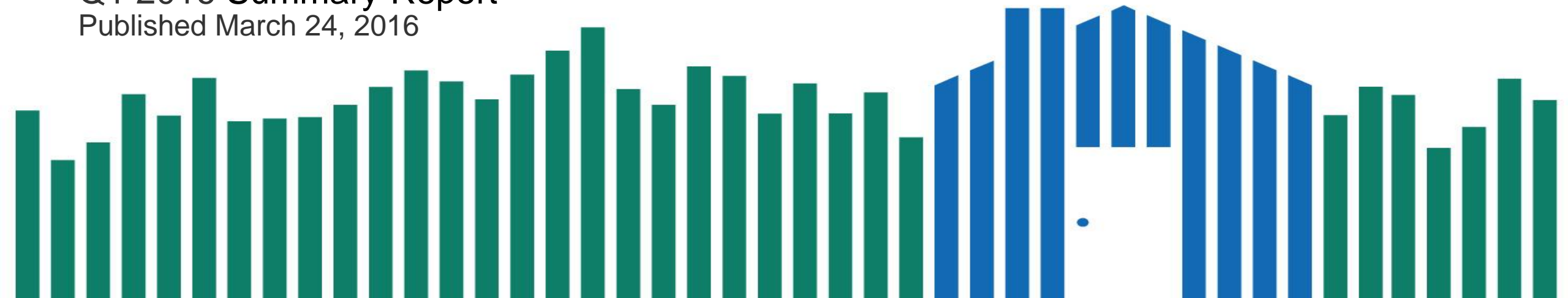


# Mortgage Lender Sentiment Survey<sup>®</sup>

## Providing Insights Into Current Lending Activities and Market Expectations

Q1 2016 Summary Report  
Published March 24, 2016



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## Summary of Key Findings: Credit easing is slowing down.

### Purchase Mortgage Demand

- ❑ The share of lenders reporting net demand growth for purchase mortgages over the prior three months decreased significantly across all loan types from a year ago (Q1 2015), suggesting weakened year-over-year demand growth.
- ❑ For the next-three-months expectations, the share of lenders reporting net demand growth expectations is overall close to this time last year (Q1 2015).

### Refinance Mortgage Demand

- ❑ Lenders reported a net decrease in refinance mortgage demand over the previous three months, representing significant decreases from this time last year (Q1 2015). But expectations for demand over the next three months increased dramatically since last quarter (Q4 2015), likely reflecting the recent trend of lowering interest rates.

### Credit Standards

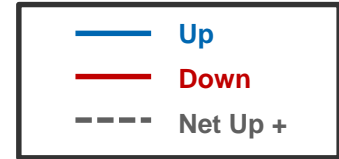
- ❑ The share of lenders reporting easing credit standards on net over the prior three months fell for the second straight quarter.
- ❑ For the next three months, more lenders continue to expect to ease credit standards rather than tighten them for all mortgage types, though easing expectations are lower versus last quarter.

### Mortgage Servicing Rights (MSR)

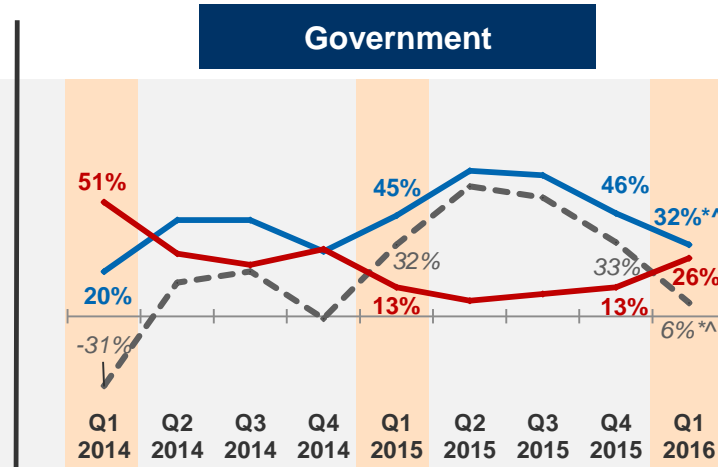
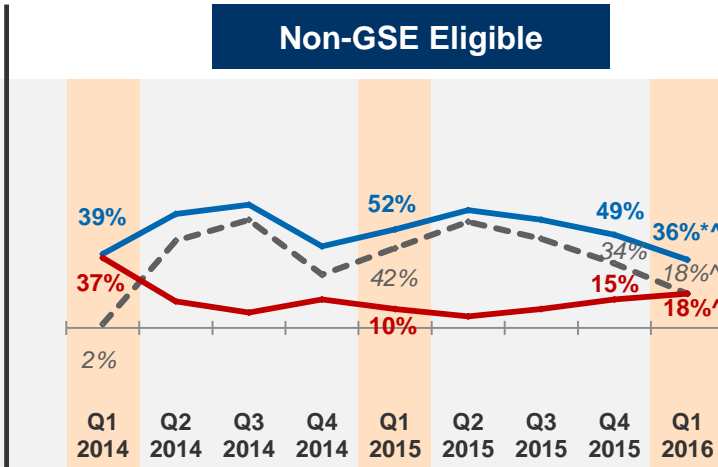
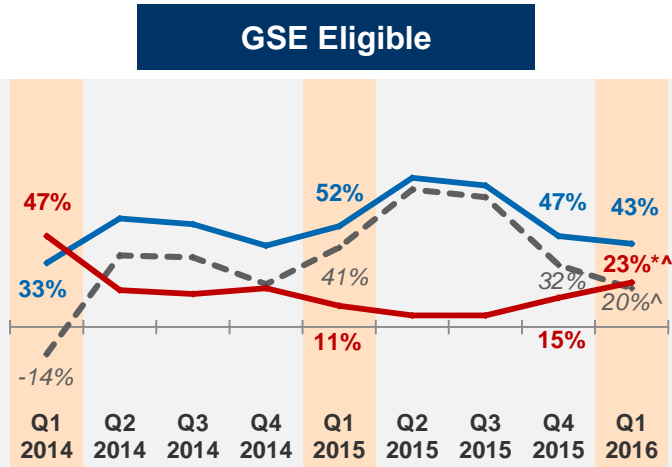
- ❑ More lenders expect to increase rather than decrease the percentage of servicing rights sold, continuing the upward trend from the previous quarter (Q4 2015).

## Purchase Mortgage Demand

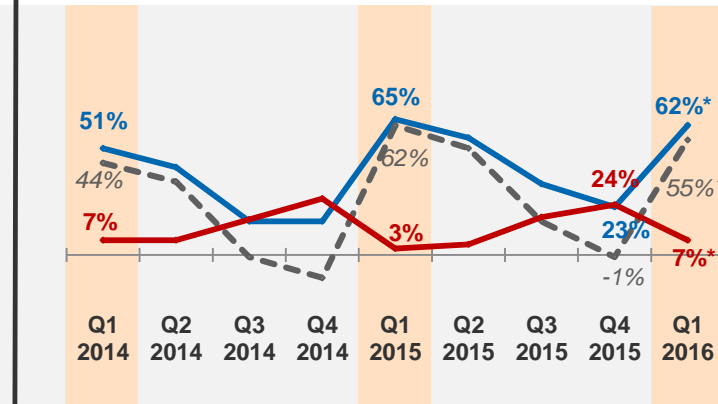
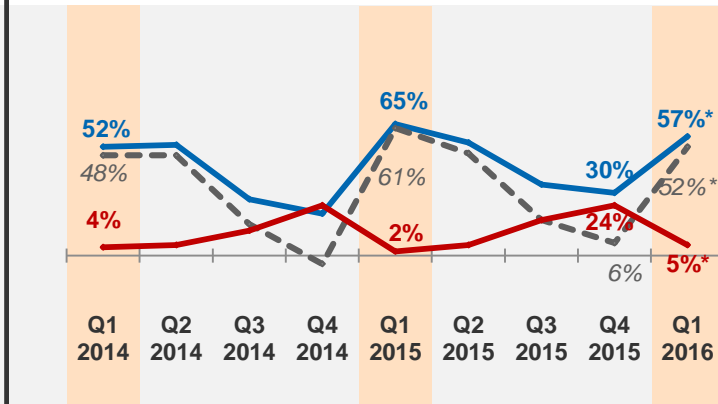
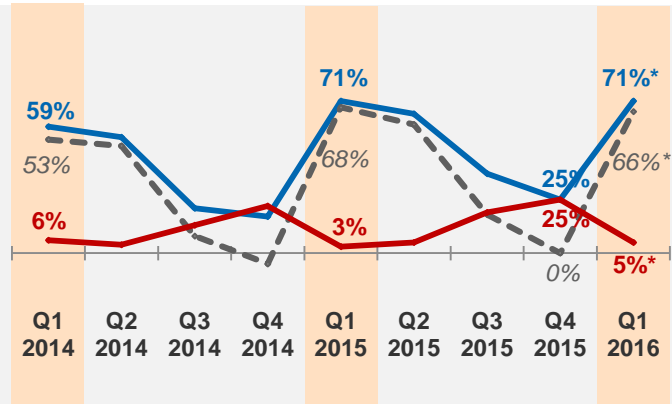
For purchase mortgages, the share of lenders reporting net demand growth over the prior three months decreased significantly across all loan types from a year ago (Q1 2015). For the next-three-month outlook, the share of lenders reporting net demand growth expectations is overall close to this time last year (Q1 2015).



**Past 3 Months**



**Next 3 Months**



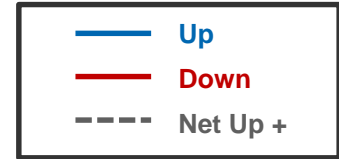
+ Net Up = % of lenders saying up minus % of lenders saying down  
The % saying "stay the same" is not shown

\* Denotes a statistically significant change compared with Q4 2015 (previous quarter)  
^ Denotes a statistically significant change compared with Q1 2016 (same quarter of last year)

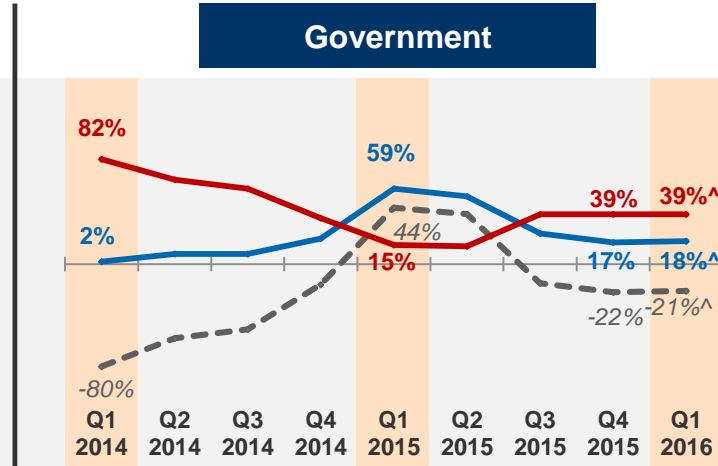
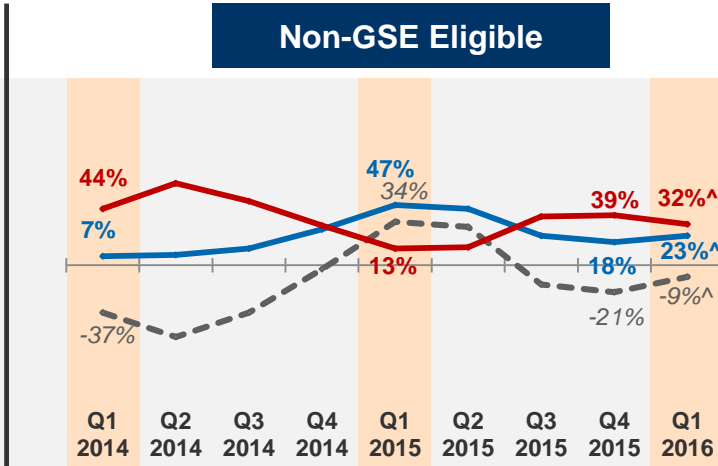
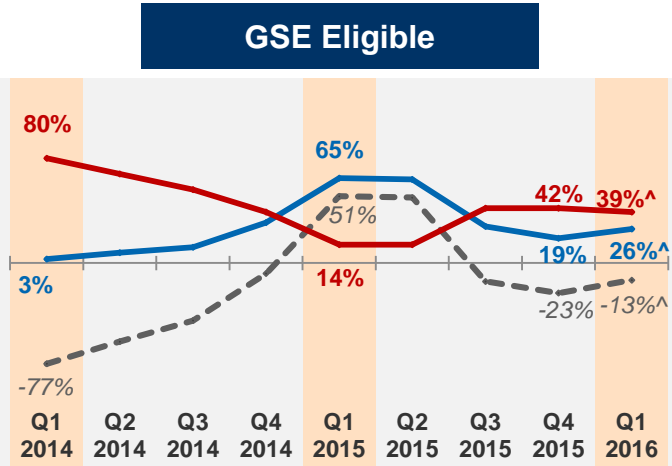
Q: Over the past three months, apart from normal seasonal variation, did your firm's consumer demand for single-family purchase mortgages go up, go down, or stay the same? "Up" = Went up significantly + Went up somewhat, "Down" = Went down significantly + Went down somewhat  
Q: Over the next three months,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

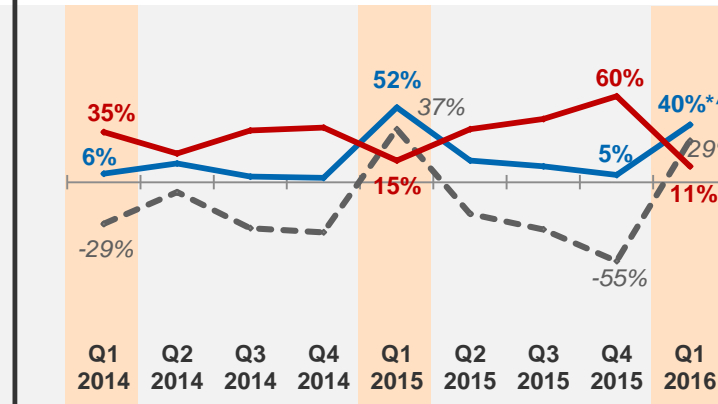
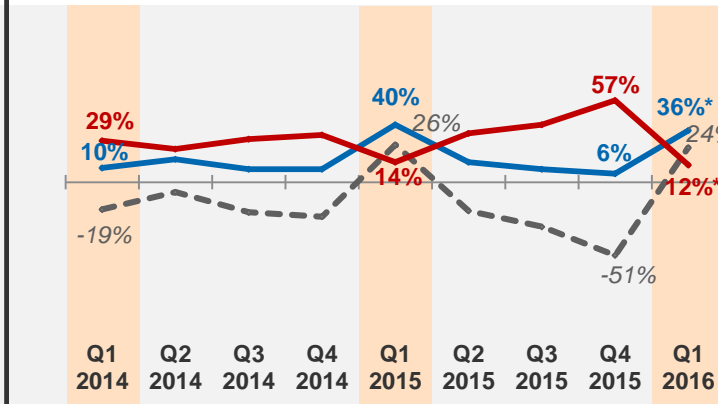
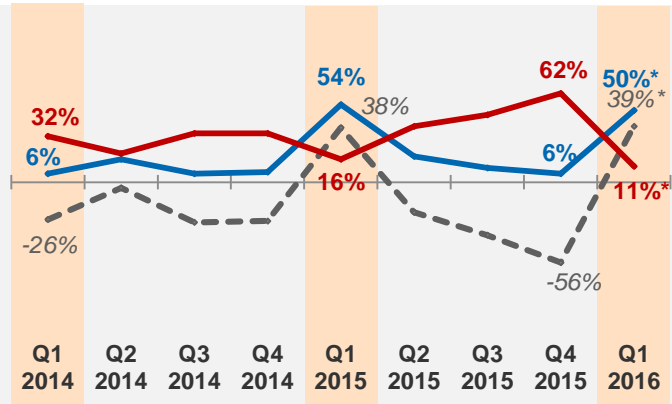
For refinance mortgages, lenders reported a net decrease in refinance mortgage demand over the previous three months, representing significant decreases from this time last year (Q1 2015). But expectations for demand over the next three months increased dramatically since last quarter (Q4 2015), likely reflecting the recent trend of lowering interest rates.



Past 3 Months



Next 3 Months



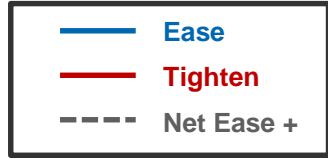
+ Net Up = % of lenders saying up minus % of lenders saying down  
The % saying "stay the same" is not shown

\* Denotes a statistically significant change compared with Q4 2015 (previous quarter)  
^ Denotes a statistically significant change compared with Q1 2016 (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

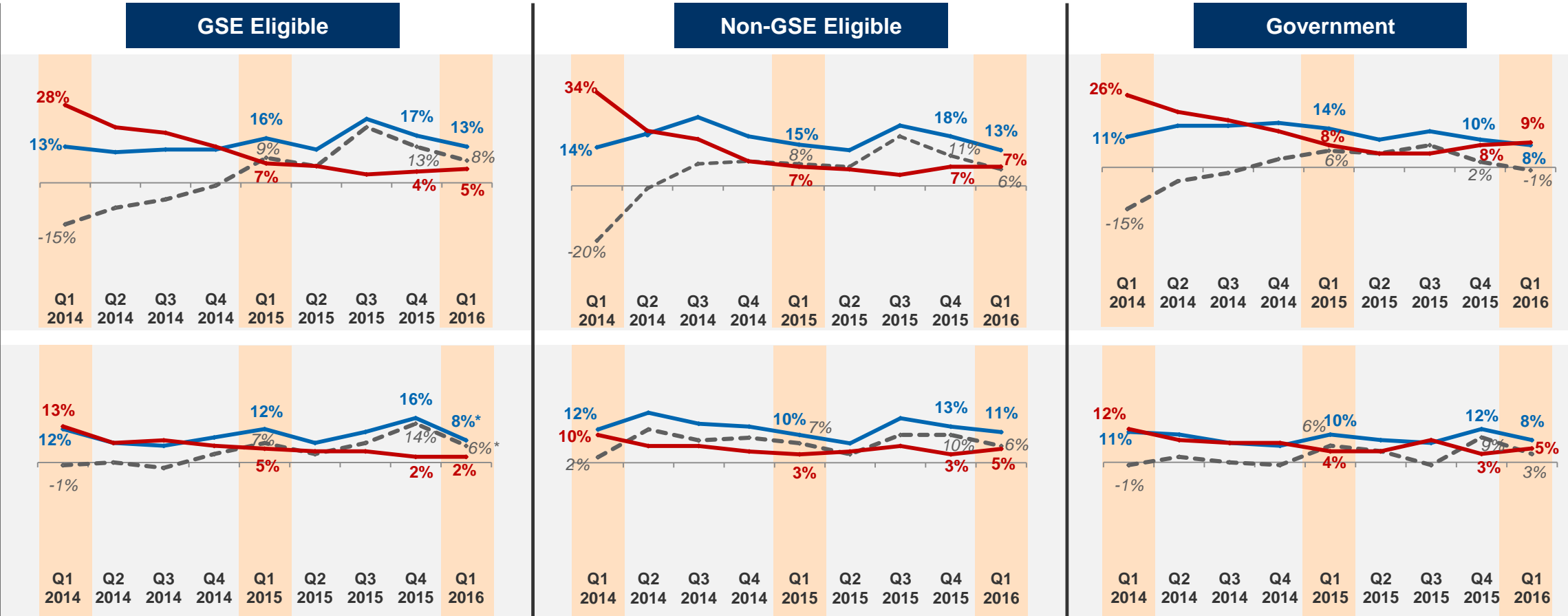
## Credit Standards

The net share of lenders reporting easing rather than tightening credit standards over the prior three months fell for the second straight quarter. Lenders reported a net tightening of credit standards for government loans for the first time since Q3 2014. More lenders still expect to ease credit standards than tighten them over the next three months, though easing expectations are lower versus last quarter.



Past 3 Months

Next 3 Months



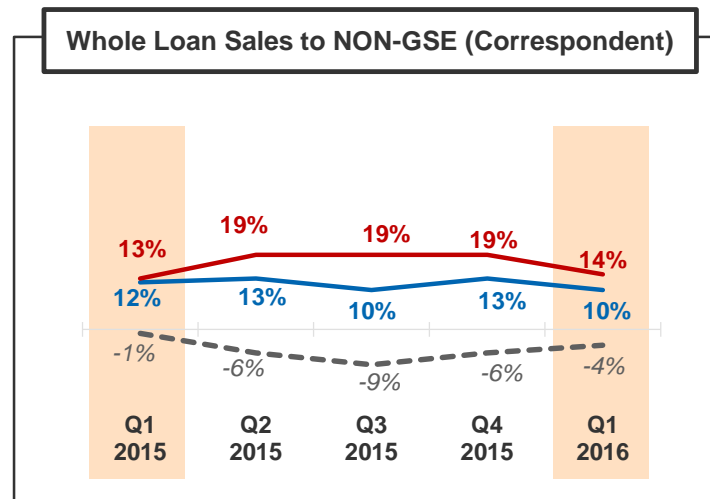
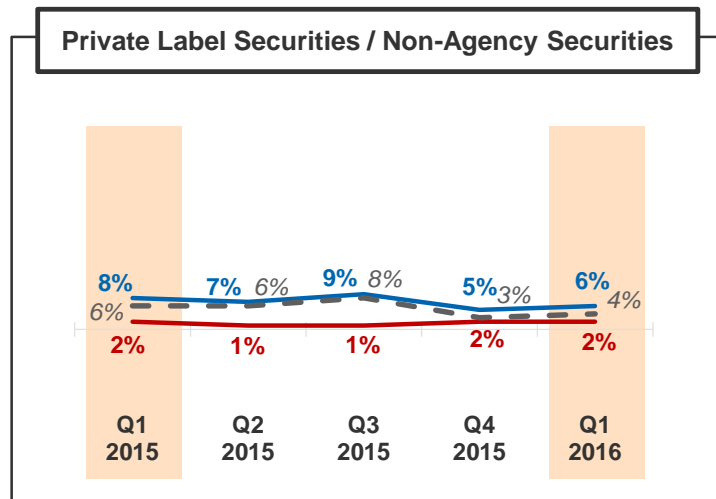
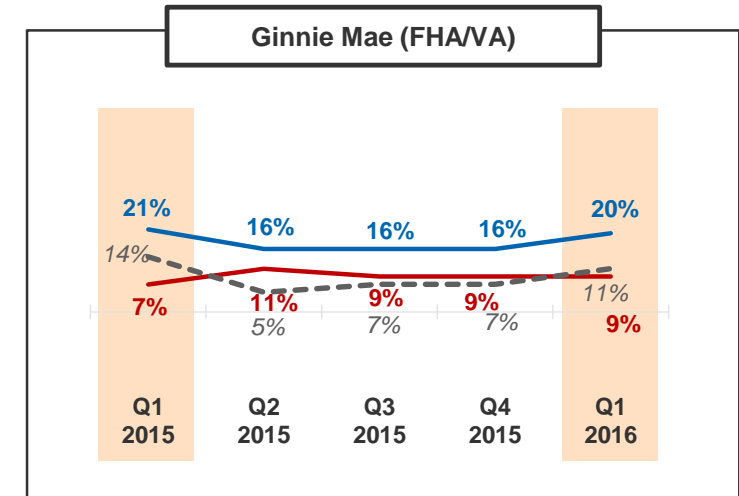
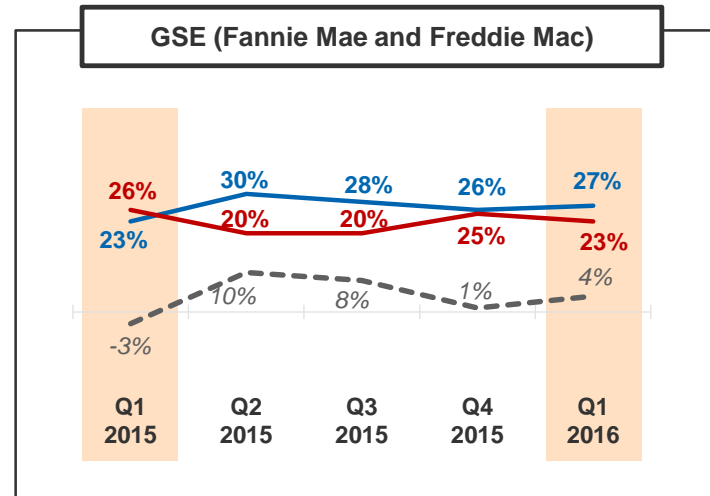
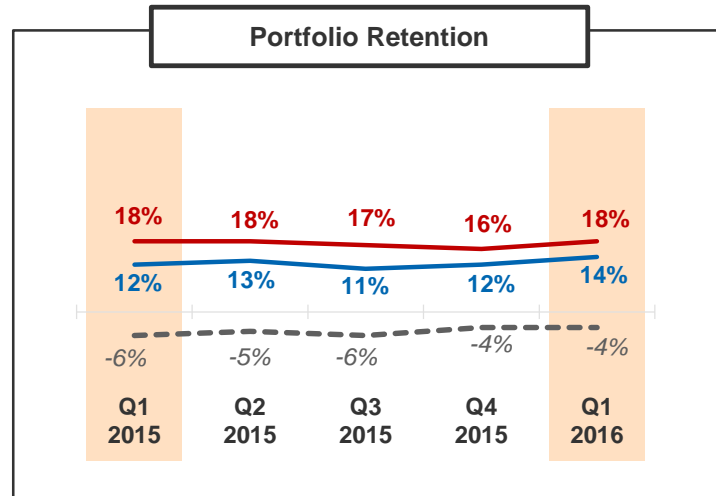
Net Ease = % of lenders saying ease minus % of lenders saying tighten  
The % saying "remain unchanged" is not shown

\* Denotes a statistically significant change compared with Q4 2015 (previous quarter)  
^ Denotes a statistically significant change compared with Q1 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

Continuing 2015 trends, lenders expect to increase rather than decrease the shares of mortgage originations sold to GSEs and Ginnie Mae. Lenders also continue to expect to decrease rather than increase their portfolio retention shares and whole loan sales to non-GSE correspondents over the next 12 months.



— Increase    — Decrease    - - - Net Increase +

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

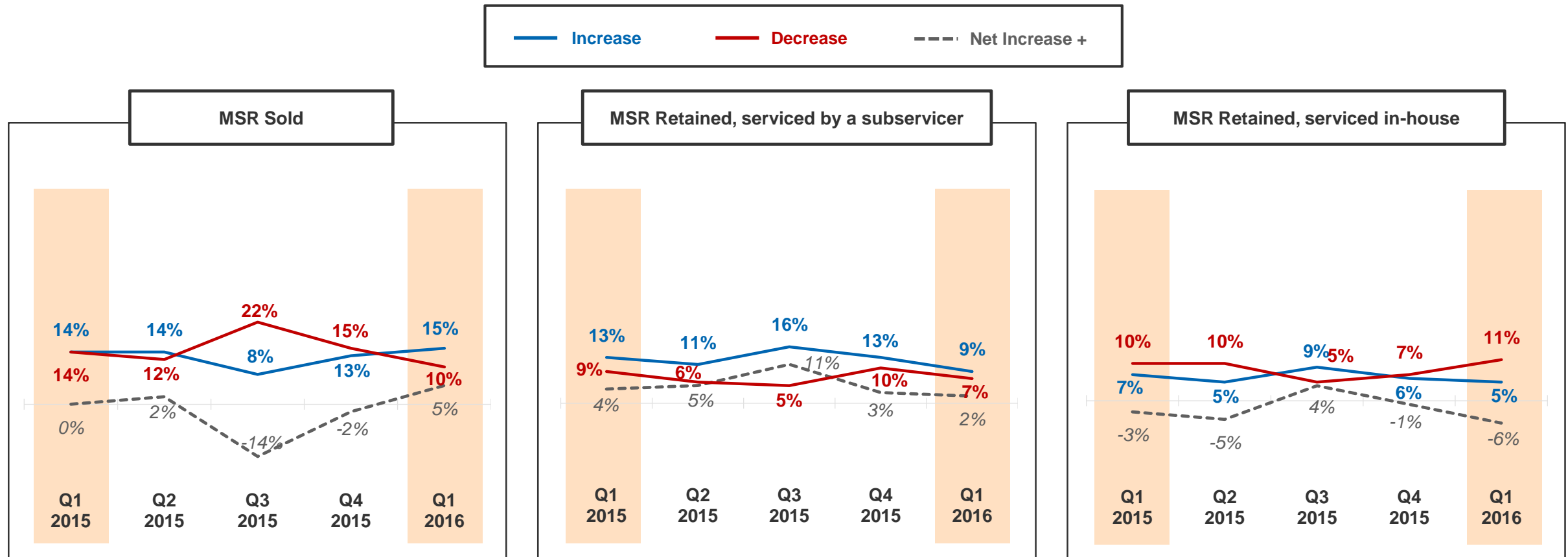
Whether an institution reported increase/decrease/stay the same was based on the difference to their responses to the following 2 questions:  
Q: Approximately, what percent of your firm's total mortgage originations goes to each of the following categories?  
Q: Looking forward, what percent of your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

\* Denotes a statistically significant change compared with Q4 2015 (previous quarter)  
^ Denotes a statistically significant change compared with Q1 2015 (same quarter of last year)



# Mortgage Servicing Rights Execution Outlook

More lenders expect to increase rather than decrease the percentage of servicing rights sold, continuing the upward trend from the previous quarter. Likewise, lenders expect a net decrease in the proportion of servicing rights retained and serviced in-house.



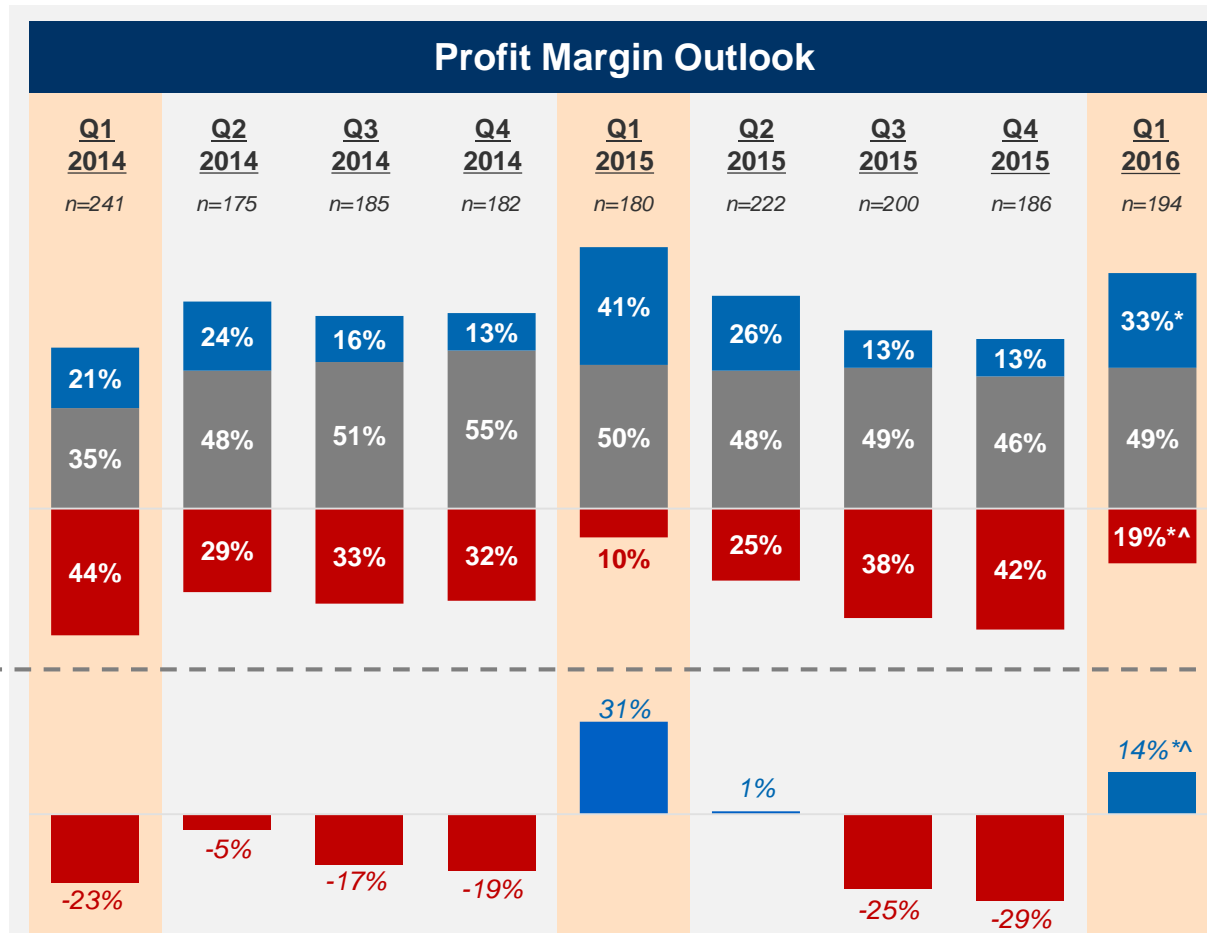
Whether an institution reported increase/decrease/stay the same was based on the difference to their responses to the following 2 questions:  
 Q: Approximately, what percent of your mortgage servicing rights (MSR) goes to each of the following categories?  
 Q: Looking forward, what percent of your 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 Q4 2015 (previous quarter)  
 ^ Denotes a statistically significant change compared with Q1 2015 (same quarter of last year)



## Lenders' Profit Margin Outlook – Next 3 Months

Lenders' net profit margin outlook turns positive this quarter, but is significantly lower than this time last year. Lenders expecting increased profit margins cite rising consumer demand and higher operational efficiency as the key reasons, while those expecting lower profits point to government regulatory compliance.



### Key Reasons for Expected Increase – Q1 2016

Consumer demand	52%
Operational efficiency (i.e. technology)	52%
Market trend changes (i.e. shift from refinance to purchase)	30%
GSE pricing and policies	17%
Non-GSE (other investors) pricing and policies	13%

Showing data for selected answer choices only. n=75

### Key Reasons for Expected Decrease – Q1 2016

Government regulatory compliance	65%
Competition from other lenders	33%
Staffing (personnel costs)	26%
Consumer demand	25%
GSE pricing and policies	13%

Showing data for selected answer choices only. n=77

\* Denotes a statistically significant change compared with Q4 2015 (previous quarter)  
 ^ Denotes a statistically significant change compared with Q1 2015 (same quarter of last year)

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.

# 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 provide insights and benchmarks that help mortgage industry professionals understand industry and market trends and assess their own business practices.

## Survey Methodology

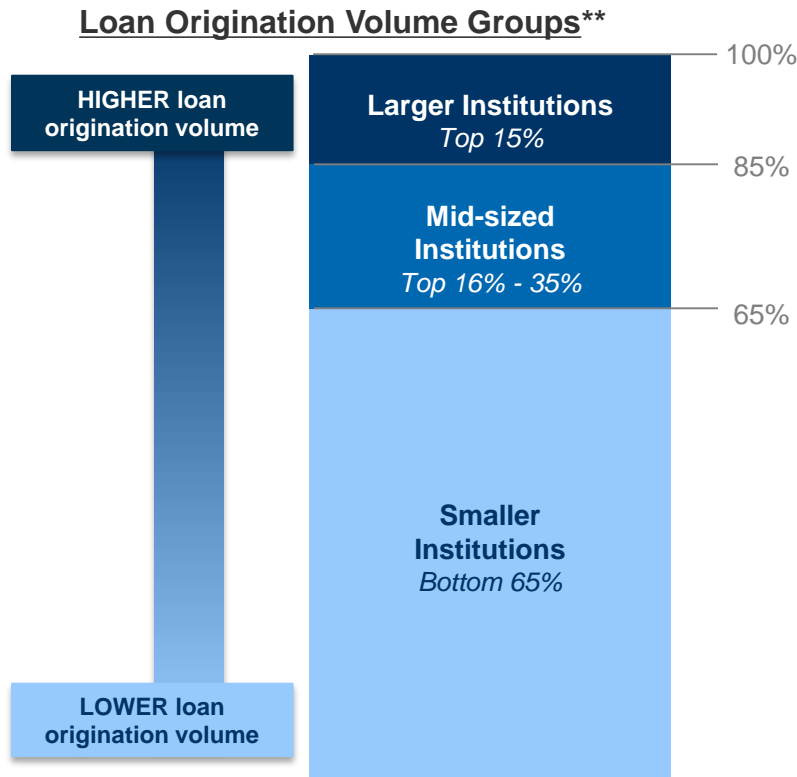
- To ensure that the survey results represent the behavior and output of organizations rather than individuals, the Fannie Mae Mortgage Lender Sentiment Survey is structured and conducted as an establishment survey. The results are reported at the lending institutional level. If more than one individual from the same institution completes the survey, their responses are averaged to represent their institution.
- 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.

# Q1 2016 Respondent Sample and Groups

For Q1 2016, a total of 229 senior executives completed the survey from February 3 - 16, representing 205 lending institutions.\*



Sample Q1 2016		Sample Size
<b>Total Lending Institutions</b> The "Total" data throughout this report is an average of the means of the three loan origination volume groups listed below.		205
<b>Loan Origination Volume Groups</b>	<b>Larger Institutions</b> Fannie Mae's customers whose 2014 total industry loan origination volume was in the top 15% (above \$631million)	57
	<b>Mid-sized Institutions</b> Fannie Mae's customers whose 2014 total industry loan origination volume was in the next 20% (16%- 35%) (between \$176 million to \$631 million)	68
	<b>Smaller Institutions</b> Fannie Mae's customers whose 2014 total industry loan origination volume was in the bottom 65% (less than \$176 million)	80
<b>Institution Type***</b>	<b>Mortgage Banks (non-depository)</b>	63
	<b>Depository Institutions</b>	88
	<b>Credit Unions</b>	47

\* 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 2014 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	
		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
<b>Total Lending Institutions</b>		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%
<b>Loan Origination Volume Groups</b>	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%
	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%
	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%
<b>Institution Type</b>	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%
	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%
	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%

### 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

## 2016 Q1 Cross-Subgroup Sample Sizes

	Total	Larger Lenders	Mid-Sized Lenders	Smaller Lenders
<b>Total</b>	<b>205</b>	<b>57</b>	<b>68</b>	<b>80</b>
<b>Mortgage Banks</b> (non-depository)	63	25	29	9
<b>Depository Institutions</b>	88	26	25	37
<b>Credit Unions</b>	47	2	14	31

## 2016 Q1 Sample Sizes: Consumer Demand

Purchase Mortgages:

	Past 3 Months			Next 3 Months		
	GSE Eligible	Non-GSE Eligible	Government	GSE Eligible	Non-GSE Eligible	Government
<b>Total Lending Institutions</b>	<b>203</b>	<b>188</b>	<b>169</b>	<b>203</b>	<b>190</b>	<b>169</b>
Larger Institutions	57	54	56	57	55	56
Mid-sized Institutions	68	65	60	68	65	60
Smaller Institutions	78	69	53	78	70	53

Refinance Mortgages:

	Past 3 Months			Next 3 Months		
	GSE Eligible	Non-GSE Eligible	Government	GSE Eligible	Non-GSE Eligible	Government
<b>Total Lending Institutions</b>	<b>199</b>	<b>182</b>	<b>162</b>	<b>199</b>	<b>183</b>	<b>162</b>
Larger Institutions	54	51	52	54	51	52
Mid-sized Institutions	67	63	59	67	64	59
Smaller Institutions	78	68	51	78	68	51

## 2016 Q1 Sample Sizes: Credit Standards

	Past 3 Months			Next 3 Months		
	GSE Eligible	Non-GSE Eligible	Government	GSE Eligible	Non-GSE Eligible	Government
<b>Total Lending Institutions</b>	<b>201</b>	<b>186</b>	<b>165</b>	<b>201</b>	<b>187</b>	<b>166</b>
Larger Institutions	57	55	56	57	55	56
Mid-sized Institutions	66	63	58	66	63	58
Smaller Institutions	78	68	51	78	69	52



## 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
<b>GSE Eligible Loans</b>	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.
<b>Non-GSE Eligible Loans</b>	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.
<b>Government Loans</b>	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 are an average of the means of the three loan origination volume groups (Table below illustrates the Total calculation). 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.

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 (Q1 2016)	Larger Institutions	Mid-sized Institutions	Smaller Institutions	Q1 “Total”
Go up	41%	43%	45%	<b>43%</b> $[(41\% + 43\% + 45\%)/3]$
Stayed the same	34%	32%	35%	<b>33%</b>
Go down	25%	26%	21%	<b>23%</b>

