

Mortgage Lender Sentiment Survey® Special Topics Report

Condo Mortgage Lending Opportunities

Third Quarter 2020

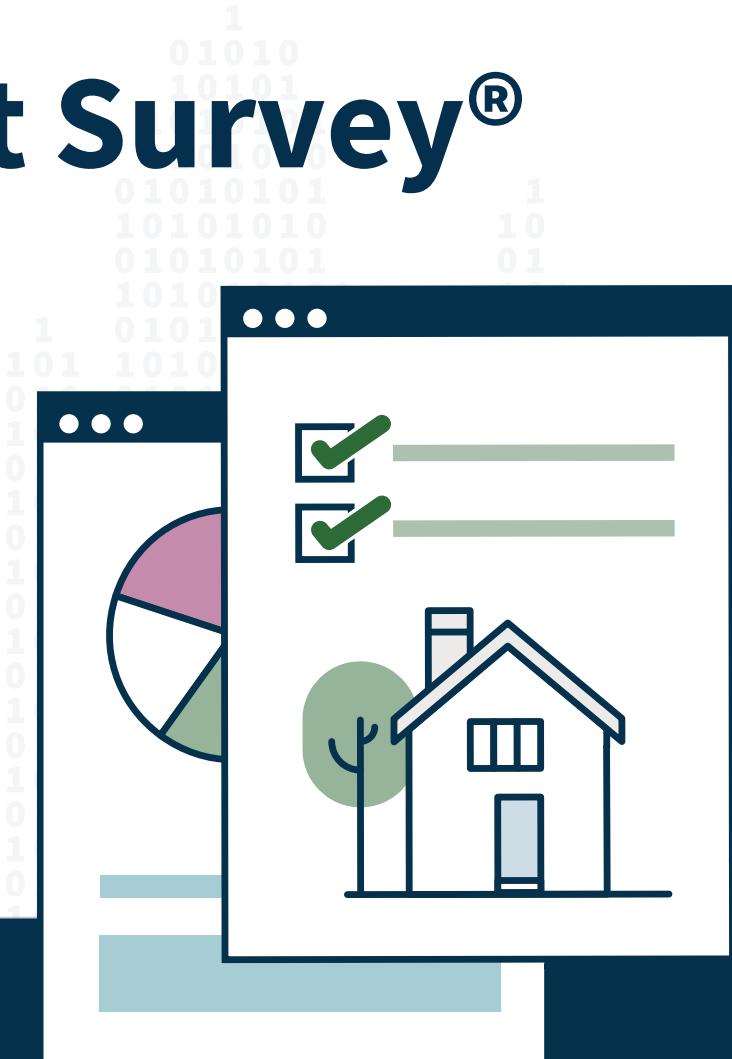




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Executive Summary

The majority of lenders surveyed are active with condo lending and expect the share of condo lending out of their total loan production to stay stable. Lenders cited HOA questionnaires, appraisals, and project approval lists as the most useful data sources for underwriting and suggested focusing on the risks of HOA financial instability, oversupply/overvaluation, and deferred maintenance as opportunities to further streamline condo underwriting processes.

Among 86% of lenders surveyed who originate condo loans...

Condo Lending Market Landscape



71%
said they expect their share of condo loan origination to
stay about the same



40%
have **dedicated condo approval teams**



Most Useful Sources of Data

(Combined the most useful and 2nd most useful %)



63% HOA Questionnaires



40% Appraisals



27% Lender Project Approval Lists

Risks in Evaluating Condo Eligibility

Top Risk Areas to Focus On

(Combined the most and 2nd most important risk %)



61% HOA Financial Instability



33% Oversupply / Overvaluation



31% Deferred Maintenance / Aging Projects

Top Risk Concerns That Have Increased Over Past Year

(Combined the risk whose concern has increased the most and 2nd most %)



50% HOA Financial
Instability



28% Oversupply /
Overvaluation



33% Deferred Maintenance /
Aging projects



24% Hotel or resort
use or short-term rentals





Business Context



Business Context and Research Questions

Business Context

The U.S. housing market has faced a significant supply shortage of existing and new construction homes since the Great Recession. Condos can play an important role in closing the supply gap for affordable housing options and provide an attractive alternative for homeowners seeking to down-size. While condos have represented about 8%-10% of the mortgage market, they play a larger role in key markets. At the same time, condos can present unique risks since condo owners share financial responsibility for the operation and maintenance of their condo projects. The complexities of underwriting condo project eligibility can increase the costs and time it takes lenders to approve and close mortgages for condo units.¹

In early August, Fannie Mae surveyed over 200 senior mortgage executives, via the Mortgage Lender Sentiment Survey[®], to understand lender perspectives on market trends and identify opportunities to streamline or enhance policy and process requirements to more effectively and efficiently manage condo project risks.

Research Questions

1. Lenders' condo-lending strategy

- How do they expect their condo lending business to grow or to contract?
- What are their lending business practices with newly constructed condo projects?
- Do they form partnership with condo builders?

2. Condo Data for Underwriting

- What data sources (e.g., HOAs, sellers, appraisals, and public records) have lenders found most helpful?

3. Condo Risks:

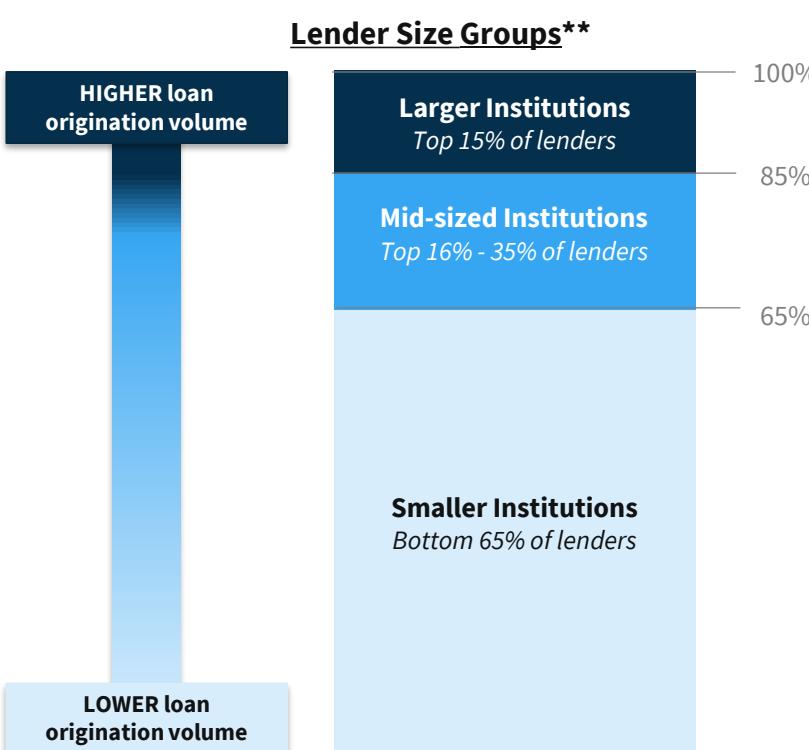
- What are the most important risk factors they think secondary-market investors should focus on in evaluating eligibility?
- What are the risk factors whose concern levels have increased significantly over the past year?

1. CoreLogic "The State of Condominium Lending" March 2019, <https://www.corelogic.com/blog/2019/05/the-state-of-condominium-lending.aspx>



Q3 2020 Respondent Sample and Groups

The current analysis is based on third quarter 2020 data collection. For Q3 2020, a total of 207 senior executives completed the survey between August 4-16, representing 186 lending institutions.*



Sample Q3 2020		Sample Size
Total Lending Institutions The “Total” data throughout this report is an average of the means of the three lender-size groups listed below.		186
Lender Size Groups	Larger Institutions Lenders in the Fannie Mae database who were in the top 15% of lending institutions based on their total 2019 loan origination volume (above \$1.25 billion)	51
	Mid-sized Institutions Lenders in the Fannie Mae database who were in the next 20% (16%-35%) of lending institutions based on their total 2019 loan origination volume (between \$379 million and \$1.25 billion)	51
	Smaller Institutions Lenders in the Fannie Mae database who were in the bottom 65% of lending institutions based on their total 2019 loan origination volume (less than \$379 million)	84
Institution Type***	Mortgage Banks (non-depository)	66
	Depository Institutions	73
	Credit Unions	41

* 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 weighted to represent their parent institution.

** The 2019 total loan volume per lender used here includes the best available annual origination information from Fannie Mae, Freddie Mac, and Marketrac. Lenders in the Fannie Mae database are sorted by their firm's total 2019 loan origination volume and then assigned into the size groups, with the top 15% of lenders being the “larger” group, the next 20% of lenders being the “mid-sized” group and the rest being the “small” group.

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





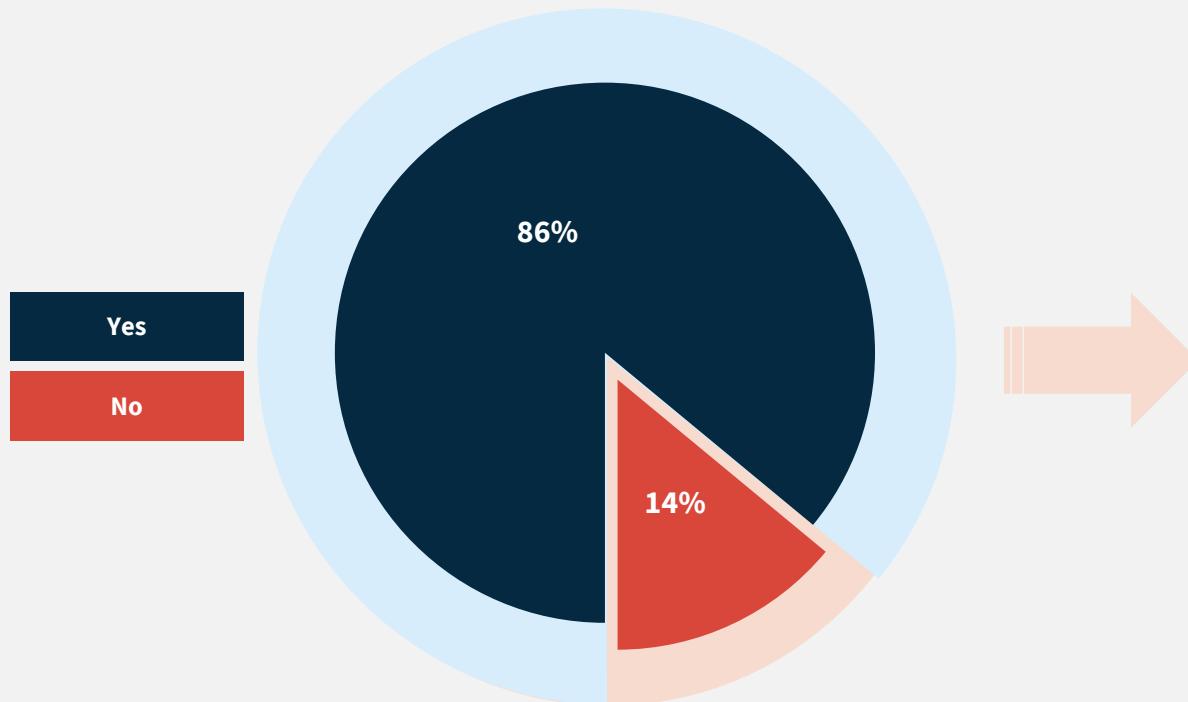
Condominium Mortgage Lending



Market: Origination of Single-Family Condominium Mortgages

More than 4-in-5 lenders say they originate single-family condo loans; those that don't cite the risk and complexity of condo loan origination or the lack of demand in the market they serve.

Does Your Organization Originate Single-Family Condo Mortgages?



Why Does Your Organization Not Originate Single-Family Condo Loans?

Asked of Those Who Do Not Originate Single-Family Condo Loans (N=28)

Lack of Market Demand

"In our market the single-family condo market is relatively small. The additional underwriting requirements add [an] additional layer of origination cost." – Smaller Institution

*"We are a credit union that serves technology workers, **they do not typically buy condos, but rather rent or buy single-family homes.**"* – Smaller Institution

*"We are subject to lending in **rural areas only** which are typically not condo markets."* – Smaller Institution

Risk and Origination Complexity

*"We are an affiliate of a homebuilder that only builds single family homes because we **don't like the asset price risk associated with condos.**"* – Larger Institution

*"Given the hoops you have to jump through for condos **it's not worth the effort to originate those loans** when comparing them to single family homes."* – Mid-sized Institution

*"They are **too difficult to process. Too many layers.**"* – Smaller Institution

Q: Over the past 12 months, has your organization originated single-family condominium mortgage loans for consumers?

Q: IF NO Could you please share some details about why your organization has not originated single-family condominium loans? What are the barriers or concerns? (Optional)

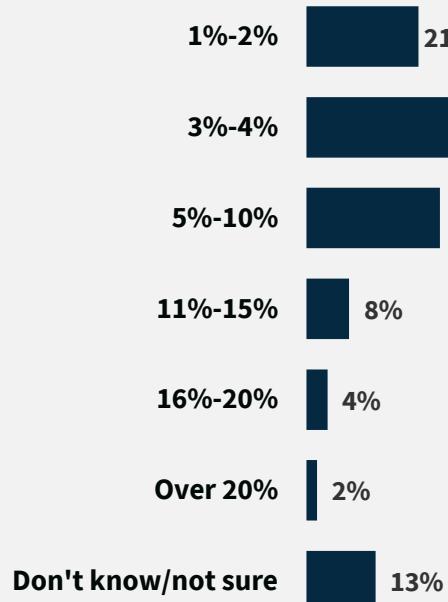


Condo Lending as a Share of Loan Volume and Expected Changes

Condo loans make up less than 10% of total loan volume for most lenders. While nearly a third of lenders say COVID-19 has led to a decrease in consumer interest in condos, 7-in-10 see their firm's share of condo volume staying about the same over the next year.

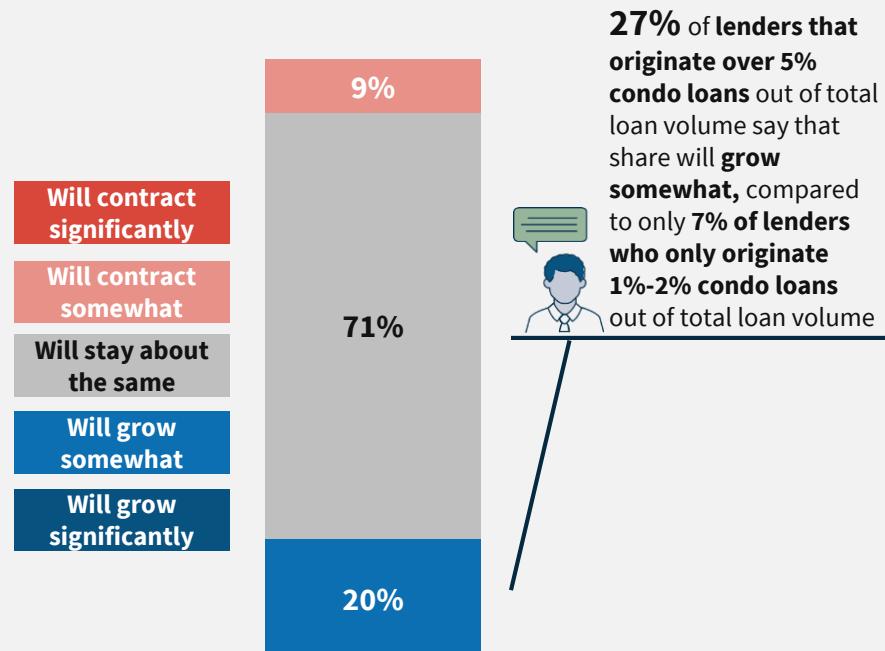
What share of your organization's total loan volume is condo lending?

Asked of Those Who Originate Condo Loans (N=158)



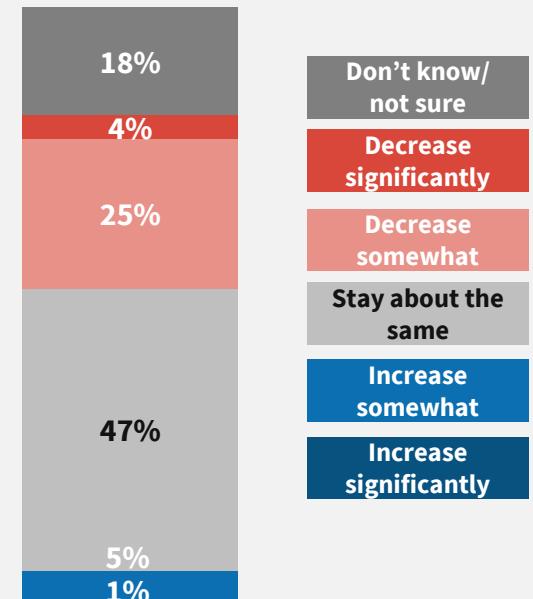
Do you think your firm's share of condo loan origination...

Asked of Those Who Originate Condo Loans & Have Estimate of Condo Lending Share (N=138)



Has the COVID-19 outbreak made consumers' interest in buying a condo...

Asked of Those Who Originate Condo Loans (N=158)



Q: Approximately what share of your organization's total mortgage loan production volume (including purchase and refinance mortgages) is condo lending?

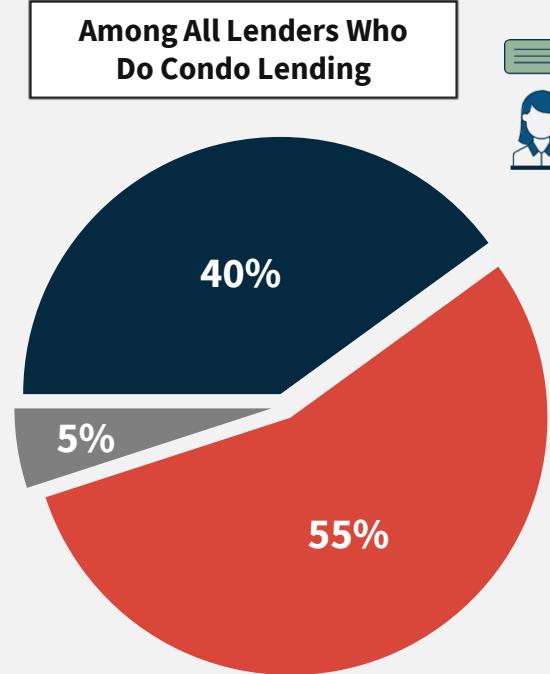
Q: You mentioned that condo lending accounts for about [INSERT QR408] of your firm's total loan production volume. In your view, how do you expect that share to grow, contract, or stay the same over the next 12 months at your organization?

Q: In your view, has the COVID-19 outbreak made consumers' interests in buying a condo home...?



Dedicated Condo Teams

About 2-in-5 lenders say they have dedicated condo approval teams, though lenders that do more condo lending as a share of total loan volume are more likely to have dedicated condo approval teams.



Does your organization originate have dedicated “condo approval teams”?

Asked of Those Who Originate Condo Loans (N=158)

Yes

No

Don't know/
not sure

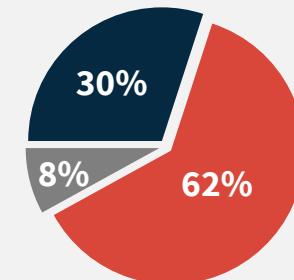
53% of lenders that originate over 5% condo loans out of total loan volume have dedicated condo approval teams, compared to only 30% of lenders who only originate 1%-2% condo loans out of total loan volume.



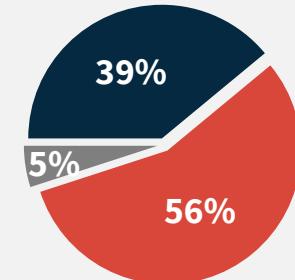
Yes
No
Don't know/not
sure

Among Lenders Who Have...

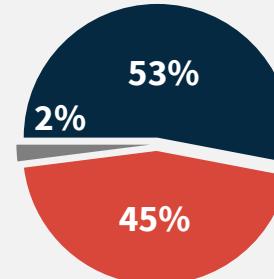
1%-2% Condo Lending Volume (N=35)



3%-4% Condo Lending Volume (N=44)



5%+ Condo Lending Volume (N=59)



Q: Does your organization have dedicated “condo approval teams” that focus on all condo specific work?

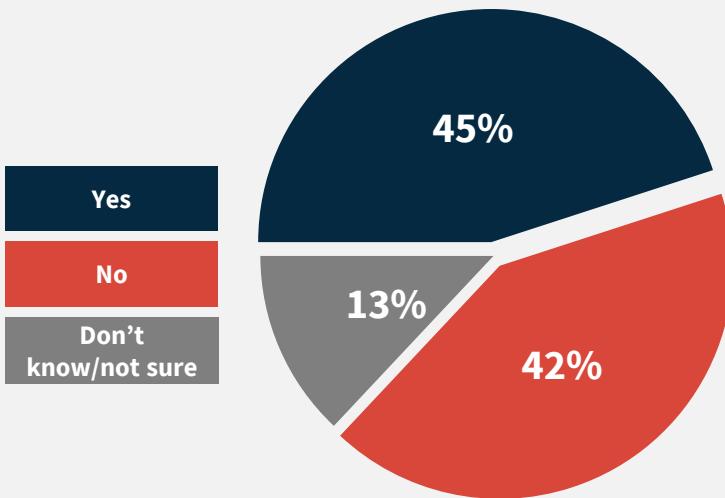


Newly Constructed Condo Lending and Partnerships with Condo Builders

About a quarter of lenders say they start lending during construction, a third begin while units are being sold, and another quarter begin when unit owners take control of the HOA. Only about a third of lenders have formed preferred partnerships with condo builders.

Is your organization currently lending in newly constructed condo projects?

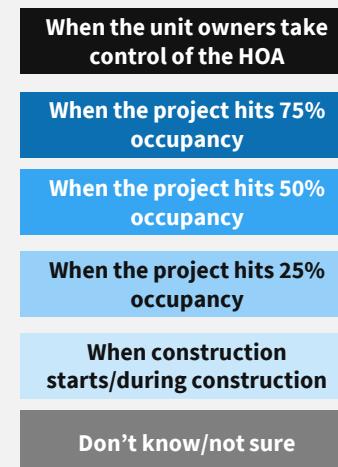
Asked of Those Who Originate Condo Loans
(N=158)



 **61%** of lenders that originate over 5% condo loans out of total loan volume are lending in newly constructed projects, compared to only 36% of lenders who only originate 1%-2% condo loans.

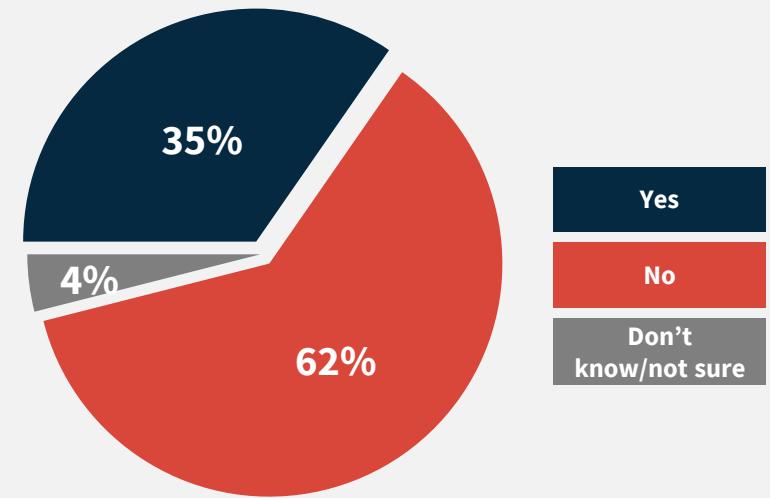
When does your organization usually start lending in newly constructed condo projects?

Asked of Those Who Originate Condo Loans and Lend In Newly Constructed Condo Projects (N=69)



Does your organization form partnerships with condo builders as their preferred lender?

Asked of Those Who Originate Condo Loans and Lend In Newly Constructed Condo Projects (N=69)



 **36%** of lenders that originate over 5% condo loans out of total loan volume form partnerships with condo builders, **about the same as all lenders** who originate condo loans (35%)

Q: Is your organization currently lending in newly constructed condo projects?

Q: When does your organization usually start lending in newly constructed condo projects?

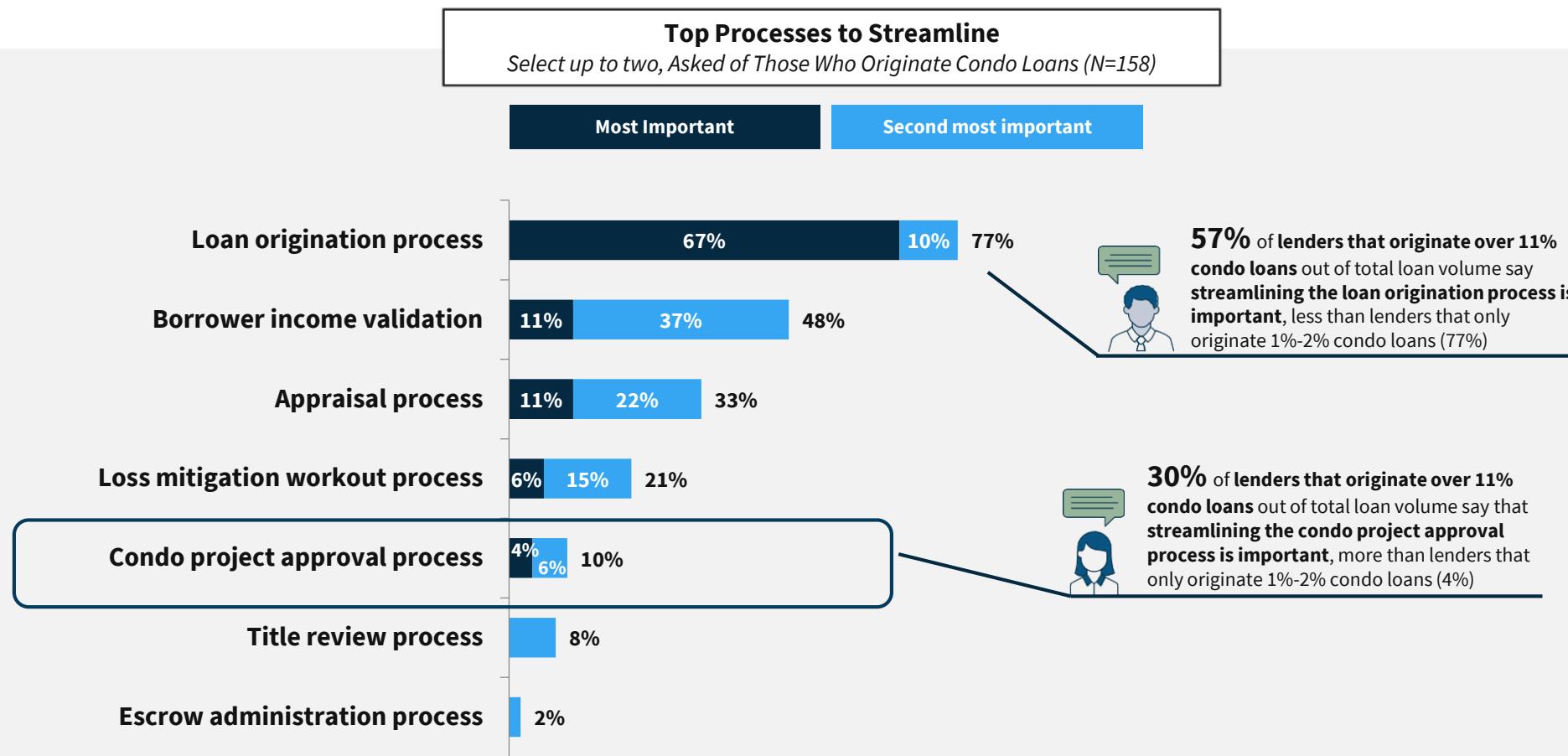
Q: Does your organization form partnerships with condo builders as their preferred lender?



Condominium Mortgage Process Streamlining

Top Priorities for Streamlining Processes

Overall, for the majority of lenders who originate condo loans, the top processes to streamline were the loan origination process, borrower income validation, and the approval process. Condo project approval process was cited as a lower priority.



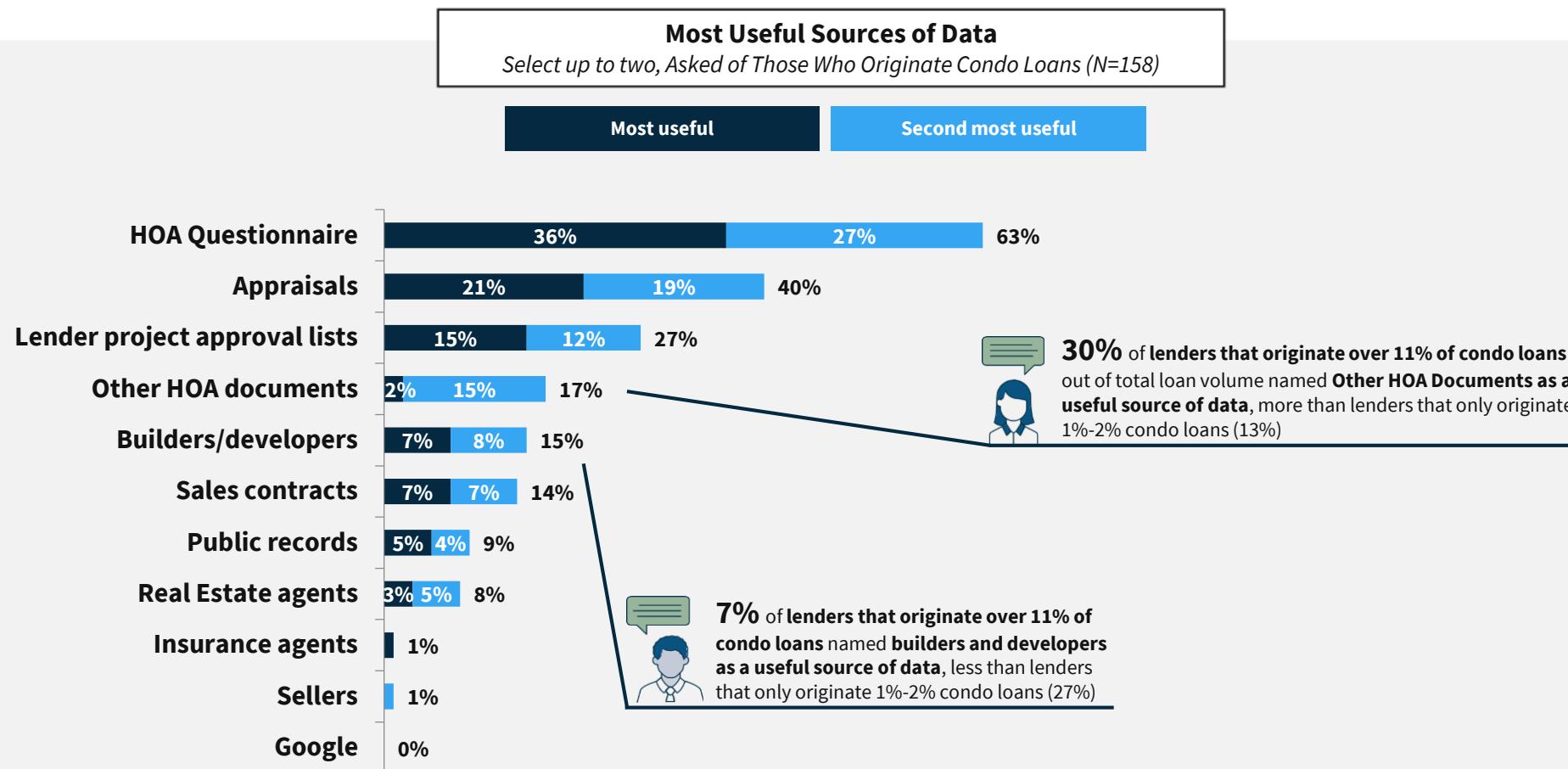
"Other" answer choice specified by respondents include: "Business owner income underwriting," "Hiring," "Systemwide automation," "EBO," "Underwriting," and "AI expansion to streamline process."

Q: Which processes listed below are the most important for your organization to streamline? Please select up to two processes and rank them in order of importance.



Most Useful Sources of Data for Condo Project Underwriting

HOA questionnaires, appraisals, and lender project approval lists were selected as the most useful sources of data for condo project underwriting. Lenders who originate more condo loans also said other HOA documents are a useful data source.



"Other" answer choice specified by respondents include: "Past data should be used more," "CPM," "Homeowners Association," and "Attorney review of condo documents and bylaws."

Q: Listed below are some data or information sources used for condo project underwriting. In your view, which are most useful sources of data? Please select up to two and rank them in order of usefulness.



Most Important Risks in Evaluating Condo Eligibility and Changes In Concern Level

Lenders saw HOA financial instability, oversupply/overvaluation, and deferred maintenance as the top risk areas for secondary-market investors to focus on. They also cited the same areas as having risk levels that increased the most over the past year.

Most Important Risks

Select up to two, Asked of Those Who Originate Condo Loans (N=158)

Most important

Second most important

HOA financial instability (including reserve, delinquency rate or HOA dues, and special assessments) 39% 22% 61%

Oversupply or overvaluation 22% 11% 33%

Deferred maintenance or aging projects, amenities, and buildings 7% 24% 31%

Litigation (construction defect litigation or other litigation) 12% 14% 26%

Hotel or resort use or short-term rentals 9% 7% 16%

Inadequate insurance 6% 9% 15%

Commercial space or mixed use 4%
6% 10%

Natural disasters 2%

Concern that Increased the Most Over the Past Year

Select up to two, Asked of Those Who Originate Condo Loans (N=158)

Concern that has increased the most

Concern that has increased the second most

30% 20% 50%

17% 11% 28%

13% 20% 33%

9% 12% 21%

12% 12% 24%

7% 8% 15%

7% 9% 16%

4%
4% 8%

"Other" answer choice specified by respondents include: "Interest rates" and "Master deed restrictions for mortgage lenders in default"

"Other" answer choice specified by respondents include: "Covid."

Q: Listed below are different risks secondary-market investors might use in evaluating condo eligibility. In your view, which are the most important risks you think secondary-market investors should focus on? Please select up to two and rank them in order of importance.

Q: Listed below is the same list of risks. In your view, what are the risks whose concern levels have grown significantly over the past year? Please select up to two and rank them in order of increased concern level.



Desired Changes to Condo Underwriting Policies or Processes

Lenders commented that standards for condo lending could be updated, and they would like a centralized shared data platform to help streamline the condo underwriting process.

Desired Changes to Condo Underwriting Policies or Processes

Asked of Those Who Originate Condo Loans

Facilitate Improved Access to Data to Ease Underwriting and Approval Process

*"I wish we knew how many condo units are in a particular region and **if the region is over saturated or under saturated.**" – Mid-sized Institution*

"It would be great if the GSEs could maintain an approved condo list since you have access to far more data per project than we do on a loan by loan basis." – Larger Institution

*"Would be very helpful if the FNMA DU would be **connected to a condo database**, and could display a condition saying the condo project is eligible." – Larger Institution*

*"The cost to do these well is too high. We **need a centralized platform for lenders to use that is up to date** and encompassing more projects." – Larger Institution*

*"We are not greatly active in the condo-approval market, but I have **always been a fan of shared-resources and a central real-time website** with such activities." – Smaller Institution*

*"**Better data on projects.** Instead of asking for an HOA, that **data should be in a common database** so it can be validated and timely." – Larger Institution*

Updating Guidelines/Standards for Condo Lending

"All new Condo projects have mixed use elements... Apartments should not count as Commercial for ratio calculations." – Larger Institution

*"Create a program where **all can lend in new condo project[s]**. The more lenders the better for the consumer." – Mid-sized Institution*

*"Would like to see an **easing of standards on primary residence, esp. regarding litigation**; every condo project in California seems to have litigation; also beginning to see **more condo/hotel arrangements**. **Would like to see easing of those requirements.**" – Larger Institution*

*"**Don't consider litigations**, takes too long to settle and **most litigations are settled without marketability effect** to the building units." – Smaller Institution*

*"Owner Occupied percentages. Many projects have a large percentage of investors. **Many of these projects and investors are good investments and strong borrowers but are ineligible** based on percentage of non-owner or inability to verify occupancy." – Mid-sized Institution*

Q: If there's one thing you could change in the condo project underwriting policies or processes, what would that be? Please share your views with us. (Optional)





Appendix



Objectives of Mortgage Lender Sentiment Survey®

The Mortgage Lender Sentiment Survey® (MLSS), which debuted in March 2014, is a quarterly online survey among senior executives in the mortgage industry. The survey is unique because it is used not only to track lenders' current impressions of the mortgage industry, but also their insights into the future.

Tracks insights and provides benchmarks into current and future mortgage lending activities and practices.

Quarterly Regular Questions

- Consumer Mortgage Demand
- Credit Standards
- Profit Margin Outlook

Featured Specific Topic Analyses

- COVID-19 Challenges and Lender Business Priorities
- Impact of Technology on Lender Workforce Management
- Digital Transformation Efforts
- Business Priorities and Industry Competition
- APIs and Mortgage Lending
- Artificial Intelligence for Mortgage Lending

The MLSS is a quarterly 10-15 minute online survey of senior executives, such as CEOs and CFOs, of Fannie Mae's lending institution customers. The results are reported at the lending institution parent-company level. If more than one individual from the same institution completes the survey, their responses are averaged to represent their parent company.



Methodology of Mortgage Lender Sentiment Survey®

Survey Methodology

- A quarterly, 10- to 15-minute online survey among senior executives, such as CEOs and CFOs, of Fannie Mae's lending institution partners.
- To ensure that the survey results represent the behavior and output of organizations rather than individuals, the Fannie Mae Mortgage Lender Sentiment Survey is structured and conducted as an establishment survey.
- Each respondent is asked 40-75 questions.

Sample Design

- Each quarter, a random selection of approximately 3,000 senior executives among Fannie Mae's approved lenders are invited to participate in the study.

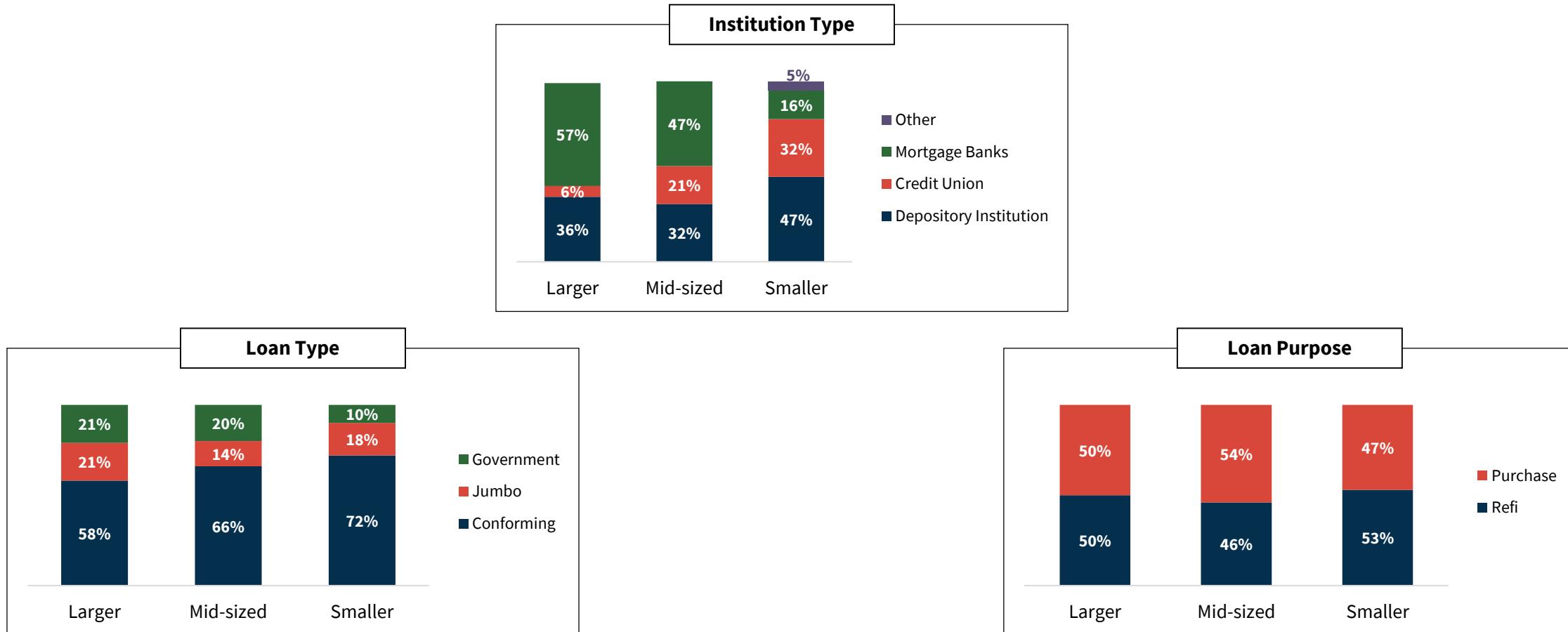
Data Weighting

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



Lending Institution Characteristics

Fannie Mae's customers invited to participate in the Mortgage Lender Sentiment Survey represent a broad base of different lending institutions that conducted business with Fannie Mae in 2019. Institutions were divided into three groups based on their 2018 total industry loan volume – Larger (top 15%), Mid-sized (top 16%-35%), and Smaller (bottom 65%). The data below further describe the composition and loan characteristics of the three groups of institutions.



Note: Government loans include FHA loans, VA loans and other non-conventional loans from Marketrac.

