MORTGAGE LENDER SENTIMENT SURVEY

Mortgage Lender Sentiment Survey

Impact of Qualified Mortgage Rules and Quality Control Review

Topic Analysis

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Business Context and Research Objectives

Business Context

The Ability-to-Repay (ATR) and Qualified Mortgage (QM) rule issued by the Consumer Finance Protection Bureau, under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), took effect on January 10, 2014. This new rule generally requires lenders to consider and verify factors indicative of a consumer's ability to repay the loan before originating the mortgage. Mortgage loans with limited points and fees and restrictive loan features such as no negative amortization are considered Qualified Mortgages, which may be presumed to comply with this new rule.[1]

In a similar vein, because of increased regulatory requirements, many lenders might have strengthened their quality control (QC) reviews. This is done to enhance the quality of mortgages, reduce repurchase risk, and prevent fraud.

Research Objectives

1. **To what extent do lenders anticipate the new QM rules impact their business practices, across business strategies, credit standards, market share, and operational costs?**
2. **What are lenders' views about their investments in QC reviews? How much have the costs for QC-related activities changed over the past year?**

[1] For details of the ATR/QM rule, please see the Consumer Finance Protection Bureau web site, http://www.consumerfinance.gov/regulations/ability-to-repay-and-qualified-mortgage-standards-under-the-truth-in-lending-act-regulation-z/#rule

Executive Summary

Qualified Mortgage (QM) Rules

Most lenders indicated that QM rules have had little impact on their business strategies, but most lenders expect their operational costs to increase.

- Most lenders (80%) say they "do not plan to pursue non-QM loans" or prefer to "wait and see (business as usual). Larger lenders are more likely to pursue non-QM loans to increase their market share.
- Most firms (84%) reported that they expect at least **90%** of their single-family mortgage origination dollar volume **to still be considered qualified mortgages.**
- Most firms (74%) reported that they expect their **operational costs** to **increase** as a result of QM rules.
- Lenders, on net, expect to **tighten** credit standards as a result of QM rules, with 36% of lenders reporting expected tightening and 6% of lenders reporting expected easing.

Quality Control (QC)

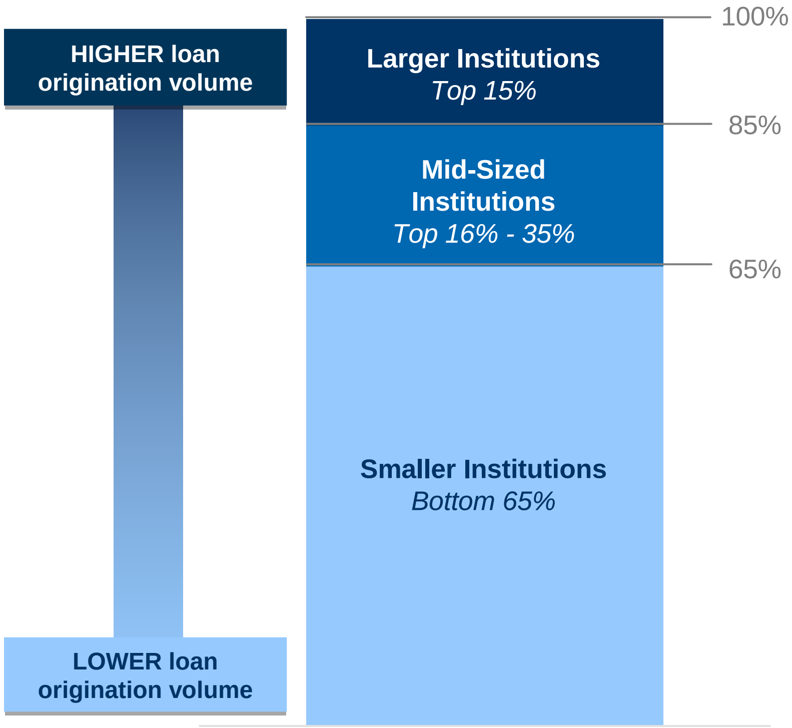
Most lenders (85%) say that their costs for **QC-related activities increased over the last 12 months**, but most of them (74%) agree that "the quality control investments will **reduce their repurchase risk."**

- **Smaller** lenders, however, are **less** likely to agree that "the quality control investments will reduce their repurchase risk."

Respondent Sample and Groups

This analysis is based on the second quarter's data collection. A total of 201 senior executives completed the survey between May 28 – June 8, 2014, representing 186 lending institutions.*

Loan Origination Volume Groups**



Sample Q2-2014		Sample Size
Total Lending Institutions The "Total" data throughout this report is an average of the means of the three loan origination volume groups listed below.		186
Loan Origination Volume Groups	**Larger Institutions** Fannie Mae's customers whose 2012 total industry loan origination volume was in the top 15% (above $1.14 billion)	47
	Mid-Sized Institutions Fannie Mae's customers whose 2012 total industry loan origination volume was in the next 20% (16%-35%) (between $325 million to $1.14 billion)	50
	Smaller Institutions Fannie Mae's customers whose 2012 total industry loan origination volume was in the bottom 65% (less than $325 million)	89

* The results of the Mortgage Lender Sentiment Survey are reported at the lending institutional parent-company level. If more than one individual from the same parent institution complete the survey, their responses are averaged to represent their parent institution.

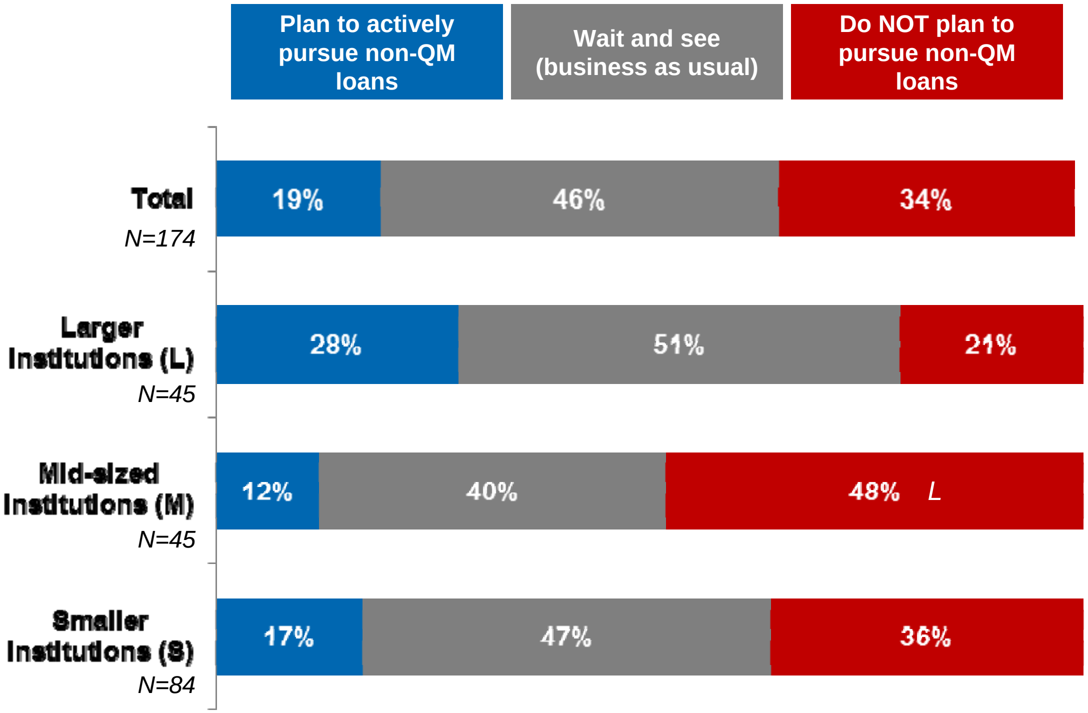
For Q2 2014, a total of 2005 senior executives at 1104 institutions were invited to participate. Response rate was ~10% at the individual respondent level.

** The 2012 total industry loan volume per lender used here includes the best available annual origination information from sources such as Home Mortgage Disclosure Act (HMDA), Fannie Mae, Freddie Mac, or Marketrac. The most recent loan volume data available is 2012.

Business Strategy Regarding Qualified Mortgages (QM)

Most lenders (80%) say they “do not plan to pursue non-QM loans” or prefer to “wait and see (business as usual).”

What is your firm’s overall strategy regarding non-QM business?



IF “Plan to actively pursue non-QM loans”

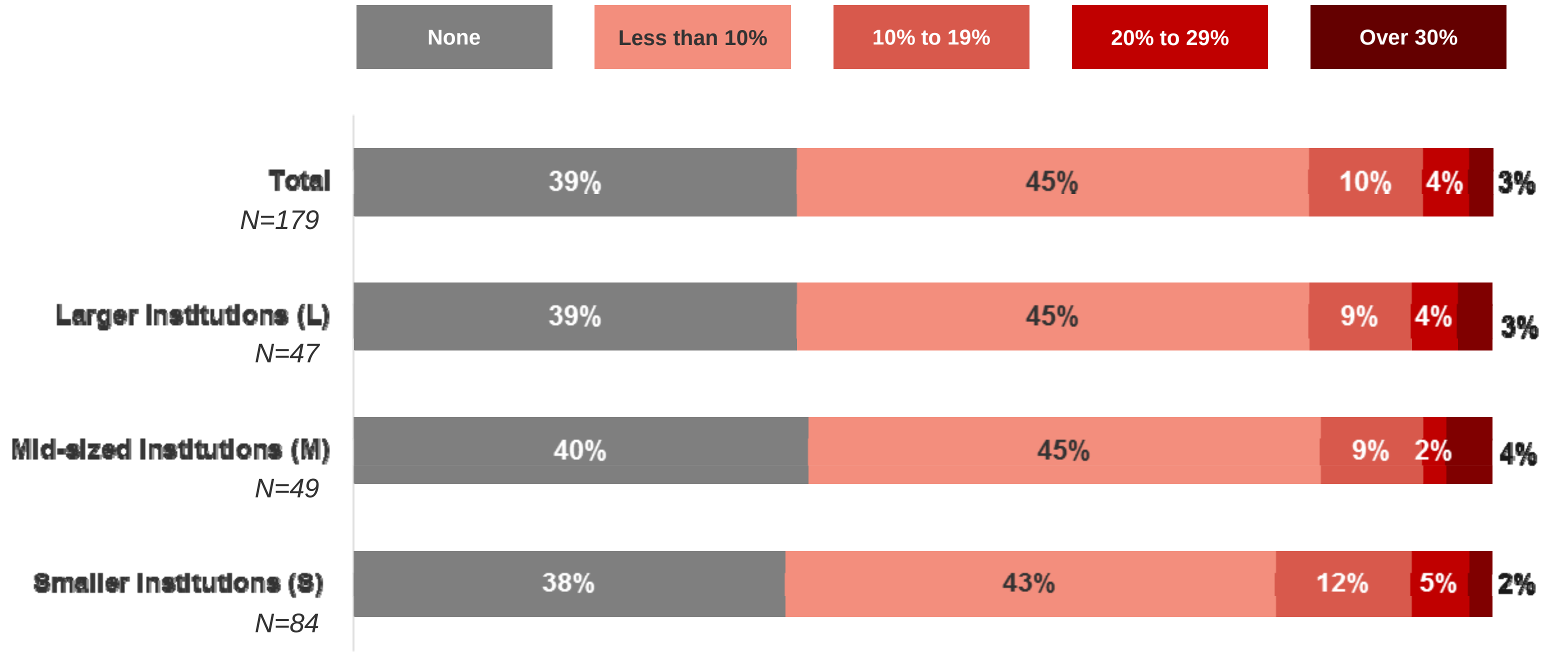
Approximately what percent of your total single-family mortgage origination dollar volume over the next 3 months will be non-QM loans? (Optional) *Showing Means*	
Total *N=32*	15.19%
Larger Institutions (L) *N=12*	10.28%
Mid-sized Institutions (M) *N=6*	22.73%
Smaller Institutions (S) *N=14*	18.10%

L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
Please note that percentages are based on the number of financial institutions that gave responses other than “Not Applicable.” Percentages may add to under or over 100% due to rounding.

Share of Non-QM Loans

Most firms (84%) reported that they expect at least 90% of their single-family mortgage origination dollar volume to still be considered qualified mortgages under the new rules.

What percent of your firm's total single-family mortgage origination dollar volume might NOT be considered qualified under the new rules?

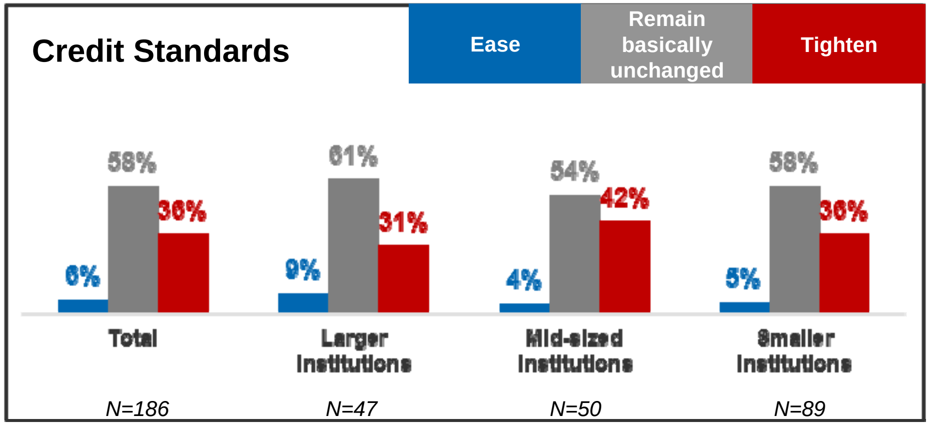


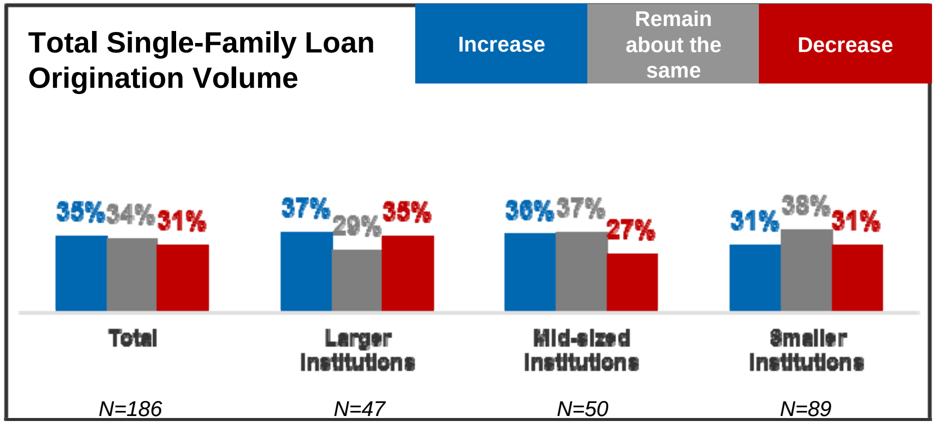
L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable." Percentages may add to under or over 100% due to rounding.

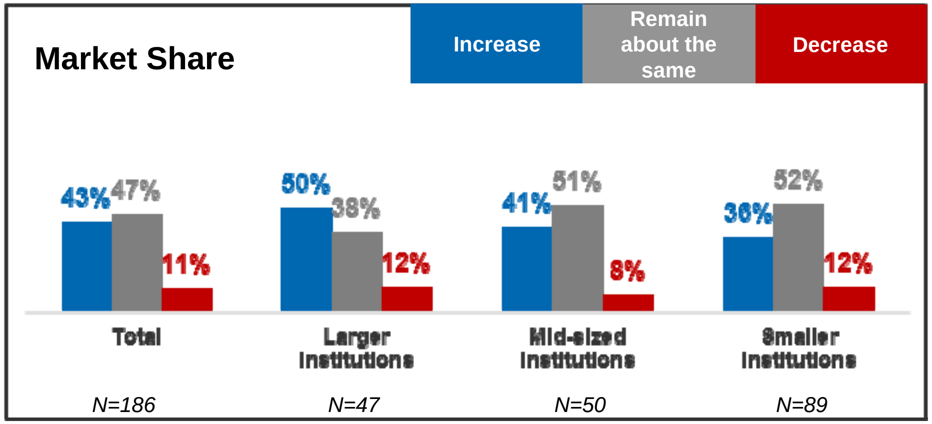
Impact of QM Rules

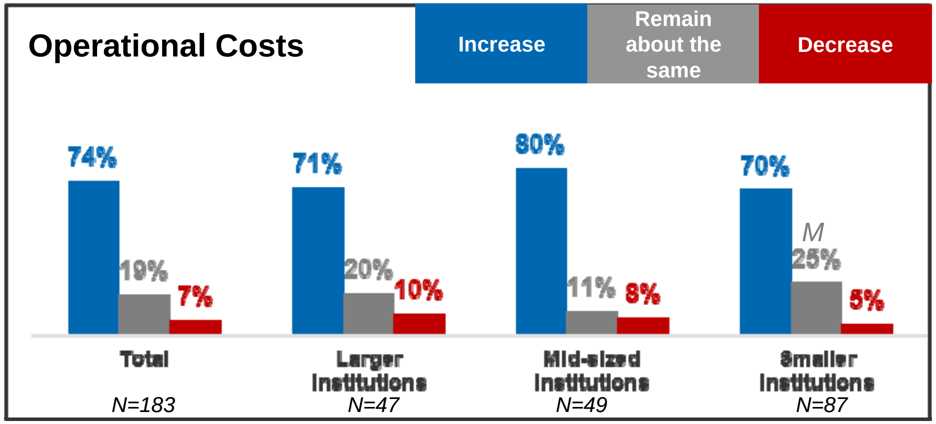
Most firms (74%) reported that they expect their operational costs to increase as a result of QM rules. In addition, lenders, on net, expect to tighten credit standards.

What impact do you anticipate Qualified Mortgage (QM) rules will have on your firm in the following areas?









"Ease" = Ease considerably+ Ease somewhat / "Tighten" = Tighten considerably + Tighten somewhat
"Increase" = Increase significantly + Increase somewhat / "Decrease" = Decrease significantly + Decrease somewhat
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable." Percentages may add to under or over 100% due to rounding.

Quality Control (QC) Review

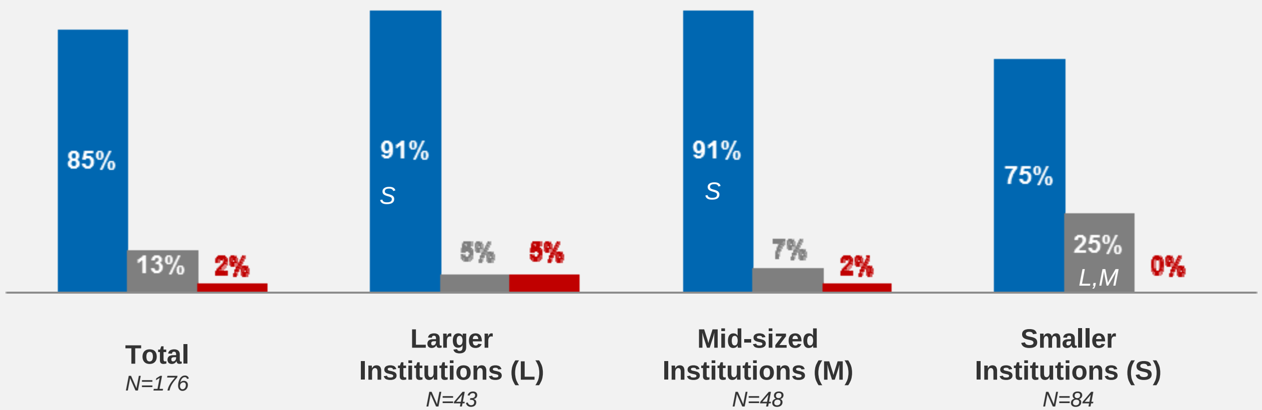
Most lenders (85%) say their costs for QC-related activities increased over the last 12 months, but agree that "their quality control investments will reduce their repurchase risk."

- **Smaller** lenders, however, are **less** likely to agree that "the quality control investments will reduce their repurchase risk.

How have your firms' costs for QC (Quality Control)-related activities changed over the last 12 months?

Increased	Remained about the same	Decreased

"Increased" = Increased more than 50% + Increased 25% - 50% + Increased 1% - 24%
"Decreased" = Decreased more than 50% + Decreased 25% - 50% + Decreased 1% - 24%

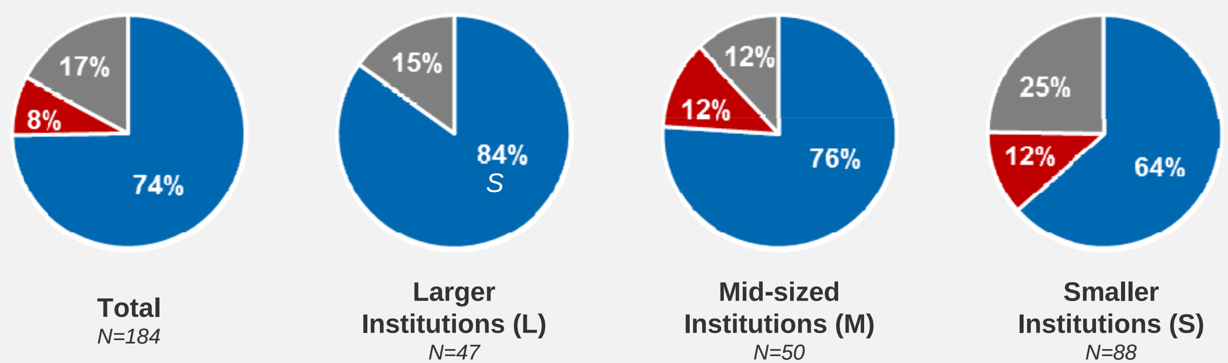


"My firm's quality control investments will reduce my repurchase risk."

Do you agree or disagree with this statement?

Agree	Neutral	Disagree

"Agree" = Strongly agree + Somewhat agree
"Disagree" = Strongly disagree + Somewhat disagree



L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable." Percentages may add to under or over 100% due to rounding.

APPENDIX

Survey Background

- The Fannie Mae Mortgage Lender Sentiment Survey is a quarterly online survey among senior executives of Fannie Mae's lending institution partners to provide insights and benchmarks that help mortgage industry professionals understand industry and market trends and assess their own business practices.
- Each quarter, the survey covers both regular tracking questions and specific industry topic questions:

Quarterly Regular Questions

- Consumer Mortgage Demand
- Credit Standards
- Mortgage Execution
- Mortgage Servicing Rights (MSR) Execution
- Profit Margin Outlook

Featured Specific-Topic Questions

- Business Strategies and Practices
- Industry Challenges, Opportunities, and Emerging Topics

Quarterly Reporting and Quarterly Special Topic Analyses

- Quarterly reports provide a timely view of trends on the topics listed above, such as consumer mortgage demand, lenders' credit standards, and profit margin outlook.
- Quarterly Special Topic Analyses provide insights into industry important topics.

Both reports can be found on the Mortgage Lender Sentiment Survey page on fanniemae.com: http://www.fanniemae.com/portal/research-and-analysis/mortgage-lender-survey.html

Mortgage Lender Sentiment Survey

Survey Methodology

- A quarterly, 10-15 minute online survey among senior executives such as CEOs and CFOs of Fannie Mae's lending institution partners.
- To ensure that the survey results represent the behavior and output of organizations rather than individuals, the Fannie Mae Mortgage Lender Sentiment Survey is structured and conducted as an establishment survey.
- Each respondent is asked 40-75 questions.

Sample Design*

- Each quarter, a random selection of approximately 2,000 senior executives among Fannie Mae's approved lenders are invited to participate in the study.

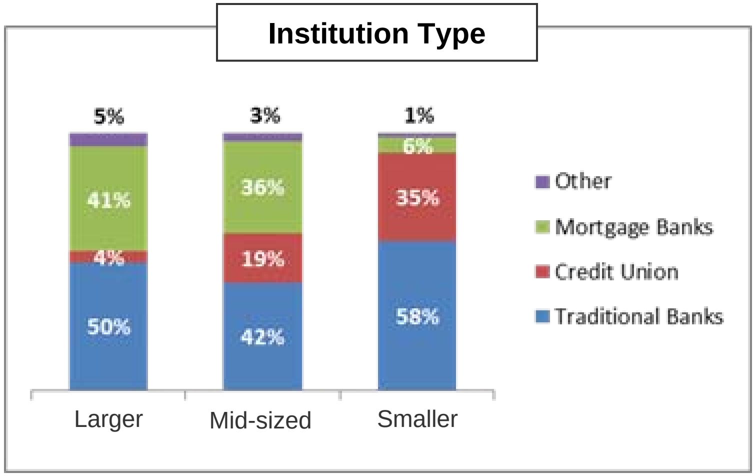
Data Weighting

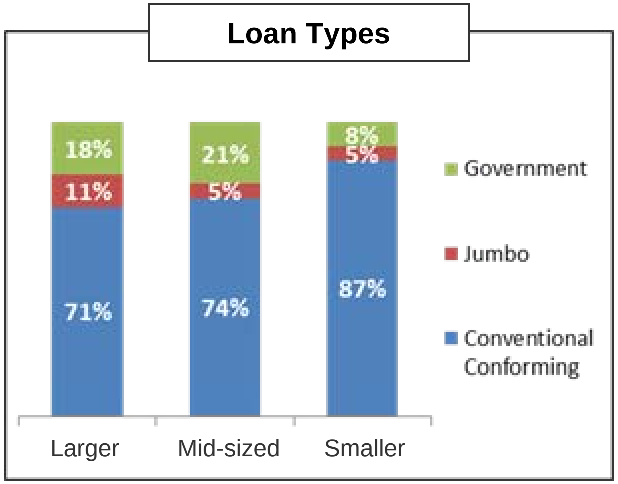
- The results of the Mortgage Lender Sentiment Survey are reported at the institutional parent-company level. If more than one individual from the same parent institution completes the survey, their responses are averaged to represent their parent institution.

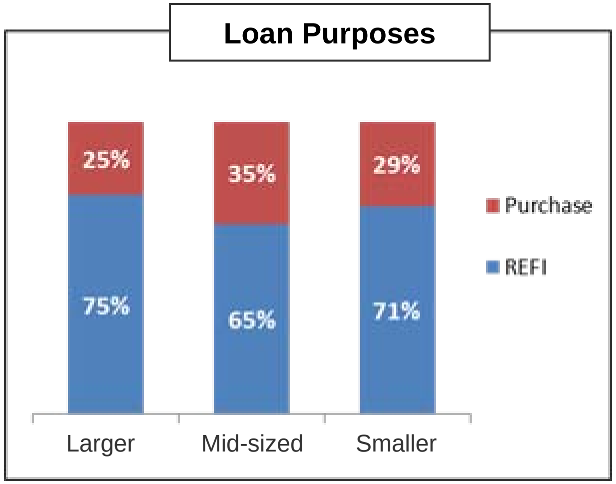
**The sample design is currently under advisement, and may change in future waves of the survey*

Fannie Mae Lending Institution Characteristics

Fannie Mae's customers that are invited to participate in the Mortgage Lender Sentiment Survey represent a broad base of different lending institutions that conducted business with Fannie Mae in 2012. Institutions were divided into three groups based on their 2012 loan volume - Larger (top 15%), Mid-sized (top 16%-35%), and Smaller (bottom 65%). The data below further describes the compositions and loan characteristics of the three groups of institutions.







2014 Sample Sizes

		Q1		Q2	
		Sample Size	Margin of Error	Sample Size	Margin of Error
Total Lending Institutions		**247**	**±5.65%**	**186**	**±6.69%**
Loan Origination Volume Groups	Larger Institutions	46	±12.77%	47	±12.60%
	Mid-size Institutions	51	±12.41%	50	±12.56%
	Smaller Institutions	150	±7.31%	89	±9.86%

Sampling quotas were adjusted from Q1 to Q2, with a slightly larger quota assigned to the larger loan volume group and a slightly smaller quota assigned to the smaller loan volume group, which might have contributed to some base-size (N) differences for some survey questions.

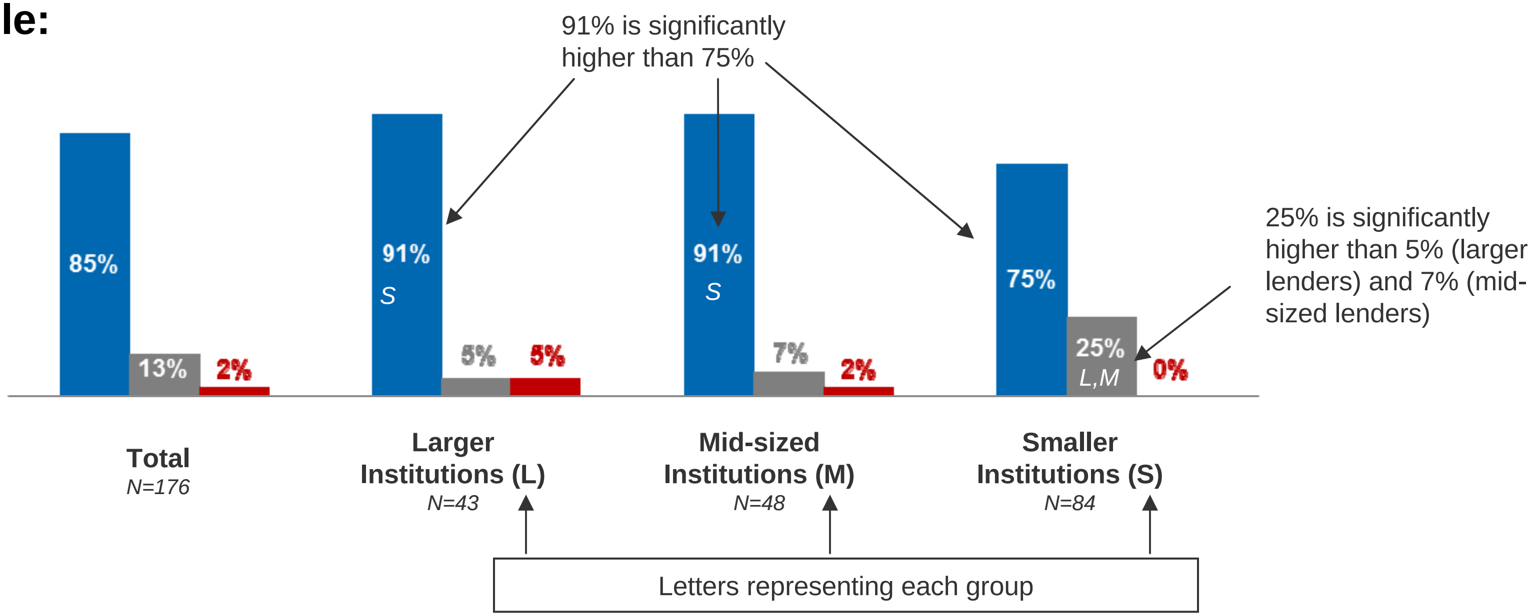
Q1 was fielded during March 4 – March 18, 2014.
Q2 was fielded during May 28 – June 8, 2014.

How to Read Significance Testing Between Loan Origination Volume Groups

On slides where significant differences between the three annual loan origination volume groups are shown:

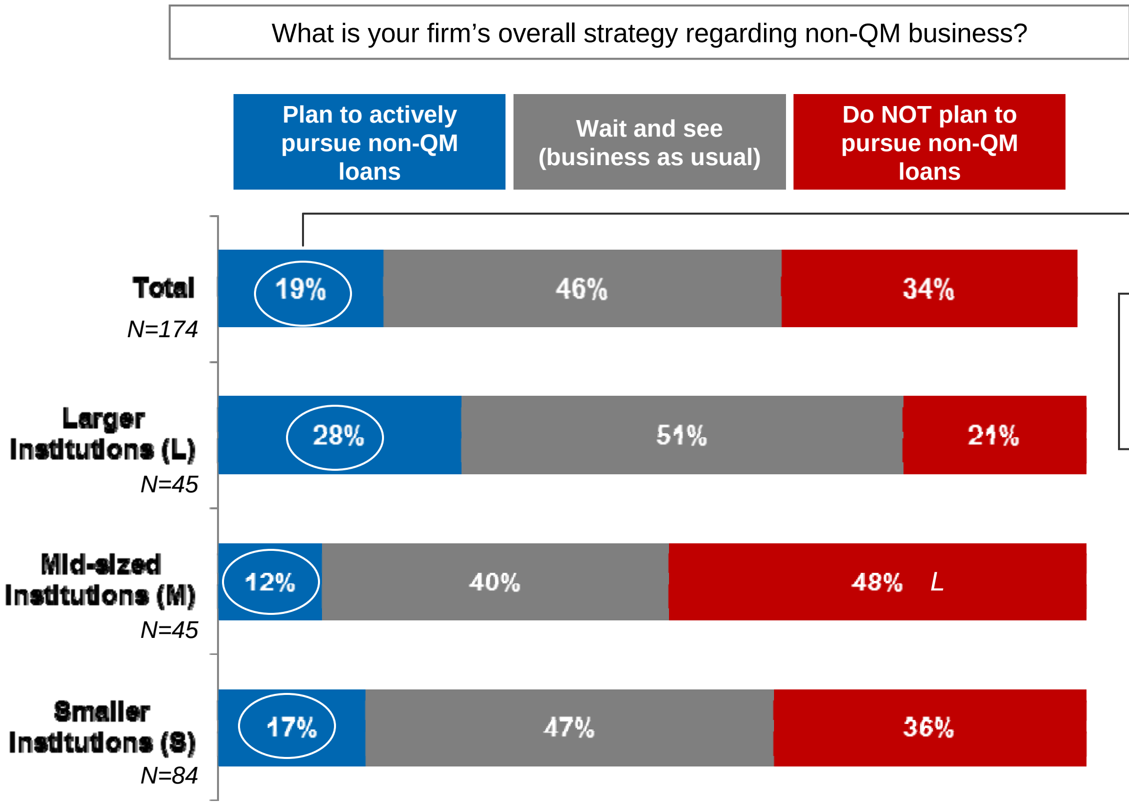
- Each group is assigned a letter (L/M/S)
- If a group has a significantly higher % than another group at the 95% confidence level, a letter will be shown next to the % for that metric. The letter denotes which group the % is significantly higher than.

Example:



Calculation of the "Total"

The "**Total**" data presented in this report is an average of the means of the three loan origination volume groups (see an illustrated example below). Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable." Percentages may add to under or over 100% due to rounding.



Example:

"Total" of 19% is

(28% + 12% + 17%) / 3

Question Text

qR2. What percent of your firm's total single-family mortgage origination dollar volume might NOT be considered qualified under the new rules?

Display: What impact do you anticipate Qualified Mortgage (QM) rules will have on your firm in the following areas?

- qR3. I expect that my firm's credit standards will…(ease considerably, ease somewhat, remain basically the same, tighten somewhat, tighten considerably)
- qR4. I expect that my firm's total single-family loan origination volume will…(increase significantly, increase somewhat, remain about the same, decrease somewhat, decrease significantly)
- qR5. I expect that my firm's market share will……(increase significantly, increase somewhat, remain about the same, decrease somewhat, decrease significantly)
- qR6. I expect my firm's operational costs will………(increase significantly, increase somewhat, remain about the same, decrease somewhat, decrease significantly)

qR7. What is your firm's overall strategy regarding non-QM business?

qR8. Approximately what percent of your total single-family mortgage origination dollar volume over the next 3 months will be non-QM loans? (Optional)

qR9. How have your firms' costs for QC (Quality Control)-related activities changed over the last 12 months?

qR10. "My firm's quality control investments will reduce my repurchase risk." Do you agree or disagree with this statement?

Disclaimer

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