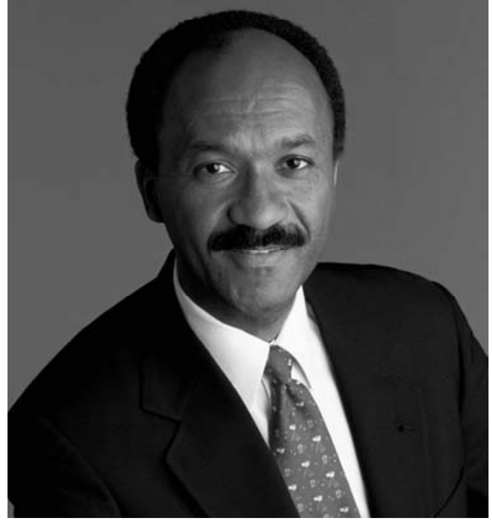
FannieMae

Fannie Mae National Housing Survey 2001

EXAMINING THE CREDIT-IMPAIRED BORROWER

The 2001 Fannie Mae National Housing Survey

The research firms Peter D. Hart Research and Coldwater Corp. conducted the Fannie Mae 2001 National Housing Survey. The sample comprised 1,001 randomly selected adults — with an oversample of 303 credit-impaired homeowners — interviewed between May 8 and May 11, 2001. The survey's accuracy is plus/minus 3.1 percent for the representative national sample and 5.7 percent for the oversample of credit-impaired homeowners.



Chairman's Message

This is Fannie Mae's 10th National Housing Survey, and it confirms that America's attitudes about housing and homeownership have never been brighter. The American Dream keeps on getting stronger, more available, easier to finance, and steadily attained by more people, in more places, from more walks of life, year after year.

Today, the U.S. homeownership rate of nearly 68 percent not only is the highest in history, its growth during the 1990s is rivaled only by the 1950s, when entire suburban communities sprang up to meet the demand of returning GIs and their families.

In the 1990s, the 2 percent jump in the homeownership rate translates into nearly 11 million new, first-time homeowners. The expansion of homeownership, in turn, has fomented a revival of cities as places in which to work *and* live, greater equality in housing opportunity, and a housing industry that remains so robust it is helping to keep the entire U.S. economy on a healthy course.

This success story is not accidental. It is a testament to the powerfully enduring desire by Americans to own a home and the advancements of the housing-related industries in meeting their demand. Only in America can a family of modest means assume homeownership is in their future. Credit the cumulative efforts of mortgage lenders, brokers and insurers, real estate professionals and home builders, housing agencies, advocates and activists, as well as strong pro-housing public policies and private sector capital and commitment, and a strong secondary mortgage market that includes Fannie Mae.

Working with pollsters Peter Hart and Robert Teeter, the Fannie Mae National Housing Survey has provided an annual snapshot of the steady progress of America's housing system. Beginning in 1992, the survey began to uncover distinct barriers to homeownership including lack of information, wealth, and income, as well as intimidation and even discrimination. The survey also captured consumers' opinions about trends in housing, and at times, focused on particularly relevant issues. In the past five surveys, for example, we found:

- In spite of their worries over job security, Americans were still optimistic about being able to buy a home (1996);
- Cities were becoming more desirable as places to live (1997);
- Perceived barriers to homeownership were at all-time lows (1998);
- Half of Americans misunderstood the impact of blemished credit on their home-buying prospects (1999); and,
- Half of Americans expected most mortgages to be originated over the Internet in the coming five years, despite doubts about Internet security (2000).

Such findings are not only food for thought, they help to formulate a plan of action. Understanding consumer attitudes has helped Fannie Mae — the nation's largest source of home mortgage funds — better understand how to help our partners in the housing industries to achieve our mission, that is to "tear down barriers, lower costs, and increase the opportunities for homeownership and affordable rental housing for all Americans."

Armed with these findings, for example, Fannie Mae:

- Helped to pioneer increasingly flexible, low down payment – and even zero down payment – mortgage products nationwide;
- Pledged a total of $3 trillion in financing targeted exclusively to minority, lower-income and other underserved groups (and delivered over $1 trillion thus far);
- Launched an aggressive home-buyer outreach and information campaign, now managed by the Fannie Mae Foundation;
- Harnessed information technology to streamline the mortgage process, lower origination costs, expand loan tolerances, qualify more home buyers, and bring low-cost mortgage funds and options to more communities; and
- Invested billions of dollars in affordable housing and community development efforts in cities across the country with a spectrum of public and private sector partners.

The 2001 National Housing Survey will continue this work by highlighting the milestones — but also, the miles we have yet to go.

As the survey found, barriers to homeownership are falling even further. Fewer renters view the up-front costs as a formidable obstacle; only 38 percent see the down payment and closing costs as a barrier, compared to 44 percent in last year's survey. The industry's consumer outreach also is lowering the information barriers; in 1994, nearly 50 percent of respondents felt uncertain about how to start the home-buying process; today, less than 33 percent have that concern. Almost 60 percent said they feel "comfortable" with the terminology and process of buying a home.

This year's survey also underscores Americans' optimism about their chances to obtain a mortgage, even as the national economy slows. Over 90 percent believe their personal financial situation will get better or stay the same. Nearly 30 percent believe now is a very good time to buy a home, up from 19 percent last year. For the third consecutive year, one in four resondents said they are very likely to buy a home in the next three years.

Clearly, the housing finance system is working extremely well for millions of Americans. But as the survey found, not for every American. This year the survey focused on the experiences of one segment of the population that does not enjoy the best the U.S. housing finance system has to offer: consumers with credit issues.

Indeed, this survey helps to explain the explosive growth in the "subprime" mortgage market, which often is the only source of mortgage credit for credit-impaired borrowers, but at some of the highest rates in the market. From 1993 to 1999, subprime lending has grown three times as fast as overall mortgage lending, rising from an industry footnote into a significant market segment. For underserved families, particularly African Americans, subprime lending has grown at an even faster pace. In many cases, consumers that can afford the least are paying the most to finance a home.

Why?

The survey found that the desire to own a home is so intense – the benefits are so compelling – that many consumers are willing to go to extraordinary lengths to secure the financing.

Of the credit-impaired borrowers surveyed, 42 percent said they were paying interest rates between 10.5 percent and 14 percent, compared with around 7 percent for conventional financing. Understandably, a vast majority – 79 percent – said they are dissatisfied with their loan rate. Only 34 percent of the credit-impaired borrowers said they are confident that they got the best mortgage deal possible, compared to 68 percent of conventional borrowers.

Subprime lending is an important source of capital in many communities, often providing credit-impaired borrowers with their only chance to finance a home, put down stakes, build a better credit record and equity wealth, and generally improve their overall financial standing. Subprime home finance also is an important source of capital to help some homeowners harness their equity to maintain their homes or manage their finances. Without question, the subprime lending industry has played a vital role in expanding and supporting the American Dream.

The question for the entire industry, however, is whether all consumers are enjoying their basic right to the lowest-cost mortgage for which they can qualify. The results of this survey raise several issues for the industry to address:

- Are there home buyers who could qualify for conventional financing, but for various reasons – they were intimidated by mainstream finance, lacked information, or a subprime lender was the most persistent or accommodating lender they found – they accepted higher-cost financing?
- Are there subprime borrowers who, with a little creativity, could be qualified for lower-cost conventional financing?
- Can we better help consumers with blemished credit remedy the problem and qualify for conventional financing?
- Can mainstream lenders learn from the subprime industry's apparent success at marketing to underserved communities in ways that will allow a further broadening of available financial services in these communities?
- Can we bridge the gap between prime and subprime, and make sure that all home buyers get the lowest-cost financing for which they qualify?

Answering these questions is critical if we are to close the homeownership gaps facing many groups in America, achieve true consumer rights and equal opportunity in housing finance, and further advance the progress of the best housing finance system in the world.

Our 10th National Housing Survey should be heart-warming – and thought provoking – for anyone who cares about housing and homeownership in America and wants to keep our progress on its upward trajectory. We remain ever grateful to the work done by our partners, Peter Hart and Bob Teeter, and offer special appreciation to their colleagues, Andrew Maxfield and Thomas Schull. Let me also thank Robert McCarson for bringing this survey to fruition.

Finally, let me dedicate this survey to John Buckley, whose remarkable legacy at Fannie Mae includes creating and launching all 10 of the surveys before departing Fannie Mae earlier this year.

Franklin D. Raines
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Major Conclusions of the 2001 National Housing Survey

State of the Mortgage Market

America's housing market seems to be shaking off news of an economic slowdown, and, in some quarters, has been credited with staving off a recession. Mortgage originations are projected to be at an all-time high for 2001 – $1.52 trillion – as Americans have moved to refinance their mortgages to take advantage of lower interest rates. The strength of the housing market is reflected in the enthusiasm of respondents to the National Housing Survey toward their own personal finances and prospects for the future. While prospects for continued robust economic growth might be less certain today than in the recent past, most Americans seem undaunted.

Sixty-two percent of respondents agreed with the statement, "It is a good time to buy a home because interest rates are low." Only one in four respondents – 25 percent – agreed more with the statement "Now is not a good time to buy a home because the economy may be headed for a recession." The vast majority of Americans – 90 percent – believe their personal situation will get better or stay the same over the next year.

The return to more attractive mortgage interest rates, which has spurred a refinance boomlet, also reversed last year's decline in the number of people who said it was a good time to buy a home. The percentage of respondents who said now is a very good time to buy was 29 percent, up from 19 percent the previous year.

Now is a good time to buy a home
2001

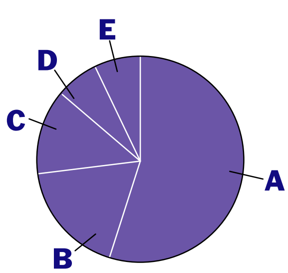
A. Somewhat to very good time to buy **54%**

B. Somewhat bad time to buy **17%**

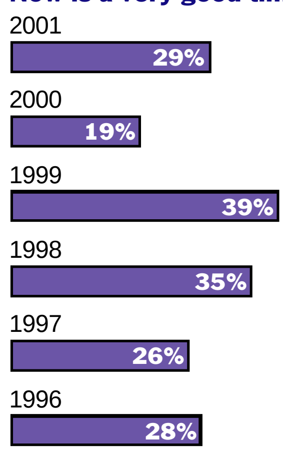
C. Very bad time to buy **13%**

D. Neither good nor bad/depends ... **7%**

E. Not sure **9%**

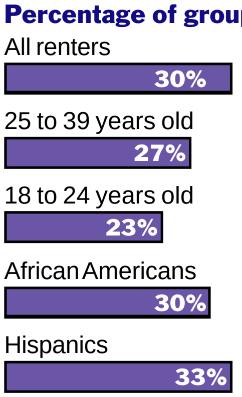


Now is a very good time to buy a home



For three years in a row, a quarter of Americans have reported that they are very likely to buy a home in the next three years. In 2001, 43 percent of all renters – the same as in 2000 – said it was very to fairly likely they would buy a home in the next three years, as did 44 percent of African Americans and 28 percent of Hispanics.[1] However, fewer people seemed to be saving money to do so. Buying a home remained second only to saving for retirement as a financial goal. The number of respondents who said they were saving money to buy a home dropped from 20 percent in 1998 to 16 percent today, despite the fact that 40 percent of all Americans said they invested more than $5,000 in stocks or mutual funds. Those who are more likely to be saving money for a home purchase include African Americans (30 percent) and Hispanics (33 percent).

Percentage of groups saving to buy a home



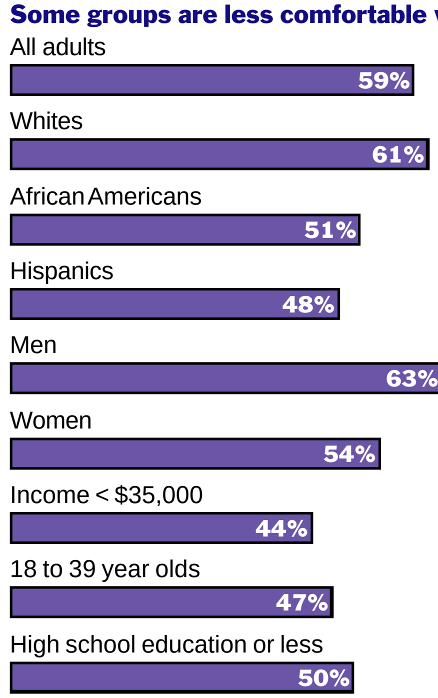
While fewer Americans are saving for a home, the survey revealed high awareness of another key component in the home-buying process: credit rating. Seventy-five percent of respondents indicated they were aware of their credit rating, including 78 percent of those who purchased a home in the last five years. This high awareness of credit rating was fairly consistent regardless of age, income, ethnicity, or education, or whether a person rents or owns their home.

For the first time, homeowners are increasingly saying that they have control over the process of buying a home. In July 2000, 39 percent of homeowners said that they were in control of the mortgage application process and not the lender; today 46 percent of homeowners believed they were in control when applying for a mortgage loan.

[1]Question asked in February 2001

One trend that is driving change in the housing market is an increasingly sophisticated consumer. Over the last decade, people have become much better informed about homeownership. In 1992, less than half – 46 percent – of Americans said they felt very or fairly comfortable with their understanding of the special terms related to homeownership. By 1998, this figure had increased to slightly more than half of Americans – 51 percent – saying they felt very or fairly comfortable with the terminology and process of buying a home. Now well more than half of adults in the U.S. – 59 percent – said they felt comfortable with the terms used in buying or selling a home. There are, however, some groups that felt less confident. For example, among people with household income under $35,000, only 44 percent said they were very to fairly comfortable with mortgage terms and the home-buying process.

Some groups are less comfortable with mortgage terms



Overall 68 percent of all homeowners and 75 percent of recent purchasers said they were confident they received the lowest-cost mortgage possible.

Part of the explanation is that recent purchasers feel more confident than their predecessors about dealing with lenders and negotiating mortgage loans. More than half – 52 percent – of those who bought their house in the last five years said they were in control, compared to 45 percent of those who bought their homes before 1996.

Americans' confidence level in mortgage pricing

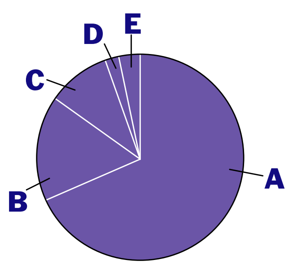
A. Confident they got lowest-cost mortgage **68%**

B. Not sure whether they got lowest mortgage.................... **17%**

C. Did not care **10%**

D. None **2%**

E. Not sure **3%**



Which one of the following statements comes closer to your view about the mortgage finance application process? Statement A: You were in control; Statement B: The lender was in control

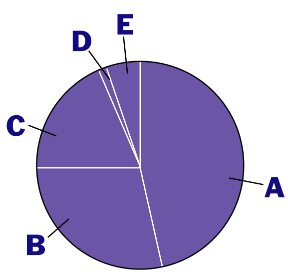
A. Statement A You were in control **46%**

B. Statement B The lender was in control **29%**

C. Some of both **19%**

D. Neither/other **1%**

E. Not sure **5%**

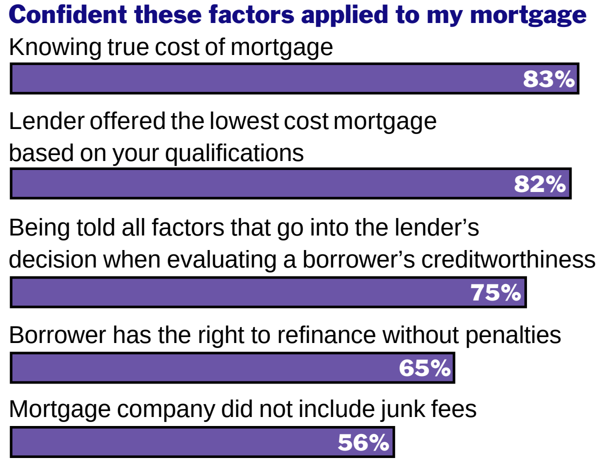


The vast majority of borrowers – 85 percent – reported they received information from their lenders about the closing costs, fees, and monthly mortgage payments in advance of closing. While the percentage was slightly lower than last year, about a third of all borrowers said their lender never discussed loan options, outlined the pros and cons of various types of mortgages, or apprised them of the criteria needed to qualify for a lower-interest loan. About the same percentage – 34 percent – said their lender did not tell them what criteria they had to meet to qualify for a lower-interest loan.

The importance of such information – whether gained from the homeowner's own research or through the lender – can not be understated. The survey clearly indicated that home buyers who knew more about what to expect going into the mortgage process were more likely to feel confident afterward that their lender treated them fairly. For example, 89 percent who were aware of being able to refinance without any penalties were confident they could do so now.

In contrast, of those who were unaware of this when they applied for their mortgage, only 34 percent were now confident they would be able to avoid any penalties. Similarly, 82 percent of borrowers who were aware that their mortgage loan should not include so-called "junk fees" and other unnecessary charges were confident such fees were not included in their particular loan. Only 33 percent of those who were not aware of this were confident that their loans did not include such fees. "Junk fees" are costs that lenders can legally add to a settlement statement. They come under a variety of names such as Document Preparation Fee, Underwriting Analysis Fee, Tax Escrow Fee, Escrow Fund Analysis Fee, and so forth.

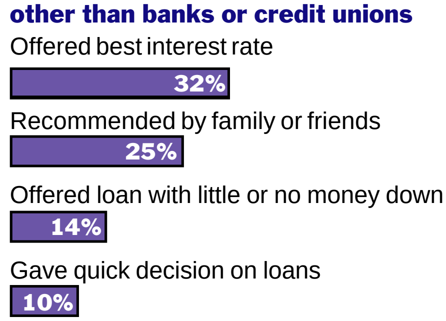
Confident these factors applied to my mortgage



For the first time, borrowers also were asked where they got their mortgage. Just under half of homeowners who currently had a mortgage – 48 percent – said they used a bank or a credit union to obtain their mortgage loan. Nearly half – 47 percent – of home buyers received their mortgage from other sources for mortgage financing, including 31 percent who went to mortgage brokers for their home loans.

Among those who did use a bank or credit union for their mortgage, only half chose to use the same bank or credit union where they had their checking and/or savings account. This suggests that financial institutions are missing out on an opportunity to cross-sell mortgages to many of their customers. Those who did not use a bank or credit union said that these institutions could do a better job fully explaining the costs, terms, and conditions of loans (38 percent), explaining what it takes to qualify for loans (18 percent), or providing friendlier service (16 percent).

Top 4 reasons why people used lenders other than banks or credit unions



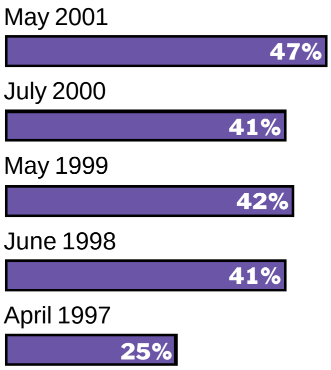
Some Obstacles to Homeownership Continue to Fall, Others Remain the Same

Obstacles to home buying, such as having enough for a down payment and finding an affordable home, continued to fall, even in the face of rumblings about an economic slowdown. More than half of Americans – 53 percent – said that money for a down payment and closing costs would not be an obstacle, continuing a positive trend. In 1998, 44 percent of Americans said it would not be an obstacle and in 1992, only 27 percent of Americans said so. With the public being better informed about homeownership, only 31 percent of Americans now said that not knowing how to get started would be an obstacle to their buying a home. This is compared to 35 percent in 1998 and 49 percent in 1994.

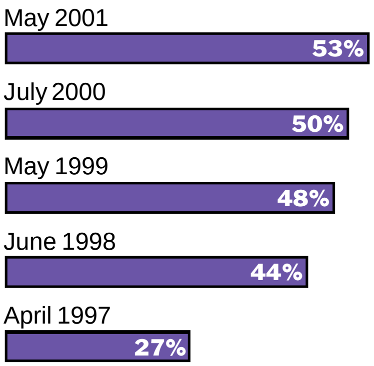
Most Americans also saw more opportunities in the housing market itself. From 1994 to 1997, approximately three-quarters of Americans said the availability of affordable homes was an obstacle to homeownership. This changed dramatically in 1998, and has been improving ever since. Nearly half of Americans – 47 percent – said that finding a home they liked and could afford would not be an obstacle for them.

Some obstacles continue to fall, others remain the same

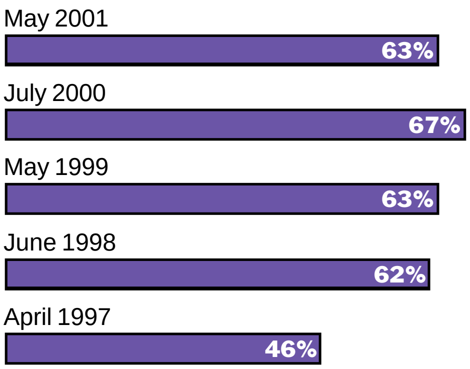
The percentage who believe that being able to find a home you like that you can afford is not an obstacle



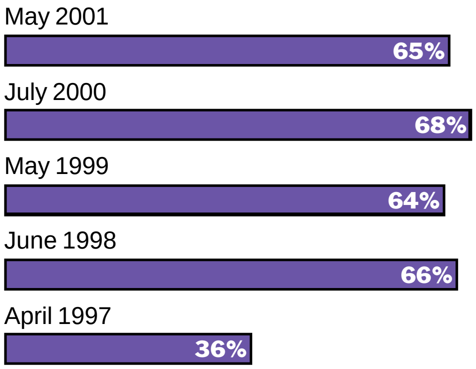
Having enough money for a down payment and closing costs is not an obstacle



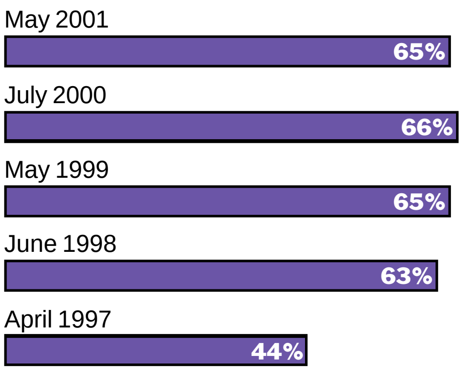
Having a good enough credit rating to get a mortgage is not an obstacle



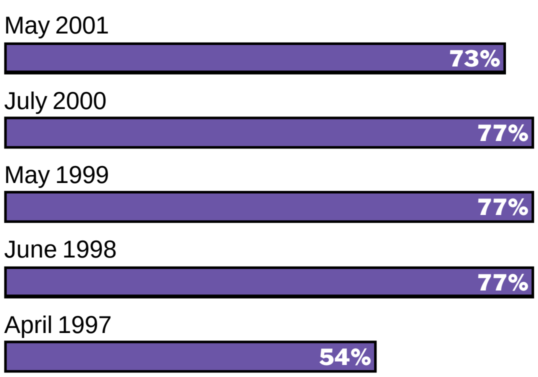
Having enough confidence in the security of your job is not an obstacle



Not knowing how to get started buying a home is not an obstacle

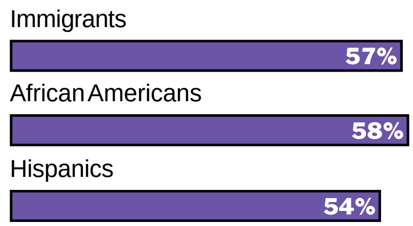


Facing discrimination or social barriers that might prevent you from buying the home you would want to buy is not an obstacle



The survey also, for the first time, asked about other types of obstacles home buyers might encounter. Fifty-five percent said “finding a mortgage lender you can trust” was not an obstacle. Sixty-three percent did not view “having enough confidence that I would be approved for a home mortgage” as an obstacle and 66 percent did not see “being able to find a mortgage lender in my neighborhood” as an obstacle.

Americans believing that groups face discrimination in the availability of mortgages at least some of the time



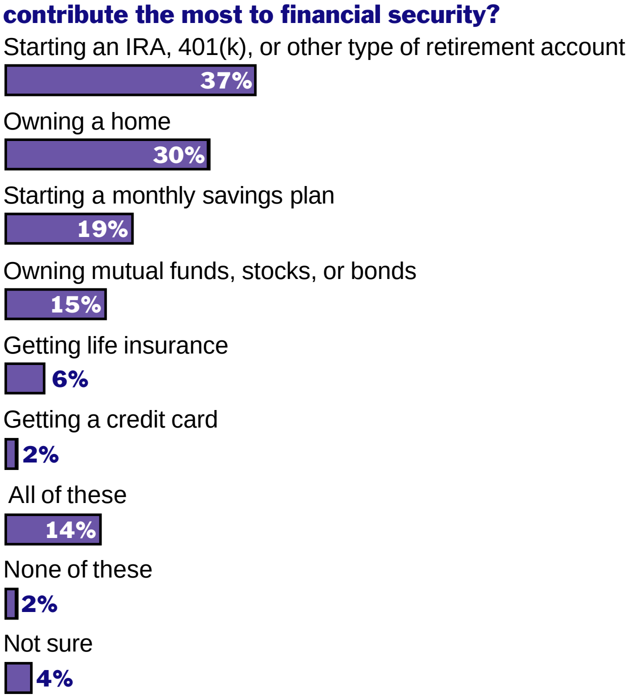
Fewer renters than in 2000 viewed down payment and closing costs as major obstacles to buying a home – only 38 percent as compared to 44 percent one year ago.

What Homeownership Means

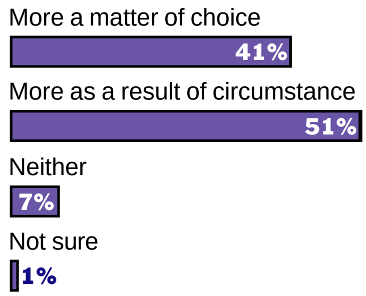
A house is more than a place to call home for most Americans. It is an important path to wealth creation for a vast majority of Americans – a step inured with many benefits for individuals and society. When asked to name one or two things that define financial security, Americans have consistently rated owning a home as second only to starting an individual retirement account. The same was true in 2001. Owning a home remained a solid second behind starting an individual retirement account that remained the most important action to achieve financial security, despite a 15 point decrease in the number of Americans who rated it so. Starting a monthly savings plan and owning mutual funds remained third and fourth, respectively, on the list of factors that define financial security, but declined by 10 points each.

Among renters, 22 percent considered owning a home their number one priority, a slight increase over the 18 percent of renters who said so in 2000.

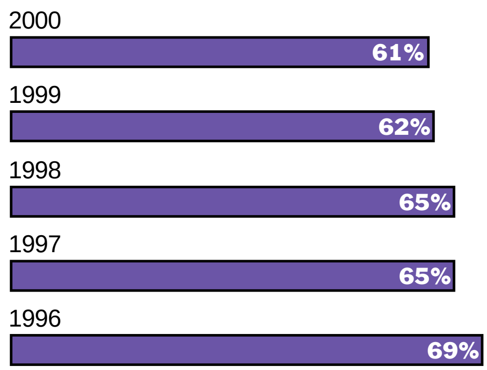
Which one or two of the following do you think contribute the most to financial security?



Only a slight majority now say they rent as a result of circumstance



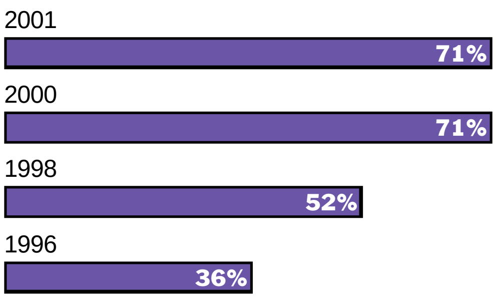
Those who rent as a matter of circumstance



The Internet and the Home-buying Process

After meteoric gains in the number of Americans who had access to the Internet throughout the 1990s, this survey indicated that growth in Internet access has begun to level off. After doubling from 1996 to 2000, the number of Americans who in 2001 said they had access to the Internet either at work or home was 71 percent – the same as one year ago. More than four in five Americans aged 18-39 and 76 percent of those aged 40-54 – the prime home-buying years – reported having Internet access.

Americans with Internet access at home or work

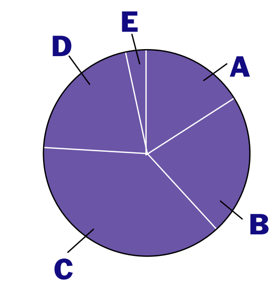


As growth in Internet access has leveled off, there has been a decided decrease in the number of Americans willing to use the Internet to obtain a home mortgage. The proportion that would probably or definitely not use the Internet to apply for a mortgage increased from 39 percent in 2000 to 59 percent this year. The number who would definitely or probably try it decreased from 28 percent to 16 percent, and the number who might consider it had declined from 32 percent to 22 percent.

Would you try a service that allowed you to handle all the paperwork involved in applying for a mortgage online?

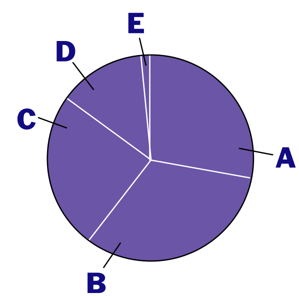
2001

A. Definitely/probably would try it **16%**
B. Might consider it..................... **22%**
C. Probably would not try it **38%**
D. Definitely would not try it **21%**
E. Not sure **3%**



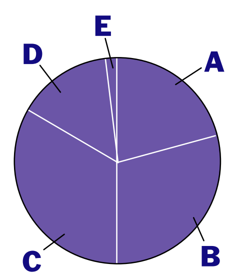
2000

A. Definitely/probably would try it **28%**
B. Might consider it..................... **32%**
C. Probably would not try it **25%**
D. Definitely would not try it **14%**
E. Not sure **1%**



1999

A. Definitely/probably would try it **21%**
B. Might consider it..................... **29%**
C. Probably would not try it **33%**
D. Definitely would not try it **15%**
E. Not sure **2%**



The Credit-Impaired Homeowner

As in previous years, pollsters Hart and Teeter oversampled segments of the population to discern attitudes found within specific cohorts. In 1995, the Fannie Mae National Housing Survey focused on immigrants to the United States; in 1998, on so-called Baby Boomers and the generation that followed them, Generation X; and in 2000, on Internet users. This year's survey included an over-sample of credit-impaired borrowers. For the purposes of this survey, a "credit-impaired" borrower is defined as someone who made a mortgage payment 60 days late, declared bankruptcy, or faced foreclosure in the past three years, or had a mortgage and reported any two of the following: they had their vehicle repossessed, they had a bill referred to a collection agency, their credit cards were charged near their limit, their employer paid them in cash, or they had no credit cards. The oversample was collected from two sources: 1) respondents from the national random sample who qualified as credit-impaired; and 2) respondents drawn from a list of homeowners with mortgage interest rates at 10.5 percent or above who qualified. Although these homeowners are currently credit-impaired, it is not certain whether they were credit-impaired at the time they received their mortgage loan. Considerable overlap existed between the time period that many of these borrowers reported these credit problems and the period in which they became homeowners.

Many credit-impaired homeowners enter the market driven by their strong desire to own a home

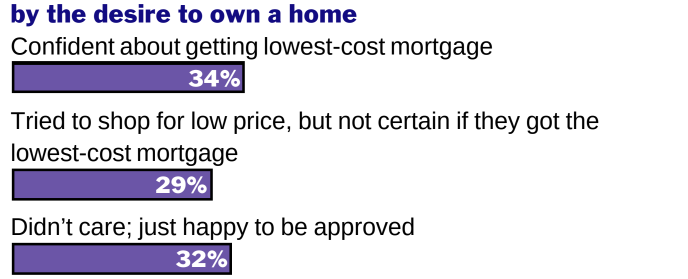
Credit-impaired homeowners made up approximately 8 percent of all homeowners in the survey. They resembled other homeowners in several respects, most notably in their strong desire to own a home. Credit-impaired borrowers also were aware of the financial implications of buying a home and of the specific perils of having a higher interest rate. Most credit-impaired homeowners paid a higher rate and seemed to be willing to accept the implications of agreeing to a mortgage they may not understand as well as other borrowers simply because of their overriding desire to be homeowners.

WHO ARE CREDIT-IMPAIRED BORROWERS?

- **67 percent are married couples; 48 percent are married couples with children.**
- **65 percent are white, 20 percent are African American, and 6 percent are Hispanic.**
- **69 percent are aged 30-54.**
- **51 percent have household income from $25,000 to $65,000.**

Nearly one third – 32 percent – of credit-impaired homeowners said that when they were negotiating their mortgage they did not care whether they received the lowest-cost loan for which they were qualified. They were just happy to be approved for a mortgage (compared with 10 percent of all homeowners); 29 percent said that they tried to shop for the lowest-cost mortgage but they were not sure whether they received the lowest-cost mortgage for which they qualified (17 percent, all homeowners with a mortgage), and only 34 percent said that they were confident they got the lowest-cost mortgage for which they qualified compared to 68 percent of all homeowners.

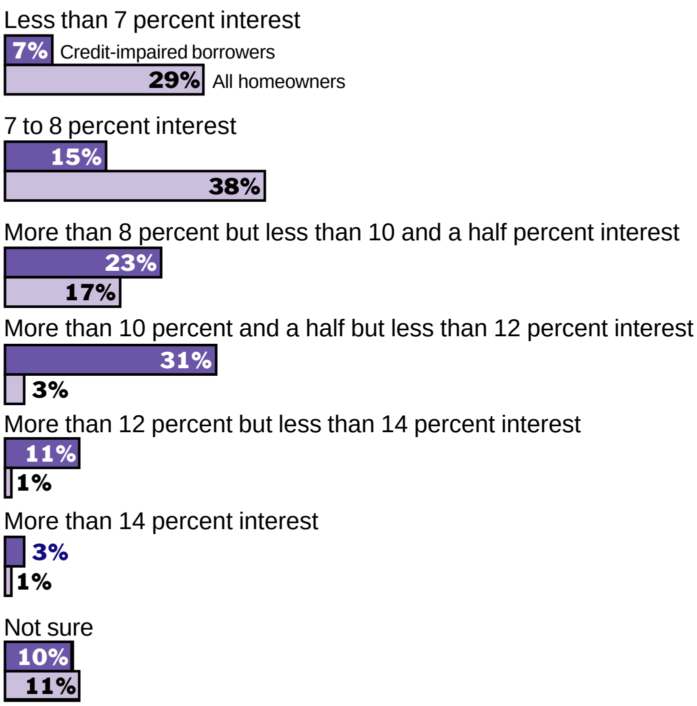
Many credit-impaired borrowers are motivated by the desire to own a home



Many credit-impaired borrowers are paying a high price to own a piece of the American dream

Nearly half – 45 percent – of credit-impaired homeowners reported having an interest rate of 10.5 percent or more; 45 percent said they have an interest rate below 10.5 percent. Ten percent of these borrowers were not sure of their interest rate.

Credit-impaired borrowers pay more to own their homes



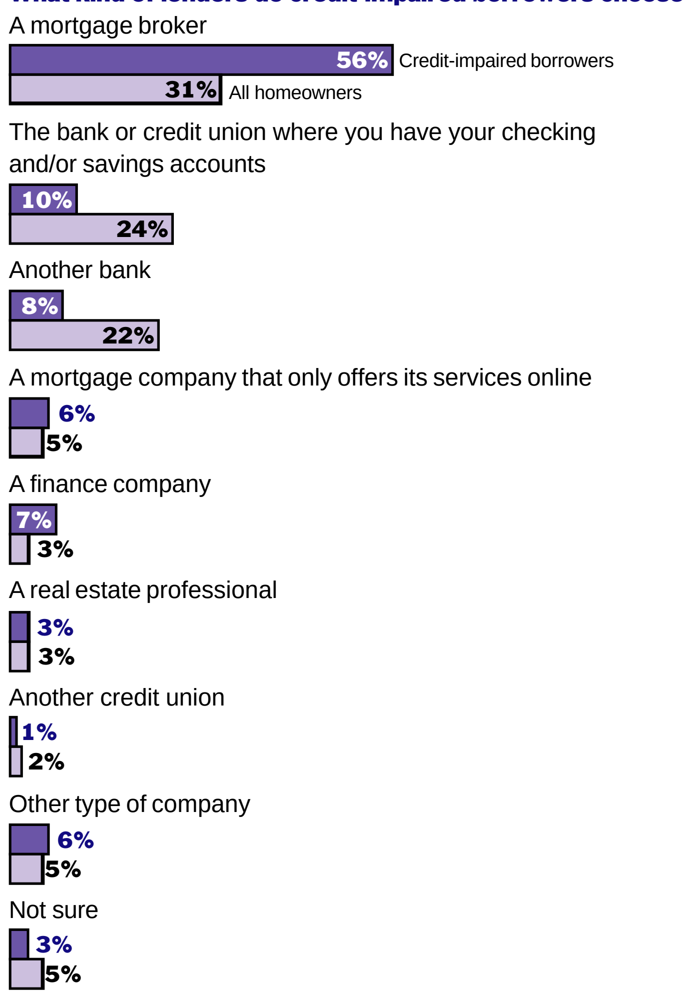
While those with an interest rate of 10.5 percent or higher appreciated the difference between a high rate and a low rate (72 percent say that a few interest rate points make a big difference), a vast majority – 79 percent – were dissatisfied with their interest rate. Sixty-three percent of credit-impaired homeowners with an interest rate below 10.5 percent said they were satisfied with the interest rate on their loan.

More than two in five – 43 percent – credit-impaired homeowners said they would have to pay a prepayment-penalty if they refinanced their loan, compared to just 11 percent of all homeowners. One in five – 21 percent – credit-impaired homeowners said they were informed of a balloon term on their loan, compared to 11 percent of all homeowners. Thirty-nine percent said their lender told them that their interest rate would go up in a number of years.

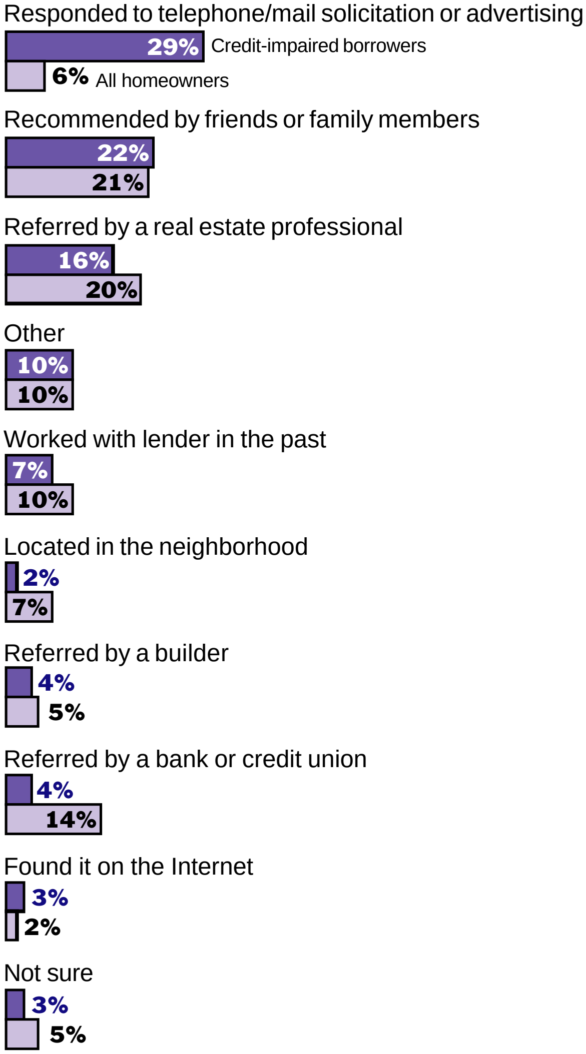
Mortgage brokers and solicitations play a big role for credit-impaired borrowers

Credit-impaired borrowers were nearly twice as likely as all homeowners to rely on mortgage brokers for a home mortgage – 56 percent used a mortgage broker compared to 31 percent of all homeowners. Credit-impaired borrowers were more likely to find their lender through a telephone or mail solicitation or through print, radio, or television advertising – 29 percent – than from either referrals by friends or family – 22 percent – or referrals by a real estate professional – 16 percent. In contrast, 21 percent of all homeowners were referred to their lender by friends or family, 20 percent were referred by a real estate professional, and only 6 percent found their lender through advertising, or telephone or mail solicitation.

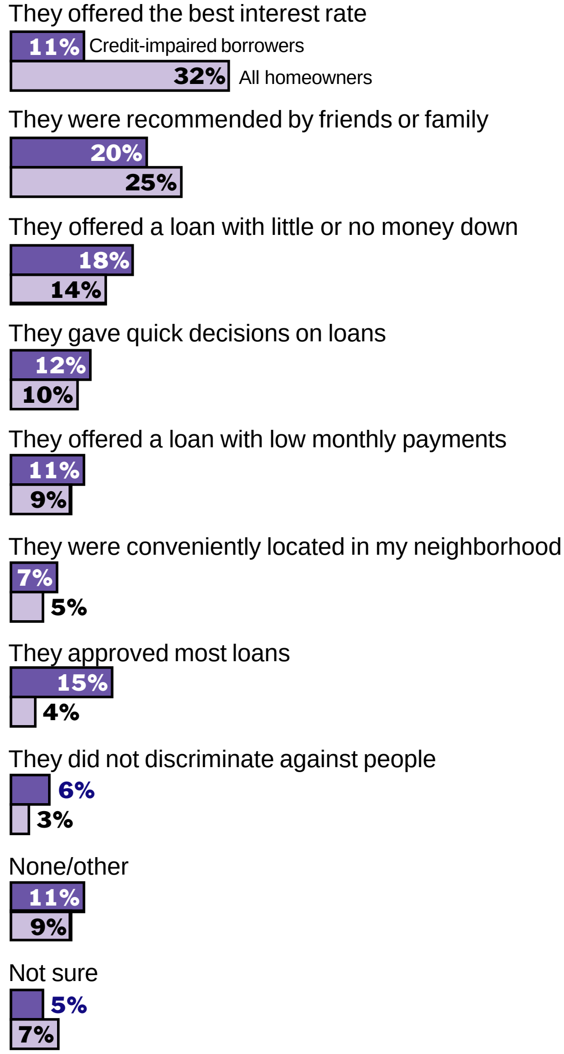
What kind of lenders do credit-impaired borrowers choose?



How credit-impaired borrowers find lenders



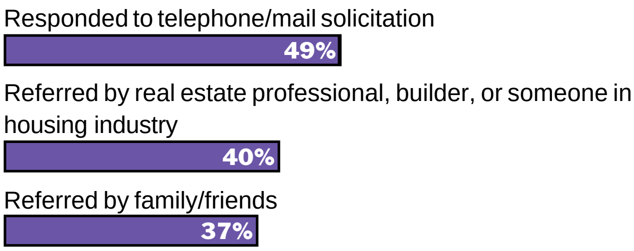
Why credit-impaired borrowers chose their lender



- **56 percent of credit-impaired borrowers who said they have a prepayment penalty in their mortgage loan also reported they pay more than 10.5 percent interest on their mortgage.**
- **54 percent of those who were told by lenders they have a balloon loan said they also pay more than 10.5 percent in interest.**

How credit-impaired borrowers find their lenders appeared to be a key in determining their mortgage terms. Nearly half – 49 percent – of credit-impaired borrowers who found a lender (or vice versa) through advertising or through a telephone or mail solicitation said they were paying an interest rate of 10.5 percent or more.

Those who respond to solicitations pay more
Interest rates above 10.5 percent



Nearly half – 48 percent – of this same group also said they had a prepayment penalty, whereas only 43 percent who were referred by family or friends and only 35 percent of those who were referred from someone within the industry faced such a penalty.

Being rejected impacts terms, lender choice

Being turned down did not dampen the desire for homeownership. It did appear to have an impact on which lenders credit-impaired borrowers used and their mortgage terms. Among credit-impaired borrowers who reported having been turned down for a mortgage at least once, 63 percent said that their interest rate was 10.5 percent or higher, compared with only 35 percent who were never been rejected for a mortgage. Nearly half – 48 percent – of those who had a mortgage application rejected had a prepayment penalty (compared with only 39 percent who never had an application rejected).

Credit-impaired borrowers who were rejected also were more likely to turn to a lender they learned of through a telephone or mail solicitation, or through advertising – 38 percent of credit-impaired owners who were rejected ended up using an advertised lender versus only 23 percent of those who were never rejected.

While credit-impaired borrowers reported a less positive experience with their lender than did homeowners in general, this was even more the case among credit-impaired borrowers who were rejected for a mortgage at least once – 74 percent of them said the lender was in control during the mortgage-application process, compared with only 50 percent of credit-impaired borrowers who never had an application rejected.

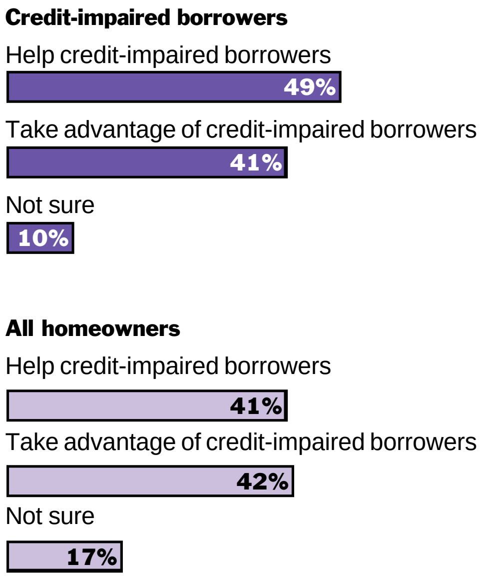
Finally, 60 percent of those who had one application rejected were worried about making their mortgage payments. This is compared to only 37 percent of those who never had a mortgage rejected.

- **Credit-impaired borrowers whose mortgage application was rejected at least once are no more likely than the rest of the credit-impaired market to be from one ethnic or age group.**
- **Credit-impaired borrowers have only slightly lower levels of education and slightly lower annual household incomes.**
- **Forty-six percent of credit-impaired borrowers who experienced rejection said they felt very or fairly comfortable with terms related to home buying versus 55 percent who were not rejected.**

Credit-impaired borrowers attitudes toward lenders

A majority – 58 percent – of credit-impaired borrowers said the lender was in control during the mortgage-application process (29 percent, all homeowners) and only 22 percent said that they were in control (46 percent, all homeowners). Only 44 percent of credit-impaired owners said that they would be very or fairly likely to return to their lender if they needed another mortgage loan (63 percent, all homeowners) and 63 percent of them said that finding a mortgage lender they would trust would be an obstacle if they wanted to buy a home today. While all homeowners were evenly split on the question of whether lenders take advantage of credit-impaired borrowers or help them get loans they wouldn't otherwise have (42 versus 41 percent, respectively) a plurality of credit-impaired borrowers – 49 percent – believed these lenders help people like them (versus 41 percent who said these lenders take advantage), including 48 percent of credit-impaired borrowers paying more than 10.5 percent interest.

Which statement comes closer to your opinion about lenders who serve credit-impaired borrowers?



Credit-impaired homeowners are less knowledgeable about homeownership but they also are not entirely unaware of the mortgage process

Only half – 50 percent – of credit-impaired owners said they were comfortable with their knowledge and understanding of the terms related to homeownership – 66 percent, all homeowners. The vast majority– 85 percent – of credit-impaired homeowners said that a higher interest rate of a few percentage points would make a difference in the amount of one's monthly payments. In fact, 61 percent said it would make a big difference, compared with only 57 percent of all homeowners in general.

However, fewer than half – 45 percent – of credit-impaired homeowners said they were fully aware of the terms and conditions in their mortgage loan when they got it (74 percent, all homeowners) and more than one third – 36 percent – said they were aware of most of the conditions (20 percent, all homeowners). Nearly one in five – 18 percent – said they were not really aware at all of the terms and conditions in their mortgage loan.

- **One third of credit-impaired homeowners — 36 percent — said they do not know anything about their credit rating, compared to 22 percent of all homeowners.**
- **They are nearly four times more likely to have used a payday loan or check cashing service than homeowners in general — 34 percent versus 9 percent.**

Many credit-impaired homeowners are discouraged and worried

Forty-five percent of credit-impaired borrowers said that they sometimes wondered whether they would ever own their own home outright compared to only 18 percent of all homeowners who expressed such doubt. While 77 percent of all homeowners said they looked forward to the day when they would own their homes free and clear, only 49 percent of credit impaired borrowers said they looked forward to such a time.

At the same time that homeowners in general were less sanguine than other homeowners about owning their homes outright years from now, credit-impaired borrowers also tended to be more worried about their ability to keep up with mortgage payments in the near term. More than one in five – 21 percent – credit-impaired homeowners reported being very or fairly worried about making their mortgage payments over the next year and possibly losing their homes; one in four – 25 percent – were a little bit worried; just slightly more than half – 53 percent – were not worried at all.