

Mortgage Lender Sentiment Survey™

Credit Overlays

Topic Analysis
Q2 2015

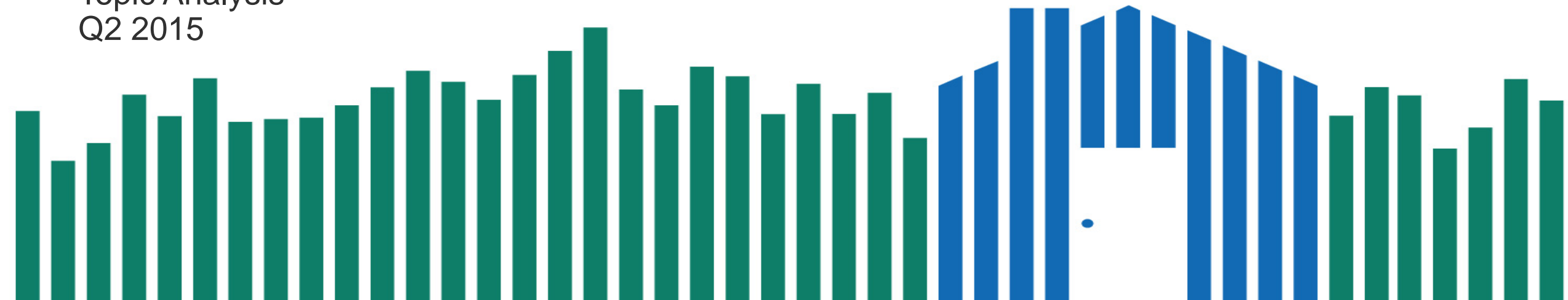


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Executive Summary: Limited Lenders Apply Limited Credit Overlays

Credit Overlays

- ❑ Approximately 40 percent of lenders who deliver loans to the GSEs or Ginnie Mae reported applying credit overlays that are more stringent than what the GSEs or Ginnie Mae require. In addition, 60 percent of lenders reported that they apply credit overlays when originating loans through wholesale channels, such as correspondent lenders or mortgage brokers.
- ❑ Among lenders delivering loans to the GSEs or Ginnie Mae who reported applying credit overlays:
 - Most lenders (64 percent) say that credit overlays are applied on a limited basis – to 20 percent or less of their loan originations. Only 24 percent of lenders reported applying overlays across the board – to more than 90 percent of their loan originations.
 - The most common type of overlay applied in loan origination, as cited by lenders, is higher credit scores (47 percent), followed by additional documentation requirements (21 percent).

Loan Denial Rates & Reasons

- ❑ Lenders reported a median loan denial rate of 10 percent for both the purchase and refinance markets over the past year.
 - Lenders cite high Debt-to-Income (DTI) ratios, low credit scores, and documentation quality as the most common reasons for purchase loan application denials. Denial reasons are similar across lender sizes and types.
 - Lenders cite high DTI ratios, low credit scores, and insufficient collateral (appraisal issues) as the most common reasons for refinance loan application details. Denial reasons are similar across lender sizes and types.

Business Context and Research Objectives

Business Context

The U.S. economy has improved significantly since the Great Recession, and mortgage underwriting credit standards are gradually loosening.¹ Nevertheless, the homeownership rate continues to decline and remains currently at the lowest level since 1990. This situation has prompted policymakers, regulators, and industry participants to examine the appropriateness of credit standards and the availability of mortgage credit for American consumers.² Better understanding lenders' attitudes about the lending parameters they employ may shed additional light on factors that could make it more viable for lenders to do business within the full credit boxes of the GSEs.

Credit overlays, referring to stricter mortgage approval standards that lenders place above the guidelines set by investors (such as the GSEs), are a potential and often cited factor impacting consumers' access to mortgage credit. Fannie Mae's Economic & Strategic Research Group surveyed senior mortgage executives in May 2015 through its quarterly Mortgage Lender Sentiment Survey to examine the attitudes of lenders in relation to credit overlays.

Research Questions

1. To what extent do lenders apply credit overlays?
2. If applying credit overlays, what are lenders' practices?
 - What types of credit overlays are more commonly applied? What are the primary reasons for applying credit overlays?
 - To what extent do lenders apply credit overlays to their loan originations?
 - Do lenders apply the same credit overlays across all investors, or do they apply different credit overlays for different investors?
3. What are lenders' purchase and refinance loan-application denial rates? What are the major denial reasons?
4. To what extent do lenders plan to do business with three consumer segments: (1) consumers with mid-tier credit (680-740 credit scores), (2) consumers with lower-than-median income, and (3) consumers in rural areas?

1. Mortgage Lender Sentiment Survey, Q2 2015, Fannie Mae, <http://www.fanniemae.com/portal/research-and-analysis/mortgage-lender-survey.html>

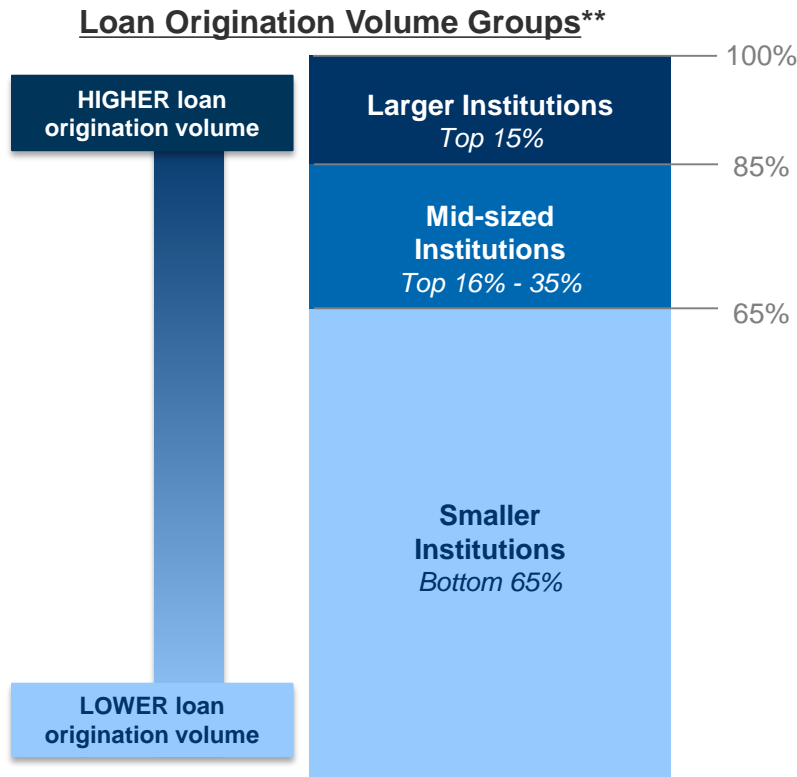
The April 2015 Senior Loan Officer Opinion Survey on Bank Lending Practices, <http://www.federalreserve.gov/boarddocs/snloansurvey/201505/default.htm>

2. "The State of the Nation's Housing 2015." Joint Center for Housing Studies of Harvard University. <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/jchs-sonhr-2015-full.pdf>

"2015 Scorecard for Fannie Mae, Freddie Mac and Common Securitization Solutions," The Federal Housing Finance Agency, January, 2015, <http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2015-Scorecard.pdf>

Q2 2015 Respondent Sample and Groups

For Q2 2015, a total of 258 senior executives completed the survey from May 7 -17, representing 238 lending institutions.*



Sample Q2-2015		Sample Size
Total Lending Institutions The "Total" data throughout this report is an average of the means of the three loan origination volume groups listed below.		238
Loan Origination Volume Groups	Larger Institutions Fannie Mae's customers whose 2013 total industry loan origination volume was in the top 15% (above \$965 million)	55
	Mid-sized Institutions Fannie Mae's customers whose 2013 total industry loan origination volume was in the next 20% (16%- 35%) (between \$269 million to \$965 million)	68
	Smaller Institutions Fannie Mae's customers whose 2013 total industry loan origination volume was in the bottom 65% (less than \$269 million)	115
Institution Type***	Mortgage Banks (non-depository)	71
	Depository Institutions	105
	Credit Unions	52

* The results of the Mortgage Lender Sentiment Survey are reported at the lending institutional parent-company level. If more than one individual from the same institution completes the survey, their responses are averaged to represent their parent institution.

** The 2013 total loan volume per lender used here includes the best available annual origination information from sources such as Home Mortgage Disclosure Act (HMDA), Fannie Mae, Freddie Mac, and Marketrac. The most recent loan volume data available when the survey was conducted was 2013.

*** Lenders that are not classified into mortgage banks or depository institutions or credit unions are mostly housing finance agencies.

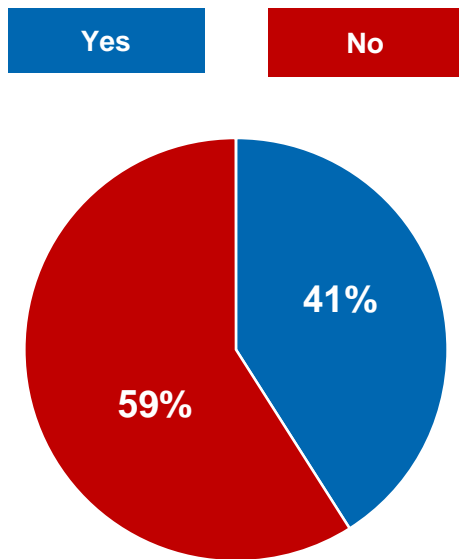
Credit Overlays

- ❑ Approximately 40 percent of lenders who deliver loans to the GSEs or Ginnie Mae reported applying credit overlays that are more stringent than what the GSEs or Ginnie Mae require. In addition, of lenders who originate or acquire loans through wholesale channels, such as mortgage brokers and correspondent lenders, about 60 percent said they apply credit overlays.
- ❑ Among lenders delivering loans to the GSEs or Ginnie Mae who reported applying credit overlays:
 - Most lenders (64 percent) say that credit overlays are applied on a limited basis -- to 20 percent or less of their loan originations. Only 24 percent of lenders reported applying overlays across the board -- to more than 90 percent of their loan originations.
 - Nearly 50 percent of lenders reported applying the same credit overlays across all investors, while about 40 percent of lenders reported applying different credit overlays for different investors.
 - Larger and mid-sized lenders as well as mortgage banks are more likely to report applying credit overlays.
 - Higher credit scores is the most common type of overlay applied in loan origination cited by lenders (47 percent), followed by additional documentation requirements (21 percent).
- ❑ Among lenders who reported applying credit overlays when originating loans through wholesale channels:
 - Higher credit scores is the most common type of credit overlay applied when acquiring loans through wholesale channels.
 - The primary reasons are to reduce default risks and repurchase risks.

Applying Credit Overlays Among Lenders Delivering to the GSEs or Ginnie Mae

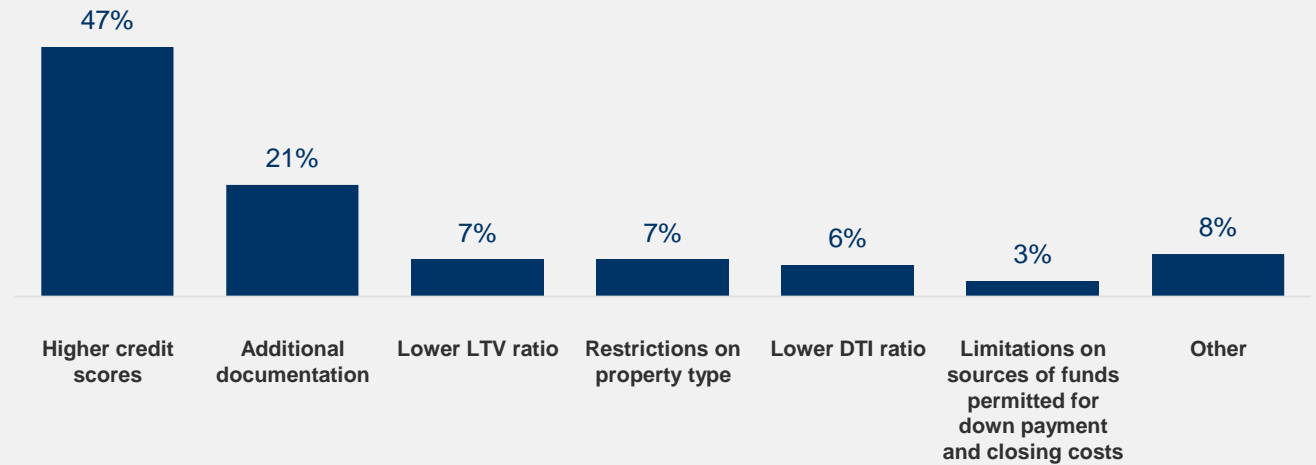
A limited number of lenders (about 40%) reported that they apply credit overlays that are more stringent than what the GSEs or Ginnie Mae require. The overlay most often applied is higher credit scores, followed by additional documentation requirements.

[IF deliver loans to the GSEs or Ginnie Mae] You mentioned that your firm securitizes or sells mortgage loans with/to Fannie Mae, Freddie Mac, or Ginnie Mae. Does your firm apply credit overlays* that are more stringent than what Fannie Mae, Freddie Mac, or Ginnie Mae require? *Showing Total (N=185)*



[IF apply credit overlays] What type of overlay does your firm apply most often? *Showing Total (N=66)*

Results across subgroups can be found on pp. 28-29



Respondents saw the following definition when they hovered over “overlays” in the question text:
 Lenders’ own underwriting guidelines that exceed requirements in the guides published by the investor to which the loan is being sold. Lender overlays can address various borrower and property attributes, including, but not limited to, credit score, debt-to-income ratio, amount of assets and the type of assets, minimum down payment, property type, and other attributes.

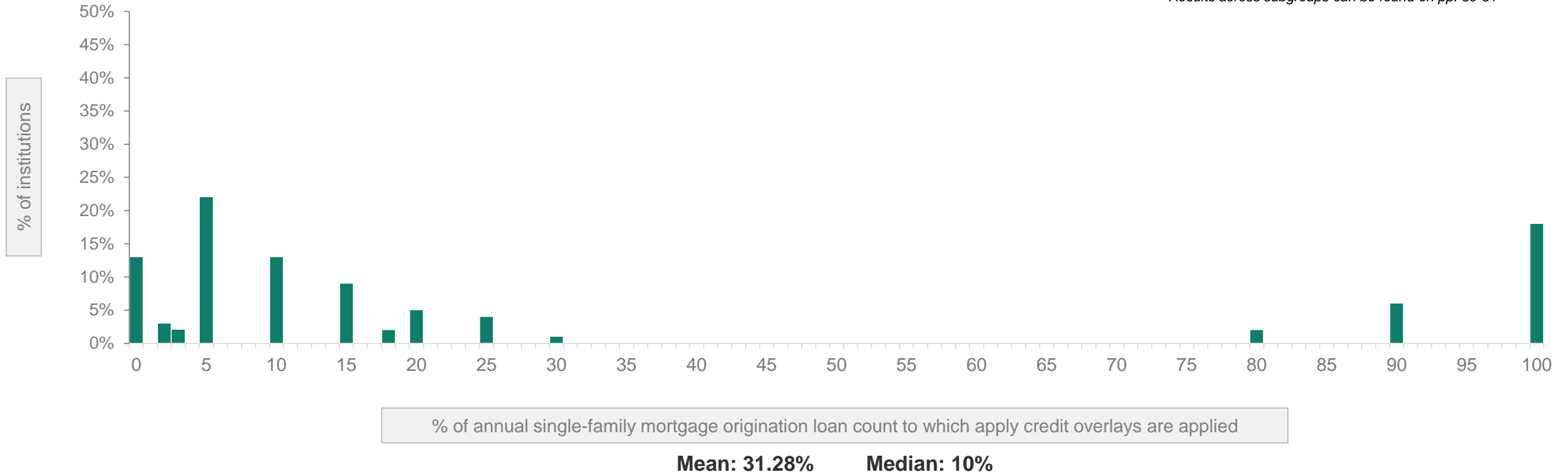
Due to small sample sizes, results should be interpreted with caution

Applying Credit Overlays Among Lenders Delivering to the GSEs or Ginnie Mae

Most lenders (64%) say that credit overlays are applied on a limited basis, to 20 percent or less of their loan originations. Only 24 percent of lenders reported applying overlays across the board, more than 90 percent of their loan originations.

[IF apply credit overlays and deliver loans to the GSEs or Ginnie Mae*] Approximately what percent of your annual single-family mortgage origination loan count does your firm apply credit overlays? [Open End] Showing Total (N=66)

Results across subgroups can be found on pp. 30-31



Due to small sample sizes, results should be interpreted with caution

*Respondents were asked this question if they responded “yes” to the preceding question: **[IF deliver loans to the GSEs or Ginnie Mae]** You mentioned that your firm securitizes or sells mortgage loans with/to Fannie Mae, Freddie Mac or Ginnie Mae. Does your firm apply credit overlays that are more stringent than what Fannie Mae, Freddie Mac or Ginnie Mae require?

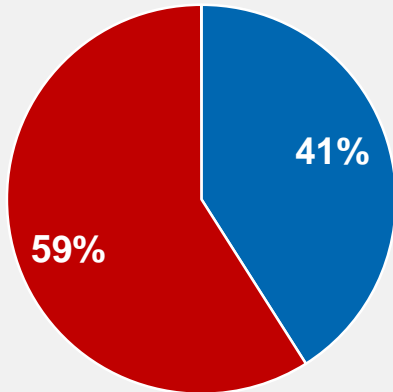
Applying Credit Overlays by Lender Size and Lender Type

Larger and mid-sized lenders as well as mortgage banks are more likely to report applying credit overlays.

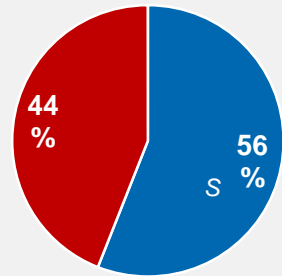
[IF deliver loans to GSEs or Ginnie Mae] You mentioned that your firm securitizes or sells mortgage loans with/to Fannie Mae, Freddie Mac, or Ginnie Mae. Does your firm apply credit overlays* that are more stringent than what Fannie Mae, Freddie Mac, or Ginnie Mae require?

Yes **No**

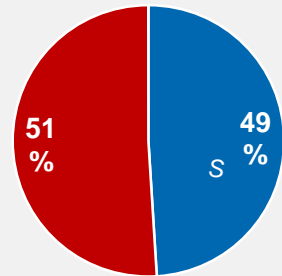
Total
N=185



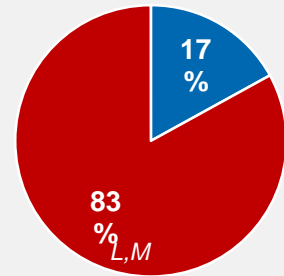
Larger Institutions (L)
N=44



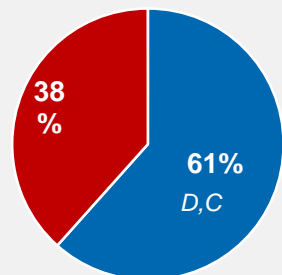
Mid-sized Institutions (M)
N=55



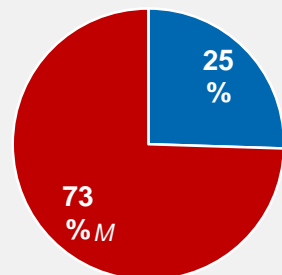
Smaller Institutions (S)
N=86



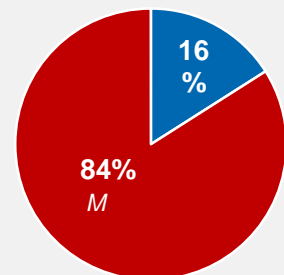
Mortgage Banks (M)
N=57



Depository Institutions (D)
N=78



Credit Unions (C)
N=44



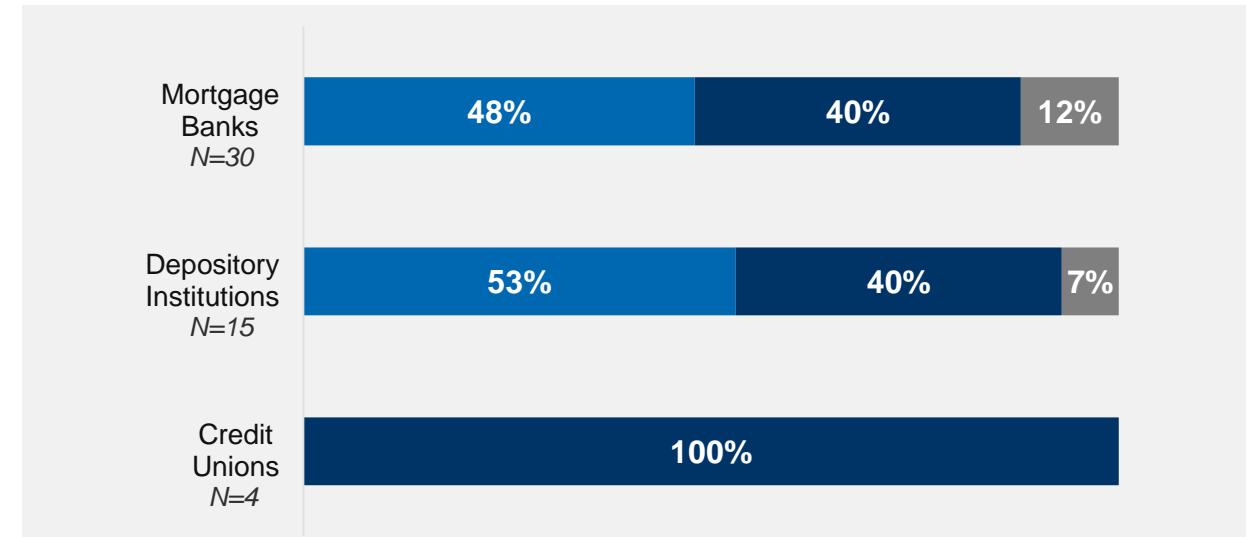
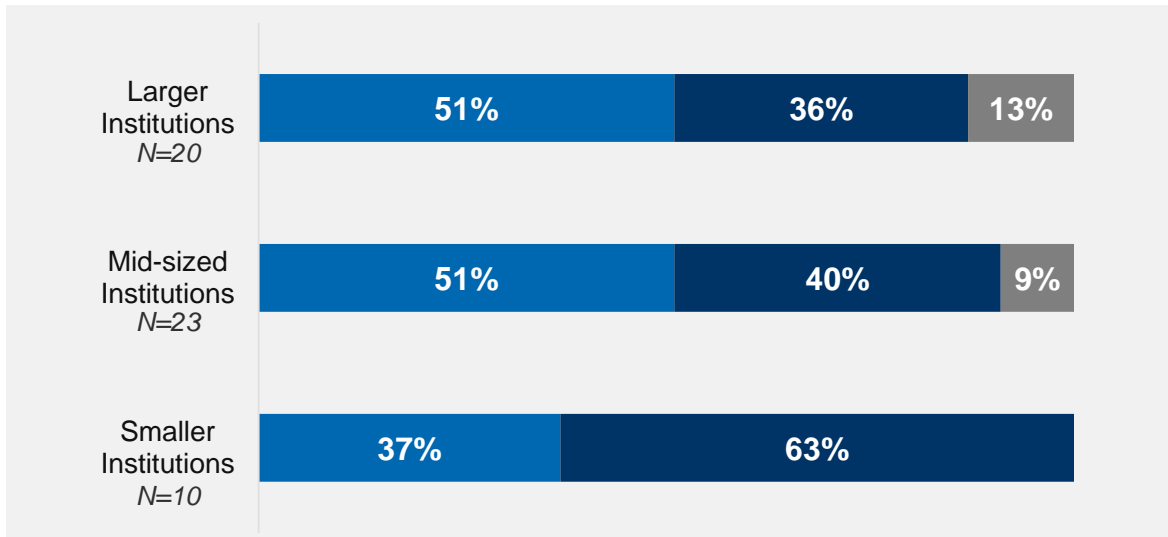
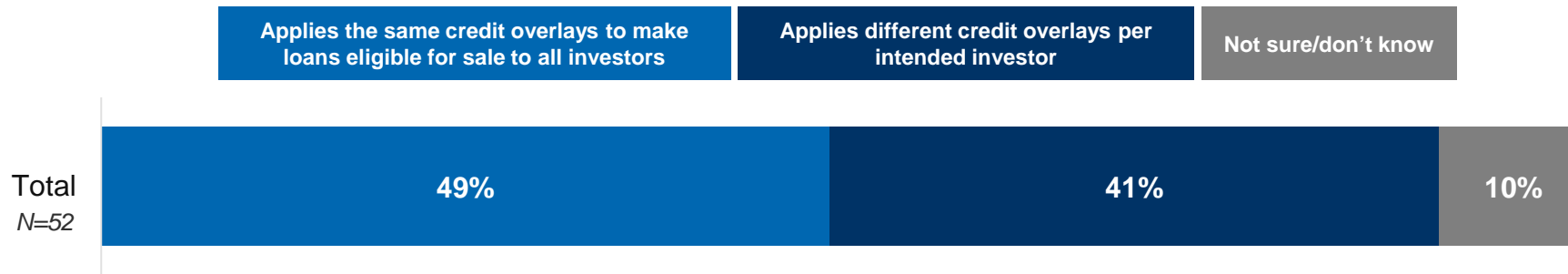
* Respondents saw the following definition when they hovered over “overlays” in the question text: Lenders’ own underwriting guidelines that exceed requirements in the guides published by the investor to which the loan is being sold. Lender overlays can address various borrower and property attributes, including, but not limited to, credit score, debt-to-income ratio, amount of assets and the type of assets, minimum down payment, property type, and other attributes.

L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

Applying Credit Overlays Across Investors

Nearly 50 percent of lenders reported applying the same credit overlays across all investors, while about 40 percent of lenders reported applying different credit overlays, depending on the investor to which the loan will be sold.

[IF apply credit overlays AND securitizes/sells to investors or aggregators other than the GSEs and Ginnie Mae] Does your firm apply the same credit overlay criteria across investors so that all loans will be eligible for sale to all investors? Or does your firm apply specific credit overlays that depend on the investor to which your firm intends to sell the loan?



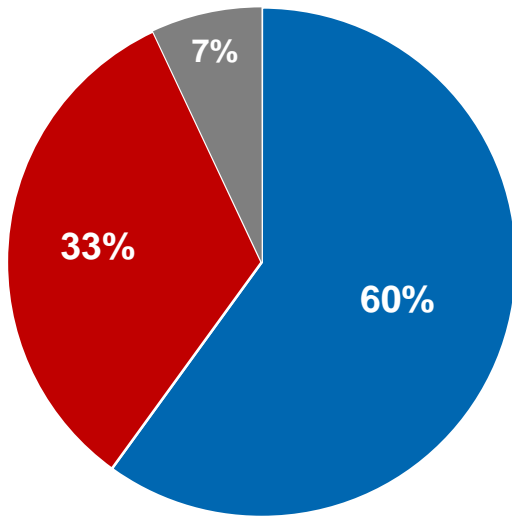
Due to small sample sizes, results should be interpreted with caution

Credit Overlays When Originating Loans Through Wholesale Channels

Higher credit scores is the most common type of credit overlay applied when originating loans through wholesale channels, and the primary reasons are to reduce default risks and repurchase risks.

[IF originate loans through wholesale channels such as mortgage brokers or correspondent channels]
 Does your firm apply credit overlays when originating or acquiring loans through wholesale channels? *Showing Total (N=69)*

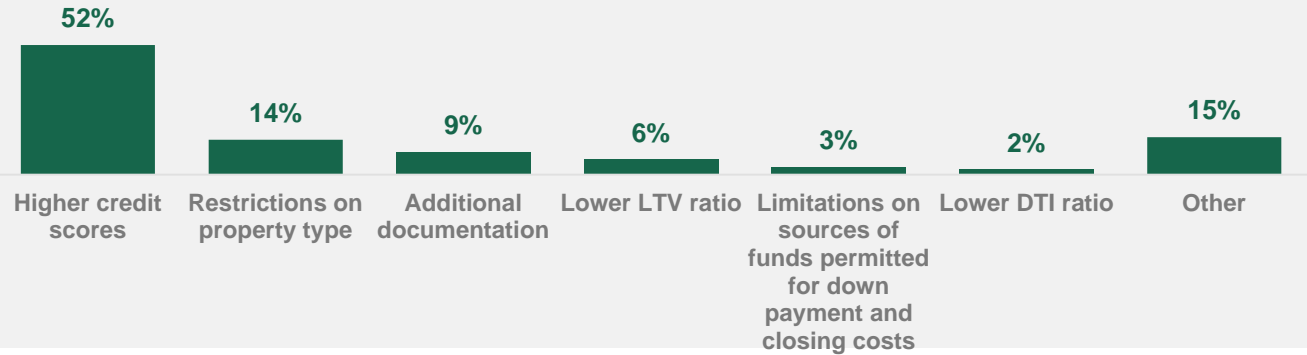
Yes No Not sure/ don't know



IF YES
 N=38

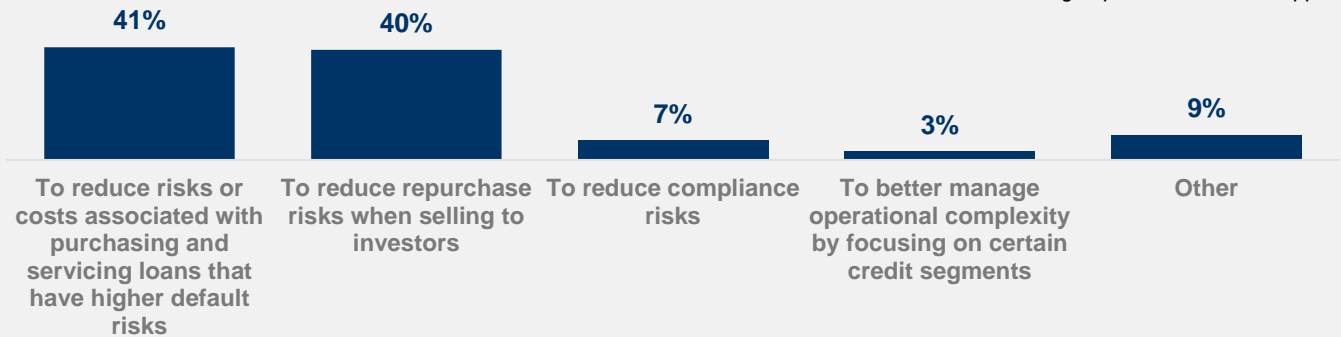
[IF apply credit overlays] What type of overlay does your firm apply most often when origination or acquiring loans through wholesale channels? *Showing Total (N=38)*

Results across subgroups can be found on pp. 34



[IF apply credit overlays] What is the primary reason your firm requires credit overlays when originating or acquiring loans through wholesale channels? *Showing Total (N=38)*

Results across subgroups can be found on pp. 35



Results across subgroups can be found on pp. 33

Due to small sample sizes, results should be interpreted with caution

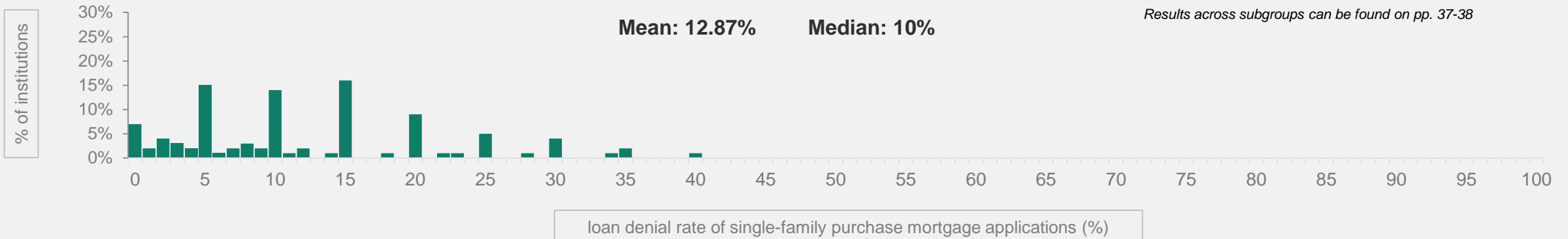
Loan Denial Rates & Reasons

- ❑ Lenders who originate single-family purchase mortgages reported a median loan denial rate of 10 percent over the past year.
 - High DTI ratios, low credit scores, and documentation quality are cited as the most common reasons for loan application denials.
 - Denial reasons are similar across lender sizes and types.
- ❑ Lenders who originate single-family refinance mortgages reported a median loan denial rate of 10 percent over the past year.
 - High DTI ratio, low credit scores, and insufficient collateral (appraisal issues) are the most common reasons for loan application denials.
 - Denial reasons are similar across lender sizes and types.

Purchase Mortgage Denial Rates and Reasons for Denial

Lenders who originate single-family purchase mortgages reported a median loan denial rate of 10 percent over the past year. High DTI ratios, low credit scores, and documentation quality are cited as the most common reasons for denying purchase loan applications.

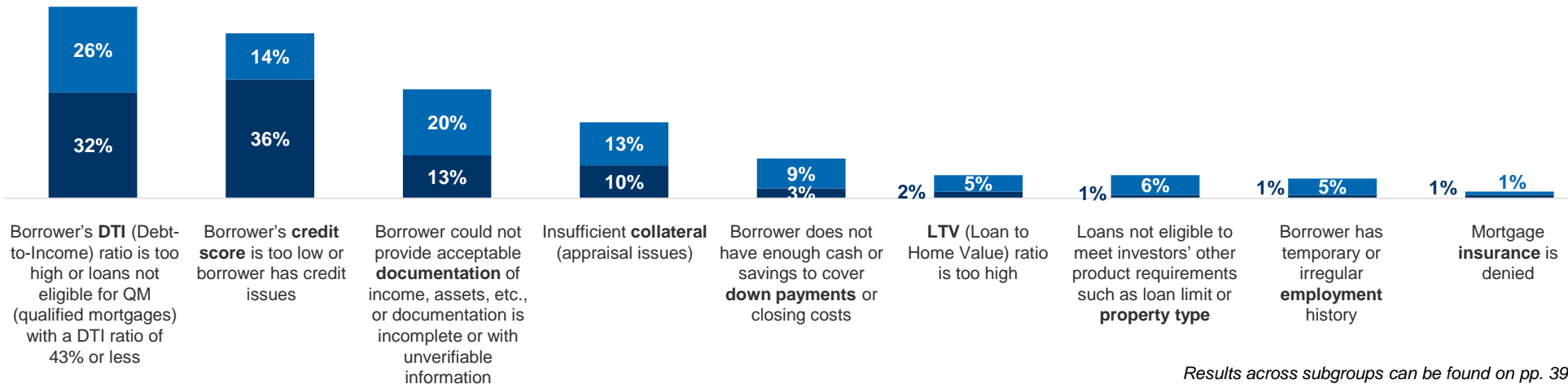
[IF currently originate purchase mortgages] Approximately what was the loan **denial (disqualify)** rate of single-family purchase mortgage applications at your firm over the past year? [Open End] *Showing Total (N=236)*



[IF firm currently originates purchase mortgages] Listed below are some common reasons that lenders deny single-family purchase mortgage loan applications. Please select the two most common reasons at your firm. *Showing Total (N=236)*

2nd Most Common Reason

Most Common Reason

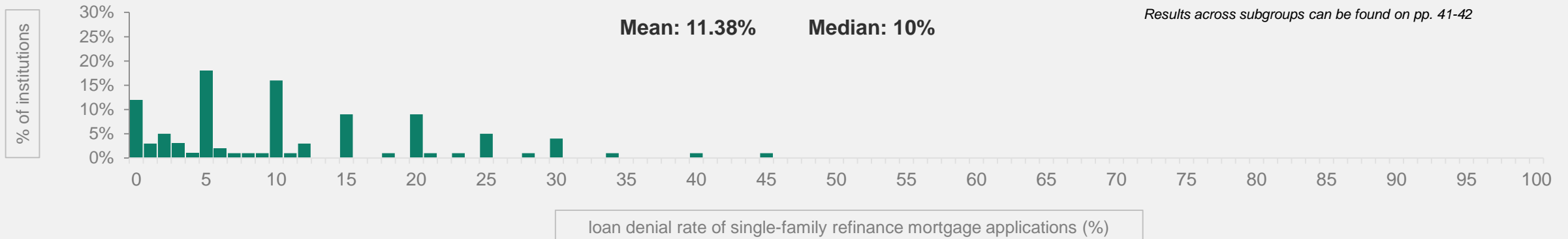


Results across subgroups can be found on pp. 39-40

Refinance Mortgage Denial Rates and Reasons for Denial

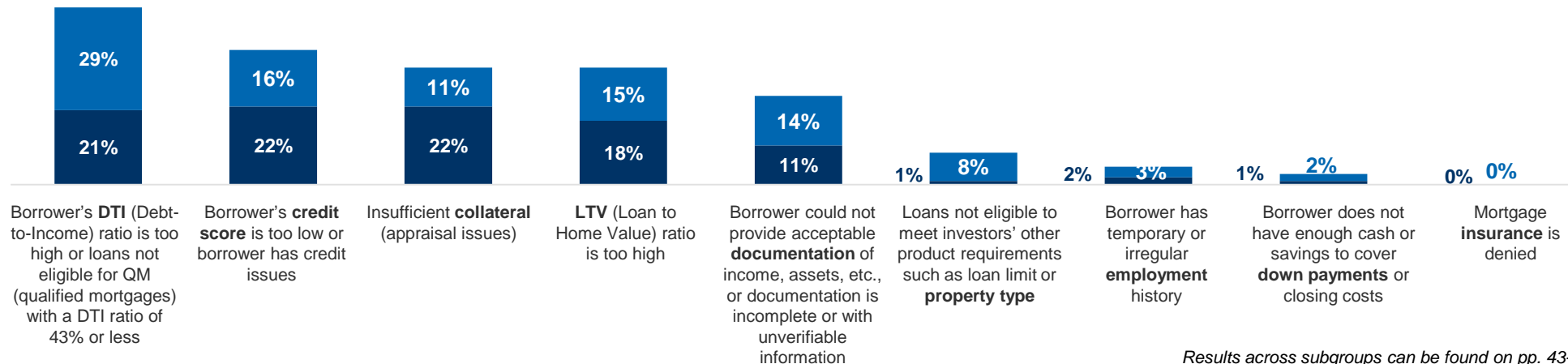
Lenders who originate single-family refinance mortgages reported a median loan denial rate of 10 percent over the past year. High DTI ratios, low credit scores, and insufficient collateral are cited as the most common reasons for denying refinance loan applications.

[IF currently originate refinance mortgages] Approximately what was the loan **denial (disqualify)** rate of single-family refinance mortgage applications at your firm over the past year? [Open End] *Showing Total (N=232)*



[IF firm currently originates refinance mortgages]

Approximately what was the loan **denial (disqualify)** rate of single-family refinance mortgage applications at your firm over the past year?
Showing Total (N=232)



2nd Most Common Reason

Most Common Reason

Results across subgroups can be found on pp. 43-44

Consumer Segments

- ❑ For consumers with mid-tier credit (i.e., 680-740 credit scores), lenders cite unfavorable economic conditions as the most common reason for a relatively weak purchase mortgage demand from this consumer segment, followed by the lack of inventory and the difficulty to qualify for a mortgage.
- ❑ About 37 percent of lenders who interact directly with consumers when originating purchase mortgages indicated that they plan to do more business with the mid-tier consumer segment this year.
- ❑ Very few lenders reported plans to do *less* business with lower-than-median income consumers or consumers in rural areas this year. When asked why they do not plan to do more business with these three consumer segments, lenders cite “not a good fit for my firm’s business model or footprints” as the primary reason, followed by “limited resources in my firm’s marketing or outreach programs.”

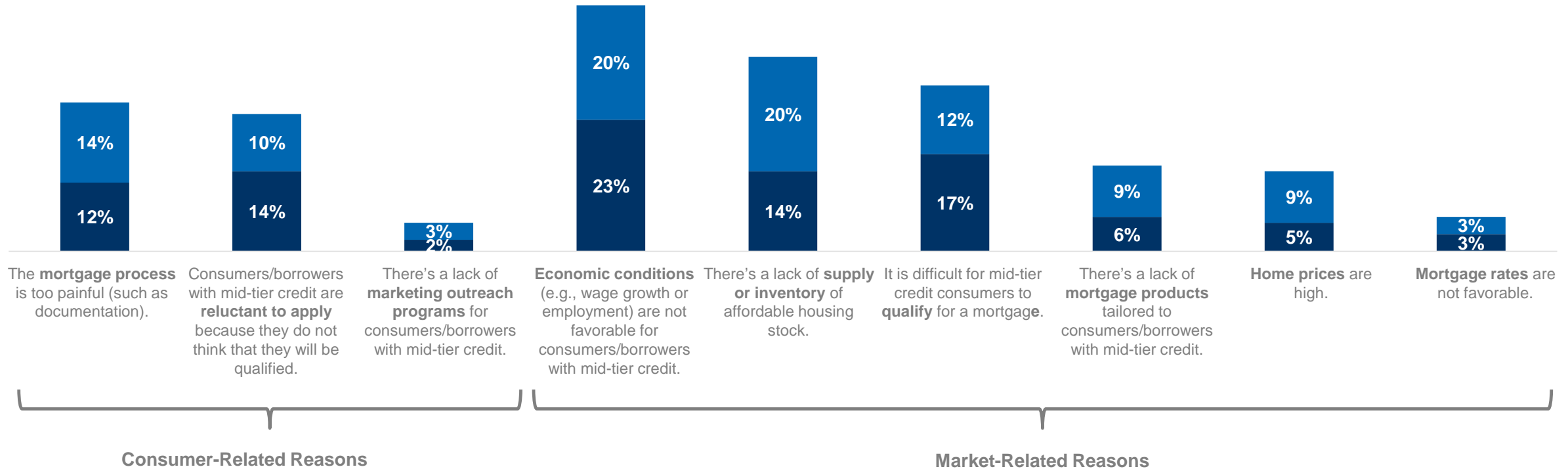
Reasons for Weak Purchase Mortgage Demand among Mid-Tier Credit Consumers

Unfavorable economic conditions is the most common reason cited by lenders for a relatively weak purchase mortgage demand among consumers with mid-tier credit (i.e., 680-740 credit scores), followed by the lack of inventory and the difficulty to qualify for a mortgage.

There has been some discussion about “increasing access to credit” to mid-tier credit consumers with 680-740 credit scores. Which of the following factors do you think account for a relatively weak purchase mortgage demand among borrowers with mid-tier credit (680-740 credit scores)? Please select **up to two** of the most important factors and rank them in order of importance. *Showing Total (N=238)*

Results across subgroups can be found on pp. 46-47

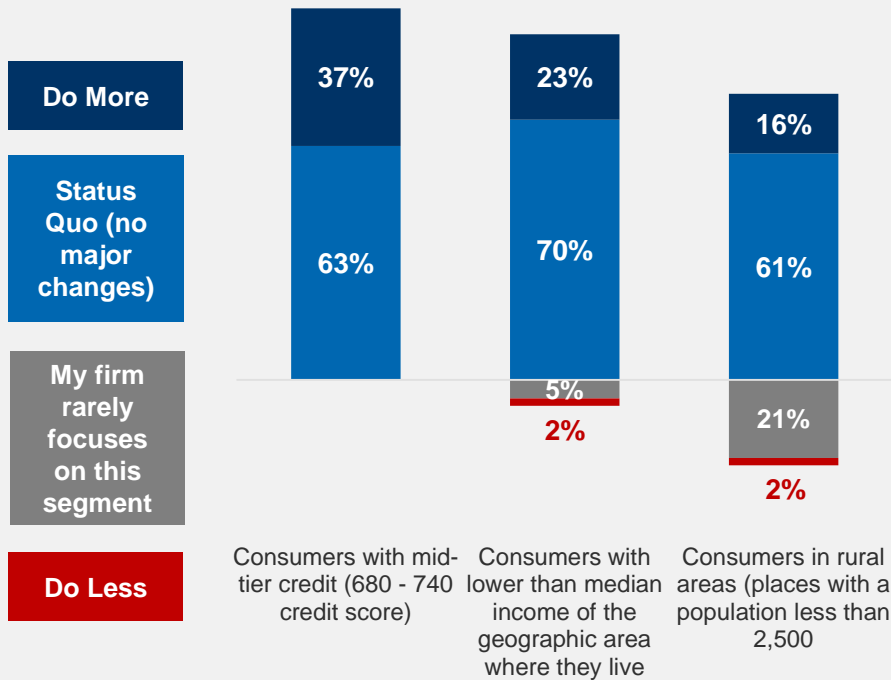
2nd Most Common Reason
Most Common Reason



Consumer Segments

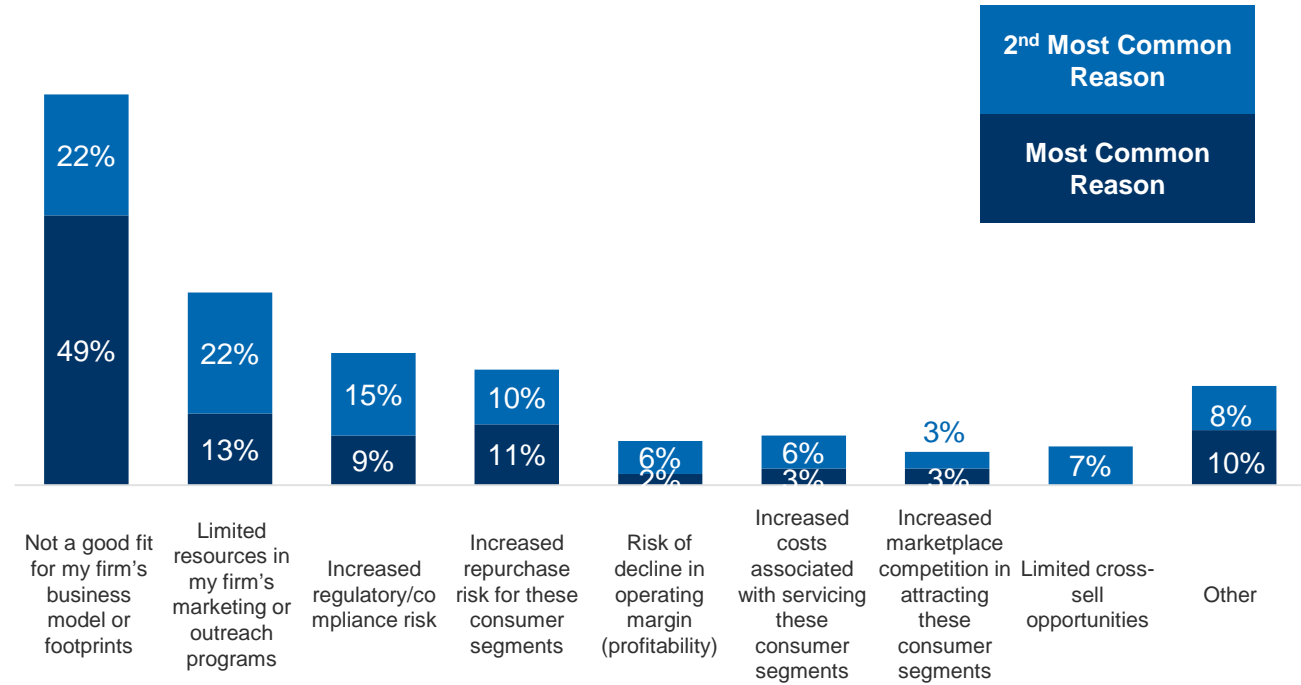
About 37 percent of lenders who originate purchase mortgages directly with consumers indicated that they plan to do more business with the mid-tier consumer segment this year.

[IF originate purchase mortgages directly with consumers] Listed below are three common consumer segments. For each consumer segment, please indicate whether your firm plans to do more or do less business with each segment this year.
Showing Total (N=223)



IF rarely focuses on/does less on any segment

[IF focus rarely/do less on any segment] Listed below are some possible reasons that lenders might NOT focus on the consumer segments listed above. Please select **up to two** of the most likely reasons for your firm and rank them in order of likelihood.
Showing Total (N=54)



Results across subgroups can be found on pp. 48-49

Results across subgroups can be found on pp. 50-51

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Survey Background

- Fannie Mae's Mortgage Lender Sentiment Survey™ is a quarterly online survey among senior executives of Fannie Mae's lending institution partners to provide insights and benchmarks that help mortgage industry professionals understand industry and market trends and assess their own business practices.
- Each quarter, the survey covers both regular tracking questions and specific industry topic questions:

Quarterly Regular Questions

- Consumer Mortgage Demand
- Credit Standards
- Mortgage Execution
- Mortgage Servicing Rights (MSR) Execution
- Profit Margin Outlook

Featured Specific-Topic Questions

- Impact of Regulatory Compliance
- GSEs' 97% LTV product and the FHA's Mortgage Insurance Premium Reduction
- Credit Overlays

Quarterly Reporting and Quarterly Special Topic Analyses

- Quarterly reports provide a timely view of trends on the topics listed above, such as consumer mortgage demand, lenders' credit standards, and profit margin outlook.
- Quarterly Special Topic Analyses provide insights into industry important topics.

Reports can be found on the Mortgage Lender Sentiment Survey page on [fanniemae.com](http://www.fanniemae.com):

<http://www.fanniemae.com/portal/research-and-analysis/mortgage-lender-survey.html>

Mortgage Lender Sentiment Survey™

Survey Methodology

- A quarterly, 10-15 minute online survey among senior executives such as CEOs and CFOs of Fannie Mae's lending institution partners.
- To ensure that the survey results represent the behavior and output of organizations rather than individuals, the Fannie Mae Mortgage Lender Sentiment Survey is structured and conducted as an establishment survey.
- Each respondent is asked 40-75 questions.

Sample Design

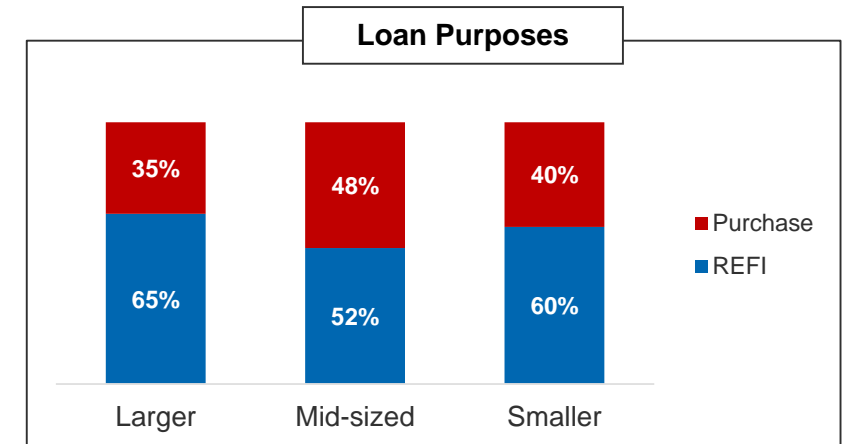
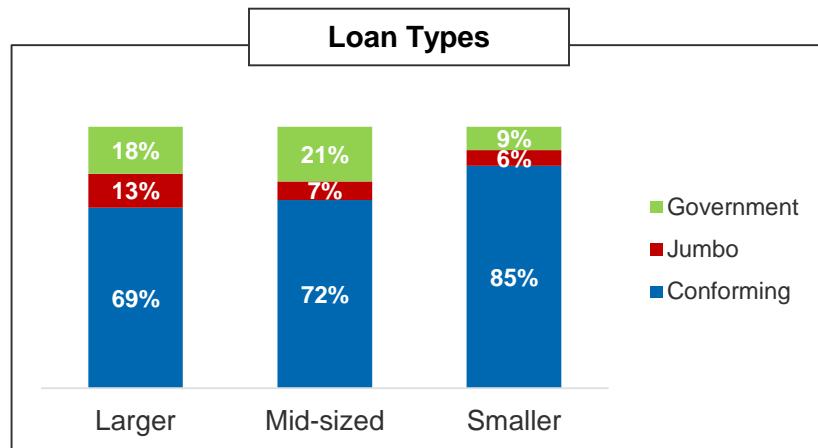
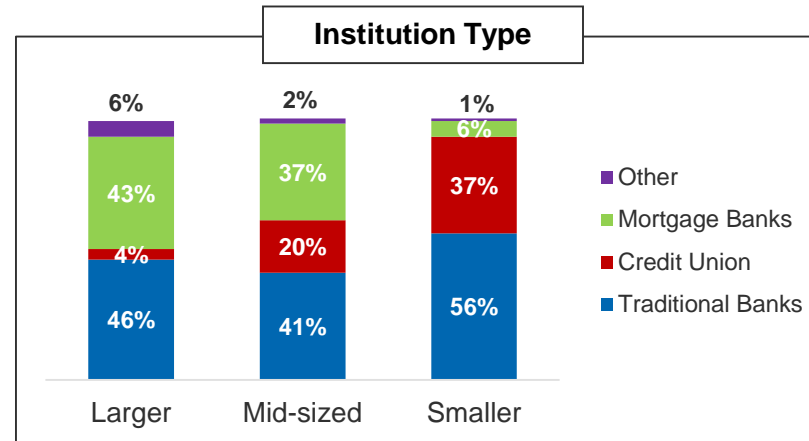
- Each quarter, a random selection of approximately 2,000 senior executives among Fannie Mae's approved lenders are invited to participate in the study.

Data Weighting

- The results of the Mortgage Lender Sentiment Survey are reported at the institutional parent-company level. If more than one individual from the same parent institution completes the survey, their responses are averaged to represent their parent institution.

Lending Institution Characteristics

Fannie Mae's customers invited to participate in the Mortgage Lender Sentiment Survey represent a broad base of different lending institutions that conducted business with Fannie Mae in 2013. Institutions were divided into three groups based on their 2013 total industry loan volume - Larger (top 15%), Mid-sized (top 16%-35%), and Smaller (bottom 65%). The data below further describe the compositions and loan characteristics of the three groups of institutions.



2015 Q2 Cross-Subgroup Sample Sizes

	Total	Larger Lenders	Mid-Sized Lenders	Smaller Lenders
Total	238	55	68	115
Mortgage Banks (non-depository)	71	27	33	11
Depository Institutions	105	20	24	61
Credit Unions	52	1	10	41

How to Read Significance Testing

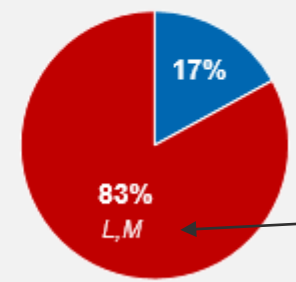
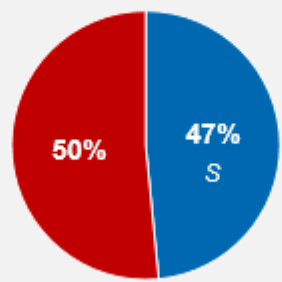
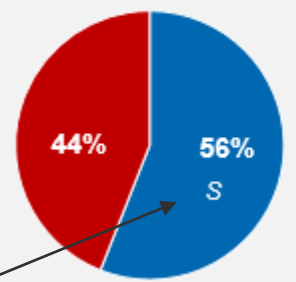
On slides where significant differences between three groups are shown:

- Each group is assigned a letter (L/M/S, M/D/C)
- If a group has a significantly higher % than another group at the 95% confidence level, a letter will be shown next to the % for that metric. The letter denotes which group the % is significantly higher than.

Example:

[IF deliver loans to the GSEs or Ginnie Mae] You mentioned that your firm securitizes or sells mortgage loans with/to Fannie Mae, Freddie Mac or Ginnie Mae. Does your firm apply credit overlays that are more stringent than what Fannie Mae, Freddie Mac or Ginnie Mae require?

Larger Institutions (L) N=44 **Mid-sized Institutions (M)** N=55 **Smaller Institutions (S)** N=86



56% is significantly higher than 17% (smaller institutions)

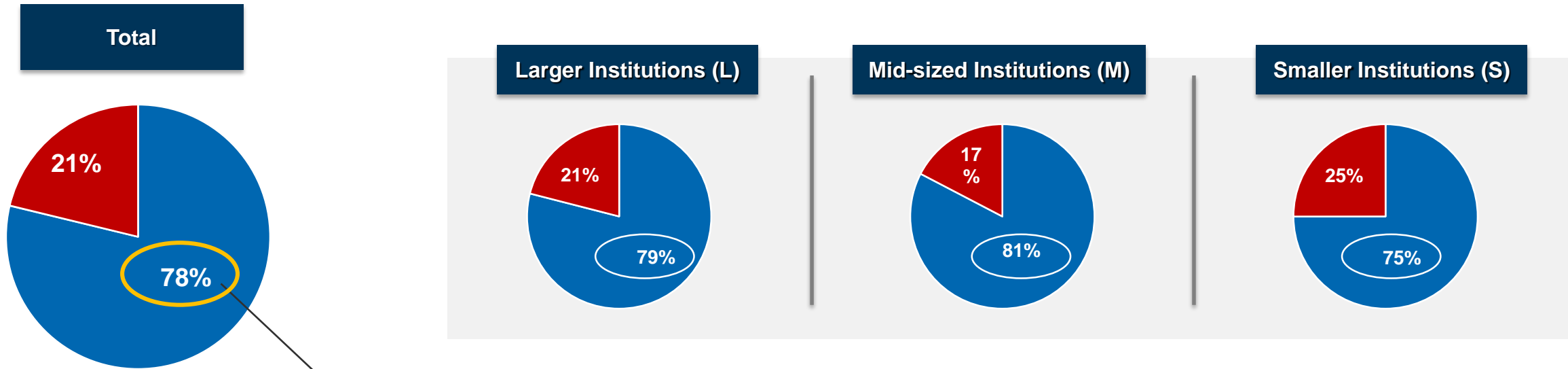
83% is significantly higher than 44% (larger institutions) and 50% (mid-sized institutions)

Calculation of the “Total”

The “**Total**” data presented in this report is an average of the means of the three loan origination volume groups (see an illustrated example below). Please note that percentages are based on the number of financial institutions that gave responses other than “Not Applicable.” Percentages may add to under or over 100% due to rounding.

Example:

Does your firm securitize or sell mortgage loans with/to Fannie Mae, Freddie Mac or Ginnie Mae?



“Total” of 78% is
 $(79\% + 81\% + 75\%) / 3$

Appendix

CREDIT OVERLAYS

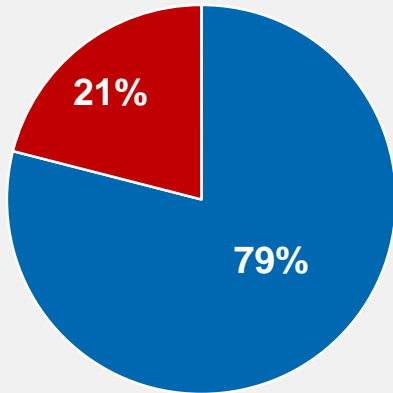
Securitizing or Selling Mortgage Loans with/to the GSEs or Ginnie Mae

Does your firm securitize or sell mortgage loans with/to Fannie Mae, Freddie Mac or Ginnie Mae?

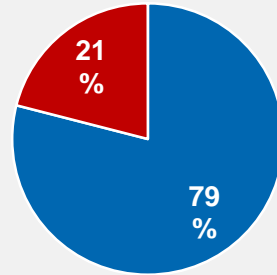
Yes

No

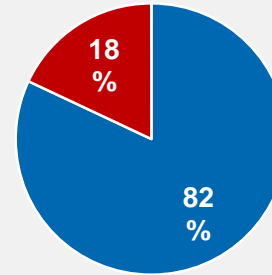
Total



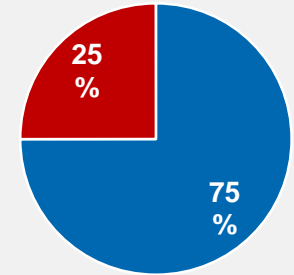
Larger Institutions (L)



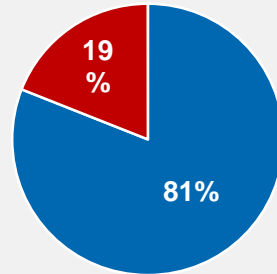
Mid-sized Institutions (M)



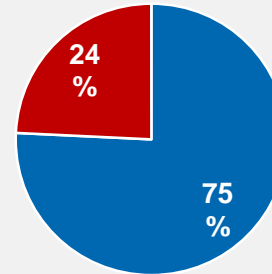
Smaller Institutions (S)



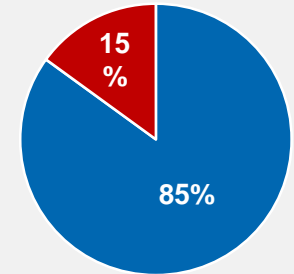
Mortgage Banks (M)



Depository Institutions (D)



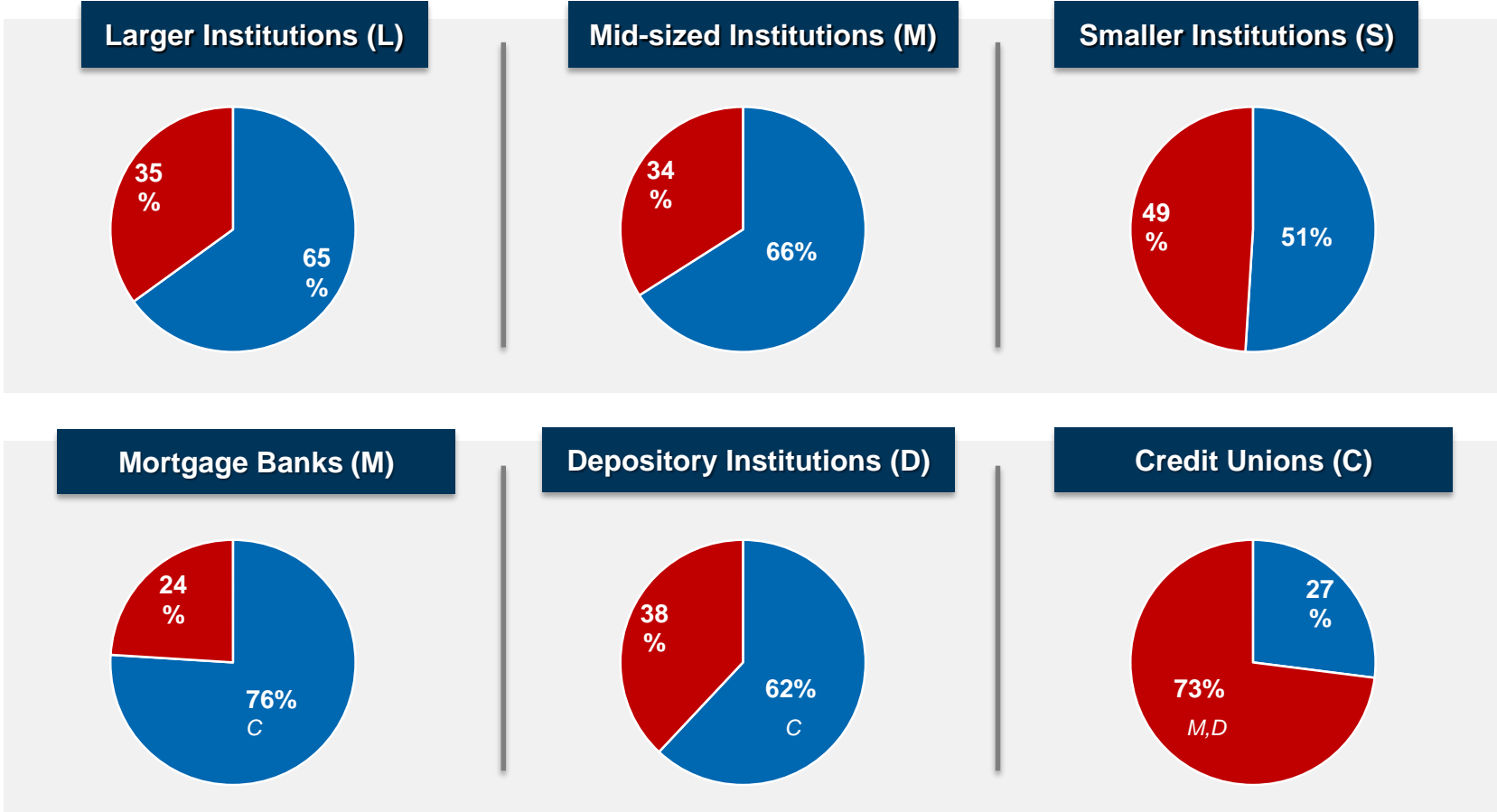
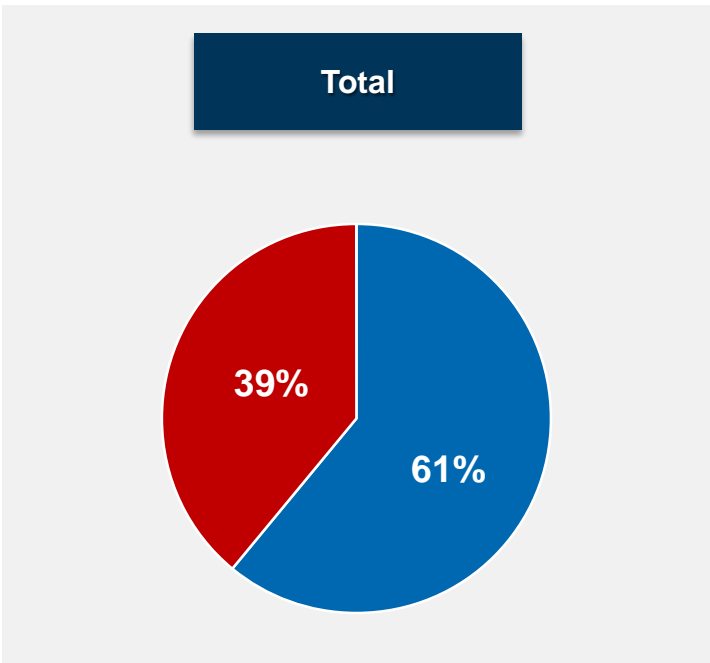
Credit Unions (C)



Securitizing or Selling Mortgage Loans with/to Those Other than the GSEs and Ginnie Mae

Does your firm securitize or sell mortgage loans to investors or aggregators other than the GSEs and Ginnie Mae?

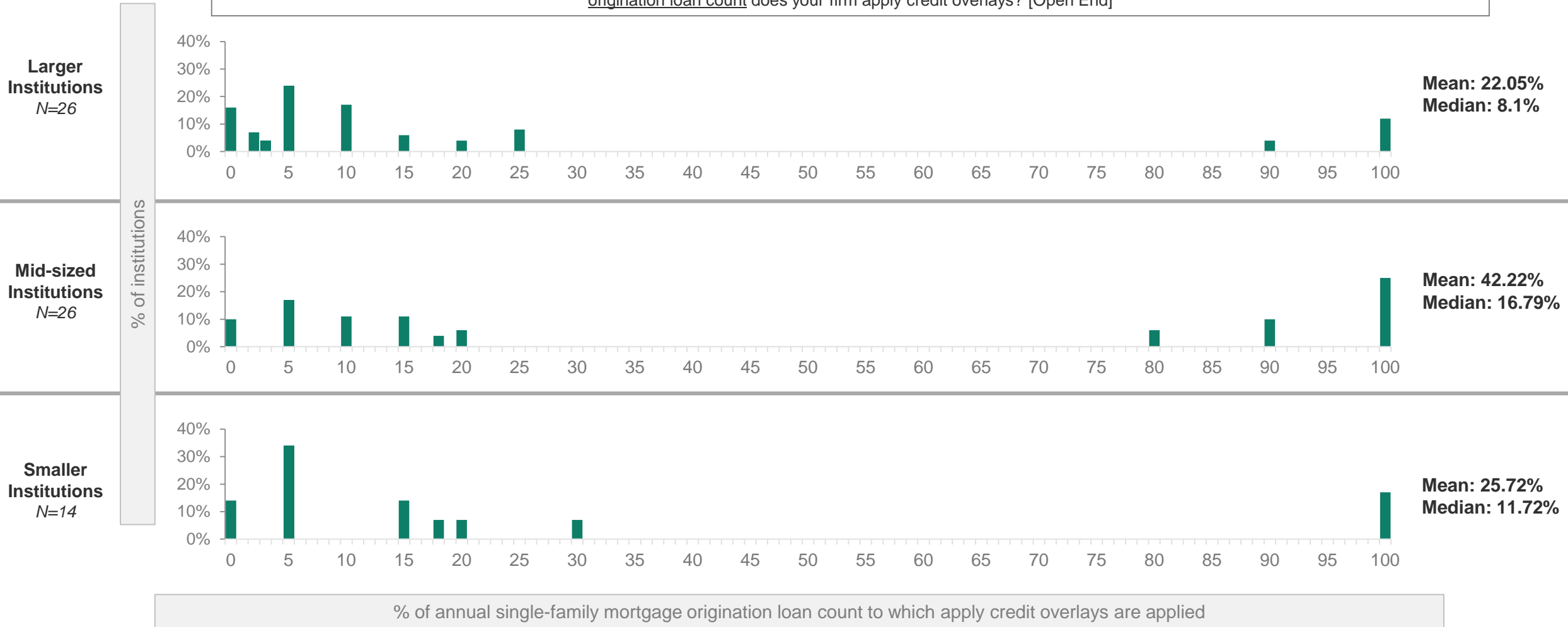
Yes No



L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

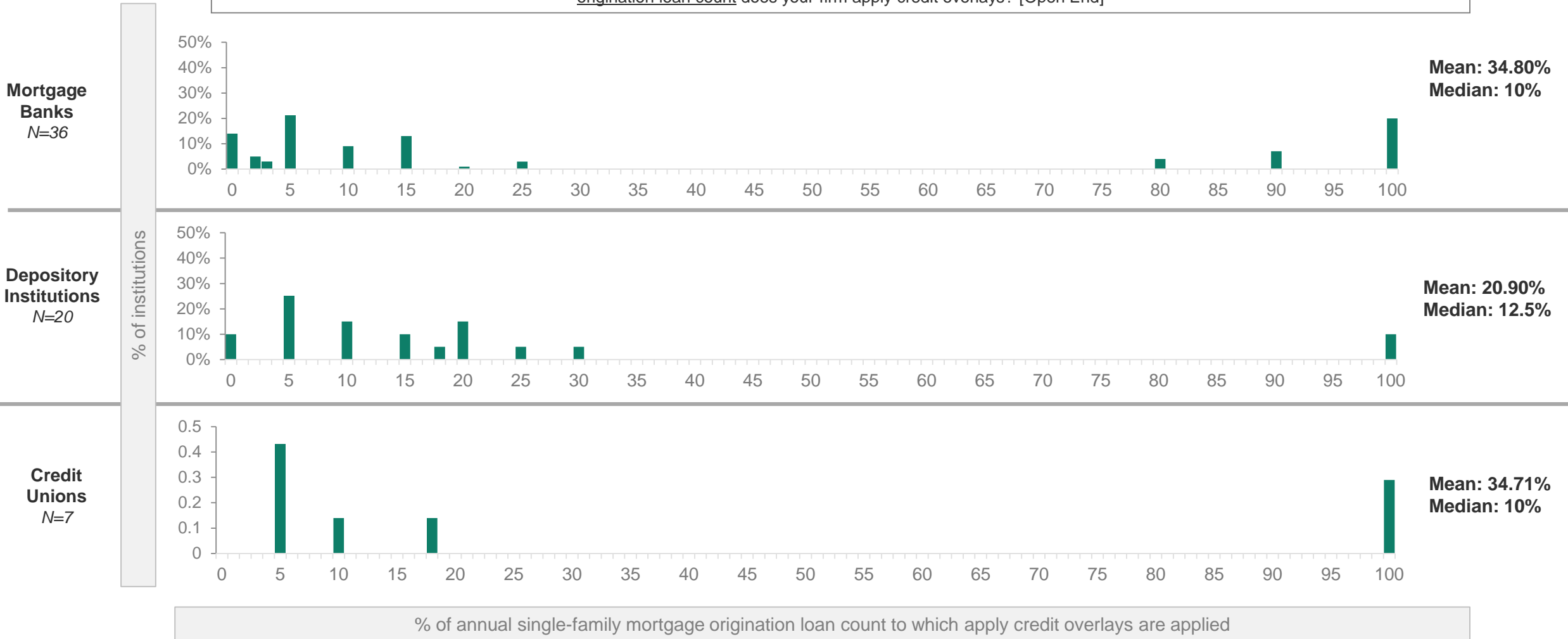
Percent of Loans to Which Firms Apply Credit Overlays Among Lenders Delivering Loans to the GSEs or Ginnie Mae (by lender size)

[IF apply credit overlays and deliver loans to Fannie Mae, Freddie Mac, or Ginnie Mae] Approximately what percent of your annual single-family mortgage origination loan count does your firm apply credit overlays? [Open End]



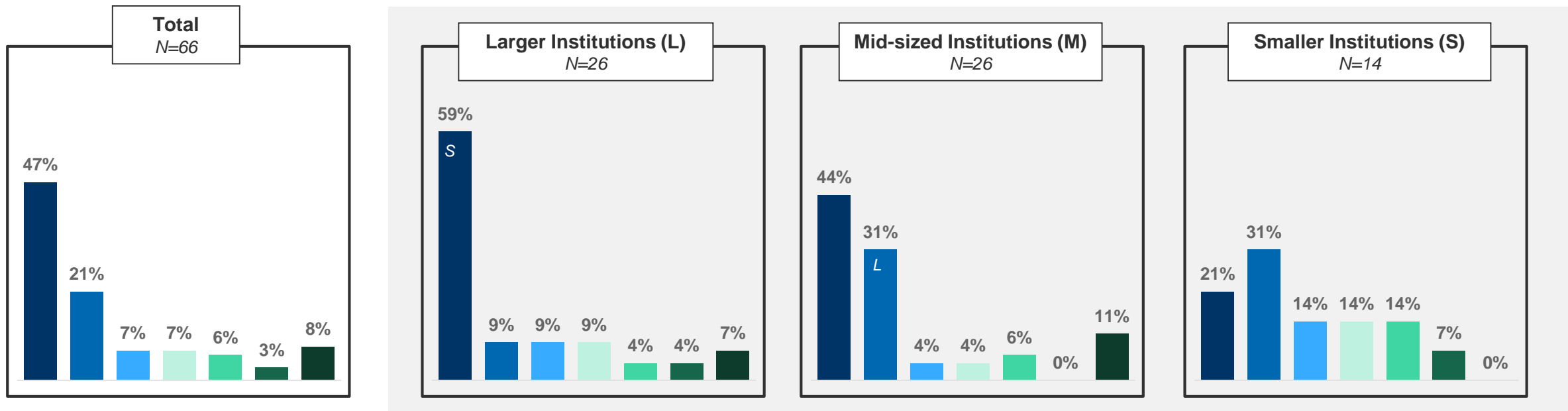
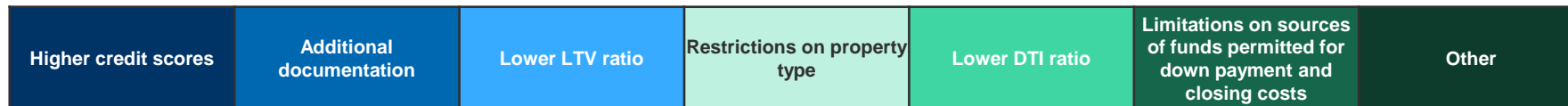
Percent of Loans to Which Firms Apply Credit Overlays Among Lenders Delivering Loans to the GSEs or Ginnie Mae (by lender type)

[IF apply credit overlays and deliver loans to Fannie Mae, Freddie Mac, or Ginnie Mae] Approximately what percent of your annual single-family mortgage origination loan count does your firm apply credit overlays? [Open End]



Types of Credit Overlays Applied Among Lenders Delivering Loans to the GSEs or Ginnie Mae (by lender size)

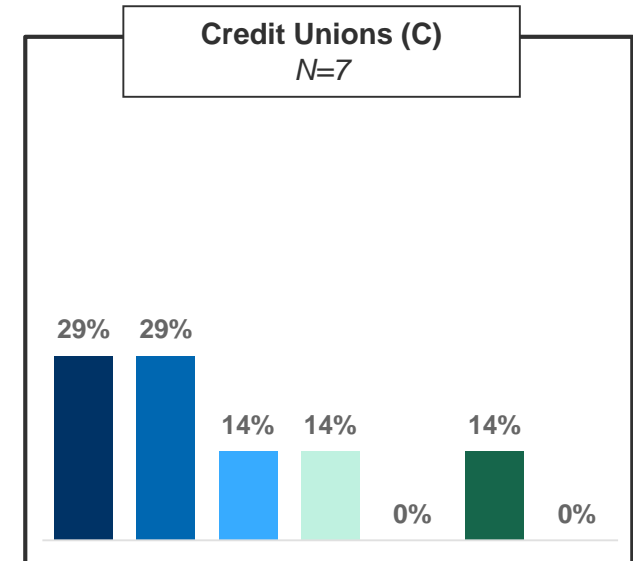
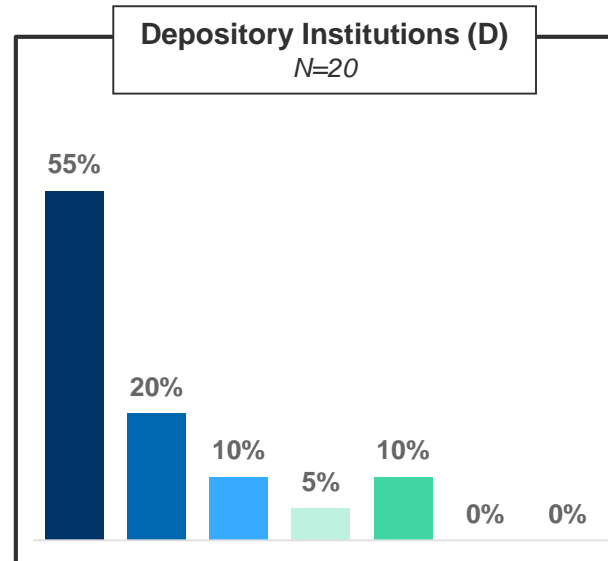
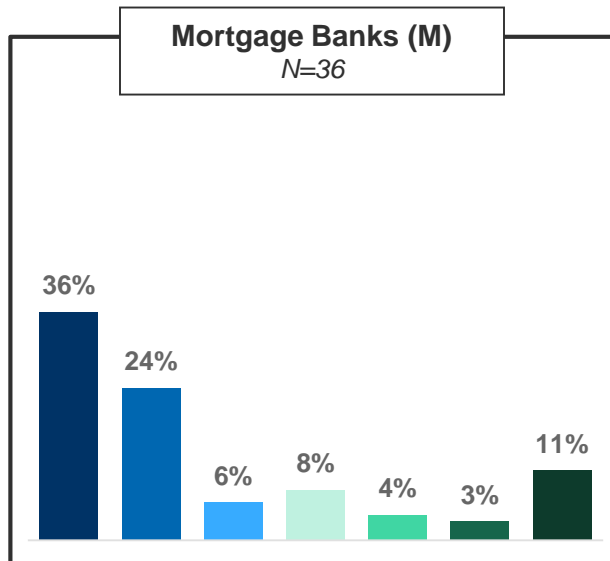
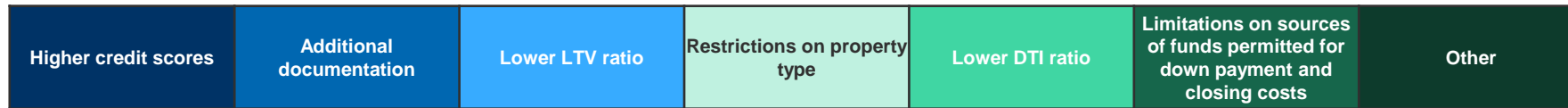
[IF apply credit overlays and deliver loans to the GSEs or Ginnie Mae] What type of overlay does your firm apply most often?



L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level

Types of Credit Overlays Applied Among Lenders Delivering Loans to the GSEs or Ginnie Mae (by lender type)

[IF apply credit overlays and deliver loans to the GSEs or Ginnie Mae] What type of overlay does your firm apply most often?



Originating Loans Through Wholesale Channels such as Mortgage Brokers and Correspondent Lenders

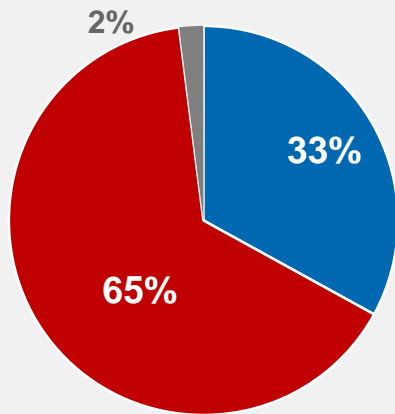
Does your firm originate or acquire loans through wholesale channels such as mortgage brokers or correspondent channels?

Yes

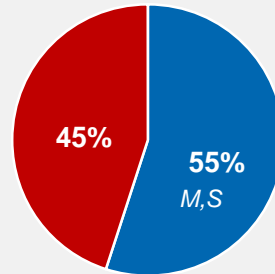
No

Not sure/
don't know

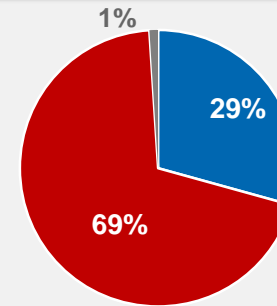
Total
(N=238)



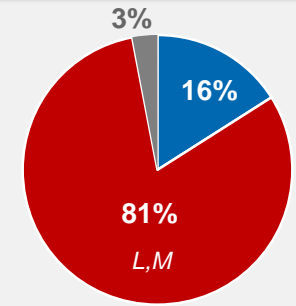
Larger Institutions (L)
(N=55)



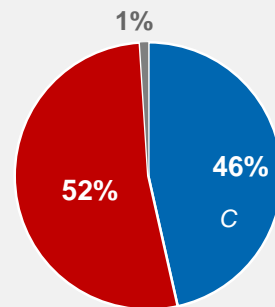
Mid-sized Institutions (M)
(N=68)



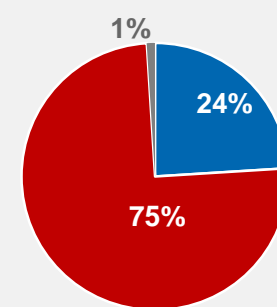
Smaller Institutions (S)
(N=115)



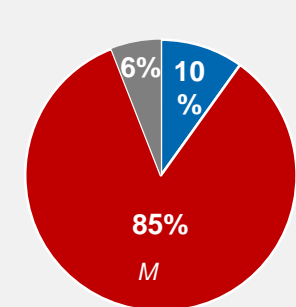
Mortgage Banks (M)
(N=71)



Depository Institutions (D)
(N=105)



Credit Unions (C)
(N=52)



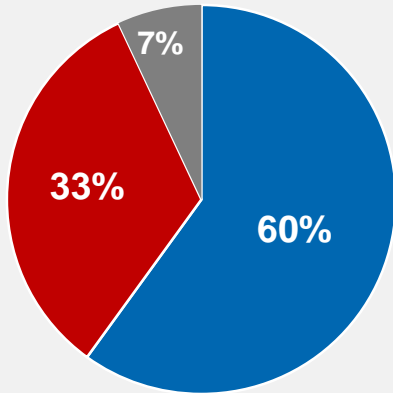
L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

Credit Overlays When Originating Loans Through Wholesale Channels

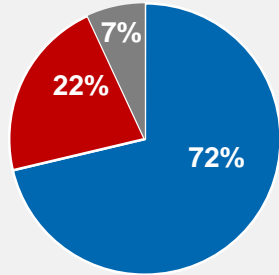
[IF originate loans through wholesale channels such as mortgage brokers and correspondents] Does your firm apply credit overlays when originating or acquiring loans through wholesale channels?

Yes No Not sure/ don't know

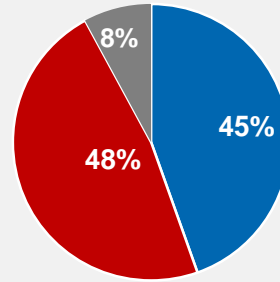
Total
N=69



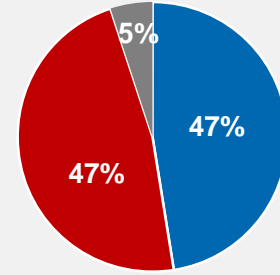
Larger Institutions (L)
N=30



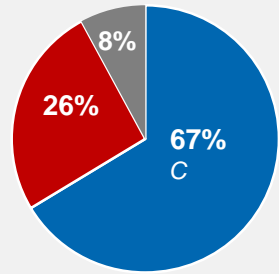
Mid-sized Institutions (M)
N=20



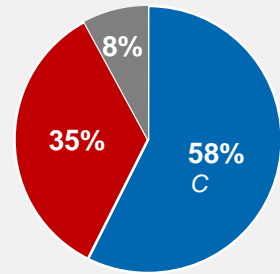
Smaller Institutions (S)
N=19



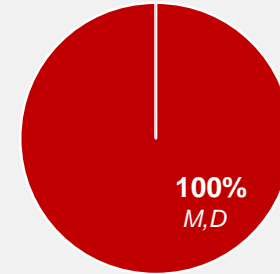
Mortgage Banks (M)
N=33



Depository Institutions (D)
N=26



Credit Unions (C)
N=5

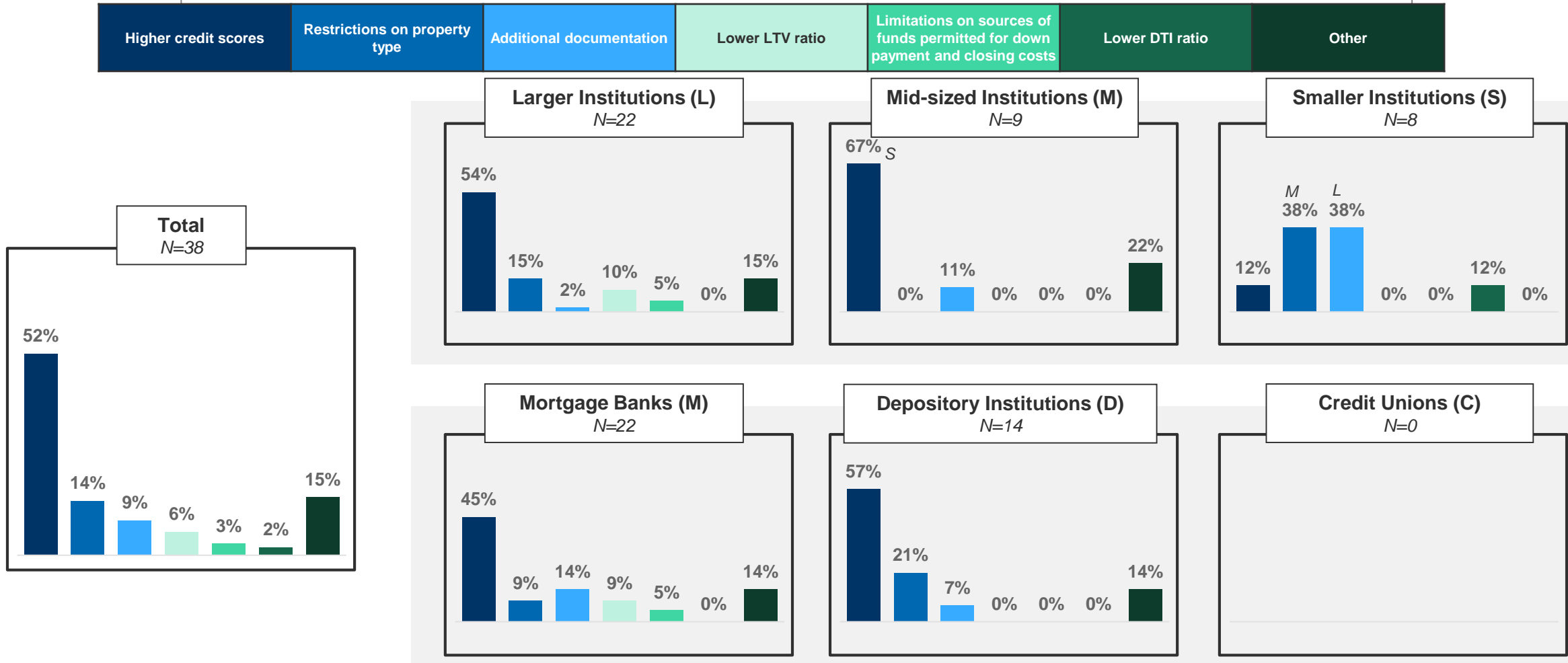


L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

Due to small sample sizes, results should be interpreted with caution

Types of Credit Overlays Applied When Originating Loans Through Wholesale Channels

[IF apply credit overlays when originating loans through wholesale channels] What type of overlay does your firm apply most often when origination or acquiring loans through wholesale channels?

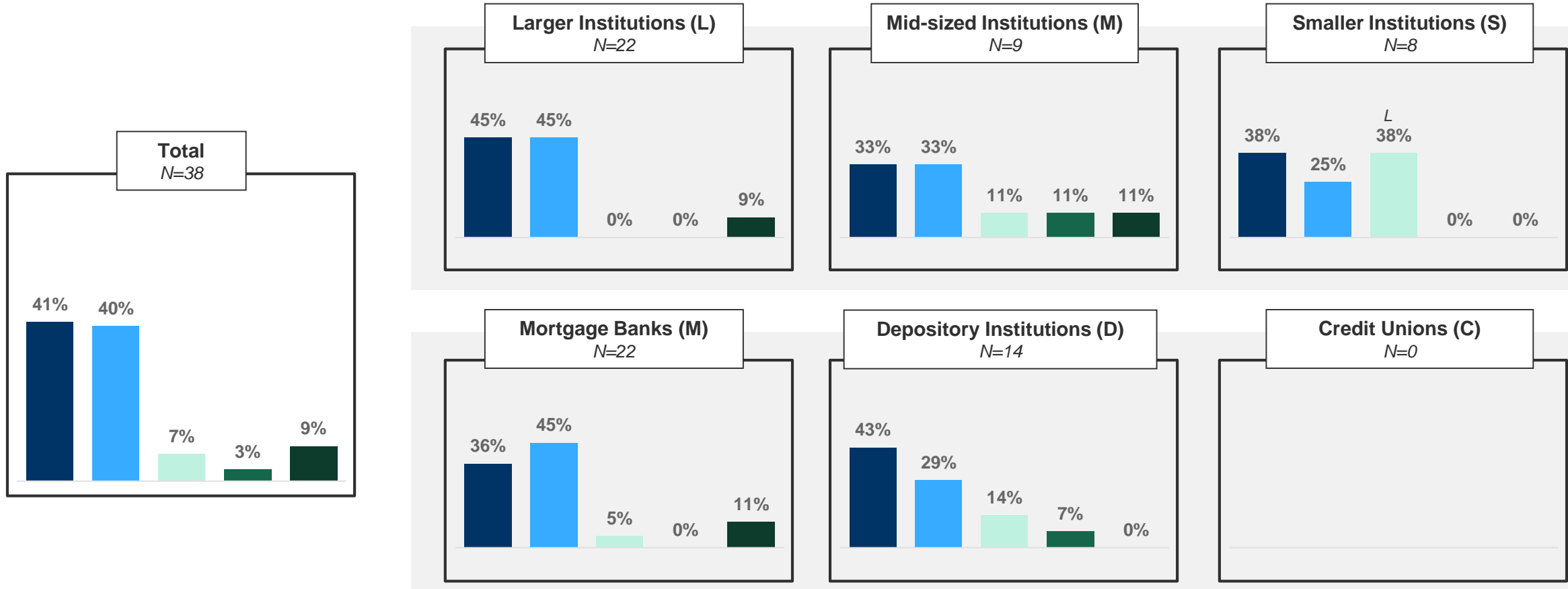
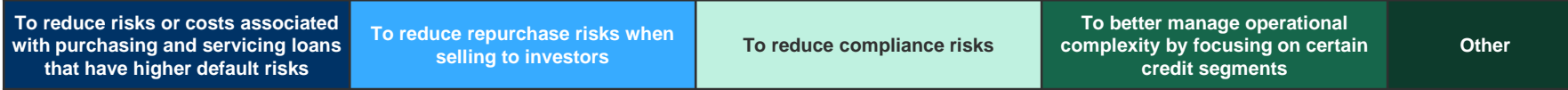


L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

Due to small sample sizes, results should be interpreted with caution

Primary Reason for Credit Overlays When Originating Loans Through Wholesale Channels

[IF apply credit overlays when originating loans through wholesale channels such as mortgage brokers and correspondents] What is the primary reason your firm requires credit overlays when originating or acquiring loans through wholesale channels?



L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

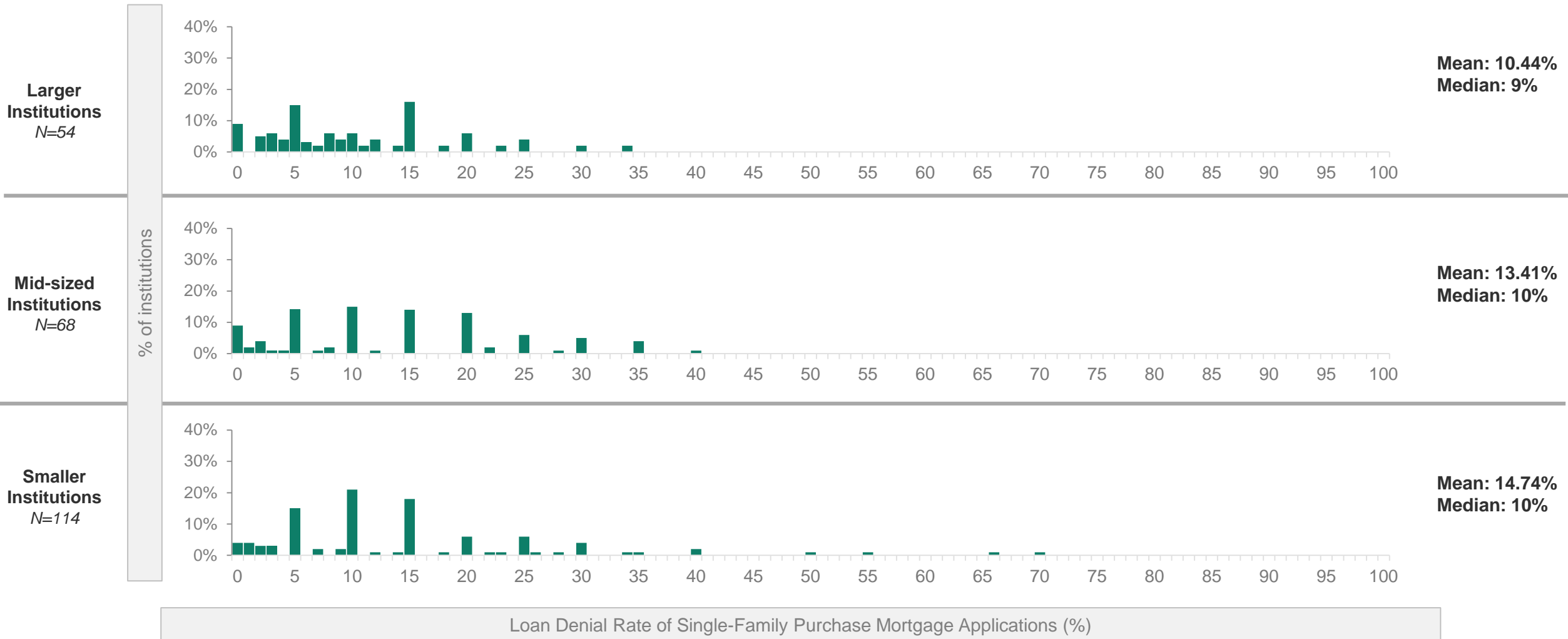
Due to small sample sizes, results should be interpreted with caution

Appendix

LOAN DENIAL RATES & REASONS

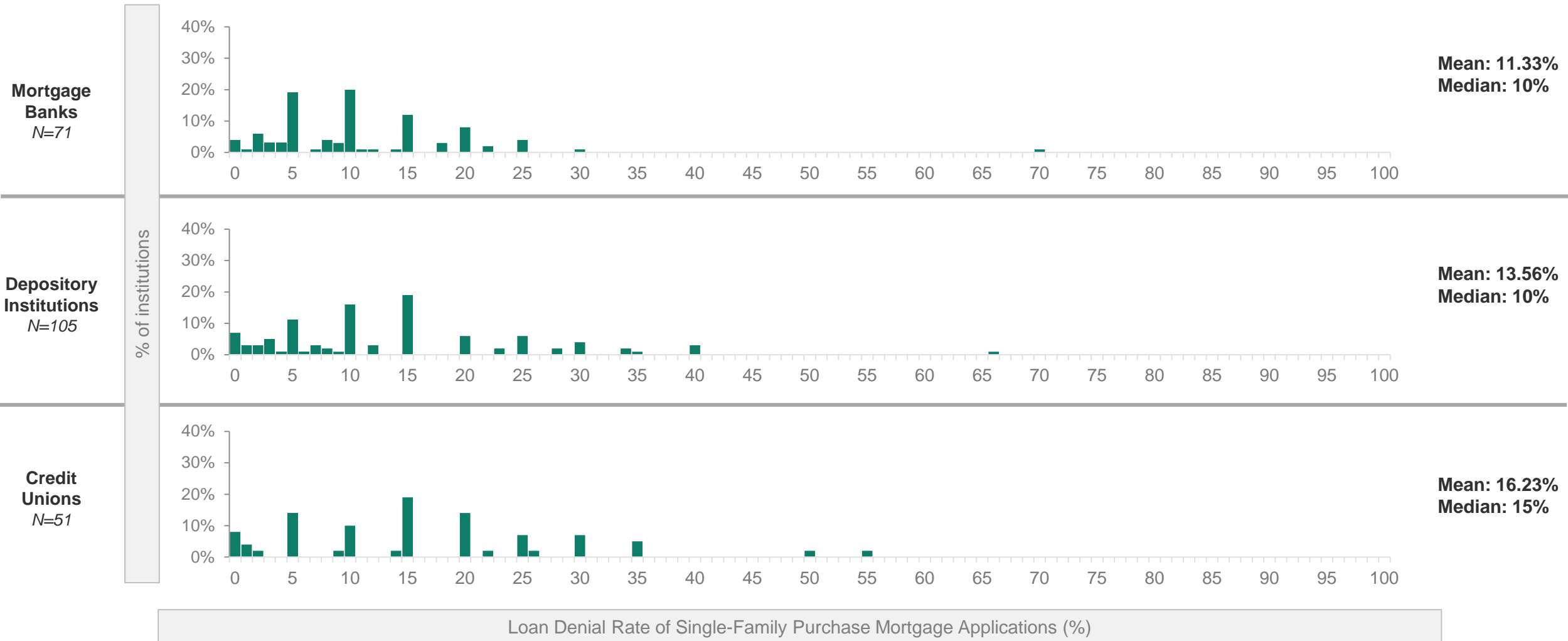
Purchase Mortgage Denial Rate (by lender size)

[IF firm currently originates purchase mortgages] Approximately what was the loan denial (disqualify) rate of single-family purchase mortgage applications at your firm over the past year? [Open End]



Purchase Mortgage Denial Rate (by lender type)

[IF firm currently originates purchase mortgages] Approximately what was the loan denial (disqualify) rate of single-family purchase mortgage applications at your firm over the past year? [Open End]

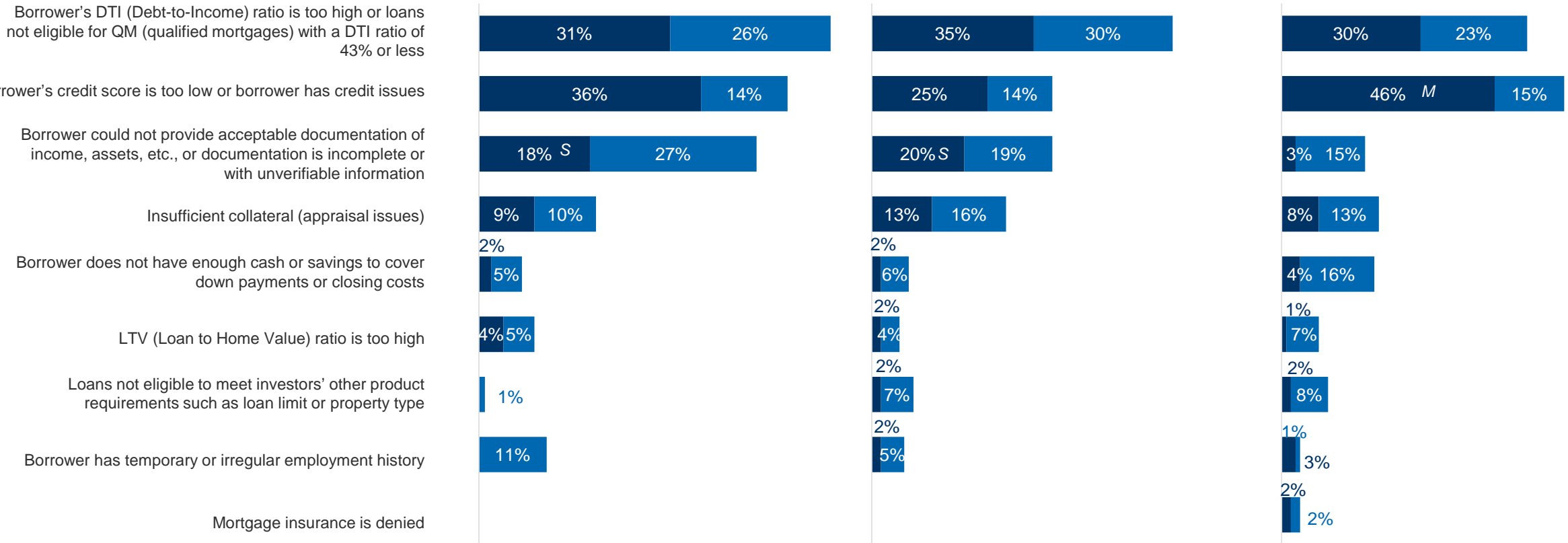


Reasons for Denying Single-Family Purchase Mortgage Loan Applications (by lender size)

[IF firm currently originates purchase mortgages] Listed below are some common reasons that lenders deny single-family purchase mortgage loan applications. Please select the two most common reasons at your firm.

Most Common Reason **2nd Most Common Reason**

Larger Institutions (L) N=54 **Mid-sized Institutions (M)** N=68 **Smaller Institutions (S)** N=114

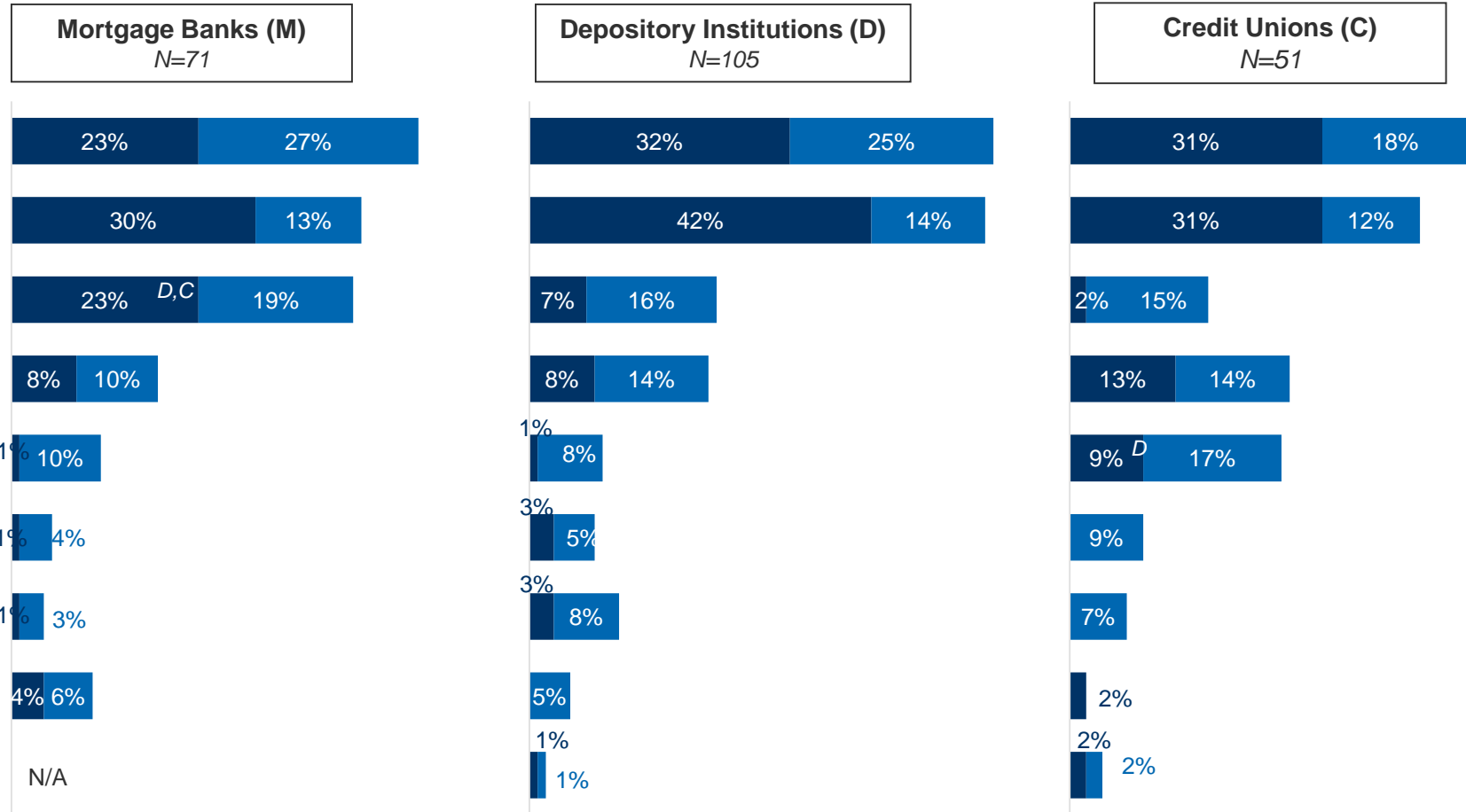


L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level

Reasons for Denying Single-Family Purchase Mortgage Loan Applications (by lender type)

[IF firm currently originates purchase mortgages] Listed below are some common reasons that lenders deny single-family purchase mortgage loan applications. Please select the two most common reasons at your firm.

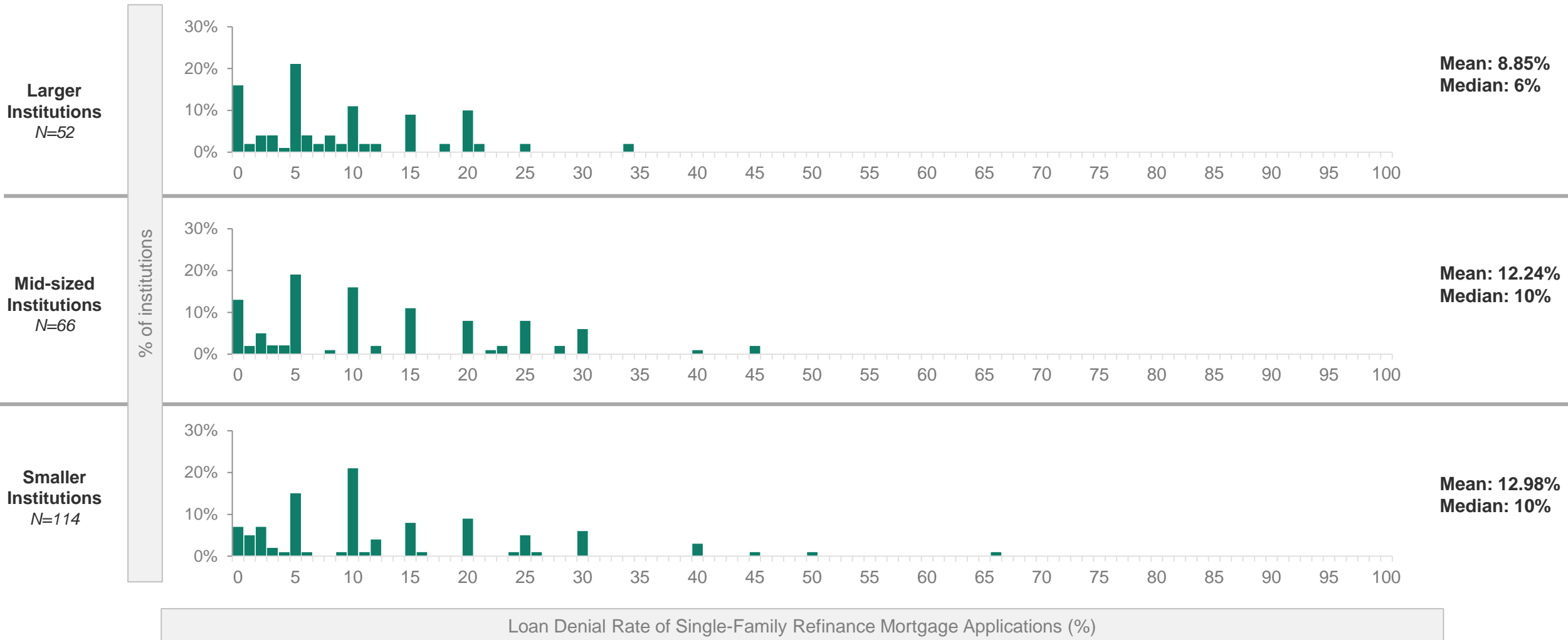
Most Common Reason **2nd Most Common Reason**



M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

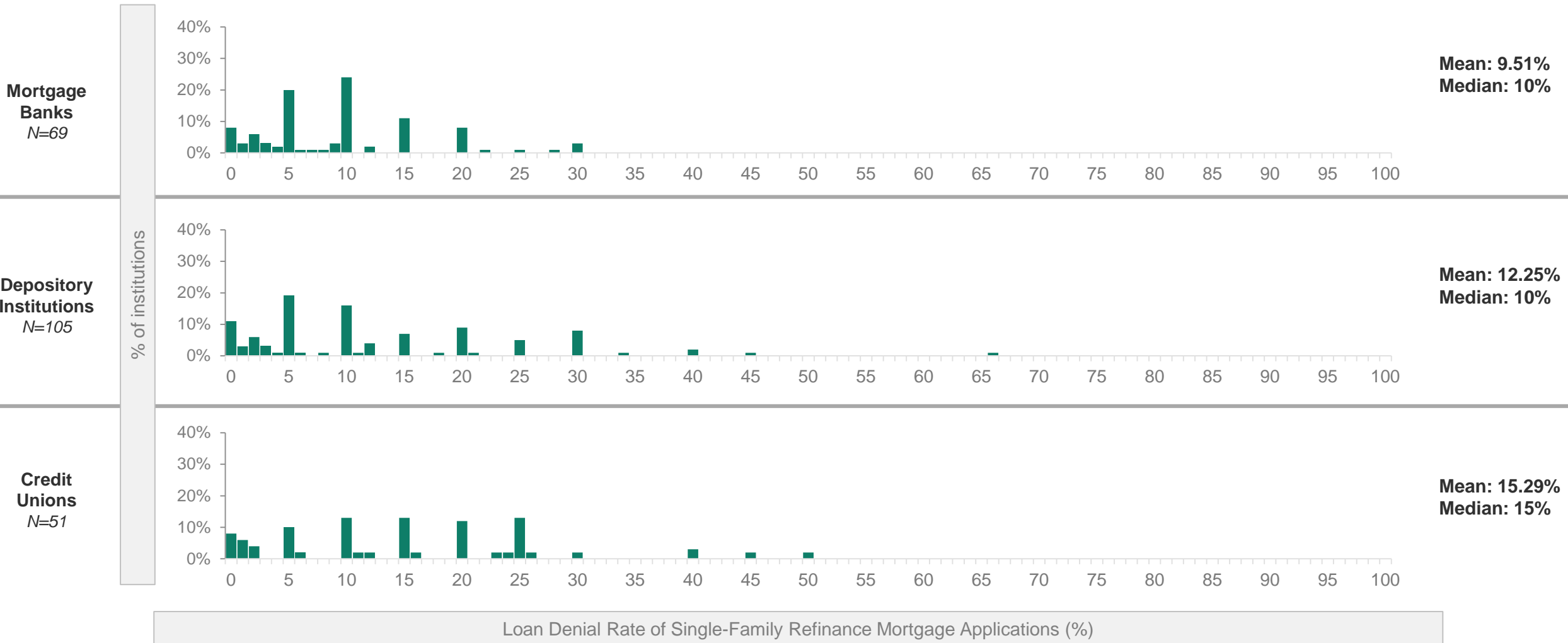
Refinance Mortgage Denial Rate (by lender size)

[IF firm currently originates refinance mortgages] Approximately what was the loan denial (disqualify) rate of single-family refinance mortgage applications at your firm over the past year?



Refinance Mortgage Denial Rate (by lender size)

[IF firm currently originates refinance mortgages] Approximately what was the loan denial (disqualify) rate of single-family refinance mortgage applications at your firm over the past year?

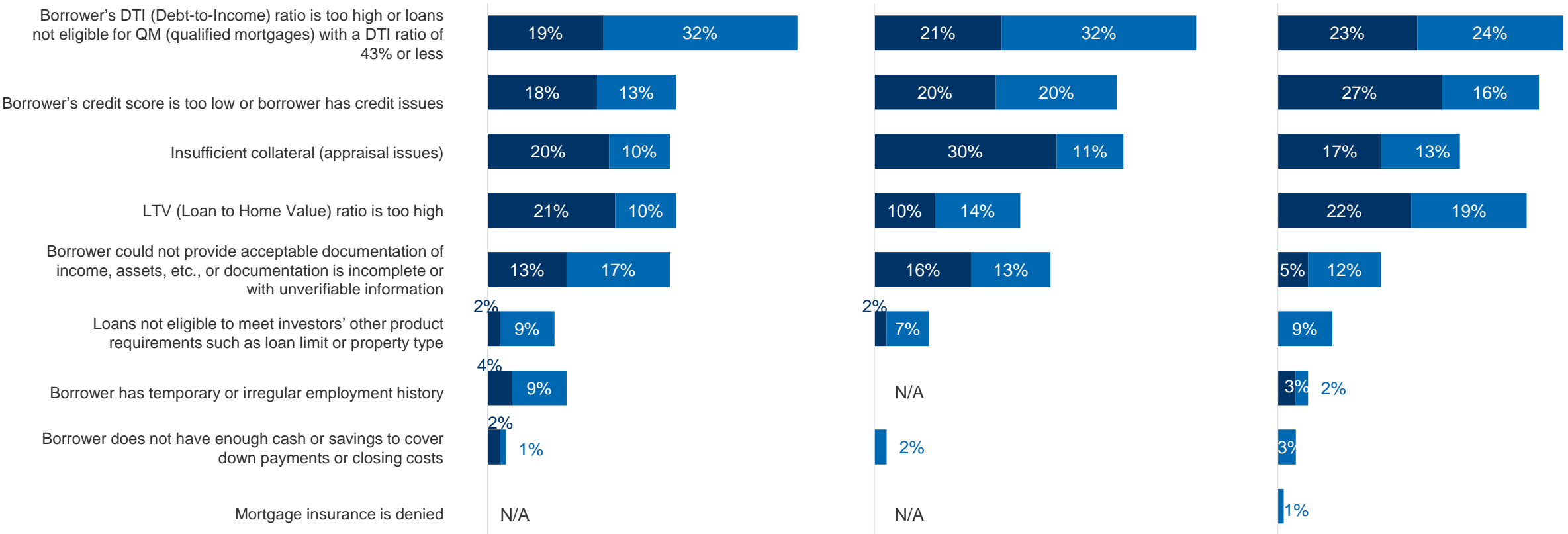


Reasons for Denying Single-Family Refinance Mortgage Loan Applications (by lender size)

[IF firm currently originates refinance mortgages] Listed below are some common reasons that lenders deny single-family refinance mortgage loan applications. Please select the two most common reasons at your firm.

Most Common Reason **2nd Most Common Reason**

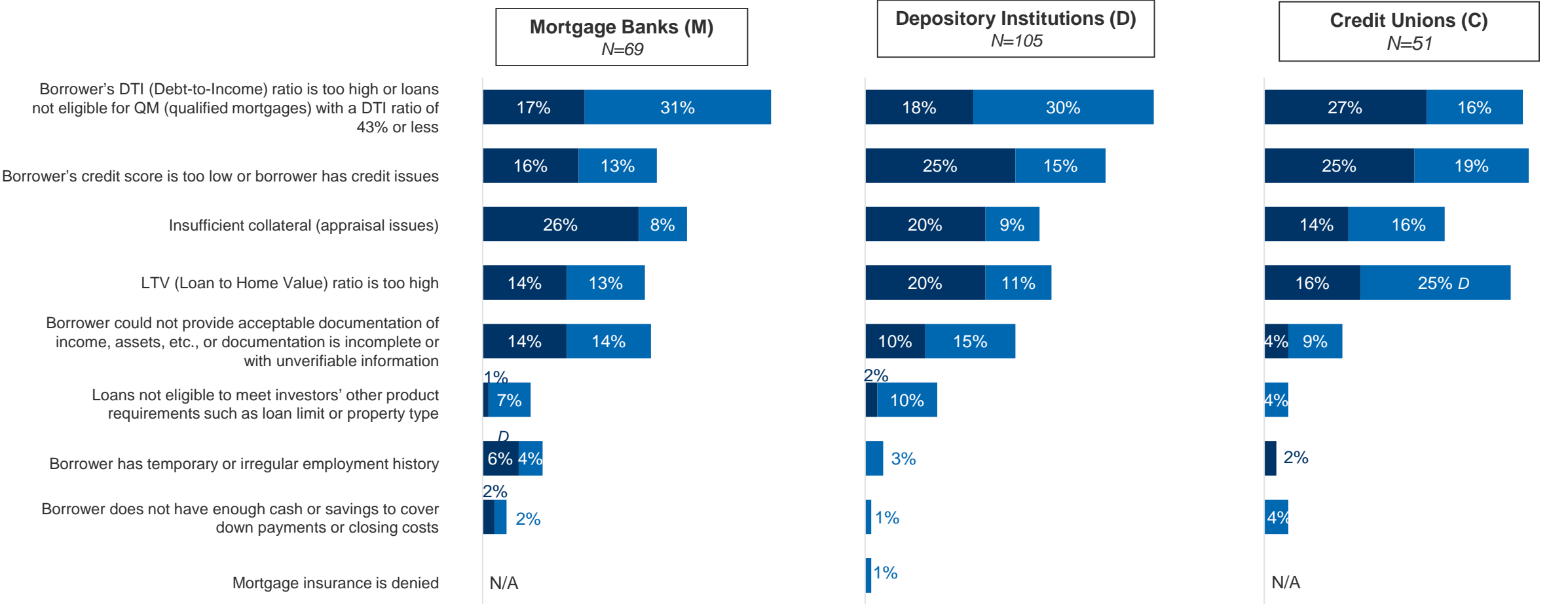
Larger Institutions (L) N=52 **Mid-sized Institutions (M)** N=66 **Smaller Institutions (S)** N=114



Reasons for Denying Single-Family Refinance Mortgage Loan Applications (by lender type)

[IF firm currently originates refinance mortgages] Listed below are some common reasons that lenders deny single-family refinance mortgage loan applications. Please select the two most common reasons at your firm.

Most Common Reason **2nd Most Common Reason**



M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

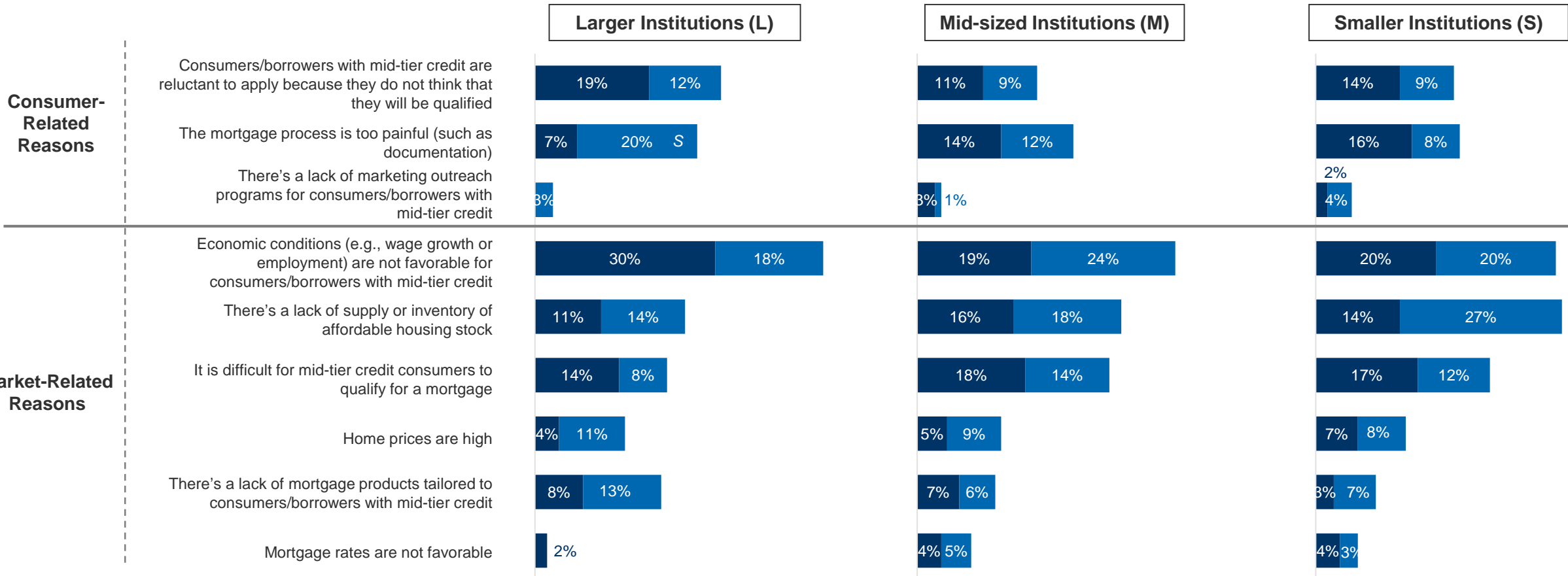
Appendix

CONSUMER SEGMENTS

Reasons for Weak Purchase Mortgage Demand Among Consumers with Mid-Tier Credit (by lender size)

There has been some discussion about “increasing access to credit” to mid-tier credit consumers with 680-740 credit scores. Which of the following factors do you think account for a relatively weak purchase mortgage demand among borrowers with mid-tier credit (680-740 credit scores)? Please select **up to two** of the most important factors and rank them in order of importance.

Most Common Reason **2nd Most Common Reason**

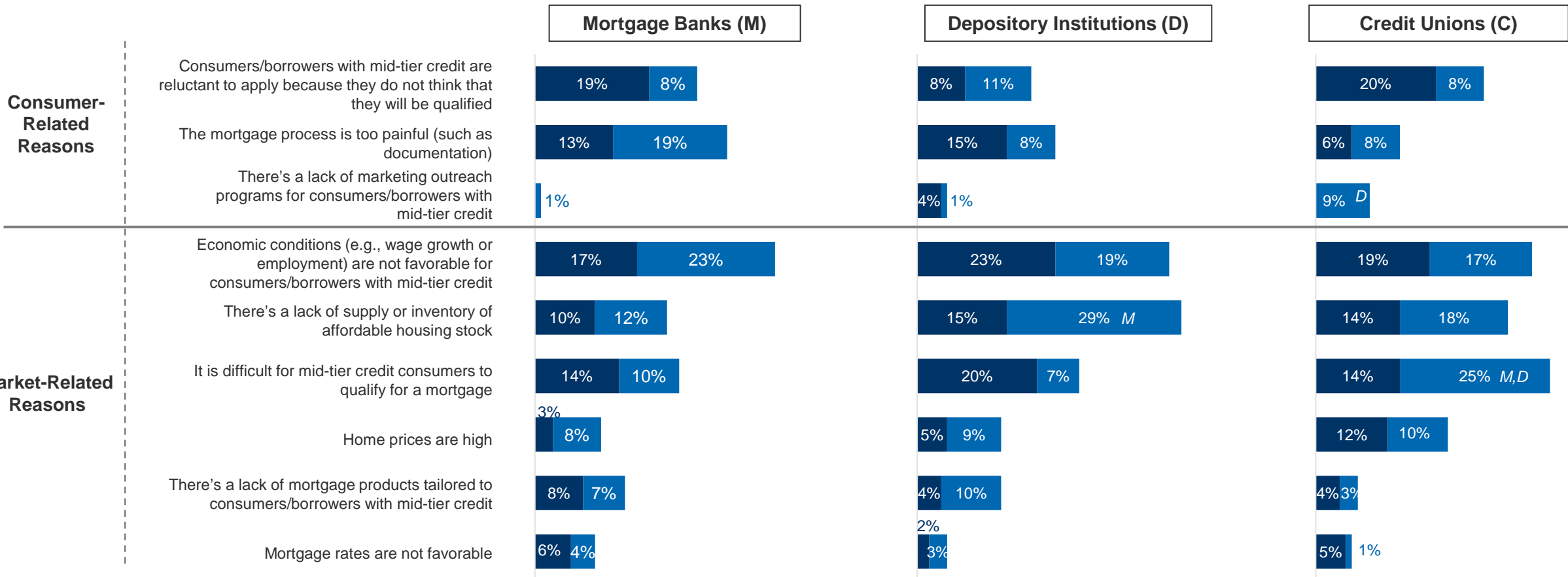


L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level

Reasons for Weak Purchase Mortgage Demand Among Consumers with Mid-Tier Credit (by lender type)

There has been some discussion about “increasing access to credit” to mid-tier credit consumers with 680-740 credit scores. Which of the following factors do you think account for a relatively weak purchase mortgage demand among borrowers with mid-tier credit (680-740 credit scores)? Please select **up to two** of the most important factors and rank them in order of importance.

Most Common Reason **2nd Most Common Reason**

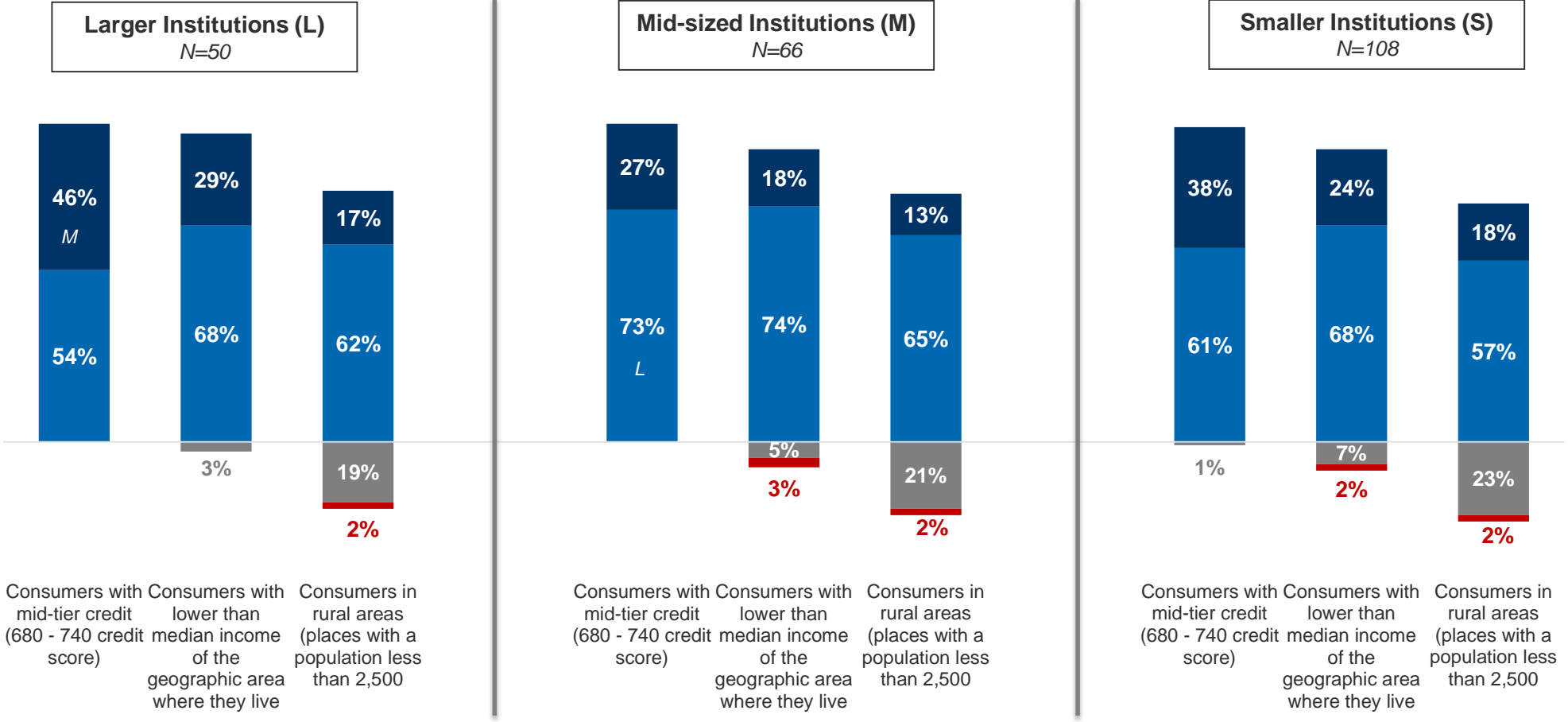


M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

Consumer Segments (by lender size)

[IF originate purchase mortgages directly with consumers] Listed below are three common consumer segments. For each consumer segment, please indicate whether your firm plans to do more or do less business with each segment this year.

- Do More
- Status Quo (no major changes)
- My firm rarely focuses on this segment
- Do Less

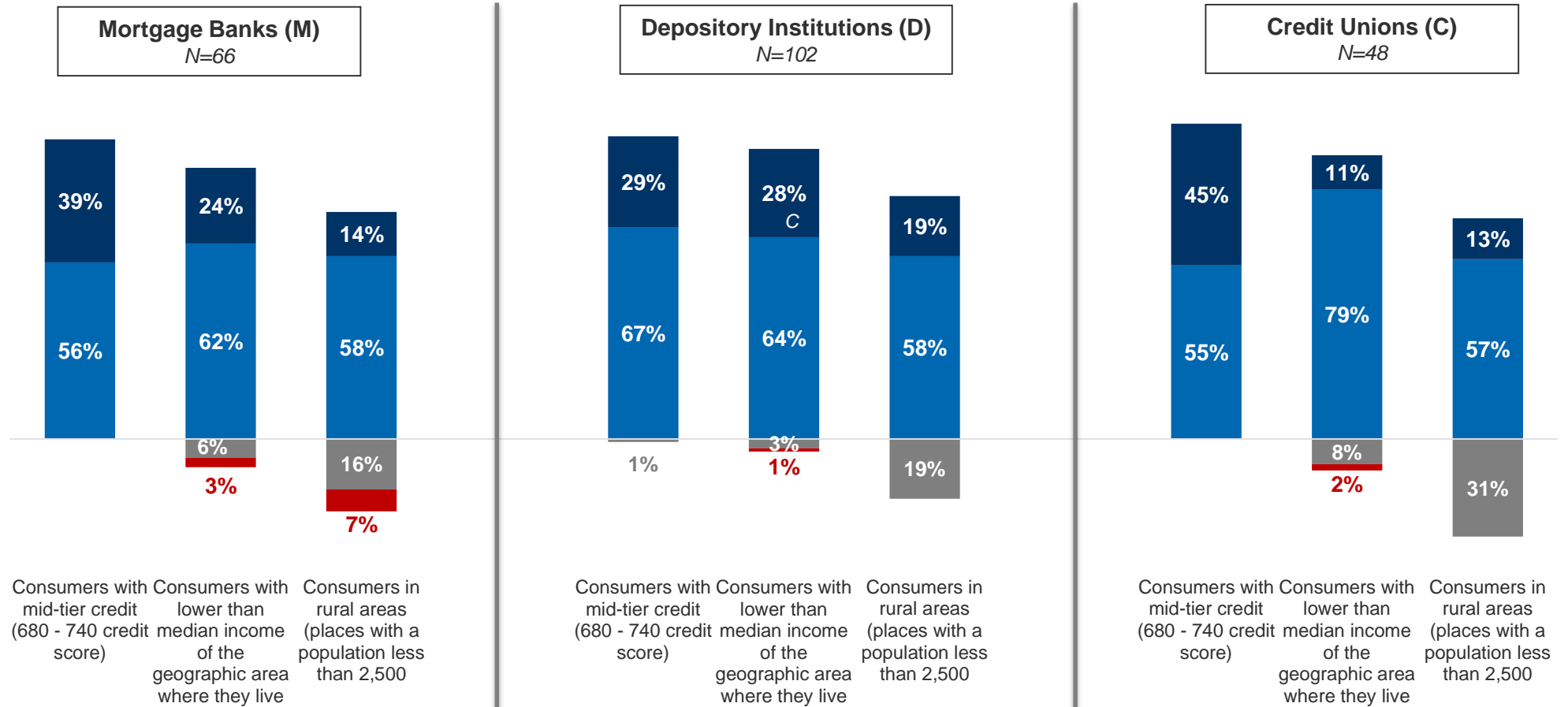


L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level

Consumer Segments (by lender type)

[IF originate purchase mortgages directly with consumers] Listed below are three common consumer segments. For each consumer segment, please indicate whether your firm plans to do more or do less business with each segment this year.

- Do More
- Status Quo (no major changes)
- My firm rarely focuses on this segment
- Do Less



M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

Reasons Lenders Might NOT Focus on Certain Consumer Segments (by lender size)

[IF firm does less/rarely focuses on any segment] Listed below are some possible reasons that lenders might NOT focus on the consumer segments listed above. Please select **up to two** of the most likely reasons for your firm and rank them in order of likelihood.

Most Common Reason **2nd Most Common Reason**

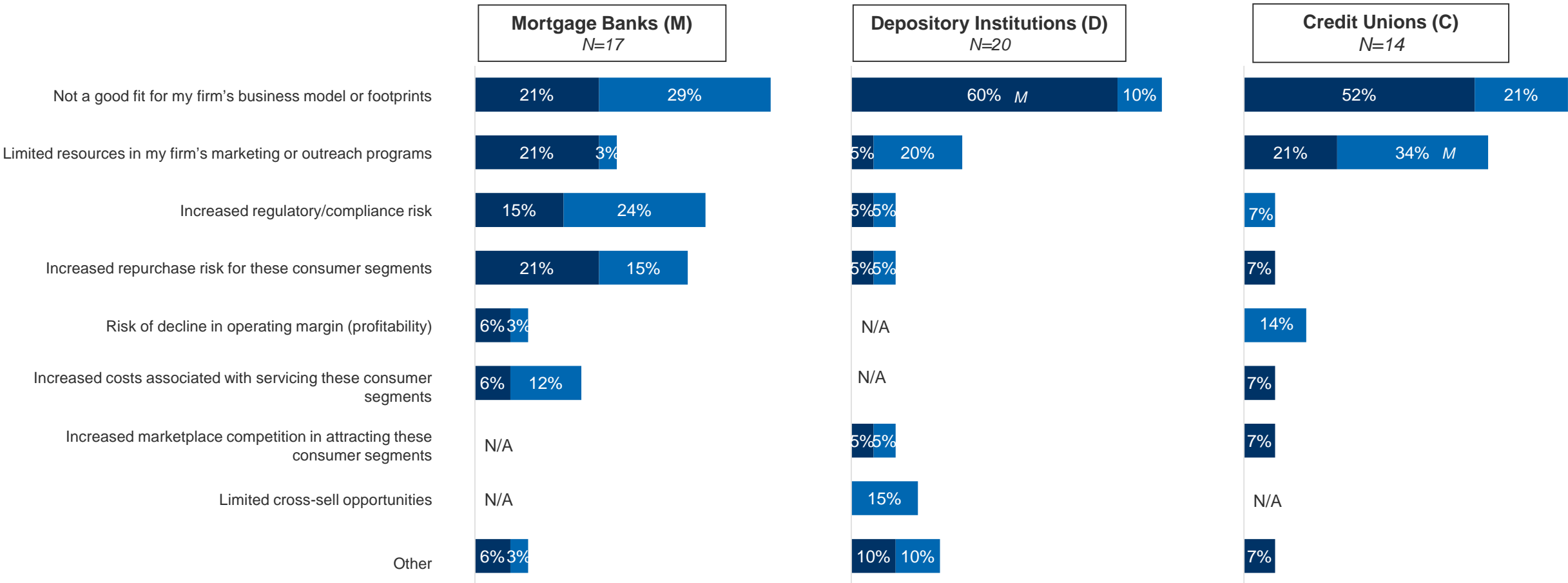


Due to small sample sizes, results should be interpreted with caution

Reasons Lenders Might NOT Focus on Certain Consumer Segments (by lender type)

[IF firm does less/rarely focuses on any segment] Listed below are some possible reasons that lenders might NOT focus on the consumer segments listed above. Please select **up to two** of the most likely reasons for your firm and rank them in order of likelihood.

Most Common Reason **2nd Most Common Reason**



M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level

Due to small sample sizes, results should be interpreted with caution

Question Text

Loan Denial Rate and Reasons

gR72. Please indicate below whether your firm originates single-family purchase or refinance mortgages

qR73. *[IF QR72a=Yes; firm originates purchase mortgages]* Approximately what was the loan **denial (disqualify)** rate of single-family purchase mortgage applications at your firm over the past year?

gR74. *[IF QR72a=Yes; firm originates purchase mortgages]* Listed below are some common reasons that lenders deny single-family purchase mortgage loan applications. Please select the two most common reasons at your firm.

- LTV (Loan to Home Value) ratio is too high
- Insufficient collateral (appraisal issues)
- Borrower's DTI (Debt-to-Income) ratio is too high or loans not eligible for QM (qualified mortgages) with a DTI ratio of 43% or less
- Borrower's credit score is too low or borrower has credit issues
- Borrower has temporary or irregular employment history
- Borrower does not have enough cash or savings to cover down payments or closing costs
- Borrower could not provide acceptable documentation of income, assets, etc., or documentation is incomplete or with unverifiable information
- Mortgage insurance is denied
- Loans not eligible to meet investors' other product requirements such as loan limit or property type
- Other

qR75. *[IF QR72b=Yes; firm originates refinance mortgages]* Approximately what was the loan **denial (disqualify)** rate of single-family refinance mortgage applications at your firm over the past year?

gR76. *[IF QR72b=Yes; firm originates refinance mortgages]* Listed below are some common reasons that lenders deny single-family refinance mortgage loan applications. Please select two most common reasons at your firm.

- LTV (Loan to Home Value) ratio is too high
- Insufficient collateral (appraisal issues)
- Borrower's DTI (Debt-to-Income) ratio is too high or loans not eligible for QM (qualified mortgages) with a DTI ratio of 43% or less
- Borrower's credit score is too low or borrower has credit issues
- Borrower has temporary or irregular employment history
- Borrower does not have enough cash or savings to cover down payments or closing costs
- Borrower could not provide acceptable documentation of income, assets, etc., or documentation is incomplete or with unverifiable information
- Mortgage insurance is denied
- Loans not eligible to meet investors' other product requirements such as loan limit or property type
- Other

Question Text

Credit Overlays

qR77. Does your firm securitize or sell mortgage loans with/to Fannie Mae, Freddie Mac or Ginnie Mae?

qR78. Does your firm securitize or sell mortgage loans to investors or aggregators other than the GSEs and Ginnie Mae?

qR79. *[IF QR77=Yes; firm delivers loans to GSEs or Fannie Mae]* You mentioned that your firm securitizes or sells mortgage loans with/to Fannie Mae, Freddie Mac or Ginnie Mae. Does your firm apply credit overlays that are more stringent than what Fannie Mae, Freddie Mac or Ginnie Mae require?

qR80. *[IF QR79=Yes; firm applies credit overlays]* Approximately what percent of your annual single-family mortgage origination loan count does your firm apply credit overlays?

qR81. *[IF QR79=Yes; firm applies credit overlays]* What type of overlay does your firm apply most often?

- Higher credit scores
- Lower LTV ratio
- Lower DTI ratio
- Additional documentation
- Restrictions on property type
- Limitations on sources of funds permitted for down payment and closing costs
- Other

qR82. *[IF QR79=Yes; firm applies credit overlays]* Does your firm apply the same credit overlay criteria across investors so that all loans will be eligible for sale to all investors? Or does your firm apply specific credit overlays that depend on the investor to which your firm intends to sell the loan?

qR83. Does your firm originate or acquire loans through wholesale channels such as mortgage brokers or correspondent channels?

qR84. *[IF QR83=Yes; firm originates loans through wholesale channels]* Does your firm apply credit overlays when originating or acquiring loans through wholesale channels?

qR85. *[IF QR84=Yes; firm applies credit overlays]* What type of overlay does your firm apply most often?

- Higher credit scores
- Lower LTV ratio
- Lower DTI ratio
- Additional documentation
- Restrictions on property type
- Limitations on sources of funds permitted for down payment and closing costs
- Other

qR86. *[IF QR84=Yes; firm applies credit overlays]* What is the primary reason your firm requires credit overlays when originating or acquiring loans through wholesale channels?

- To reduce repurchase risks when selling to investors
- To reduce compliance risks
- To reduce risks or costs associated with purchasing and servicing loans that have higher default risks
- To better manage operational complexity by focusing on certain credit segments
- Other

Question Text

Access to Credit

gR87. There has been some discussion about “increasing access to credit” to mid-tier credit consumers with 680-740 credit scores. Which of the following factors do you think account for a relatively weak purchase mortgage demand among borrowers with mid-tier credit (680-740 credit scores)? Please select **up to two** of the most important factors and rank them in order of importance.

- Consumers/borrowers with mid-tier credit are reluctant to apply because they do not think that they will be qualified.
- The mortgage process is too painful (such as documentation).
- There’s a lack of marketing outreach programs for consumers/borrowers with mid-tier credit.
- Economic conditions (e.g., wage growth or employment) are not favorable for consumers/borrowers with mid-tier credit.
- It is difficult for mid-tier credit consumers to qualify for a mortgage.
- Mortgage rates are not favorable.
- Home prices are high.
- There’s a lack of supply or inventory of affordable housing stock.
- There’s a lack of mortgage products tailored to consumers/borrowers with mid-tier credit.
- Other

qR88. Does your firm originate purchase mortgages directly with consumers or directly interact with borrowers/consumers when originating purchase mortgages?

gR89. *[IF QR88=Yes; firm originates purchase mortgages directly with consumers]* Listed below are three common consumer segments. For each consumer segment, please indicate whether your firm plans to do more or do less business with each segment this year.

- Consumers with mid-tier credit (680 - 740 credit score)
- Consumers with lower than median income of the geographic area where they live
- Consumers in rural areas (places with a population less than 2,500)

qR90. Listed below are some possible reasons that lenders might NOT focus on the consumer segments listed above. Please select **up to two** of the most likely reasons for your firm and rank them in order of likelihood.

- Risk of decline in operating margin (profitability)
- Increased repurchase risk for these consumer segments
- Increased marketplace competition in attracting these consumer segments
- Increased regulatory/compliance risk
- Increased costs associated with servicing these consumer segments
- Limited cross-sell opportunities
- Limited resources in my firm’s marketing or outreach programs
- Not a good fit for my firm’s business model or footprints
- Other

qR91. Please share any thoughts you have about what would make your firm or other firms more likely to do more business with the three consumer segments listed in the previous question.

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