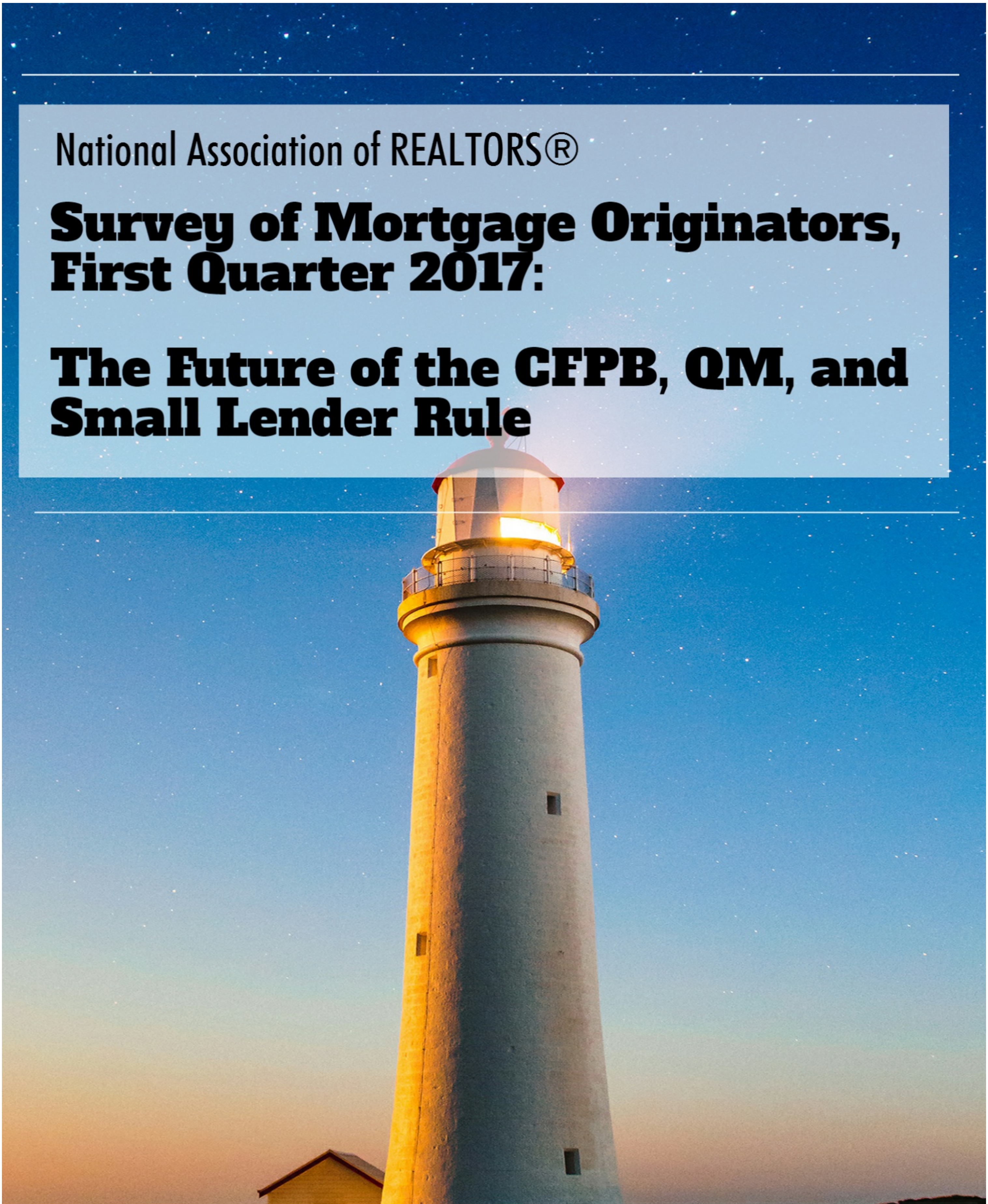
National Association of REALTORS®

# Survey of Mortgage Originators, First Quarter 2017:

# The Future of the CFPB, QM, and Small Lender Rule



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This quarter marks the 14th Survey of Mortgage Originators and the first full quarter under the new administration. This survey covered lenders' experiences in the 1st quarter of 2017 and questions on potential changes to the CFPB, the Qualified Mortgage rule, and the Small Creditor Portfolio Rule.

- Non-QM lending moderated, while rebuttable presumption gained, but willingness to originate both gave back gains made in the 4th quarter. Investor interest is expected to moderate over the next six months, though lenders remain keen on the product.

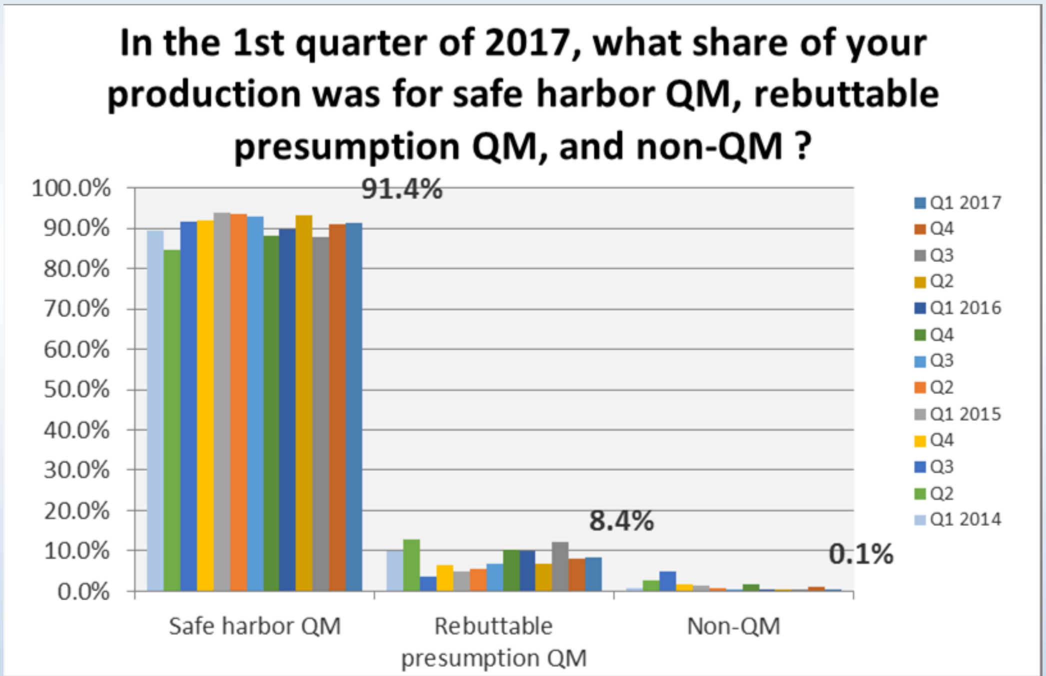
- Investor demand for and lender willingness to expand access to prime borrowers over the next six months remained strong, but more robust at the lower credit band.

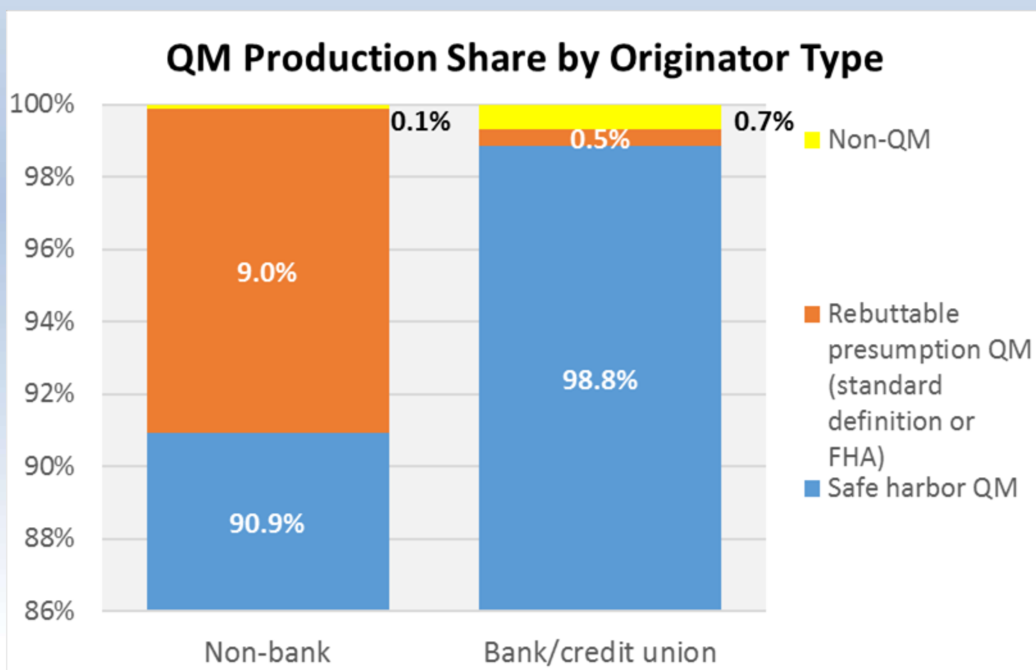
- A 64.7 percent majority of respondents indicated that they would prefer a panel structure of governance at the CFPB, while in a nod to the benefit of consumer protections only 11.8 percent would like to eliminate the entity.

- Raising the pricing limit on rebuttable presumption loans to 250 bp over APOR along with a consistent back-end DTI limit across the lending landscape were the top two refinements to QM sought by respondents.

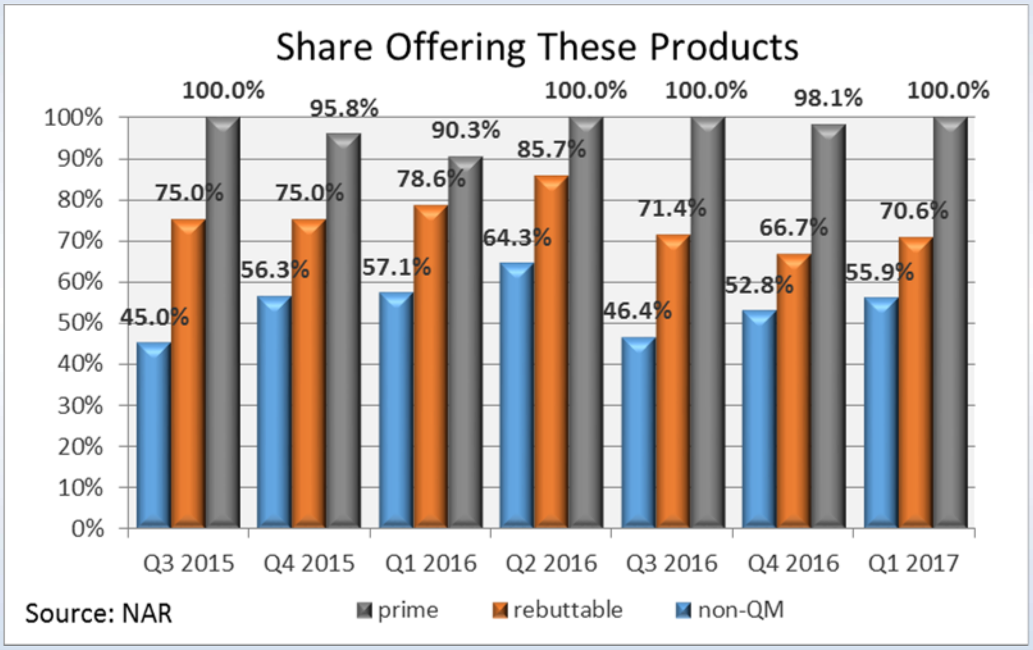
- Portfolio lenders liked the small creditor rule, but felt that the volume limit could be raised, while most non-banks saw it as competition. Allowing non-banks to originate with a QM exemption to SCP holders would be a remedy. Nearly a third of respondents indicated that no change should be made to the rule.

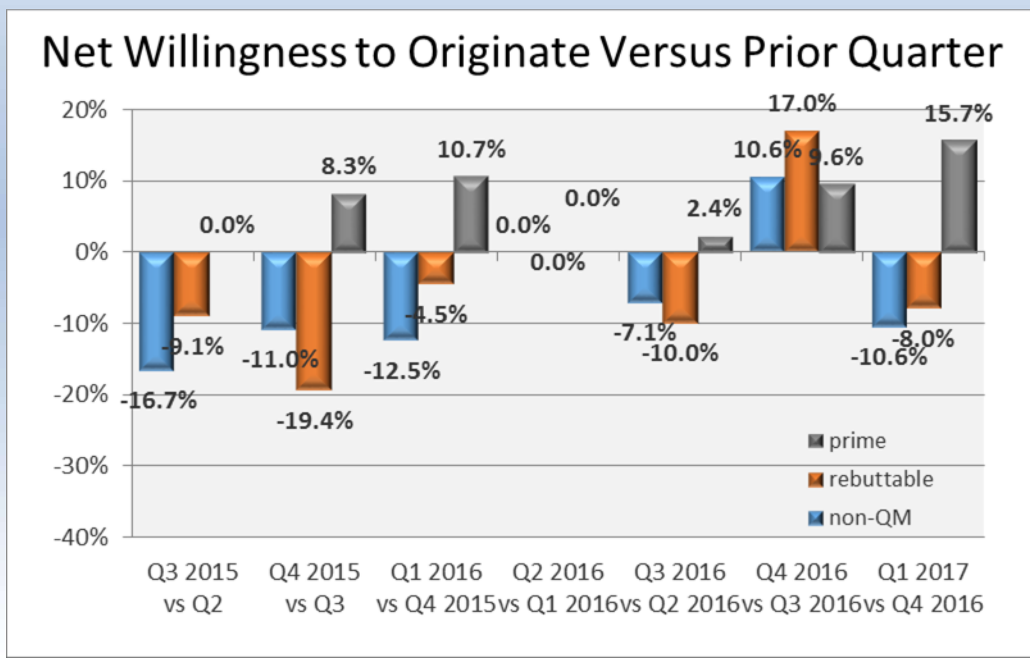
Non-QM lending remained anemic in the 1st quarter, but was clearly more evident among lenders with a portfolio. Non-banks' heavy lift on entry-level lending was evident with their 9 percent share of originations devoted to rebuttable presumption loans.



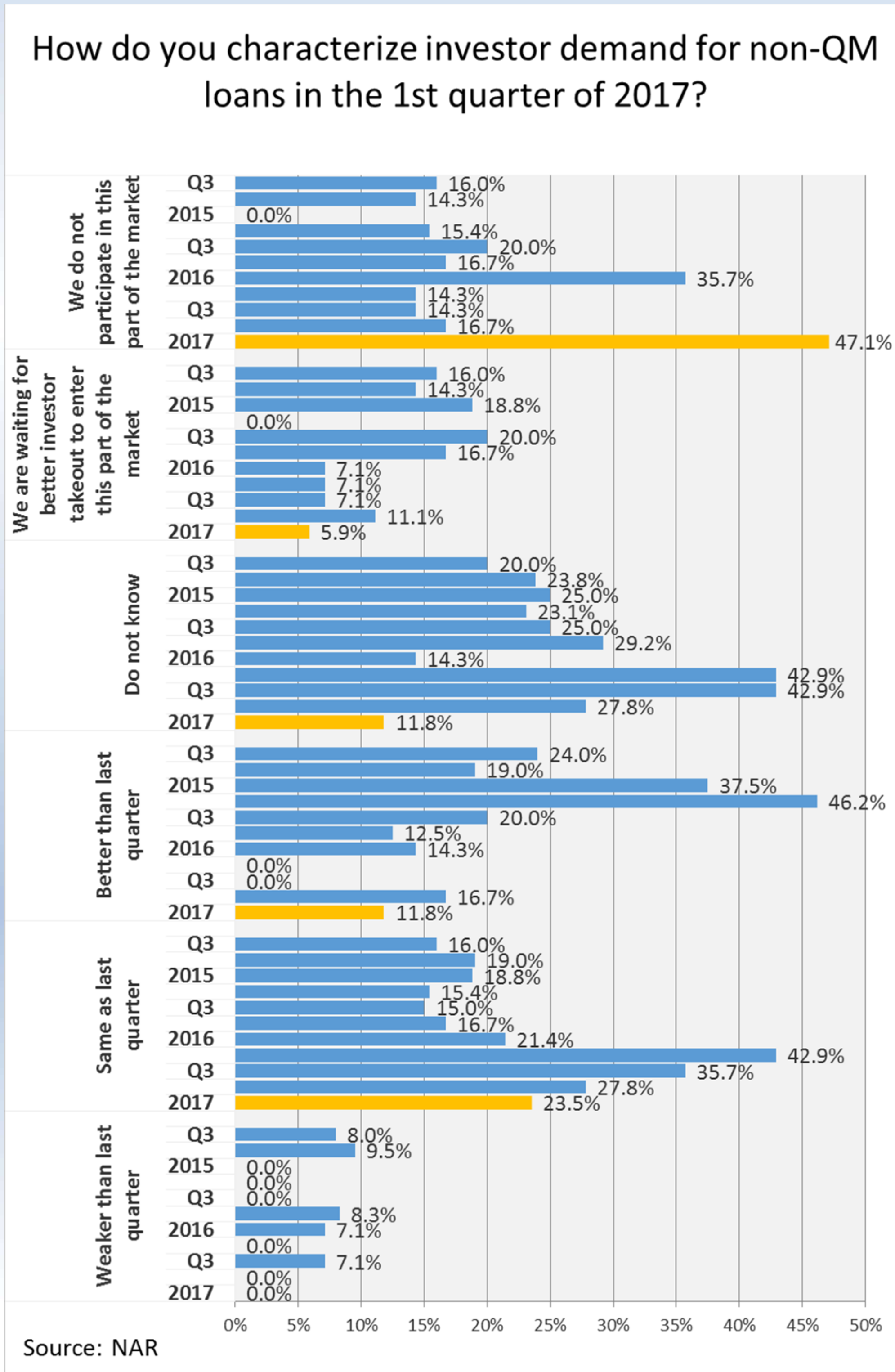



The share of lenders that originate non-QM and rebuttable credit climbed for the second consecutive quarter, but willingness to originate non-QMs fell after rising in the 4th quarter. Rebuttable presumption lending followed a similar pattern, but held onto some gains.

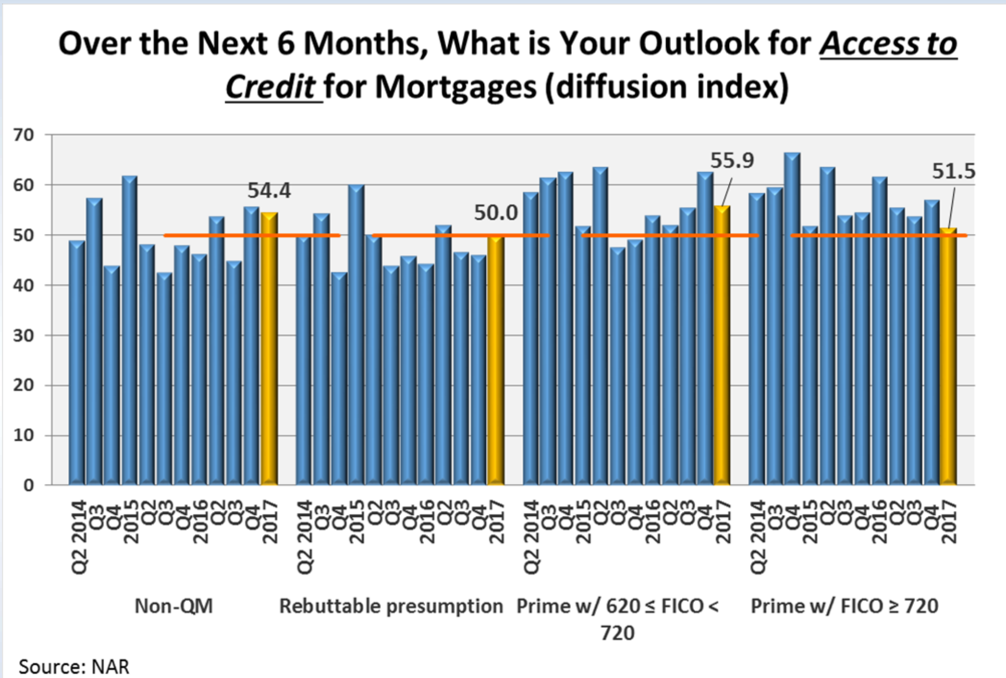


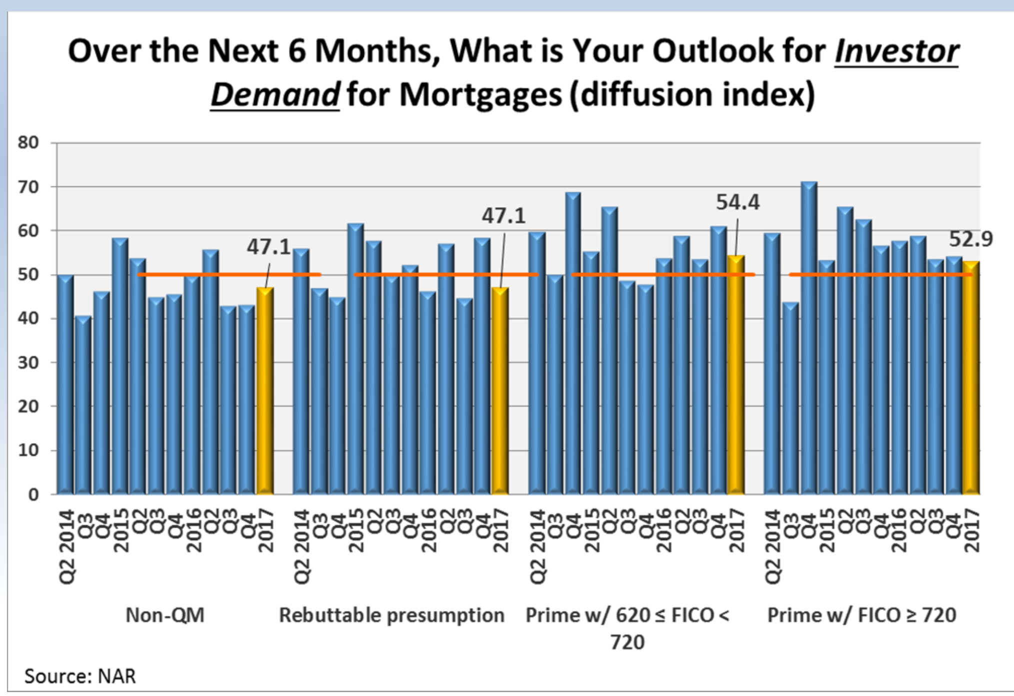
Investor demand for non-QM loans moderated in the 1st quarter, while fewer lenders are waiting on better take out to enter this portion of the market. It appears that more lenders have a firm position on non-QM lending.



# Lenders expect stronger growth for all groups, in particular non-QM and lower credit profile prime…

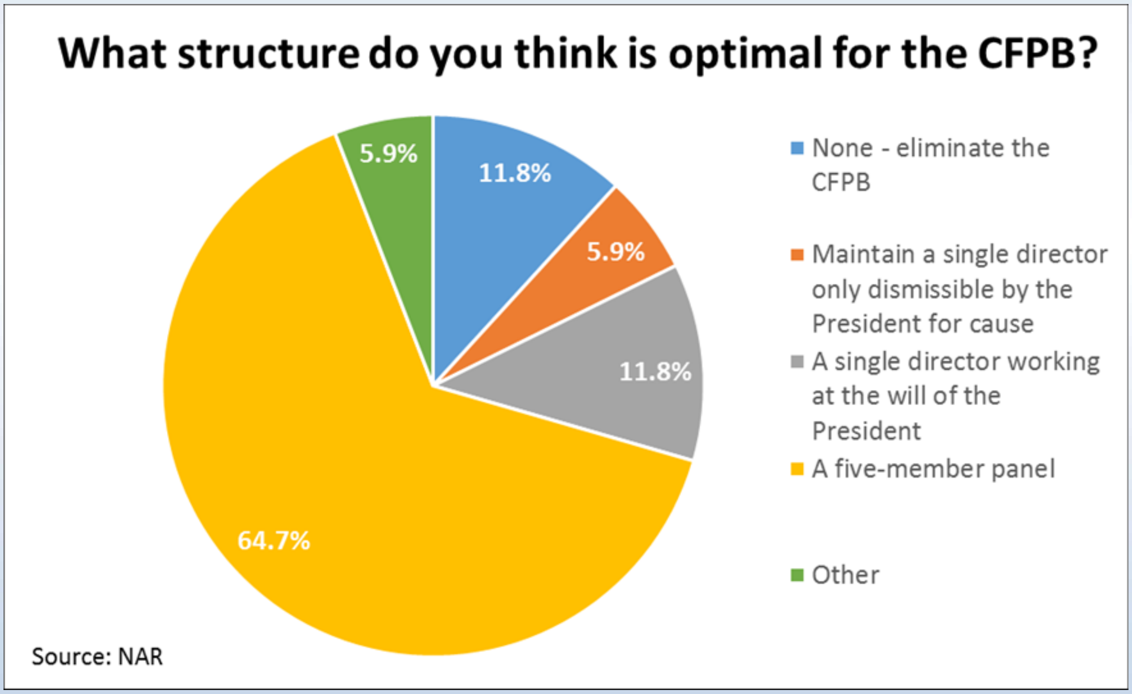



# …while investor interest is expected to moderate for non-QM and rebuttable presumption



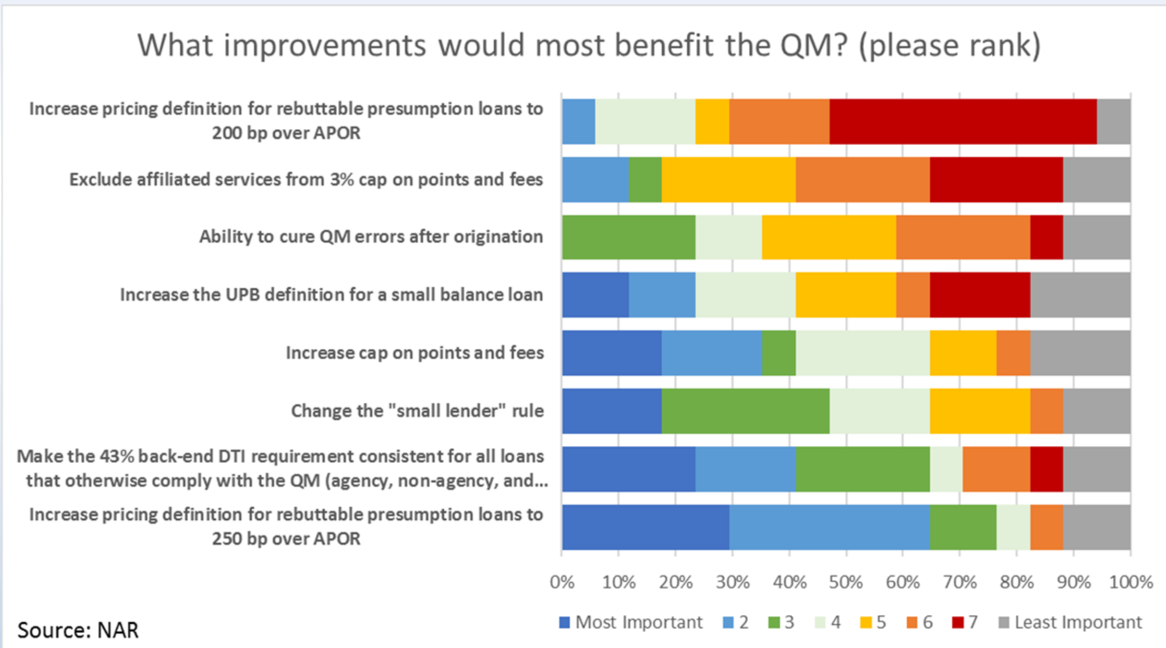
# POLICY ISSUES:
# CFPB AND QM CHANGES

The clear majority of lenders in this survey favored changing the CFPB's leadership structure from a single director to a five-member panel.



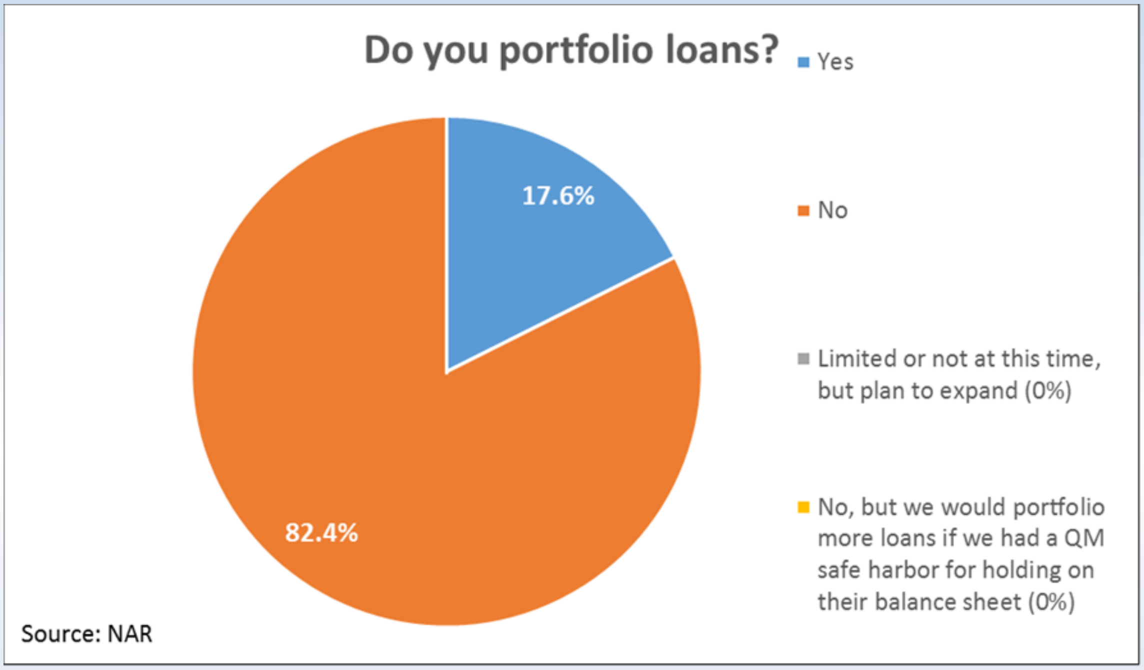

Only 11.8 percent of respondents wanted the CFPB eliminated indicating a recognition of the importance of protecting consumer interests. A far smaller share at 5.9 percent favored maintaining the status quo.

When asked about changes to the QM rule that might be most beneficial, the top two choices by respondents were increasing the cap for rebuttable presumption loans from 150 basis points over the average prime offer rate (APOR) to 250 basis points and creating a consistent 43 percent back-end ratio across the industry.

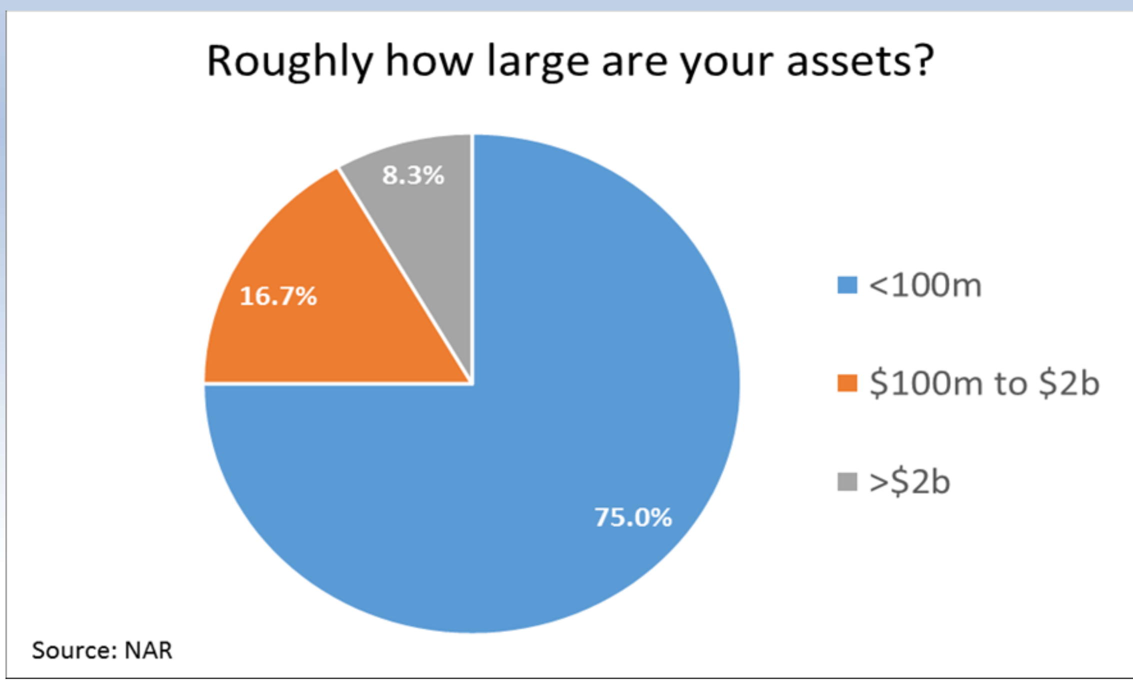



Other note worthy responses include a higher cap on points and fees that lenders can charge along with changing the small lender rule. The small creditor portfolio (SCP) rule currently provides for an exemption to the ability to repay rule if a lender has less than $2 billion in assets, originates less than 2,000 mortgages annually, and holds the loans originated for no less than 3 years. These loans are still limited to be fully underwritten, have product restrictions, but there is no cap on rate over APOR or back-end DTI.

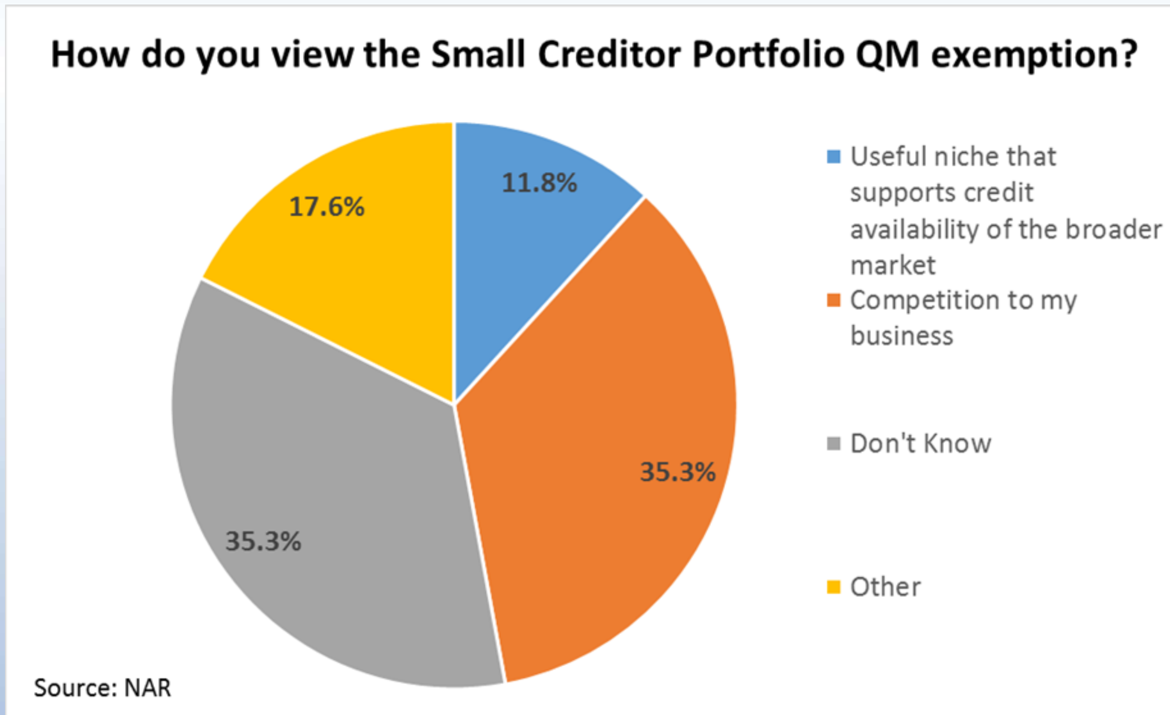
The majority of respondents were non-bank lenders with no portfolio to hold loans.




75 percent of respondents had assets less than $100 million, but nearly 10 percent had assets well in excess of $2 billion. This dichotomy reflects the non-bank and portfolio lender split.

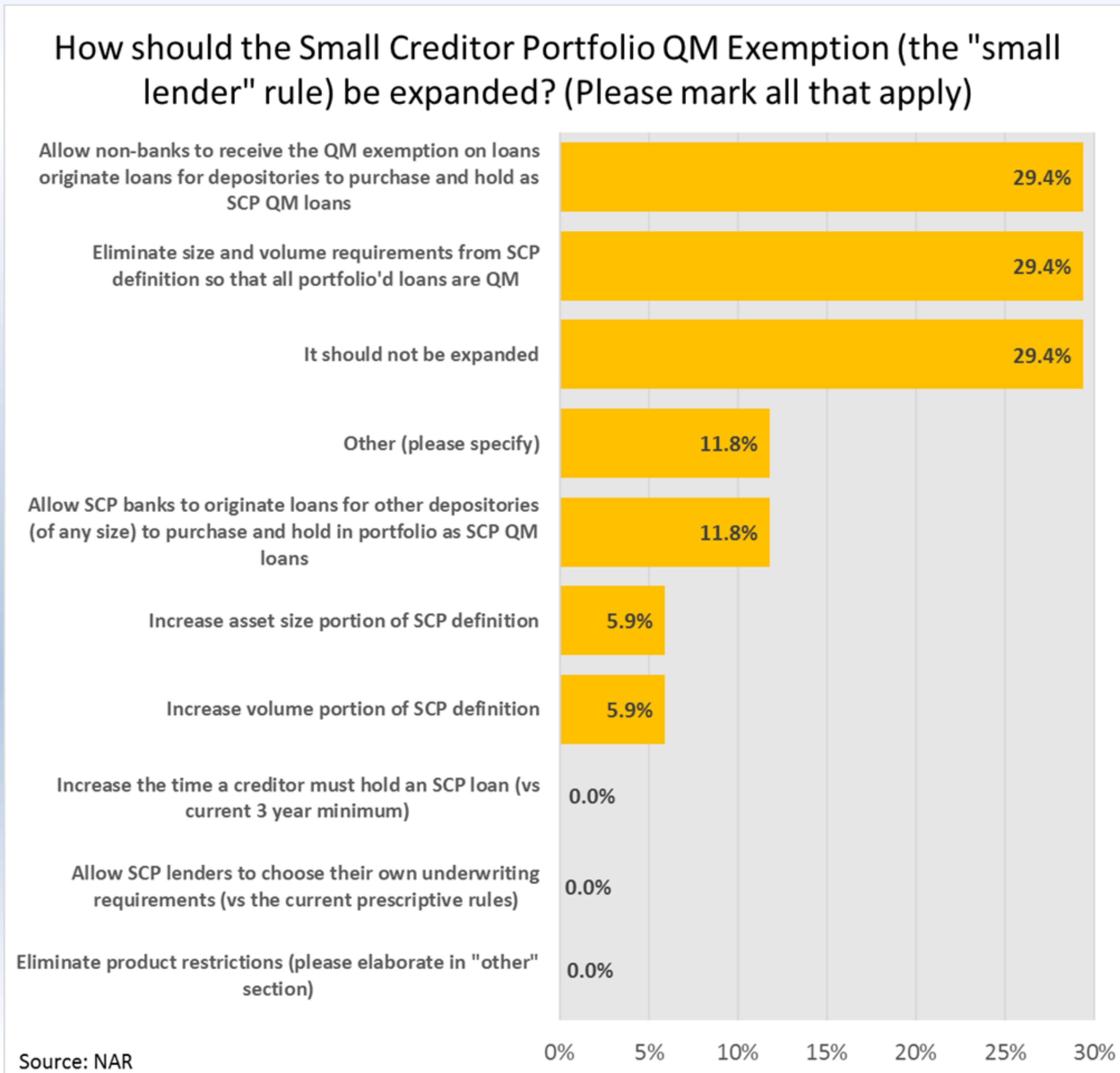


Perception of the merits of the SCP rule lined up with respondents' business model. Given the survey's skew towards non-bank lenders who do not have portfolios to hold originated loans for three years, more than a third of respondents view the SCP rule as competition to their business.




Roughly the same share of respondents who have portfolios also view the SCP as useful to their business.

When asked about optimal changes to the SCP, nearly a third of respondents indicated that the QM should be extended to non-banks who originate loans to be held by an SCP lender in portfolio. An equal share suggested eliminating the volume restriction which would allow large lenders to hold loans in portfolio as QMs, while an equal share said no changes should be made.



# Appendix: Survey Methodology

- 135 lenders were surveyed
- The survey was conducted from April $10^{th}$ through April $28^{th}$
- 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 14.1 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 4th quarter survey

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

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