production. For example, with 51 fewer loans in 2022, Knox County had the largest decline in THDA borrowers followed by Rutherford and Davidson Counties. In Montgomery County, THDA borrowers increased from

²¹ A Planned Unit Development (PUD) is a community of homes that could include single family residences, townhomes or condos, and even commercial units.

²² For more detail, see "Quarterly Report to Congress, Financial Status of the Mutual Mortgage Insurance Fund Fiscal Year 2022, Quarter Four," available <https://www.hud.gov/sites/dfiles/Housing/images/MMIQtrlyQ42022.pdf>

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130 to 191, placing the county at the top in terms of number of THDA borrowers in 2022.

While the position of 10 counties with high number of THDA loans did not change significantly, Gibson and Cocke were the counties notable change in 2022 compared to 2021. In Gibson County THDA funded loans increased to 30 from six in 2021, and in Cocke County, THDA funded 26 loans compared to nine in 2021. Following table displays the counties with 10 or more loans in 2022 where THDA funded loans more than doubled compared to 2021. Majority of these counties were outside of an MSA, which shows that THDA made some significant headways in terms of reaching out to more home buyers. Low inventory or availability of homes for sale at THDA price range is probably a bigger problem in big cities. Homebuyers who are being priced out of larger cities are expanding their search, and perhaps finding more opportunities to use THDA loans.

Table 5: Counties with 10 or more loans where THDA loan origination more than doubled in 2022

County	Grand Division	MSA	Number of THDA Loans		% Change
			2022	2021	
Cocke	East	Non MSA	26	9	189%
Coffee	Middle	Non MSA	34	10	240%
Dyer	West	Non MSA	15	4	275%
Fayette	West	Memphis	16	2	700%
Franklin	Middle	Non MSA	21	5	320%
Gibson	West	Non MSA	30	6	400%
Giles	Middle	Non MSA	13	3	333%
Haywood	West	Non MSA	11	4	175%
Jefferson	East	Morristown	35	16	119%
Lauderdale	West	Non MSA	20	6	233%
Lawrence	Middle	Non MSA	28	13	115%
Lincoln	Middle	Non MSA	16	2	700%
Marion	East	Chattanooga	10	2	400%
McMinn	East	Non MSA	30	14	114%
Putnam	Middle	Non MSA	20	7	186%
Tipton	West	Memphis	23	7	229%
White	Middle	Non MSA	15	6	150%
Tennessee			2,225	1,839	21%

Freddie Mac²³, using the HMDA data, showed that even prior to the pandemic, rural home purchases exceeded urban purchases. For example, between 2010 and 2019, rural and suburban area home purchases increased by three percent and two percent, respectively, while home purchases in urban areas declined by five percent over the 2010s decade. With the pandemic people who are looking for larger homes shifted their home search toward suburban and rural areas.

G. LENDERS

There were 140 lenders approved to originate THDA loans across the state. A total of 101 lenders^{24, 25} originated the loans funded by THDA in 2022, increased from 94 lenders in 2021. Ninety-one lenders originated, each, less than five THDA loans in 2022. With 589 THDA loans (26 percent of all loans funded in 2022), Mortgage Investors Group (MIG) originated the highest number of THDA loans, followed by CMG Mortgage Inc. with 133 loans. MIG originated THDA loans in 73 different counties, but a majority (nearly 70 percent) of the 589 loans were in East Tennessee. Knox County was the county MIG was most active in 2022 with 92 loans funded followed by Shelby County with 33 loans.

²³ See Research Note, "Rural Home Purchases Outpaced Urban Purchases Through the 2010s," <https://www.freddie.mac.com/research/insight/20210602-rural-home-purchases>.

²⁴ Wholesale lenders are combined with their retail lending activity. There were three active wholesale lender in 2022: First Community Wholesale, Guaranty Wholesale and MIG Wholesale.

²⁵ Number of lenders also include the nonprofit organizations (Habitat for Humanity) that delivered the New Start loans.

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When all mortgages originated in Tennessee are considered, MIG was the top home purchase loans producer in 2021²⁶ with over 6,000 loans. Over 500 THDA borrowers represented eight percent of MIG's total loan production in Tennessee in 2021, regardless of borrowers' eligibility for a THDA loan.

Based on 2021 HMDA data, nearly 900 lenders contributed with at least one loan to the 100,266 home purchase loan originations. Going beyond top 10 originators, less than 30 lenders originated more than half of all first-lien single family residential home purchase loans in Tennessee. A majority of lenders with high origination numbers were approved THDA lenders except Rocket Mortgage (previously called Quicken Loans), United Wholesale, Eastman, Citizens Bank and Wells Fargo. United Wholesale Mortgage (UWM) had at least one loan originated in 79 counties across Tennessee in 2021, but close to 40 percent of its 1,637 single family home purchase loan borrowers were in Knox, Davidson, Rutherford and Shelby Counties. Only 12 percent of UWM loans originated in 2021 were in a non-MSA county. Eastman Credit Union, headquartered in Kingsport, originated nearly 1,400 single family home purchase loans in 2021 and over two thirds of the borrowers purchased a home in Sullivan and Washington Counties. Approximately nine percent of its 2021 loan origination was in a non-MSA county. Citizens Bank originated loans in 69 Tennessee counties in 2021, and Knox, Wilson and Williamson Counties were accounted for one thirds of its total origination volume. Similarly, Citizens Bank's origination in counties outside of major Tennessee MSAs was very low.

The following table represents the top 10 lenders that originated the highest number of home purchase loans in Tennessee in 2021, and compares their market activity to their THDA loan production. These top lenders, except Mortgage Research Center, mainly originated conventional loans, i.e., 50 percent or more of their overall home purchase loan portfolio in 2021 were conventional.

Table 6: 10 Lenders with Most Home Purchase Loans Originated in 2021 by Loan Type, Market and THDA

	Market					THDA				
	Count	Loan Type				Count	Loan Type			
		Conv.	FHA	VA	USDA		Conv.	FHA	VA	USDA
Mortgage Investors Group, Inc.	6,273	64%	20%	7%	9%	528	9%	78%	3%	10%
Quicken Loans, LLC (Rocket Mortgage, LLC)	3,445	66%	24%	10%	0%	NA	NA	NA	NA	NA
Mortgage Research Center, LLC	3,399	8%	4%	89%	0%	22	0%	50%	50%	0%
First Community Mortgage, Inc.	3,364	57%	22%	9%	12%	81	10%	84%	1%	5%
Movement Mortgage, LLC	3,173	73%	16%	8%	3%	62	15%	84%	2%	0%
CMG Mortgage, Inc.	2,750	61%	24%	8%	7%	120	7%	89%	0%	4%
FirstBank	2,612	77%	13%	5%	5%	58	7%	76%	2%	16%
Cardinal Financial Company, LP	2,241	53%	29%	9%	9%	82	0%	95%	0%	5%
Loandepot.com, LLC	1,839	65%	21%	10%	4%	43	0%	91%	5%	5%
Regions Bank	1,838	81%	11%	4%	4%	1	0%	100%	0%	0%
2021 Total Home Purchase Loans	100,266	67%	16%	12%	5%	1,839	8%	79%	4%	9%

Regions Bank, an approved THDA lender, was one of the lenders with high number of loan production in 2021, but only one of the loans originated was for a THDA borrower in 2021, and two loans were THDA funded in 2022. Over 80 percent of Region Bank's originated loans in 2021 were conventional.

There are three THDA-approved wholesale lenders, and two of them were active in 2022; First Community Mortgage and MIG. There was no THDA loan originated by Guaranty Home Mortgage Corporation wholesale in 2022 (or in 2021). These wholesale lenders, especially First Community Mortgage wholesale, were very active in 2018 and 2019. Their THDA loan volume started to decline in 2020, and Guaranty Home Mortgage wholesale completely stopped. Probably, the changes in downpayment assistance and lender compensation structure THDA made in 2021 will increase the loan production by these wholesale lenders.

²⁶ Based on HMDA data. Since 2022 data is not yet available, we were not able to compare THDA's production to overall market in 2022.

METHODOLOGY FOR ESTIMATING THDA ELIGIBLE BORROWERS TO CALCULATE THDA'S MARKET SHARE

To compare similar loan products between THDA and those within the HMDA data set, we limited the HMDA loans to those with borrowers meeting the income and purchase price limits for THDA borrowers. HMDA does not require all lenders to report mortgage information, so the data may not represent a complete inventory of loans made, especially in small rural counties. Additionally, THDA loan eligibility is subject to income and purchase price limits, and in more than half of the state's counties, loan eligibility is limited to first time homebuyers.²⁷ Therefore, some assumptions are made.

THDA eligible borrowers are defined as first time homebuyers with income less than or equal to THDA's income limit for the county they are purchasing their homes with a price less than or equal to THDA purchase price limit in the county. Since majority of THDA loans funded in the recent years are FHA-insured, only FHA-insured THDA loans are compared to FHA-insured loans originated in the market.

In the HMDA data, institutions report the loan amounts rather than the purchase prices. This complicates determining the mortgage borrowers who could be eligible for THDA loans. Therefore, the purchase price of the homes was estimated by assuming that borrowers paid four percent of the reported loan amount as downpayment. A four percent downpayment may be considered low, especially for conventional loans, but considering there are zero or low downpayment loan products such as FSA/RHS and FHA insured loans and borrowers may use private mortgage insurance (PMI) and pay less than 20 percent downpayment, four percent is a good average for an estimated downpayment. We compared this estimated purchase price to the THDA purchase price limit each county.

To determine the eligibility based on the income limits, THDA's income limits for a small family (households with one to two people) were used. HMDA data do not include the number of people in the household. This might underestimate number of THDA eligible borrowers. HMDA data do not indicate whether or not a borrower was a first-time homebuyer. Since majority of THDA borrowers are first-time homebuyers, we used the estimates provided in the US Department of Housing and Urban Development's Annual reports to Congress on financial status of FHA mortgage insurance fund²⁸. For example, in 2021, the report estimates 85 percent of borrowers who used FHA-insured loans were first-time homebuyers.

All told, this means that the loan counts used are likely to under/overestimate THDA's participation in the market. Despite these limitations, this is a useful comparison to examine our loan market participation.

²⁷ First-time homeownership requirement is waived in the fully targeted economically distressed counties and qualified census tracts in addition to the Veterans who are using THDA loan products.

²⁸ Annual reports for various fiscal years can be found at <https://www.hud.gov/fhammifrrpt>