

Mortgage Lender Sentiment Survey

Lenders' Assessment of Complying with Increased Regulations

Topic Analysis
October 15, 2014

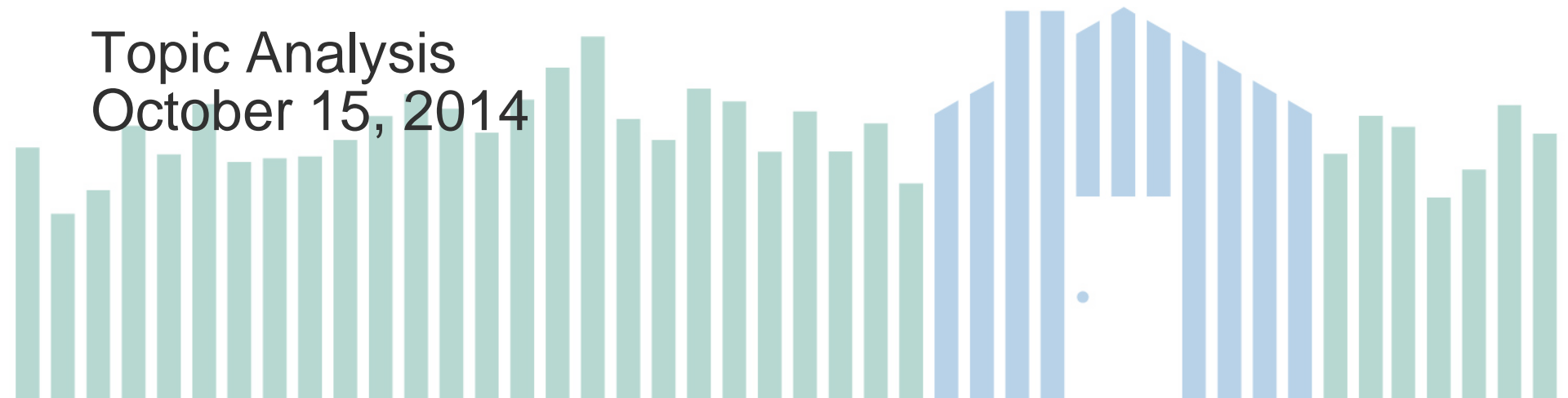


Table of Contents

Business Context and Research Objectives	3
Executive Summary	4
Respondent Sample and Groups	5
Findings	6
Appendix	13
Survey Methodology Details.....	14
Additional Findings.....	20
Survey Question Text.....	32

Business Context and Research Objectives

Business Context

The mortgage industry has faced several significant regulatory changes in recent years. The Office of the Comptroller of the Currency, the Consumer Finance Protection Bureau, the Federal Reserve, and the Federal Deposit Insurance Corporation have issued new rules and regulations that have affected the mortgage industry.¹

With the increased regulations, the current analysis examines lenders' business practices in complying with new regulations and their views about the impact of recent regulations on their business practices.

Research Objectives

- 1. How do lenders view the impact of recent regulations on their compliance costs, staffing level, and outsourcing decisions?**
- 2. What risks do lenders perceive as top priorities for their business?**

1 Examples include the Mortgage Banking booklet (<http://www.occ.gov/publications/publications-by-type/comptrollers-handbook/a-mb.pdf>), the Ability To Repay/Qualified Mortgage standards (<http://www.consumerfinance.gov/regulations/ability-to-repay-and-qualified-mortgage-standards-under-the-truth-in-lending-act-regulation-z/#rule>), and the Basel III capital requirements (<http://www.federalreserve.gov/bankinfo/reg/basel/USImplementation.htm> or https://www.fdic.gov/news/board/2014/2014-04-08_notice_dis_c_fr.pdf)

Executive Summary

Compliance Impact on Costs and Outsourcing

Most lenders (72%) reported that recent regulations have had “**significant**” impact on their business.

- Mid-sized lenders (84%) are much more likely to say that new regulations have had “significant” impact on their business.

A majority of lenders (72%) believe that **their compliance costs have increased from 2013 to 2014**. Across all lenders, lenders reported a **median increase of nearly 30%** in compliance spending.

- Mid-sized lenders reported the largest increase of 50%, on average, in compliance spending.

Post-closing Quality Control review and servicing are the business functions most commonly reported as being outsourced as a result of increased regulations and associated costs.

- Mid-sized lenders are more likely to outsource compliance functions.

Top Risk Concerns

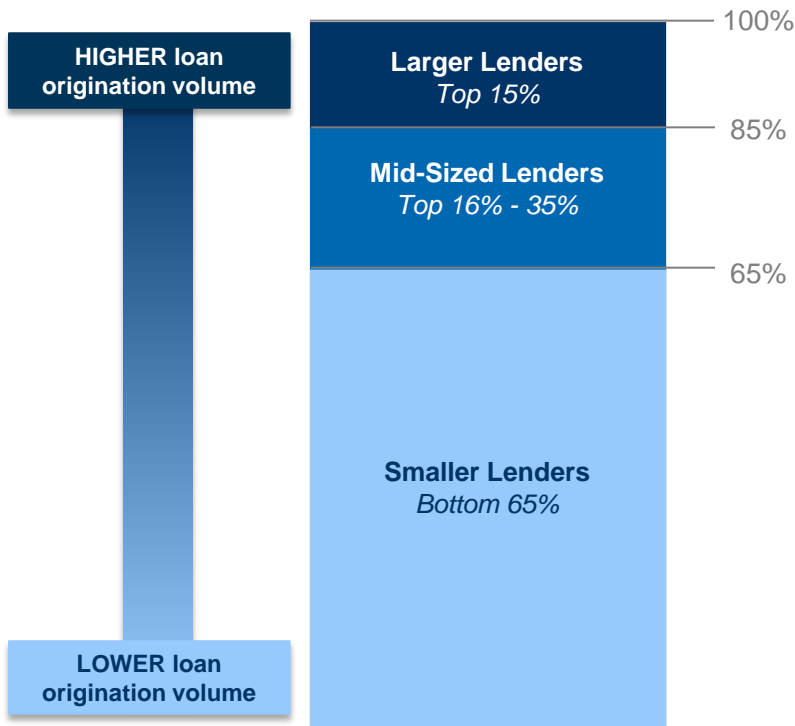
Compliance risk is reported as the top area of focus for most lenders this year.

- Larger lenders are more concerned with Operational risk while smaller lenders are more concerned with Credit risk and Interest Rate risk.

Respondent Sample and Groups

This analysis is based on the third quarter's data collection. A total of 214 senior executives completed the survey between August 6 and August 23, representing 196 lending lenders.*

Loan Origination Volume Groups**



Sample Q3-2014		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.		196
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)	50
	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)	55
	Smaller Lenders Fannie Mae's customers whose 2012 total industry loan origination volume was in the bottom 65% (less than \$325 million)	91
Institution Type***	Mortgage Banks (non-depository)	57
	Depository Institutions (including credit unions)	128

* 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 is 2012.

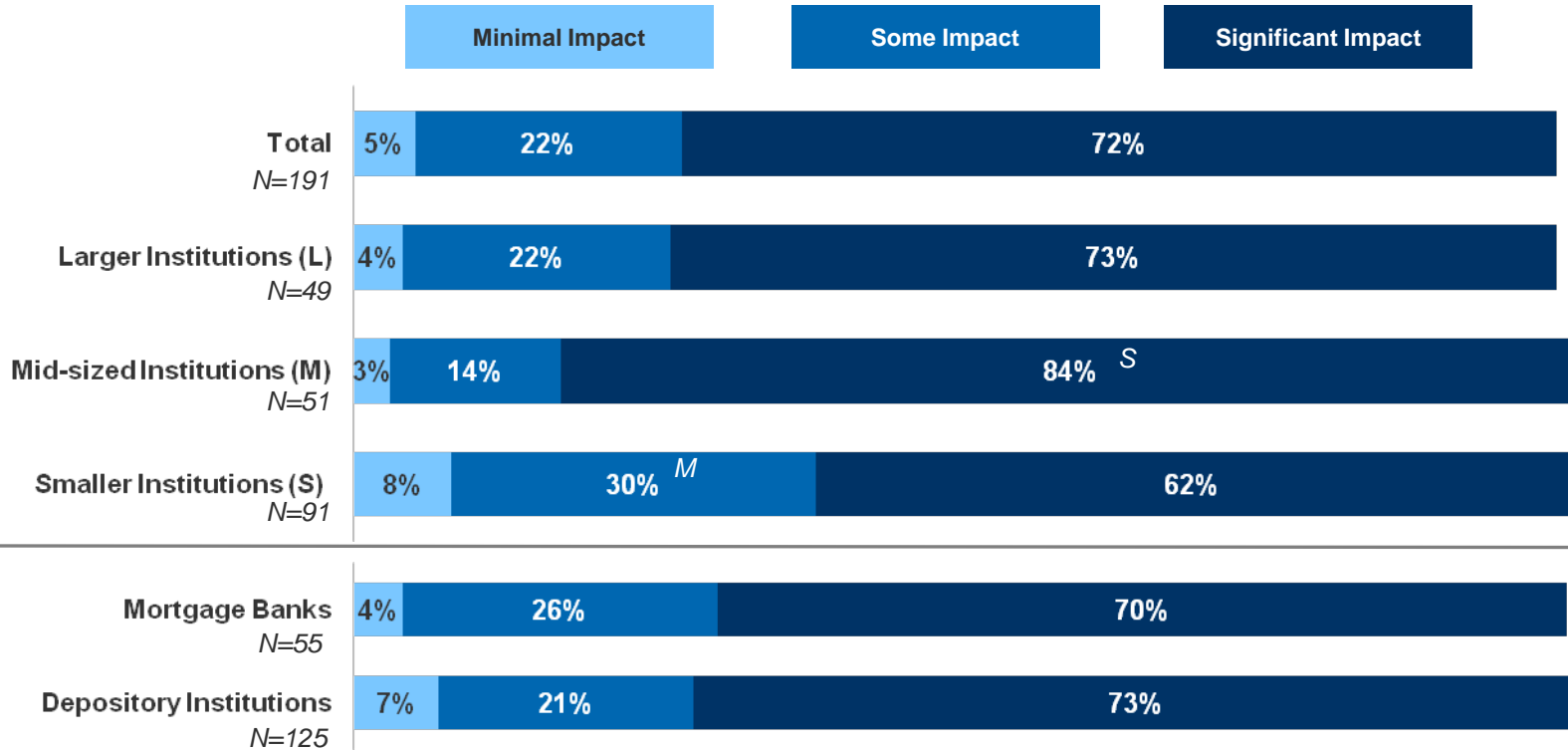
*** Lenders that are not classified into mortgage banks or depository institutions are mostly housing finance agencies.

Perceived Impact of Regulations

On average, 72% of lenders say that recent regulations have had “significant” impact on their business.

- Mid-sized lenders are much more likely than smaller lenders to say that recent regulations have had “significant” impact on their business.

Recently, regulations across the Office of the Comptroller of the Currency (e.g., “Mortgage Banking” booklet), Consumer Finance Protection Bureau (e.g., Qualified Mortgage rules), and the Federal Reserve/FDIC/OCC (e.g., Basel III capital rule) have been important topics for the mortgage industry. To what extent do these regulations impact your business?



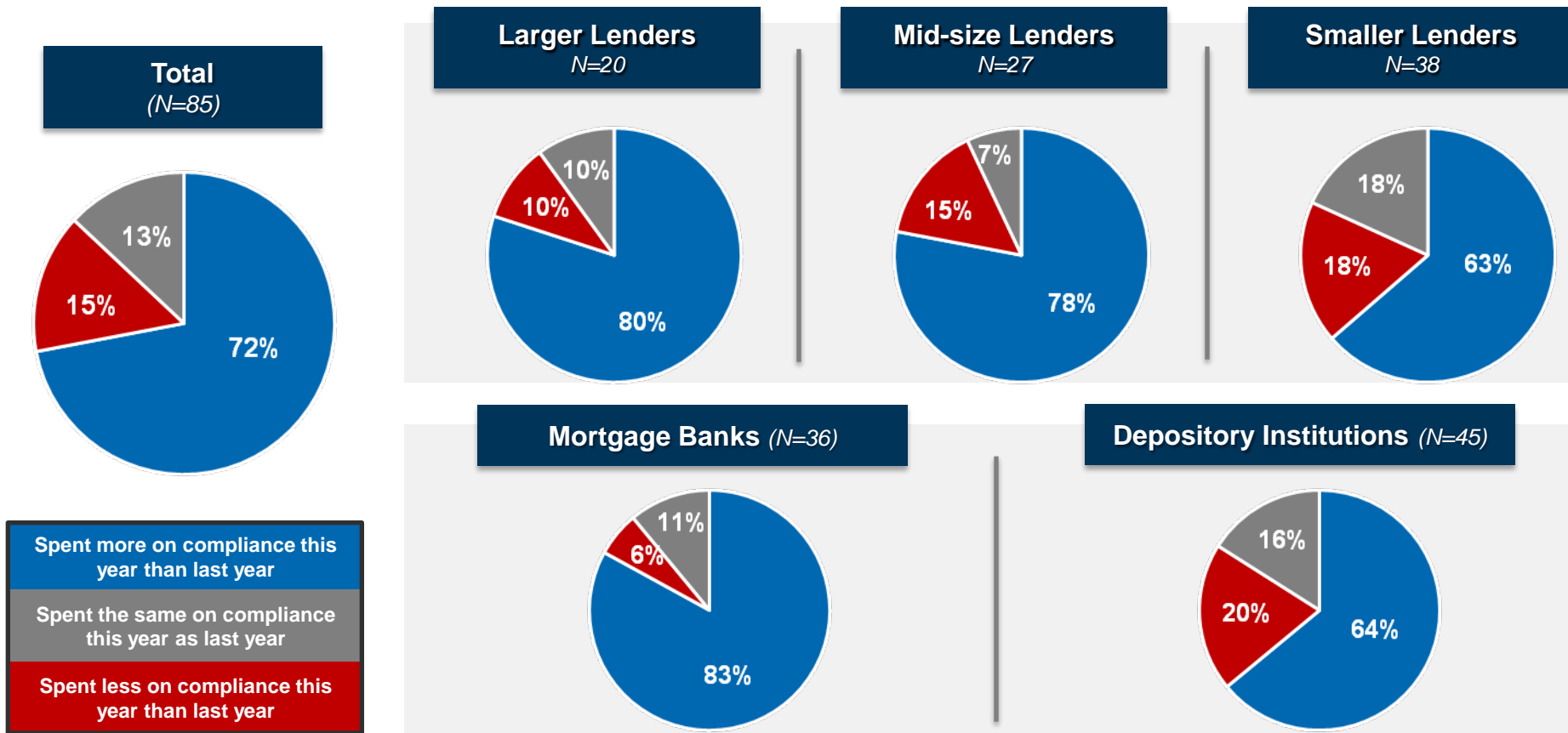
L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level

*Denotes Depository Institutions are significantly different higher 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.” Percentages may add to under or over 100% due to rounding.

Compliance Cost Change from 2013 to 2014

A majority of lenders surveyed (72%) reported that their compliance costs have increased from 2013 to 2014.

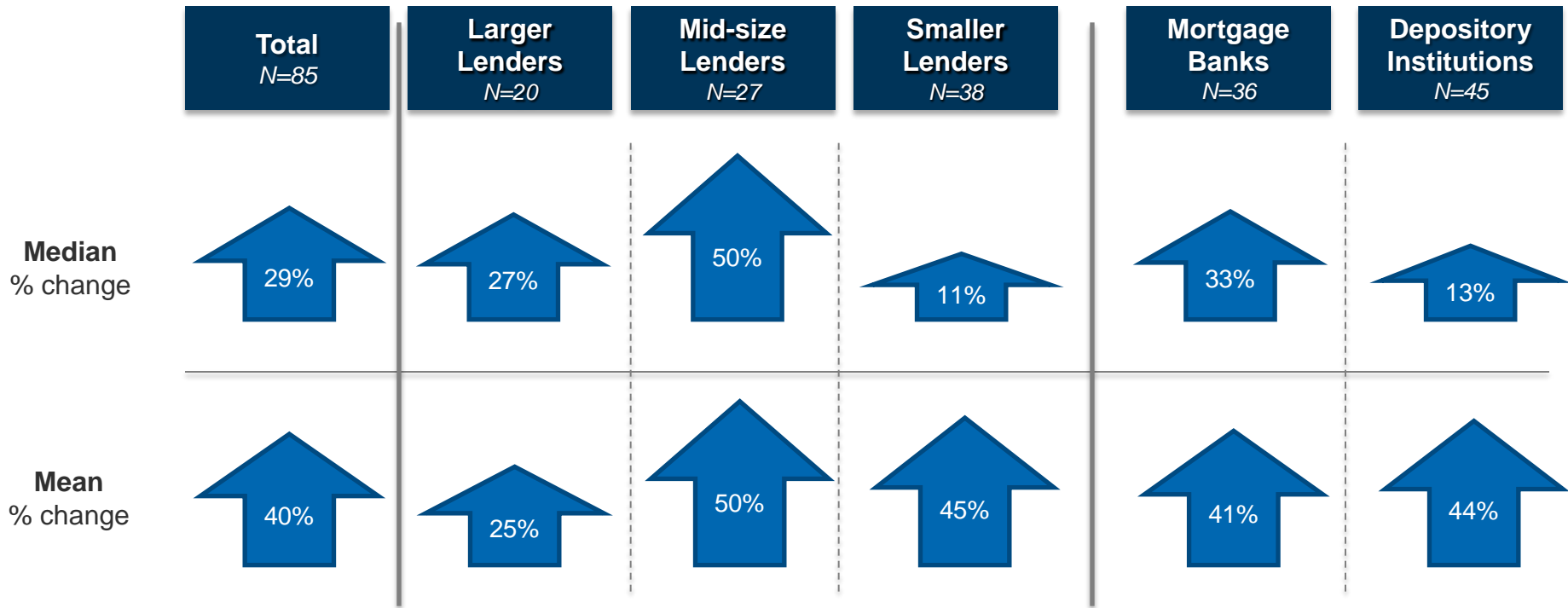


Please note small base sizes. Out of the total 196 institutions surveyed, 106 institutions did not answer the 2013 and/or the 2014 compliance cost questions and another five institutions were removed because the compliance cost entered was more than two standard deviations higher or lower than the mean of their annual loan origination volume group.
 Question Text: Including full-time in-house personnel mentioned before and any third-party vendors used, approximately how much does your firm expect to spend on Compliance this year (the whole year of 2014)?
 Including full-time in-house personnel and any third-party vendors used, approximately how much did your firm spend on Compliance last year (the whole year of 2013)?

Compliance Cost Change from 2013 to 2014

Across all lenders, a median increase of nearly 30% in compliance spending was reported.

- Mid-sized institutions reported the largest increase of 50%, on average.



% change = (estimated 2014 compliance cost – 2013 compliance cost) / 2013 compliance cost, calculated at the institution level.

The values above are based on all responses (not just those whose compliance costs increased).

Please note small base sizes. Out of the total 196 institutions surveyed, 106 institutions did not answer the 2013 and/or the 2014 compliance cost questions and another five institutions were removed because the compliance cost entered was more than two standard deviations higher or lower than the mean of their annual loan origination volume group.

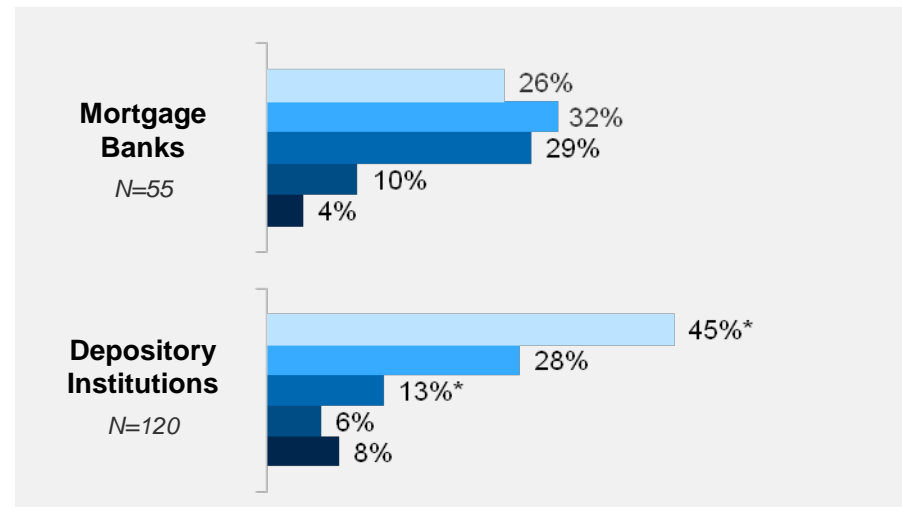
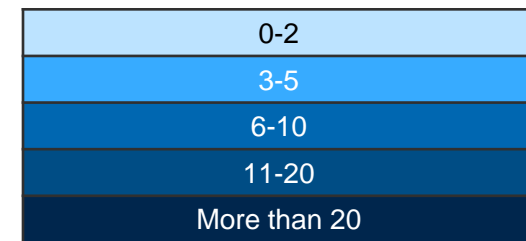
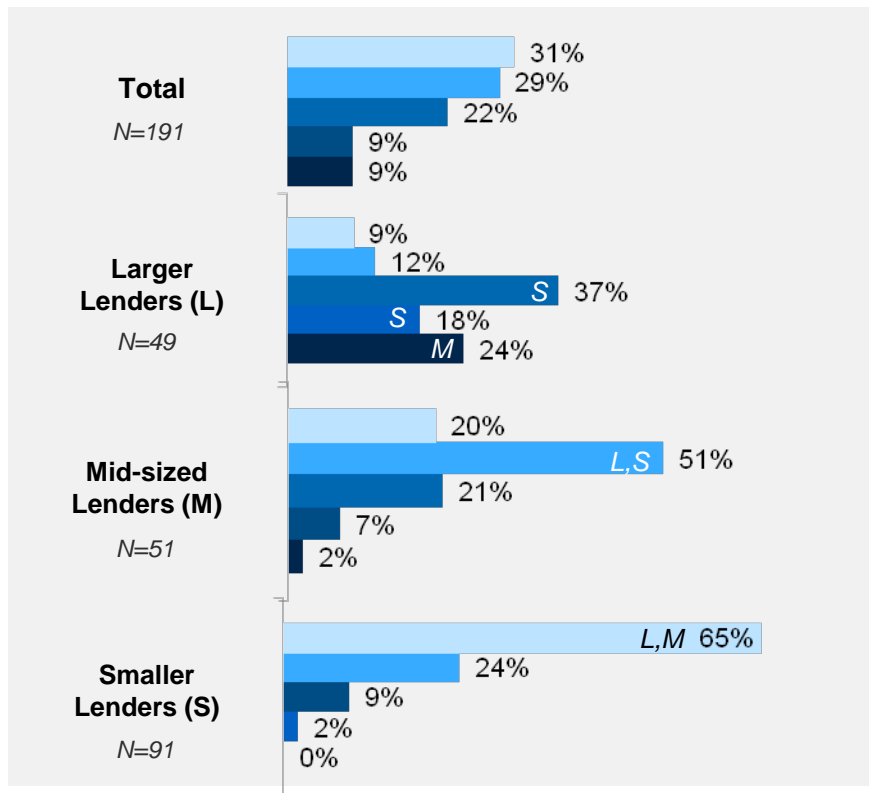
Question Text: Including full-time in-house personnel mentioned before and any third-party vendors used, approximately how much does your firm expect to spend on Compliance this year (the whole year of 2014)?

Including full-time in-house personnel and any third-party vendors used, approximately how much did your firm spend on Compliance last year (the whole year of 2013)?

Compliance Staffing

A majority of smaller lenders report having 0 to 2 in-house compliance personnel, mid-sized lenders tend to report 3 to 5, and most larger lenders report 6 or more.

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.)?



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Q: Approximately how many total full-time employees does your firm currently have? (Optional)

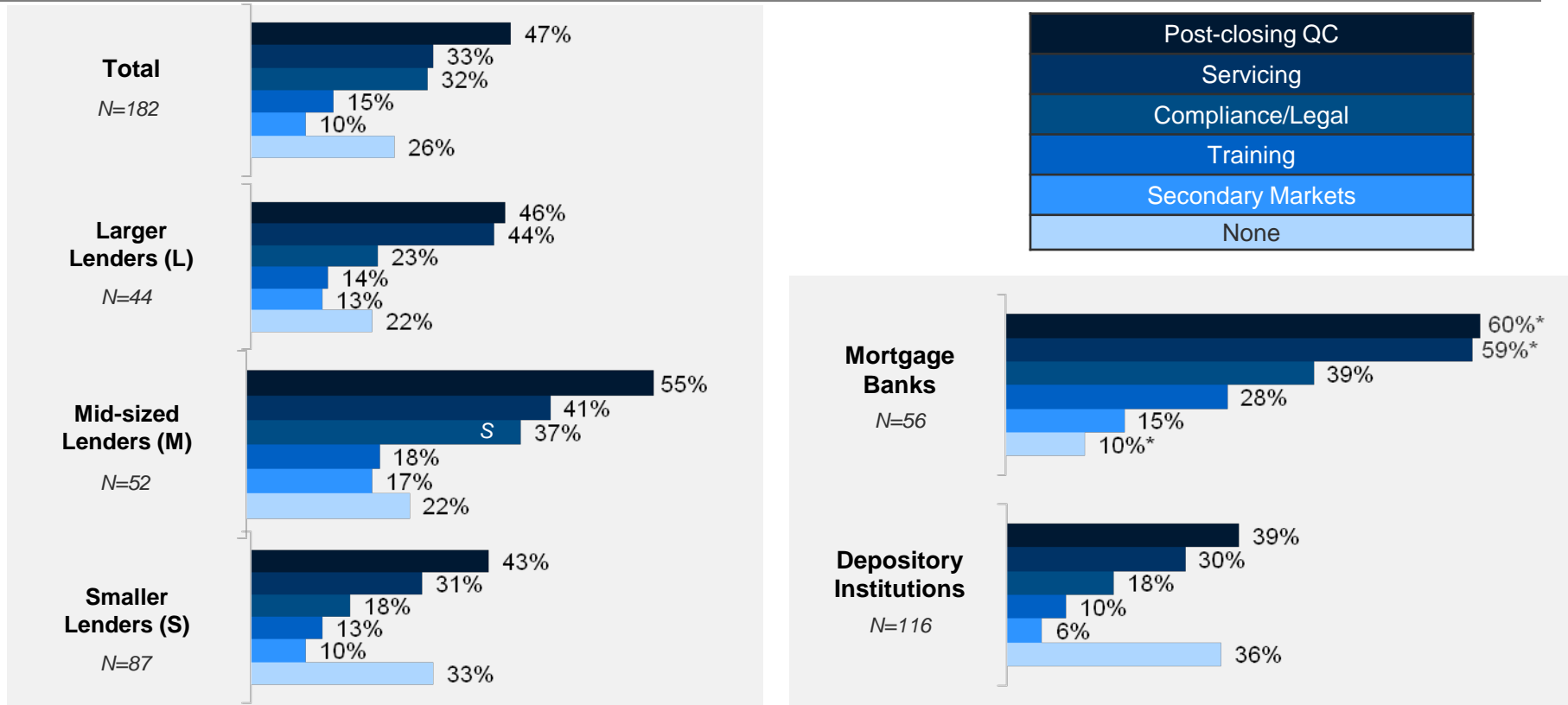
Please note that percentages are based on the number of financial institutions that gave responses other than "Not Applicable." Percentages may add to under or over 100% due to rounding.

Outsourcing Business Functions

Post-closing quality control review and servicing are the business functions most commonly reported as being outsourced because of increased regulations and associated costs.

- Mid-sized lenders are more likely than smaller lenders to outsource compliance/legal functions.

What business functions have you decided to outsource, partially or fully, due to increased regulations and associated costs? (Check all that apply)



Showing responses that were selected by at least 10% of the total sample

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

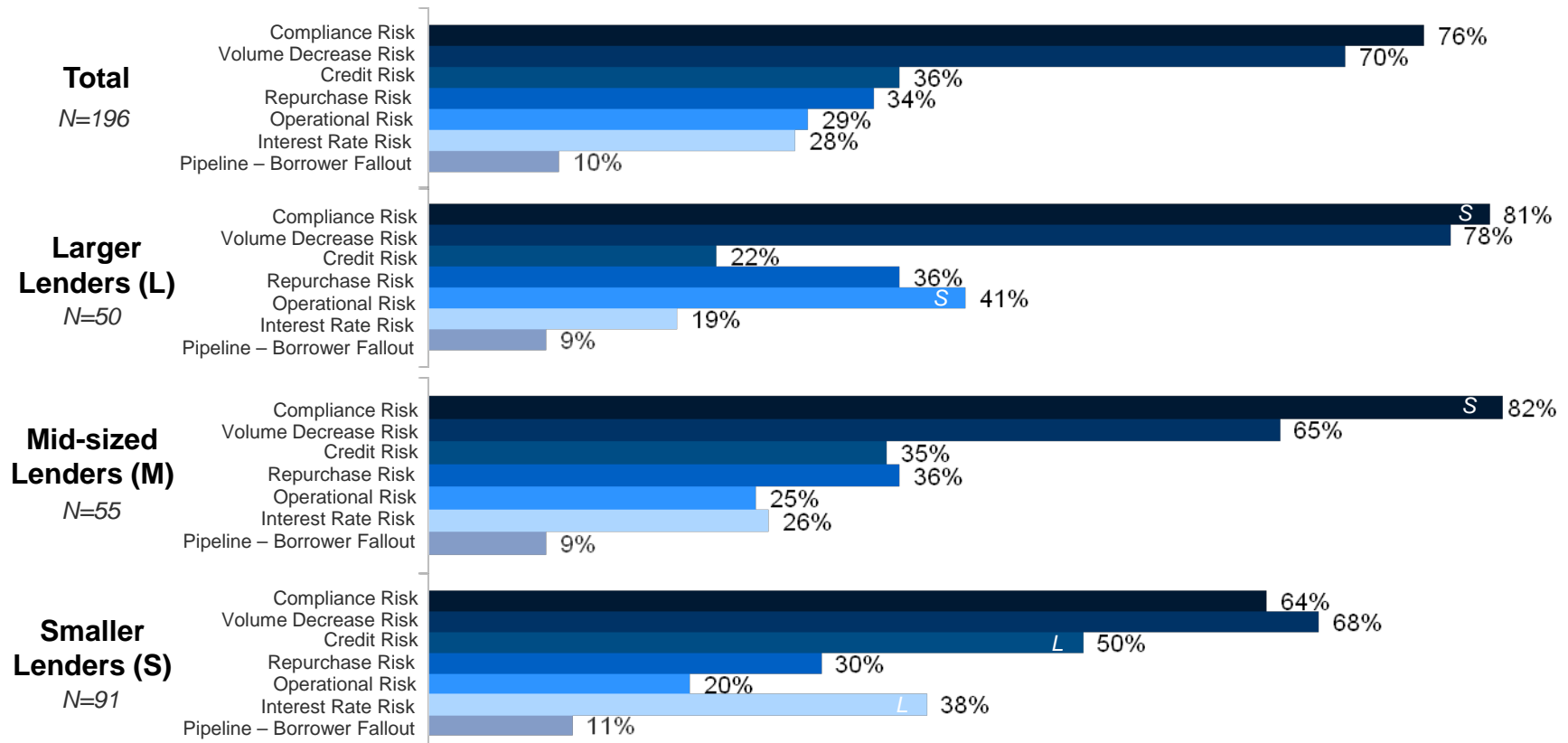
* Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level

2014 Top Risk Concerns

Compliance risk is the top area of focus for most lenders this year.

- Larger lenders are more concerned with operational risk than smaller lenders.
- Smaller lenders are more concerned with credit risk and interest rate risk.

Please select up to three risks that are your firm's top areas of focus this year (2014).



Please see p. 32 for the definitions of risks.

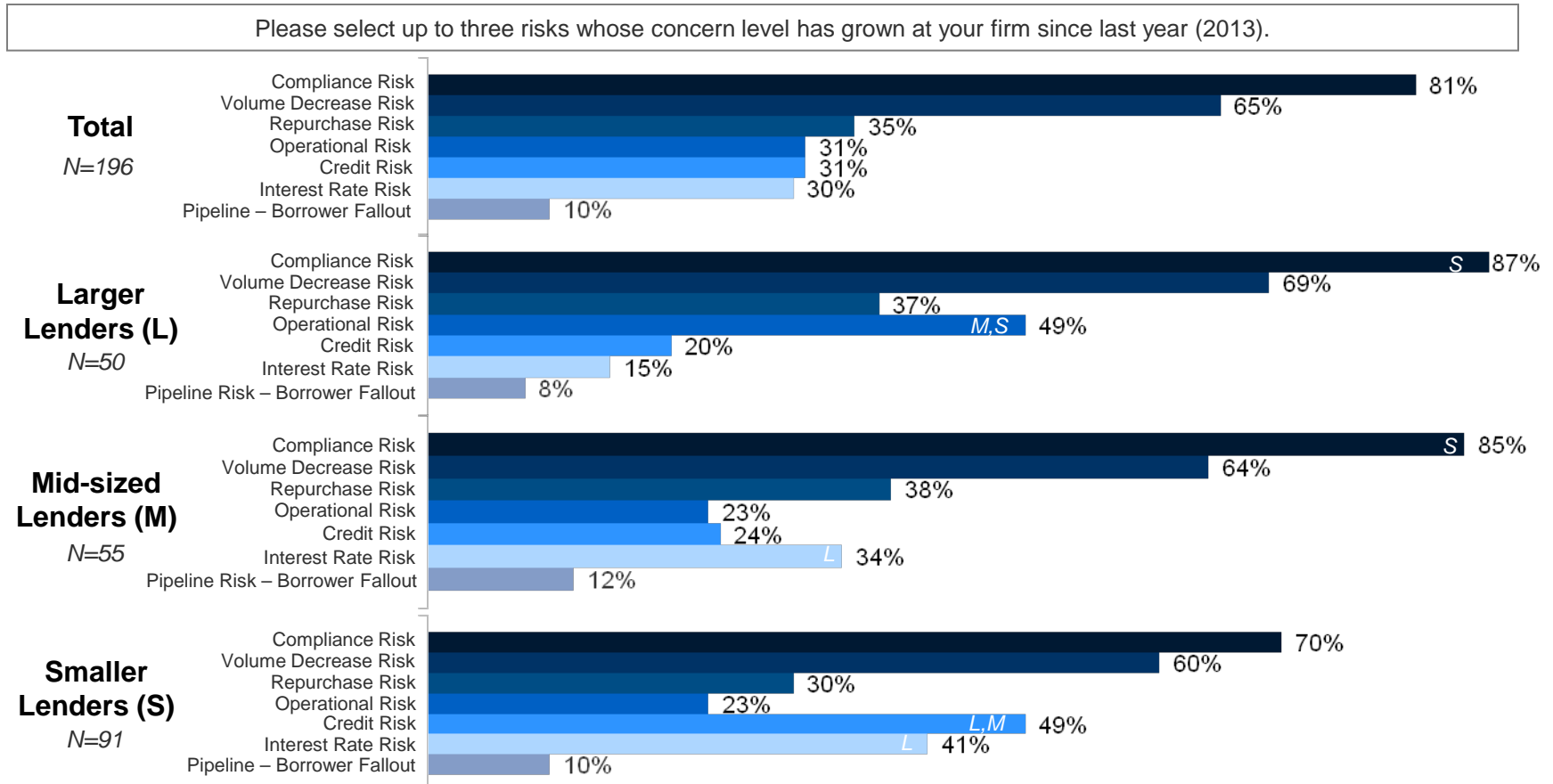
Showing responses that were selected by at least 10% of the total sample

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Risk Concern Growth Since 2013

Compliance risk concern has grown across all sizes of lenders.

- Larger lenders' concern about operational risk has grown more, compared to mid-sized and smaller lenders.
- Concerns about credit and interest rate risk have grown more with smaller lenders than with larger lenders.



Please see p. 32 for the definitions of risks

Showing responses that were selected by at least 10% of the total sample

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APPENDIX

Survey Methodology Details.....	13
Additional Findings.....	19
Survey Question Text.....	31

Survey Background

- The Fannie Mae 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):
<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

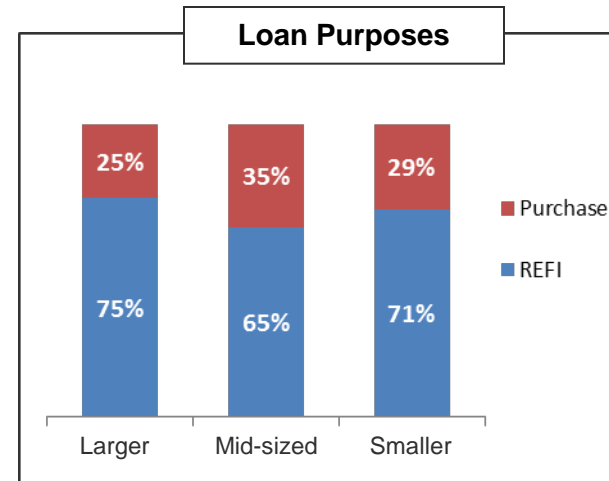
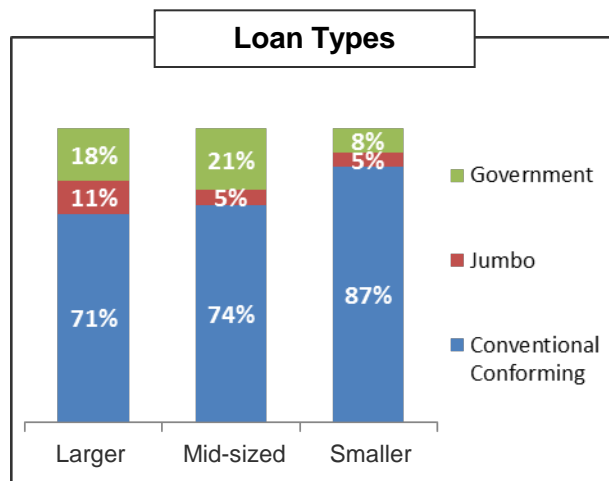
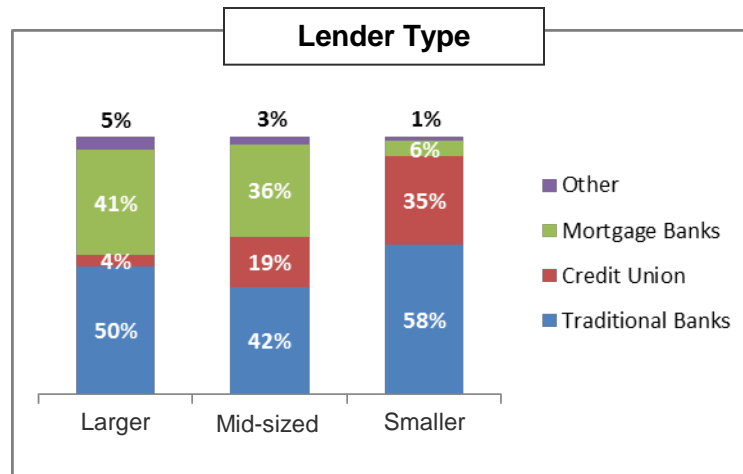
- Each quarter, a random selection of approximately 2,000 senior executives among Fannie Mae's approved lenders are invited to participate in the study.

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 who 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. Lenders 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 lenders.



2014 Q3 Cross-Subgroup Sample Sizes

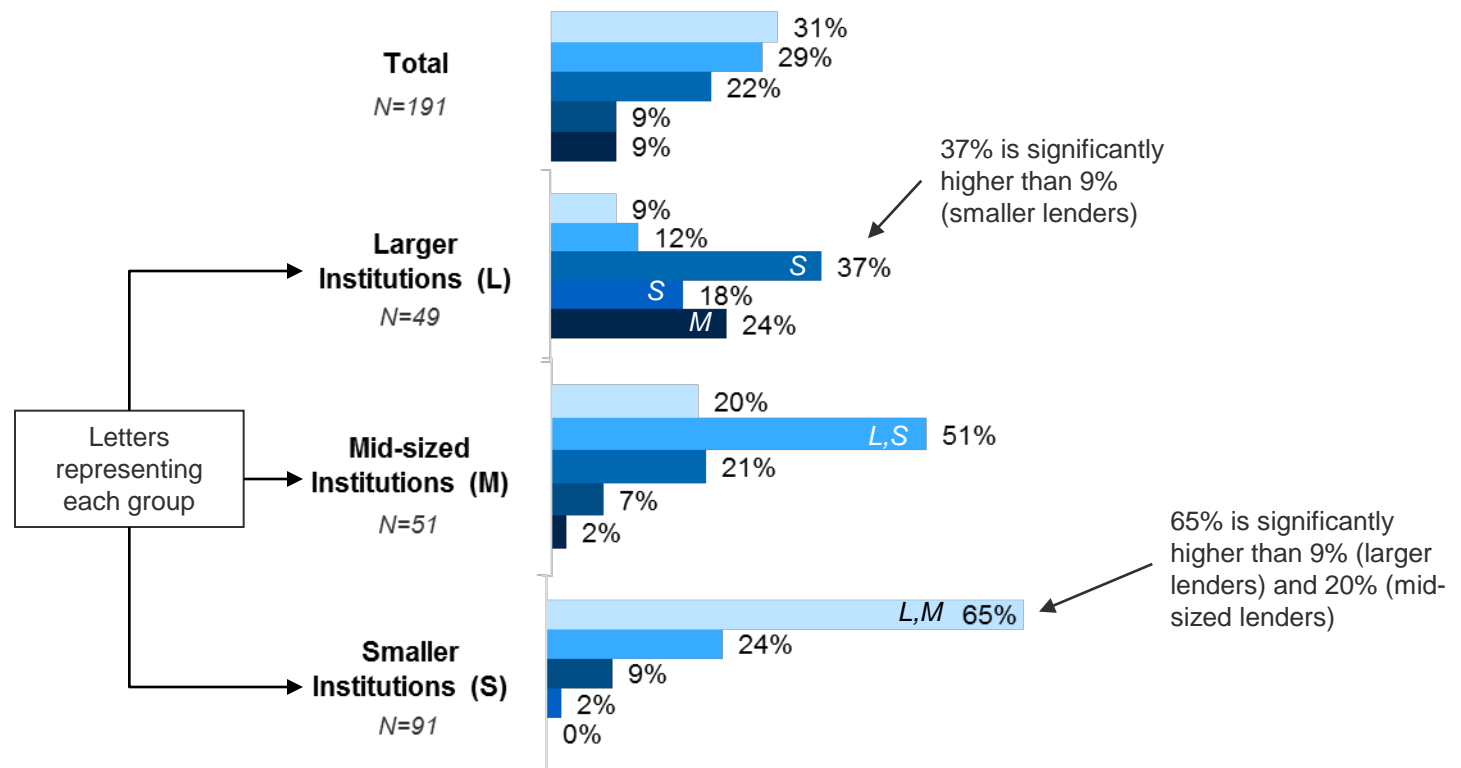
	Total	Larger Lenders	Mid-Sized Lenders	Smaller Lenders
Total	196	50	55	91
Mortgage Banks (non-depository)	57	26	19	12
Depository Institutions (including credit unions)	128	20	33	75

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:

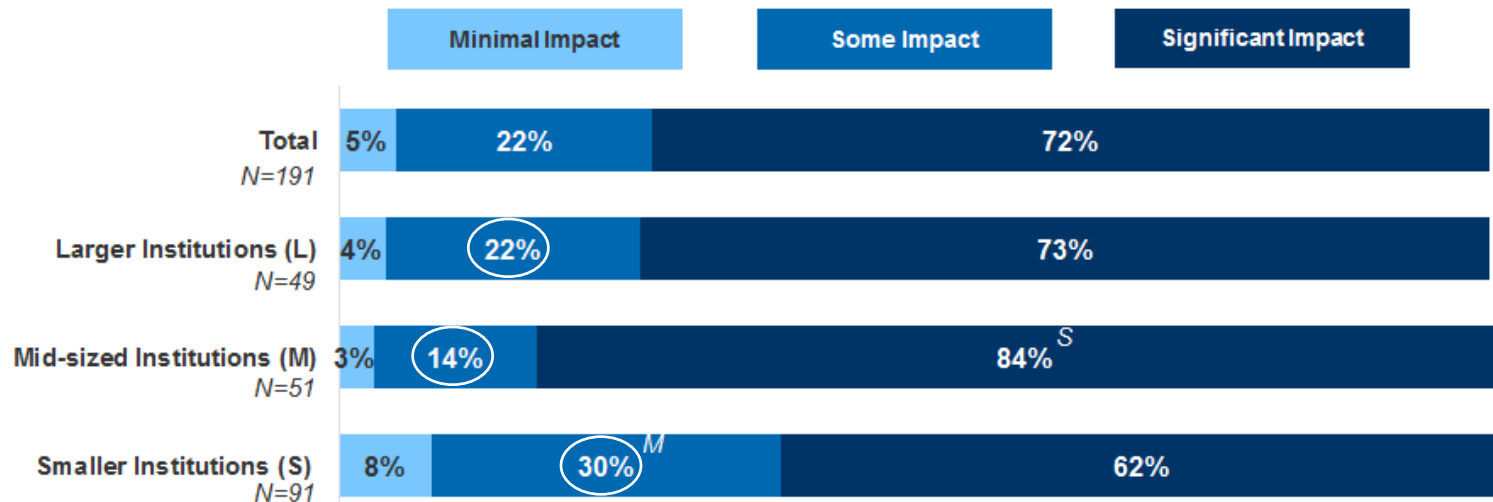


Calculation of the “Total”

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.

Recently, regulations across the Office of the Comptroller of the Currency (e.g., “Mortgage Banking” booklet), Consumer Finance Protection Bureau (e.g., Qualified Mortgage rules), and the Federal Reserve/FDIC/OCC (e.g., Basel III capital rule) have been important topics for the mortgage industry. The next section aims to capture your views related to the impact of regulations on your business.

To what extent do these regulations impact your business?



Example:

“Total” of 22% is
 $(22\% + 14\% + 30\%) / 3$

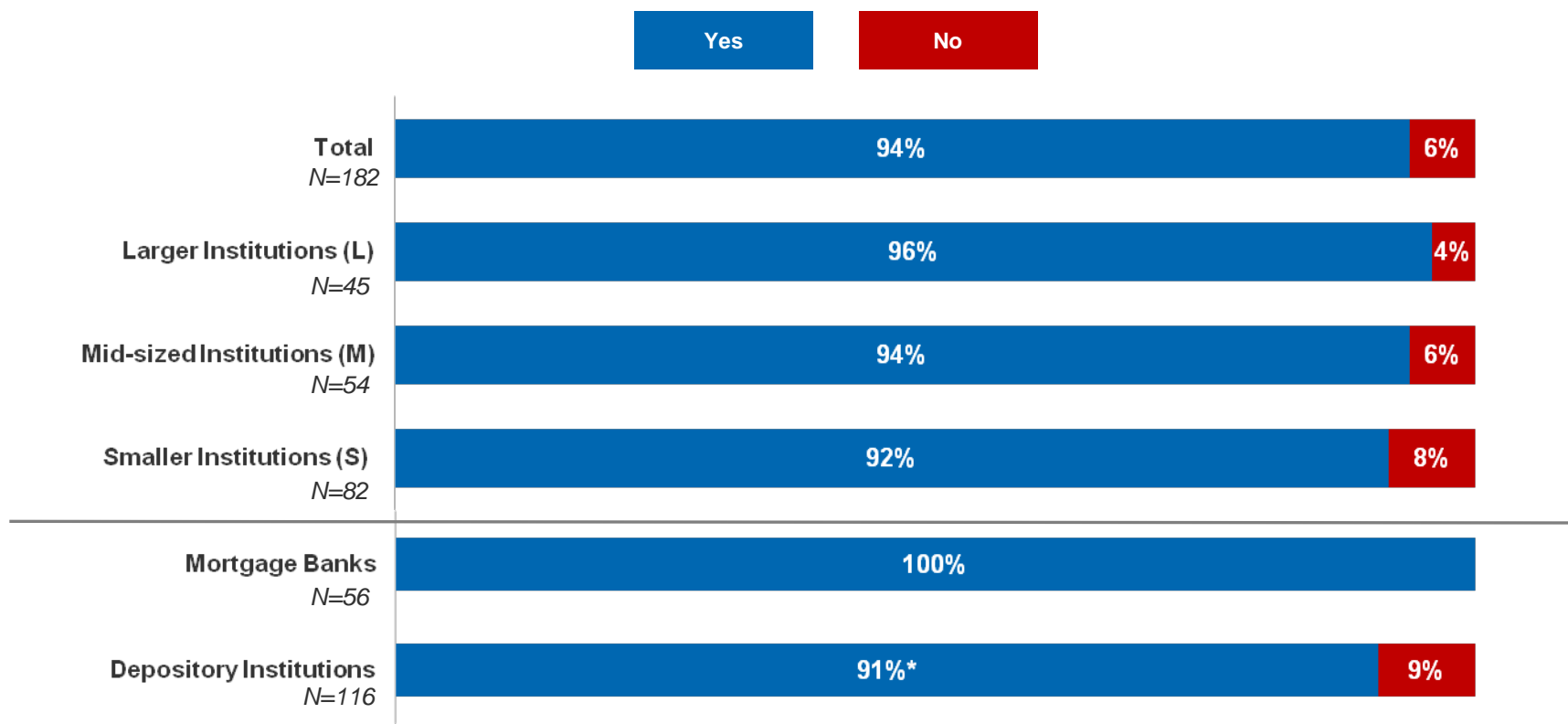
Use of Third-Party Vendors for Compliance

Regardless of size, almost all lending institutions report using third-party vendors to help fulfill compliance requirements.

Besides in-house staff, do you currently use third-party vendors (including subscriptions, compliance attorney review, outside counsel, etc.) to help fulfill your compliance requirements?

Yes

No



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Compliance Cost Change from 2013 to 2014

	<i>N</i> =	Mean	Median	Mode	Min	Max
Total	85	29%	40%	0%	- 75%	800%
Larger Lenders (L)	20	27%	25%	67%	- 37%	67%
Mid-sized Lenders (M)	27	50%	50%	25%	- 75%	167%
Smaller Lenders (S)	38	11%	45%	0%	- 50%	800%
Mortgage Banks (non-depository)	36	33%	41%	0%	- 75%	150%
Depository Institutions (including credit unions)	45	13%	44%	0%	- 50%	800%

% change = (estimated 2014 compliance costs – 2013 compliance cost) / 2013 compliance cost, calculated at the institution level.

Responses were removed if the compliance cost entered by the respondent was more than two standard deviations higher or lower than the mean of their annual loan origination volume group.

Question Text: Including full-time in-house personnel mentioned before and any third party vendors used, approximately how much does your firm expect to spend on Compliance this year (the whole year of 2014?

Including full-time in-house personnel and any third-party vendors used, approximately how much did your firm spend on Compliance last year (the whole year of 2013)?

Outsourcing Business Functions (By Loan Volume Group)

What business functions have you decided to outsource, partially or fully, due to increased regulations and associated costs? <i>(Check all that apply)</i>	Total	Larger Lenders (L)	Mid-sized Lenders (M)	Smaller Lenders (S)
N=	182	44	52	87
Post-closing QC (Quality Control) review	47%	44%	55%	43%
Servicing	33%	46%	37%	18%
Compliance/Legal	32%	23% ^S	41% ^S	31%
Training	15%	14%	18%	13%
Secondary Marketing/Capital Markets	10%	9%	17%	5%
Underwriting (including fee-based individual contractors)	9%	8%	9% ^S	10%
Processing (including fee-based individual contractors)	7%	11%	3%	6%
Marketing	7%	5%	6%	9%
Origination (third-party originators such as mortgage brokers or correspondents)	6%	13%	2%	3%
Accounting	3%	0%	3%	6%
Other	7%	9%	5%	8%
None (We don't outsource any of the functions)	26%	22%	22%	33%

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Outsourcing Business Functions (By Institution Type)

What business functions have you decided to outsource, partially or fully, due to increased regulations and associated costs? <i>(Check all that apply)</i>	Mortgage Banks	Depository Institutions
N=	56	116
Post-closing QC (Quality Control) review	60%*	39%
Servicing	59%*	18%
Compliance/Legal	39%	30%
Training	28%*	9%
Secondary Marketing/Capital Markets	15%	6%
Processing (including fee-based individual contractors)	7%	6%
Marketing	7%	7%
Origination (third-party originators such as mortgage brokers or correspondents)	6%	5%
Underwriting (including fee-based individual contractors)	6%	10%
Accounting	5%	2%
Other	8%	5%
None (We don't outsource any of the functions)	10%*	36%

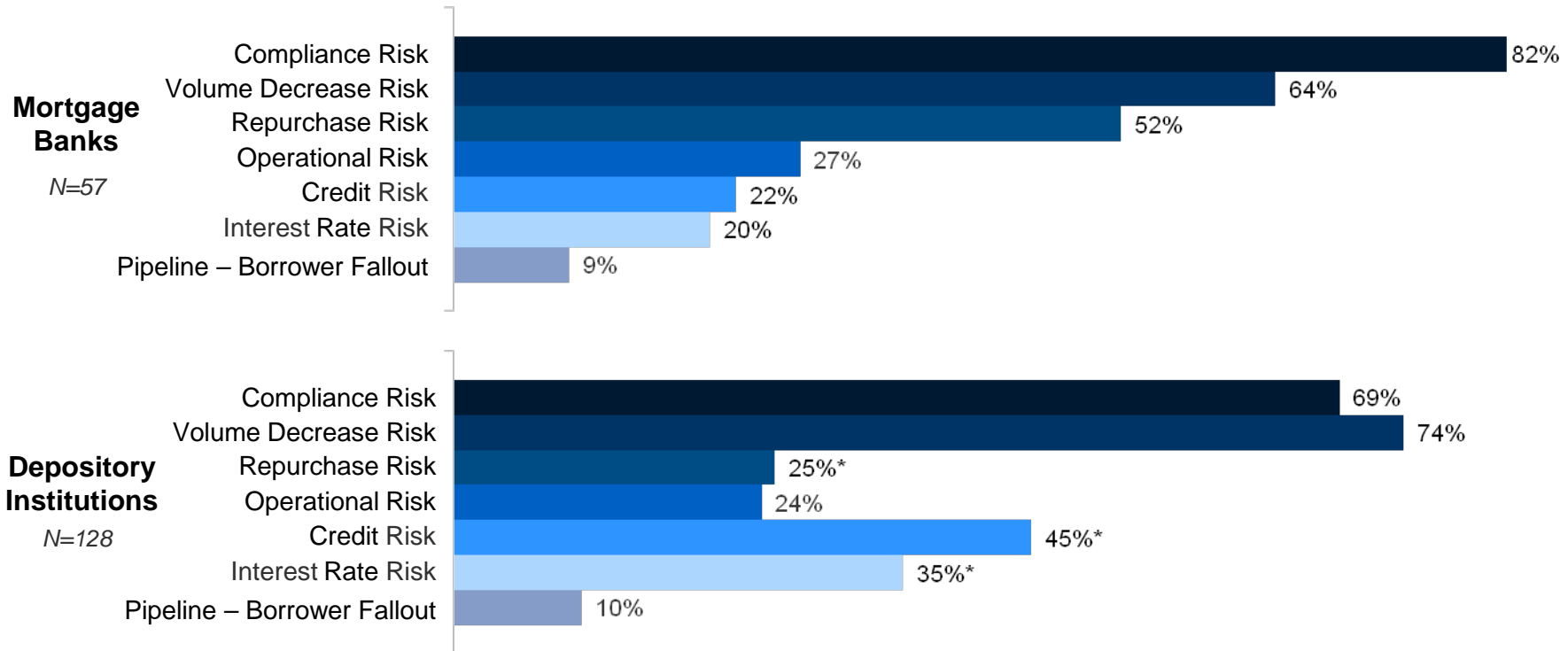
* Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level

2014 Top Risk Concerns (By Institution Type)

Compliance risk and Volume Decrease risk are top areas of focus for Mortgage Banks and Depository Institutions.

- Mortgage Banks are more concerned with Repurchase risk.
- Depository Institutions are more concerned with Credit risk and Interest Rate risks.

Listed below are different risks associated with mortgage banking. Please select up to three risks that are your firm's top areas of focus this year (2014).



Please see p. 32 for the definitions of risks

Showing responses that were selected by at least 10% of the total sample

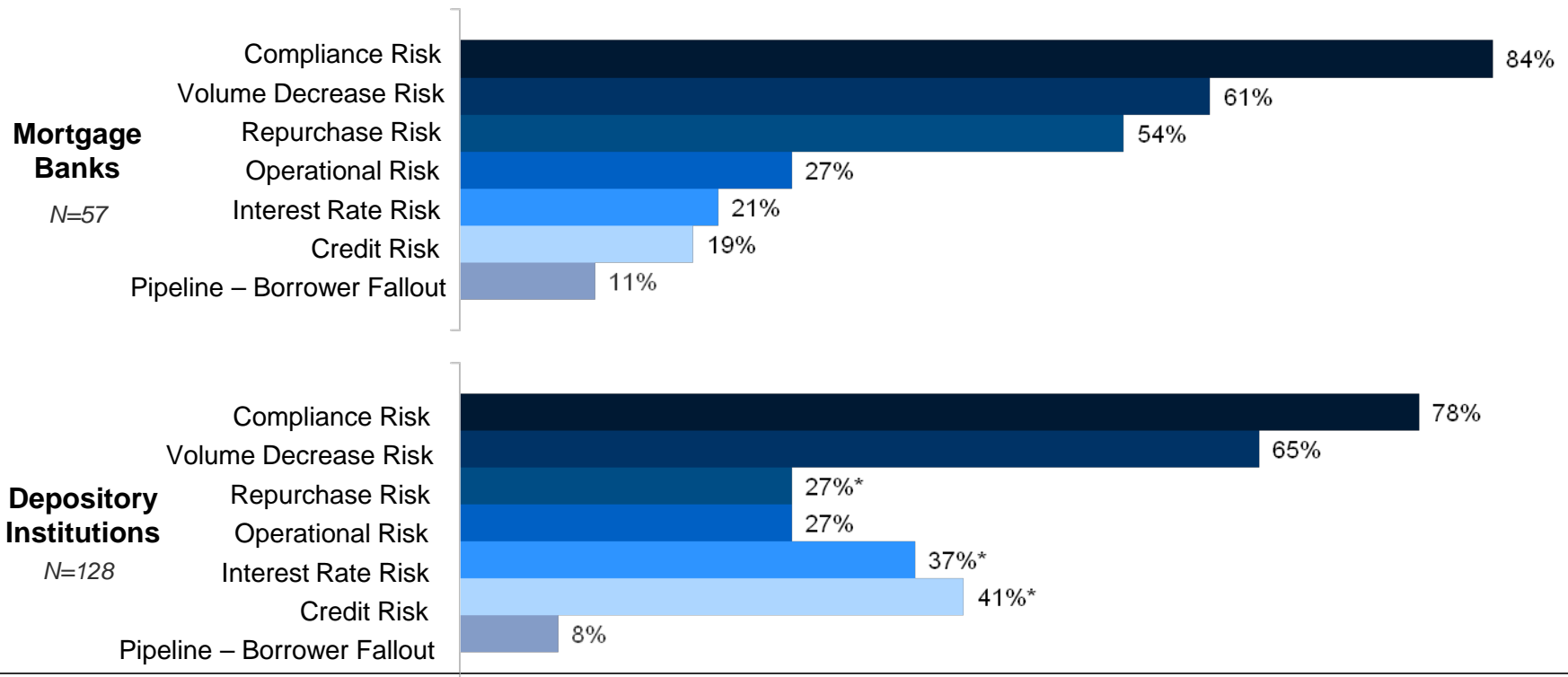
* Denotes Depository Institutions are significantly different than Mortgage Banks at the 95% confidence level

Risk Concern Growth Since 2013 (By Institution Type)

Concerns about Compliance risk and Volume Decrease risk have grown across Mortgage Banks and Depository Institutions.

- Mortgage Banks' concern about Repurchase risk has significantly grown compared to Depository Institutions.
- Concerns about Credit risk and Interest Rate risk have grown more with Depository Institutions than Mortgage Banks.

Please select up to three risks whose concern level has grown at your firm since last year (2013).



Please see p. 32 for the definitions of risks

Showing responses that were selected by at least 10% of the total sample

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

2014 Top 3 Risk Concerns (By Loan Volume Group)

Listed below are different risks associated with mortgage banking. Please select up to three risks that are your firm's top areas of focus this year (2014). Please rank them in order of importance, with 1 = "Most Important Focus." Showing %	Total N=196			Larger Lenders (L) N=50			Mid-sized Lenders (M) N=55			Smaller Lenders (S) N=91		
	Rank:	1	2	3	1	2	3	1	2	3	1	2
Compliance Risk	38%	24%	14%	47% _S	19%	15%	42% _S	28%	12%	25% _M	25%	14%
Volume Decrease Risk	31	22	17	31	30 _M	18	31	14	20	32	24	12
Credit Risk	11	11	14	7	8	7	11	8	16	15	16	19
Repurchase Risk	10	8	17	6	9	22	11	6	19	12	8	10
Interest Rate Risk	6	13	10	0	12	7	5	15	7	13	11	15
Operational Risk	3	12	14	9	14	19	0	16	8	0	5	15
Pipeline Risk – Borrower Fallout	0	6	4	1	6	2	0	5	4	0	5	6
Pipeline Risk – Product/Liquidity Risk	0	2	1	0	0	1	0	4	3	1	1	1
Pipeline Risk – Investor Fallout Risk	0	1	2	0	0	2	0	2	3	0	0	1
Investor Risk	0	3	4	0	3	3	0	2	5	0	3	5
Fraud Risk	0	0	4	0	0	4	0	0	5	1	1	2

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

2014 Top 3 Risk Concerns (By Institution Type)

Listed below are different risks associated with mortgage banking. Please select up to three risks that are your firm's top areas of focus this year (2014). Please rank them in order of importance, with 1 = "Most Important Focus." Showing %	Mortgage Banks N=57			Depository Institutions N=128		
	Rank:	1	2	3	1	2
Compliance Risk	38%	32%	12%	35%	22%	13%
Volume Decrease Risk	33	17	14	31	26	17
Repurchase Risk	10	15*	28*	10	4	10
Credit Risk	7	4	12	13	15	17
Operational Risk	5	11	11	0	9	15
Interest Rate Risk	4	12	4	9	12	14
Fraud Risk	2	0	5	0	1	3
Pipeline Risk – Borrower Fallout	1	3	5	0	6	4
Pipeline Risk – Product/Liquidity Risk	0	2	1	1	2	2
Pipeline Risk – Investor Fallout Risk	0	2	2	0	0	1
Investor Risk	0	2	6	0	3	4

Please see p. 32 for the definitions of risks

*Denotes a % is significantly higher than the other type of institution at the 95% confidence level

Risk Concern Growth Since 2013 (By Loan Volume Group)

Please select up to three risks whose concern level has grown at your firm since last year (2013). Please rank them in order of increased concern level, with 1 = "Concern that increased the most." Showing %	Total N=196			Larger Lenders (L) N=50			Mid-sized Lenders (M) N=55			Smaller Lenders (S) N=91		
	Rank:	1	2	3	1	2	3	1	2	3	1	2
Compliance Risk	48%	22%	12%	59% ^S	13%	16%	49%	26%	10%	35%	26%	9%
Volume Decrease Risk	25	21	19	24	20	26	28	23	14	23	20	17
Repurchase Risk	10	11	14	5	16	17	13	12	14	12	7	11
Credit Risk	6	10	15	2	9	9	3	7	15	13	15	21
Operational Risk	5	13	13	10	24 ^S	15	2	11	10	3	4	15
Interest Rate Risk	4	12	15	0	8	7	2	12	20	10	15	16
Pipeline Risk – Borrower Fallout	1	5	4	1	7	0	2	3	7	0	7	3
Pipeline Risk – Product/Liquidity Risk	1	1	1	0	0	1	2	2	0	1	2	3
Investor Risk	1	3	4	0	4	3	0	2	6	2	2	3
Pipeline Risk – Investor Fallout Risk	0	0	1	0	0	0	0	0	2	0	0	0
Fraud Risk	0	1	3	0	0	5	0	3	2	0	1	2

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Risk Concern Growth Since 2013 (By Institution Type)

Please select up to three risks whose concern level has grown at your firm since last year (2013). Please rank them in order of increased concern level, with 1 = "Concern that increased the most." Showing %	Mortgage Banks N=57			Depository Institutions N=128			
	Rank:	1	2	3	1	2	3
Compliance Risk		60%	18%	6%	40%	26%	12%
Volume Decrease Risk		18	22	23	28	22	16
Repurchase Risk		12	19*	23*	10	7	10
Operational Risk		6	11	10	3	10	15
Pipeline Risk – Borrower Fallout		3	4	5	0	5	3
Credit Risk		2	7	11	9	12	20
Interest Rate Risk		0	12	9	8	12	17
Pipeline Risk – Product/Liquidity Risk		0	4	1	2	1	1
Pipeline Risk – Investor Fallout Risk		0	0	0	0	0	1
Investor Risk		0	2	8	2	3	2
Fraud Risk		0	2	5	0	1	2

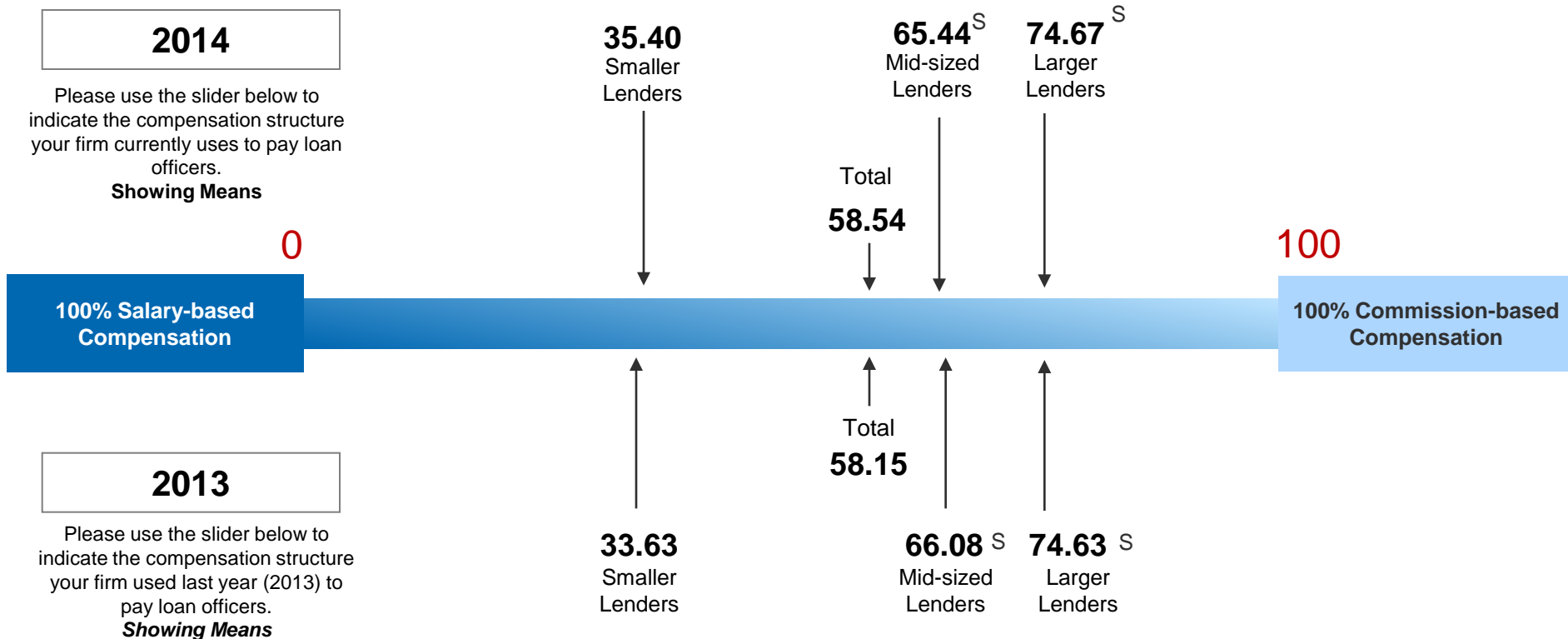
Please see p. 32 for the definitions of risks

*Denotes a % is significantly higher than the other type of institution at the 95% confidence level

Compensation Structure for Loan Officers

Mid-sized and larger lenders are more likely to lean toward a commission-based structure while smaller lenders lean toward a salary-based compensation model.

- The compensation structure reported at all three sizes of lenders has remained steady from 2013 to 2014.

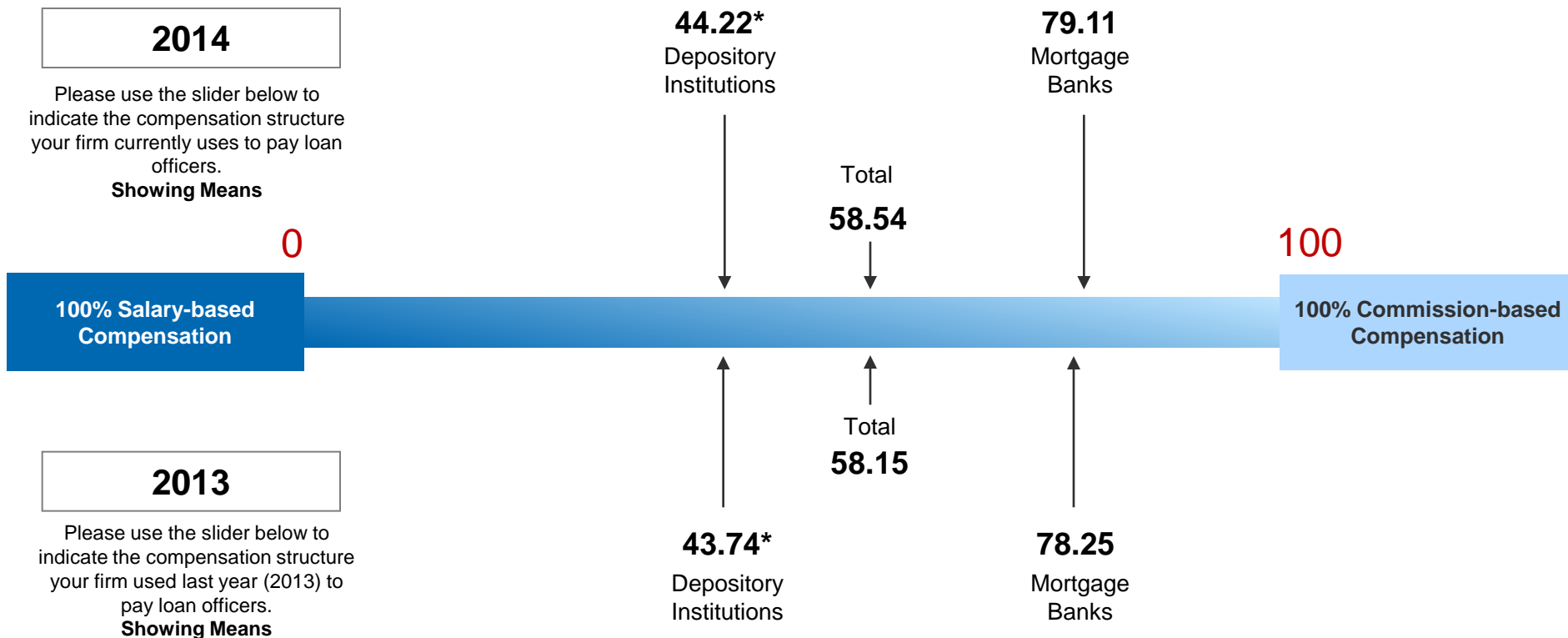


N= Total:196, Larger lenders:50, Mid-Sized lenders:55, Smaller lenders: 91
L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level

Compensation Structure for Loan Officers

Mortgage banks (non-depository) are much more likely to be commission-based than Depository Institutions.

- The compensation structure at both types of institutions hasn't changed from 2013 to 2014.



N= Total:196, Depository Institutions:128, Mortgage Banks: 57

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

Question Text

- qR11. What was the approximate dollar volume of single-family mortgage loans originated by your firm from January 1st to June 30th this year (the first half of the year), including purchase and refinance mortgages?
- qR12. What was the approximate dollar volume of single-family mortgage loans originated by your firm over the entire last year (2013), including purchase and refinance mortgages? (Optional)
- qR13. Approximately how many total full-time employees does your firm currently have? (Optional)
- qR14. *[Display: Recently, regulations across the Office of the Comptroller of the Currency (e.g., “Mortgage Banking” booklet), Consumer Finance Protection Bureau (e.g., Qualified Mortgage rules), and the Federal Reserve/FDIC/OCC (e.g., Basel III capital rule) have been important topics for the mortgage industry. The next section aims to capture your views related to the impact of regulations on your business.]*
To what extent do these regulations impact your business?
- 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.)?
- qR16. Besides in-house staff, do you currently use third-party vendors (including subscriptions, compliance attorney review, outside counsel, etc.) to help fulfill your compliance requirements?
- qR17. Including full-time in-house personnel mentioned before and any third party vendors used, approximately how much does your firm expect to spend on Compliance this year (the whole year of 2014)? (Optional)
- qR18. Including full-time in-house personnel and any third-party vendors used, approximately how much did your firm spend on Compliance last year (the whole year of 2013)? (Optional)
- qR19. What business functions have you decided to outsource, partially or fully, due to increased regulations and associated costs? (Check all that apply)
- qR20. Please use the slider below to indicate the compensation structure your firm currently uses to pay loan officers. You can move the slider all the way to any end or place it somewhere in the middle.
- qR21. Please use the slider below to indicate the compensation structure your firm used last year (2013) to pay loan officers. You can move the slider all the way to any end or place it somewhere in the middle.
- qR22. Listed below are different risks associated with mortgage banking. Please select up to three risks that are your firm’s top areas of focus this year (2014). Please rank them in order of importance, with 1 = “Most Important Focus.”
- qR33. Please select up to three risks whose concern level has grown at your firm since last year (2013). Please rank them in order of increased concern level, with 1 = “Concern that increased the most.”

Risk Definitions

Credit Risk - Credit Risk rises as loan quality deteriorates, affecting both the ability to sell originated loans and the market value and profitability of the servicing portfolio.

Volume Decrease Risk - Volume Decrease Risk rises when consumer demand for new mortgages (purchasing and refinancing) declines. Factors could include interest rate, job prospect, living expense changes, economy, demographic trends, etc.

Interest Rate Risk - When rates rise, lenders could face extension risk (i.e., they risk being "stuck" with a portfolio of super low rates in a rising rate environment), but their servicing income and the value of their Mortgage Servicing Assets (MSA) portfolio may increase. When rates fall, they face prepayment risk (i.e., that borrowers will refinance their loans causing a decline in the institutions' revenue and income) and a decline in MSA values.

Pipeline Risk

- **Borrower Fallout** - Borrower Fallout is the risk that a loan that has been issued a rate lock does not close.

- **Product/Liquidity Risk** - Product/Liquidity Risk is the potential that a loan product will have no liquidity once it is ready for sale (e.g., from failure to underwrite or service loans according to investor and insurer requirements).

- **Investor Fallout** - Investor Fallout Risk is the risk that an investor fails to meet the terms of its commitment to purchase a mortgage loan(s).

Investor Risk - Investor Risk is the risk that an investor fully or partially exits the business of acquiring mortgage loans or severs its relationship with a lender.

Repurchase Risk - Repurchase Risk is a risk that a loan purchased from a lender/seller violates the terms of the seller agreement, requiring the seller to repurchase the loan from the investor.

Fraud Risk - Fraud Risk is the risk that a borrower or participant in the mortgage process misrepresents or omits material information associated with a loan.

Operational Risk - Operational Risk reflects the strain on operating systems as supported by internal controls, information systems, employee capability and integrity and operating processes, including oversight of third-party providers.

Compliance Risk - Compliance Risk is rooted in standards established by the extensive array of consumer protection laws, with special emphasis on the quality of information given to consumers, deterrence of steering consumers to particular mortgage products, and procedures for promoting fair lending.

Disclaimer

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