
National Association of REALTORS®

Eighth Survey of Mortgage Originators 2015:

TRID, FHA's Certification Policy and Small Lender Exemption to the ATR



NATIONAL
ASSOCIATION *of*
REALTORS®

8th Survey of Mortgage Originators:

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NAR Research
October 2015

Executive Summary

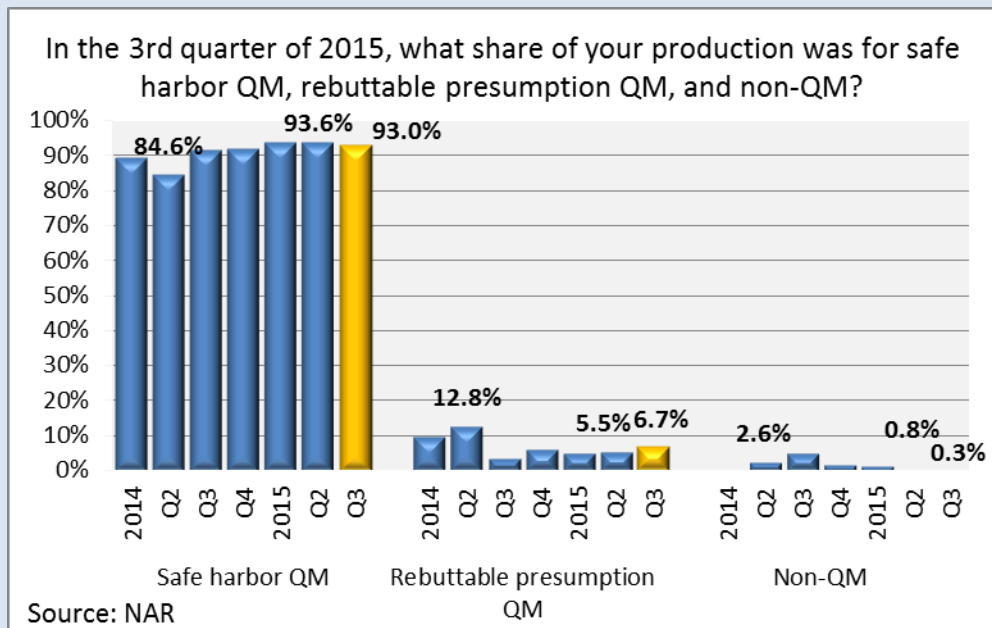
This survey covers the 3rd quarter of 2015 and reviews trends in mortgage production with an emphasis on changes in the availability of non-prime, QM rebuttable presumption, and non-QM products. Survey Participants were also queried about their preparation for the Know Before You Owe (or TRID) changes to the closing process, the FHA's proposed changes to its certification policy, and the CFPB's expansion of the small lender exemption to the Ability to Repay Rule. As in previous surveys, this quarter's panel of respondents includes members of Community Mortgage Lenders of America.

Highlights of the Survey

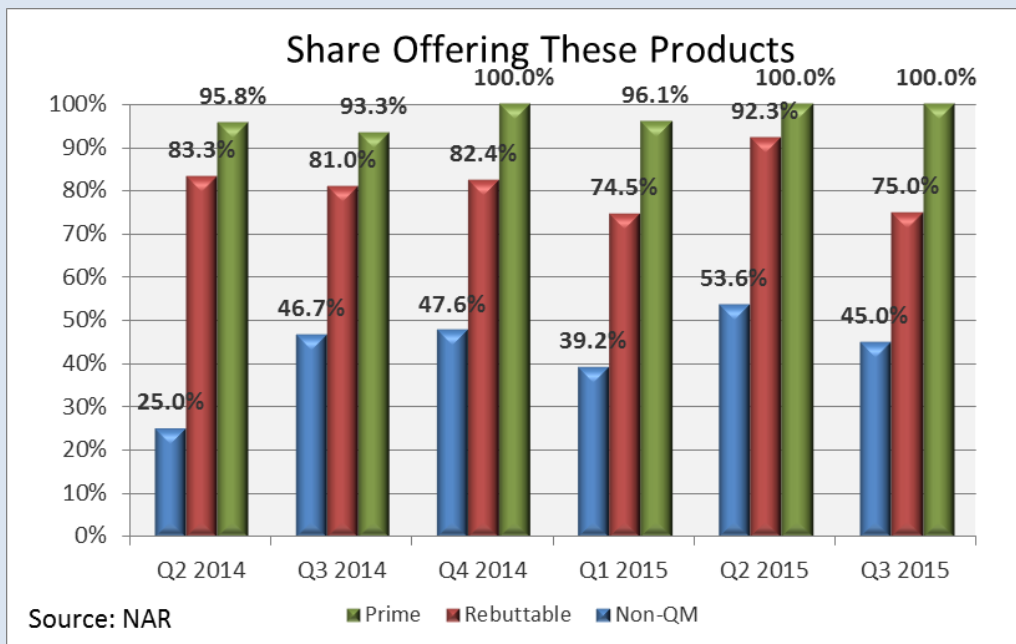
- The non-QM share of originations shrank again to just 0.3 percent of production in the 3rd quarter, while the rebuttable presumption share expanded to 6.7 percent.
- Both the share of lenders offering and willingness to extend non-QM and rebuttable presumption loans eased, while willingness to extend plateaued at a high level for prime loans.
- Investor demand slipped sharply in the 3rd quarter with more lenders indicating a “wait and see” strategy with respect to investor takeout.
- Over the next six months, respondents expect access to credit for non-QM and rebuttable loans to moderate. However, investor demand for all loan categories is expected to rise over this same time frame.
- Only 20.0 percent of respondents indicated full confidence in their own preparations for TRID after implementation in October and 75.0 percent were recommending longer lock periods for their clients.
- 40.0 percent of respondents indicated some reluctance to offer pre-approval letters.
- In response to the FHA's proposed certification policy, 30.0 percent of lenders plan to raise their minimum credit standards, with 71.4 percent of that group targeting a 640 minimum score.
- Finally, none of the respondents in this survey either benefit from or were willing to take advantage of the CFPB's expansion of the small lender exemption under the qualified mortgage (QM) rule.

Market Dynamics and Willingness to Lend

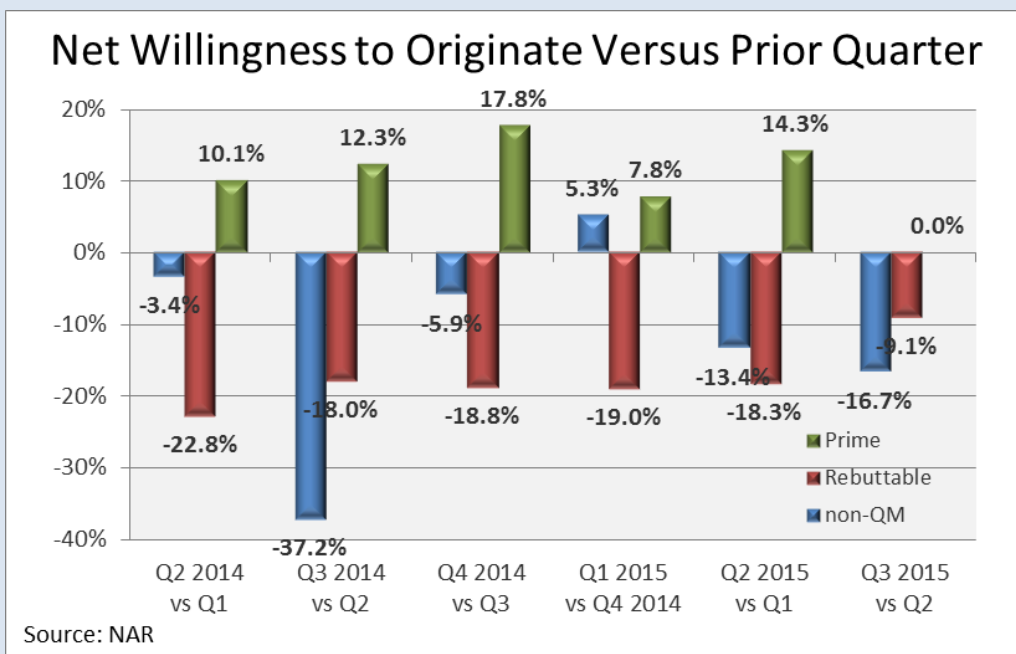
The non-QM portion of the market continued to shrink in the 3rd quarter of 2015, down to a production-weighted 0.3 percent of the sample. While the non-QM space shrank the rebuttable presumption space expanded to 6.7 percent. This was the third consecutive gain and its largest share since the 2nd quarter of 2014. The safe harbor QM space contracted from 93.6 percent to 93.0 percent.



Despite the jump in production share, the share of firms in the survey offering rebuttable presumption products eased sharply from 92.3 percent to 75.0 percent. Firms offering non-QM loans eased as well to 45.0 percent, the lowest share since the 1st quarter of 2015. All lenders offered prime products.

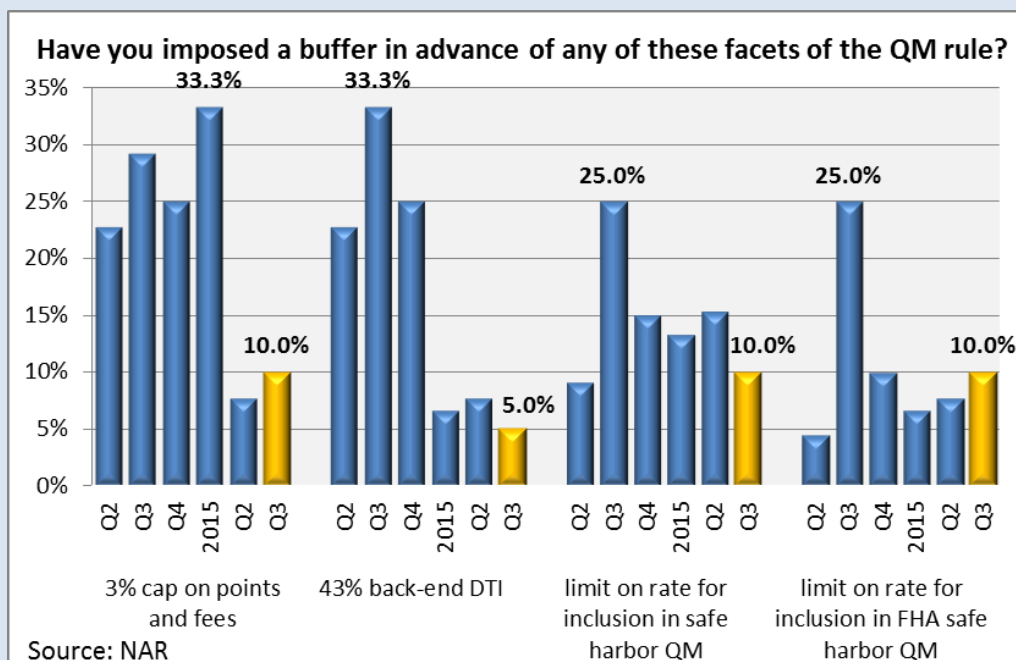


Willingness to offer prime loans has increased steadily in recent quarters, but plateaued in the 3rd quarter of 2015. While the share of rebuttable production increased in the 3rd quarter, on net lenders were modestly less willing to originate these loans. Non-QM loans exhibited a similar pattern.

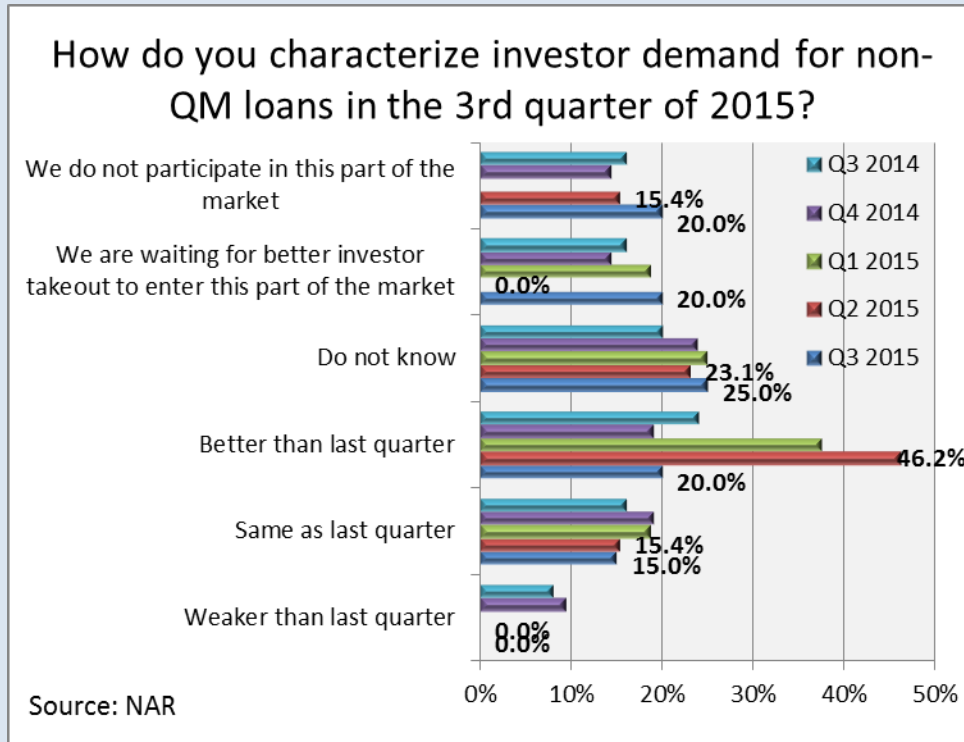


Diving deeper into the data, willingness to originate non-QM mortgages with low balances, those with fees greater than 3 percent, or low-documentation fell by more than non-QMs with higher credit scores, DTIs less than 45 percent, and interest-only structures. FHA rebuttable presumption loans gained traction, while willingness to originate conventional rebuttable loans continued to decline.

The share of respondents that had an issue closing a mortgage(s) due to some facet of the ATR/QM rule rose for the 3rd consecutive quarter to 65.0 percent from 57.0 percent. However, the weighted average share of production that was not originated due to some facet of the ATR/QM rule slipped from 3.3 percent to 2.7 percent.

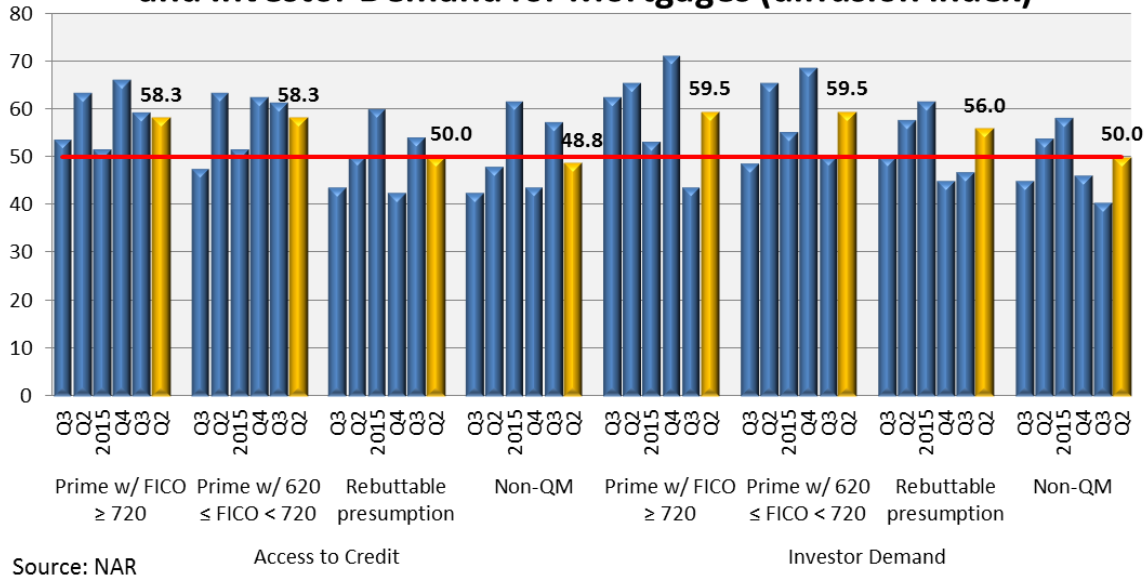


The share of respondents that employed a buffer or overlay ahead of the 3 percent cap on points and fees rose from 7.7 percent of the sample to 10.0 percent. Buffers on the 43 percent back-end DTI limit eased modestly, while buffers on the pricing differential for FHA rebuttable presumption rose and conventional rebuttable presumption loans versus safe harbor fell.



Since the dominant origination model in this survey is non-bank lenders who have small or no portfolios, investor takeout is critical. The share of respondents reporting an improvement in investor demand tumbled from 46.2 percent to 20.0 percent between the 2nd and 3rd quarters. The share indicating that they would wait for better investor takeout jumped by 20.0 percent. No respondents indicated a weakening of demand.

Over the Next 6 Months, What is Your Outlook for Access to Credit and Investor Demand for Mortgages (diffusion index)



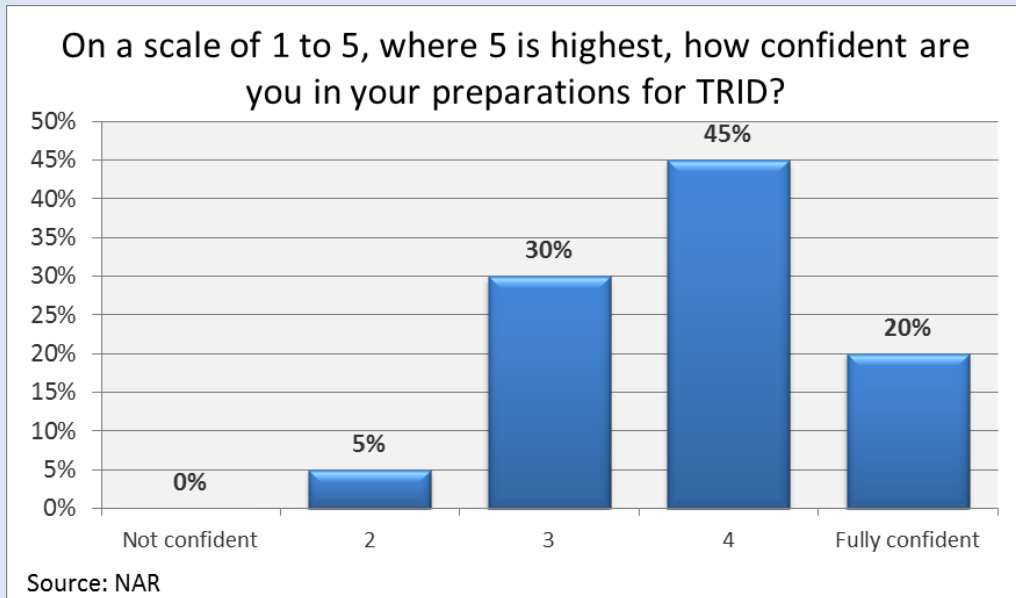
A majority of respondents continue to expect an expansion in access over the next six months for higher and lower quality prime borrowers as evidenced by the 58.3 diffusion index readings for the 3rd quarter. However, prospects for access to credit in the rebuttable presumption space pulled back to break-even at 50.0, while a majority expected a decline in access for non-QM loans (48.8).

However, over the six months ending in March of 2016, lenders' expect investor demand for all segments to improve.

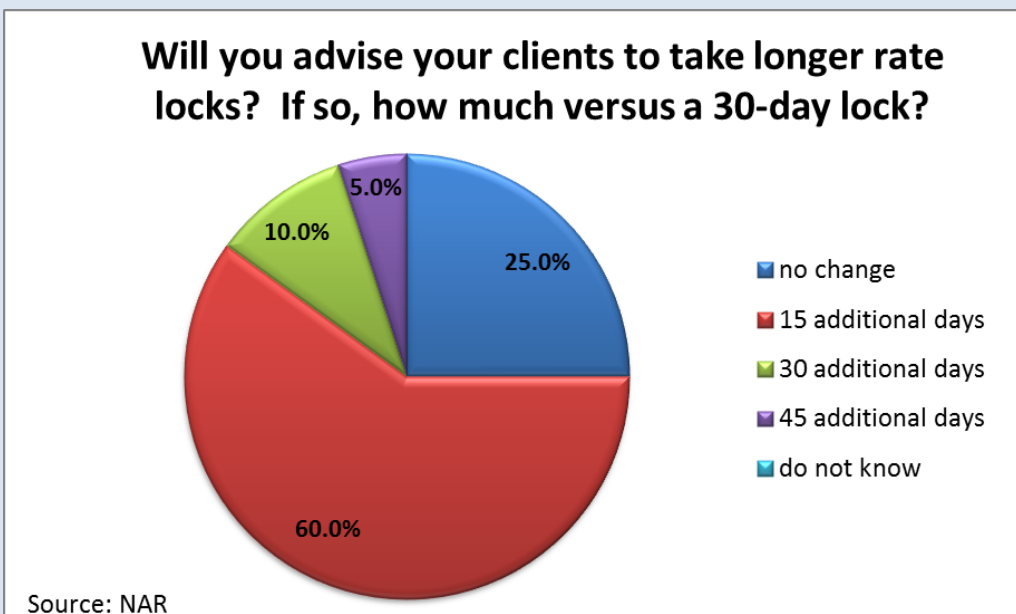
Industry and Policy Issues

On October 3rd, the new Know Before You Owe disclosure process and rules, also known as the TILA RESAP Integrated Documentation (TRID), were implemented. Under TRID the current closing documentation is streamlined and features are added to help consumers better understand their financial commitment. The new set of rules includes stricter tolerances for changes in fees and introduces new time lines for the process.

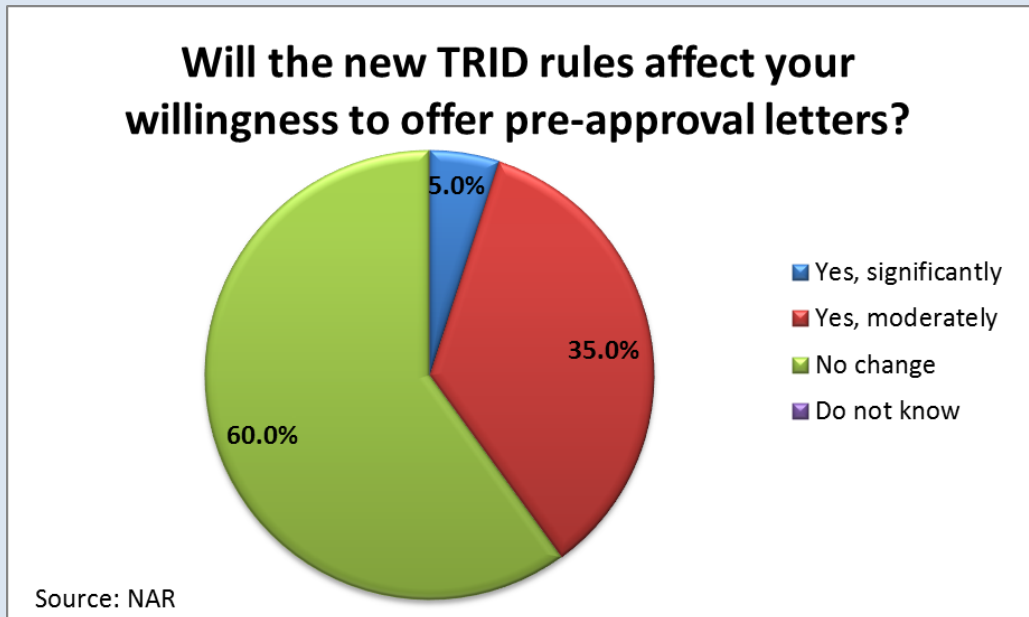
When asked their degree of confidence in their own preparations for the new TRID rules, 95.0 percent indicated a score of "3" or better. 20.0 percent indicated they were fully confident.



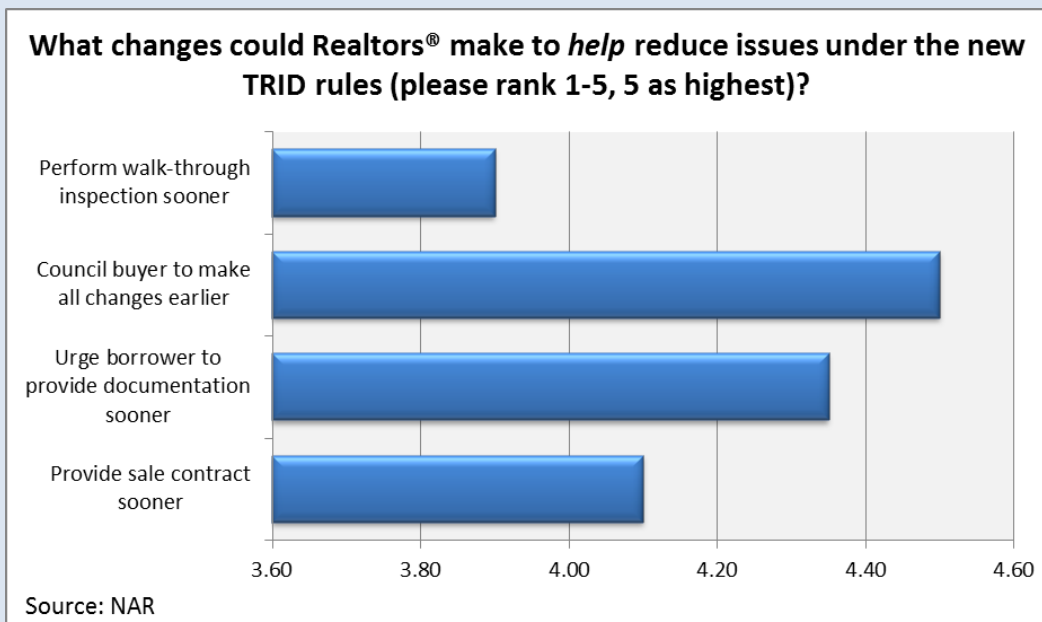
Because of potential delays under the new process, some lenders are counseling their clients for longer rate locks than the standard 30-day. At the implementation of TRID, 60.0 percent of respondents in this survey recommended the addition of 15 days to the standard rate lock (45 days total), while 25.0 percent recommended no change. The extension of a rate lock would add expense to the transaction.



Another potential issue is reluctance on the part of some lenders to offer pre-approval letters. 35.0 percent of respondents indicated that the new rules would moderately affect their willingness to extend pre-approval letters, while 5.0 percent indicated the effect would be significant.

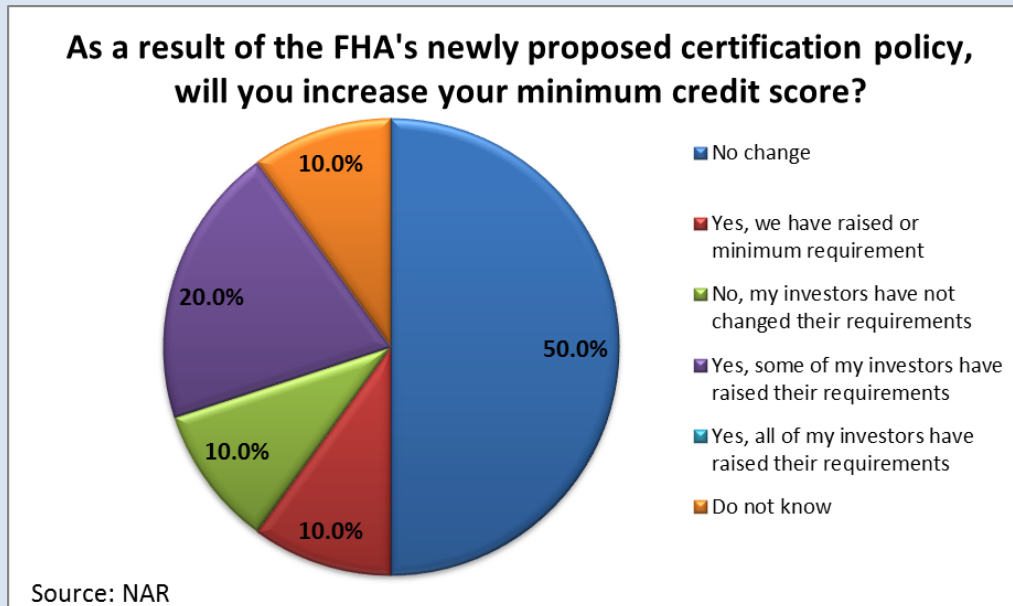


When asked what changes REALTORS® could make to help reduce issues under the new Know Before You Owe (TRID) rules, the most frequently cited change was to council buyers on making all changes to their loan earlier in the process. Second was to urge the borrower to provide all documentation sooner. Factors that Realtors® have the most control over, pre-closing walk-through inspections and providing the sales contract earlier, were the least useful.

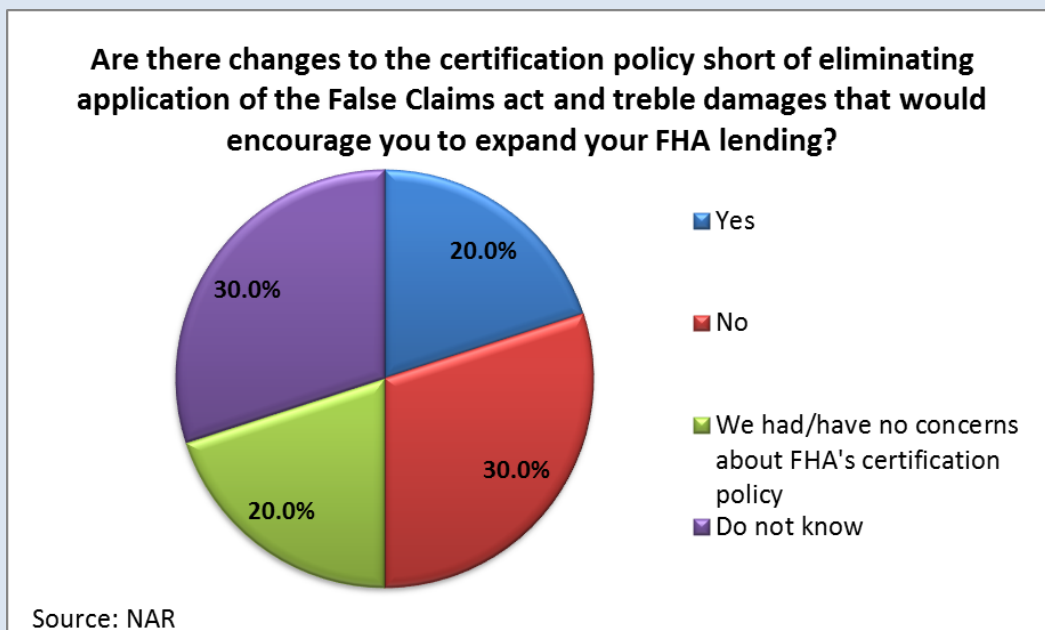


In September, the Federal Housing Administration (FHA) proposed an update to its certification policy. Under current policy lenders must certify that the loans they send for FHA for insuring comply with all standards set forth by the FHA. However, in recent years the FHA has forced some lenders to indemnify the FHA of losses on some loans, while the Department of Justice has pursued lawsuits against lenders under the False Claims Act for discrepancies between what lenders certified and what was actually produced. Lenders have been looking for more clarity from the certification policy as to what errors will

trigger a lawsuit or indemnification as well as more variation in the degree of punishment relative to the infraction. To protect themselves, lenders have raised their minimum credit scores to ameliorate potential defaults and to avoid gaining the attention of the FHA and DOJ.

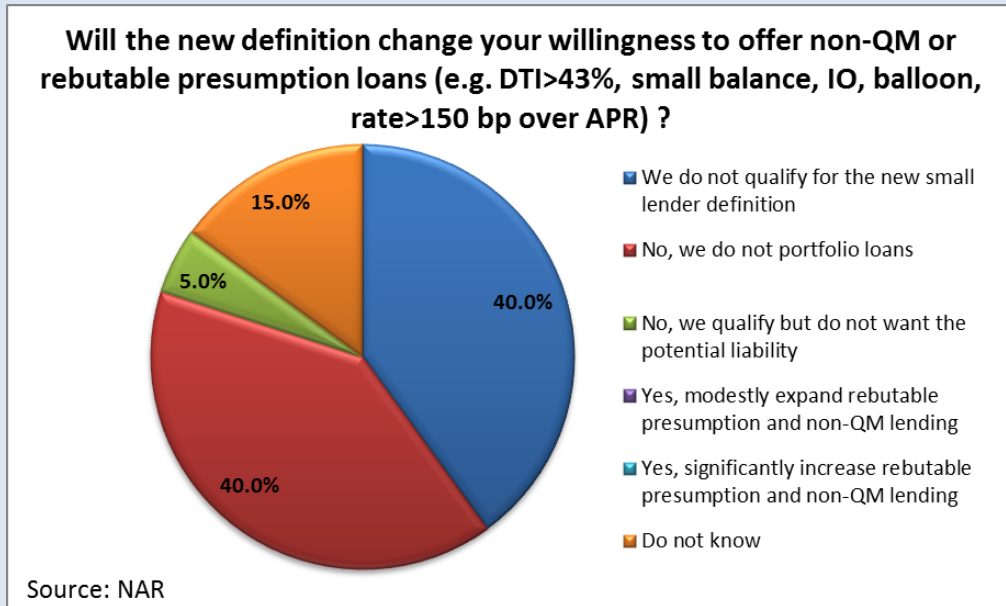


More than half (60.0 percent) of respondents indicated that the new proposal would not have an impact on their lending. 10.0 percent of the lenders in the survey indicated that they would raise their minimum credit requirement, while an additional 20 percent indicated that at least some of their investors had raised their requirements for purchasing loans. Of those raising their minimum credit score, 71.4 percent indicated that the new minimum would be 640, while the remaining 28.6 percent would set the floor at 620.



When asked if there were changes to the FHA's certification policy short of eliminating the application of the False Claims act and treble damages that would encourage them to expand FHA lending, 30.0 percent of respondents indicated "no", while 20.0 percent indicated "yes". Of the remainder, 30.0 percent were unsure and 20.0 percent had no concerns about the FHA's proposed certification policy. Of

those indicating “yes”, 75.0 percent wanted more differentiation between major and minor infractions and 25.0 percent were in favor of some limitations on the maximum punishments.



Finally, in late September the CFPB announced that it would raise the loan threshold for qualification as a "small lender" under the qualified mortgage rule (QM) from 500 to 2,000 loans annually so long as the lender's total assets are less than \$1 billion and the loans made are held in portfolio. In theory, the expanded definition would allow more lenders to take advantage of an exemption to the Ability to Repay Rule (ATR) and improve access to credit for borrowers. The exemption would only apply to 5.0 percent of respondents to this survey, all of whom indicated that they do not want the liability of non-QM loans.

Appendix A: About the Survey

In October of 2015, NAR Research sent out a survey to a panel of 135 different mortgage originating entities including members of Community Mortgage Lenders of America. The survey instrument was sent by email on Monday the 5th of October and closed on Monday, October 19th. As in past surveys, a subset of questions measured characteristics of the originators, their market coverage, share devoted to purchase lending, disposition channel, and market segments of production. There were 20 unique responses to the survey for a response rate of 14.8 percent and a margin of error of 6.0 percent at a 95 percent level of confidence.

Mortgage bankers continue to dominate this sample with nearly 70.0 percent in the sample followed by bankers with 25.0 percent. The concentration of lender size bunched around 1,000-3,000 units per year and 5,000 to 10,000 per year. In a reverse from last quarter, there was a modest shift away from selling to aggregators toward self-securitizing directly to Fannie Mae and Ginnie Mae. This sample had modestly higher shares of annual production devoted to FHA and VA than the prior sample.

Questions can be directed to:

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