National Association of REALTORS®

Sixth Survey of Mortgage Originators 2015:

TRID, 3% Cap, FHA Indemnification and FHA Condo Rules

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NAR Research

May 2015

REALTOR®
NATIONAL ASSOCIATION of REALTORS®

Executive Summary

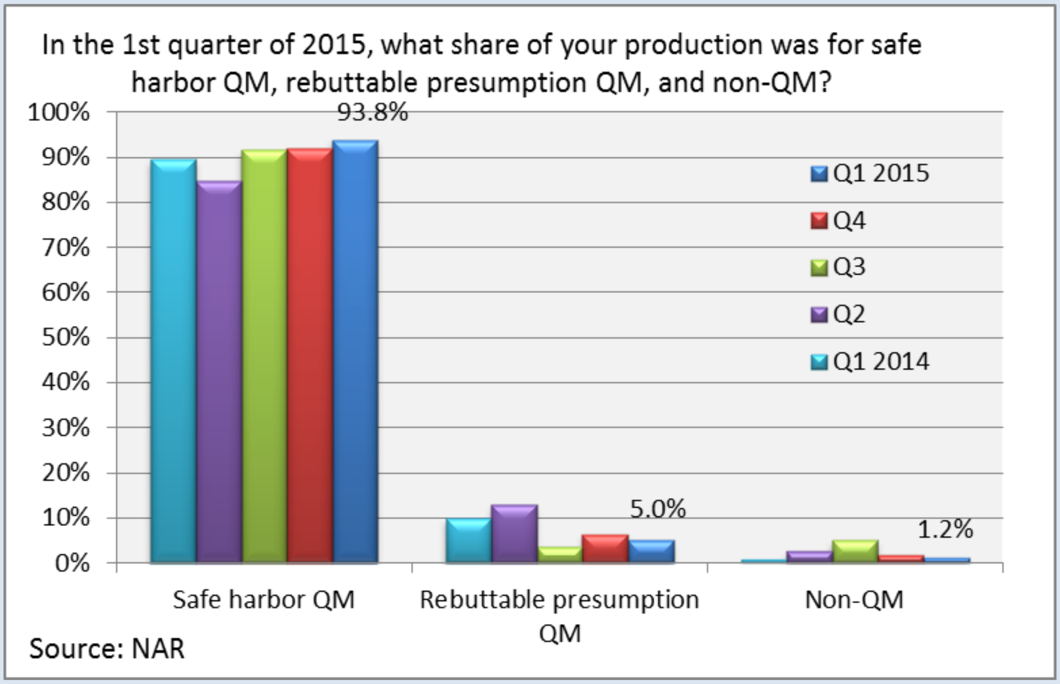
The 1st quarter survey updates trends in production around the QM/ATR rule. Policy issues are covered including the 3% cap on points and fees under the QM rule. In addition, the impacts of TRID, FHA indemnification and FHA condo financing rules are explored. As in previous surveys, this quarter's panel of respondents includes members of Community Mortgage Lenders of America.

Highlights of the Survey

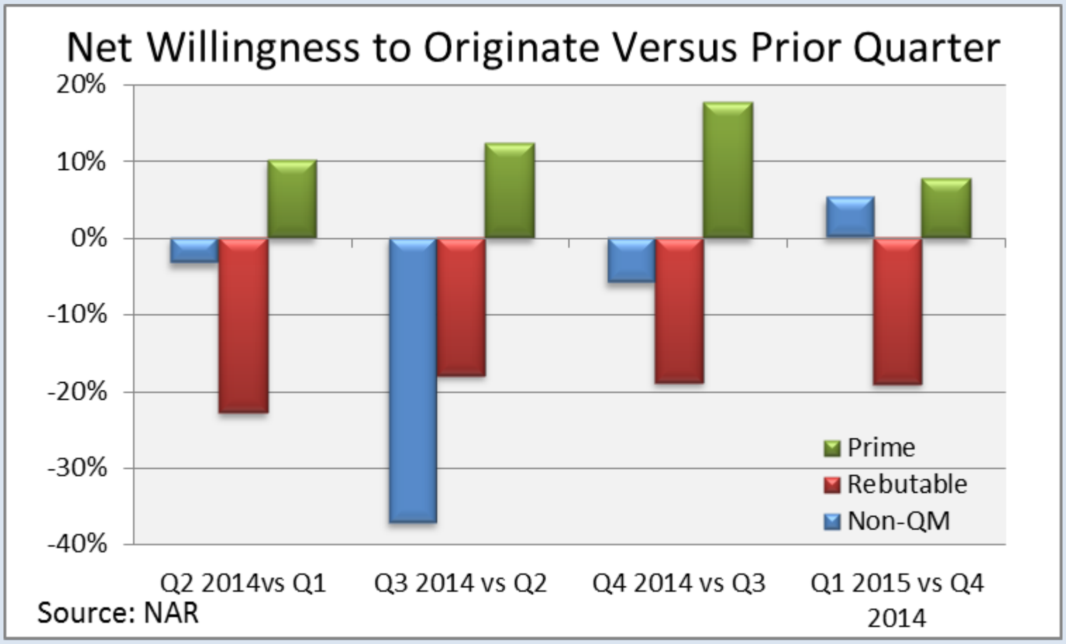
- The non-QM share of originations shrank to just 1.2% of production in the 1st quarter from 1.8% in the 4th.
- However, willingness to originate non-QM loans rose for the first time in a year while willingness to originate high quality prime mortgages grew at a slower rate and rebuttable presumption slid. The share of lenders offering high quality, prime was little changed while those offering non-QM and rebuttable presumption eased modestly.
- The share of respondents that indicated an improvement in investor demand for non-QM loans surged to 37.5%
- Over the next six months, respondents expect better access to credit for non-QM, rebuttable presumption and lower credit score borrowers as well as increased demand from investor for these same mortgages. Little change was expected for high quality prime loans.
- The share of respondents that indicated having had an issue closing a loan due to some facet of the ATR/QM rule fell to 33.3%, its lowest on record. However, the share of respondents utilizing overlays ahead of the 3% cap peaked at 33.3%, while overlays on other facets of the QM rule eased.
- Survey participants reported that 4.5% of their lending was impacted by the 3% cap. The bulk of issues were created by including LLPAs and affiliated services (e.g. title insurance) in the 3% calculation.
- Roughly 90% of respondents reported spending time and money to implement the new TRID documentation, while 60% have unanswered questions.
- Two thirds expect the TRID implementation to delay some closings and 26.7% expect delays and some deals not to close at all
- Finally, while roughly half of lenders report being asked to indemnify the FHA for a loans since 2009, two thirds indicate that this policy impacts their willingness to originate lower FICO loans and that their concern about indemnifications is on par with their concern about GSE buy backs

Market Dynamics and Willingness to Lend

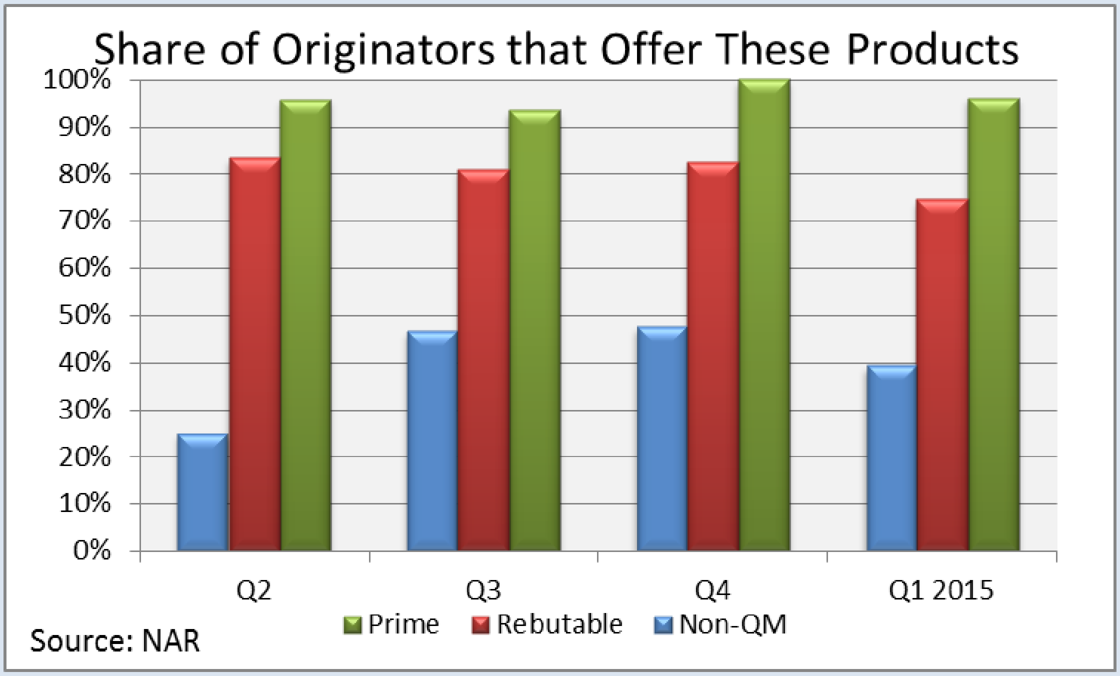
In the 1st quarter of 2015, respondents indicated a production-weighted share of 1.2% for non-QM loans, the second decline in as many quarters, but stronger than the 0.8% measured in the 1st quarter of 2014. The rebuttable presumption share eased from 6.3% to 5.0% from the 4th to the 1st quarter and was nearly half the 9.8% registered in the 1st quarter of 2014.



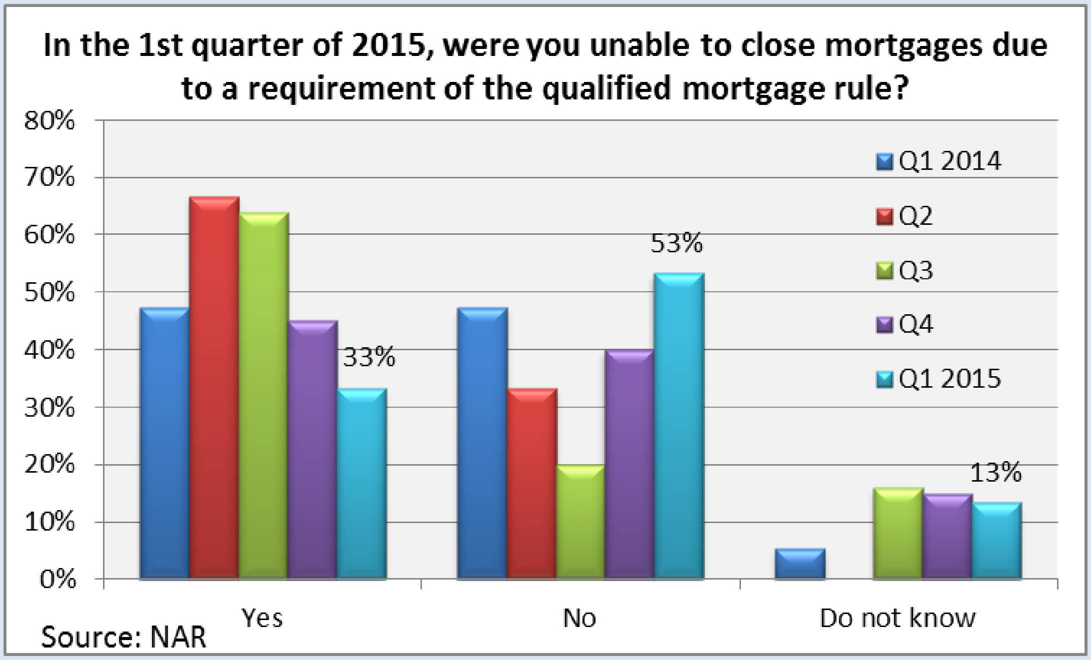
Lenders willingness to originate non-QM loans improved for the first time on record after plunging in the 3rd quarter of 2014 continuing to slid, though more moderately, in the 4th quarter. Willingness to originate prime loans gained but at a more moderate pace reflecting the strong emphasis on this sector in recent years, while willingness to originate rebuttable presumption QM loans slipped again.



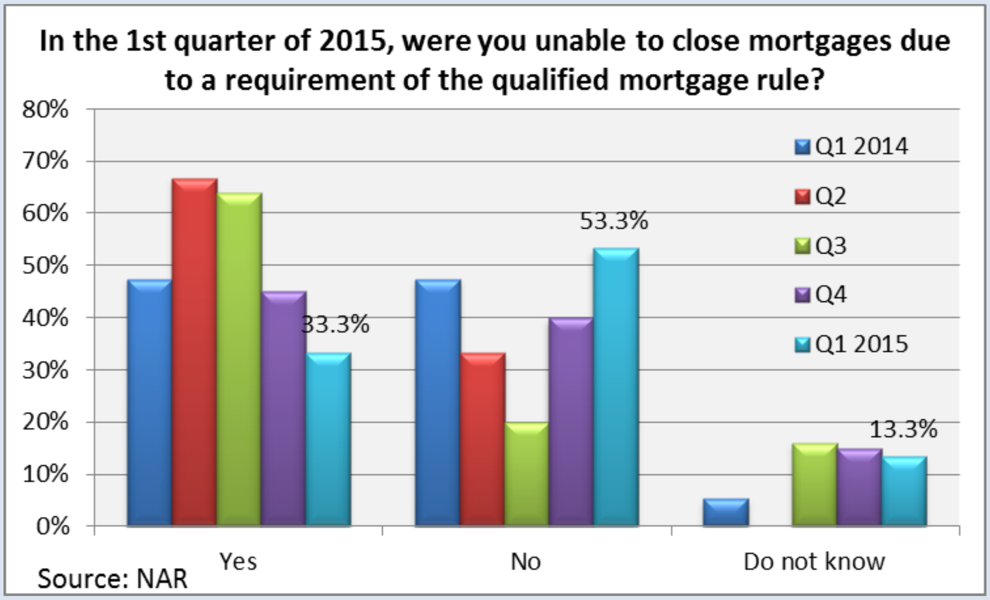
While willingness to lend improved, the share of firms in the survey offering non-QM products eased modestly from 47.6% in the 4th quarter to 39.3% in the 1st. Nearly all lenders offered prime products and the share offering rebuttable presumption loans slipped from 82.4% to 74.5% over this time frame.



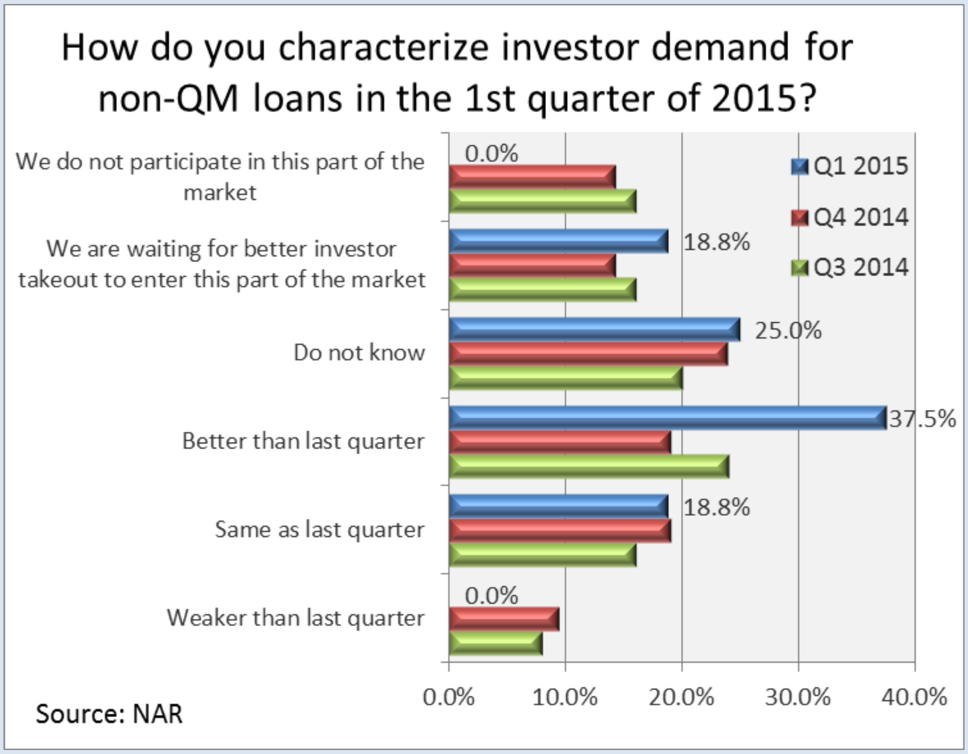
At a more granular level, willingness to originate low balance and interest only non-QMs was unchanged while demand improved for higher FICO and higher DTI non-QM types. Willingness to originate non-QM loans with points and fees greater than 3% and non-FHA rebuttable presumption loans continued to decline.



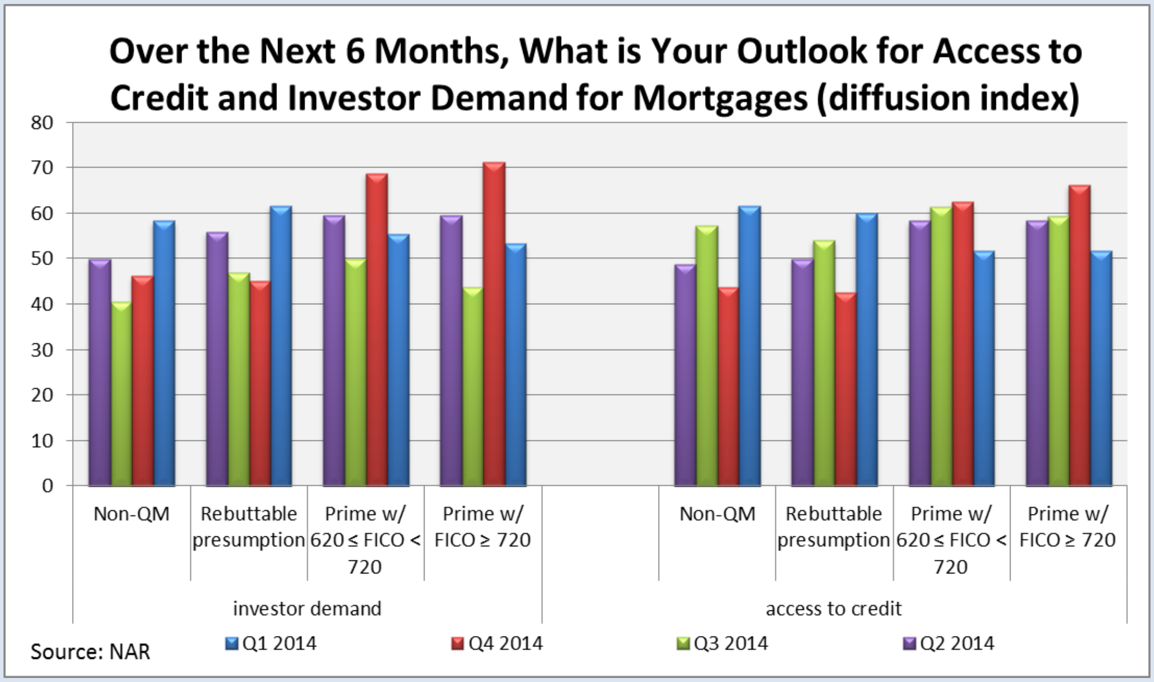
The share of respondents that had issues closing mortgage(s) due to some facet of the qualified mortgage rule (QM) fell to its lowest point on record at just 33.3%, down from a high of 66.7% in 2nd quarter of 2014. The share of respondents reporting no trouble is at a high of 53.3%.



The use of buffers eased in the 1st quarter for all categories except the 3% cap on points and fees. The share of originators imposing a buffer ahead of the 3% cap on points and fees surged to its highest level on record at 33.3%. The use of buffers ahead of the 43% back end DTI fell to its lowest point, while buffers ahead of pricing limits for rebuttable presumption were near the respective lows.



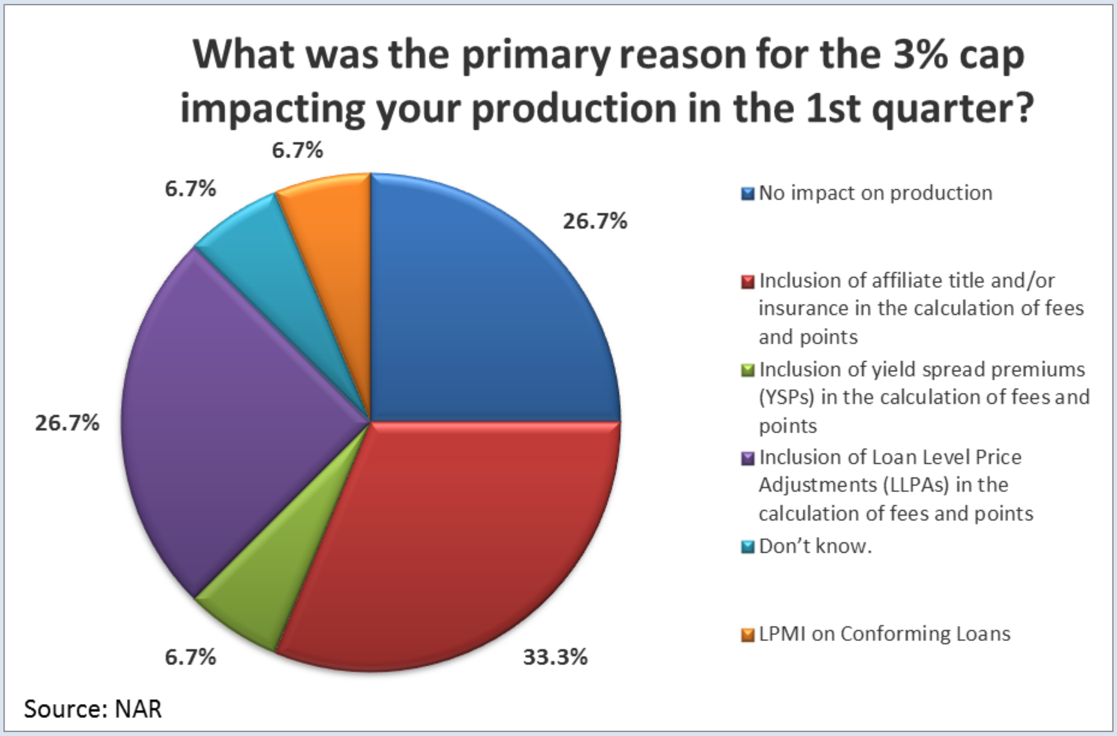
Most lenders in this survey do not portfolio loans, so investor takeout is critical. The share of respondents reporting an improvement in takeout surged to 37.5%, nearly doubling the 19% from the 4th quarter. No respondents indicated a weakening, while a modestly larger 18.8% indicated that they would wait for better investor takeout before entering the market.



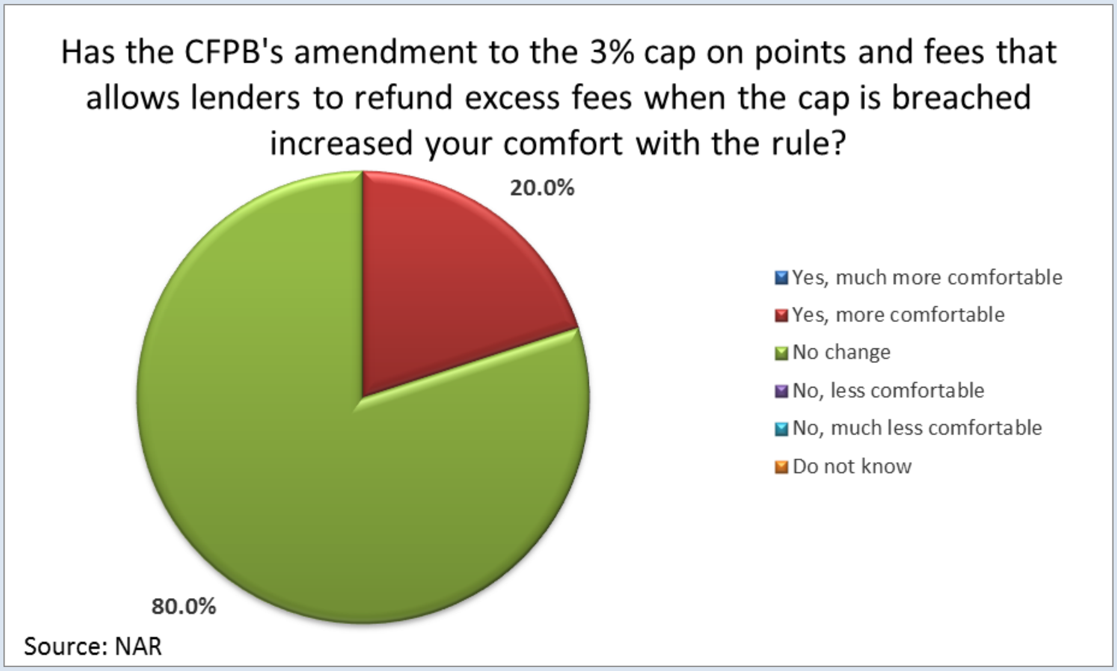
Over the six months of 2015 in the 2nd and 3rd quarters, lenders' expectations about access for non-QM and rebuttable presupmtion loans hit all time highs as measure with a diffusion index. Indexes for both high quality and low quality prime eased, though. The same patterns were evident in the diffusion indexes for lender expectations about investor demand for these products. A diffusion index measures the dispersions of expectations. A reading of 50 suggests no change, while reading higher suggests an improvement in expectations. For all products, both expectations and access indexes suggest expansion.

Industry and Policy Issues

Originators have voiced concern about the binding impact of the 3% cap on points and fees. Respondents to this survey reported a production-weighted average of 4.5% of their lending was impacted by the 3% cap.

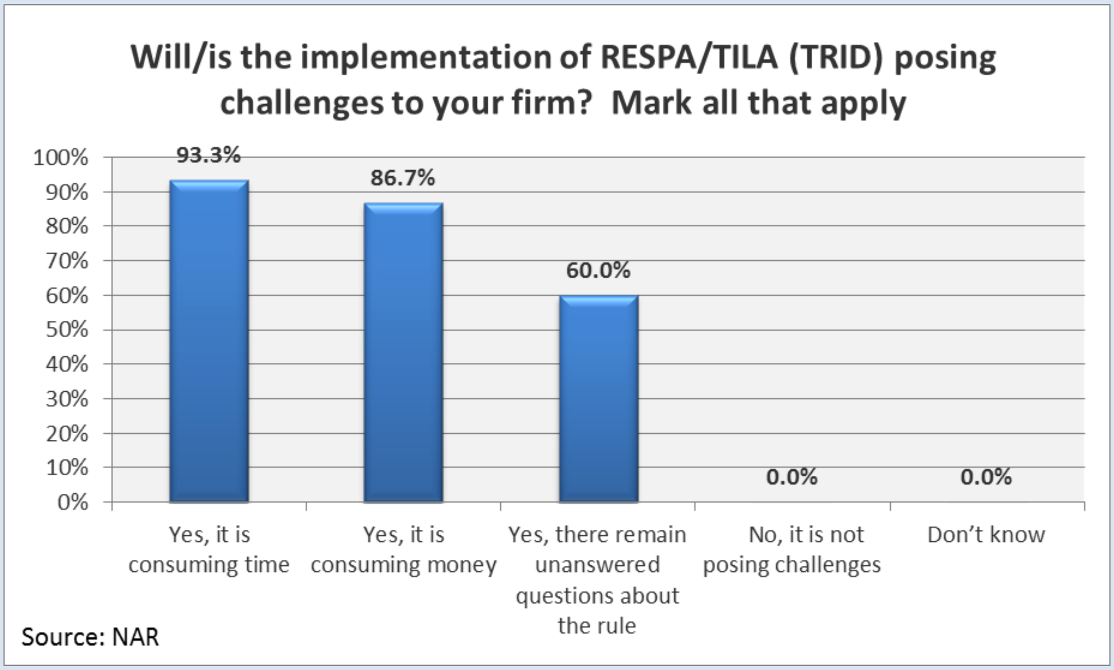


The primary driver of breaches of the 3% cap in the 1st quarter was inclusion of affiliated title and/or insurance in the calculation of fees and points (33.3%). Inclusion of Loan Level Price Adjustments (LLPAs) in the calculation of fees and points accounted for 26.7% of breaches, while yield spread premiums accounted for 6.7%.

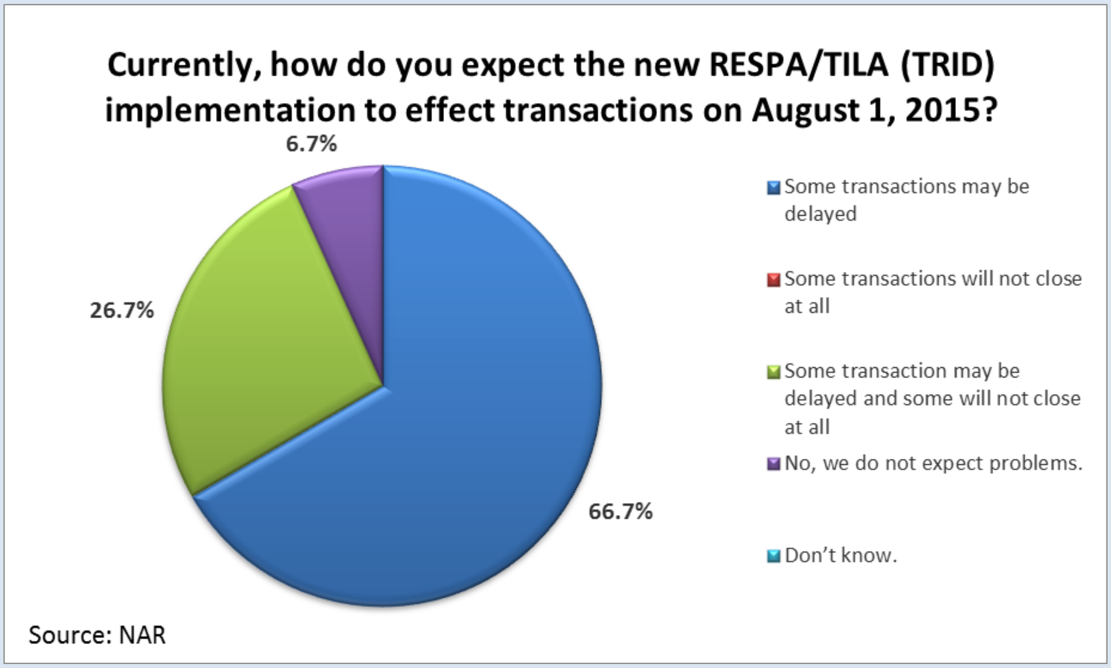


The Consumer Financial Protection Agency continues to make efforts to clarify originators’ conserns and to ameliorate potential choke points. However, 80% of respondents indicated that the CFPB’s recent efforts to ameliorate concerns about the 3% cap by making some breaches of the cap refundable, did not help to increase comfort with the rule.

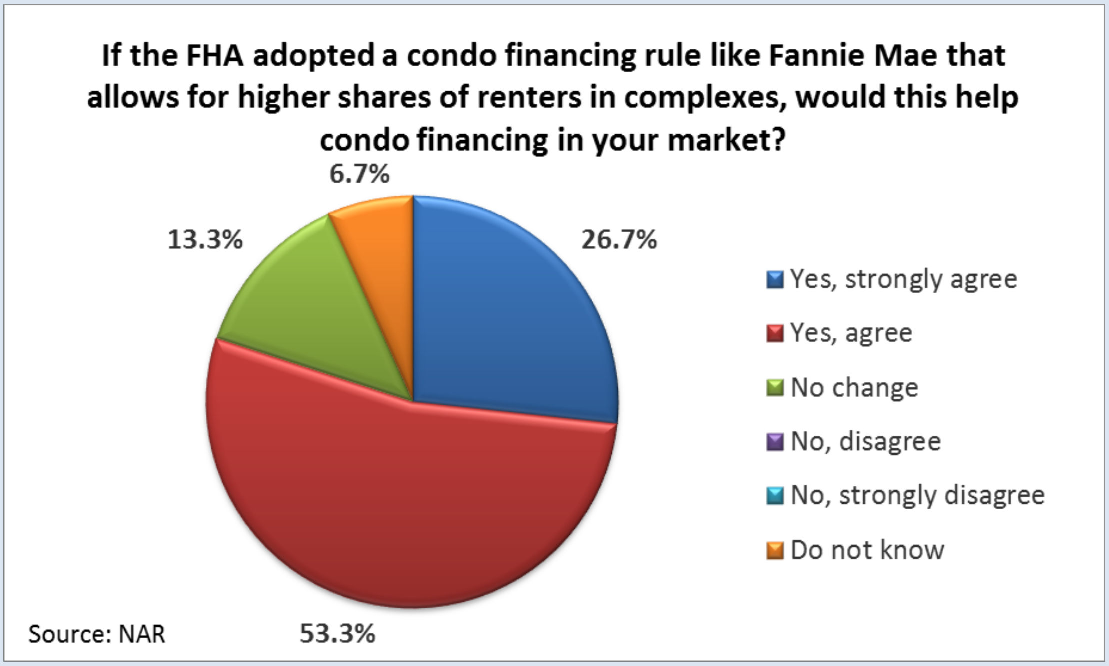
The new TILA RESPA Integrated Documentation (TRID) rules are set to be implemented in August of 2015. These rules will replace the current closing documentation like the HUD-1. Some lenders and analysts are concerned about potential issues. The vast majority of respondents indicated that they were expending both time and money, 93.3% and 86.7% respectively, implementing the rules. A significant 60.0% of respondents indicated that some rules still needed clarification.



The vast majority of respondents expect the implementation of the new TRID rules to have an impact with 66.7% indicating that the change would delay closing of some loans, while 26.7% expect delays and some transactions not to close. Only 6.7% of respondents expect no problems with the implementation of TRID.

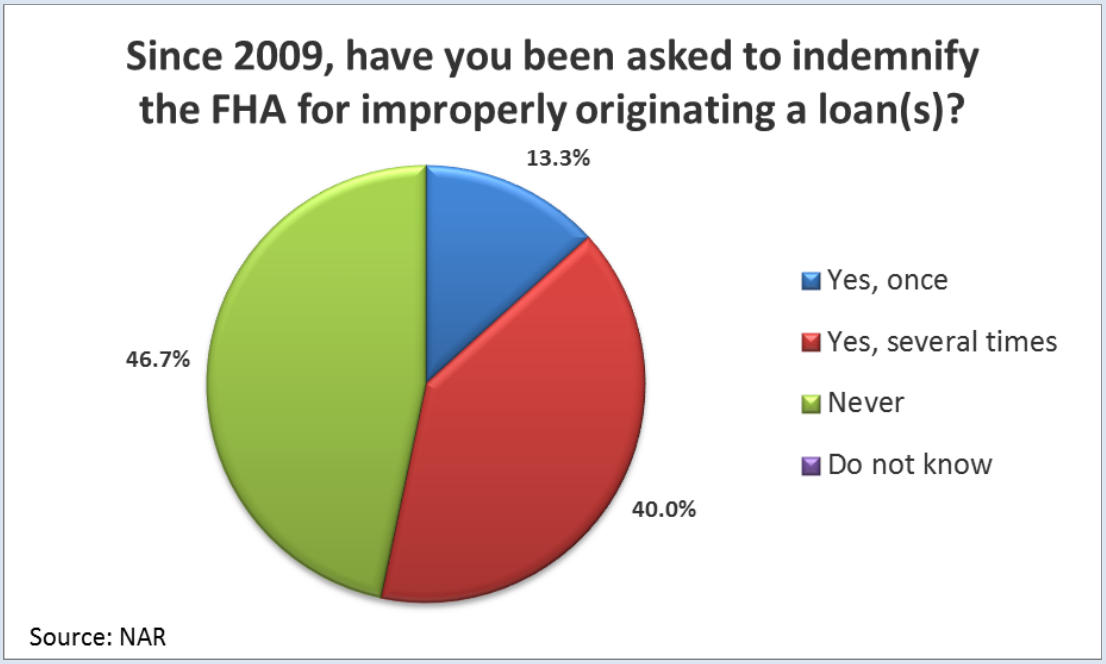


While the FHA is the dominant source of funding for first time buyers and recent changes to pricing reinforce this role, the FHA condominium rules are viewed as a potential road block. The FHA will not extend financing for units in buildings where the share of renters is greater than 50%, while the GSEs will allow a higher share of renters. Respondents indicated that a production weighted average of 3.7% of their transactions involving condos fell through because FHA financing was not available for that complex.

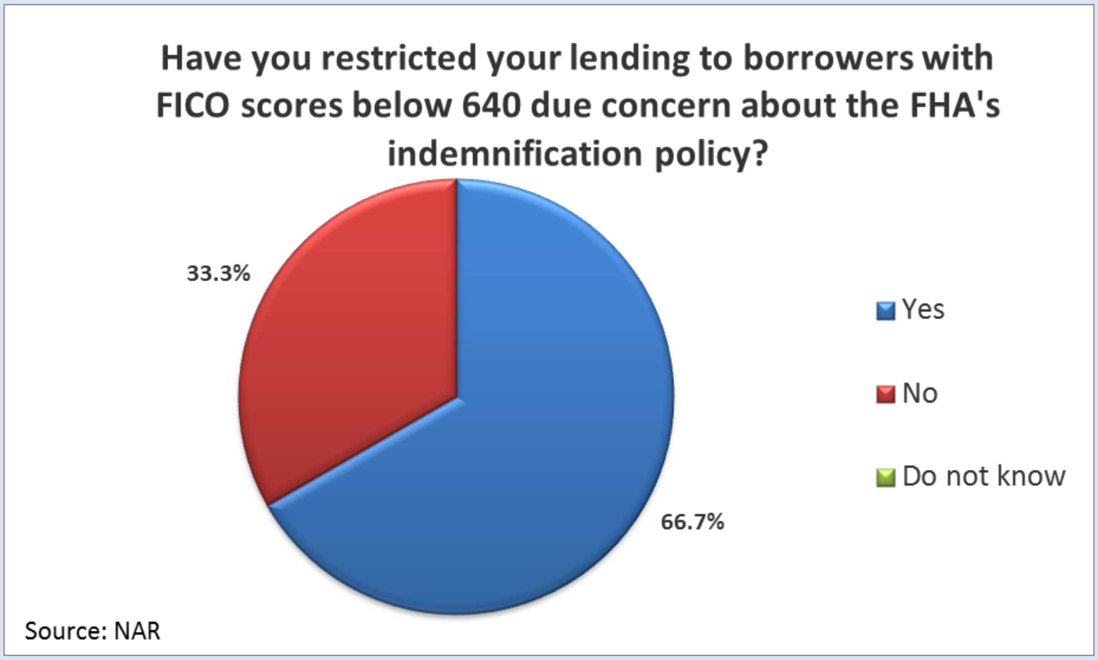


When asked whether the adoption of Fannie Mae's condo financing rules by the FHA would help in their market, 53.3% of respondents agreed while 26.7% strongly agreed. Only 13.3% indicated that it would not have an impact.

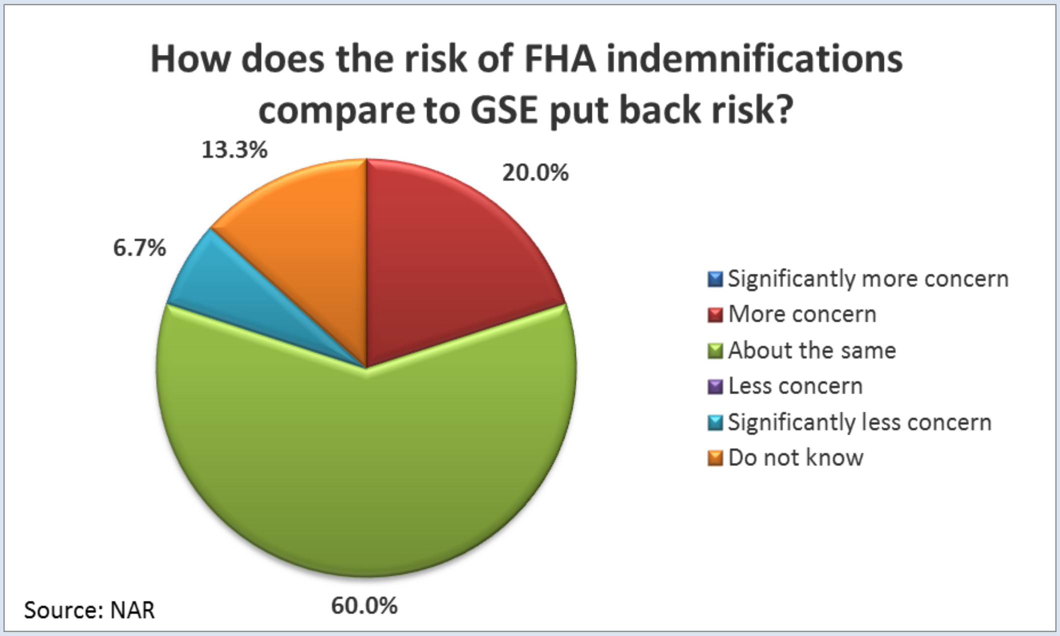
When lenders originate a loan, they typically sell their loans to an investor or aggregator. The GSEs have standards that originators must comply with or else the lender can be forced to repurchase the loan from the GSEs. This put back risk is expensive and problematic for lenders and was explored in the 5th Survey of Mortgage Originators. The FHA also has rules that originators must comply with. When a loan does not comply with the FHA's standard, the FHA often asks the lender to indemnify it, or to pay the FHA for any costs its incurs as a result of insuring the improperly written loan. More than half of originators in this survey had been asked by the FHA to indemnify a mortgage since 2009.



A majority of 66.7% of respondents indicated that they had restricted lending to borrowers with lower credit scores due to indemnification concerns.



Finally, when asked how FHA indemnification risk compared to that of GSE put backs, 60% indicated that their concern was about the same. While 6.7% indicated that they were significantly less concerned 20% indicated being more concerned.



Appendix A: About the Survey

In April 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 Tuesday the 7th of April and closed on Friday, May 1st. 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 17 unique responses to the survey for a response rate of 12.6% and a margin of error of 5.6% at a 95% level of confidence.

Mortgage bankers continue to dominate this sample with a slight uptick in the share of independent mortgage brokers this quarter. The distribution of originators by volume was roughly unchanged with the notable exception of no small producers (less than 500 per annum). 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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