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Survey of Mortgage Originators, Second Quarter 2017:

Higher DTI caps at Fannie Mae, & the Impact of Fed Reinvestment Ending

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The 2nd quarter marked the 15th Survey of Mortgage Originators. This survey covered lenders' experiences in the 2nd quarter of 2017 and included questions on the impact of Fannie Mae's increase to its DTI ratio as well as the FED's choice to end its program of reinvesting its portfolio of Treasuries and agency MBS

- Lenders' expected access to credit among prime borrowers to remain strong over the next six months, but *investor* interest appears to be flattening, perhaps in a lean towards sectors with moderate amounts of risk.

- Non-QM lending remained in low gear as the share of lenders offering them as well as willingness to lend moderated. An increasing share of lenders were waiting for better investor takeout for non-QM loans.

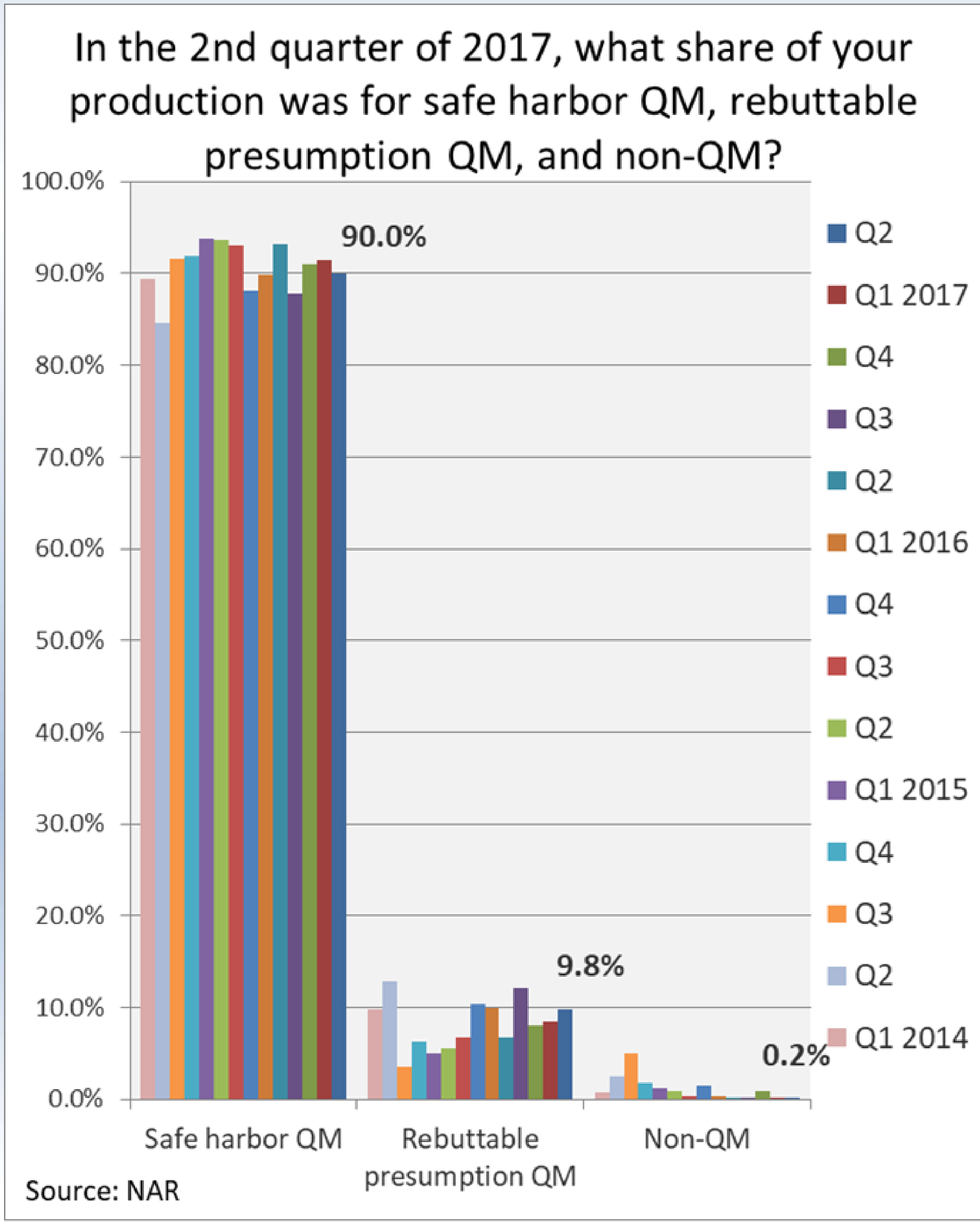
- Rebuttable presumption lending gained steam in both the share of lenders offering it and willingness to originate.

- 57.1 percent of responding lenders felt that Fannie Mae's decision to increase its cap on DTI to 50 percent would expand access to credit and lending volumes.

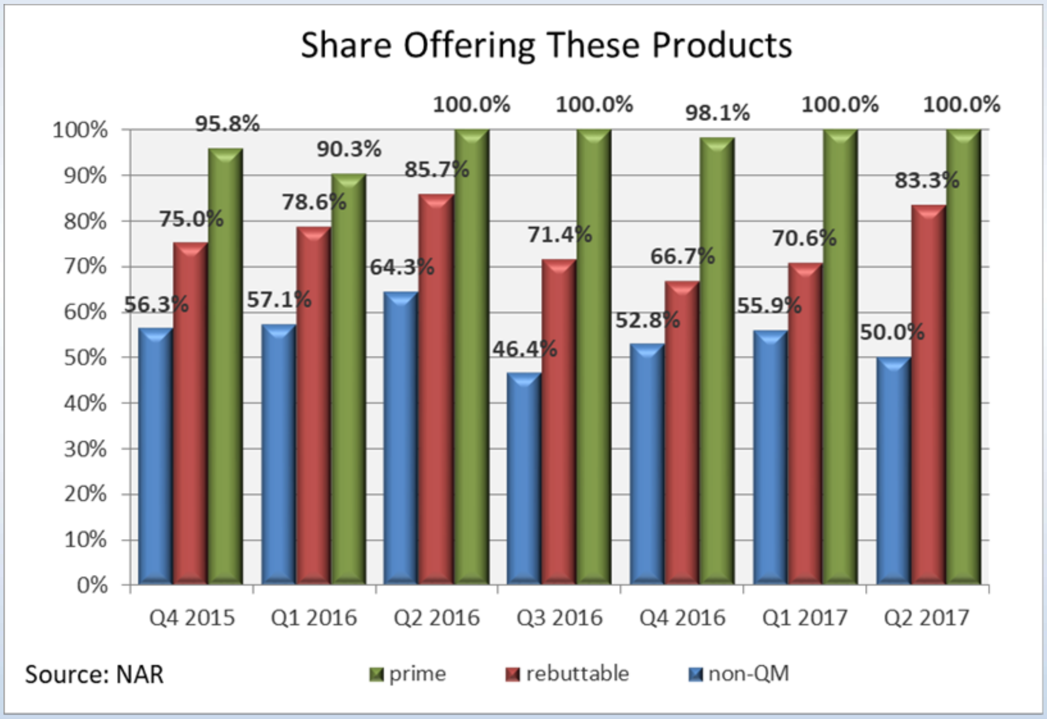
- Just 14.3 percent of respondents planned to add an overlay on borrowers with DTIs between 45 percent and 50 percent with an average fee of 0.5 percent.

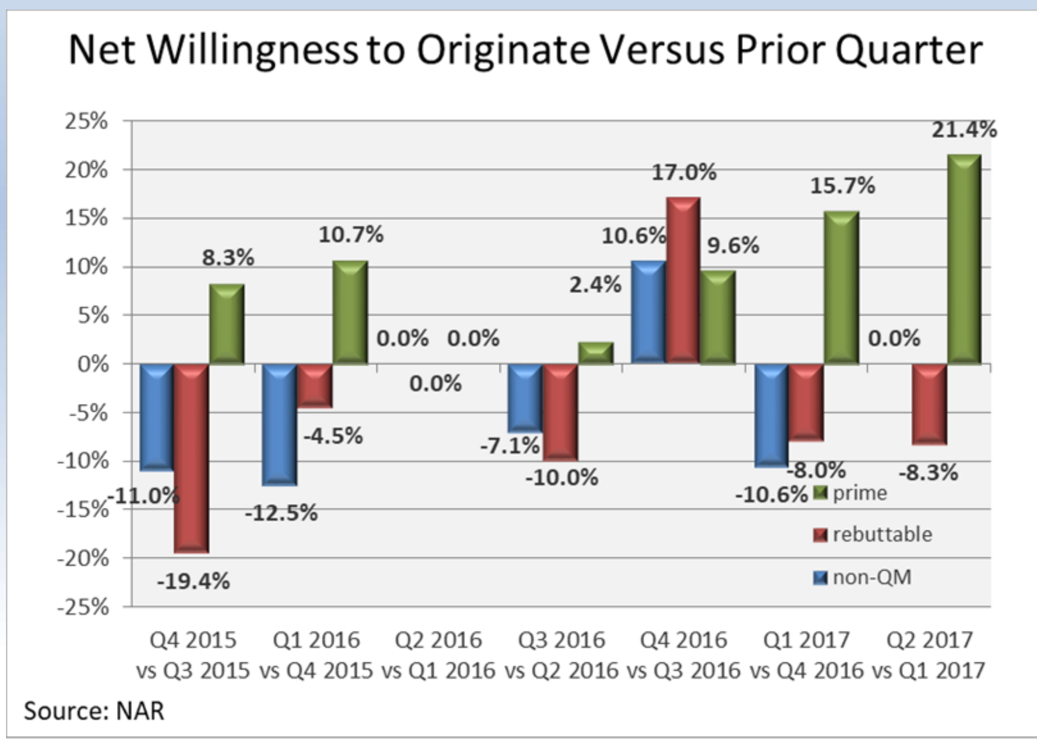
- More than 70.0 percent percent of respondents expect rates to rise as a result of the Fed ending its reinvestment program. A majority of these borrowers also expect rates to become more volatile, while only 7.1 percent expect no change. A 0.5 percent rate increase was most commonly cited by respondents and 40 percent expect this to be priced in in advance of a move by the Fed.

Non-QM lending remained near zero for the second consecutive quarter. However, the share of rebuttable presumption loans rose to its highest level in a year at 9.8 percent.

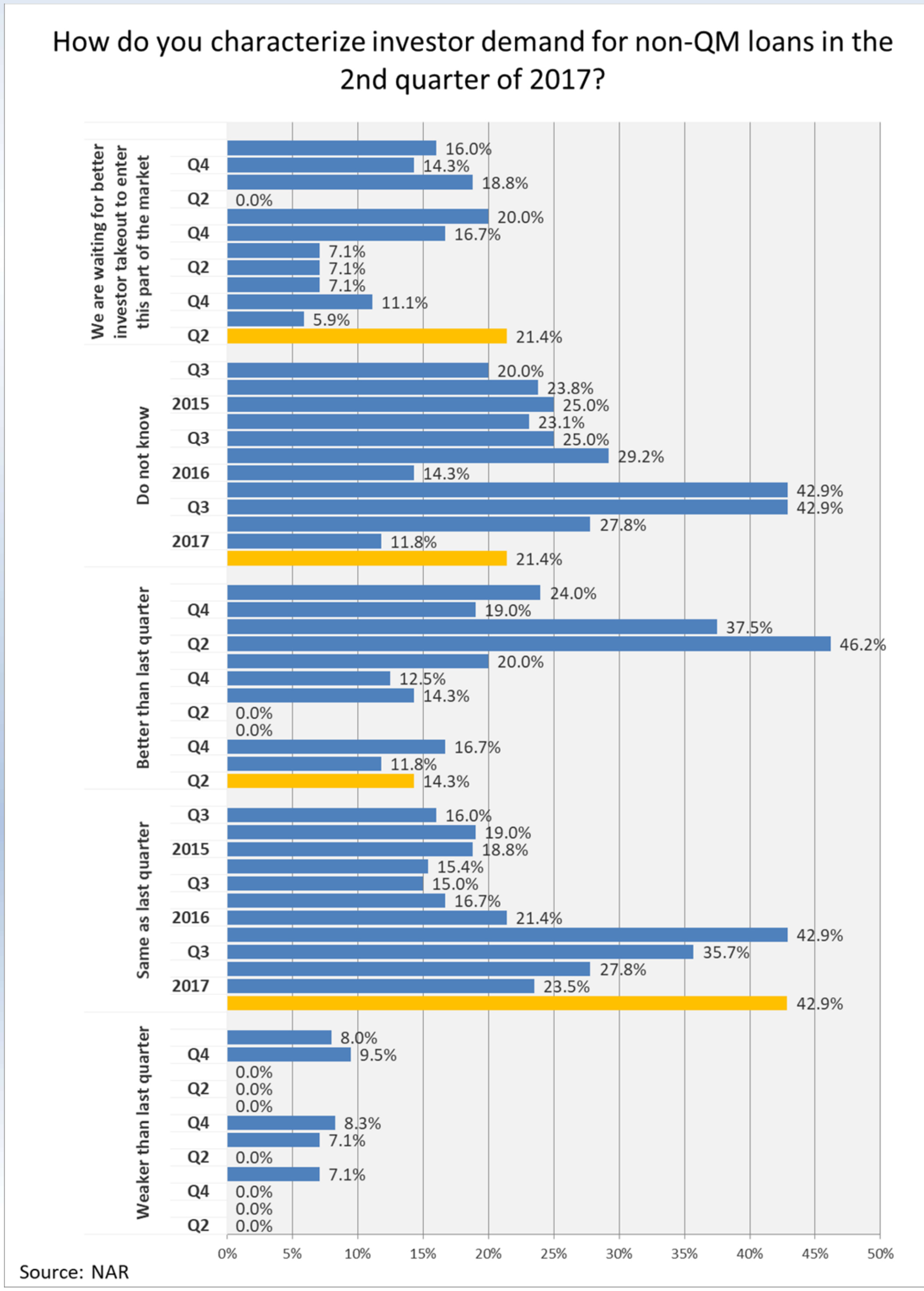


The share of lenders that originate non-QM slipped to just half of participants in the survey, its lowest level in three quarters. After slipping last quarter, net willingness to offer non-QMs held steady while it slipped for rebuttable presumption loans. Despite anecdotes and some evidence of lenders chasing risk, participants in this survey appear to be more cautious.

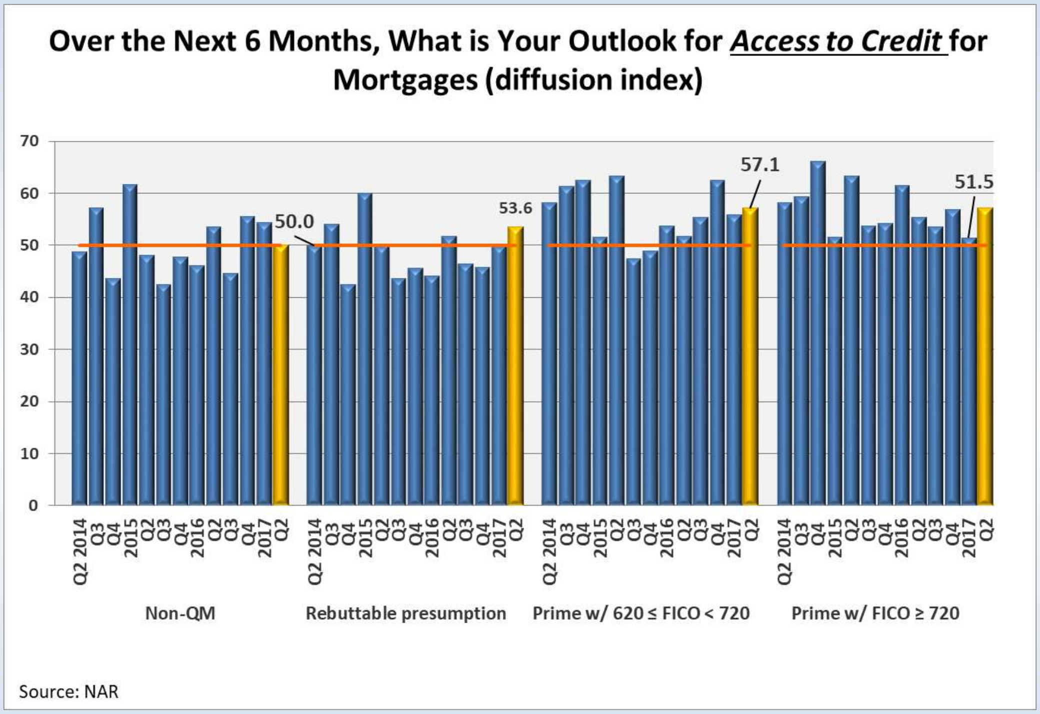




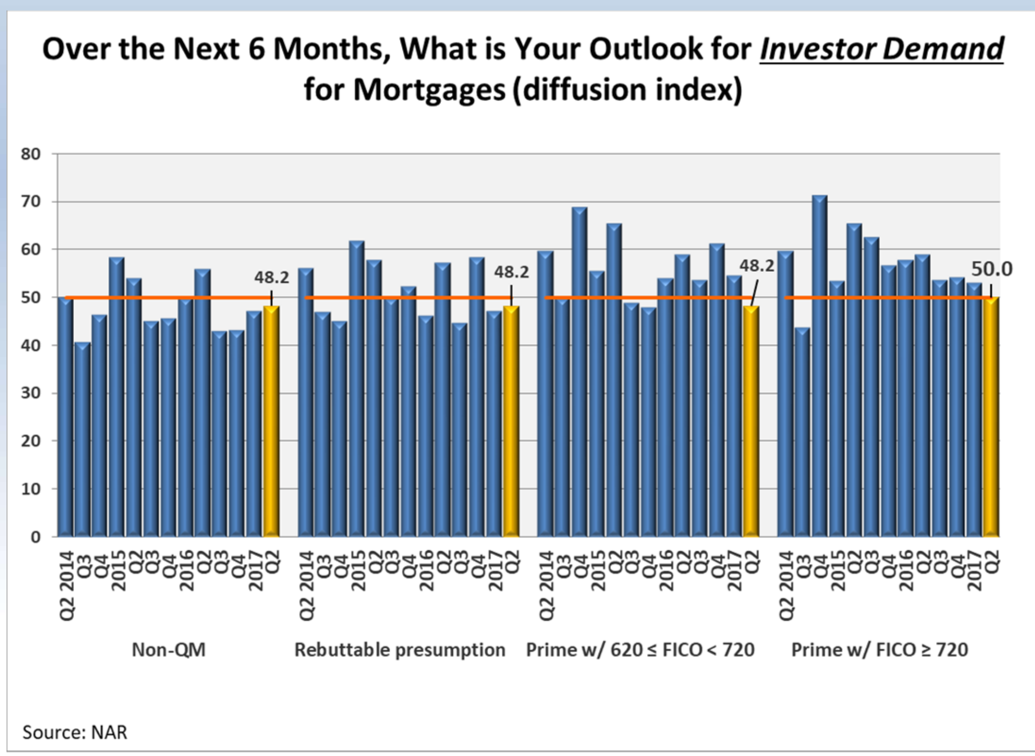
In*vestor* demand for non-QM loans was unchanged in the 2nd quarter. However, 21.4 percent were waiting for better investor takeout, which suggests that lenders may venture into the non-QM space in the future. In deed, press reports in July noted one new investor in the non-QM space



Lenders expect stronger growth for all groups that fall within the QM space, but in particular for rebuttable presumption lending…

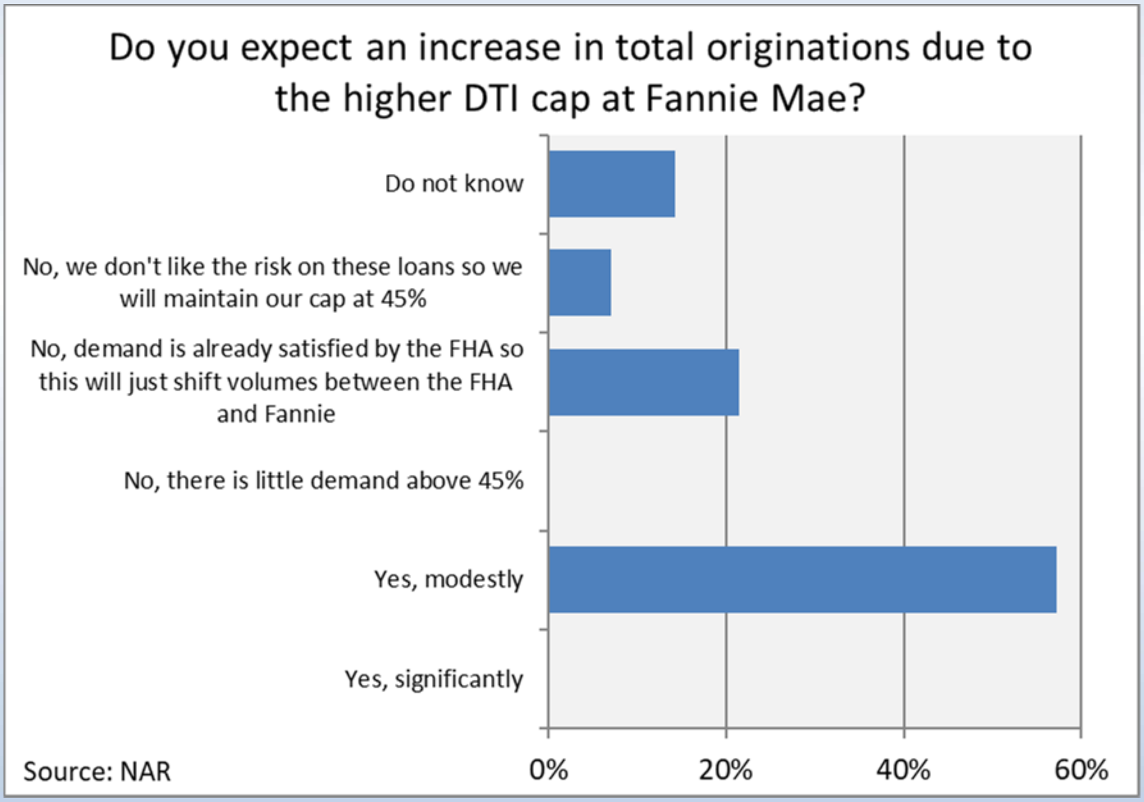


…while investor interest is expected to improve for non-prime but remain weak



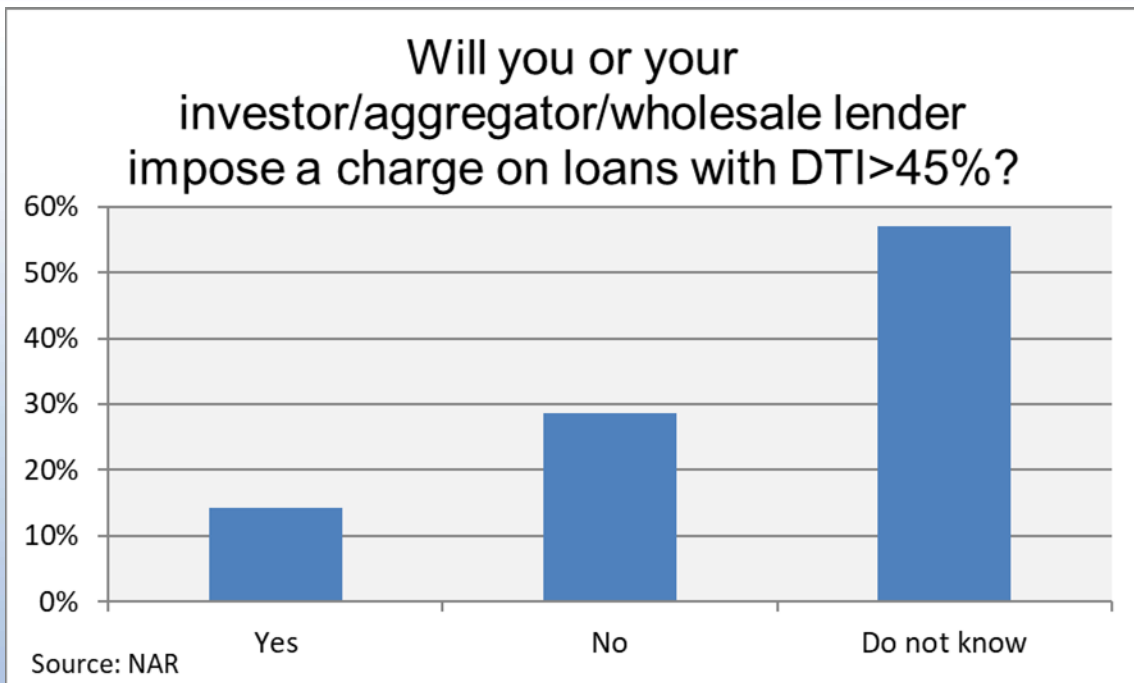
POLICY ISSUES:
HIGHER DTI AND AN END TO FED REINVESTMENT

In July, Fannie Mae began buying/insuring loans with DTIs up to 50 percent, up from 45 percent. The increased DTI could represent more risk to lenders.

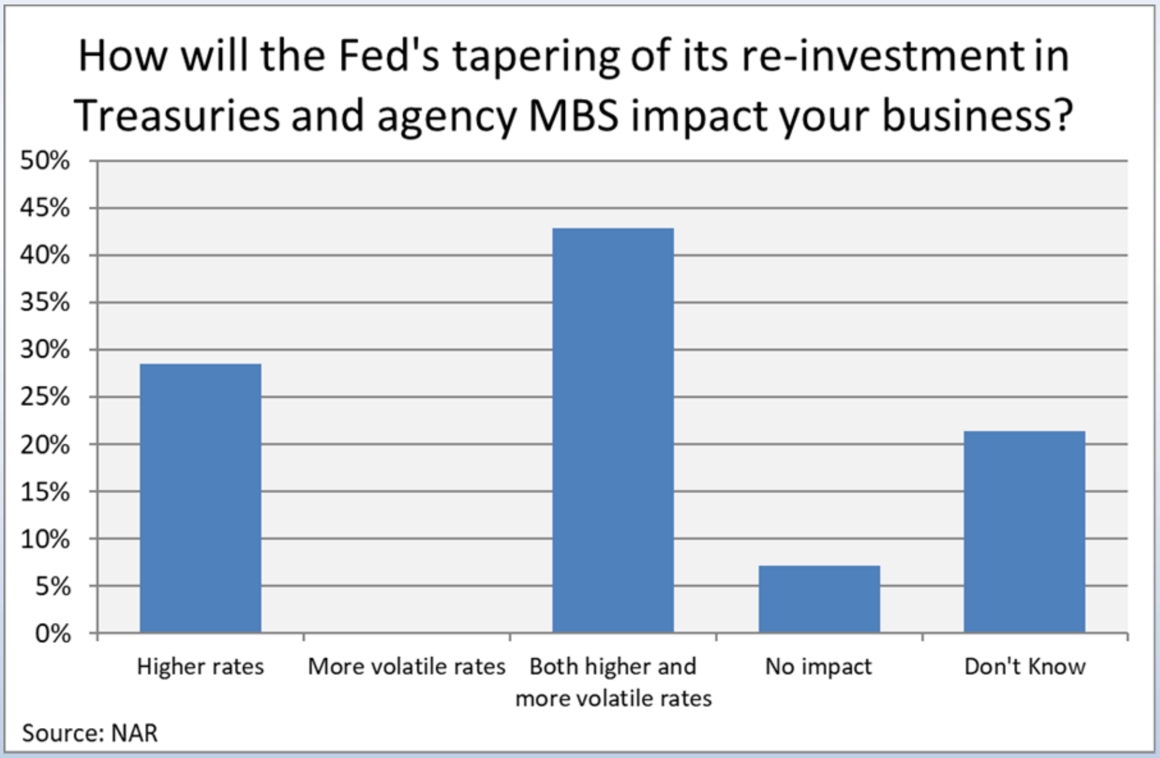


57.1 percent of lenders in the survey indicated that the change would result in an increase in total originations as more borrowers take advantage of the change. Only 21.4 percent felt that this demand was already served by the FHA and 7.1 percent felt that the risk was too great.

When asked whether they or the investor/aggregator with whom they work would impose an overlay or charge on loans with DTI>45 percent, only 14.3 percent indicated that they would with an average fee of 0.5 percent. 75.1 percent were still uncertain.

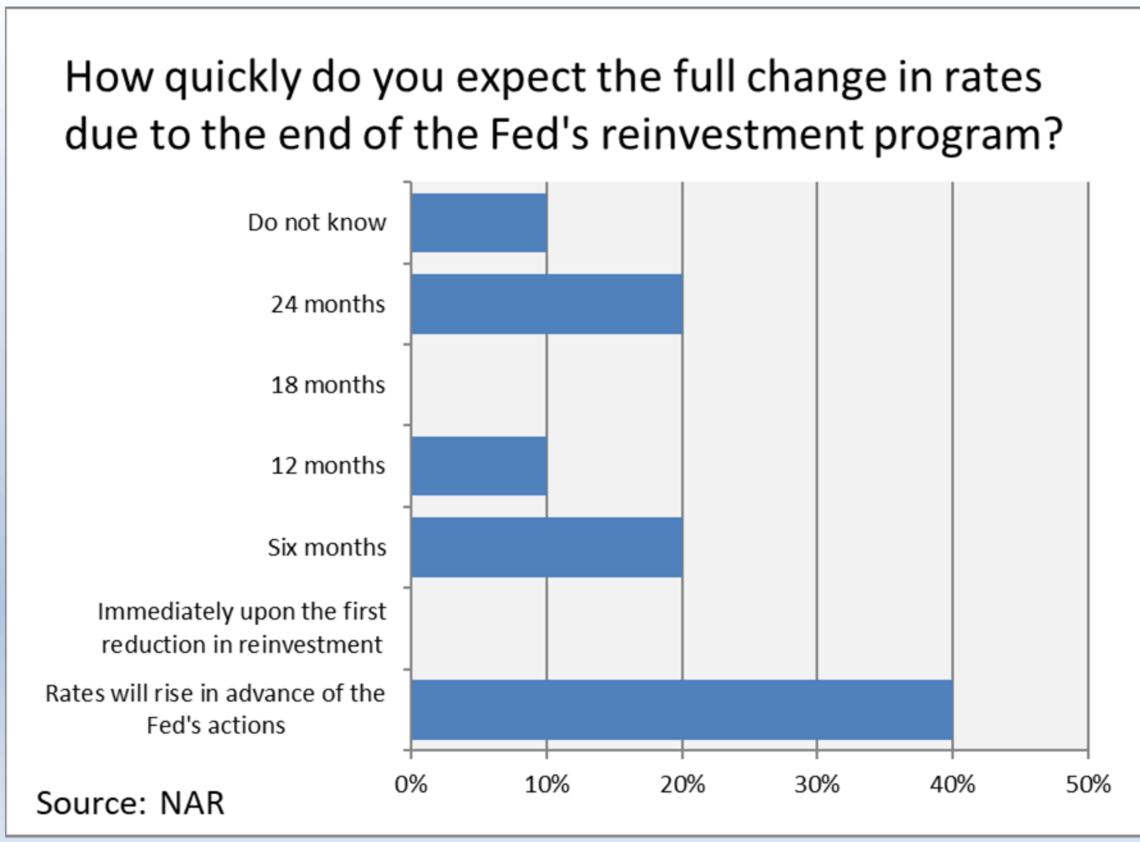


After several years of reinvesting principle from its holdings of Treasuries and Agency MBS, the Fed has indicated an imminent change in this policy.



When asked about an end to the Fed's reinvestment program, 28.6 percent of lenders felt that the change would cause rates to rise. An additional 42.9 percent thought that rates would rise and become more volatile. Only 7.1 percent expected that the change would not have an impact on rates.

40 percent of respondents thought the impact from the end of the FED's reinvestment program would be felt in advance of implementation. However, 30 percent felt that the full impact would take 6 to 12 months to be absorbed and another 20 percent thought it would take up to two years. A 50 basis point increase in average mortgage rates was the most frequently cited impact.



Appendix:
Survey Methodology

- 135 lenders were surveyed
- The survey was conducted from April 10th through April 28th
- This survey is predominately of non-bank lenders, but includes a significant share of small to mid-size banks and credit unions as well as one wholesale lender.
- The response rate was 11.1 percent
- The sample is a geographically diverse group of lenders focused on the purchase market
- Lenders' size by annual unit-volume rose slightly from the 2nd quarter survey

Questions can be directed to Ken Fears at kfears@realtors.org

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