Mortgage Lender Sentiment Survey™

Providing Insights Into Current Lending Activities and Market Expectations

Q4 2015 Summary Report

Published December 17, 2015

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Lenders, on net, continue to report that they have eased and expect to continue easing credit standards – a consistent trend throughout 2015 – which will help mitigate some of the affordability decline moving into 2016.

Purchase Mortgage Consumer Demand

The net percentage of lenders reporting increased purchase mortgage demand expectations over the next three months has continued to decline throughout the year across all loan types after reaching survey highs in Q2, likely due to seasonal influences*. However, lenders' purchase mortgage demand outlook remains higher than 2014.

Credit Standards

Lenders continue to report expectations to ease credit standards for GSE eligible loans and government loans over the next three months, with the net percentage of lenders reporting easing expectations reaching a new survey high (14% and 9%, respectively).

Profit Margin Outlook

Lenders' profit margin outlook has gradually trended down each quarter this year.

- This quarter, the net percentage of lenders expecting an increased profit margin over the next three months has declined to negative 29%, hitting a new survey low. Approximately one in two of these lenders cite "government regulatory compliance" as a key driver.
- Larger lenders and mortgage banks reported a bigger negative profit margin outlook than the total survey sample, with a net percentage score of negative 56% and negative 53%, respectively.

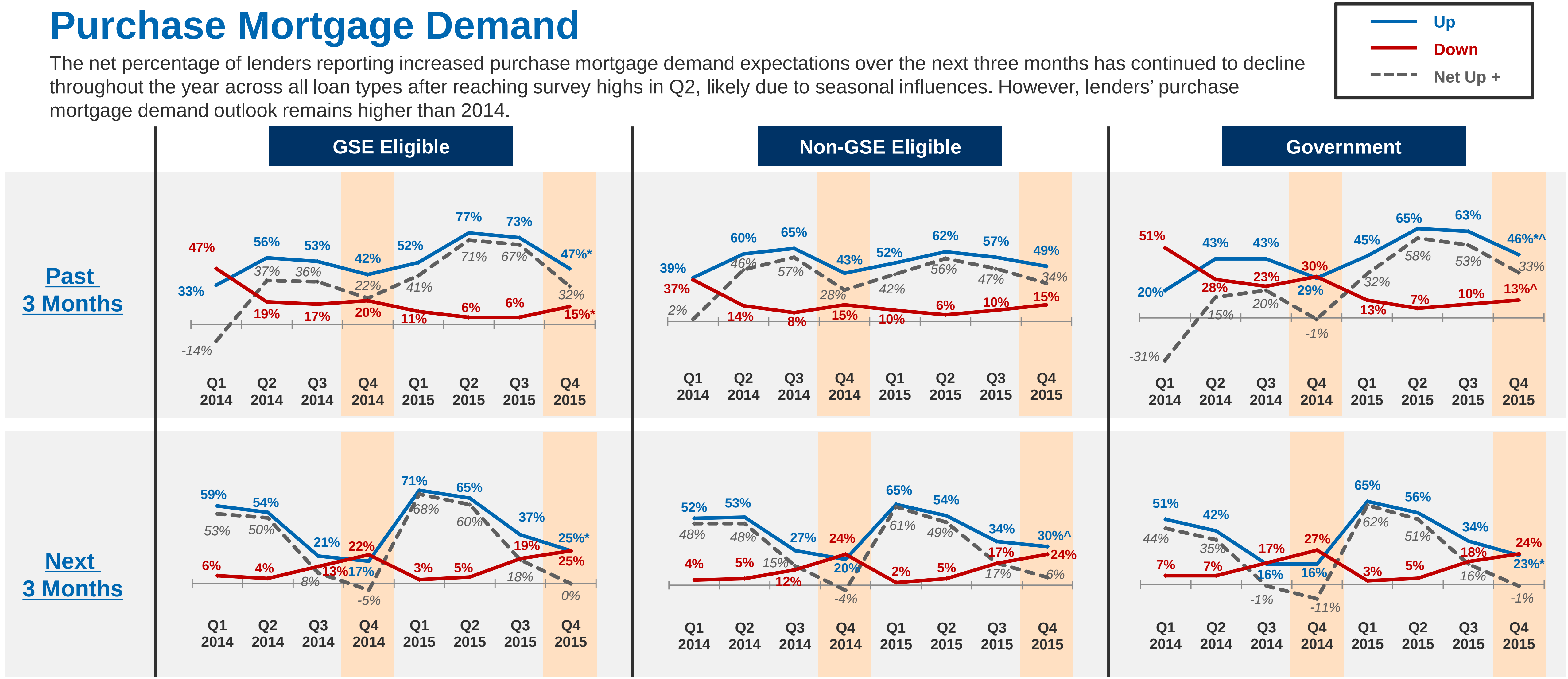
Mortgage Servicing Rights (MSR)

The net percentage of lenders reporting expectations to increase MSRs sold grew by 12 percentage points since Q3 2015. As would be expected, this quarter saw a drop in the net percentage of lenders reporting increased shares of MSRs retained.

* Although the mortgage demand questions in the survey ask survey respondents to account for seasonal variation, we believe that some seasonal influence remains and contributed to the forecasted demand decrease.

Purchase Mortgage Demand

The net percentage of lenders reporting increased purchase mortgage demand expectations over the next three months has continued to decline throughout the year across all loan types after reaching survey highs in Q2, likely due to seasonal influences. However, lenders' purchase mortgage demand outlook remains higher than 2014.



+ Net Up % = (% of lenders saying up) – (% of lenders saying down); no statistical significance testing
The % saying "stay the same" is not shown.

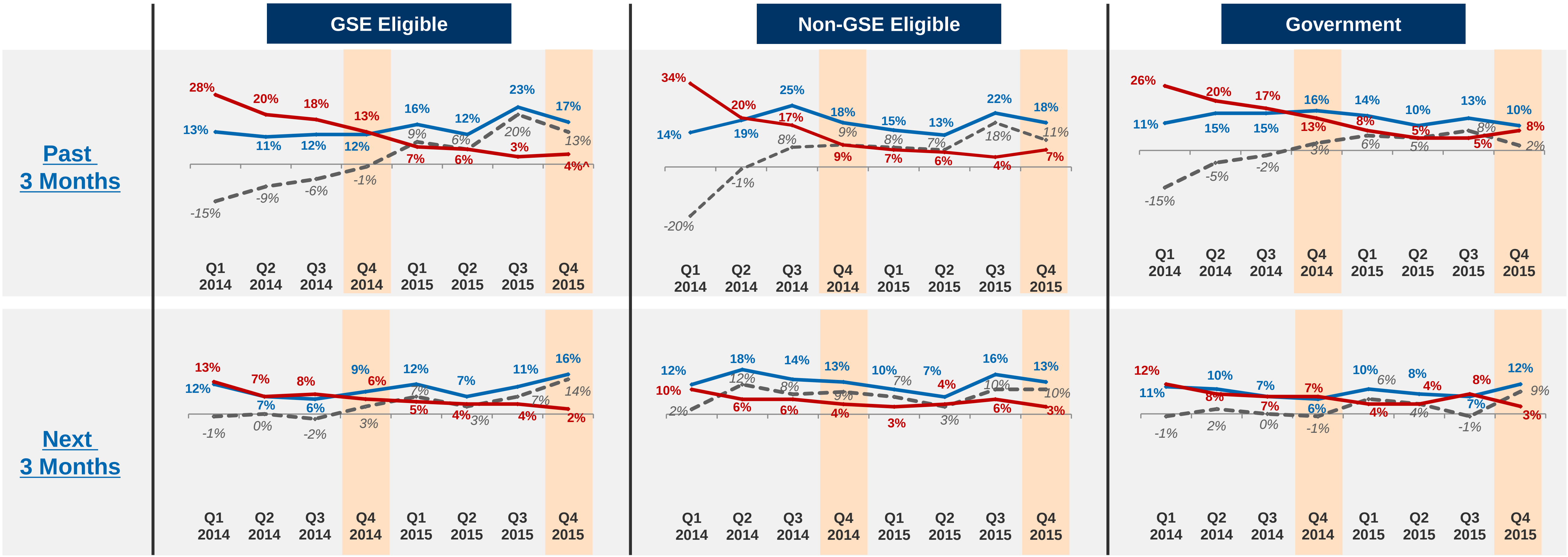
** Denotes a statistically significant change compared with Q3 2015 (previous quarter)*
^ Denotes a statistically significant change compared with Q4 2014 (same quarter of last year)

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

Lenders continue to report expectations to ease credit standards for GSE eligible loans and government loans over the next three months, with the net percentage of lenders reporting easing expectations reaching a new survey high (14% and 9%, respectively).

Ease
Tighten
Net Ease +



+ Net Ease % = (% of lenders saying ease) - (% of lenders saying tighten); no statistical significance testing. *The % saying "remain unchanged" is not shown.*

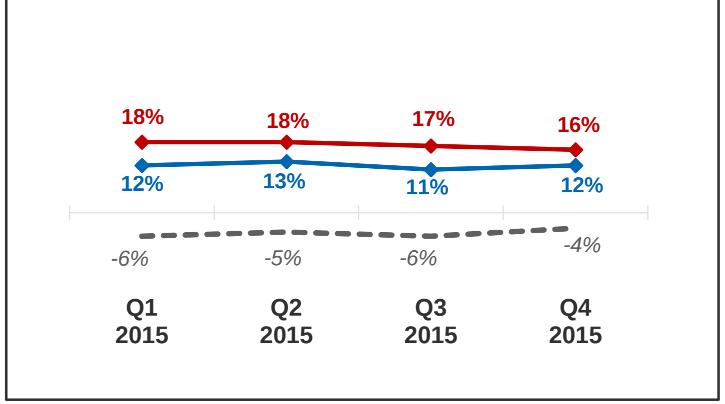
** Denotes a statistically significant change compared with Q3 2015 (previous quarter)*
^ Denotes a statistically significant change compared with Q4 2014 (same quarter of last year)

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*

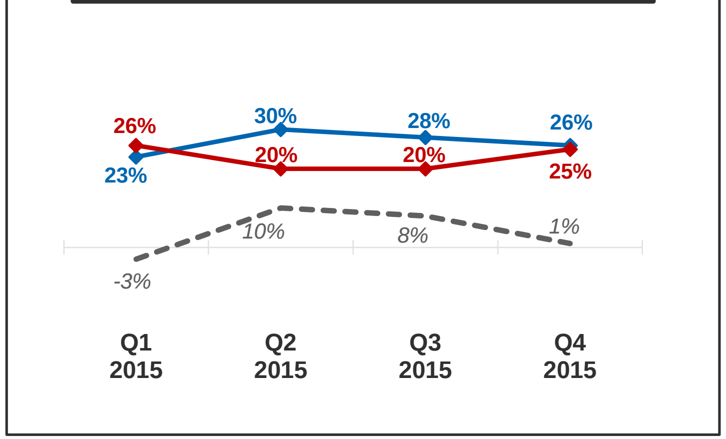
Mortgage Execution Outlook – Over Next 12 Months

More lenders continue to report expectations to increase rather than decrease the shares of mortgage originations sold to Ginnie Mae, continuing a trend seen in previous quarters. Throughout 2015, more lenders continue to report expectations to decrease rather than increase their portfolio retention shares and whole loan sales to non-GSE correspondents.

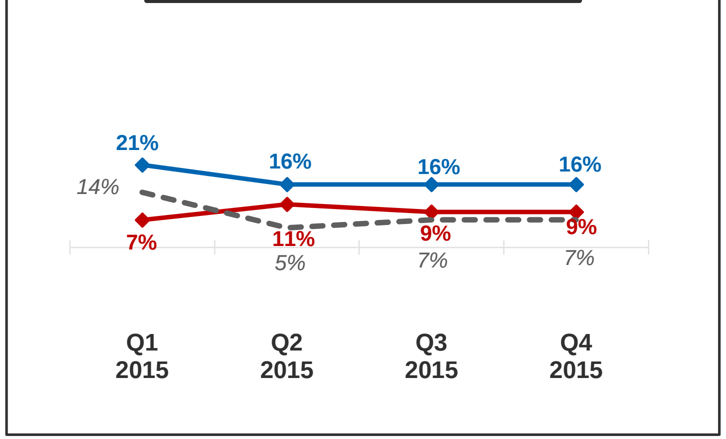
Portfolio Retention



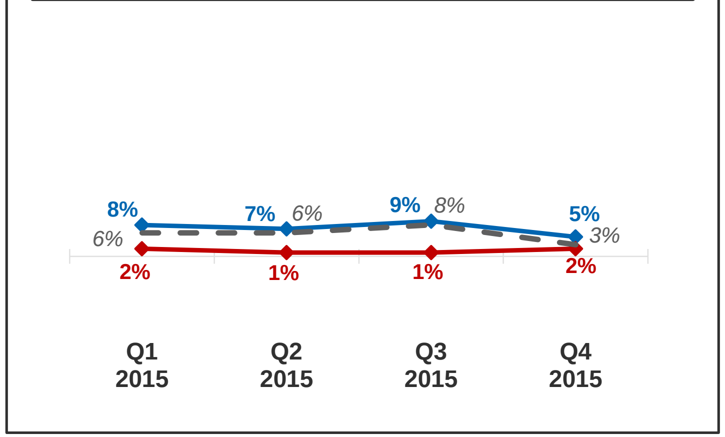
GSE (Fannie Mae and Freddie Mac)



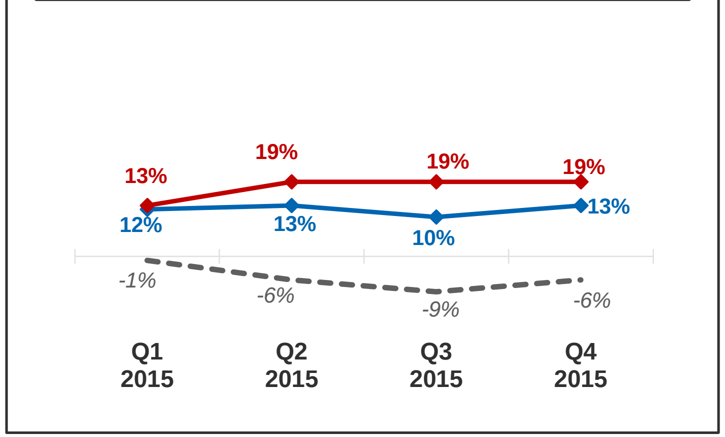
Ginnie Mae (FHA/VA)



Private Label Securities / Non-Agency Securities



Whole Loan Sales to NON-GSE (Correspondent)



Increase Decrease Net Increase +

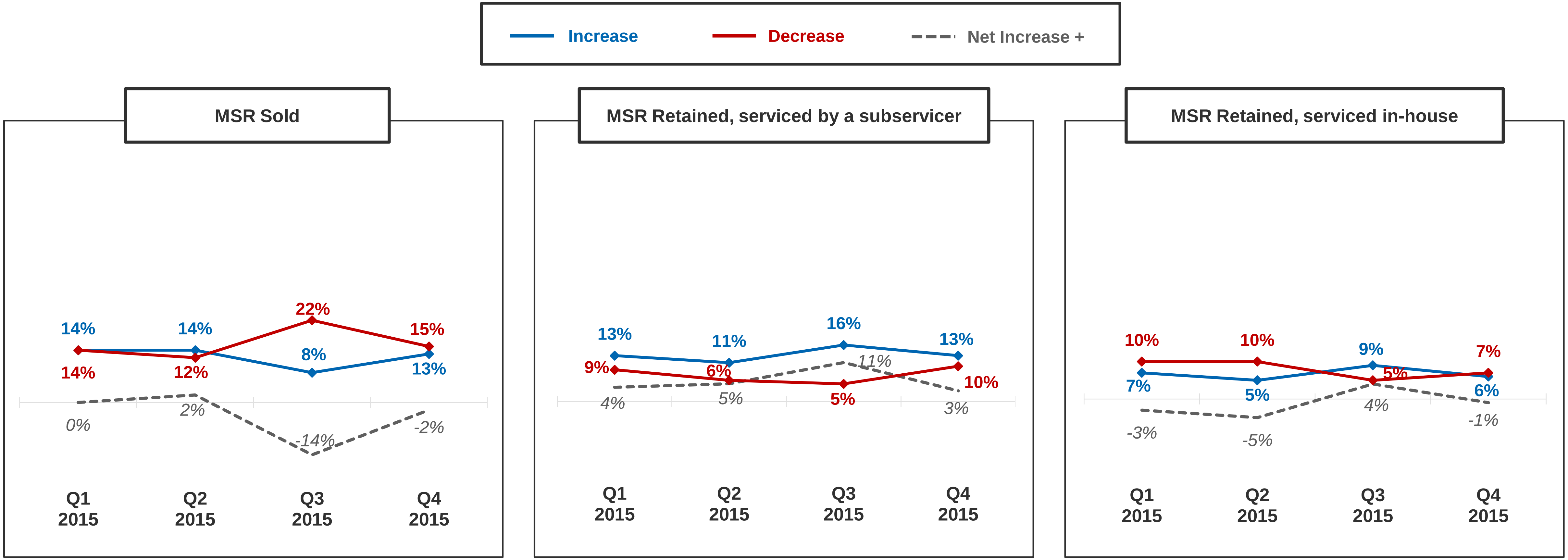
+ Net Increase % = (% of lenders saying increase) – (% of lenders saying decrease); no statistical significance testing.
The % saying "about the same" is not shown.

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 Q3 2015 (previous quarter)*

Mortgage Servicing Rights Execution Outlook – Over Next 12 Months

The net percentage of lenders reporting expectations to increase MSRs sold grew by 12 percentage points since Q3 2015. As would be expected, this quarter saw a drop in the net percentage of lenders reporting increased shares of MSRs retained.

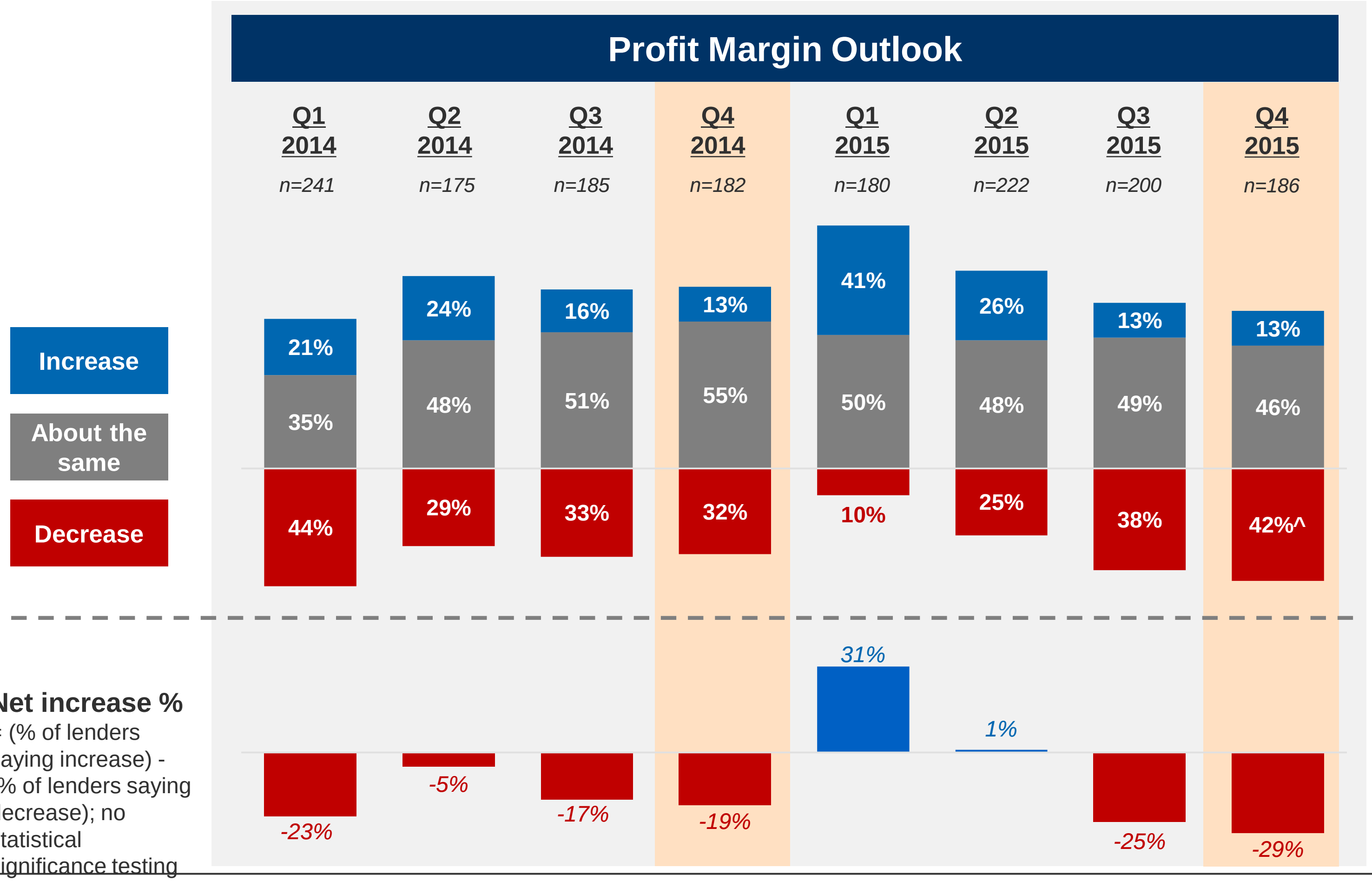


Whether an institution reported increase/decrease/stay the same was based on the difference to their responses to the following 2 questions:
Q: Approximately, what percent of your mortgage servicing rights (MSR) goes to each of the following categories?
Q: Looking forward, what percent of your firm's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

\+ Net Increase % = (% of lenders saying increase) – (% of lenders saying decrease); no statistical significance testing.
The % saying "about the same" is not shown.
** Denotes a statistically significant change compared with Q3 2015 (previous quarter)*

Lenders’ Profit Margin Outlook – Next 3 Months

Lenders’ profit margin outlook has gradually trended down each quarter this year. This quarter, the net percentage of lenders expecting increased profit margin over the next three months has declined to negative 29%, hitting a new survey low. About one in two of these lenders cite “government regulatory compliance” as a key driver.



Net increase %
= (% of lenders saying increase) - (% of lenders saying decrease); no statistical significance testing

Key Reasons for Expected Increase – Q4 2015	
Operational efficiency (i.e. technology)	**51%**
Market trend changes (i.e. shift from refinance to purchase)	**29%**
Consumer demand	26%
Less competition from other lenders	20%
GSE pricing and policies	16%

Showing data for selected answer choices only. n=24

Key Reasons for Expected Decrease – Q4 2015	
Government regulatory compliance	**52%**
Competition from other lenders	**34%**
Consumer demand	27%
Staffing (personnel costs)	27%
Market trend changes (i.e. shift from refinance to purchase)	20%

Showing data for selected answer choices only. n=76

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.

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^ Denotes a statistically significant change compared with Q4 2014 (same quarter of last year)

Mortgage Lender Sentiment Survey™

Background

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

Survey Methodology

- 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 complete the survey, their responses are averaged to represent their institution.
- Each respondent is asked 40-75 questions.

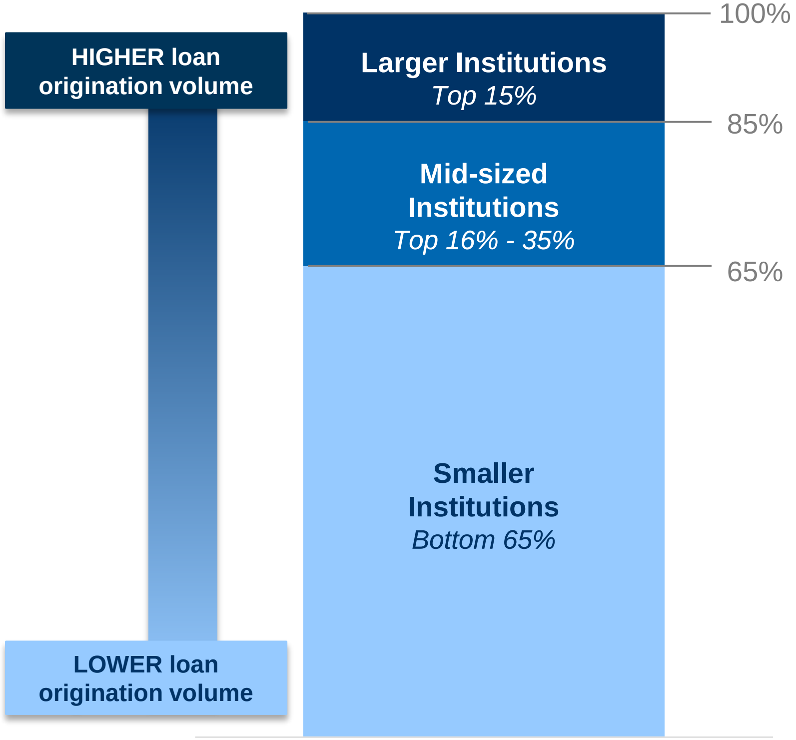
Sample Design

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

Q4 2015 Respondent Sample and Groups

For Q4 2015, a total of 213 senior executives completed the survey from November 4 - 13, representing 194 lending institutions.*

Loan Origination Volume Groups**



Sample Q4-2015		Sample Size
Total Lending Institutions The “Total” data throughout this report is an average of the means of the three loan origination volume groups listed below.		194
Loan Origination Volume Groups	**Larger Institutions** Fannie Mae’s customers whose 2014 total industry loan origination volume was in the top 15% (above $631million)	59
	Mid-sized Institutions Fannie Mae’s customers whose 2014 total industry loan origination volume was in the next 20% (16%- 35%) (between $176 million to $631 million)	59
	Smaller Institutions Fannie Mae’s customers whose 2014 total industry loan origination volume was in the bottom 65% (less than $176 million)	76
Institution Type* **	**Mortgage Banks** (non-depository)	71
	Depository Institutions	75
	Credit Unions	39

* 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	
		Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error
Total Lending Institutions		**247**	**±5.65%**	**186**	**±6.69%**	**196**	**±6.48%**	**192**	**±6.56%**	**197**	**±6.51%**	**238**	**±6.22%**	**209**	**±6.30%**	**194**	**±6.58%**
Loan Origination Volume Groups	Larger Institutions	46	±12.77%	47	±12.60%	50	±12.10%	49	±12.11%	58	±11.11%	55	±12.91%	55	±11.64%	59	±11.03%
	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%
	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%
Institution Type	Mortgage Banks	38	±14.61%	47	±12.84%	57	±11.34%	48	±12.66%	53	±12.07%	71	±11.22%	78	±9.53%	71	±10.15%
	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%
	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%

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

Loan Type Definition

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

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

Calculation of the "Total"

The "**Total**" data presented in this report 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 purchase mortgages go up, go down, or stay the same? GSE Eligible (Q4 2015)	Larger Institutions	Mid-sized Institutions	Smaller Institutions	**Q3 "Total"**
Go up	49%	41%	51%	**47% [(49% + 41% + 51%)/3]**
Stayed the same	38%	43%	32%	**38%**
Go down	13%	16%	17%	**15%**