National Association of REALTORS®

Fourth Survey of Mortgage Originators 2014:

RHS, Consumer Constraints, and Rate Expectations

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Executive Summary

The 3rd quarter survey continues with monitoring of the mortgage lending market in the wake of the Qualified Mortgage rule. However, this quarter the survey has expanded to measure lender expectations of market conditions and capacity as well as current policy issues including changes at the RHS and lending headwinds. The panel of respondents includes members of Community Mortgage Lenders of America.

Highlights of the Survey

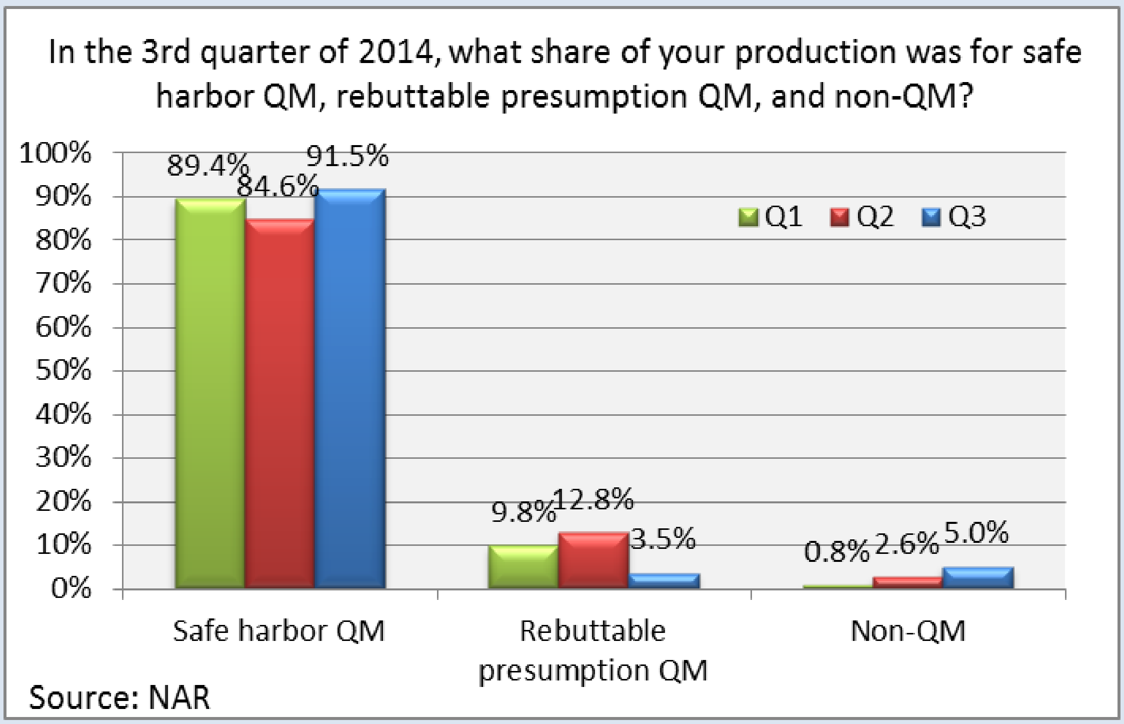
- The non-QM share of originations nearly double in the 3rd quarter to 2.6%. However, the rebuttable presumption share tumbled from 12.8% to 3.5% over this same time frame.
- Respondents' confidence in their preparations for the QM/ATR rules eroded again in the 3rd quarter, with just 58.3% indicating that they had fully adapted compared to 61.9% in the 2nd quarter.
- The net share of lenders offering rebuttable presumption and non-QM products increased from the 2nd to the 3rd quarter. Willingness to originate non-QM mortgages fell dramatically from the 2nd quarter, but the decline was less dramatic for rebuttable presumption mortgages. Lenders were more willing to originate prime mortgages with the exception of those with lower FICOs.
- 24% of lenders felt the investor takeout for non-QM loans had improved from the 2nd quarter.
- The QM rule continues to dog lenders with 64% indicating having had an issue closing a loan in the 3rd quarter due to some facet of the rule, and an increase in the share of lenders using buffers in advance of the QM requirements.
- Over the next 6 months, respondents expect improvements in demand for all products, but more so for non-QM and rebuttable presumption loans. The majority of respondents expect improved investor demand for all mortgage types, but some expect softening.
- Slightly more respondents indicated fewer pre-approvals in the 3rd quarter compared to a year earlier, but half indicated having more than normal level or preapproved borrowers who could not find a property.
- Respondents indicated a median forecast for mortgage rates to rise to 4.5% over the next six months.
- 66.6% indicated that the increase in fees at the RHS would have an impact on RHS lending in their area
- Overlays were the largest headwind to the market followed by documentation and DTI, suggesting that the QM rule is having an impact

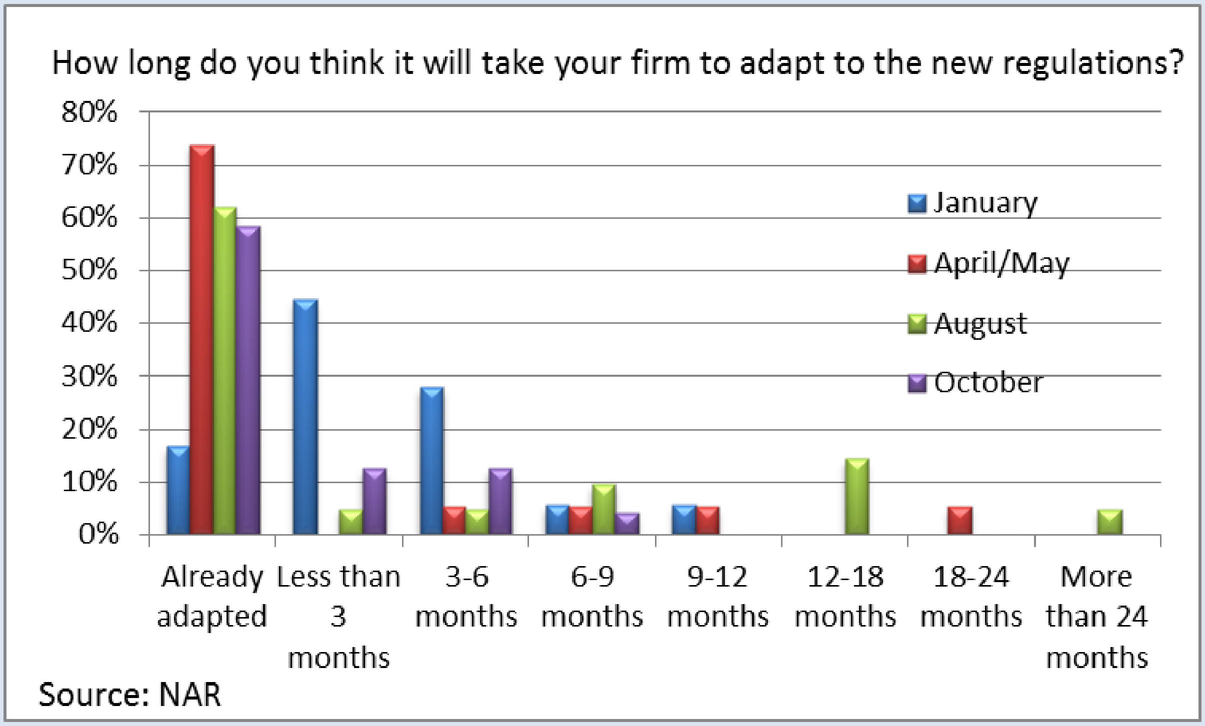
- Finally, 87.5% of respondents indicated that repurchase requests were a concern.

Market Dynamics and Willingness to Lend

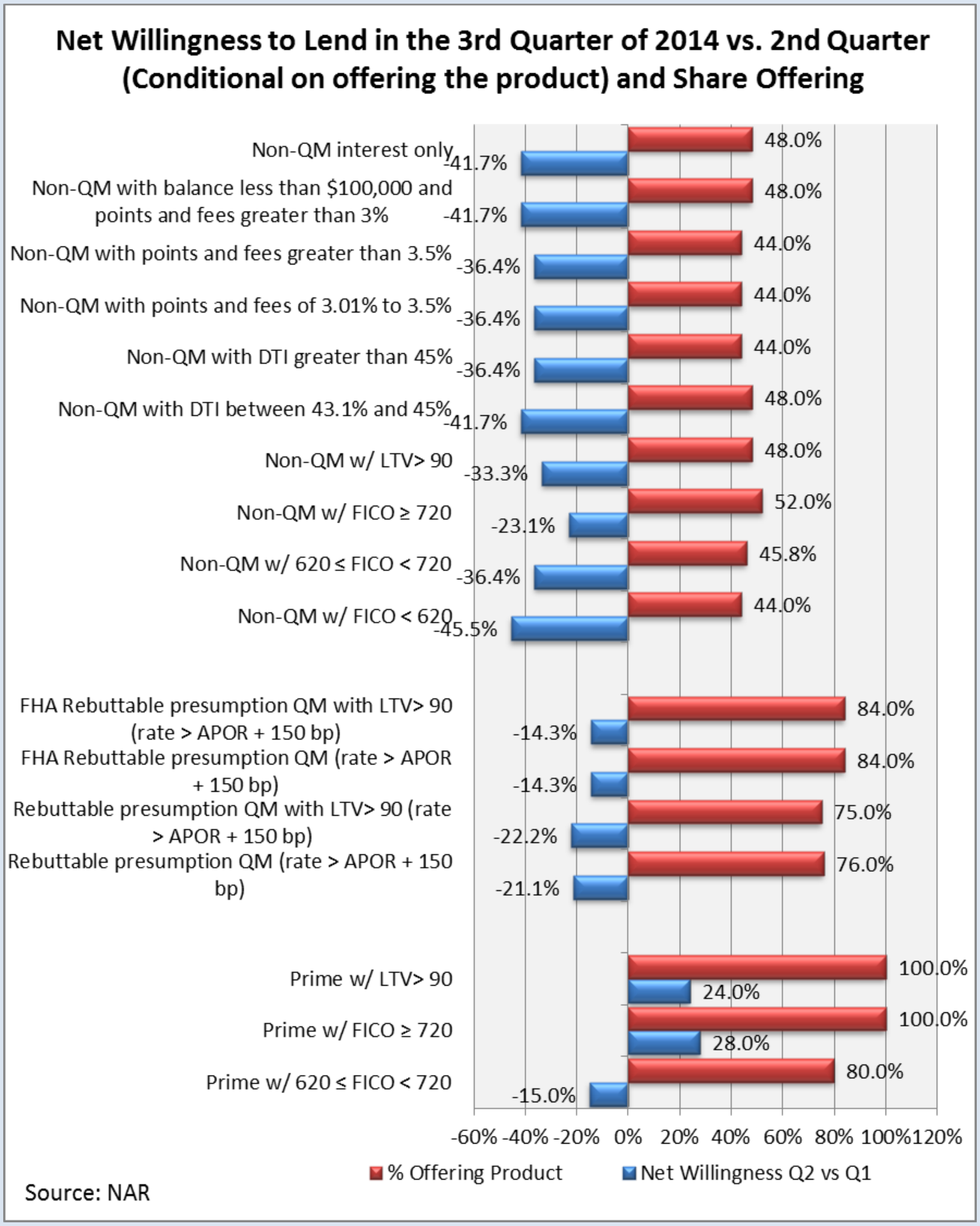
NAR's first Survey of Mortgage Originators queried originators about their expectations for the QM/ATR environment and their anticipated operational changes. This survey continues to monitor the new market segments created by the QM rule and lenders' outlook for each.

Respondents indicated a production-weighted share of 5.0% for non-QM loans in the 3rd quarter, nearly double the 2.6% share from the 2nd quarter. However, the rebuttable presumption share fell sharply from 12.8% to just 3.5%. Interest rates fell to their lowest levels in nearly 12 months by the end of the 3rd quarter. Interest rate changes have a larger impact on the higher-priced portion of the market which also prefers interest-only (non-QM) products.

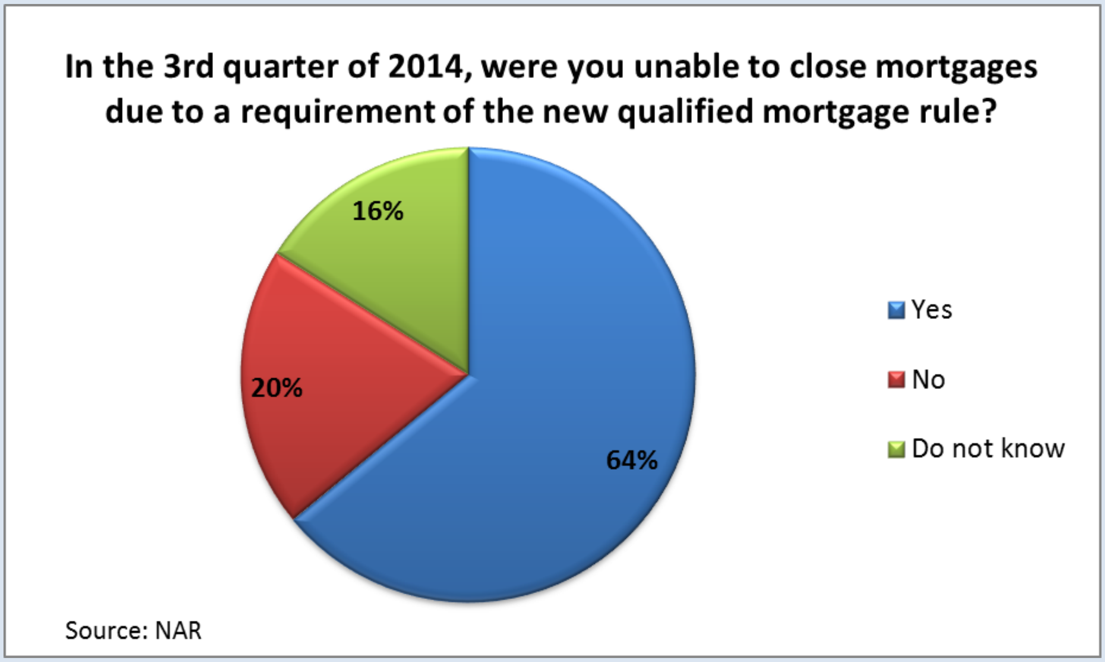




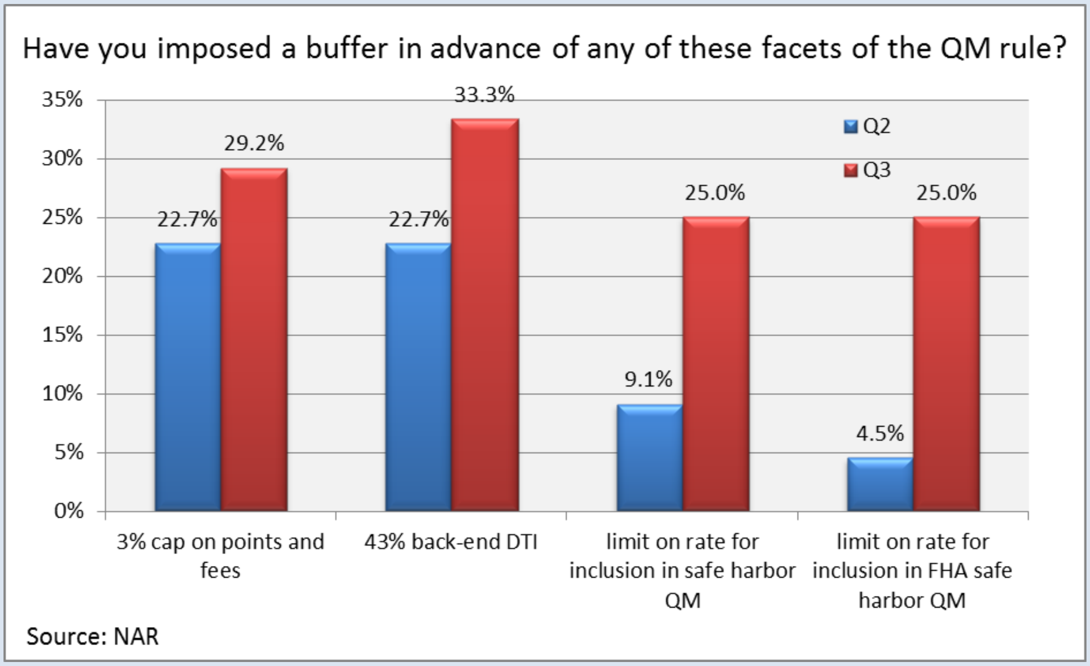
Following the pattern set last quarter, fewer originators indicated that they had fully adapted to the new rules in October. Just 58.3% of respondents indicated that they had adapted, down from 61.9% a quarter earlier. However, the distribution shifted noticeably toward adaptation, with an additional 25% indicating they would be adapted within 6 months and no respondents indicating that it would take longer than 9 months to comply. This shift could point to an altered view on the time to fully implement underwriting changes, to overcome lingering investor confidence issues, or to identify potential litigation costs.



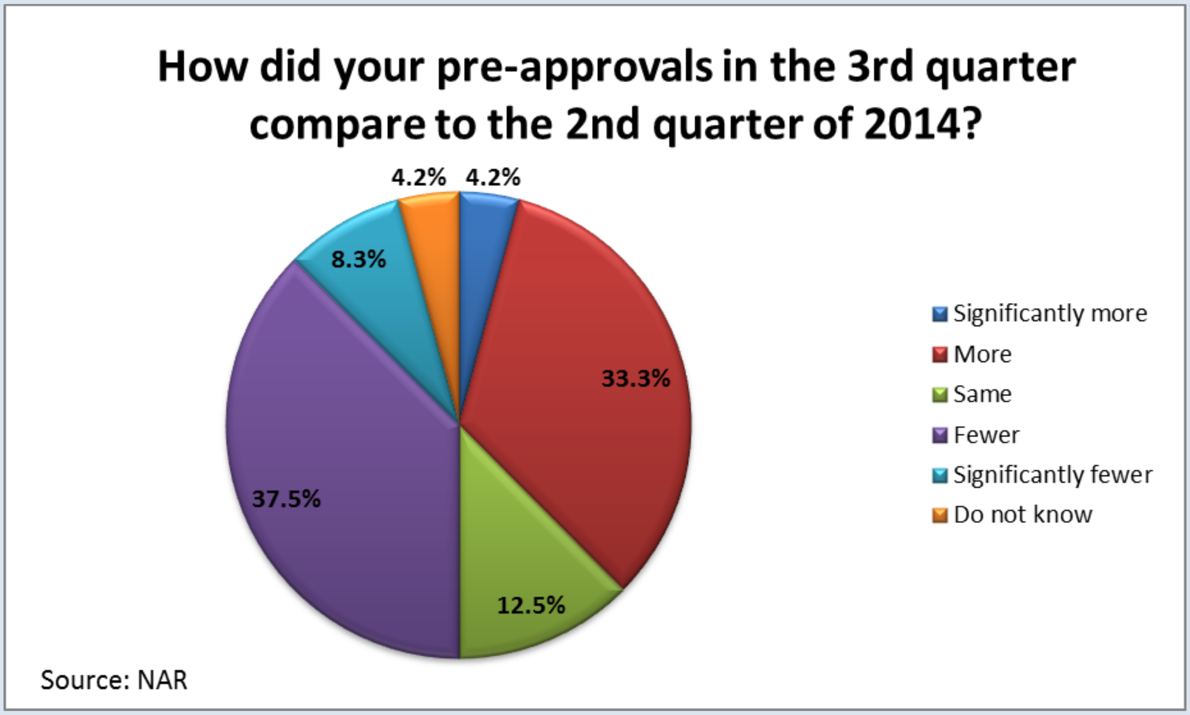
The share of originators offering rebuttable presumption mortgages increased modestly from 83.3% to 84.0%, in the 3rd quarter. However, willingness to lend these products in the 3rd quarter eased relative to the 2nd quarter suggesting some tightening. The share of lenders offering non-QM products increased across all characteristics, though willingness to extend credit fell dramatically across all non-QM segments. Finally, both the share offering and willingness to extend credit to prime borrowers increased with the exception of borrowers with FICOs between 720 and 620; the market for this group shrank from 95.7% to 80% and willingness to lend declined by 15.0%.



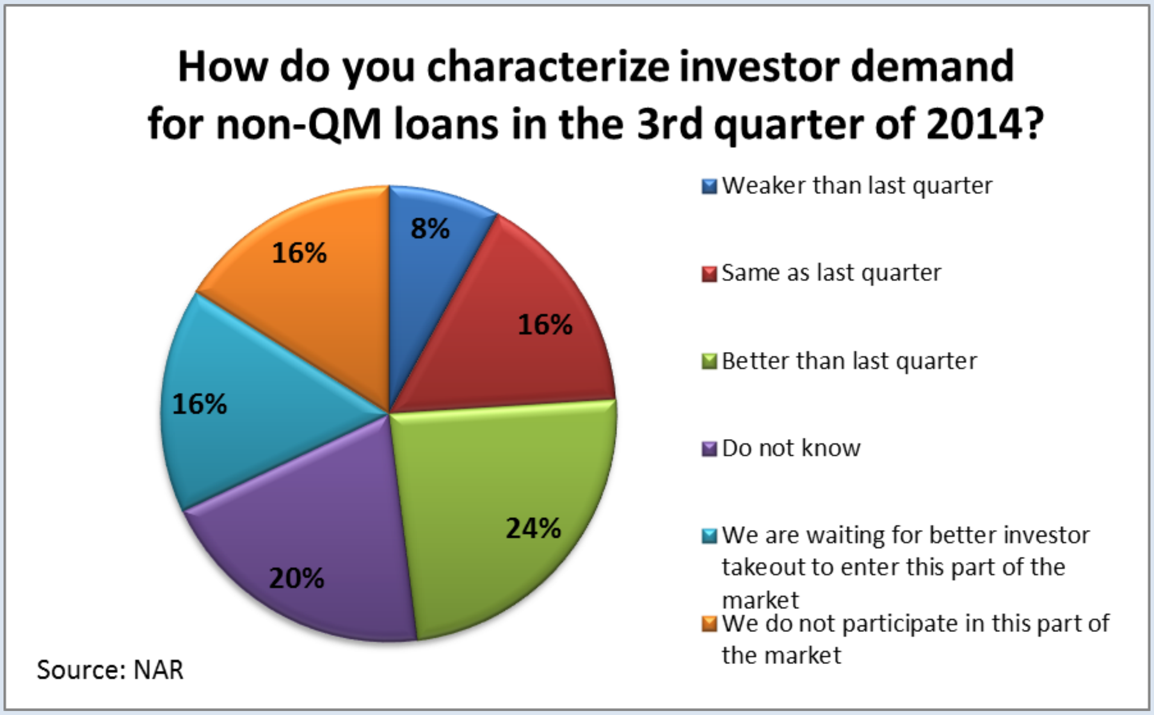
The share of respondents that had issues closing mortgage(s) due to some facet of the qualified mortgage rule (QM) eased from 66.7% in the 2nd quarter to 64.0% in 3rd quarter. Only 20% of the survey respondents indicated not having an issue.



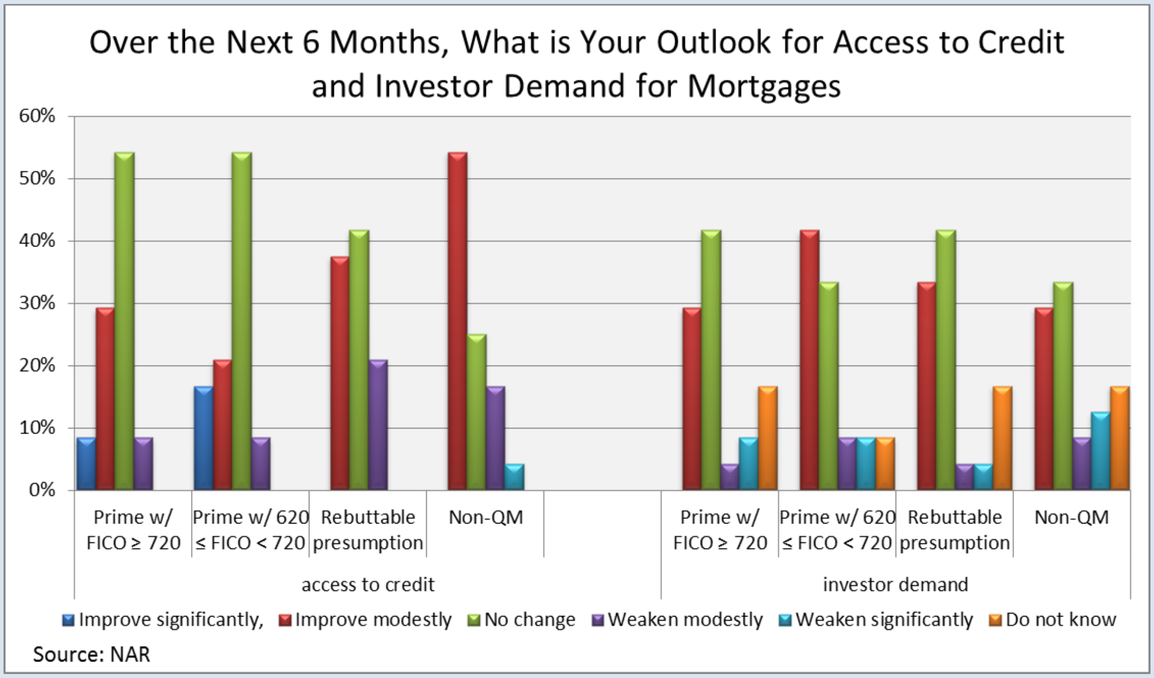
Some lenders have opted for buffers ahead of the QM parameters to prevent producing a rebuttable presumption or non-QM mortgage. The use of buffers increased in the 3rd quarter and was most common on the 3% cap and 43% back-end DTIs requirements with 29.2% and 33.3% of respondents using them, respectively. The share of respondents that used buffers ahead of the pricing delineation between rebuttable presumption and safe harbor standard definitions of QM jumped more than five-fold from the 2nd to the 3rd quarter.



Relative to the 2nd quarter, pre-approvals for a home purchase were slightly lower on net. 37.5% of respondents indicated either more or signficantly more pre-approvals, while 45.8% indicated either fewer or signficantly fewer.



Takeout for non-QM and rebuttable presumption loans is a significant concern for lenders with small or no portfolios. 24% indicated that they saw stronger investor demand for non-QM loans in the 3rd quarter, while 8% thought it was weaker. An additional 16% are waiting for better investor takeout before entering the non-QM portion of the market, a sign that the non-QM pricing and volumes could improve in the future.

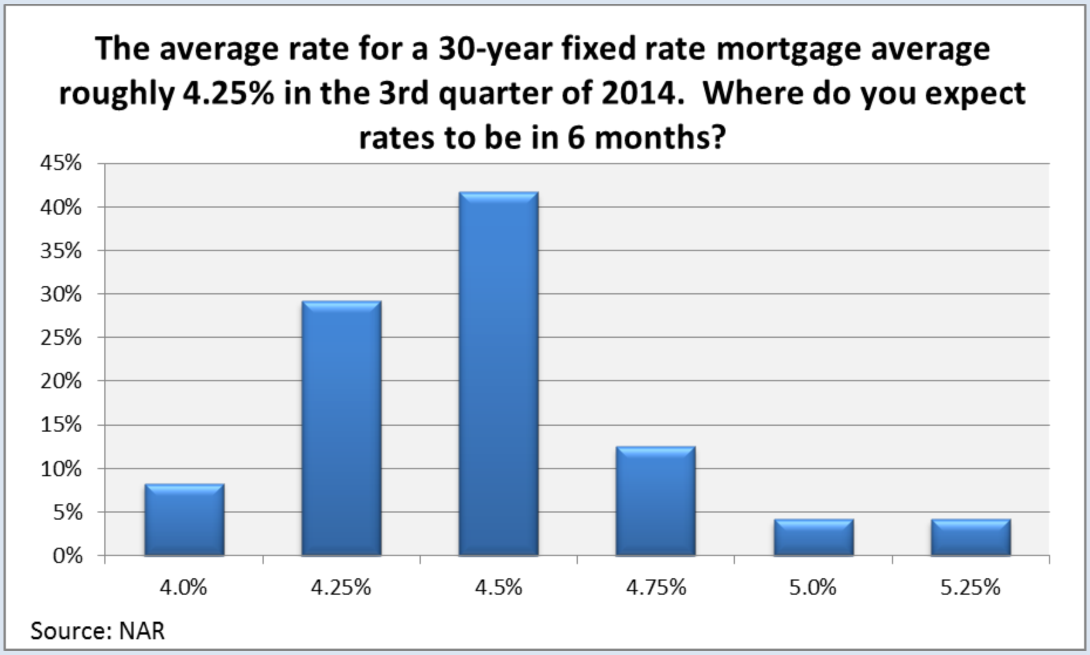


Looking to the 4th quarter of 2014 and early 2015, 37.5% of respondents expected improved access to credit for prime borrowers with FICO scores between 620 and 720 and nearly as many expect improvement for rebuttable presumption borrowers. However, a clear majority of respondents (54.2%) expected improvement in access for non-QM loans, while small minorities of roughly 20% expect access for rebuttable presumption and non-QM to decline over the next six months.

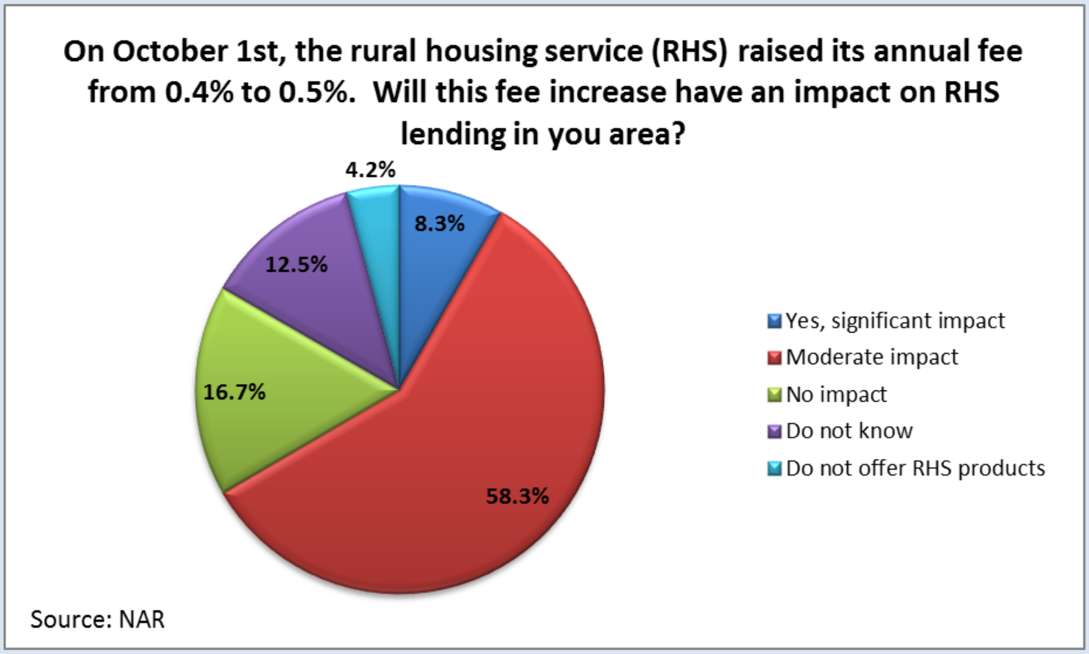
More than 30% of respondents expected investor demand for both rebuttable presumption QM (33.3%) and prime borrowers with credit scores between 620 and 720 (41.7%) to improve. Interest in non-QM lending was also expected to improve, roughly in line with that of high FICO, prime lending.

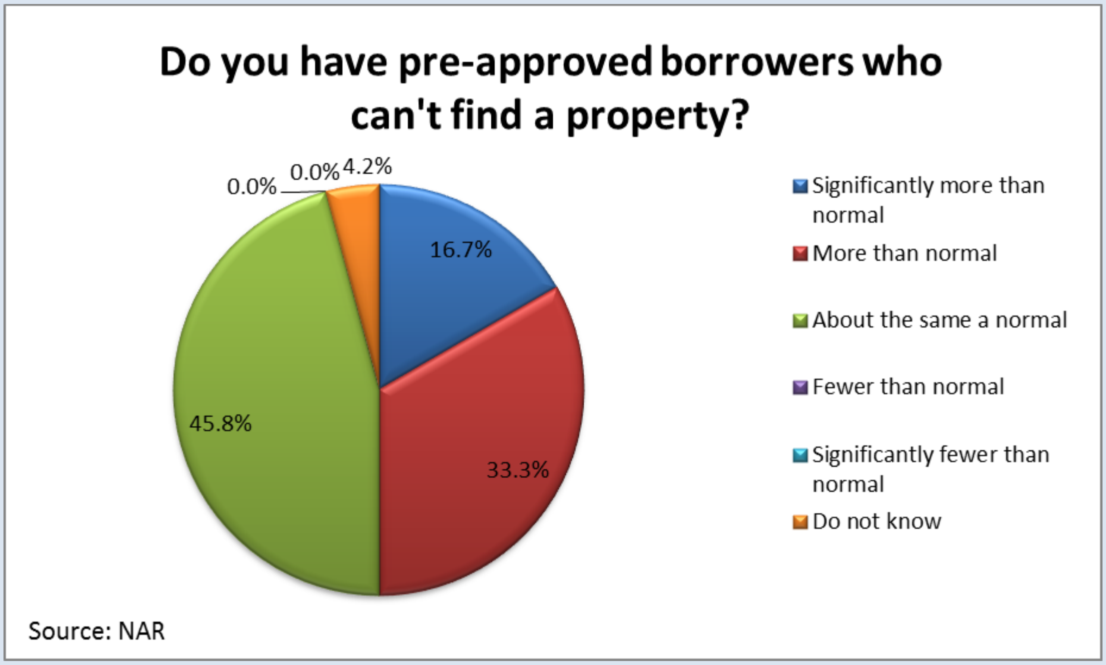
Other Industry and Policy Issues

In a bit of a surprise, mortgage rates eased in the second half of 2014 due to concern of an economic slowdown in Europe and continued instability in Eastern Europe. Respondents were asked their expectations for mortgages rates over the coming 6 month period. The median response was 4.5%.



The Rural Housing Service increased the fee it charges to users of the program. Originators were asked if the fee, which was raised from 0.4% to 0.5% on an annual basis or $17 per month for a $200,000 mortgage, would have an impact on lending in their area. The vast majority indicated that it would have an impact with 58.3% indicating that the impact would be moderate and 8.3% specifying that it would be significant. Just 16.7% responded that there would be no impact.

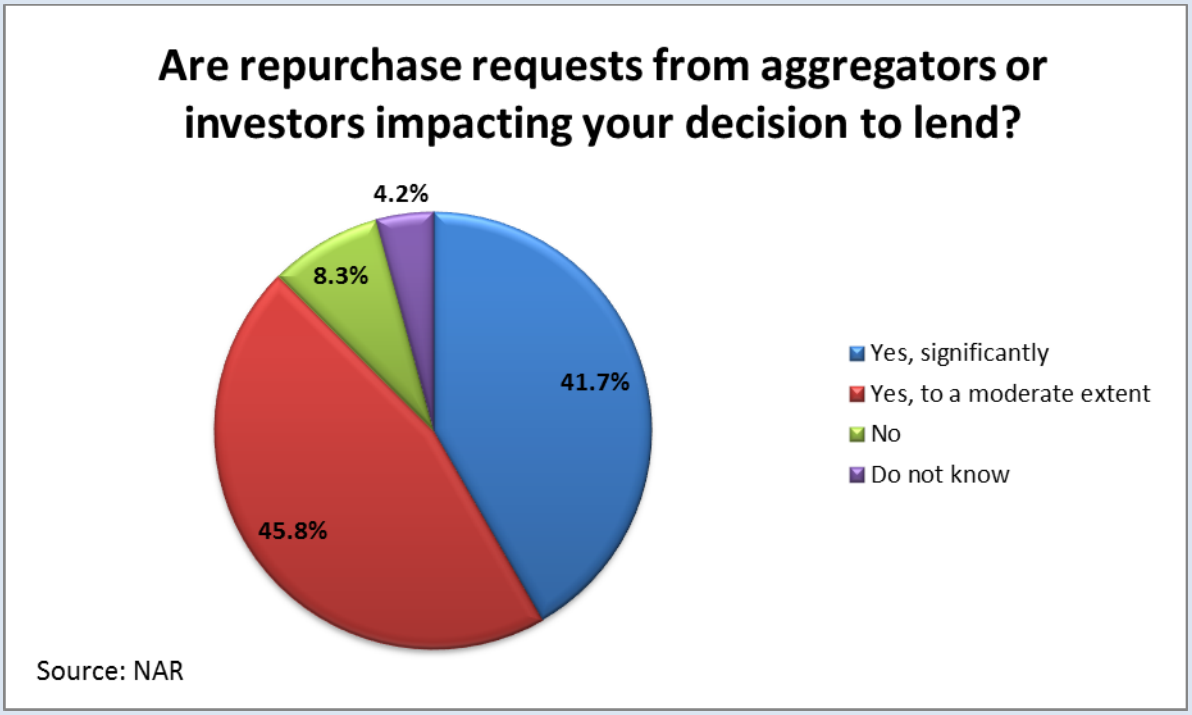




According to NAR's 2014 Profile of Home Buyers and Sellers, the share of first-time buyers fell from 38% in 2013 to 33% in 2014, the lowest level in 27 years. Factors driving the decline in first-time buyer participation are ascribed to a tight supply of credit, demand side issues like student debt and weak employment, but also a low supply of entry-level homes for purchase. Survey takers were asked if they had pre-approved borrowers who could not find a property. Exactly half of respondents indicated that there was a mismatch between buyers' wants and the available inventory that was either more than normal or significantly more than normal.

In recent months, there has been much discussion of tight credit. Please rank these factors in terms of their role, if any, in constraining access to credit.	
1	Credit overlays
2	Documentation
3	Debt-to-income ratios
4	MI premiums at the FHA
5	Consumer confidence
6	Student debt
7	Weak income growth
8	Weak job creation
9	Supply of entry-level homes
10	Loan level pricing adjustments at the GSEs
11	Competition from investors
12	Other

Respondents were further asked to rank the factors that were holding back access to credit in general. These factors included both demand side and supply side factors. Credit overlays were the number one factor. Given the other available factors, it can be inferred that overlays referred to up-channel requirements by aggregators or an agency. Documentation and DTI were next and notably student debt was only 6th on the list followed immediately by income and job issues. Notably, FHA MIP premiums were much higher on the list at 4th compared to GSE LLPAs which were 10th. Respondents indicated low inventories, concern about regulation/oversight, and cost of regulatory compliance as issues.



Finally, 87.5% of respondents indicated that repurchase requests were a concern, but only 41.7% indicated that this was significant and 8.3% indicated that it was not a concern. This topic as well as the source, type and reason for credit overlays is an area for further investigation.

Appendix A: About the Survey

In October of 2014, NAR Research sent out a survey to a panel of 135 different mortgage originating entities. The panel was expanded in the second quarter from 65 to include members of Community Mortgage Lenders of America. The survey instrument was sent by email on Tuesday the 13th of October and closed on Tuesday, October 20th. As in past surveys, a subset of questions measure the characteristics of the originators, their market coverage, share devoted to purchase lending, disposition channel, and market segments of production. There were 25 unique responses to the survey for a response rate of 18.5% and a margin of error of 6.6% at a 95% level of confidence.

Mortgage bankers continue to dominate this sample. The extremes in terms of production declined this quarter with fewer of the larges and smallest originators. Originator profiles were also consistent with prior surveys in terms of geographic distribution, purchase share, average annual production volume, and the distribution of destinations/purchasers of the originator’s production.

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