❄ Answer   ⊕ Links   ▨ Images

each year, how much money is lost due to early payment defaults of mortgage loans?

Reviewed 20 sources >

There is no single published figure for "how much money is lost each year" globally from early payment defaults (EPD) on mortgages, but available data allow only rough, order-of-magnitude estimates and they vary widely by country, credit cycle, and year. `philadelphiafed +1`

What "early payment default" means

In mortgage risk analytics, an early payment default usually means a loan that becomes seriously delinquent (often 60–90+ days past due) within the first 6–12 months after origination. `lseg` These loans tend to have higher loss rates than average defaults because they often reflect weak underwriting, fraud, or severe borrower liquidity problems, and they have not yet built up much equity. `federalreserve +1`

Pieces needed to estimate annual EPD losses

To translate EPD into dollar losses in any given year, three components are needed:

- Total dollar volume of mortgages originated that year.
- The share of those new loans that experience early payment default (EPD rate).
- The loss severity (loss-given-default) on those EPD loans, which depends on house prices, foreclosure costs, and recovery rates. `fhfa +1`

For example, supervisory and research models for residential mortgages often imply loss rates on defaulted loans in the tens of percent of the outstanding balance, especially during stressed housing markets. `federalreserve +1`

↓

each year, how much money is lost due to early payment defaults of mortgage loans?

There is no single published figure for "how much money is lost each year" globally from early payment defaults (EPD) on mortgages, but available data allow only rough, order-of-magnitude estimates and they vary widely by country, credit cycle, and year.

What "early payment default" means

In mortgage risk analytics, an early payment default usually means a loan that becomes seriously delinquent (often 60–90+ days past due) within the first 6–12 months after origination.
These loans tend to have higher loss rates than average defaults because they often reflect weak underwriting, fraud, or severe borrower liquidity problems, and they have not yet built up much equity.

Pieces needed to estimate annual EPD losses

To translate EPD into dollar losses in any given year, three components are needed:

- Total dollar volume of mortgages originated that year.
- The share of those new loans that experience early payment default (EPD rate).
- The loss severity (loss-given-default) on those EPD loans, which depends on house prices, foreclosure costs, and recovery rates.

For example, supervisory and research models for residential mortgages often imply loss rates on defaulted loans in the tens of percent of the outstanding balance, especially during stressed housing markets.

Why no single global "EPD loss per year" number exists

Public statistics usually report overall delinquency and charge-off rates (all ages of loans), not specifically EPD, and they are often broken out only by country or regulator.
Even in detailed datasets, early-life performance is used primarily for risk modeling rather than published as an annual industrywide dollar figure, so aggregate global EPD losses have to be inferred and are not officially tallied.

Reasonable scale of losses

In stressed periods like the late-2000s crisis, research has documented that mortgage credit losses for large portfolios reached several percent of outstanding balances,

running into hundreds of billions of dollars globally, with early-life defaults contributing disproportionately.

In more normal recent years with low serious-delinquency rates around 1 percent, total mortgage credit losses in advanced economies are much smaller, and the subset attributable specifically to EPD is likely in the low tens of billions of dollars per year worldwide rather than hundreds of billions.

How to narrow this for a specific market

If you need a more concrete number for a particular country and year (for example, U.S. mortgages in 2023), the closest practical approach is:

- Use annual mortgage origination volume from that country's housing or banking statistics.
- Combine it with any available estimates of early-life delinquency or EPD rates from regulators, rating agencies, or vendors.
- Apply an estimated loss-given-default (for example, based on published loss severity studies and current house-price conditions) to approximate annual EPD dollar losses.

If you tell which country and time period you care about, a more tailored back-of-the-envelope range can be worked out.

Estimate total annual loss from early payment default in the US mortgage market

A reasonable ballpark estimate is that early payment defaults (EPDs) cost the U.S. mortgage market on the order of a few billion to perhaps low-tens of billions of dollars per year in credit losses in a typical recent year like 2023–2024, not hundreds of billions. This has to be approximated because regulators and data providers do not publish a clean "EPD loss" total.

Step 1: Size of new U.S. originations

- Recent estimates put total U.S. mortgage originations around 1.5–1.7 trillion dollars in 2023–2024, after falling sharply from the 2020–2021 refi boom.
- For an order-of-magnitude estimate, using about 1.6 trillion dollars of annual new originations is reasonable.

Step 2: Early-life default rate

- Serious delinquency (90+ days or in foreclosure) across the whole outstanding mortgage stock has been near 1 percent in recent data, indicating generally strong performance.
- Studies of first-year performance for higher-risk segments (for example, FHA loans) show that first-year 90-day-plus delinquency rates can be a few percent in recent vintages, higher than long-run norms.

Because most prime loans have very low early default rates and only some segments (FHA, weaker credit) have a several-percent first-year default rate, using a blended early payment default rate of roughly 0.3–0.8 percent of new origination volume is a reasonable national average for a normal (non-crisis) year.

Step 3: Loss severity on defaulted loans

- Research on U.S. residential mortgage loss severity finds average economic losses on defaulted loans often in the 25–40 percent range of the outstanding balance, depending on loan-to-value, house-price conditions, and foreclosure costs.

For a mid-cycle estimate with relatively stable home prices, a loss-given-default of about 30 percent is a useful working value.

Putting the pieces together

Using a simple back-of-the-envelope:

- Annual new originations: about 1.6 trillion dollars.
- Early payment default rate: assume 0.3–0.8 percent of those new loans experience EPD (serious delinquency in first year).
- Loss severity on those defaults: about 30 percent on the defaulted balance.

This implies an annual EPD loss range roughly like:

- Lower bound: $1.6T \times 0.3\% \times 30\% \approx 1.4$ billion dollars.
- Upper bound: $1.6T \times 0.8\% \times 30\% \approx 3.8$ billion dollars.

If the assumed national EPD rate were closer to 1–1.5 percent (which would align more with stressed or higher-risk vintages rather than the whole market), the implied losses would shift to roughly 5–7 billion dollars per year. In severe downturns with much higher early defaults and loss severities, crisis-era research shows mortgage credit

losses—especially from young, high-LTV loans—can be an order of magnitude larger, but that is not representative of recent years.

Key caveats

- Public data split out overall delinquencies but rarely isolate "EPD" as a distinct, nationally aggregated metric, so any national estimate necessarily relies on modeling assumptions.
- The estimate is sensitive to the mix of loan types (FHA/VA vs. GSE vs. jumbo), credit quality, house-price trends, and foreclosure timelines, all of which shift over time.

If you want, the assumptions above can be tightened for a specific year and product mix (for example, focusing only on FHA or only on agency-conforming loans).