



Fannie Mae™

Mortgage Lender Sentiment Survey®

Providing Insights Into Current Lending Activities and Market Expectations

Q2 2016 Summary Report

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Key indicators suggest lenders remain cautiously positive.

Consumer Demand (Purchase Mortgages)

- The share of lenders reporting net demand growth for purchase mortgages over the prior three months is close to this time last year (Q2 2015). Net demand growth expectations for the next three months also remain near levels seen a year ago.

Consumer Demand (Refinance Mortgages)

- Lenders reported a significant increase from last quarter (Q1 2016) in net demand growth for refinance mortgages across all loan types over the prior three months. But, expectations for demand for the next three months decreased dramatically since last quarter (Q1 2016), likely reflecting the uncertainty of the Federal Reserve's rate decision.

Credit Standards

- Lenders continue to report net easing of credit standards, albeit moderate, across all loan types over the prior three months. However, net easing expectations for the next three months have gradually ticked downward since Q4 2015 across all loan types, with about 90 percent of lenders reporting plans to keep their credit standards unchanged.



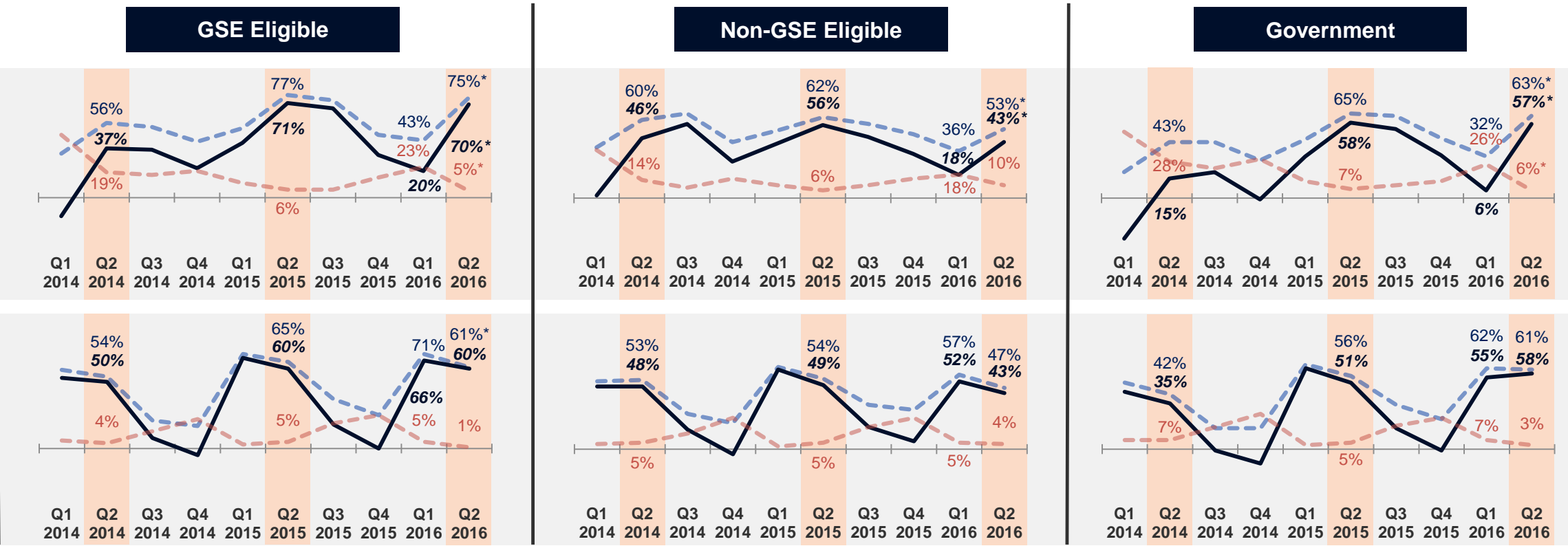
Purchase Mortgage Demand

The share of lenders reporting net demand growth for purchase mortgages over the prior three months is close to this time last year (Q2 2015). Net demand growth expectations for the next three months also remain near levels seen a year ago, falling somewhat for non-GSE eligible mortgages but ticking upwards for government loans.



Past 3 Months

Next 3 Months



Net Up + = % of lenders saying up minus % of lenders saying down
The % saying "stay the same" is not shown

* Denotes a statistically significant change compared with Q1 2016 (previous quarter)
^ Denotes a statistically significant change compared with Q2 2015 (same quarter of last year)

Q: Over the past three months, apart from normal seasonal variation, did your firm's consumer demand for single-family purchase mortgages go up, go down, or stay the same? "Up" = Went up significantly + Went up somewhat, "Down" = Went down significantly + Went down somewhat
Q: Over the next three months, apart from normal seasonal variation, do you expect your firm's consumer demand for single-family purchase mortgages to go up, go down, or stay the same? "Up" = Go up significantly + Go up somewhat, "Down" = Go down significantly + Go down somewhat



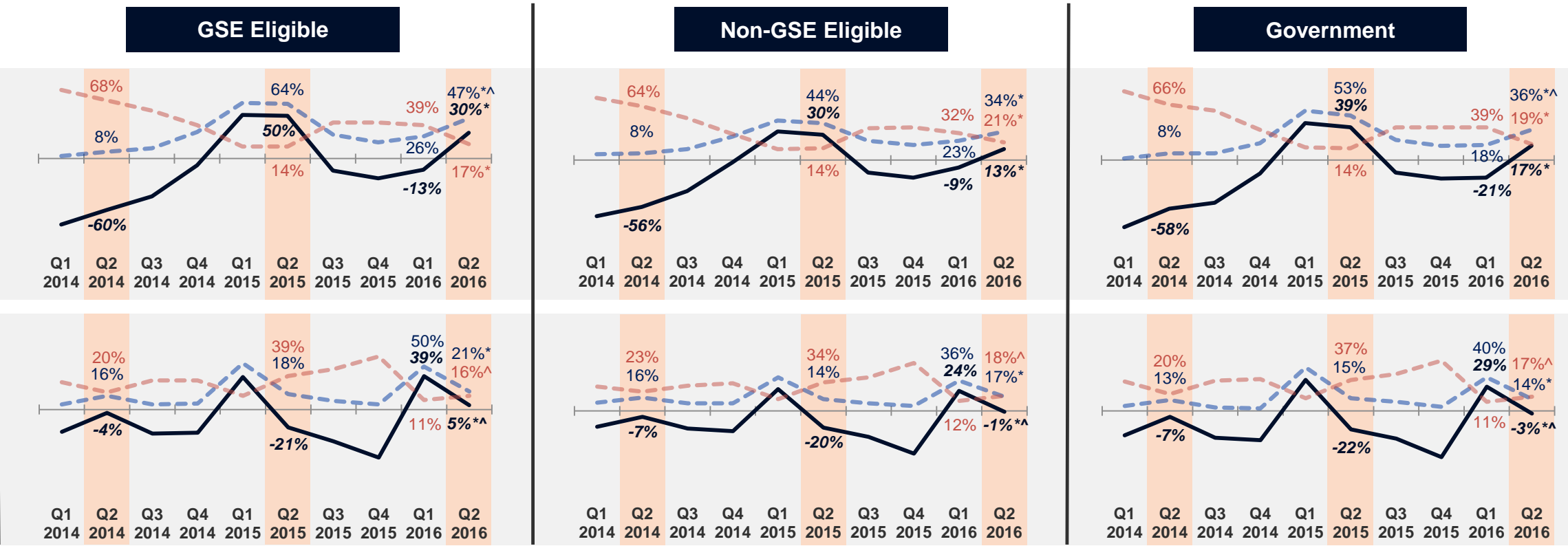
Refinance Mortgage Demand

Lenders reported a significant increase in net demand growth for refinance mortgages across all loan types over the prior three months, from last quarter (Q1 2016). But, expectations for demand for the next three months decreased dramatically since last quarter (Q1 2016), likely reflecting the uncertainty of the Federal Reserve's rate decision.



Past 3 Months

Next 3 Months



Net Up + = % of lenders saying up minus % of lenders saying down
The % saying "stay the same" is not shown

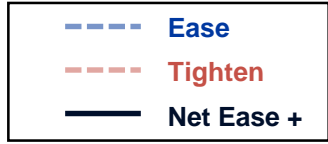
* Denotes a statistically significant change compared with Q1 2016 (previous quarter)
^ Denotes a statistically significant change compared with Q2 2015 (same quarter of last year)

Q: Over the past three months, apart from normal seasonal variation, did your firm's consumer demand for single-family refinance mortgages go up, go down, or stay the same? "Up" = Went up significantly + Went up somewhat, "Down" = Went down significantly + Went down somewhat
Q: Over the next three months, apart from normal seasonal variation, do you expect your firm's consumer demand for single-family refinance mortgages to go up, go down, or stay the same? "Up" = Go up significantly + Go up somewhat, "Down" = Go down significantly + Go down somewhat



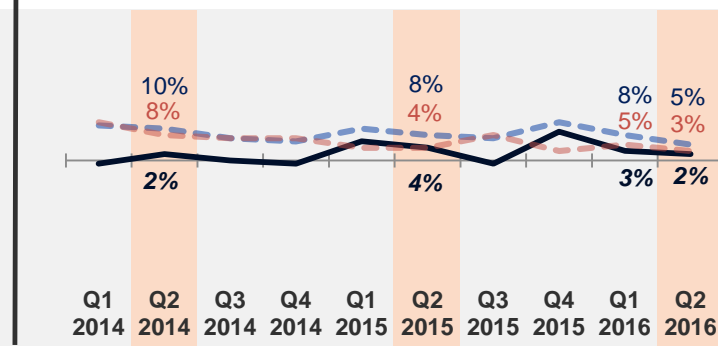
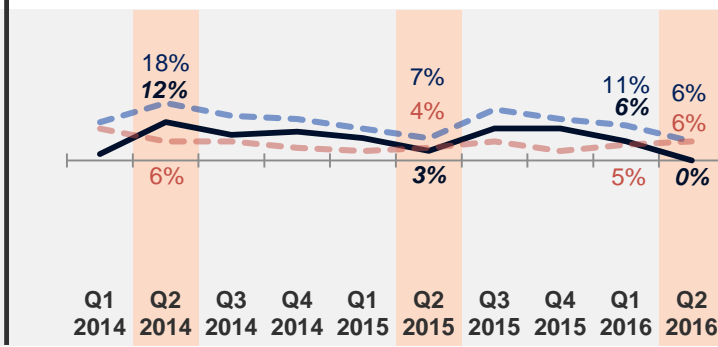
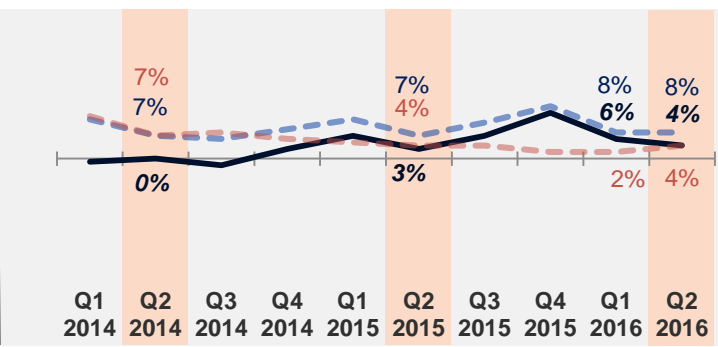
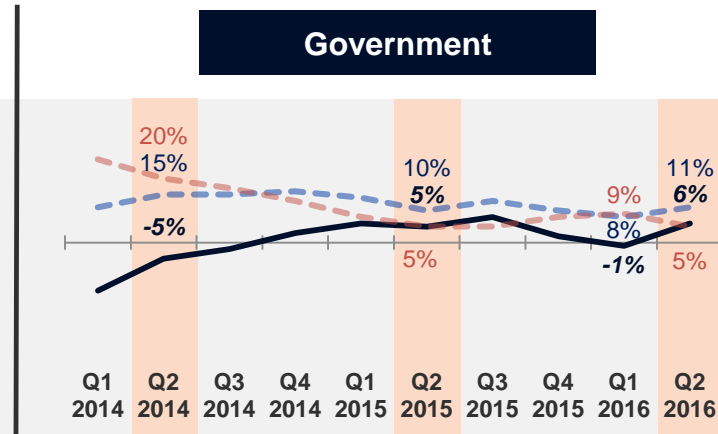
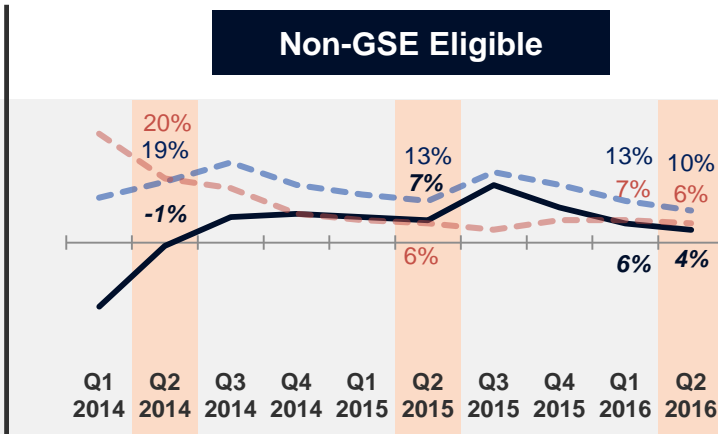
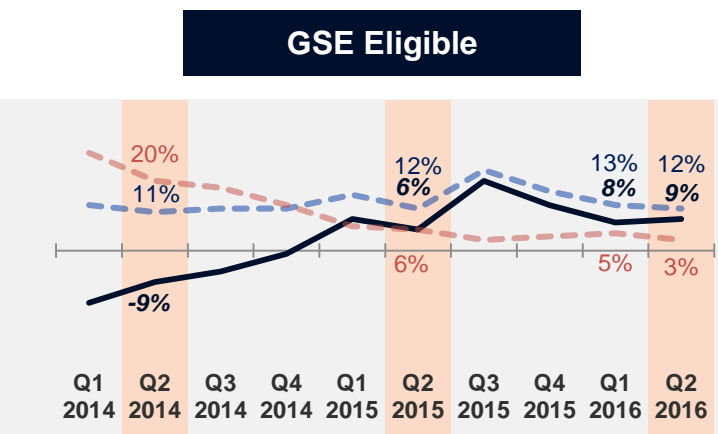
Credit Standards

Lenders reported a moderate net easing of credit standards across all loan types over the prior three months. In contrast, net easing expectations for the next three months have gradually ticked downward since Q4 2015, across all loan types, with about 90 percent of lenders reporting plans to keep their credit standards unchanged.



Past 3 Months

Next 3 Months



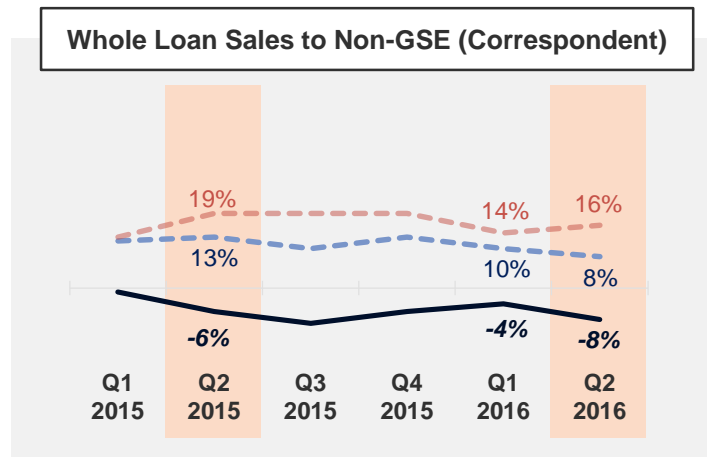
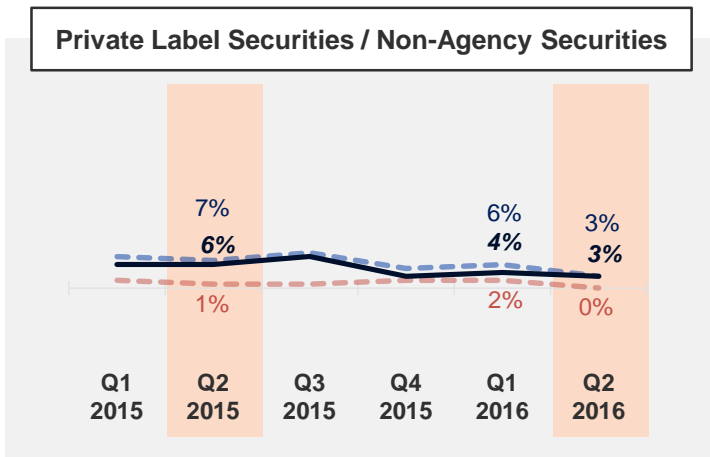
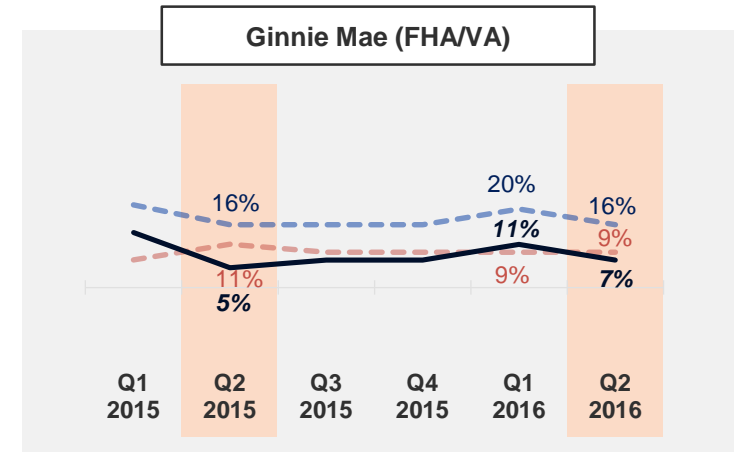
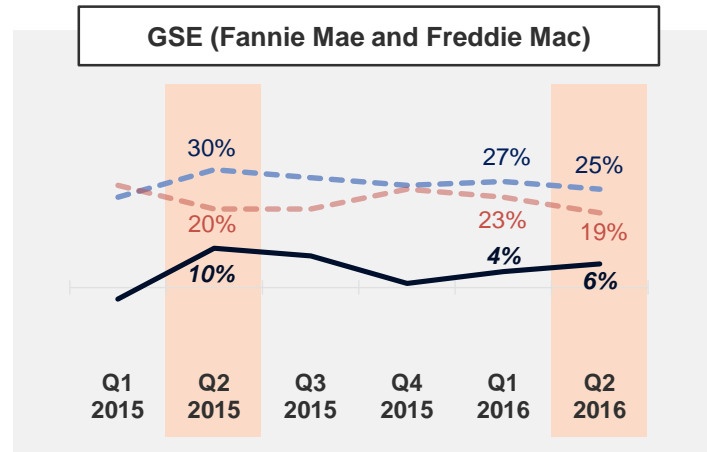
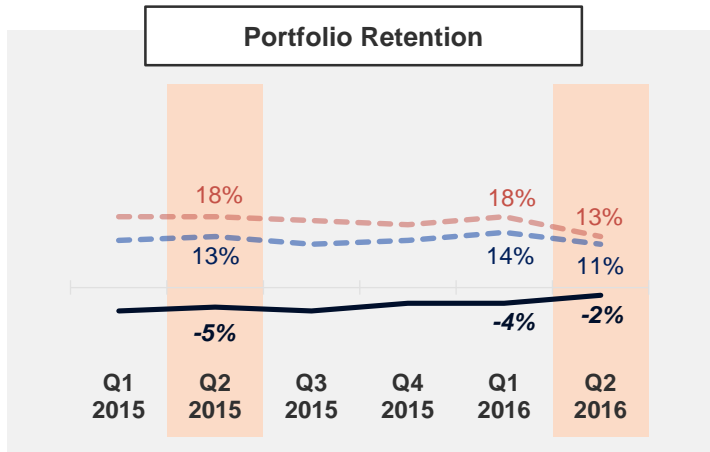
Net Ease + = % of lenders saying ease minus % of lenders saying tighten
 The % saying "remain unchanged" is not shown
 * Denotes a statistically significant change compared with Q1 2016 (previous quarter)
 ^ Denotes a statistically significant change compared with Q2 2015 (same quarter of last year)

Q: Over the past three months, how did your firm's credit standards for approving consumer applications for mortgage loans change (across both purchase mortgages and refinance mortgages)? "Ease" = Eased considerably + Eased somewhat, "Tighten" = Tightened somewhat + Tightened considerably
 Q: Over the next three months, how do you expect your firm's credit standards for approving applications from individuals for mortgage loans to change (across purchase mortgages and refinance mortgages)? "Ease" = Ease considerably + Ease somewhat, "Tighten" = Tighten somewhat + Tighten considerably



Mortgage Execution Outlook – Over Next 12 Months

Lenders are expecting more overall stability in their mortgage execution strategy: The proportion of lenders reporting expectations to keep the share of originations sold to each channel unchanged increased somewhat from last quarter for each channel, except for whole loan sales to non-GSE correspondents (see Appendix).



- - - Increase
 - - - Decrease
 — Net Increase +

Net Increase + = % of lenders saying increase minus % of lenders saying decrease
 The % saying "about the same" is not shown

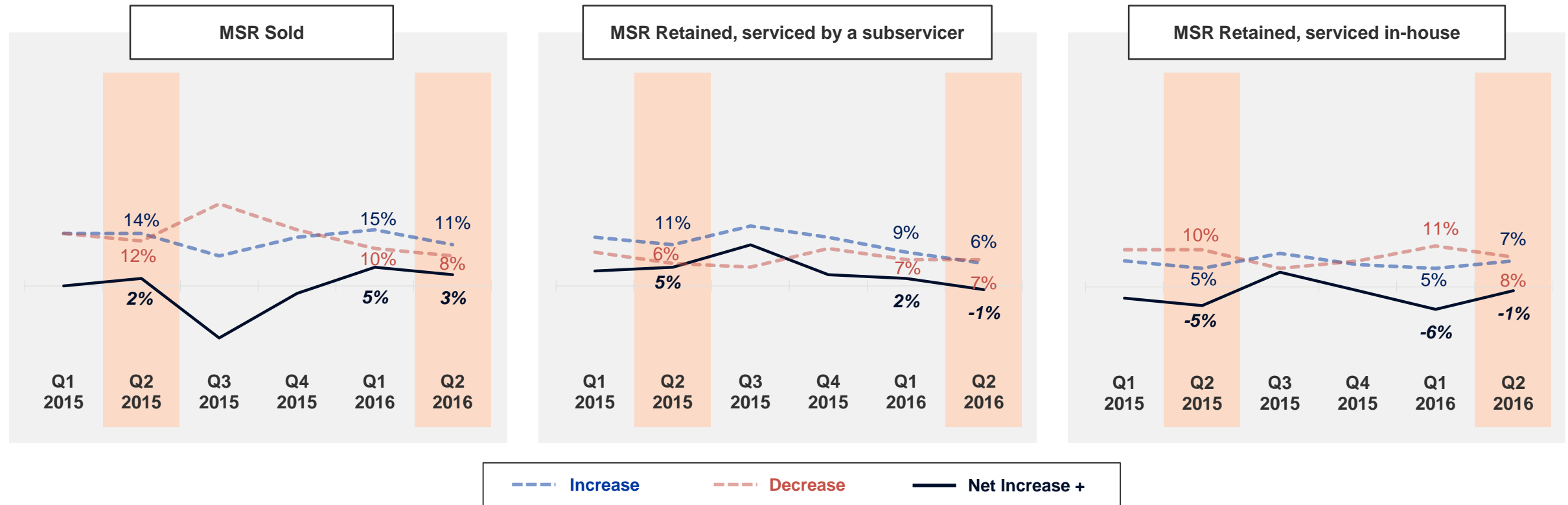
Whether an institution reported increase/decrease/stay the same was based on the difference to their responses to the following 2 questions:
 Q: Approximately, what percent of your firm's total mortgage originations goes to each of the following categories?
 Q: Looking forward, what percent of your firm's total mortgage originations over the next year will go to each of the following categories?

* Denotes a statistically significant change compared with Q1 2016 (previous quarter)
 ^ Denotes a statistically significant change compared with Q2 2015 (same quarter of last year)



Mortgage Servicing Rights Execution Outlook

Lenders are expecting more overall stability in their MSR execution strategy: The share of lenders reporting expectations to keep their MSR execution strategy unchanged over the next 12 months has gradually increased since Q4 2015.



- - - Increase
 - - - Decrease
 — Net Increase +

Whether an institution reported increase/decrease/stay the same was based on the difference to their responses to the following 2 questions:
 Q: Approximately, what percent of your mortgage servicing rights (MSR) goes to each of the following categories?
 Q: Looking forward, what percent of your firm's mortgage servicing rights (MSR) over the next year will go to each of the following categories?

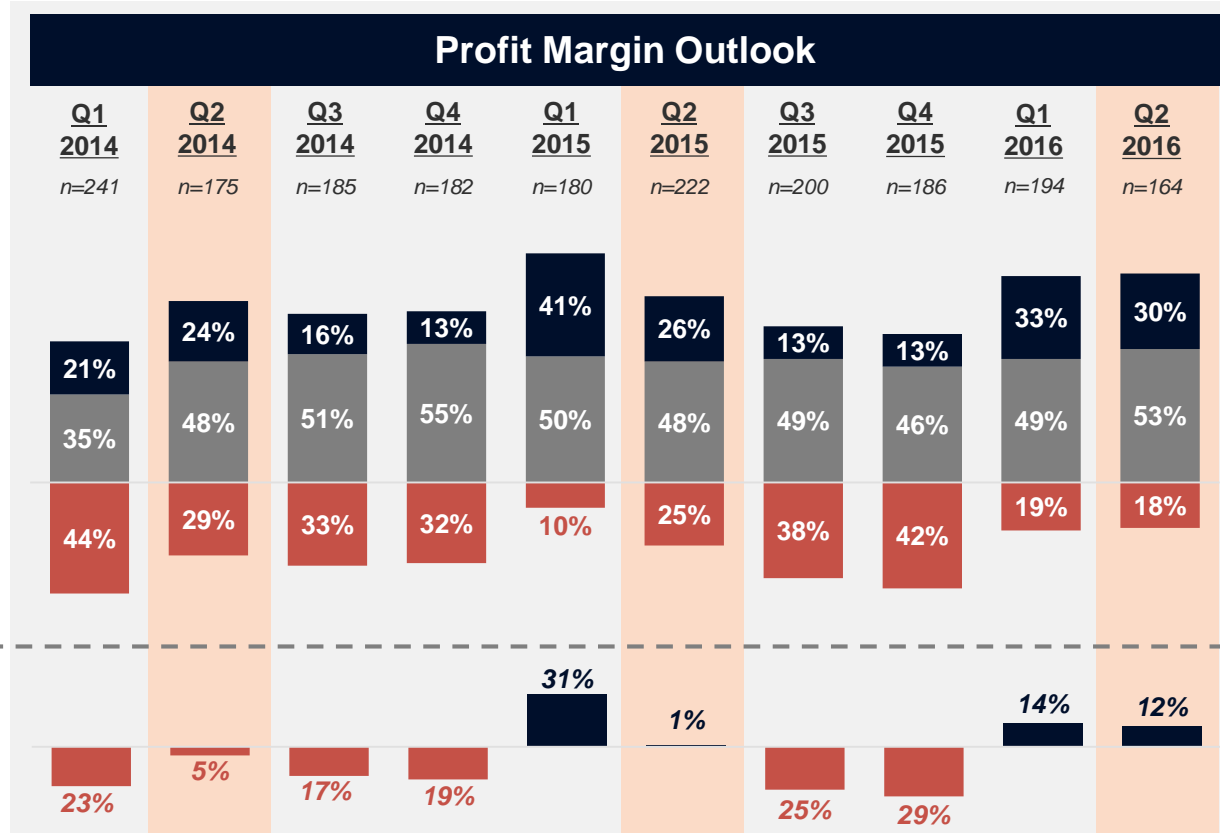
Net Increase + = % of lenders saying increase minus % of lenders saying decrease
 The % saying "about the same" is not shown

* Denotes a statistically significant change compared with Q1 2016 (previous quarter)
 ^ Denotes a statistically significant change compared with Q2 2015 (same quarter of last year)



Lenders' Profit Margin Outlook – Next 3 Months

Lenders reported a net positive profit margin outlook for a second-straight quarter, representing a moderate increase from this time last year (Q2 2015). Lenders expecting increased profit margins cite rising consumer demand and higher operational efficiency as the key reasons, while those expecting lower profits point primarily to government regulatory compliance.



Key Reasons for Expected Increase – Q2 2016

Consumer demand	69%
Operational efficiency (i.e. technology)	42%
Market trend changes (i.e. shift from refinance to purchase)	33%
Staffing (personnel costs) reduction	12%
Less competition from other lenders	11%

Showing data for selected answer choices only. n=49

Key Reasons for Expected Decrease – Q2 2016

Government regulatory compliance	67%
Competition from other lenders	44%
GSE pricing and policies	22%
Government monetary or fiscal policy	16%
Staffing (personnel costs)	12%

Showing data for selected answer choices only. n=29

Q: Over the next three months, how much do you expect your firm's profit margin to change for its single-family mortgage production? [Showing: (Substantially Increase (25+ basis points) + Moderately Increase (5 - 25 basis points)), About the same (0 - 5 basis points), (Moderately Decrease (5 - 25 basis points) + Substantially Decrease (25+ basis points))]
 Q: What do you think will drive the increase (decrease) in your firm's profit margin over the next three months? Please select up to two of the most important reasons.

* Denotes a statistically significant change compared with Q1 2016 (previous quarter)
 ^ Denotes a statistically significant change compared with Q2 2015 (same quarter of last year)



Mortgage Lender Sentiment Survey®

Background

- The Fannie Mae Mortgage Lender Sentiment Survey is a quarterly online survey of senior executives of Fannie Mae's lending institution partners to provides insights and benchmarks that help mortgage industry professionals understand industry and market trends and assess their own business practices.

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 3,000 senior executives among Fannie Mae's approved lenders are invited to participate in the study.

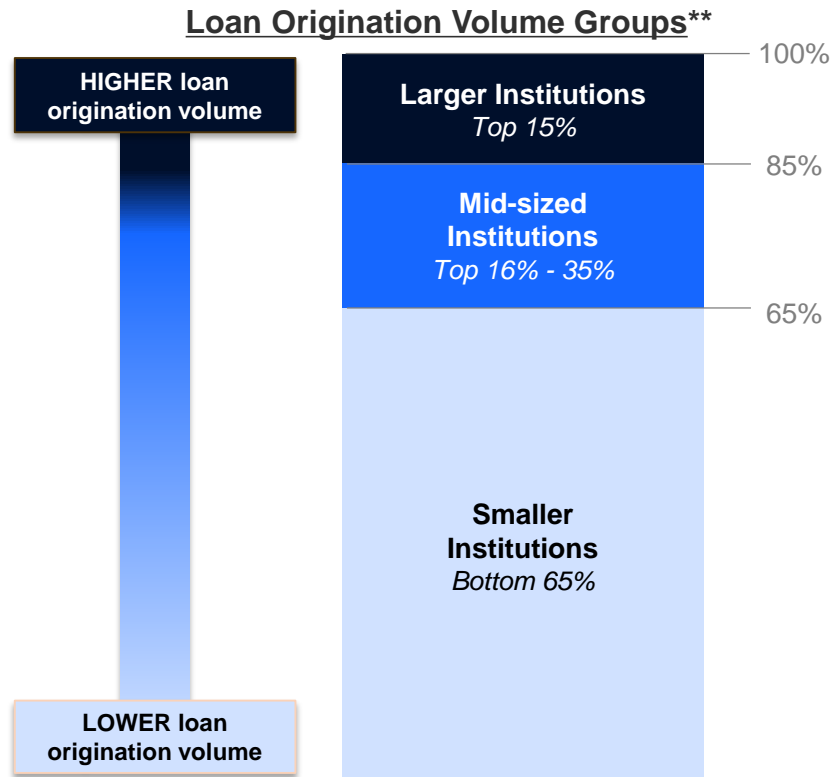
Data Weighting

- 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.



Q2 2016 Respondent Sample and Groups

For Q2 2016, a total of 191 senior executives completed the survey from May 4-16, representing 169 lending institutions.*



Sample Q2 2016		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.		169
Loan Origination Volume Groups	Larger Institutions Fannie Mae's customers whose 2015 total industry loan origination volume was in the top 15% (above \$631 million)	57
	Mid-sized Institutions Fannie Mae's customers whose 2015 total industry loan origination volume was in the next 20% (16%-35%) (between \$176 million to \$631 million)	54
	Smaller Institutions Fannie Mae's customers whose 2015 total industry loan origination volume was in the bottom 65% (less than \$176 million)	58
Institution Type***	Mortgage Banks (non-depository)	65
	Depository Institutions	63
	Credit Unions	34

* 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 2015 total loan volume per lender used here includes the best available annual origination information from Fannie Mae, Freddie Mac, and Marketrac.

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



Sample Sizes

		Q1 2014		Q2 2014		Q3 2014		Q4 2014		Q1 2015		Q2 2015		Q3 2015		Q4 2015		Q1 2016		Q2 2016	
		Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error
Total Lending Institutions		247	±5.65%	186	±6.69%	196	±6.48%	192	±6.56%	197	±6.51%	238	±6.22%	209	±6.30%	194	±6.58%	205	±6.72%	169	± 7.12%
Loan Origination Volume Groups	Larger Institutions	46	±12.77%	47	±12.60%	50	±12.10%	49	±12.11%	58	±11.11%	55	±12.91%	55	±11.64%	59	±11.03%	57	±12.64%	57	±11.28%
	Mid-sized Institutions	51	±12.41%	50	±12.56%	55	±11.84%	56	±11.70%	50	±12.68%	68	±11.55%	83	±9.39%	59	±11.48%	68	±11.53%	54	±12.13%
	Smaller Institutions	150	±7.31%	89	±9.86%	91	±9.74%	87	±9.98%	89	±9.91%	115	±8.97%	71	±11.21%	76	±10.81%	80	±10.82%	58	±12.50%
Institution Type	Mortgage Banks	38	±14.61%	47	±12.84%	57	±11.34%	48	±12.66%	53	±12.07%	71	±11.22%	78	±9.53%	71	±10.15%	63	±11.96%	65	±10.78%
	Depository Institutions	121	±8.14%	84	±10.07%	75	±10.73%	83	±10.13%	95	±9.43%	105	±9.39%	81	±10.31%	75	±10.76%	88	±10.29%	63	±11.84%
	Credit Unions	72	±10.39%	50	±12.91%	52	±12.62%	49	±13.07%	40	±14.77%	52	±13.35%	43	±14.18%	39	±14.98%	47	±14.07%	34	±16.16%

2014

Q1 was fielded between March 4, 2014 and March 18, 2014
 Q2 was fielded between May 28, 2014 and June 8, 2014
 Q3 was fielded between August 6, 2014 and August 23, 2014
 Q4 was fielded between November 5, 2014 and November 24, 2014

2015

Q1 was fielded between February 4, 2015 and February 16, 2015
 Q2 was fielded between May 6, 2015 and May 17, 2015
 Q3 was fielded between August 5, 2015 and August 17, 2015
 Q4 was fielded between November 4, 2015 and November 16, 2015

2016

Q1 was fielded between February 3, 2016 and February 16, 2016
 Q2 was fielded between May 4, 2016 and May 16, 2016



2016 Q2 Cross-Subgroup Sample Sizes

	Total	Larger Lenders	Mid-Sized Lenders	Smaller Lenders
Total	169	57	54	58
Mortgage Banks (non-depository)	65	31	28	6
Depository Institutions	63	21	17	25
Credit Unions	34	0	7	27



2016 Q2 Sample Sizes: Consumer Demand

Purchase Mortgages:

	Past 3 Months			Next 3 Months		
	GSE Eligible	Non-GSE Eligible	Government	GSE Eligible	Non-GSE Eligible	Government
Total Lending Institutions	166	148	132	166	150	132
Larger Institutions	57	50	54	57	51	54
Mid-sized Institutions	52	47	46	52	48	46
Smaller Institutions	56	51	31	57	51	31

Refinance Mortgages:

	Past 3 Months			Next 3 Months		
	GSE Eligible	Non-GSE Eligible	Government	GSE Eligible	Non-GSE Eligible	Government
Total Lending Institutions	164	145	124	164	146	124
Larger Institutions	56	50	53	56	50	53
Mid-sized Institutions	50	44	44	50	45	44
Smaller Institutions	57	51	26	57	51	26



2016 Q2 Sample Sizes: Credit Standards

	Past 3 Months			Next 3 Months		
	GSE Eligible	Non-GSE Eligible	Government	GSE Eligible	Non-GSE Eligible	Government
Total Lending Institutions	166	149	131	166	149	131
Larger Institutions	57	52	54	57	52	54
Mid-sized Institutions	52	46	46	52	46	46
Smaller Institutions	57	51	31	57	51	31



Loan Type Definition

Questions about consumer mortgage demand and credit standards are asked across three loan types: GSE eligible, Non-GSE eligible, and Government loans.

Loan Type Definition Used in the Survey	
Loan Type	Definition
GSE Eligible Loans	GSE Eligible Mortgages are defined as mortgages meeting the underwriting guidelines, including loan limit amounts, of the Government-Sponsored Enterprises (GSEs) (Fannie Mae and Freddie Mac). Government loans are excluded from this category.
Non-GSE Eligible Loans	Non-GSE Eligible Mortgages are defined as mortgages that do not meet the GSE guidelines for purchase. These loans typically require larger down payments and typically carry higher interest rates than GSE loans. Government loans are excluded from this category.
Government Loans	Government Mortgages primarily include Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) insured loans but also includes other programs such as Rural Housing Guaranteed and Direct loans.



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:

Over the past three months, apart from normal seasonal variation, did your firm’s consumer demand for single-family <u>purchase</u> mortgages go up, go down, or stay the same? GSE Eligible (Q2 2016)	Larger Institutions	Mid-sized Institutions	Smaller Institutions	Q2 “Total”
Go up	75%	78%	71%	75% [(75% + 78% + 71%)/3]
Stayed the same	23%	18%	20%	20%
Go down	2%	4%	9%	5%

