
National Association of REALTORS®

Fifth Survey of Mortgage Originators 2015:

QM: One Year Later; Reps and Warrants, RESPA/TILA, and FHA Fees



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Executive Summary

This survey highlights the impact of the QM rule, a year after its inception. The New Year also brought a slew of regulatory changes that impact the GSEs, FHA, VA, and the market in general. As in previous surveys, this quarter's panel of respondents includes members of Community Mortgage Lenders of America.

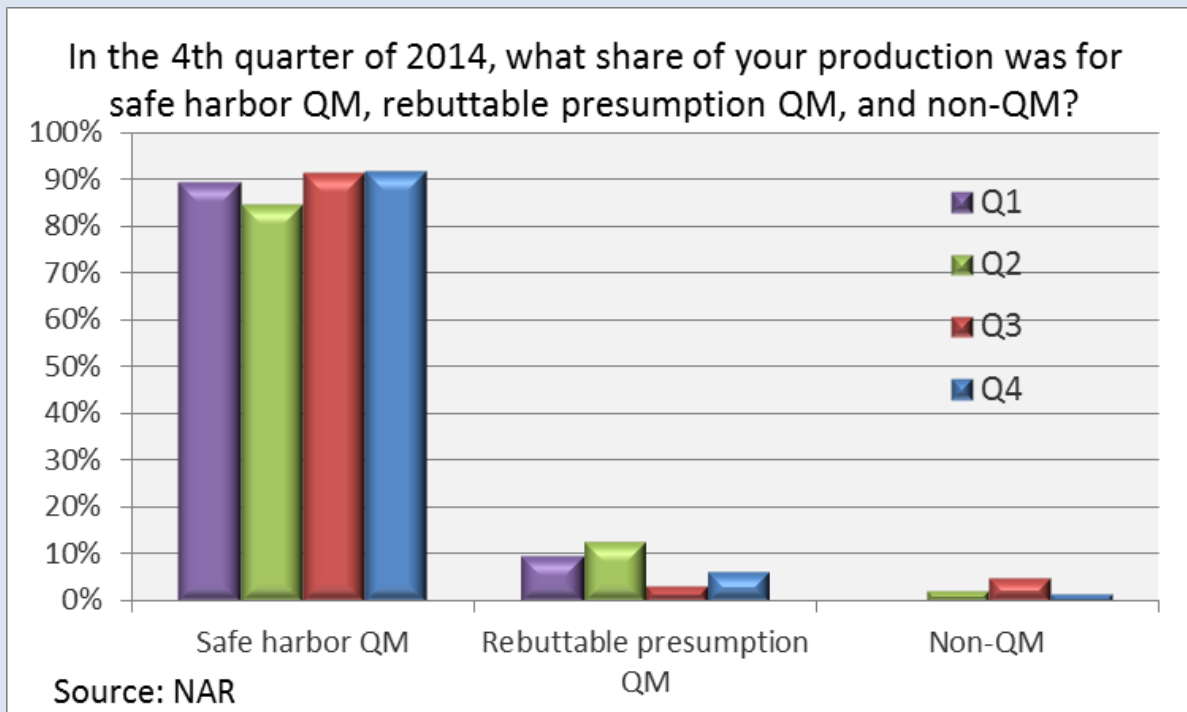
Highlights of the Survey

- Half of respondents indicated that the QM rule had had a “small negative impact” on the market, while 35% indicated that impact was significantly negative. 10% indicated no impact, while 5% reported a small improvement.
- The non-QM share of originations tumbled to 1.8% of production in the 4th quarter from 5.0% in the 3rd. However, the rebuttable presumption share rose from 3.5% to 6.3%.
- 45% of respondents indicated having had an issue closing a loan due to some facet of the QM rule, down from 64% in the prior quarter. After increasing in the 3rd quarter, the share of lenders using buffers to prevent infractions of the QM rule eased.
- Respondents' confidence in their preparations for the QM/ATR rules leapt to 70% from 59.9% in the 3rd quarter.
- The share of lenders offering rebuttable presumption and non-QM products was roughly unchanged from the 3rd quarter. However, willingness to originate non-QM mortgages flattened or fell only modestly from the 3rd to the 4th quarter after falling sharply over the prior two quarters. Lenders' willingness to originate prime mortgages continued to gain steam even for those with lower credit scores.
- Over the next 6 months, respondents expect improvements in credit access for prime products, including lower credit prime borrowers, but a more modest improvement for non-QM and little change for rebuttable presumption. Likewise, the majority expects improvement in investor demand across the board, but emphasized the prime segment.
- 75% indicated that the GSE's new 3% down payment product would improve access to credit, while 90% believe the FHA's fee reduction will improve production with a weighted average increase of 8.5%. Lower VA limits would reduce production by 0.8%.
- 50% of originators indicated an increase in formerly distressed sellers seeking credit.
- 85% of respondents either were or expected to expend considerable time preparing for the new RESPA/TILA rules, but 65% felt that CFPB guidance had been at least adequate.
- 85% had been the subject of a GSE repurchase request and this factor was lenders' primary concern about lending in the higher risk space. Only 40% indicated that recent overtures by the GSEs to clarify and soften rep and warrant risk would improve their willingness to originate higher risk mortgages, while 20% would wait-and-see. More clearly defined triggers for repurchase risk was the factor respondents felt would help most to improve credit access
- Finally, low housing supply, more than tight credit access or weak demand factors, was the leading factor holding back production according to survey respondents.

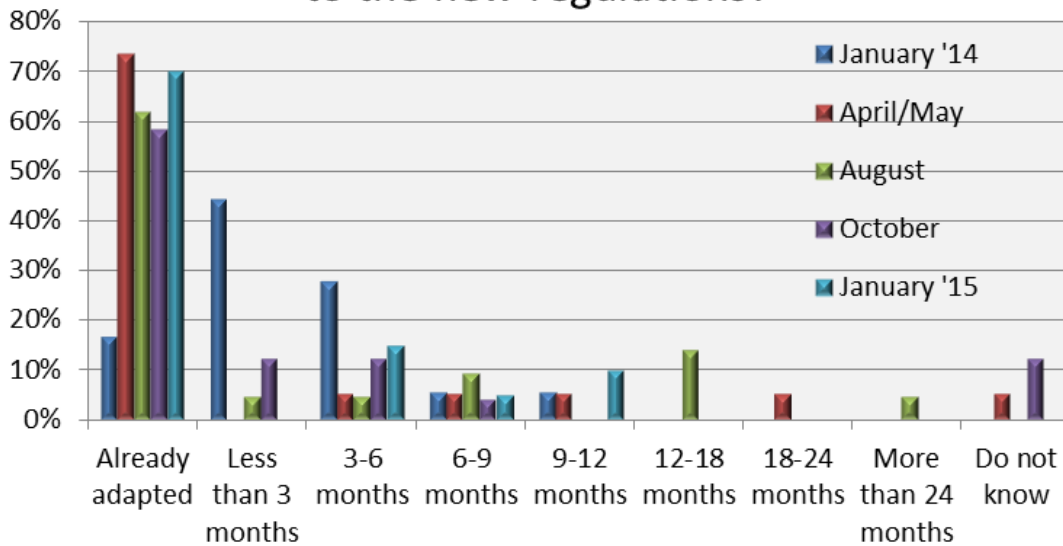
Market Dynamics and Willingness to Lend

In early January of 2014, prior to implementation of the QM rule, NAR queried originators about their *expectations* for the QM/ATR environment and their anticipated operational changes. Subsequent surveys have monitored the new market segments created by the QM rule and lenders' outlook for each. In this survey, we continue to monitor lender participation and willingness to lend in these sectors but also take stock of lenders' impressions a year after implementation of the QM rule.

In the 4th quarter, respondents indicated a production-weighted share of 1.8% for non-QM loans, a sharp decline from the 3rd quarter, but more in line with the first half of 2014. However, the rebuttable presumption share nearly doubled from 3.5% to 6.3%. Interest rates rose in the 4th quarter suppressing some demand for interest only loans, an important part of the non-QM space. In addition, this result aligns with the decline in lender willingness to originate non-QM production as measured in the 3rd quarter survey.



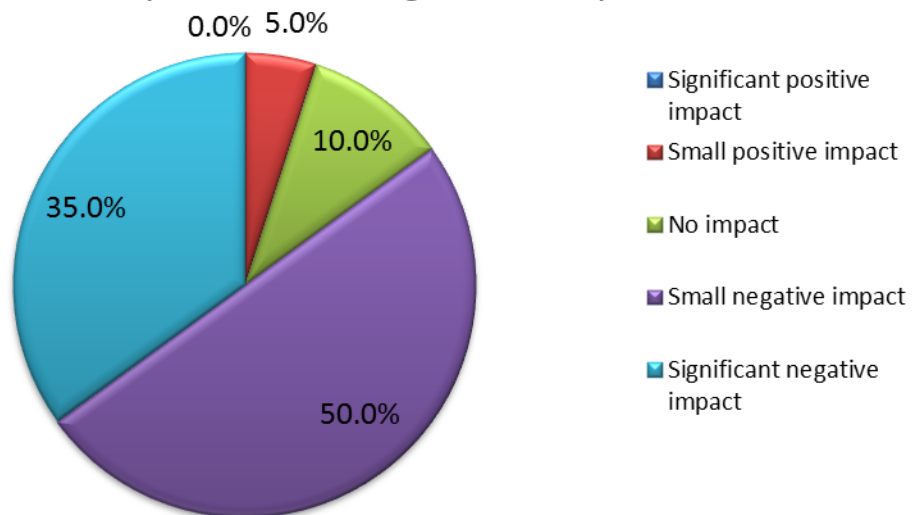
How long do you think it will take your firm to adapt to the new regulations?



Source: NAR

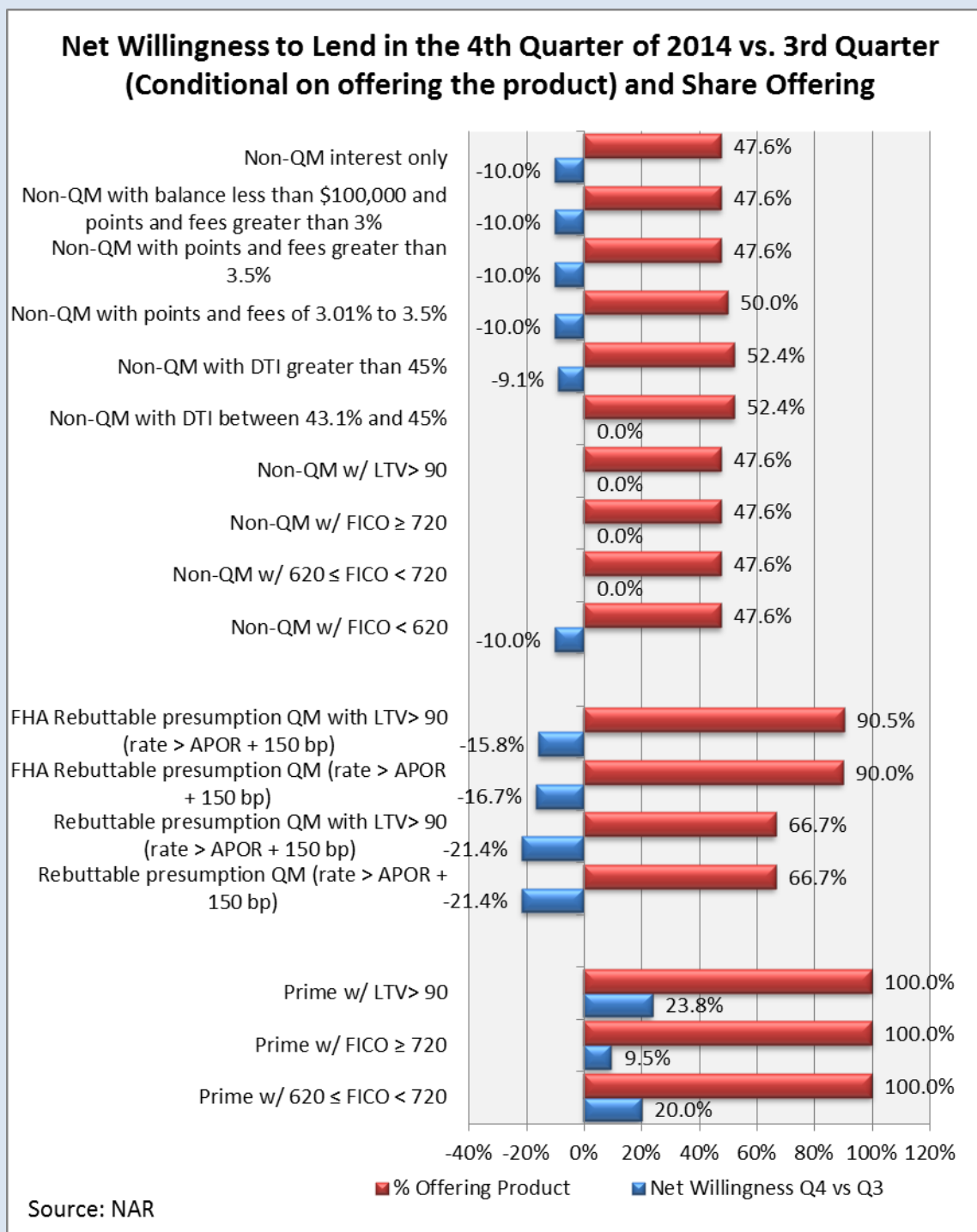
In a reverse from the last two surveys, the share of respondents indicating having adjusted to the QM rule jumped to 70%. While no respondents indicated that they were uncertain of a time-line, a sign of growing clarity, 14.3% indicated that it would take 12 to 18 months. Furthermore, there was a small but noticeable shift in those not compliant toward a longer timeline for the adjustment, a reversal of the pattern from last quarter. This shift to bifurcated distribution suggests that some lenders are having more success acclimating to the new environment, while others remain mired in compliance issues. Those with longer anticipated timelines tended to have smaller average annual production volumes suggesting fewer resources, but this is also a group that could benefit from recent changes to the small lender definition in the QM rule.

It has been a year since the implementation of the QM rule, how would you characterize the impact of the rule on the cost and availability of credit during the initial year ?

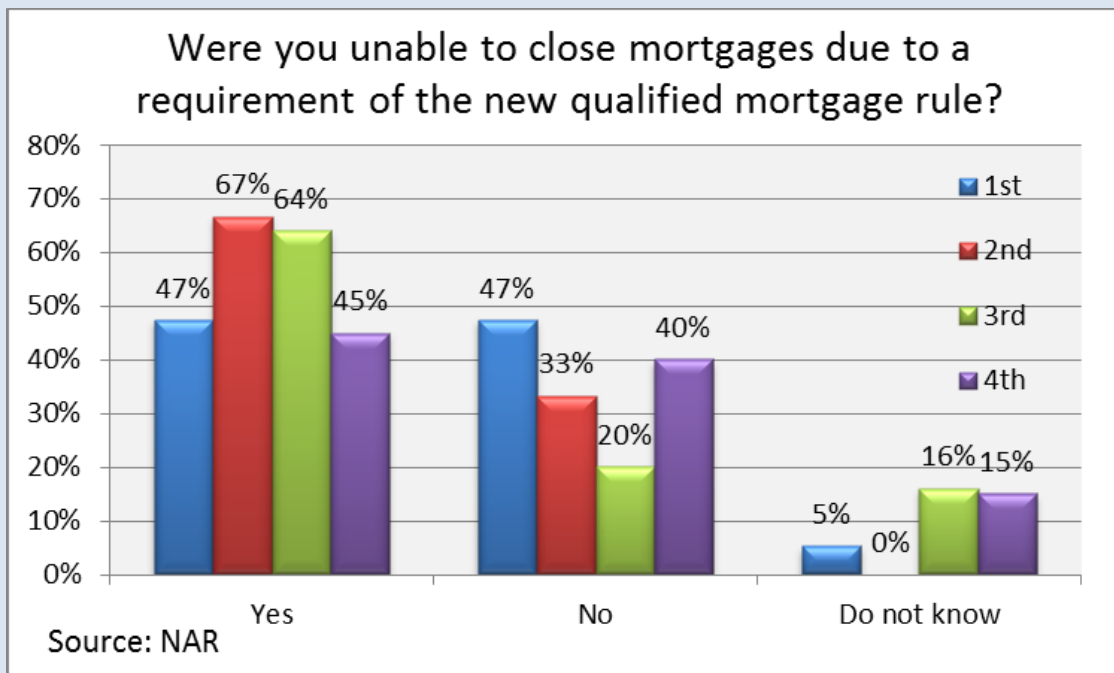


Source: NAR

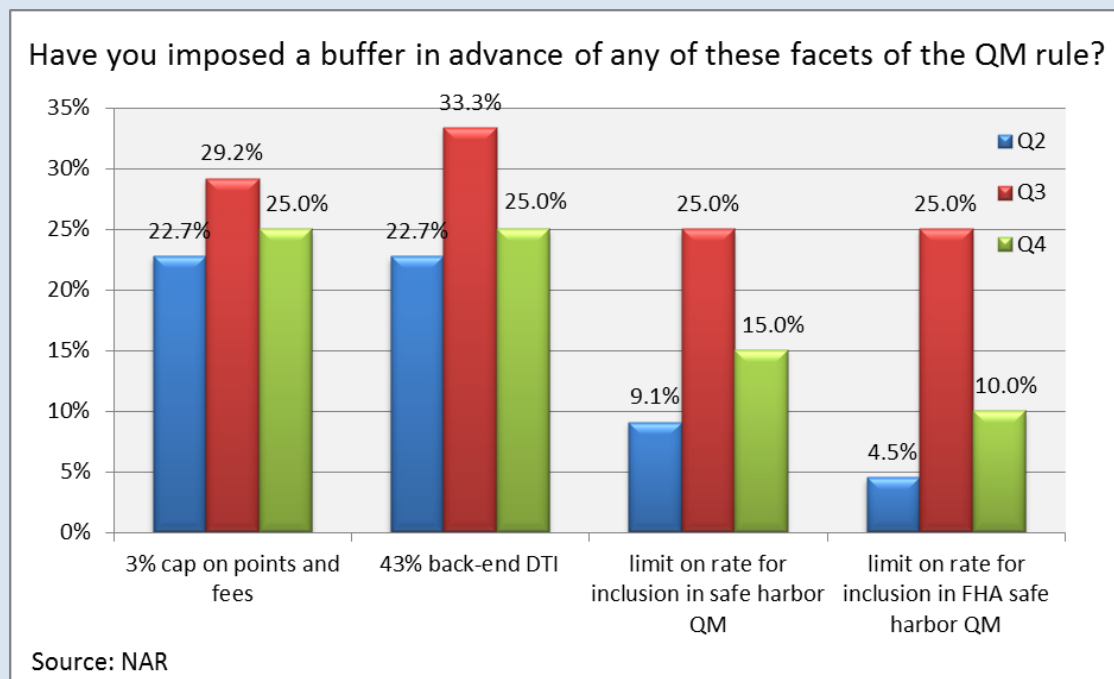
A year after the implementation of the QM rule, originators in this survey were decidedly negative with 85% indicating the rule had negatively impacted credit. Only 5% indicated an improvement, while 10% reported no impact and 50% reported only a small negative impact.



The share of originators offering QM, rebuttable presumption and non-QM products was relatively stable over the last quarter. However, willingness to lend in the non-QM space stabilized relative to last quarter when it fell by 30% to 40% for nearly all types of non-QM products. There was continuation of the modest pull-back for small balance and lower credit borrowers, but willingness to originate to high quality non-QMs was flat. Rebuttable presumption was little changed; continuing moderate tightening, while willingness to originate prime loans remained strong with a notable improvement of 20% for prime borrowers with credit scores between 620 and 680.

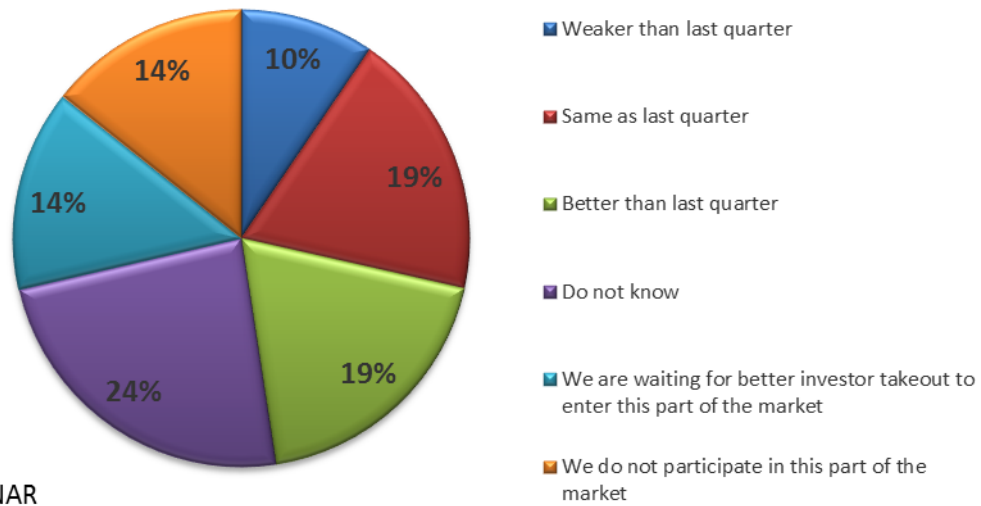


The share of respondents that had issues closing mortgage(s) due to some facet of the qualified mortgage rule (QM) eased from 64.0% in 3rd quarter to 45% in the 4th quarter. The share of respondents reporting no trouble doubled to 40%.

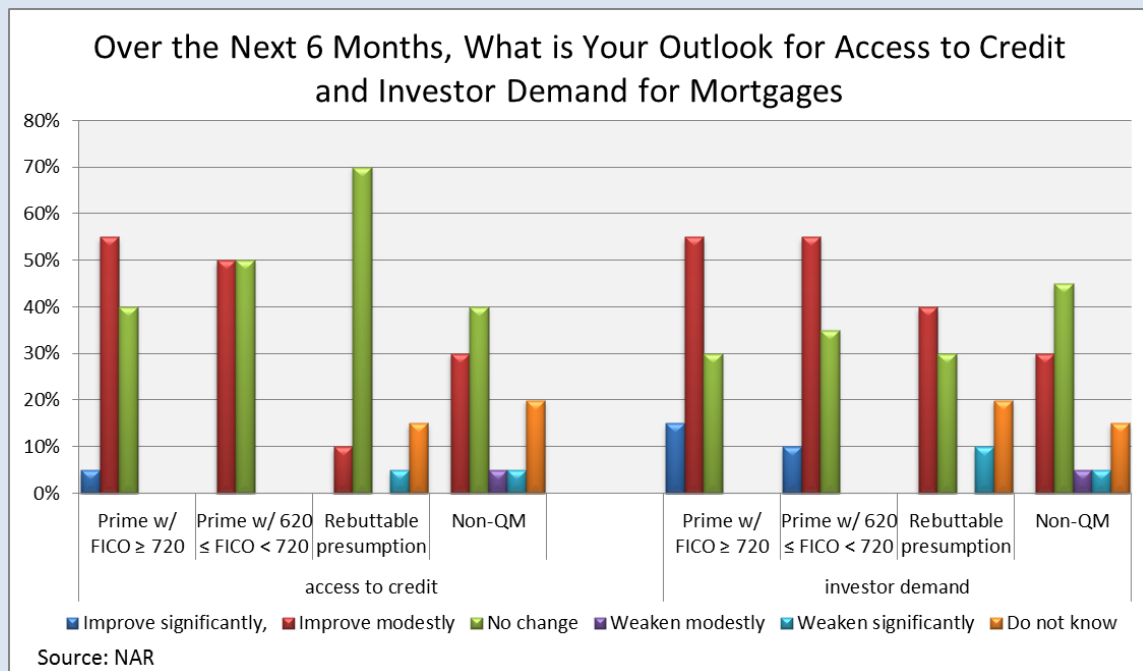


The use of buffers eased in the 4th quarter and was most common on the 3% cap and 43% back-end DTIs requirements with 25% of respondents using them. The share of respondents that used buffers ahead of the pricing delineation between rebuttable presumption and safe harbor standard definitions of QM tumbled as well. Despite the decline, buffers remain elevated relative to the 2nd quarter.

How do you characterize investor demand for non-QM loans in the 4th quarter of 2014?



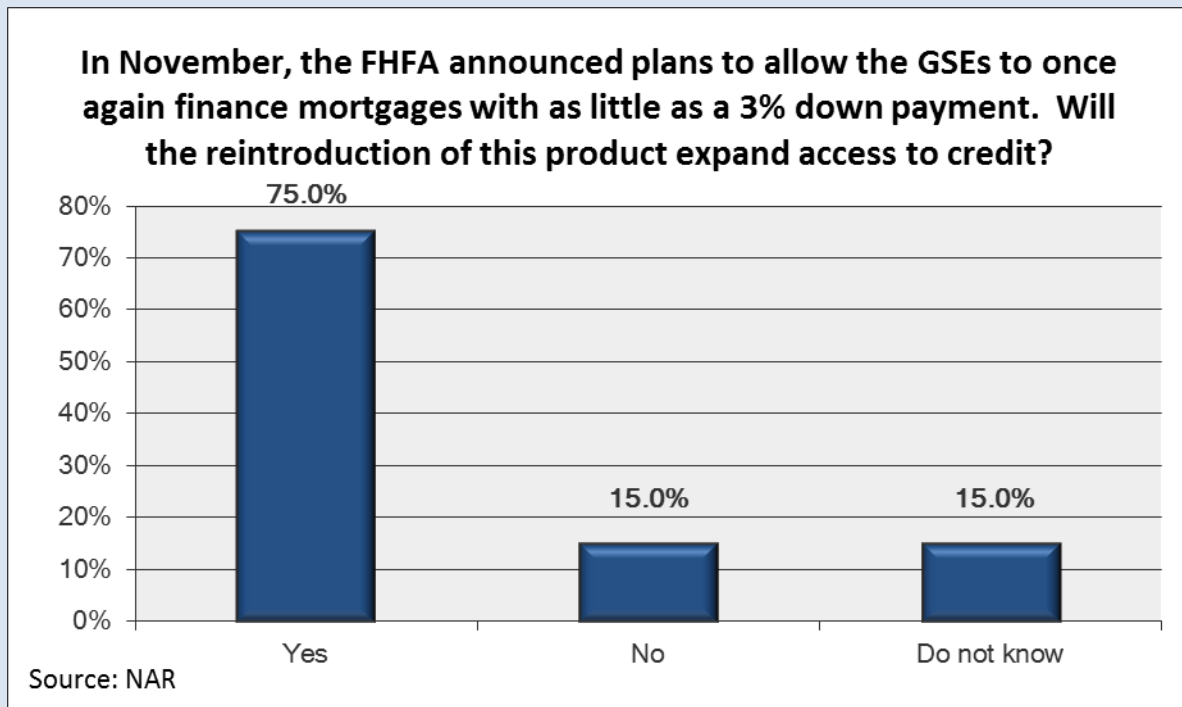
Most lenders in this survey do not portfolio loans, so investor takeout is critical. The share of respondents reporting an improvement in takeout was 19% in the 4th quarter relative to the 3rd quarter. This compared to just 10% that indicated a weakening.



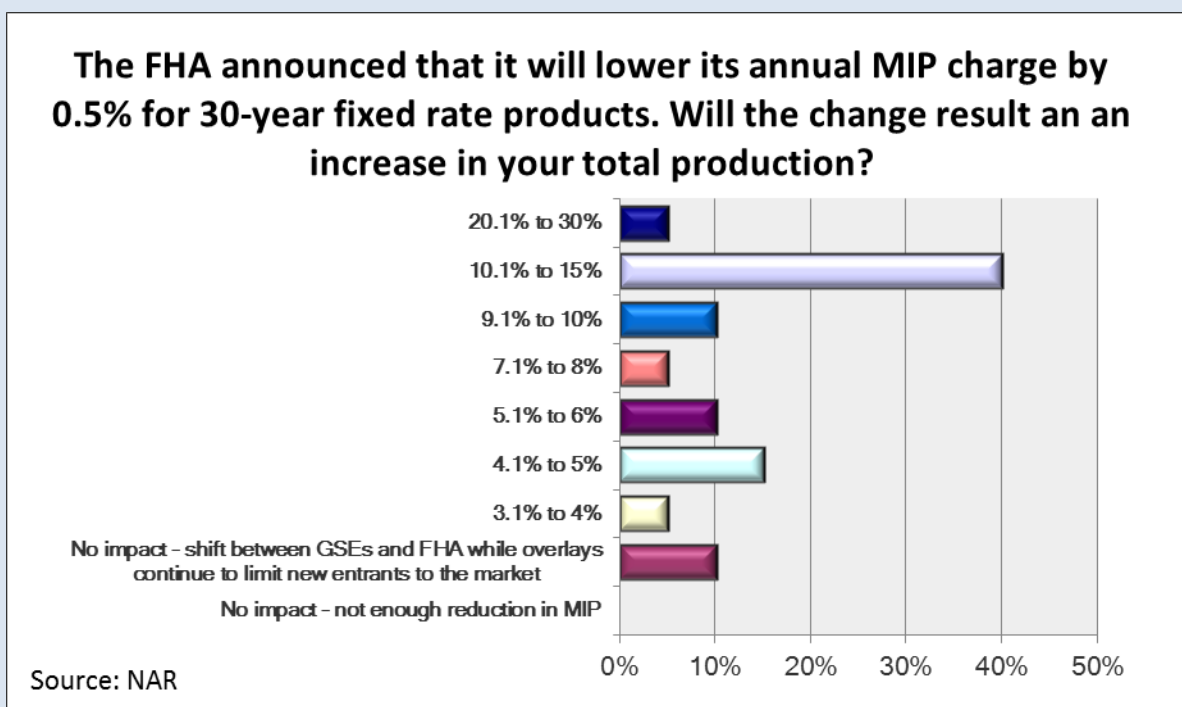
Over the first six months of 2015, the share of lenders who were more optimistic about access for both high and middle quality prime borrowers nearly doubled relative to the 3rd quarter. Those with favorable outlooks for rebuttable presumption and non-QM lending fell sharply. On the investor side, respondents indicated a notable improvement in expectations for investor takeout of prime production, while rebuttable presumption and non-QM were only slightly improved.

Other Industry and Policy Issues

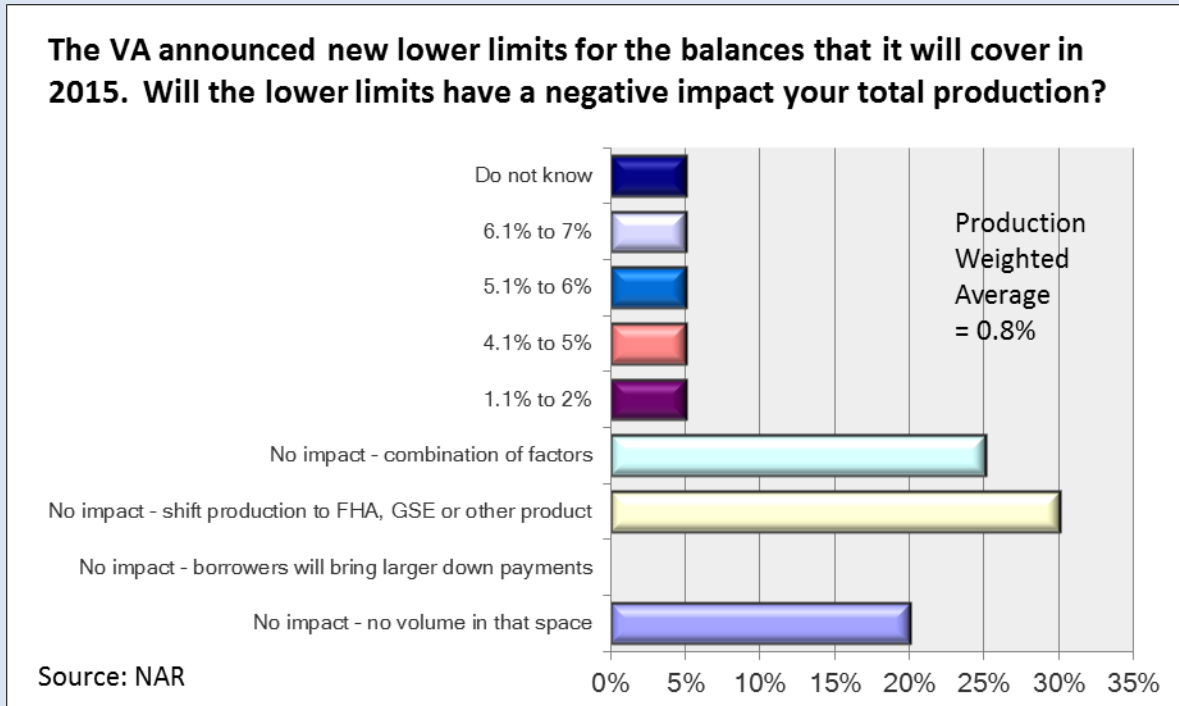
In November of 2014, FHFA announced plans to allow the GSEs to once again offer mortgages with a 97 LTV. The vast majority of respondents, 75%, felt that this move would help to expand credit.



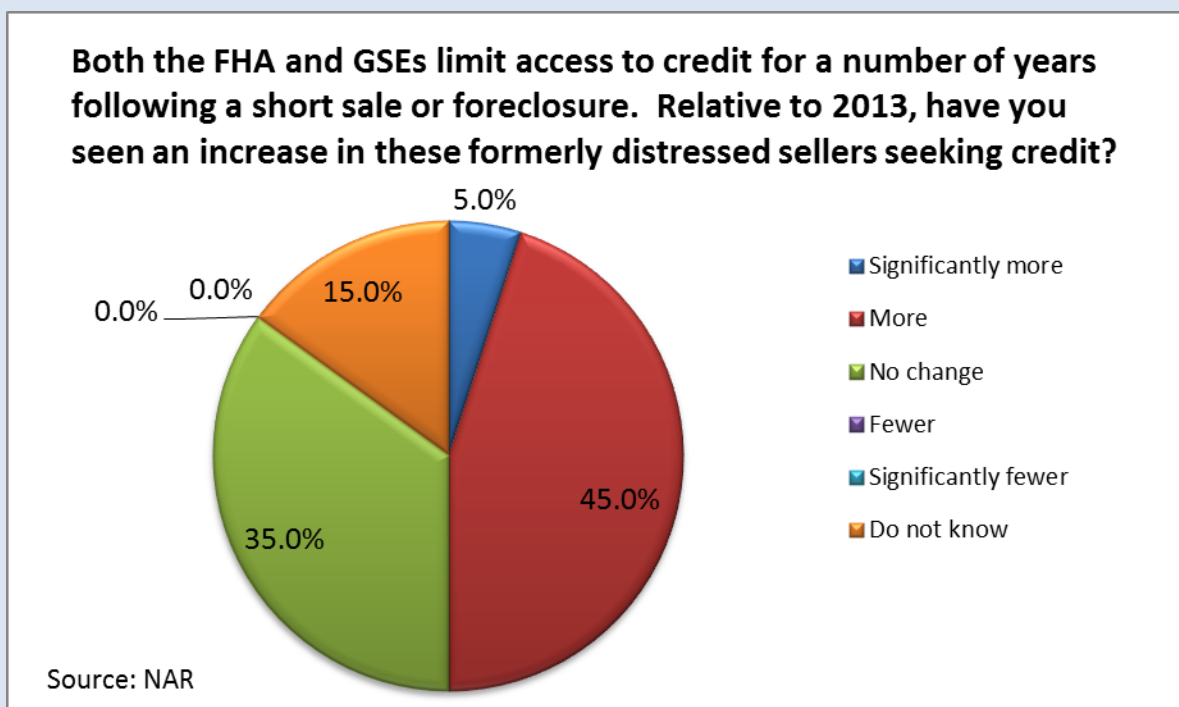
In early January, the FHA announced a reduction in the annual mortgage insurance premium charged from 1.35% to 0.85%. The vast majority of respondents indicated that this would boost production with a production-weighted average gain of 8.5%. 10% of respondents indicated that the change would simply shift demand from the GSEs to the FHA as lender overlays would limit new entrants to the market.



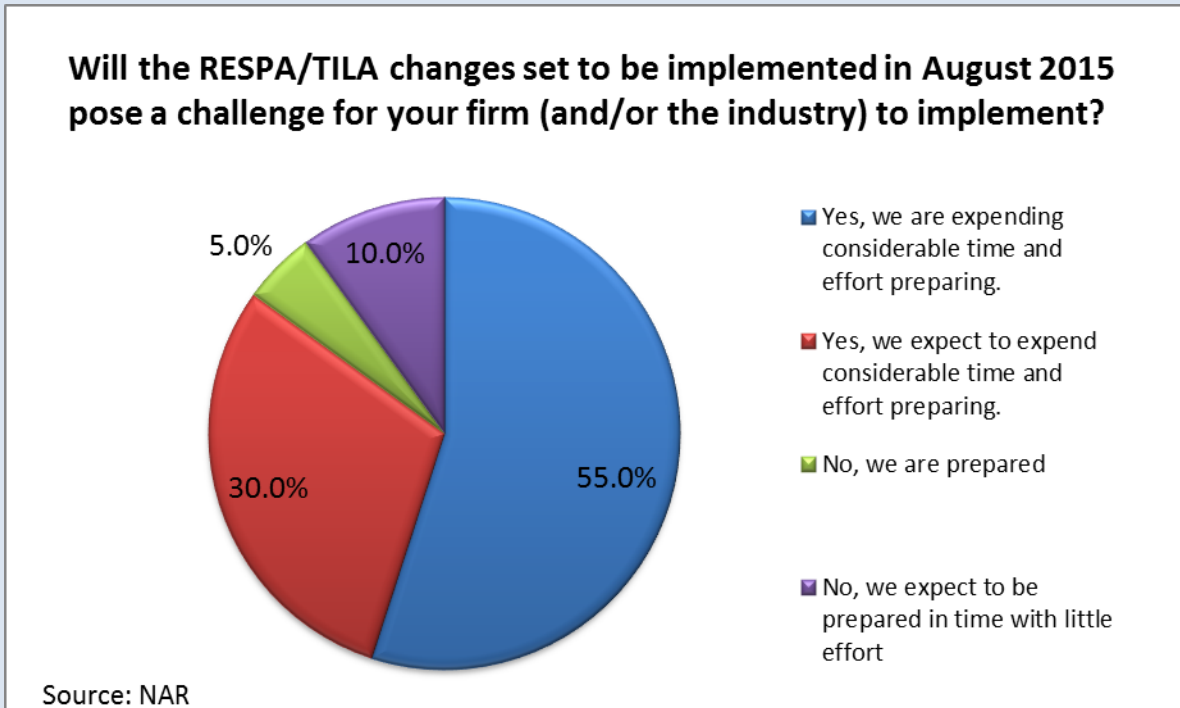
The loan limits for the VA lending program were reduced for 2015. Lenders were asked if this would have an impact on their programs. A 55% majority felt that the change would have no impact as consumers would shift to another product or for a combination of factors like putting down larger downpayments. Respondents reported an estimated production-weighted average impact of 0.8%.



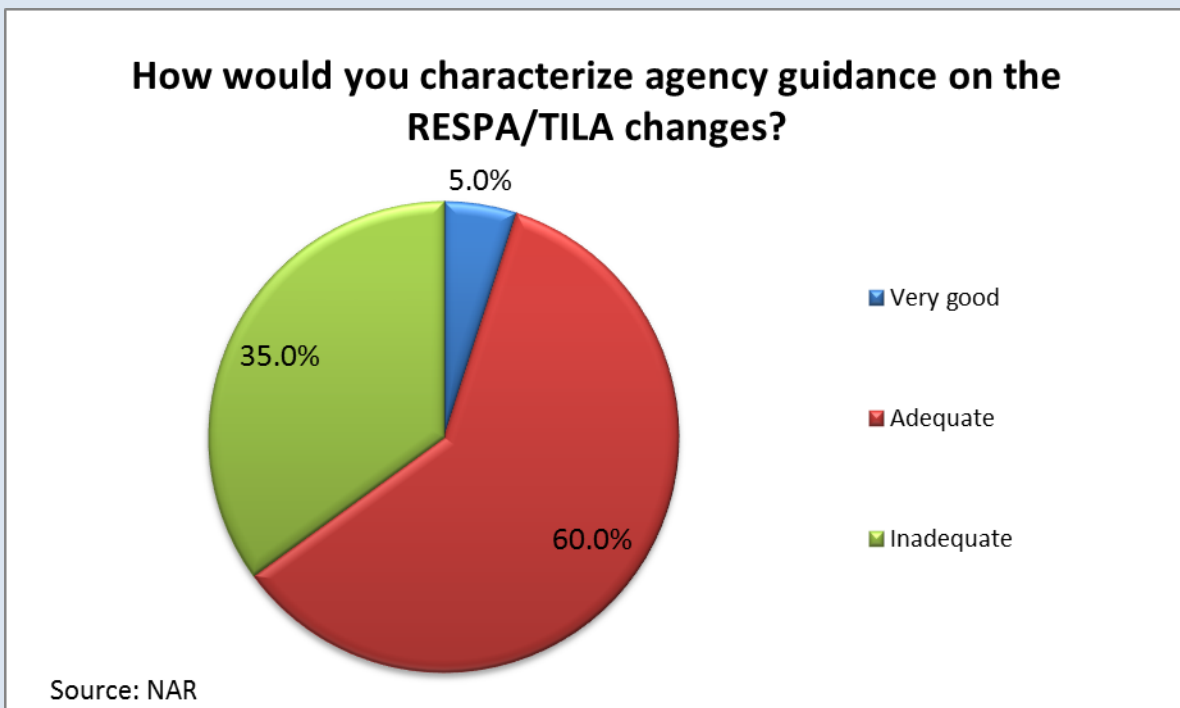
Millions of homeowners experienced a foreclosure or shortsale over the last 8 years. Eventually these borrowers will return to the market. Survey participants were asked if there was a change in formerly distressed sellers seeking mortgage credit. Relative to 2013, half of respondents indicated an increase in potential return buyers seeking credit.



On the regulatory front, changes to the RESPA/TILA rules are set to be implemented in August of 2015. 85% of respondents indicated that they either were currently or planned to expend considerable time and effort preparing for the changes. Only 10% expected to be prepared on time with little effort and 5% were already prepared.

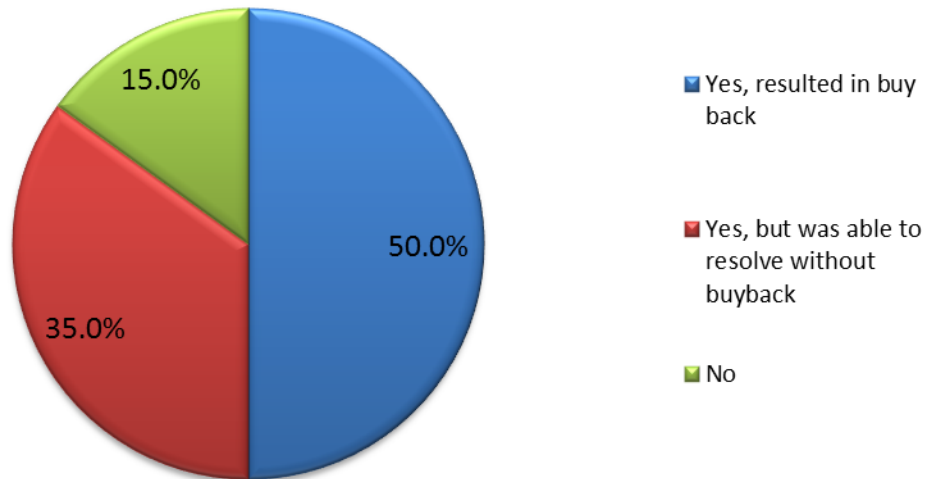


A 60% majority of respondents felt that the CFPB's guidance on the changes to RESPA/TILA was adequate and 5% felt that it was "very good".



On the impact of agency repurchase requests, 85% of respondents indicated having been the subject of a repurchase request between 2009 and 2013. Of those, more than 60% resulted in a buy-back, while the remaining 41% were resolved without one.

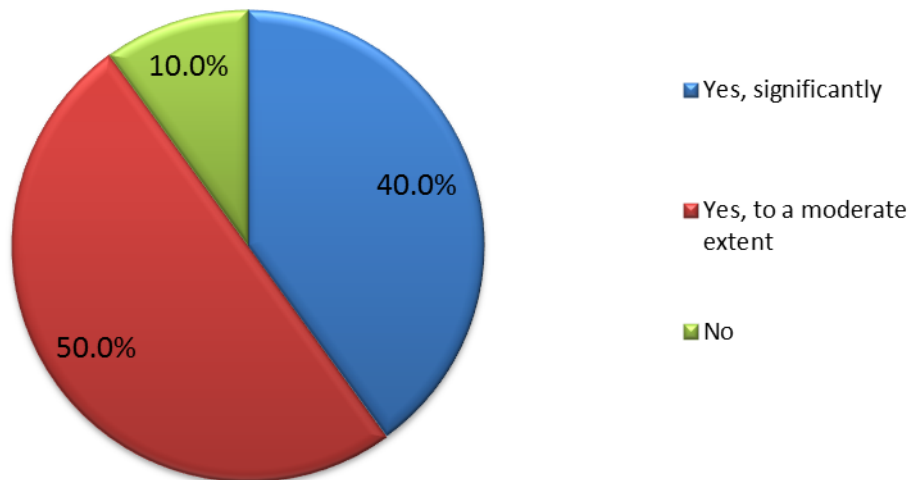
Was your firm the subject of a repurchase request by either Fannie Mae or Freddie Mac between 2009 and 2013?



Source: NAR

90% of respondent indicated that repurchase requests from aggregators or investors impacted their willingness to lend, 40% significantly.

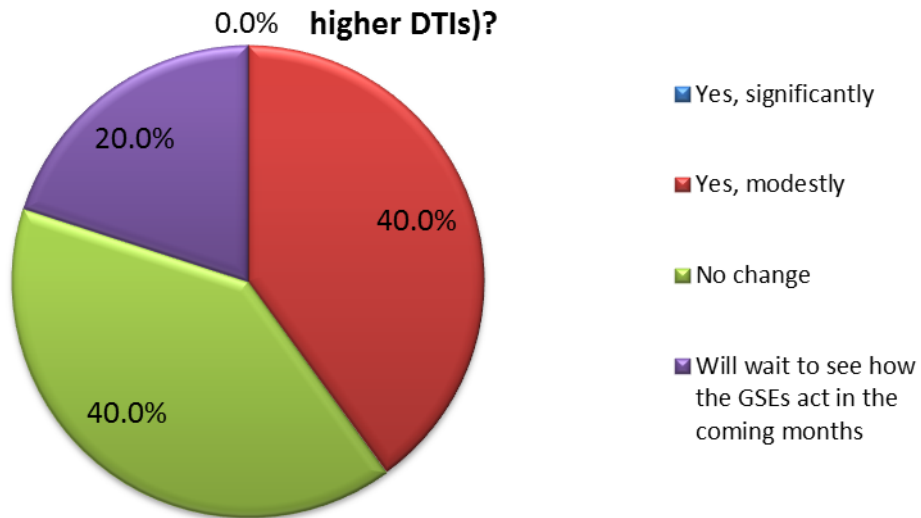
Has concern about repurchase requests from aggregators or investors impacted your willingness to lend?



Source: NAR

The agencies made overtures to ease lender concerns about buy-back risk in recent months through their rep and warrant policies. An estimated 40% felt indicated a modest gain in willingness to lend to riskier borrowers as a result, while an equal share indicated that the changes would have no effect. A fifth of respondents indicated that they would wait and see.

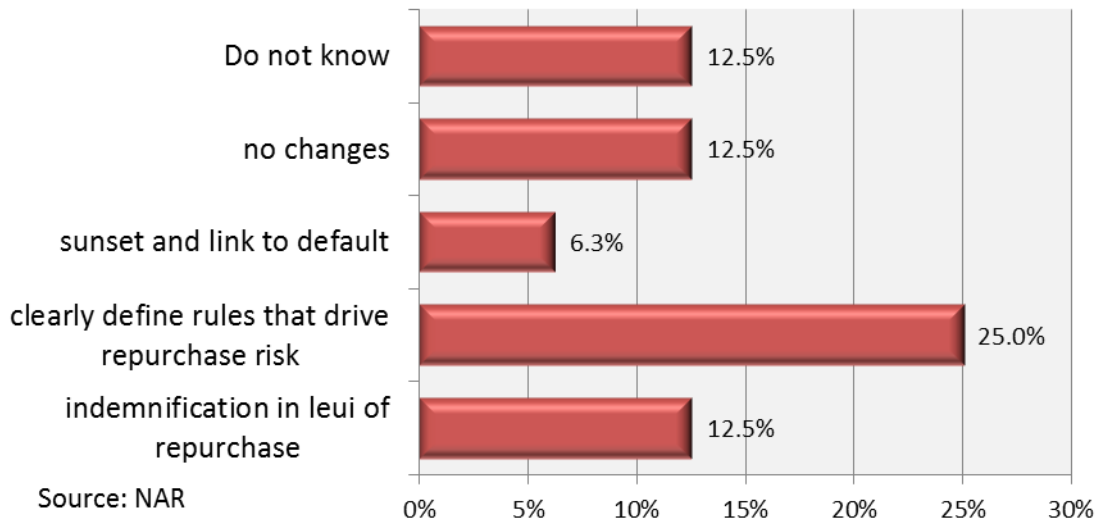
Both Fannie Mae and Freddie Mac recently announced changes to their representation and warranty policies. Will these changes impact your willingness to originate higher risk mortgages (e.g. credit scores below 640 or higher DTIs)?



Source: NAR

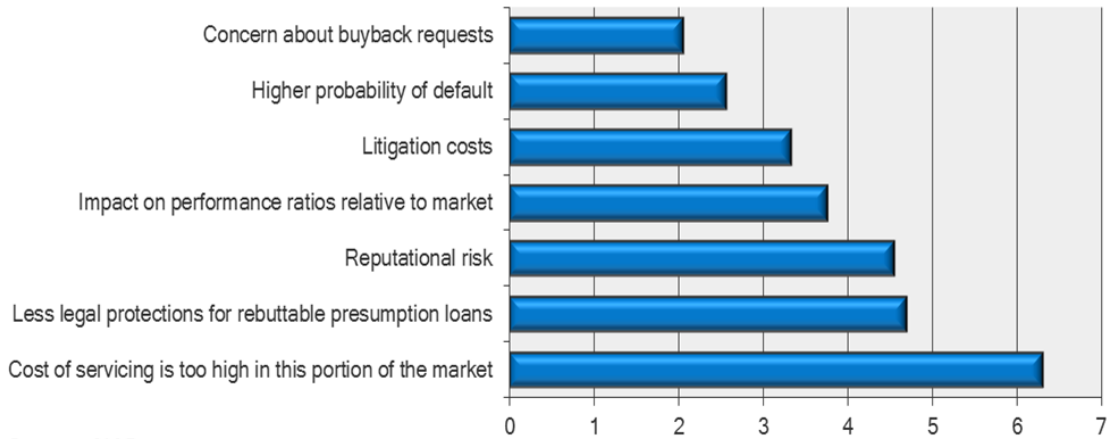
Of the suggestions for changes that would improve credit availability, 25% of respondents cited more clearly defined rules that determine repurchase risk. An additional 12.5% cited allowing indemnification for minor infractions rather than repurchase of these loans, while 12.5% indicated that no changes would ameliorate their concerns.

If recent changes to the rep and warrant framework were insufficient, what specific changes would help to ameliorate lender concerns?



Source: NAR

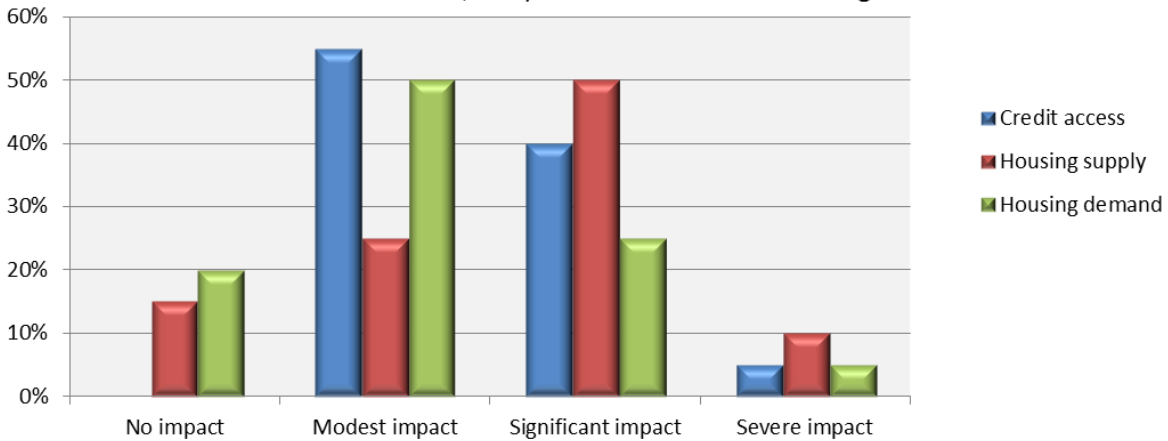
Please rank these factors as drivers of your reluctance to lend to borrowers who pose greater risk (e.g. FICO<640, higher DTIs and low down payments). Mark "NA" for all if you have no limitations.



Source: NAR

Survey participants were asked what factors most drive their reluctance to originate non-prime loans; those with credit scores less than 640, higher debt-to-income ratios, and lower down payments (“1” indicating the highest level of concern). Fear of repurchase requests was the most frequently cited factor followed by elevated probability of default and litigation costs. The elevated cost of servicing these loans was the least frequently cited reason.

In your opinion, is the low current volume of purchase originations due to tight credit (overlays and regulation), low supply of homes (few entry level properties, high underwater share, and investor competition), or demand issues (weak employment, low household formation, etc.)? Please rate the following factors:



Source: NAR

Finally, when asked whether tight credit access, slim housing supply, or weak demand for housing were to blame for the low purchase volume in today’s market, respondents indicated that slim housing supply was the biggest constraint followed by credit access and demand issues.

Appendix A: About the Survey

In February of 2015, 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 Friday the 15th of January and closed on Monday, February 9th. 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 22 unique responses to the survey for a response rate of 16.3% and a margin of error of 6.2% at a 95% level of confidence.

Mortgage bankers continue to dominate this sample, but the share of traditional banks increased at their expense. The distribution of producers by volume was close to last quarter. 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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