MORTGAGE LENDER SENTIMENT SURVEY

Mortgage Lender Sentiment Survey™

How Lenders Plan to Grow their Mortgage Business in 2015

Topic Analysis
January 2015

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Executive Summary

Mortgage Origination Business & Strategies

Despite lenders' concerns about compliance and weak consumer demand,[1] the vast majority of lenders (88%) reported that they are looking to **grow** their origination business, compared with only 12% reporting to maintain. No lenders reported plans to downsize or exit their origination business.

- "**Increasing the number of retail branches/loan officers**" and "**expanding marketing outreach**" are the top two strategies/tactics reported to grow business.
- Consistent with industry trends, lenders reported plans to increase marketing to **first-time homebuyers** and **move-up homebuyers** as part of their 2015 origination strategy. In addition, **larger** institutions have stated a focus on **affluent consumers.** Mid-sized and smaller lenders indicated that they are more likely to focus on **lower-than-median income** consumers.

Mortgage Servicing Business

Most institutions surveyed (70%) reported plans to **grow** their mortgage servicing business, compared with only 24% reporting plans to maintain and 4% to downsize.

- Lenders across the board cite potential revenue/profit as the primary reason for growing a servicing business. Larger and mid-sized lenders cite "**hedging against declining origination volume"** as the second most important reason. Smaller lenders cite "**cross-sell opportunities"** as the second most important reason for growing their servicing business.

Changes in Credit Standards

Though **larger** lenders were more likely to report credit **easing** than tightening,[2] overall when comparing credit standards with three years ago, 44% of lenders reported tighter standards, in particular among depository institutions (49%).

- "**Lower DTI**" and **"Stricter other criteria such as documentation**" were the most common changes cited by lenders who reported tighter credit standards compared with the past, reflecting the impact of the Ability-to-Repay/Qualified Mortgage rule, effective in January 2014.

1. Please see the special topic analysis " Lenders' Assessment of Complying with Increased Regulations" at http://www.fanniemae.com/portal/research-and-analysis/mortgage-lender-survey-101514.html and "New Lender Survey Suggests QM Will Impact Credit Standards and Operational Costs" at http://www.fanniemae.com/portal/about-us/media/commentary/081414-huang.html?s_cid=mlssfmc0814
2. Detailed quarterly tracking results are available at http://www.fanniemae.com/portal/research-and-analysis/mortgage-lender-survey.html

Business Context and Research Objectives

Business Context

During 2014, regulatory changes, the shift from a refinance to a purchase market, and the modest pace of housing growth posed challenges for the mortgage industry. Fannie Mae's Economic and Strategic Research Group surveyed senior mortgage executives in November 2014 through its quarterly Mortgage Lender Sentiment Survey™ to examine lenders' plans for their origination and servicing businesses in 2015.

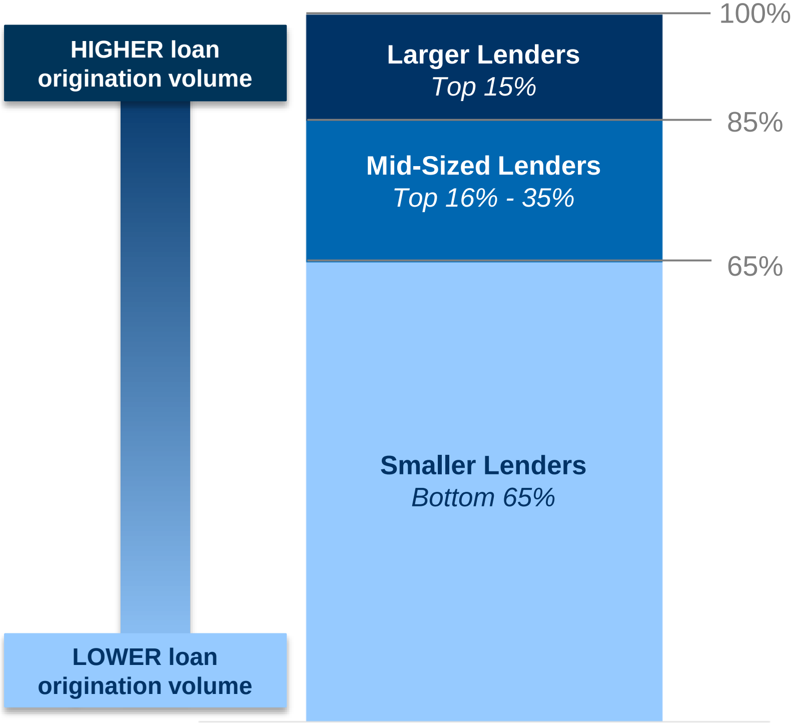
Research Objectives

1. What do lenders plan to do with their origination and servicing businesses, moving forward? Do they look to grow, maintain, or exit the business? What strategies do they plan to use?
2. In terms of consumer segments, what segments will lenders focus on in order to grow their business?
3. How do lenders view their current credit underwriting standards compared with one year ago and three years ago? What specific changes (DTI, FICO, LTV, etc.) do they see?

Respondent Sample and Groups

This analysis is based on the fourth quarter's data collection. A total of 208 senior executives completed the survey between November 5 and November 24, representing 192 lending institutions.*

Loan Origination Volume Groups**



Sample Q4-2014		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.		192
Loan Origination Volume Groups	**Larger Lenders** Fannie Mae's customers whose 2012 total industry loan origination volume was in the top 15% (above $1.14 billion)	49
	Mid-size Lenders Fannie Mae's customers whose 2012 total industry loan origination volume was in the next 20% (16%- 35%) (between $325 million to $1.14 billion)	56
	Smaller Lenders Fannie Mae's customers whose 2012 total industry loan origination volume was in the bottom 65% (less than $325 million)	87
Institution Type* **	**Mortgage Banks** (non-depository)	48
	Depository Institutions (including credit unions)	132

* 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 parent institution complete the survey, their responses are averaged to represent their parent institution.

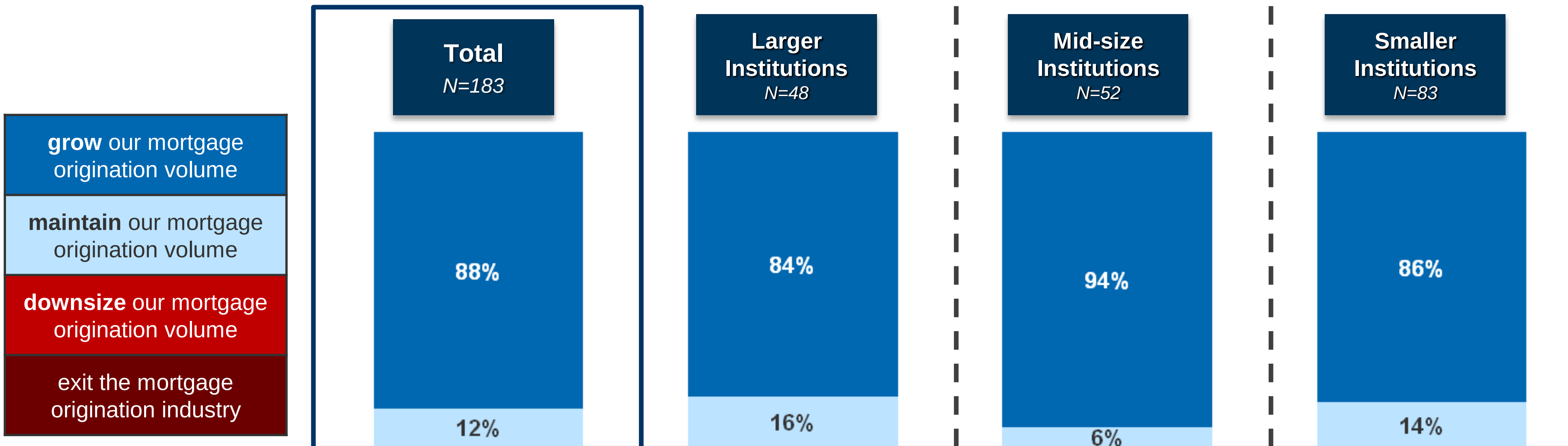
** The 2012 total industry loan volume per lender used here includes the best available annual origination information from sources such as Home Mortgage Disclosure Act (HMDA), Fannie Mae, Freddie Mac, or Marketrac. The most recent loan volume data available when the survey was administered was 2012.

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

Mortgage Origination Business

All institutions surveyed that originate mortgages reported plans to either grow or maintain mortgage origination business moving forward. Across all types of lenders, revenue/profit is seen as the most important reason to grow their mortgage origination business.

Which of the following statements best describes your firm's mortgage origination strategy moving forward? "We are looking to…"



Top 2 Reasons to Grow Mortgage Origination Business:*	Total	Larger Institutions	Mid-size Institutions	Smaller Institutions
1.	Additional revenue/profit from mortgage origination	Additional revenue/profit from mortgage origination	Additional revenue/profit from mortgage origination	Additional revenue/profit from mortgage origination
2.	Additional operating margin	Additional operating margin	Additional operating margin	Cross-sell opportunities for other financial products

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

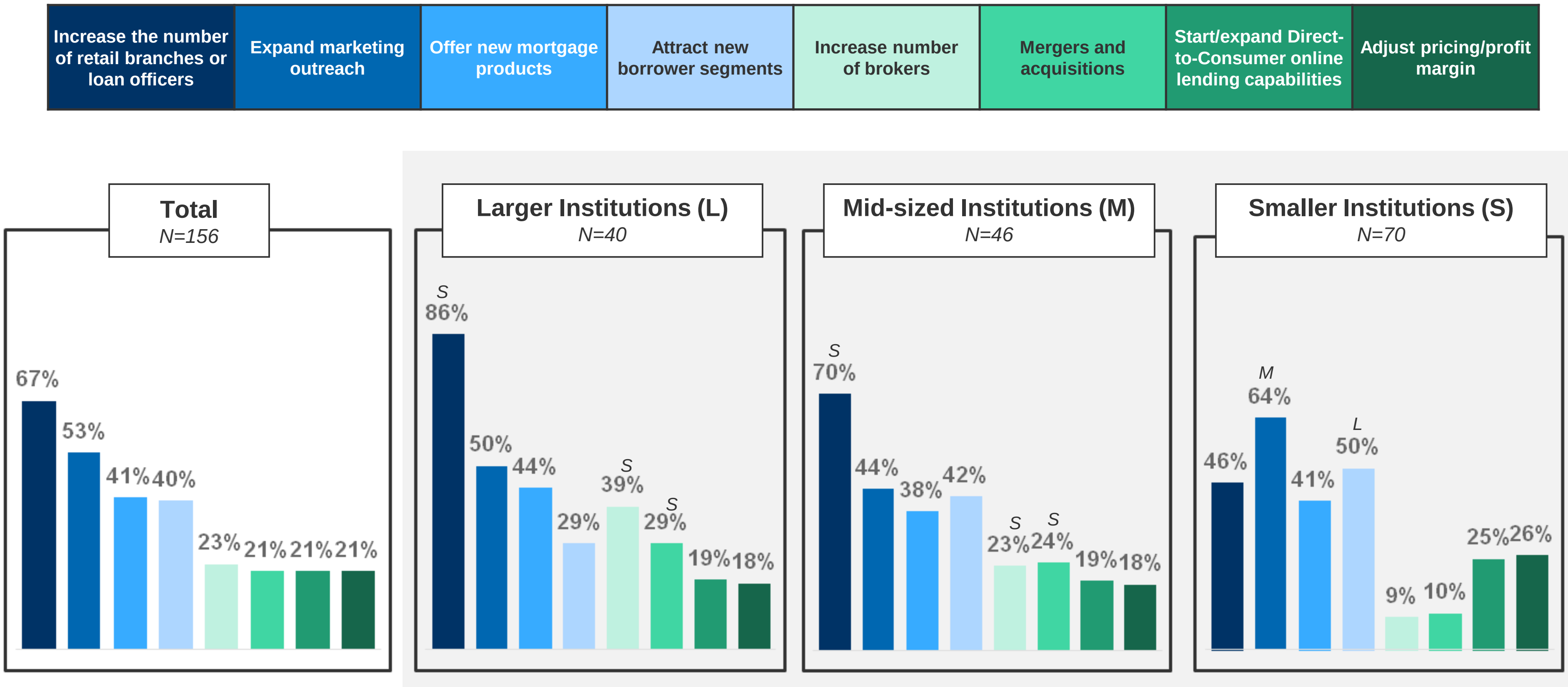
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable" or "My firm does not originate mortgages."

*Detailed results about reasons to grow or maintain can be found on pp. 22-23.

Strategies for Growing Origination Business

To grow origination business, larger and mid-sized institutions are more likely to plan to “increase the number of retail branches or loan officers,” while smaller institutions are more likely to “expand marketing outreach.”

[If looking to grow mortgage origination volume] You indicated that your firm is looking to <u>**grow** your mortgage origination volume</u>. What primary strategies/tactics, if any, is your firm planning to use to <u>**grow**</u> its origination volume? Please check all that apply.



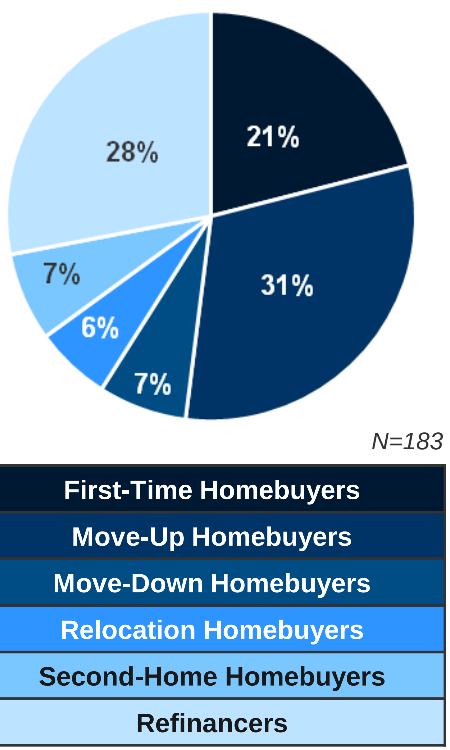
L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
Showing responses that were selected by at least 20% of the total sample. Full results can be found on p. 25.

Consumer Segment Shares of Loan Portfolio

Looking ahead to 2015, many firms see increasing opportunity among *first-time homebuyers and move-up buyers*, and less among *refinancers*.

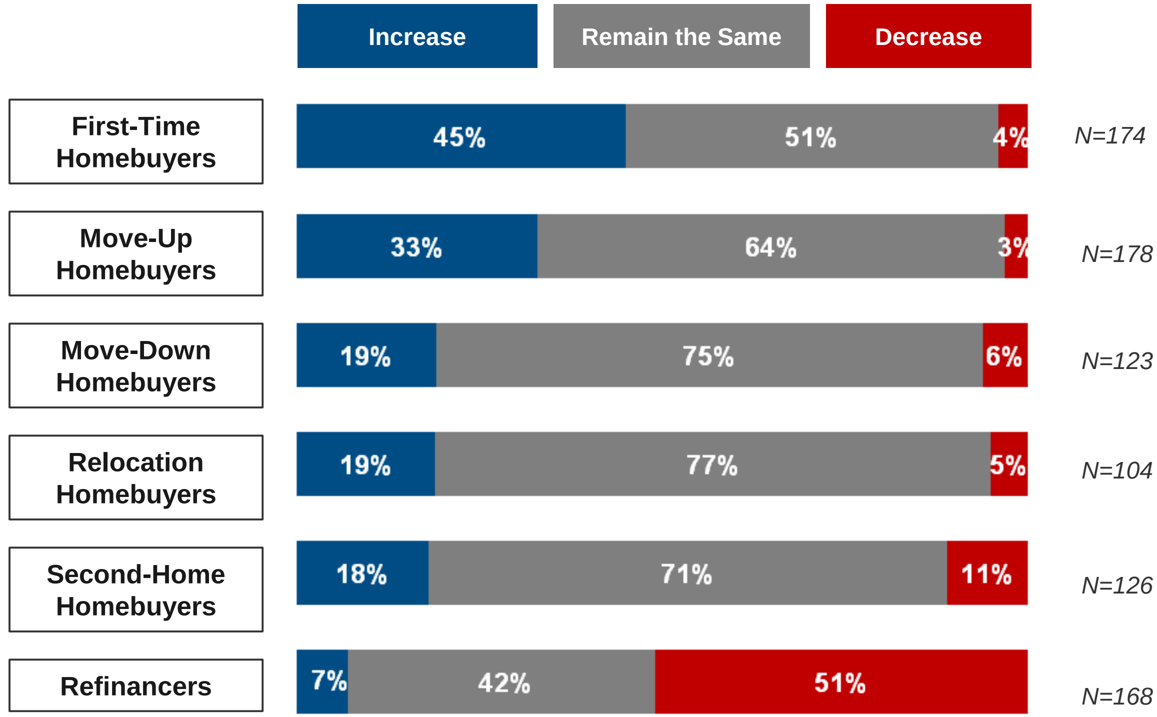
2014

Listed below are some possible mortgage consumer segments. Please enter the approximate share of each consumer segment in contributing to your firm's total mortgage origination volume this year (2014). *Showing Total % Means*



2015 Expectations

For each consumer segment listed below, please indicate the extent to which you expect its share of your firm's total mortgage origination volume to change from 2014 to 2015. Please note if the share(s) of some segments go up, some other segment shares will need to go down. *Showing Total*

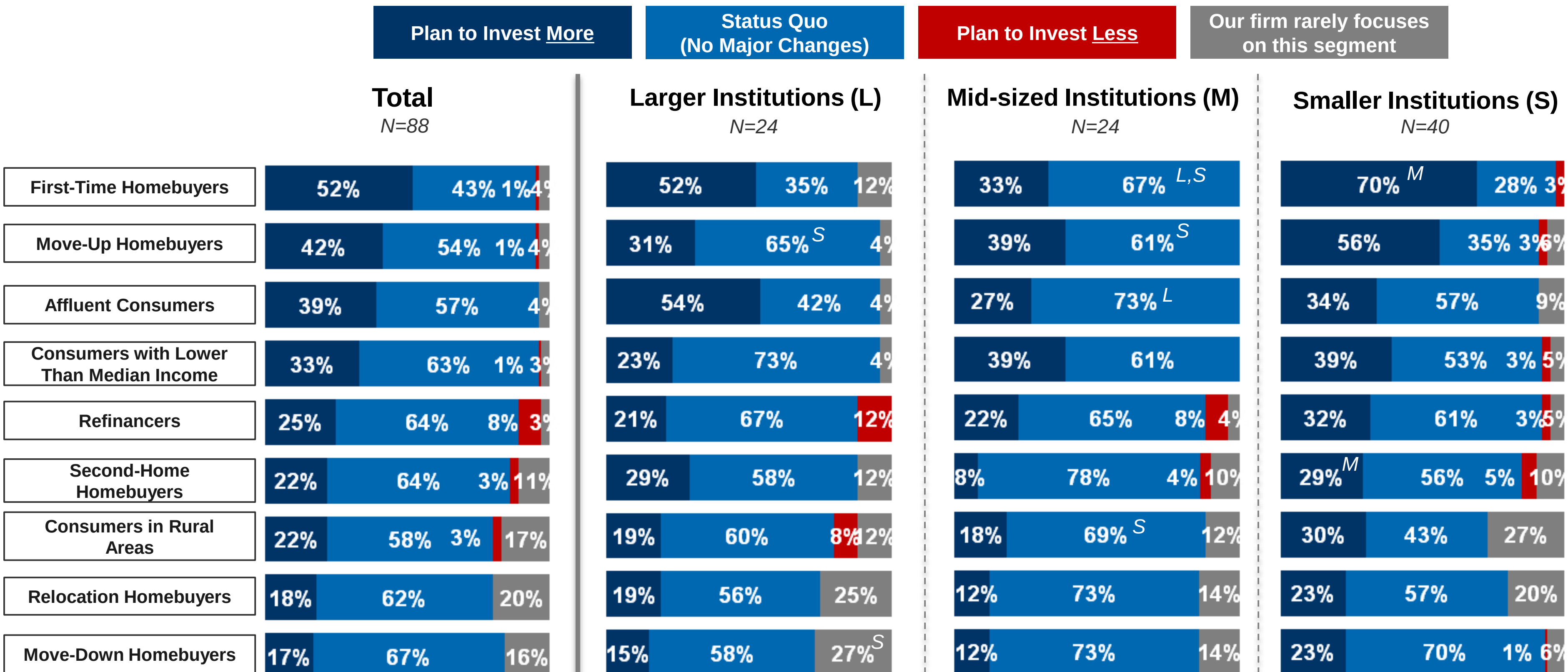


Results across subgroups can be found on pp. 33-35.

Consumer Segment Marketing Investments for 2015

Lenders plan to increase marketing to *first-time homebuyers* and *move-up homebuyers*. In addition, *larger* institutions are more likely to increase marketing to *affluent* consumers while mid-sized and smaller lenders are more likely to increase marketing to lower-than-median income consumers.

[If YES, firm develops or implements Direct-to-Consumer marketing programs] Listed below are some possible mortgage consumer segments. For each consumer segment, please indicate whether your firm plans to make marketing investments in 2015 to increase your firm's penetration into the consumer segment as part of your firm's 2015 mortgage origination strategy.

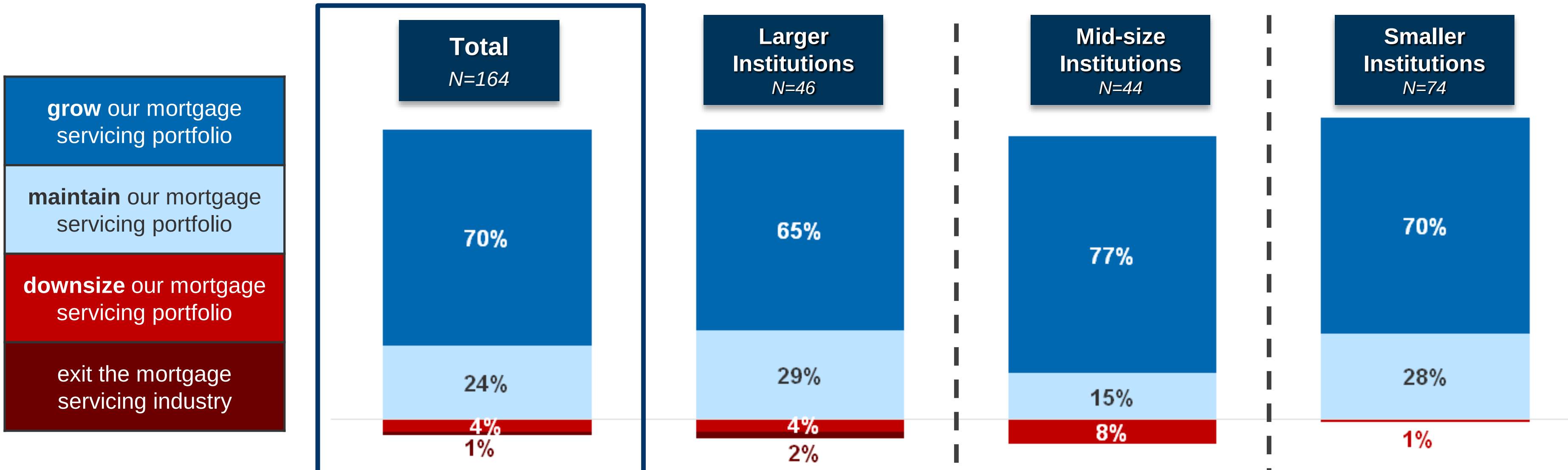


L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable." Percentages may add to under or over 100% due to rounding.

Mortgage Servicing Business

Most institutions surveyed reported planning to **grow** their mortgage servicing business. “Hedging against declining origination volume” is a more important reason for larger and mid-sized lenders, whereas “cross-sell opportunities” is a more important reason for smaller lenders.

Which of the following statements best describes your firm’s long-term mortgage servicing strategy? “We are looking to…”



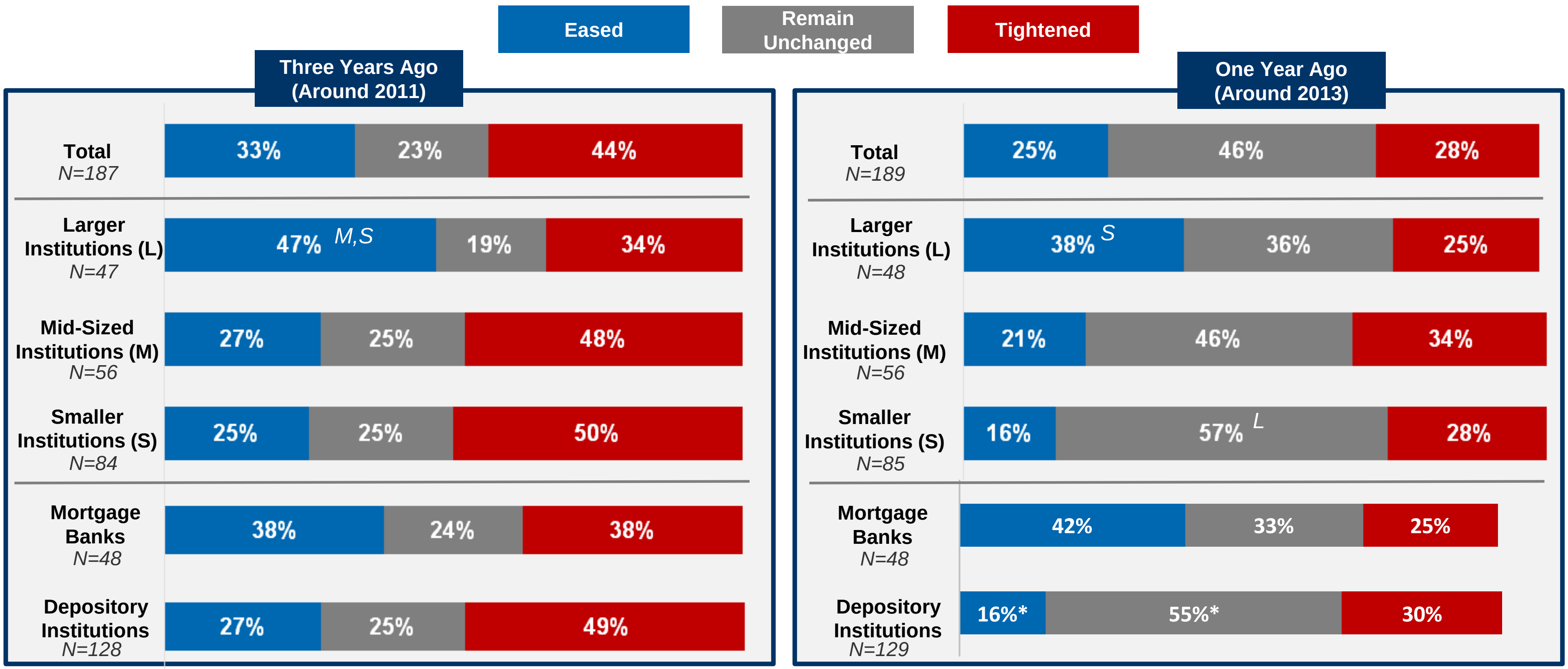
Top 2 Reasons to Grow Mortgage Servicing Business:*	Total	Larger Institutions	Mid-size Institutions	Smaller Institutions
1.	Additional revenue/profit from mortgage servicing	Additional revenue/profit from mortgage servicing	Additional revenue/profit from mortgage servicing	Additional revenue/profit from mortgage servicing
2.	Hedge against declining origination volume	Hedge against declining origination volume	Hedge against declining origination volume	Cross-sell opportunities for other financial products

L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
Please note that percentages are based on the number of financial institutions that gave responses other than “Not Applicable” or “My firm does not provide mortgage servicing.”
**Detailed results about reasons to grow or maintain or downsize can be found on pp. 30-32.

Changes in Credit Standards

Though **larger** lenders were more likely to report credit **easing** than tightening,[1] overall when comparing credit standards with three years ago, 44% of lenders reported tighter standards, in particular among depository institutions (49%).

Compared with <u>one year ago (around 2013) / three years ago (around 2011)</u>, how have your firm's credit standards for approving consumer applications for mortgages changed (across both purchase mortgages and refinance mortgages)?



1. For details on quarterly tracking results, please see the quarterly report available at http://www.fanniemae.com/portal/research-and-analysis/mortgage-lender-survey.html

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

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.

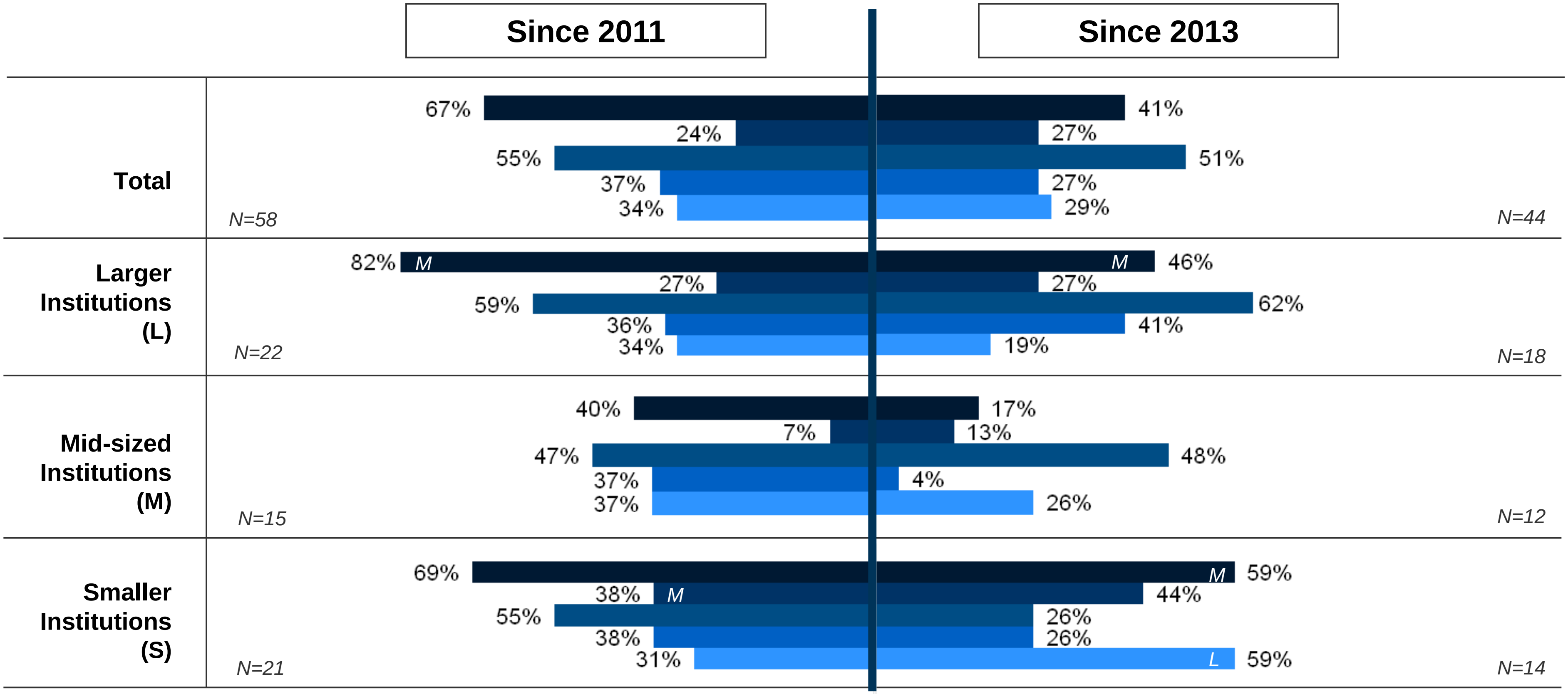
** Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level*

Easing Credit Standards

Among institutions that reported eased credit standards compared with the past, "higher LTV" and "lower FICO" are the top two changes cited.

- Higher LTV (Loan to Home Value Ratio)
- Higher DTI (Debt to Income Ratio)
- Lower FICO (Borrower Credit Score)
- Relaxed other criteria (e.g., documentation, source of down payment, etc.)
- More flexible in allowing strong records on some criteria to compensate for relatively weak records on other criteria

[If credits standards eased] You indicated that your credit standards have eased compared with [one year/three years] ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that apply.



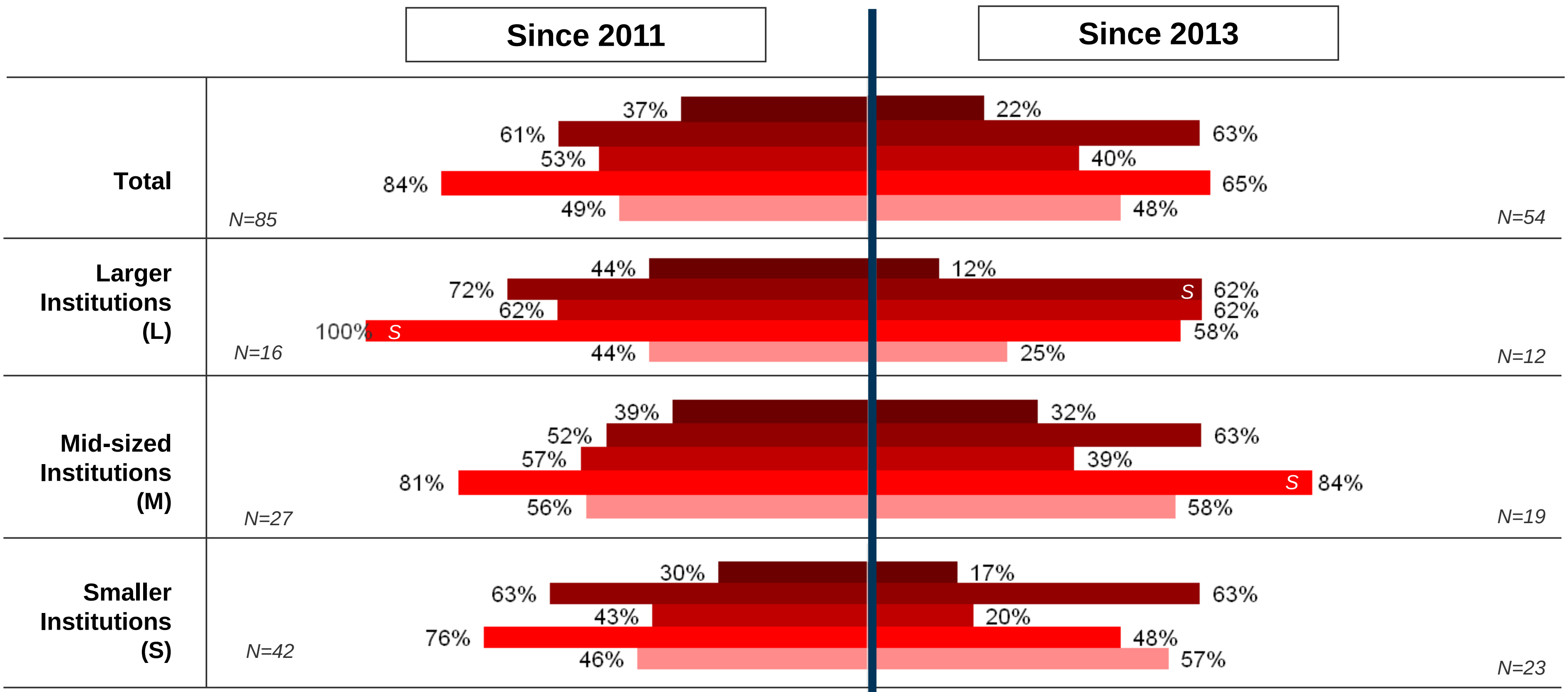
L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level

Tightening Credit Standards

Among institutions that reported tighter credit standards compared with the past, “lower DTI” and “stricter other criteria such as documentation” are the top two changes cited.

Lower LTV (Loan to Home Value Ratio)
Lower DTI (Debt to Income Ratio)
Higher FICO (Borrower Credit Score)
Stricter other criteria (e.g., documentation, source of down payment, etc.)
Less flexible in allowing strong records on some criteria to compensate for relatively weak records on other criteria

[If credits standards tightened] You indicated that your credit standards have tightened compared with [one year/three years] ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that apply.



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

APPENDIX

Survey Background………………………………………………………………………. 15
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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

- Business Strategies and Practices
- Industry Challenges, Opportunities, and Emerging Topics

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/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

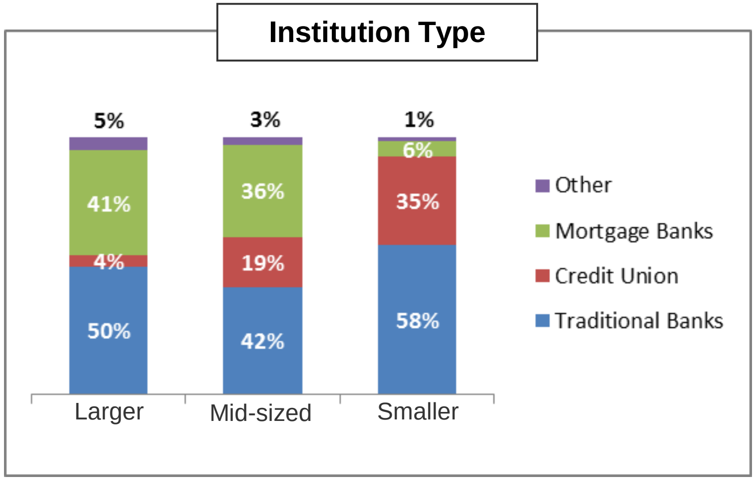
- Each quarter, a random selection of approximately 2,000 senior executives among Fannie Mae's approved lenders are invited to participate in the study.

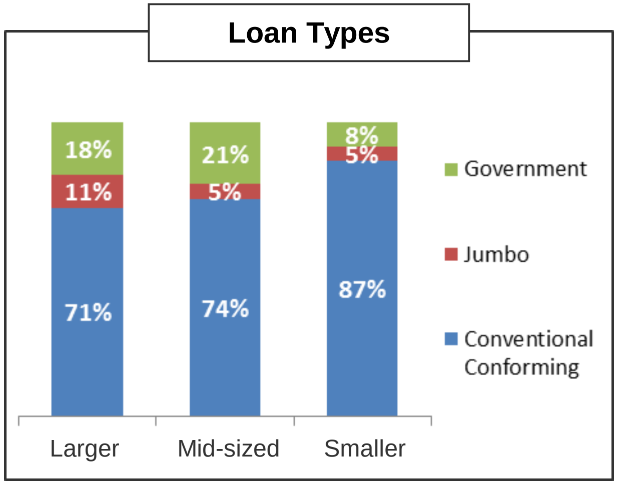
Data Weighting

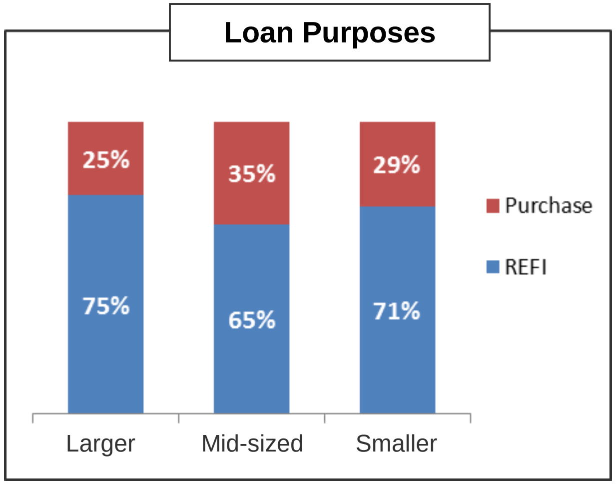
- The results of the Mortgage Lender Sentiment Survey are reported at the institutional parent-company level. If more than one individual from the same parent institution completes the survey, their responses are averaged to represent their parent institution.

Fannie Mae Lending Institution Characteristics

Fannie Mae's customers that are invited to participate in the Mortgage Lender Sentiment Survey represent a broad base of different lending institutions that conducted business with Fannie Mae in 2012. Institutions were divided into three groups based on their 2012 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.







2014 Q4 Cross-Subgroup Sample Sizes

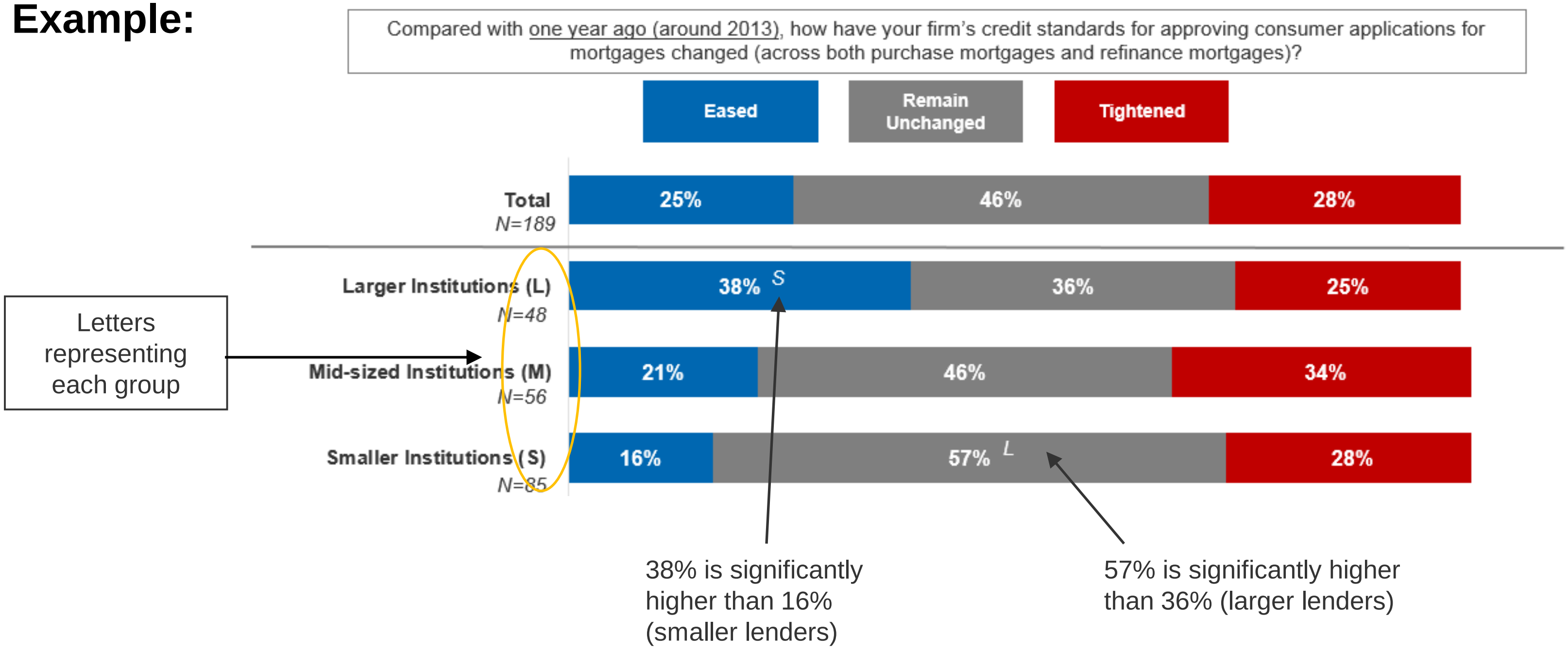
	Total	Larger Lenders	Mid-Sized Lenders	Smaller Lenders
Total	**192**	**49**	**56**	**87**
Mortgage Banks (non-depository)	48	21	20	7
Depository Institutions (including credit unions)	132	24	32	76

How to Read Significance Testing Between Loan Origination Volume Groups

On slides where significant differences between the three annual loan origination volume groups are shown:

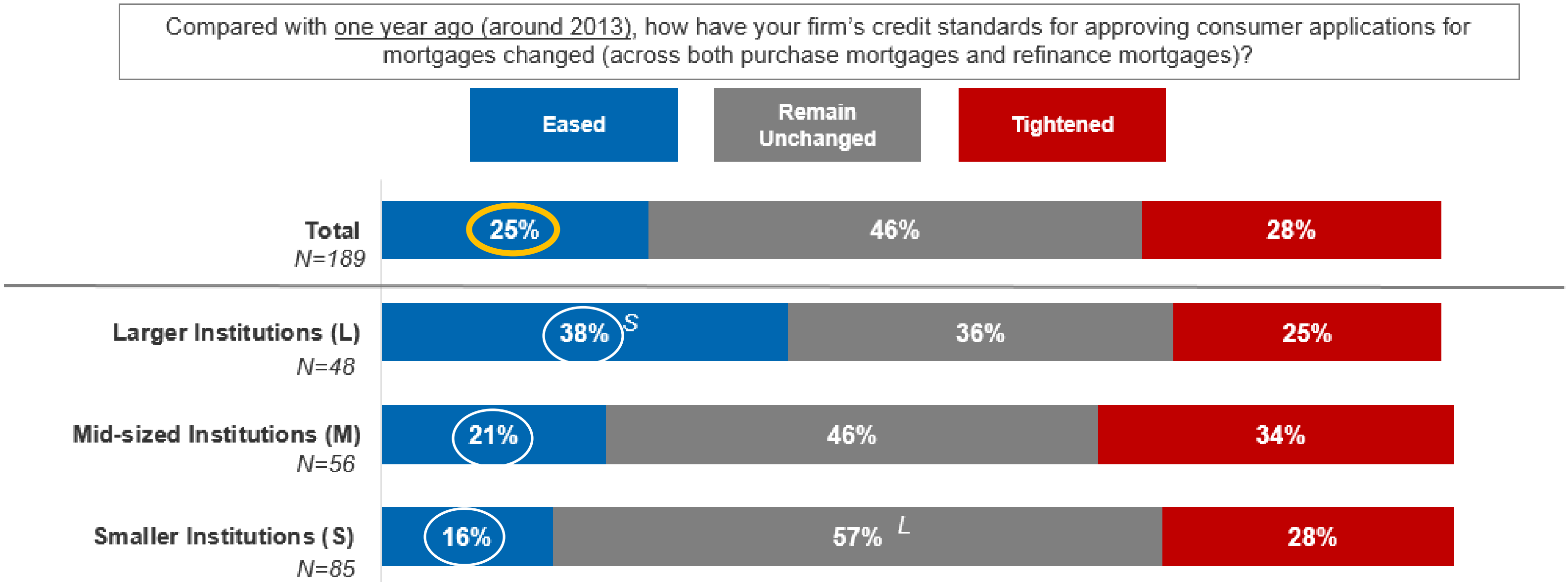
- Each group is assigned a letter (L/M/S)
- If a group has a significantly higher % than another group at the 95% confidence level, a letter will be shown next to the % for that metric. The letter denotes which group the % is significantly higher than.

Example:



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.



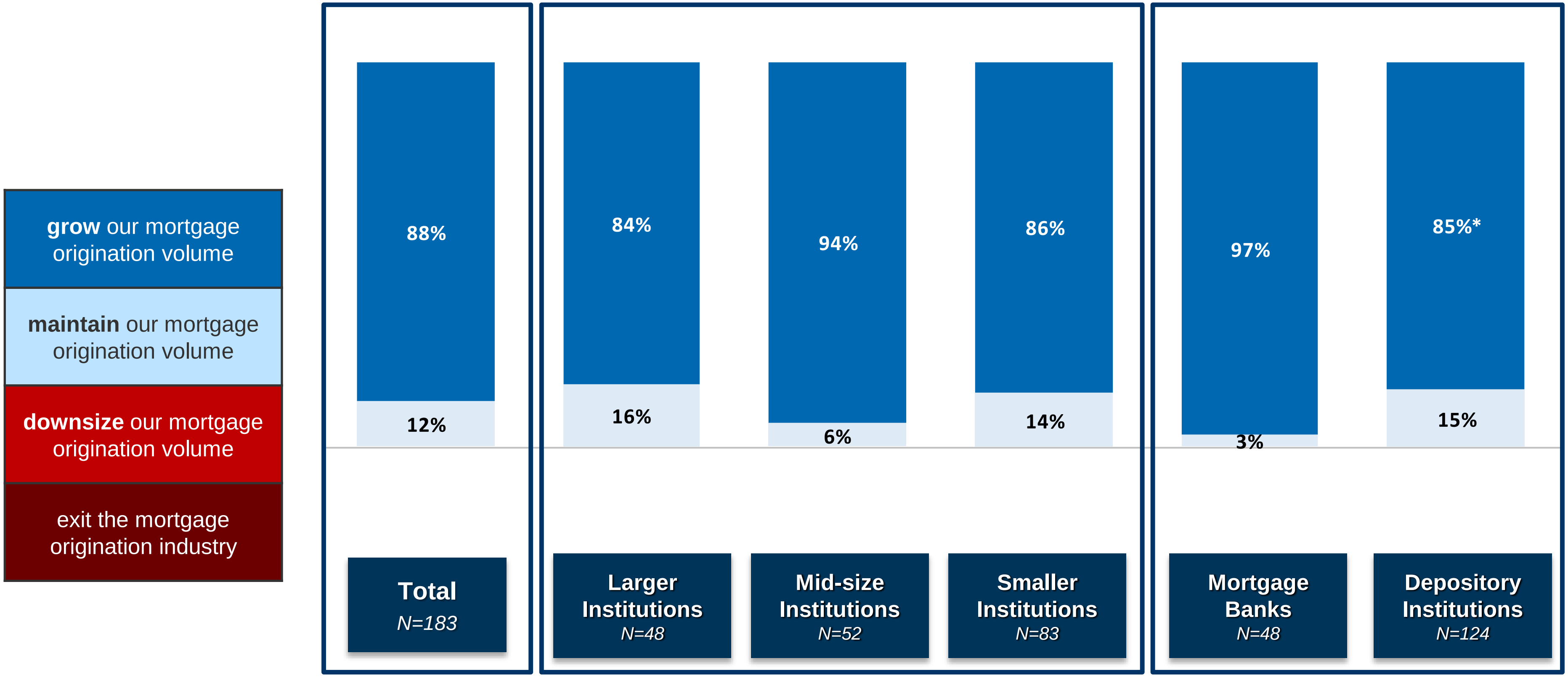
Example:

“Total” of 25% is
(38% + 21% + 16%) / 3

Mortgage Origination Business

All institutions that originate mortgages reported plans to either grow or maintain mortgage origination volume moving forward.

Which of the following statements best describes your firm's mortgage origination strategy moving forward? "We are looking to…"



L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
**Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level*
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable" or "My firm does not originate mortgages."

Reasons to Grow Mortgage Origination Business

Regardless of institution size, revenue/profit is seen as the most important reason to grow mortgage origination business. Cross-sell opportunities is a more important reason for depository institutions.

[If looking to grow mortgage origination volume] Listed below are some possible reasons for firms to grow their mortgage origination volume. Please select up to two of the most important reasons that best describe your firm's decision to grow its mortgage origination volume and rank them in order of importance.

	Total		Larger Institutions (L)		Mid-sized Institutions (M)		Smaller Institutions (S)		Mortgage Banks		Depository Institutions	
N=	*162*		*40*		*50*		*72*		*46*		*106*	
Rank:	1	2	1	2	1	2	1	2	1	2	1	2
Additional revenue/profit from mortgage origination	78%	12%	85%	8%	79%	15%	71%	14%	82%	12%	73%	14%
Additional operating margin	9%	34%	12%	32%	7%	40%	6%	27%	10%	43%	8%	26%*
Cross-sell opportunities for other financial products	8%	23%	0%	22%	10%	12%	13%	36% M	0%	4%	13%	36%*
Intend to increase or enhance servicing portfolio	2%	26%	2%	32%	0%	24%	4%	21%	2%	37%	3%	19%*
Macro hedge: balance or offset fluctuations in MSR (Mortgage Servicing Rights) valuation	2%	5%	0%	5%	0%	7%	5%	1%	2%	3%	2%	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
**Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level*

Reasons to Maintain Mortgage Origination Business

"Macro hedge: balance of offset fluctuations in MSR valuation" is the most important reason for mortgage banks to maintain their mortgage origination business.

[If looking to maintain mortgage origination volume] Listed below are some possible reasons for firms to maintain their mortgage origination volume. Please select up to two of the most important reasons that best describe your firm's decision to maintain its mortgage origination volume and rank them in order of importance. *Showing %*

	Total		**Larger Institutions (L)**		**Mid-sized Institutions (M)**		**Smaller Institutions (S)**		**Mortgage Banks**		**Depository Institutions**	
N=	*23*		*8*		*3*		*12*		*2*		*18*	
Rank:	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**
Additional revenue/profit from mortgage origination	55%	18%	80% S	7%	33%	33%	35%	26%	0%	33%	54%	22%
Additional operating margin	15%	27%	7%	33%	33%	33%	17%	17%	33%	33%	16%	16%
Cross-sell opportunities for other financial products	17%	22%	0%	27%	33%	0%	30%	26%	0%	0%	24%	27%
Intend to increase or enhance servicing portfolio	7%	25%	0%	33%	0%	33%	17%	13%	0%	33%	5%	24%
Macro hedge: balance or offset fluctuations in MSR (Mortgage Servicing Rights) valuation	6%	3%	13%	0%	0%	0%	0%	9%	67%	0%	0%	5%

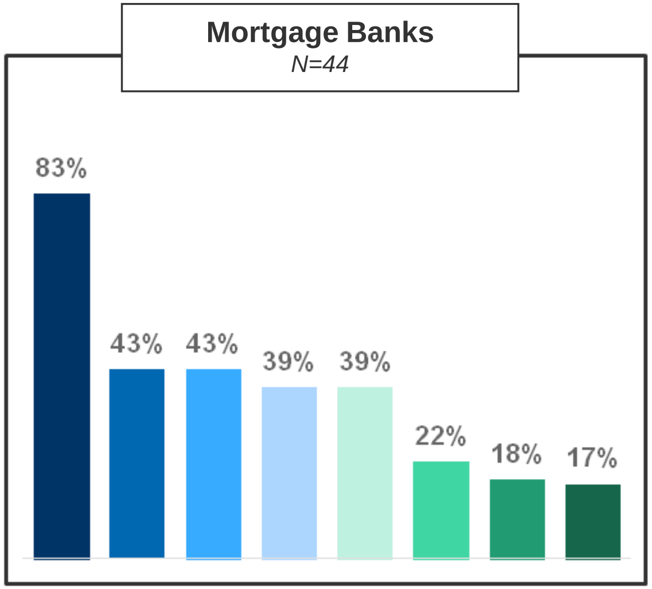
L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
**Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level*

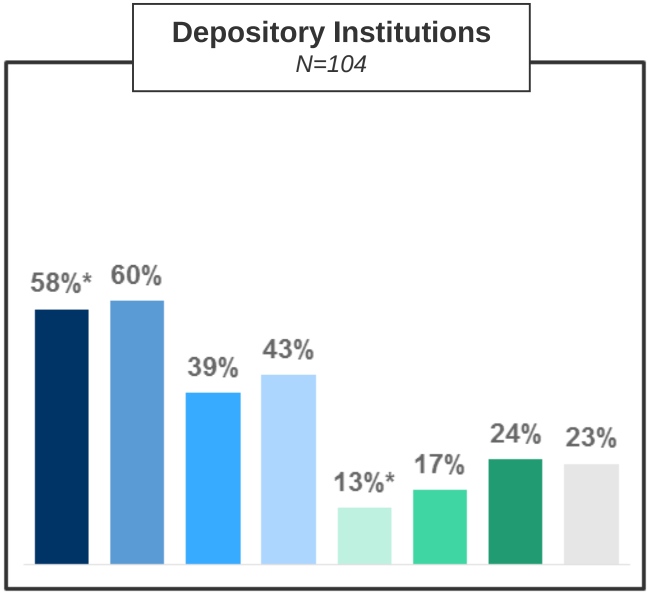
Strategies for Growing Origination Business

To grow volume, mortgage banks are more likely to “increase the number of retail branches or loan officers” while depository institutions are equally likely to “expand marketing outreach.”

[If looking to grow mortgage origination volume] You indicated that your firm is looking to grow your mortgage origination volume. What primary strategies/tactics, if any, is your firm planning to use to grow its origination volume? Please check all that apply.

Increase the number of retail branches or loan officers	Expand marketing outreach	Offer new mortgage products	Attract new borrower segments	Increase number of brokers	Mergers and acquisitions	Start/expand Direct-to-Consumer online lending capabilities	Adjust pricing/profit margin





*Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level
Showing responses that were selected by at least 20% of the total sample. Full results can be found on p. 25.

Strategies for Growing Origination Business

[If looking to grow mortgage origination volume] You indicated that your firm is looking to **grow** your mortgage origination volume. What primary strategies/tactics, if any, is your firm planning to use to **grow** its origination volume? Please check all that apply.

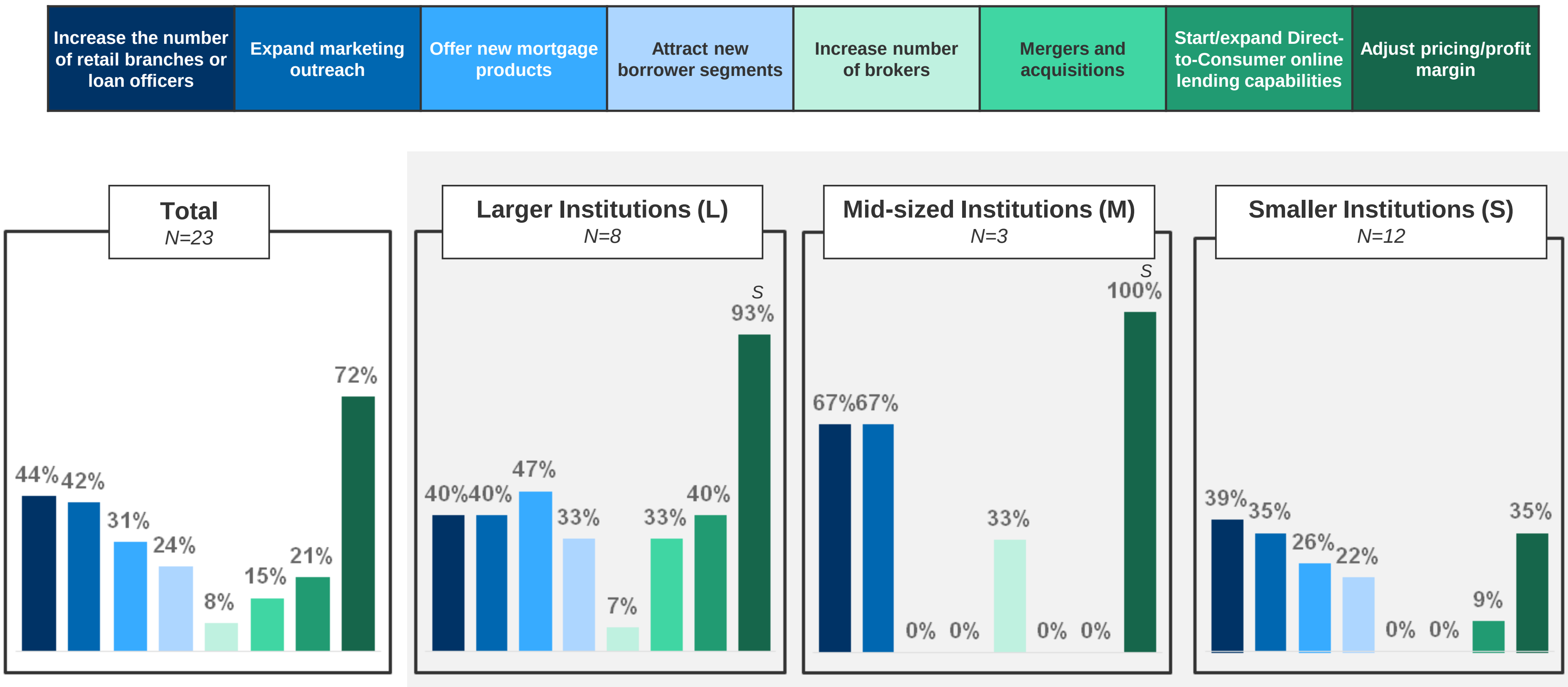
	Total	Larger Institutions (L)	Mid-sized Institutions (M)	Smaller Institutions (S)	Mortgage Banks	Depository Institutions
N=	*156*	*40*	*46*	*70*	*44*	*104*
Increase the number of retail branches or loan officers	67%	86% *S*	70% *S*	46%	83%	58%*
Expand marketing outreach	53%	50%	44%	64% *M*	43%	60%
Offer new mortgage products	41%	44%	38%	41%	43%	39%
Attract new borrower segments (e.g., first-time homebuyers, underserved communities)	40%	29%	42%	50% *L*	39%	43%
Increase the number of brokers from which you source loans	23%	39% *S*	23% *S*	9%	39%	13%*
Mergers and acquisitions	21%	29% *S*	24% *S*	10%	22%	17%
Start or expand Direct-to-Consumer online lending capabilities	21%	19%	19%	25%	18%	24%
Adjust pricing/profit margin	21%	18%	18%	26%	17%	23%
Start or expand Direct-to-Consumer call center capabilities	17%	28% *S*	13%	9%	25%	11%*
Increase the number of correspondent lenders from which you buy loans	17%	19%	16%	15%	15%	15%
Enhance servicing	12%	12%	11%	13%	16%	10%

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

Strategies for Maintaining Origination Business

Larger and mid-sized institutions are significantly more likely than smaller institutions to “adjust pricing/profit margin” to maintain their origination volume.

[If looking to maintain mortgage origination volume] You indicated that your firm is looking to **maintain** your mortgage origination volume. What primary strategies/tactics, if any, is your firm planning to use to **maintain** its origination volume? Please check all that apply.



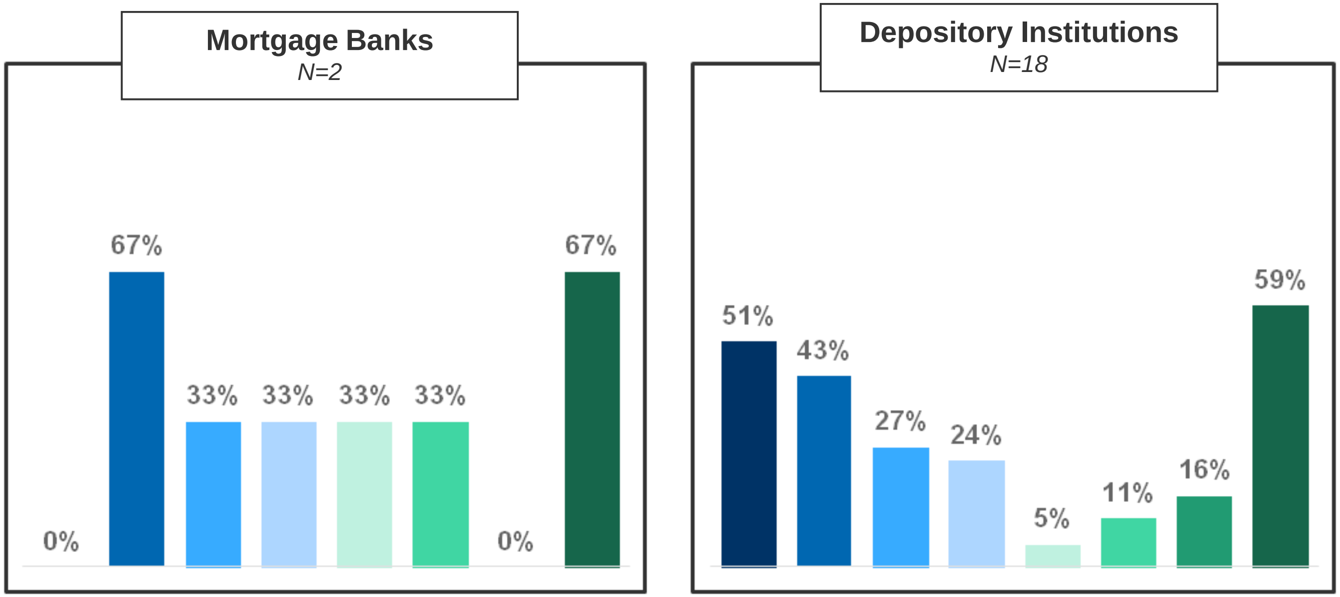
L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
Only showing top responses. Full results can be found on the next slide.

Strategies for Maintaining Origination Business

The majority of mortgage banks and depository institutions plan to "adjust pricing/profit margin" to maintain their origination volume.

[If looking to maintain mortgage origination volume] You indicated that your firm is looking to **maintain** your mortgage origination volume. What primary strategies/tactics, if any, is your firm planning to use to **maintain** its origination volume? Please check all that apply.

Increase the number of retail branches or loan officers	Expand marketing outreach	Offer new mortgage products	Attract new borrower segments	Increase number of brokers	Mergers and acquisitions	Start/expand Direct-to-Consumer online lending capabilities	Adjust pricing/profit margin



**Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level*
Only showing top responses. Full results can be found in the appendix.

Strategies for Maintaining Origination Business

[If looking to maintain mortgage origination volume] You indicated that your firm is looking to **maintain** your mortgage origination volume. What primary strategies/tactics, if any, is your firm planning to use to **maintain** its origination volume? Please check all that apply.

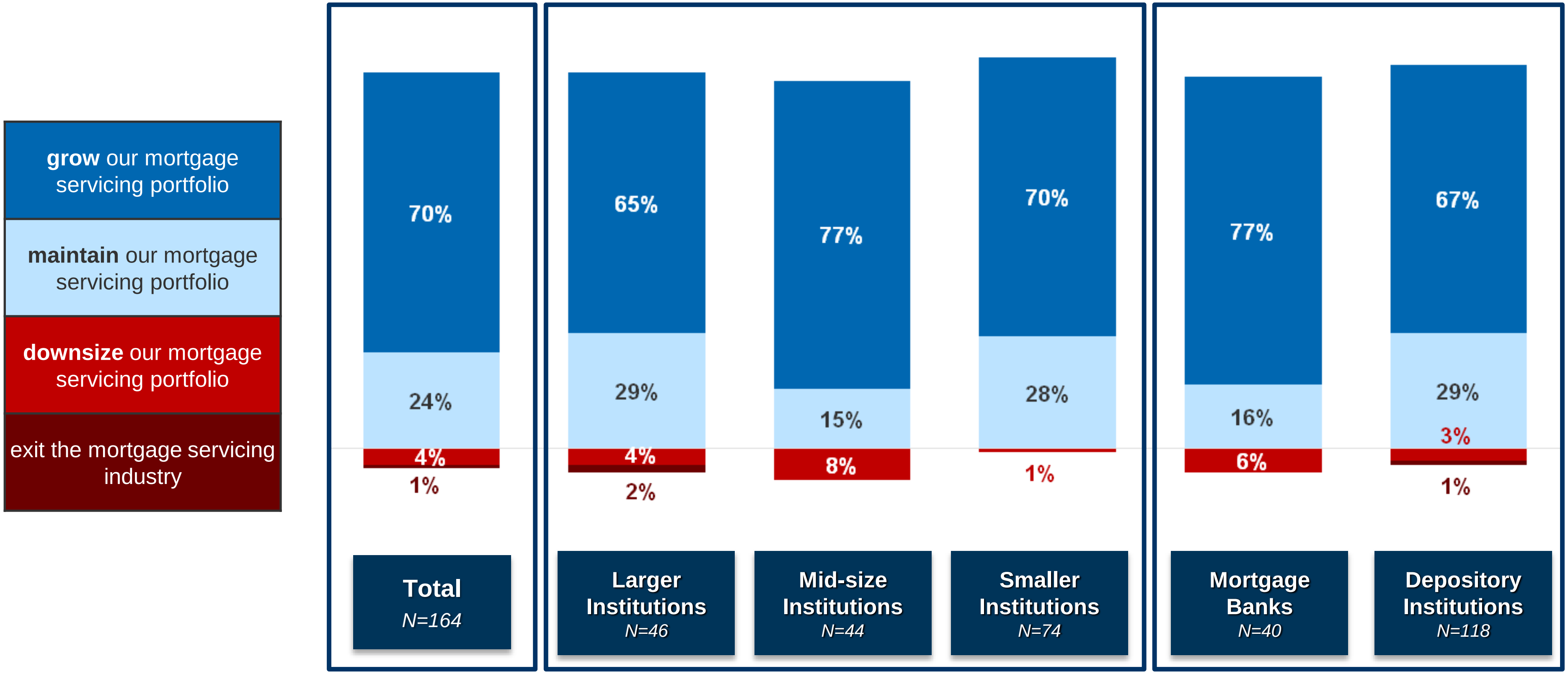
	Total	Larger Institutions (L)	Mid-sized Institutions (M)	Smaller Institutions (S)	Mortgage Banks	Depository Institutions
N=	*23*	*8*	*3*	*12*	*2*	*18*
Adjust pricing/profit margin	72%	93% S	100% S	35%	67%	59%
Increase the number of retail branches or loan officers	44%	40%	67%	39%	0%	51%
Expand marketing outreach	42%	40%	67%	35%	67%	43%
Offer new mortgage products	31%	47%	0%	26%	33%	27%
Attract new borrower segments (e.g., first-time homebuyers, underserved communities)	24%	33%	0%	22%	33%	24%
Start or expand Direct-to-Consumer online lending capabilities	21%	40%	0%	9%	0%	16%
Mergers and acquisitions	15%	33%	0%	0%	33%	11%
Start or expand Direct-to-Consumer call center capabilities	15%	27%	0%	9%	0%	16%
Increase the number of brokers from which you source loans	8%	7%	33%	0%	33%	5%
Increase the number of correspondent lenders from which you buy loans	6%	7%	0%	9%	33%	0%
Enhance servicing	6%	7%	0%	9%	33%	0%

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

Mortgage Servicing Business

The majority of institutions reported plans to grow their mortgage servicing business.

Which of the following statements best describes your firm's long-term mortgage servicing strategy? "We are looking to…"



L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
**Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level*
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable" or "My firm does not provide mortgage servicing."

Reasons to Grow Servicing Business

The majority of institutions cited “additional revenue/profit from mortgage servicing” as one of the two most important reasons for their firm to grow its mortgage servicing business. “Hedge against declining origination volume” is the 2nd most important reason for larger and mid-sized lenders, whereas “cross-sell opportunities” is the 2nd most important reason for smaller lenders.

[If looking to grow mortgage servicing portfolio] Listed below are some possible reasons for firms to grow their mortgage servicing portfolio. Please select up to two of the most important reasons that best describe your firm’s decision to grow its mortgage servicing portfolio and rank them in order of importance.

	Total		Larger Institutions (L)		Mid-sized Institutions (M)		Smaller Institutions (S)		Mortgage Banks		Depository Institutions	
N=	*116*		*30*		*34*		*52*		*30*		*80*	
Rank:	1	2	1	2	1	2	1	2	1	2	1	2
Additional revenue/profit from mortgage servicing	54%	27%	50%	22%	49%	37%	63%	21%	46%	33%	61%	21%
Hedge against declining origination volume	17%	23%	28% S	32% S	16%	31% S	8%	6%	31%	34%	10%*	14%*
Cross-sell opportunities for other financial products	12%	19%	3%	17%	15%	12%	18%	30%	0%	0%	18%	31%
Attractive market price for servicing assets	8%	7%	12%	13%	10%	6%	3%	3%	11%	16%	4%	3%*
Additional operating margin	6%	23%	7%	17%	4%	15%	6%	38% L,M	8%	16%	4%	29%

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Reasons to Maintain Servicing Portfolio

The majority of institutions cited “additional revenue/profit from mortgage servicing” as one of the two most important reasons for their firm to maintain its mortgage servicing business. “Hedge against declining origination volume” is the 2nd most important reason for larger and mid-sized lenders, whereas “cross-sell opportunities” is the 2nd most important reason for smaller lenders.

[If looking to maintain mortgage servicing portfolio] Listed below are some possible reasons for firms to maintain their mortgage servicing portfolio. Please select up to two of the most important reasons that best describe your firm’s decision to maintain its mortgage servicing portfolio and rank them in order of importance.

	Total		Larger Institutions (L)		Mid-sized Institutions (M)		Smaller Institutions (S)		Mortgage Banks		Depository Institutions	
N=	*41*		*14*		*6*		*21*		*6*		*34*	
Rank:	1	2	1	2	1	2	1	2	1	2	1	2
Additional revenue/profit from mortgage servicing	25%	43%	30%	56%	0%	46%	31%	26%	31%	31%	25%	41%
Hedge against declining origination volume	11%	21%	15%	26%	15%	31%	5%	10%	8%	46%	10%	13%
Cross-sell opportunities for other financial products	28%	13%	19%	0%	31%	8%	38%	31%	0%	0%	36%	20%
Attractive market price for servicing assets	14%	8%	22%	11%	15%	0%	5%	10%	46%	8%	6%*	9%
Additional operating margin	12%	11%	7%	7%	23%	15%	12%	14%	15%	15%	12%	12%

L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
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Reasons to Downsize Servicing Portfolio or Exit Industry

[If looking to downsize mortgage origination volume or exit the industry] Listed below are some possible reasons for firms to [downsize their mortgage servicing portfolio/exit the mortgage servicing industry]. Please select up to two of the most important reasons that best describe your firm's decision to [downsize their mortgage servicing portfolio/exit the mortgage servicing industry] and rank them in order of importance. *Showing %*

	Total *N=8*		**Larger Institutions (L)** *N=3*		**Mid-sized Institutions (M)** *N=4*		**Smaller Institutions (S)** *N=1*		**Mortgage Banks** *N=2*		**Depository Institutions** *N=4*	
Rank:	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**	**1**	**2**
Risks or costs associated with servicing operations (e.g. servicing defaulted loans)	40%	39%	0%	67%	86%	0%	0%	100%	40%	40%	50%	50%
Increased capital requirements for MSR assets under Basel III capital rule	30	0	67	0	0	0	0	0	40	0	25	0
Risks associated with managing MSR assets	15	0	33	0	0	0	0	0	0	0	0	0
Regulatory burden associated with servicing	9	61	0	33	0	100	100	0	0	60	25	50
Attractive market price for selling MSR assets	7	0	0	0	14	0	0	0	20	0	0	0

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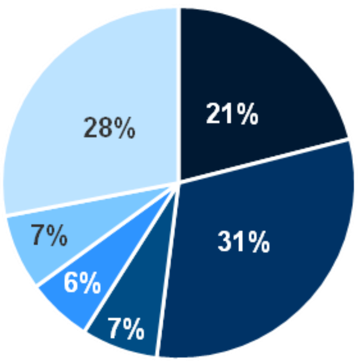
Consumer Segment Share Estimation for 2014

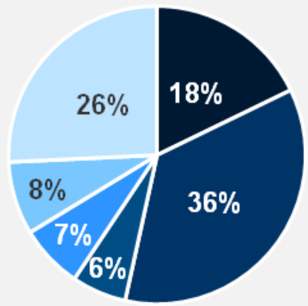
First-time homebuyers, *move-up homebuyers,* and *refinancers* made up the majority of mortgage origination volume in 2014.

Listed below are some possible mortgage consumer segments. Please enter the approximate <u>share</u> of each consumer segment in contributing to your firm's total mortgage origination volume this year (2014). If a category is not applicable to your firm, please enter 0. The percentages below must add up to 100%.

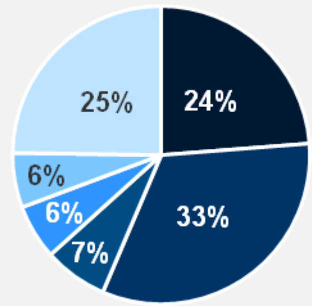
Total
N=183



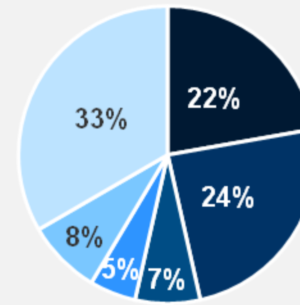
Larger Institutions (L)
N=48



Mid-size Institutions (M)
N=52

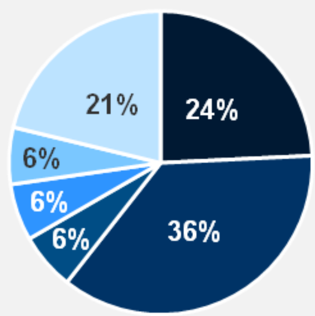


Smaller Institutions (S)
N=83

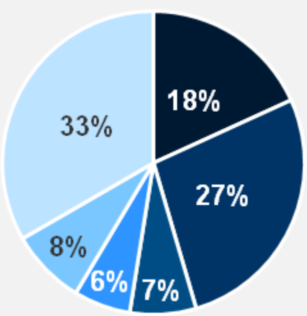


- **First-Time Homebuyers**
- **Move-Up Homebuyers**
- **Move-Down Homebuyers**
- **Relocation Homebuyers**
- **Second-Home Homebuyers**
- **Refinancers**

Mortgage Banks
N=48



Depository Institutions
N=124



Showing means for each consumer segment.
L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
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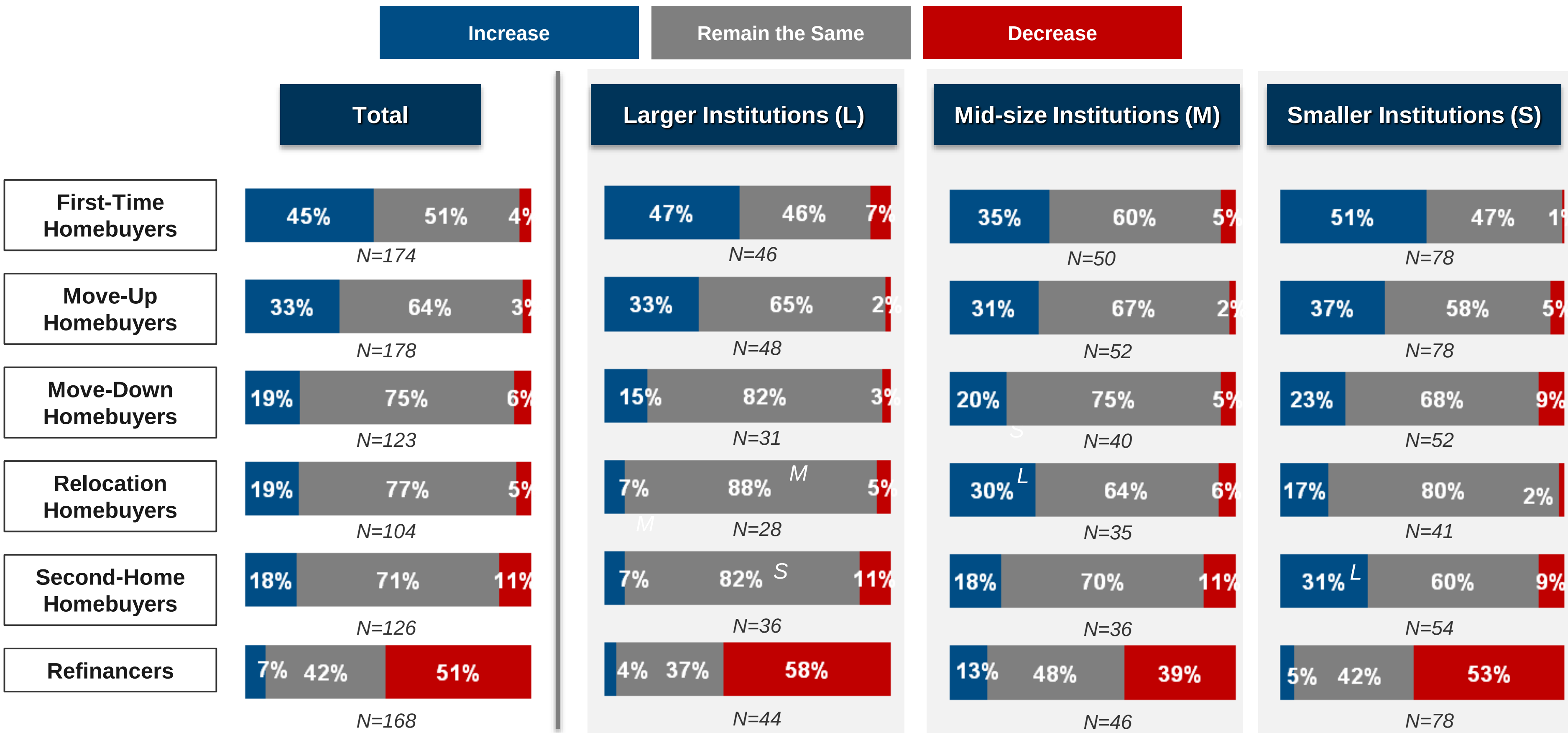
Consumer Segment Share Expectations for 2015

Looking ahead to 2015, many firms see increasing opportunity among *first-time homebuyers*, and less among *refinancers*.

For each consumer segment listed below, please indicate the extent to which you expect its share of your firm's total mortgage origination volume to change from 2014 to 2015. Please note if the share(s) of some segments go up, some other segment shares will need to go down.



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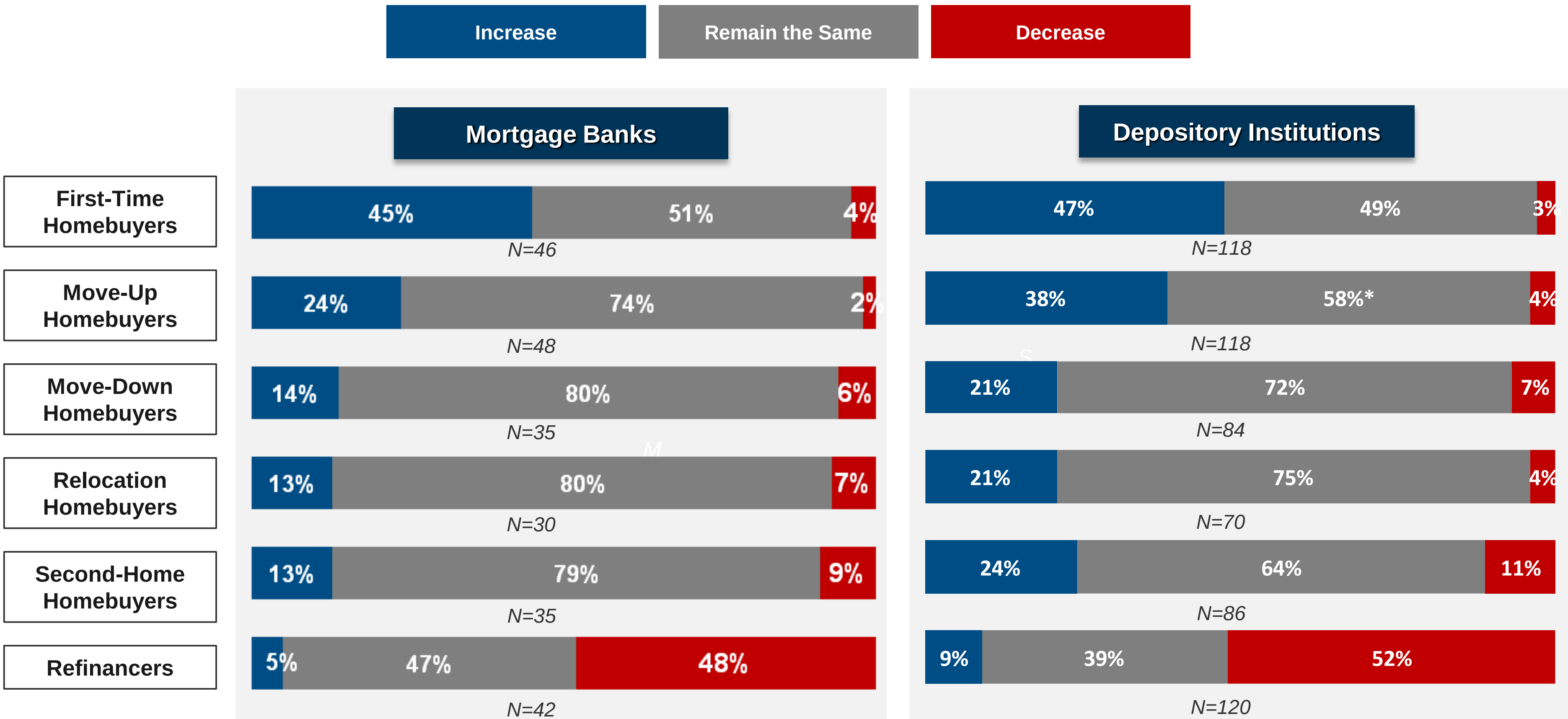
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable." Percentages may add to under or over 100% due to rounding.

Consumer Segment Share Expectations for 2015

Both mortgage banks and depository institutions are more likely to see more opportunity among *first-time homebuyers* and less among *refinancers* in 2015.

For each consumer segment listed below, please indicate the extent to which you expect its share of your firm's total mortgage origination volume to change from 2014 to 2015. Please note if the share(s) of some segments go up, some other segment shares will need to go down.



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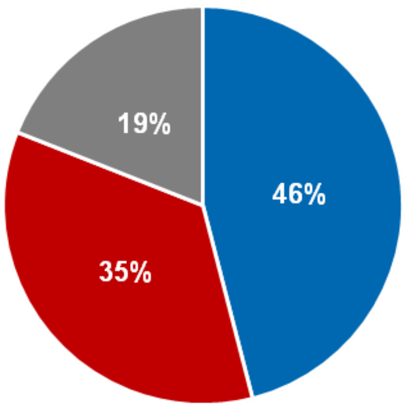
Direct-to-Consumer Marketing

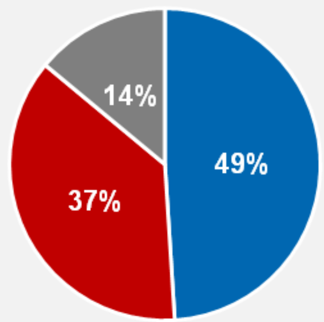
Depository institutions are more likely than mortgage banks to develop or implement Direct-to-Consumer marketing programs or strategies for mortgage products.

Does your firm develop or implement Direct-to-Consumer marketing programs or strategies for mortgage products?

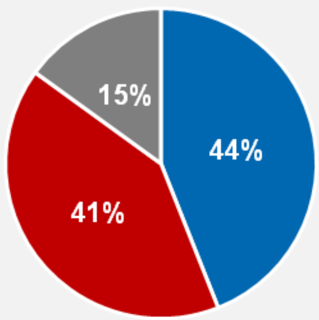
Total
(N=192)



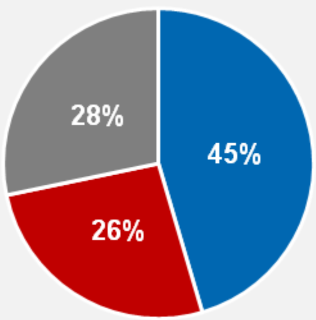
Larger Lenders
N=49



Mid-size Lenders
N=56



Smaller Lenders
N=87

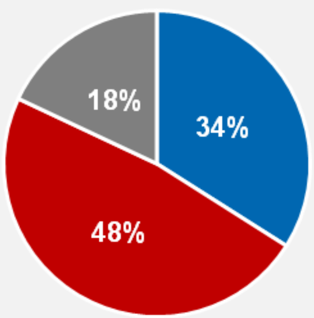


Yes

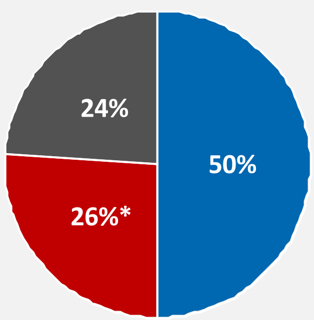
No

Not Sure/Prefer not to answer/Not applicable

Mortgage Banks *(N=48)*



Depository Institutions *(N=132)*



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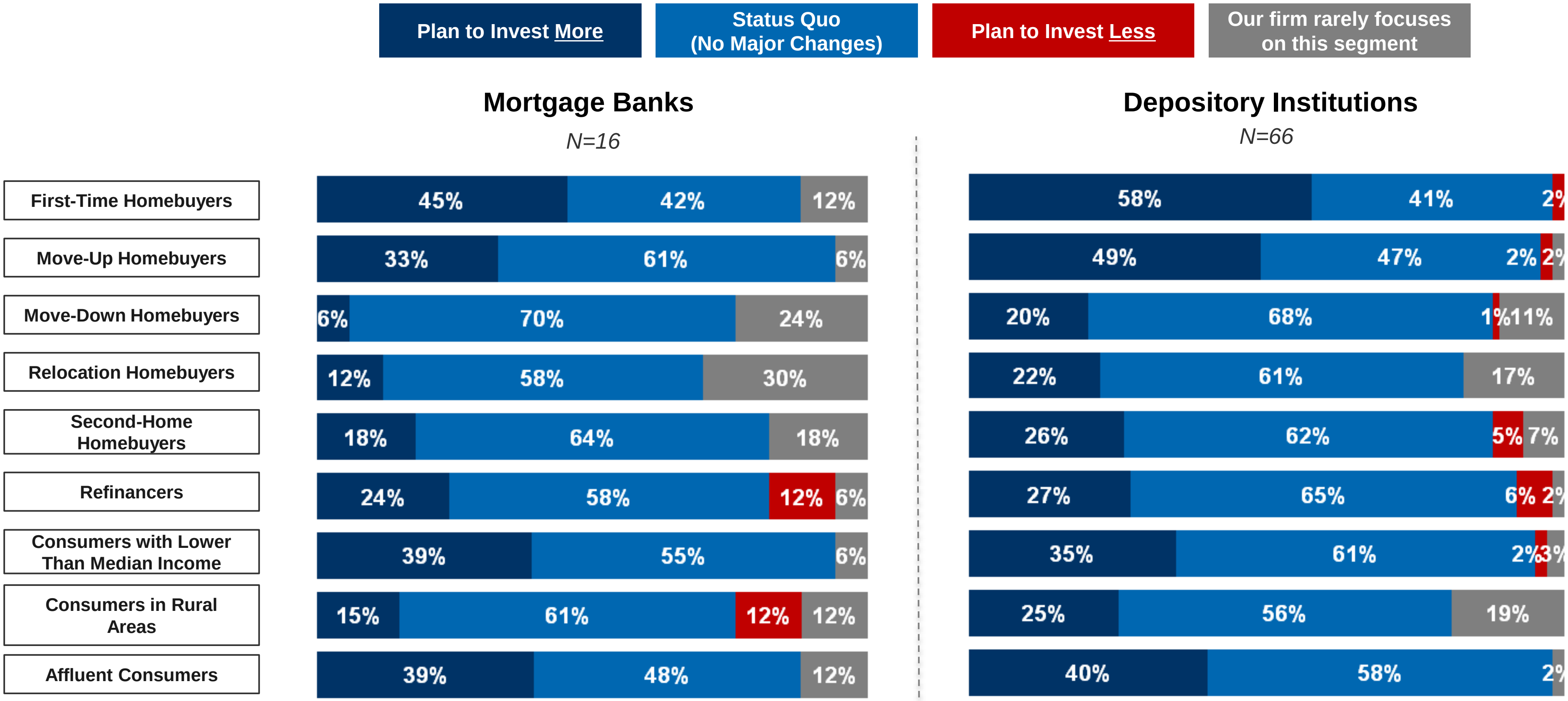
Marketing Investments in 2015

As part of their 2015 mortgage origination strategy, depository institutions plan to increase their marketing to *first-time homebuyers.*

[If YES, firm develops or implements Direct-to-Consumer marketing programs] Listed below are some possible mortgage consumer segments. For each consumer segment, please indicate whether your firm plans to make marketing investments in 2015 to increase your firm's penetration into the consumer segment as part of your firm's 2015 mortgage origination strategy.



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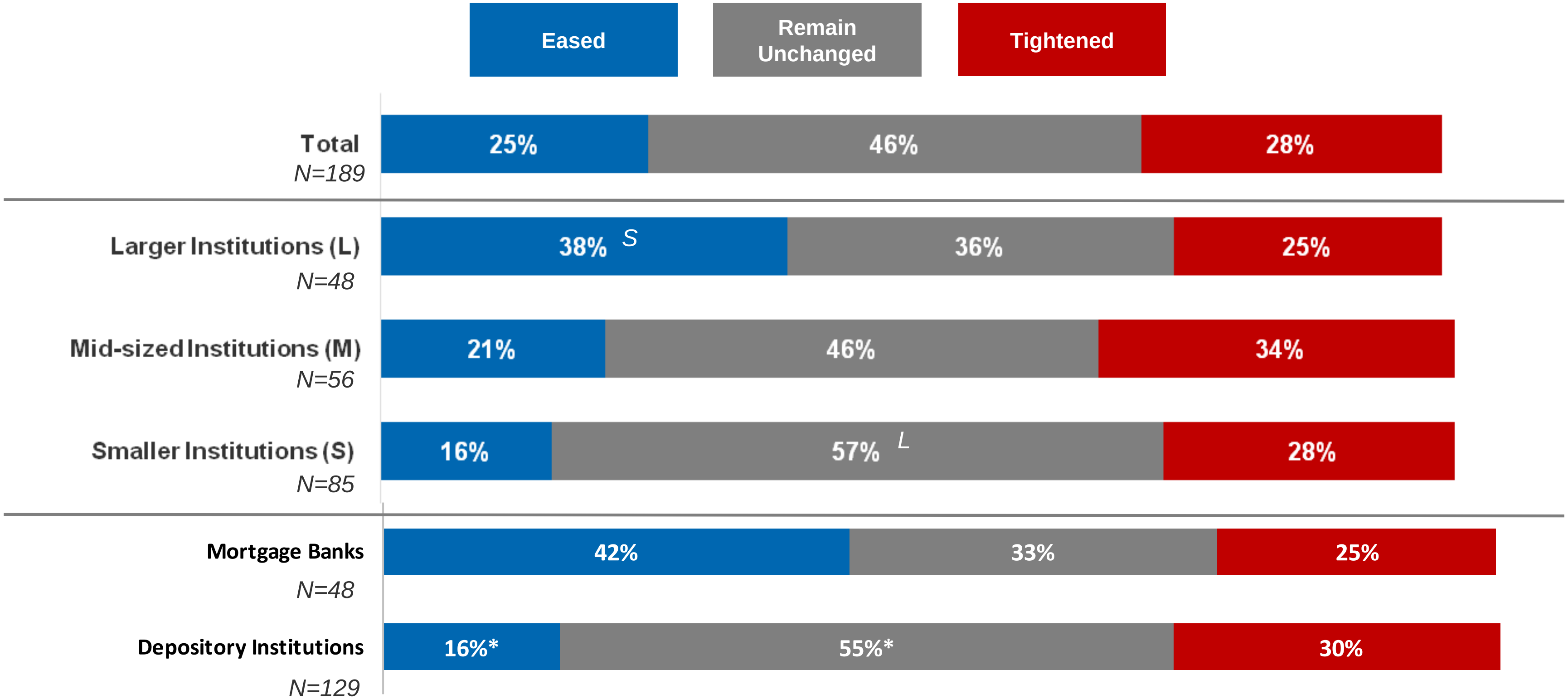
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable." Percentages may add to under or over 100% due to rounding.

Changes in Credit Standards Since 2013

Smaller institutions and depository institutions were least likely to report eased credit standards since last year.

Compared with one year ago (around 2013), how have your firm's credit standards for approving consumer applications for mortgages changed (across both purchase mortgages and refinance mortgages)?



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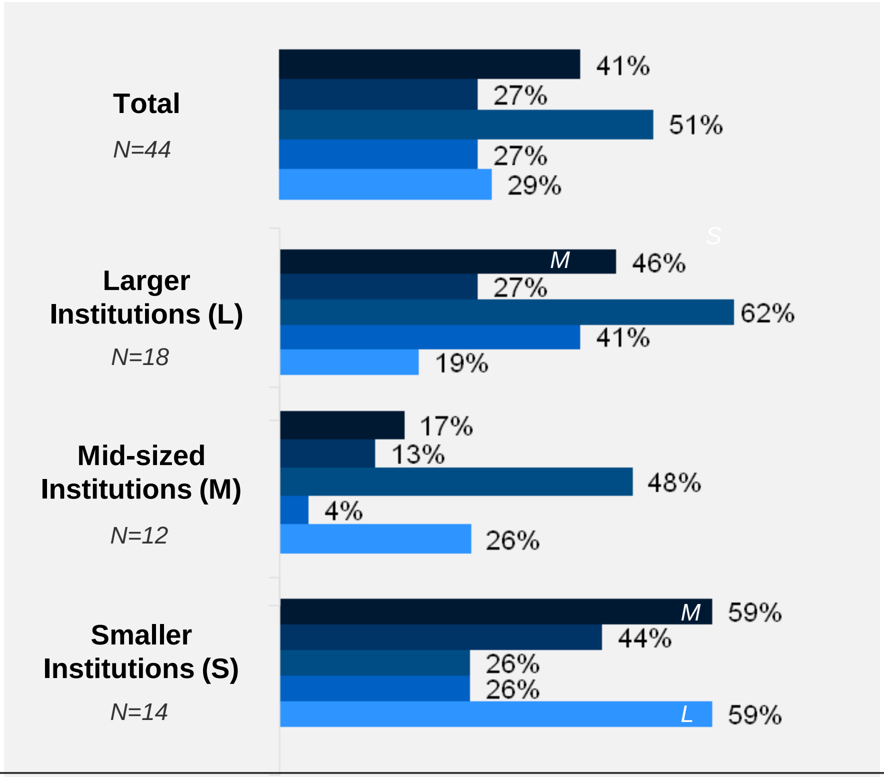
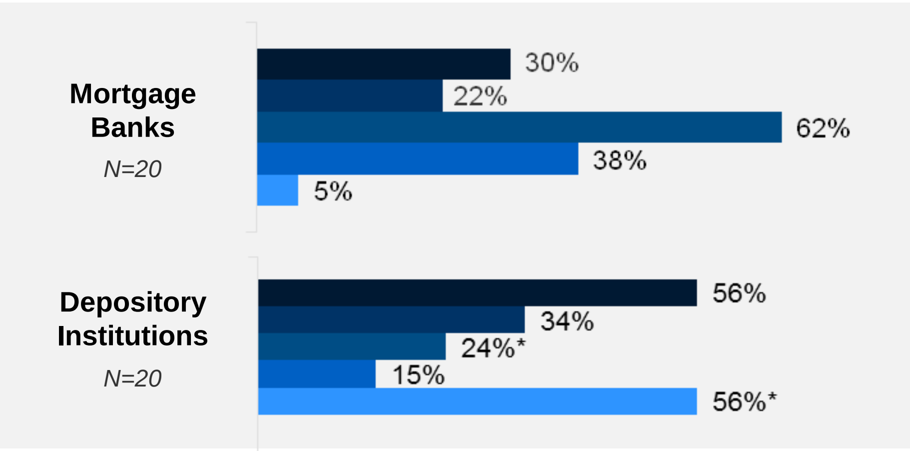
Easing Credit Standards Since 2013

Among institutions that reported eased credit standards, “lower FICO scores” was the most common reason given by larger and mid-sized institutions, while smaller institutions were most likely to attribute “higher LTV” and “more flexible in allowing strong records on some criteria to compensate for relatively weak records on other criteria.”

[If credits standards eased] You indicated that your credit standards have eased compared with one year ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that apply.



- Higher LTV (Loan to Home Value Ratio)
- Higher DTI (Debt to Income Ratio)
- Lower FICO (Borrower Credit Score)
- Relaxed other criteria (e.g., documentation, source of down payment, etc.)
- More flexible in allowing strong records on some criteria to compensate for relatively weak records on other criteria



L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
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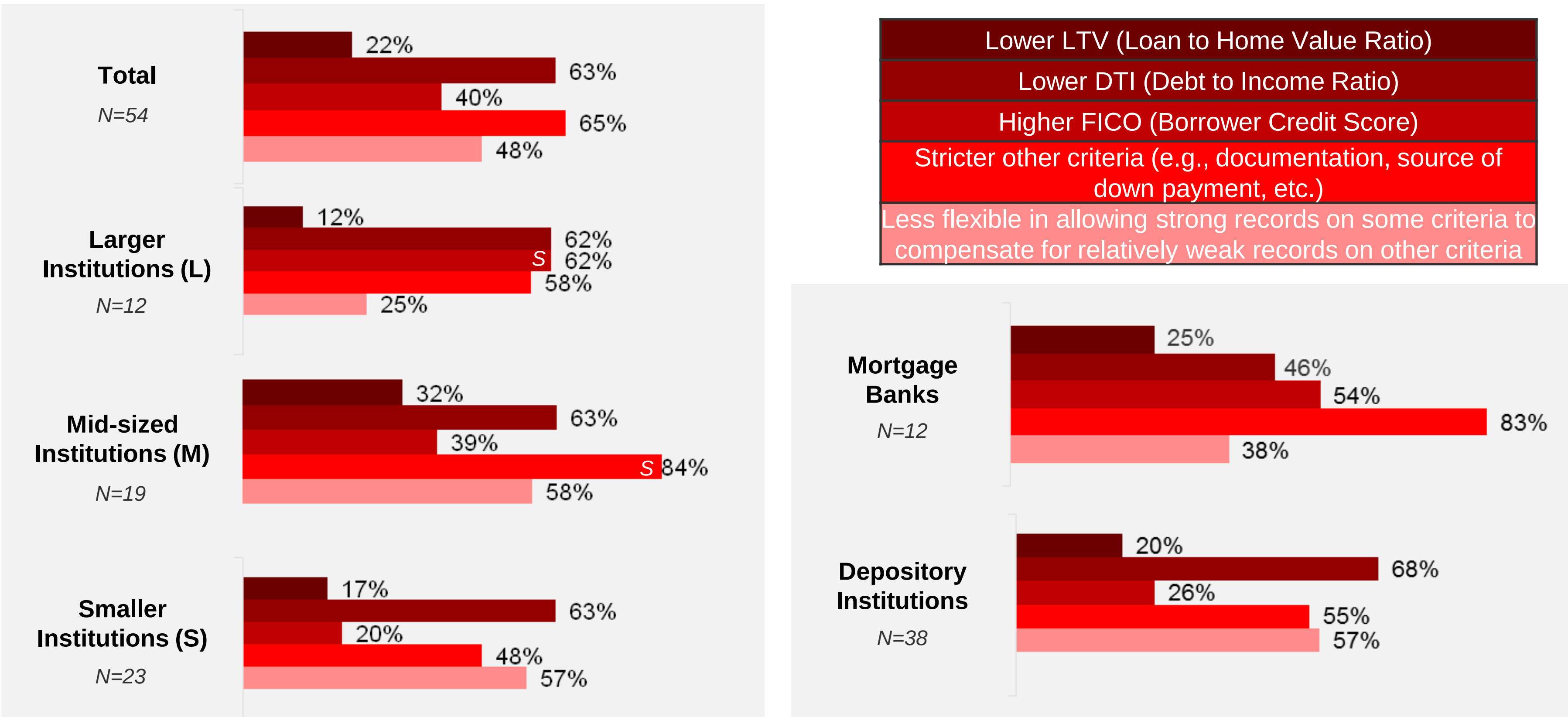
Tightening Credit Standards Since 2013

Among institutions that reported tighter credit standards, the majority of institutions of all sizes cited “lower DTI” was a reason for tightening their standards.

[If credits standards tightened] You indicated that your credit standards have tightened compared with one year ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that apply.



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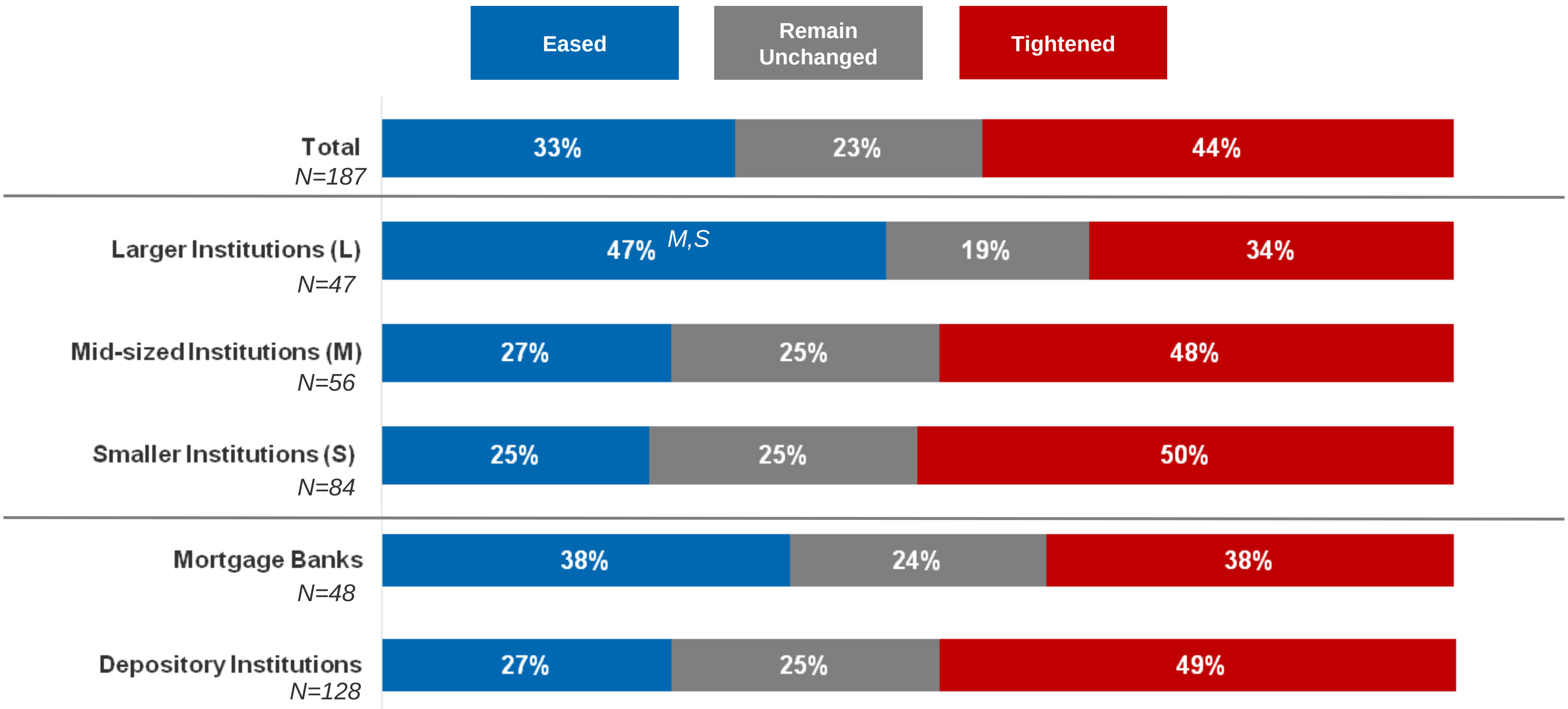
Changes in Credit Standards Since 2011

Compared to larger institutions, mid-sized and smaller institutions are more likely to say their credit standards have tightened compared with three years ago. Larger institutions are significantly more likely to say they have eased.

Compared with three years ago (around 2011), how have your firm's credit standards for approving consumer applications for mortgages changed (across both purchase mortgages and refinance mortgages)?



L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level
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.
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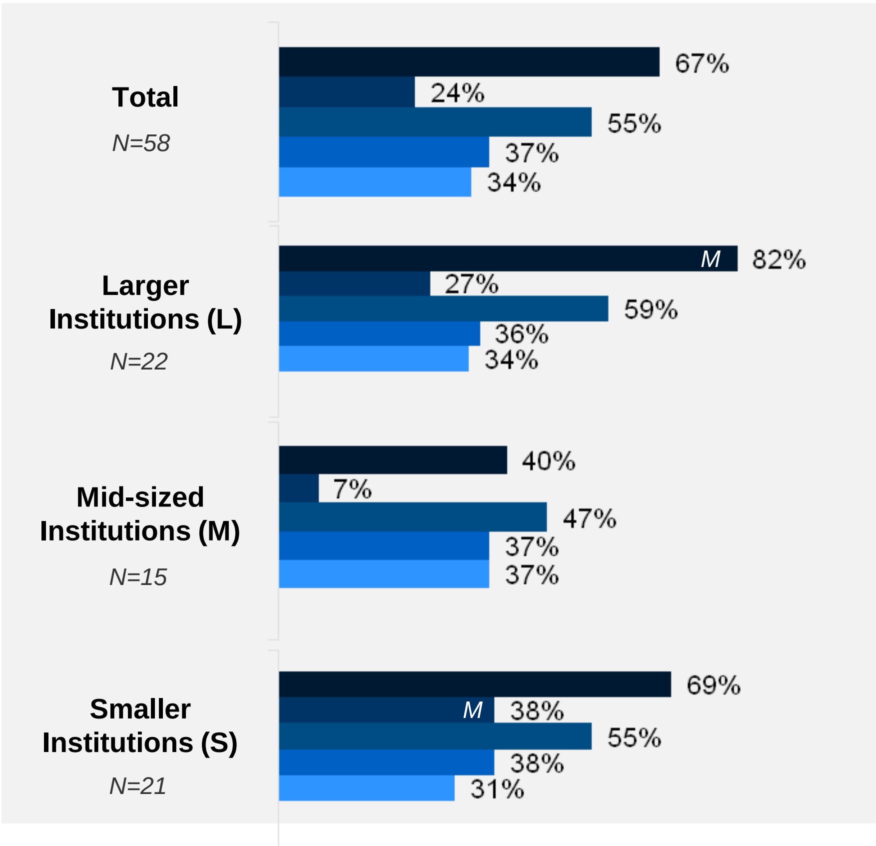
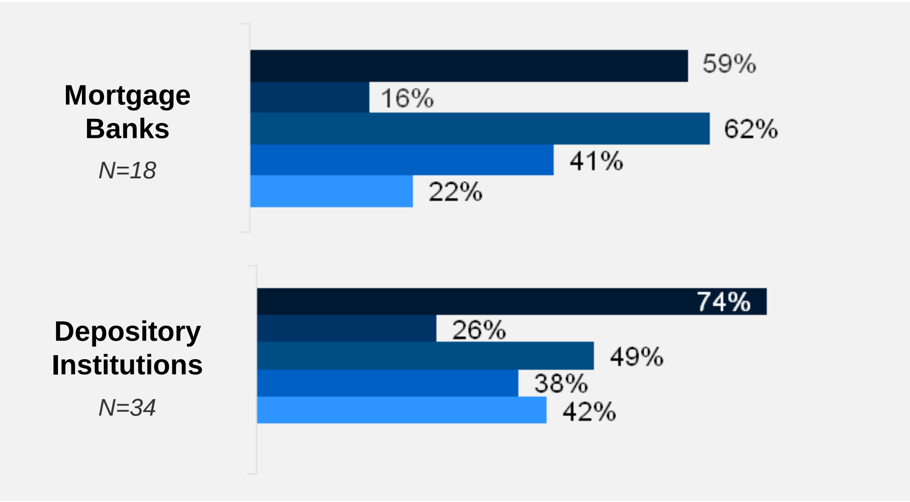
Changes to Underwriting Standards Since 2011

For institutions that reported eased credit standards, most cited higher LTV as a reason for easing their standards.

[If credits standards eased] You indicated that your credit standards have eased compared with three years ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that applies.

- Higher LTV (Loan to Home Value Ratio)
- Higher DTI (Debt to Income Ratio)
- Lower FICO (Borrower Credit Score)
- Relaxed other criteria (e.g., documentation, source of down payment, etc.)
- More flexible in allowing strong records on some criteria to compensate for relatively weak records on other criteria





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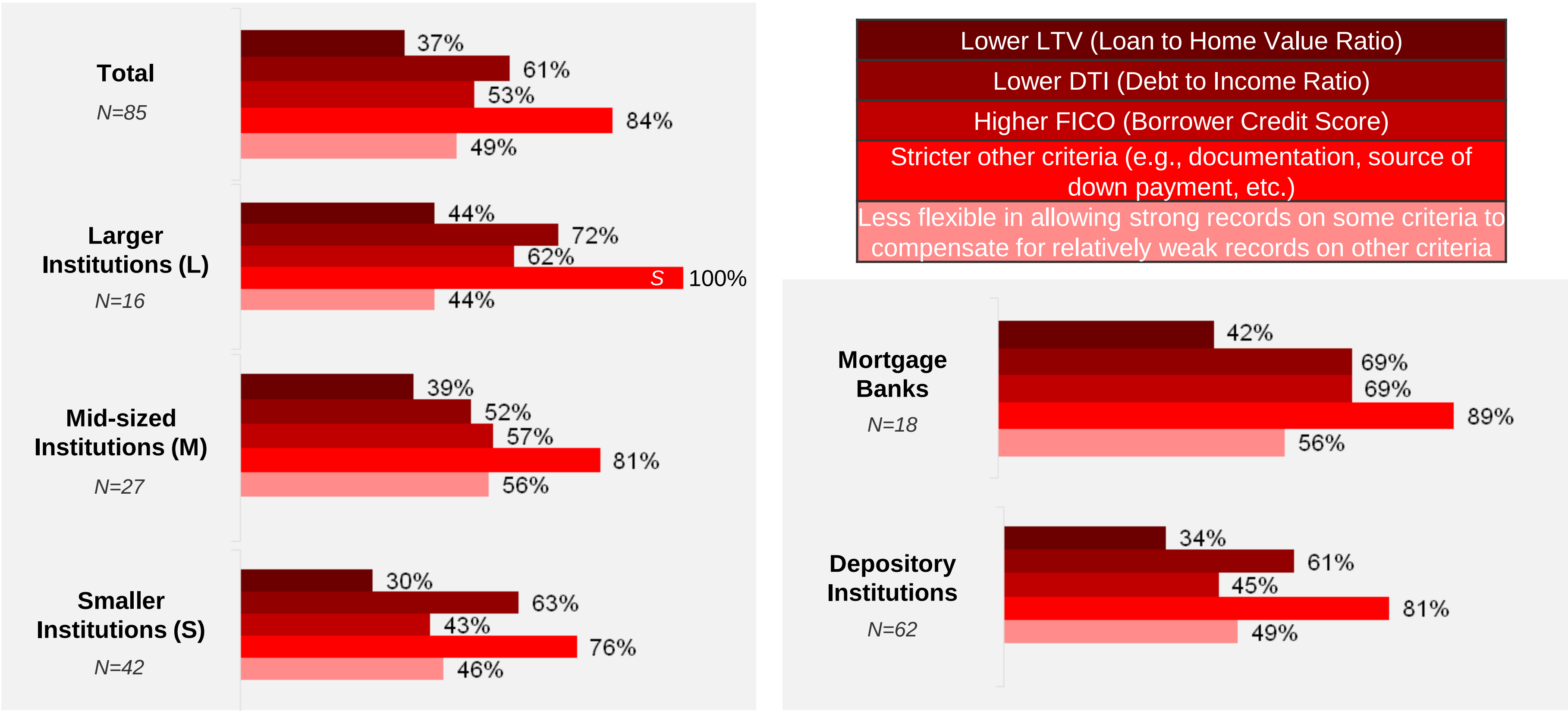
Changes to Underwriting Standards Since 2011

For institutions that reported tighter credit standards, most cited stricter "other criteria such as documentation" as a reason for tightening their standards.

[If credits standards tightened] You indicated that your credit standards have tightened compared with three years ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that applies.



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Question Text

qR44. Which of the following statements best describes your firm's mortgage origination strategy moving forward?

qR45a. Listed below are some possible reasons for firms to grow/maintain their mortgage origination volume. Please select **up to two** of the most important reasons that best describe your firm's decision to grow/maintain its mortgage origination volume and rank them in order of importance

qR45c. Listed below are some possible reasons for firms to [downsize their mortgage origination volume/exit the mortgage origination industry]. Please select **up to two** of the most important reasons that best describe your firm's decision to [downsize their mortgage origination volume/exit the mortgage origination industry] and rank them in order of importance.

qR46a. You indicated that your firm is looking to grow/maintain your mortgage origination volume. What primary strategies/tactics, if any, is your firm planning to use to grow/maintain its origination volume? Please check all that apply. qR15. Excluding legal resources needed for Quality-Control (Quality-Review) and Servicing, how many full-time, in-house compliance personnel does your firm currently have (including analysts, paralegals, lawyers, etc.)?

qR47. Listed below are some possible mortgage consumer segments. Please enter the approximate share of each consumer segment in contributing to your firm's total mortgage origination volume this year (2014). Please enter a percent in each box below. If a category is not applicable to your firm, please enter 0. The percentages below must add up to 100%. We realize that this might be a difficult question. Your best estimates are fine.

qR48. For each consumer segment listed below, please indicate the extent to which you expect its share of your firm's total mortgage origination volume to change from 2014 to 2015. Please note if the share(s) of some segments go up, some other segment shares will need to go down.

qR49. Does your firm develop or implement Direct-to-Consumer marketing programs or strategies for mortgage products?

qR50. Listed below are some possible mortgage consumer segments. For each consumer segment, please indicate whether your firm plans to make marketing investments in 2015 to increase your firm's penetration into the consumer segment as part of your firm's 2015 mortgage origination strategy.

qR51. Which of the following statements best describes your firm's long-term mortgage servicing strategy?

qR52a. Listed below are some possible reasons for firms to grow/maintain their mortgage servicing portfolio. Please select **up to two** of the most important reasons that best describe your firm's decision to grow/maintain its mortgage servicing portfolio and rank them in order of importance.

qR52c. Listed below are some possible reasons for firms to [downsize their mortgage origination volume/exit the mortgage origination industry]. Please select **up to two** of the most important reasons that best describe your firm's decision to [downsize their mortgage origination volume/exit the mortgage origination industry] and rank them in order of importance.

qR53. Compared with one year ago (around 2013), how have your firm's credit standards for approving consumer applications for mortgages changed (across both purchase mortgages and refinance mortgages)?

qR54a. You indicated that your credit standards have eased compared with one year ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that apply.

qR54b. You indicated that your credit standards have tightened compared with one year ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that apply.

Question Text

qR55. Compared with three years ago (around 2011), how have your firm's credit standards for approving consumer applications for mortgages changed (across both purchase mortgages and refinance mortgages)?

qR56a. You indicated that your credit standards have eased compared with three years ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that applies.

qR56b. You indicated that your credit standards have tightened compared with three years ago on the single-family mortgage loans you have originated. Which of the changes listed below applies to your underwriting standards? Please check all that applies.

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