Mortgage Lender Sentiment Survey®

Providing Insights Into Current Lending Activities and Market Expectations

Q2 2021 Summary Report – published June 10, 2021

Fannie Mae®

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Key Findings – Q2 2021

Despite elevated optimism towards the U.S. economy, lenders expressed a cautious outlook as expected mortgage demand growth slows and the decline in profit margin outlook sets a survey record.

Profit Margin Outlook

- Lenders' profit margin outlook declined again this quarter after two prior consecutive quarters' decline, marking the largest quarterly decline recorded since survey inception (Q1 2014). Those expecting a lower profit margin outlook pointed to "competition from other lenders" and "market trend changes" as the primary reasons.

Mortgage Demand

- For purchase mortgages, the net share of lenders reporting demand growth over the next three months are slightly down for GSE-eligible and government loans and about even for non-GSE-eligible loans compared to last quarter.
- For refinance mortgages, the net share of lenders reporting demand growth over the next three months fell significantly across loan types, reaching the lowest levels seen since Q4 2018.

Credit Standards

- The net share of lenders reporting easing credit standards over the prior three months has gradually climbed since Q2 2020 across all loan types. For the next three months, the net share of lenders expecting easing has ticked up slightly from last quarter for non-GSE-eligible loans but remained relatively steady for GSE-eligible and government loans.

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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 & Remote Working**
- **Mortgage Servicing Challenges**
- **CONDO Mortgage Lending Opportunities**
- **COVID-19 Challenges and Lender Business Priorities**
- **Impact of Technology on Lender Workforce Management**
- **Business Priorities and Industry Competition**

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.

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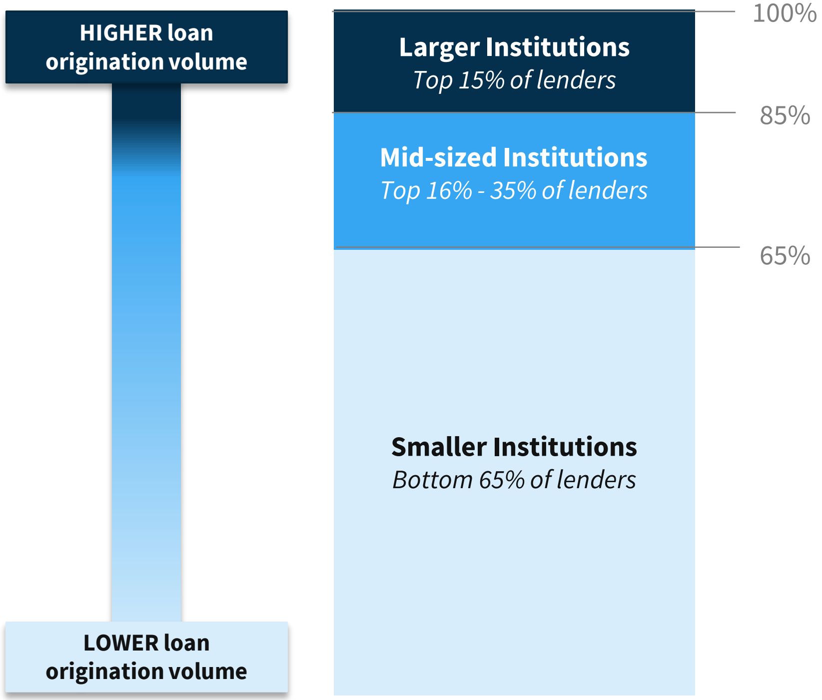
Q2 2021 Respondent Sample and Groups

The current analysis is based on second quarter 2021 data collection. For Q2 2021, a total of 250 senior executives completed the survey between May 4-17, representing 225 lending institutions.*

Lender Size Groups**



Sample Q2 2021		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.		225
Lender Size Groups	**Larger Institutions** Lenders in the Fannie Mae database who were in the top 15% of lending institutions based on their total 2020 loan origination volume (above $2.25 billion)	66
	Mid-sized Institutions Lenders in the Fannie Mae database who were in the next 20% (16%-35%) of lending institutions based on their total 2020 loan origination volume (between $598 million and $2.25 billion)	63
	Smaller Institutions Lenders in the Fannie Mae database who were in the bottom 65% of lending institutions based on their total 2020 loan origination volume (less than $598 million)	96
Institution Type***	**Mortgage Banks** (non-depository)	103
	Depository Institutions	72
	Credit Unions	43

* 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 2020 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 2020 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.

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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. 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.

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U.S. Economy and Consumer Demand

- Lender sentiment toward the U.S. economy turned significantly more positive compared to the previous quarter (Q1 2021) and the same quarter last year (Q2 2020), continuing the upward trajectory since Q3 2020.
- For purchase mortgages, the net share of lenders reporting demand growth over the past three months increased from last quarter across all lender types. Looking ahead, demand growth expectations over the next three months are slightly down for GSE-eligible and government loans and about even for non-GSE-eligible loans compared to last quarter.
- For refinance mortgages, the net share of lenders reporting demand growth over the prior three months dropped significantly from last quarter across all loan types, turning net negative for the first time since Q1 2019 and reaching the lowest reading since Q4 2018 for GSE-eligible and government loans. Refinance demand growth expectations on net for the next three months also fell significantly across loan types, reaching the lowest levels seen since Q4 2018.

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U.S. Economy Overall

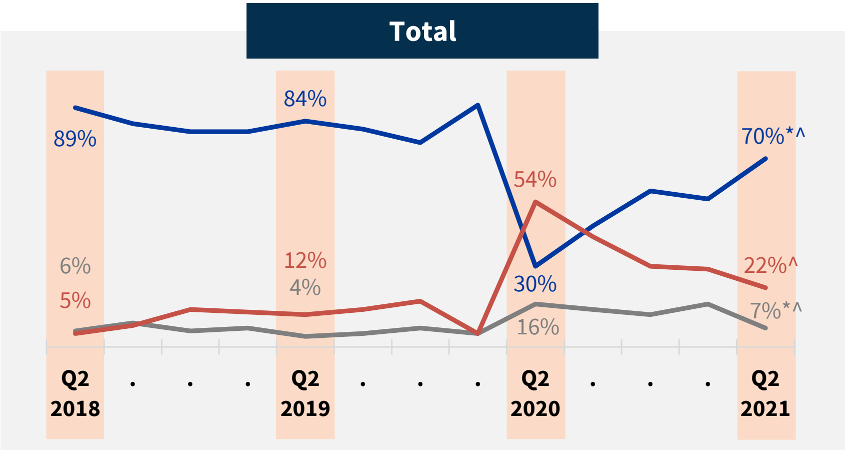
Lender sentiment toward the U.S. economy turned significantly more positive compared to the previous quarter (Q1 2021) and the same quarter last year (Q2 2020), continuing the upward trajectory since Q3 2020.

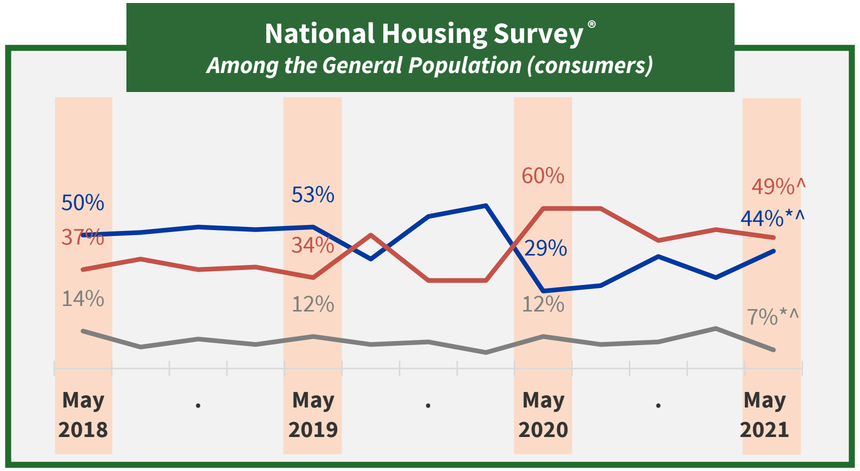
In general, do you, as a senior mortgage executive, think the U.S. economy overall is on the right track or the wrong track?

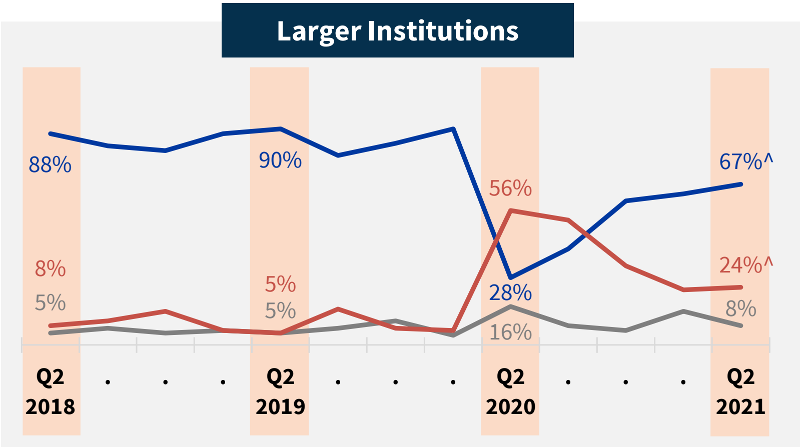
Right Track

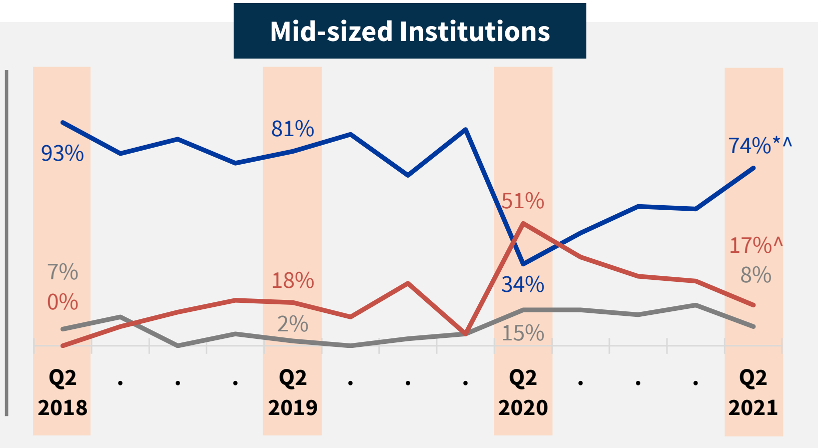
Don't know

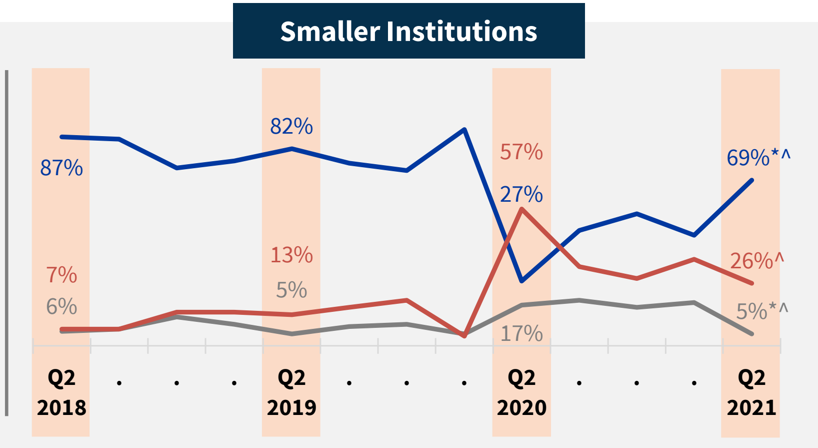
Wrong Track











** Denotes a statistically significant change compared with Q1 2021 (previous quarter)*
^ Denotes a statistically significant change compared with Q2 2020 (same quarter of last year)

National Housing Survey: http://www.fanniemae.com/portal/research-and-analysis/housing-survey.html

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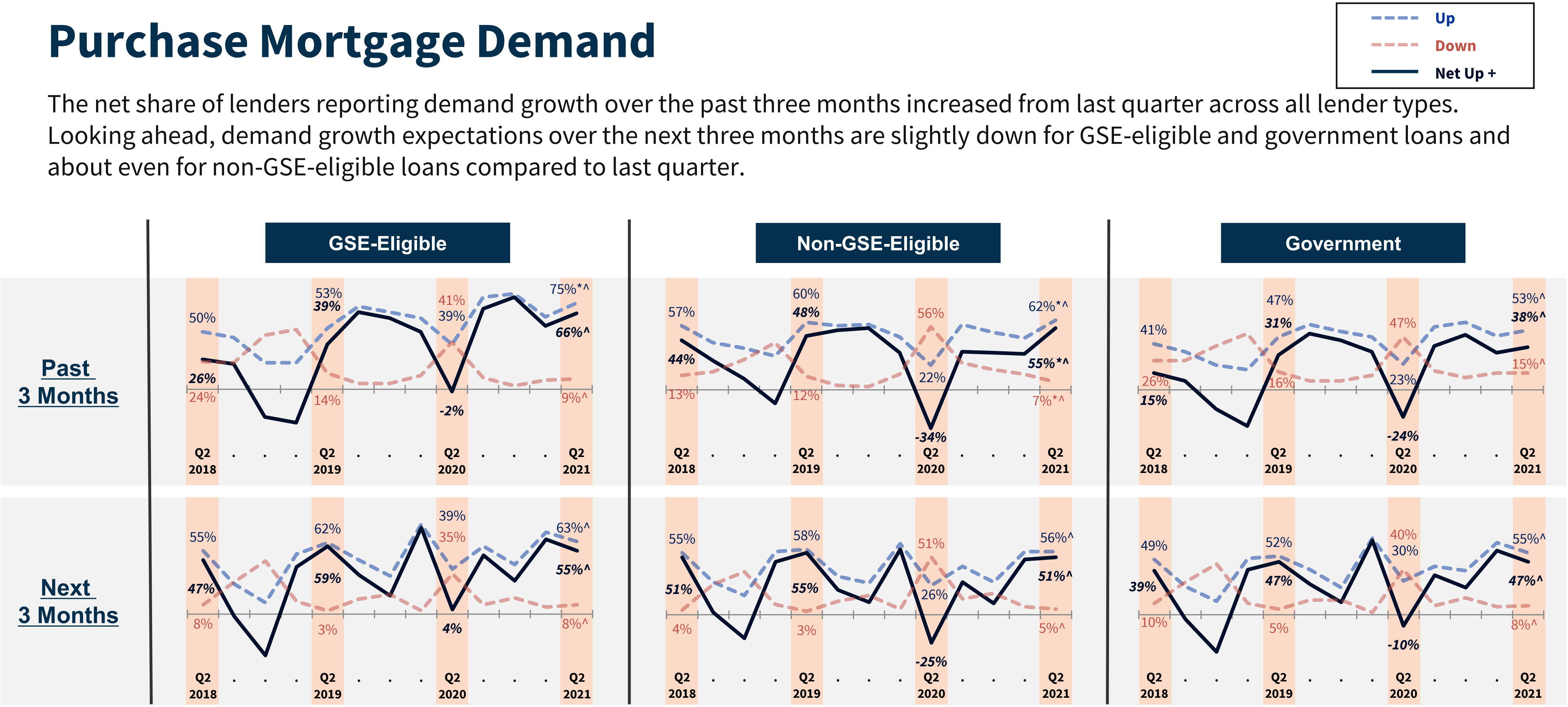
Purchase Mortgage Demand

The net share of lenders reporting demand growth over the past three months increased from last quarter across all lender types. Looking ahead, demand growth expectations over the next three months are slightly down for GSE-eligible and government loans and about even for non-GSE-eligible loans compared to last quarter.



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

** Denotes a statistically significant change compared with Q1 2021 (previous quarter)*
^ Denotes a statistically significant change compared with Q2 2020 (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*

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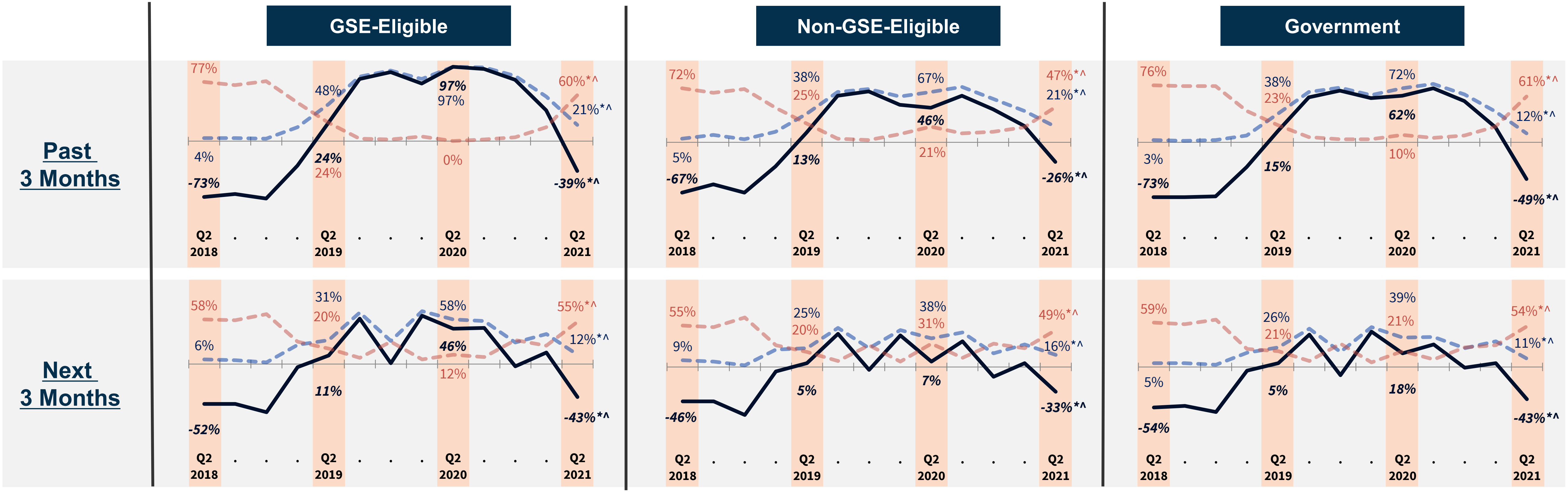
Refinance Mortgage Demand

The net share of lenders reporting demand growth over the prior three months dropped significantly from last quarter across all loan types, turning net negative for the first time since Q1 2019 and reaching the lowest reading since Q4 2018 for GSE-eligible and government loans. Refinance demand growth expectations on net for the next three months also fell significantly across loan types, reaching the lowest levels seen since Q4 2018.



Net Up + = % of lenders saying up minus % of lenders saying down

The % saying "stay the same" is not shown

** Denotes a statistically significant change compared with Q1 2021 (previous quarter)*
^ Denotes a statistically significant change compared with Q2 2020 (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 refinance 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 refinance mortgages to go up, go down, or stay the same? *"Up" = Go up significantly + Go up somewhat, "Down" = Go down significantly + Go down somewhat*

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Credit Standards

- The net share of lenders reporting easing credit standards over the prior three months has gradually climbed since Q2 2020 across all loan types. This quarter, the net-easing share for GSE-eligible loans remained relatively flat from last quarter. For the next three months, the net share of lenders expecting easing has ticked up slightly from last quarter for non-GSE-eligible loans but remained relatively steady for GSE-eligible and government loans.

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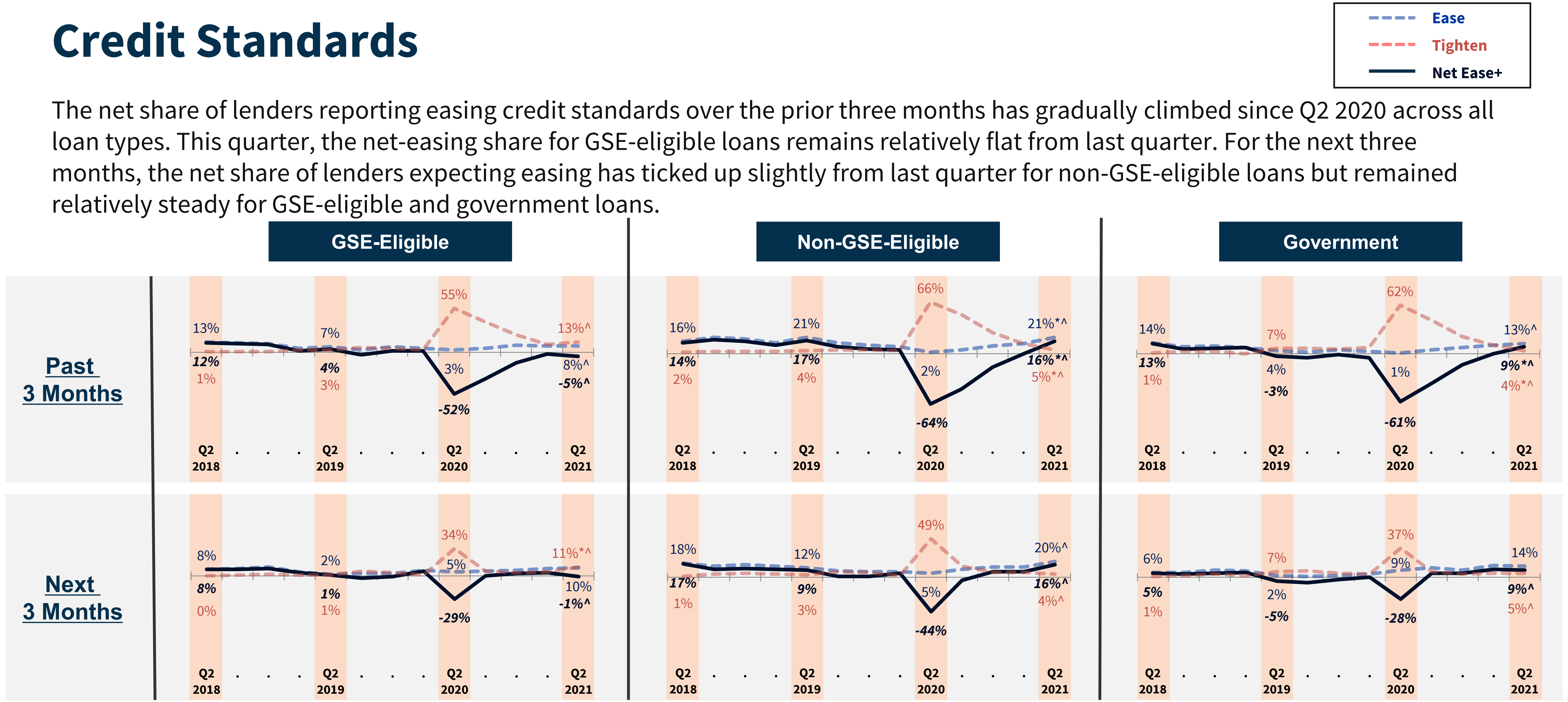
Credit Standards

The net share of lenders reporting easing credit standards over the prior three months has gradually climbed since Q2 2020 across all loan types. This quarter, the net-easing share for GSE-eligible loans remains relatively flat from last quarter. For the next three months, the net share of lenders expecting easing has ticked up slightly from last quarter for non-GSE-eligible loans but remained relatively steady for GSE-eligible and government loans.



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

* *Denotes a statistically significant change compared with Q1 2021 (previous quarter)*
^ *Denotes a statistically significant change compared with Q2 2020 (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*

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Profit Margin Outlook Change

- Lenders' profit margin outlook declined again this quarter after two prior consecutive quarters' decline, marking the largest quarterly decline recorded since survey inception (Q1 2014).
- "Competition from other lenders" continued to be cited as the top reason by lenders who expect a lower profit outlook. "Market trend changes" continued to be the second top reason, with the share citing it reaching its highest reading since Q1 2017.

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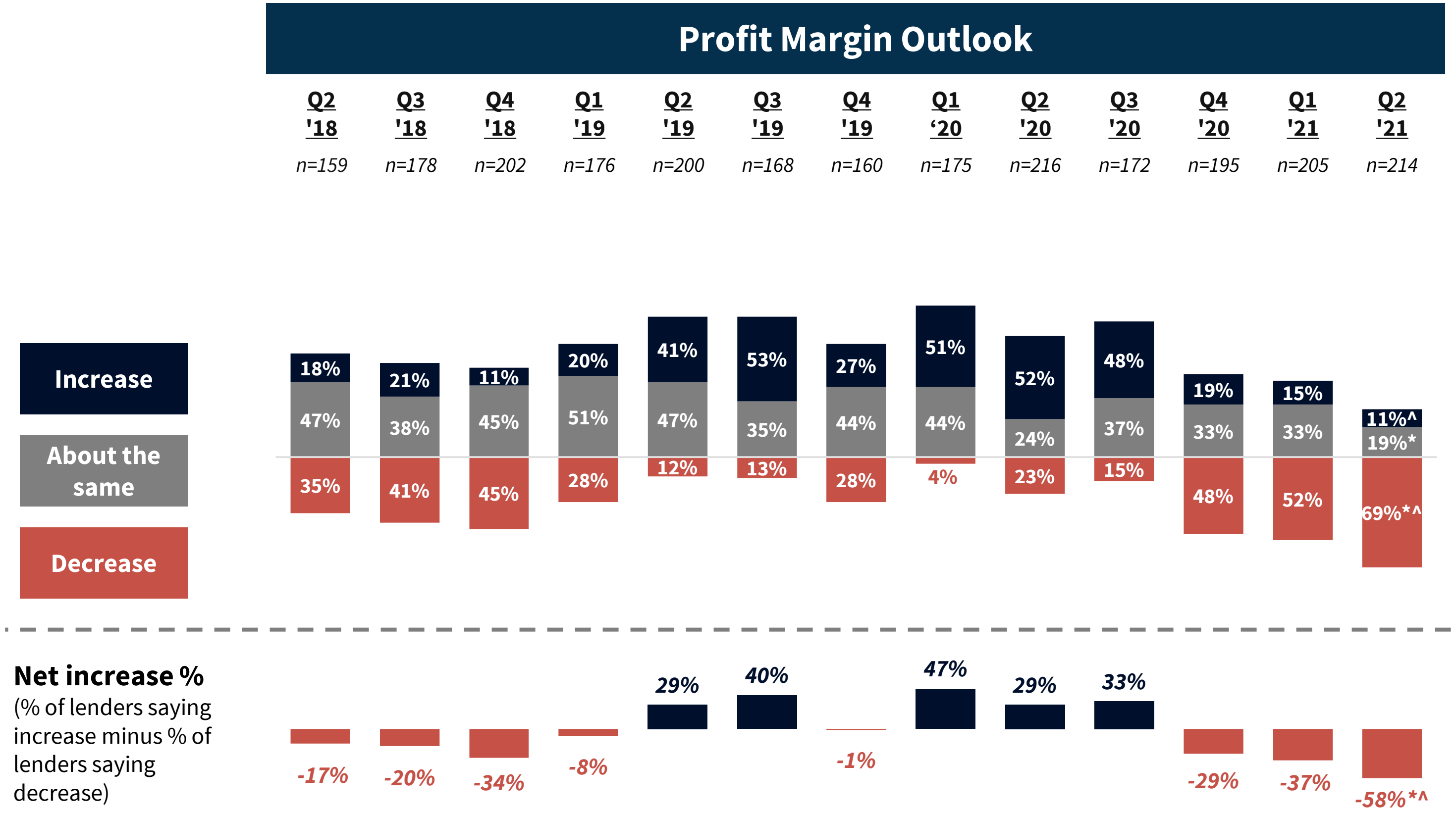
Lenders' Profit Margin Outlook Change – Next 3 Months

The net-up profit margin outlook declined significantly after two prior consecutive quarters' decline, marking the largest quarterly decline since survey inception (Q1 2014). Those expecting a lower profit margin outlook pointed to "competition from other lenders" and "market trend changes" as the primary reasons.



Key Reasons for Expected Increase – Q2 2021	
Consumer demand	**56%**
Market trend changes (i.e. shift from refinance to purchase)	**42%**
Operational efficiency (i.e. technology)	39%
GSE pricing and policies	19%
Non-GSE (other investors) pricing and policies	17%

Showing data for selected answer choices only. n=27

Key Reasons for Expected Decrease – Q2 2021	
Competition from other lenders	**68%**
Market trend changes (i.e. shift from refinance to purchase)	**44%**
GSE pricing and policies	34%
Consumer demand	22%
Staffing (personnel costs)	10%

Showing data for selected answer choices only. n=144

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.

** Denotes a statistically significant change compared with Q1 2021 (previous quarter)*
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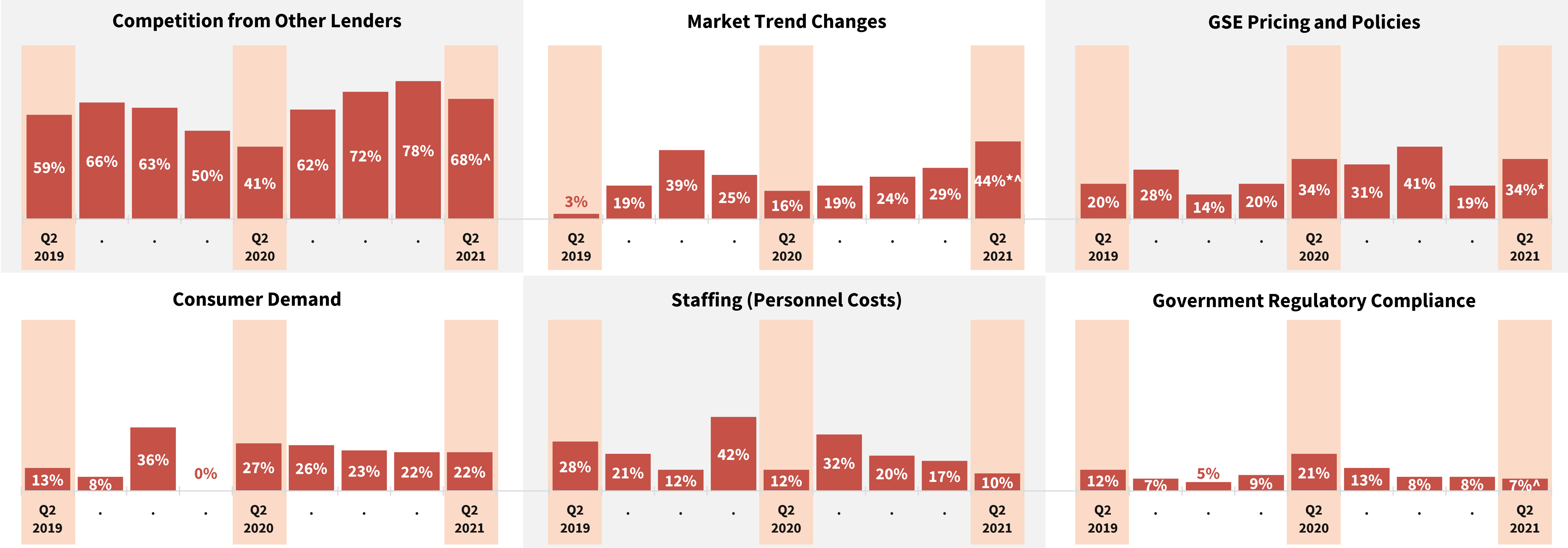
Decreased Profit Margin Outlook – Top Drivers

“Competition from other lenders” continued to be cited as the top reason by lenders who expect a lower profit outlook. “Market trend changes” continued to be the second top reason, with the share citing it reaching its highest reading since Q1 2017.



Q: What do you think will drive the decrease in your firm’s profit margin over the next three months? Please select the two most important reasons and rank them in order of importance. (Showing % rank 1 + 2)

Total: Q2 2019: N=24; Q3 2019=23; Q4 2019: N=47; Q1 2020: N=8; Q2 2020: N=51; Q3 2020: N=26; Q4 2020: N=92; Q1 2021: N=105; Q2 2021: N=144

** Denotes a statistically significant change compared with Q1 2021 (previous quarter)*
^ Denotes a statistically significant change compared with Q2 2020 (same quarter of last year)

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Appendix

Appendix

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.

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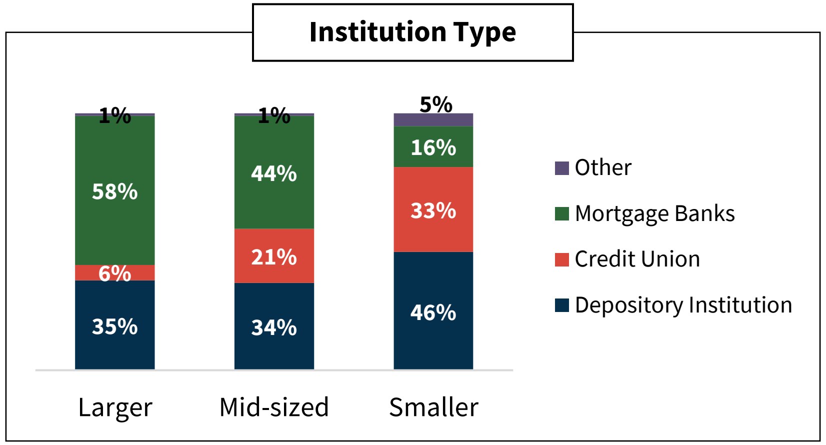
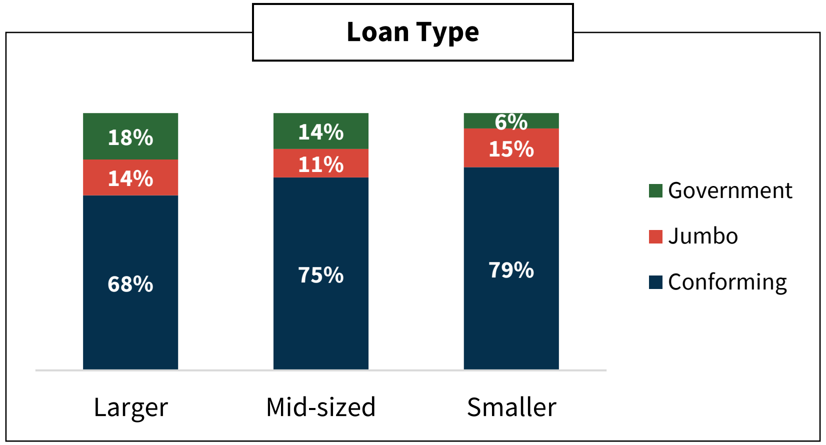
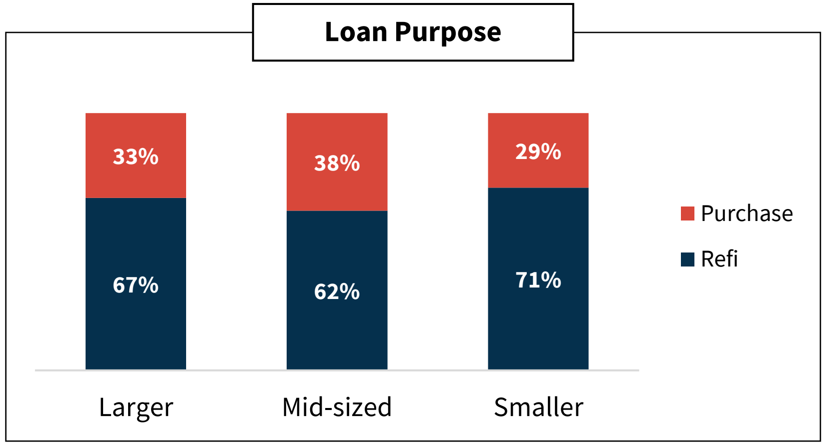
Lending Institution Characteristics

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 2020. Institutions were divided into three groups based on their 2020 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.

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Sample Sizes

		Q2 2019		Q3 2019		Q4 2019		Q1 2020		Q2 2020		Q3 2020		Q4 2020		Q1 2021		Q2 2021	
		Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error	Sample Size	Margin of Error
Total Lending Institutions		**211**	**±6.19%**	**179**	**±6.82%**	**168**	**±7.08%**	**183**	**±6.70%**	**229**	**±5.87%**	**186**	**±6.64%**	**202**	±6.63%	**214**	**±6.11%**	**225**	**±5.93%**
Loan Origination Volume Groups	Larger Institutions	61	±10.50%	60	±10.64%	60	±10.63%	52	±11.65%	71	±9.26%	51	±11.80%	52	±11.62%	61	±10.37%	66	±9.87%
	Mid-sized Institutions	57	±11.43%	45	±13.25%	38	±14.67%	40	±14.19%	62	±10.76%	51	±12.25%	55	±11.66%	60	±11.00%	63	±10.65%
	Smaller Institutions	93	±9.62%	74	±10.92%	70	±11.26%	91	±9.70%	96	±9.42%	84	±10.15%	95	±9.48%	93	±9.59%	96	±9.42%
Institution Type	Mortgage Banks	91	±8.92%	72	±10.37%	76	±10.05%	71	±10.47%	89	±9.07%	66	±10.96%	84	±9.46%	90	±9.04%	103	±8.29%
	Depository Institutions	85	±9.80%	70	±10.98%	60	±11.98%	73	±10.65%	89	±9.46%	73	±10.65%	67	±11.18%	81	±10.01%	72	±10.71%
	Credit Unions	34	±16.05%	33	±16.32%	30	±17.19%	38	±15.03%	46	±13.49%	41	±14.40%	45	±13.65%	39	±14.81%	43	±14.01%

2019
Q1 was fielded between February 6, 2019 and February 17, 2019
Q2 was fielded between May 1, 2019 and May 12, 2019
Q3 was fielded between July 31, 2019 and August 11, 2019
Q4 was fielded between October 30, 2019 and November 10, 2019

2020
Q1 was fielded between February 5, 2020 and February 17, 2020
Q2 was fielded between May 5, 2020 and May 18, 2020
Q3 was fielded between August 4, 2020 and August 16, 2020
Q4 was fielded between October 27, 2020 and November 8, 2020

2021
Q1 was fielded between February 4, 2021 and February 17, 2021
Q2 was fielded between May 4, 2021 and May 17, 2021

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2021 Q2 Cross-Subgroup Sample Sizes

	Total	Larger Lenders	Mid-Sized Lenders	Smaller Lenders
Total	225	66	63	96
Mortgage Banks (non-depository)	103	44	33	26
Depository Institutions	72	17	18	37
Credit Unions	43	5	12	26

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2021 Q2 Sample Sizes: Consumer Demand

Purchase Mortgages:

	Past 3 Months			Next 3 Months		
	GSE-Eligible	Non-GSE-Eligible	Government	GSE-Eligible	Non-GSE-Eligible	Government
Total Lending Institutions	**222**	**191**	**184**	**222**	**193**	**186**
Larger Institutions	66	62	62	66	62	64
Mid-sized Institutions	62	53	53	63	53	54
Smaller Institutions	94	76	69	93	78	69

Refinance Mortgages:

	Past 3 Months			Next 3 Months		
	GSE-Eligible	Non-GSE-Eligible	Government	GSE-Eligible	Non-GSE-Eligible	Government
Total Lending Institutions	**218**	**186**	**177**	**219**	**184**	**179**
Larger Institutions	64	59	61	64	58	61
Mid-sized Institutions	61	51	51	61	51	52
Smaller Institutions	93	76	65	94	74	66

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2021 Q2 Sample Sizes: Credit Standards

	Past 3 Months			Next 3 Months		
	GSE-Eligible	Non-GSE-Eligible	Government	GSE-Eligible	Non-GSE-Eligible	Government
Total Lending Institutions	**222**	**194**	**184**	**222**	**195**	**186**
Larger Institutions	66	62	62	66	62	62
Mid-sized Institutions	63	54	54	63	55	55
Smaller Institutions	93	78	67	94	78	69

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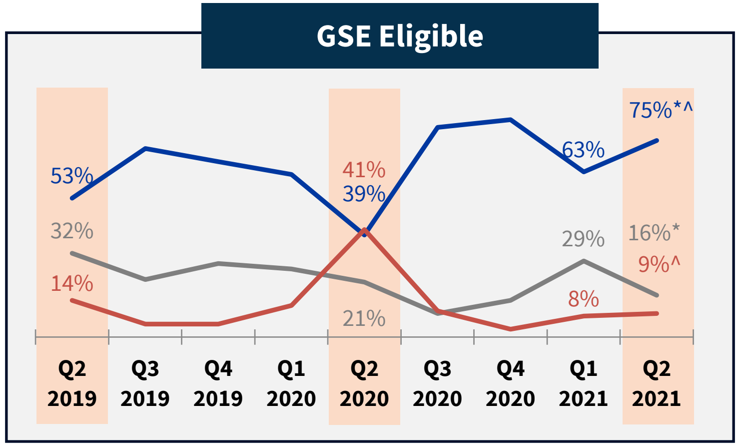
Calculation of the "Total"

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:

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 (Q2 2021)	Larger Institutions	Mid-sized Institutions	Smaller Institutions	**Q2 "Total"**
Go up	81%	75%	68%	**75% [(81% + 75% + 68%)/3]**
Stayed the same	10%	16%	23%	**16%**
Go down	10%	9%	8%	**9%**



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Appendix

Question Text

Economic and Housing Sentiment

q1. In general, do you, as a senior mortgage executive, think the U.S. economy overall is on the right track or the wrong track?

q1a. Do you think it is very difficult, somewhat difficult, somewhat easy, or very easy for consumers to get a home mortgage today?

q2. Nationally, during the next 12 months, do you, as a senior mortgage executive, think home prices in general will go up, go down, or stay the same as where they are now?

q4a. By about what percent do you, as a senior mortgage executive, think home prices nationally will go up on average over the next 12 months?

q5a. By about what percent do you, as a senior mortgage executive, think home prices nationally will go down on average over the next 12 months?

Consumer Demand

q6. 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? Please answer for GSE eligible mortgages, non-GSE eligible mortgages, and Government mortgages.

q7. What do you think drove the change in your firm's consumer demand for single family purchase mortgages over the past three months? Please be as specific as possible. (Optional)

q14. 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? Please answer for GSE eligible mortgages, non-GSE eligible mortgages, and Government mortgages.

q46. You mentioned that you expect your firm's consumer demand for GSE eligible loans will go up over the next three months. Which of the following housing marketplace factors do you think will drive the demand to go up? Please select **up to two** of the most important reasons and rank them in order of importance.

q47. You mentioned that you expect your firm's consumer demand for GSE eligible loans will go down over the next three months. Which of the following housing marketplace factors do you think will drive the demand down? Please select **up to two** of the most important reasons and rank them in order of importance.

q49. You mentioned that you expect your firm's consumer demand for Non-GSE eligible loans will go up over the next three months. Which of the following housing marketplace factors do you think will drive the demand to go up? Please select **up to two** of the most important reasons and rank them in order of importance.

q50. You mentioned that you expect your firm's consumer demand for Non-GSE eligible loans will go down over the next three months. Which of the following housing marketplace factors do you think will drive the demand down? Please select **up to two** of the most important reasons and rank them in order of importance.

q51. You mentioned that you expect your firm's consumer demand for government loans will go up over the next three months. Which of the following housing marketplace factors do you think will drive the demand to go up? Please select **up to two** of the most important reasons and rank them in order of importance.

q52. You mentioned that you expect your firm's consumer demand for government loans will go down over the next three months. Which of the following housing marketplace factors do you think will drive the demand down? Please select **up to two** of the most important reasons and rank them in order of importance.

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Question Text Continued

q10. Over the past three months, apart from normal seasonal variation, did your firm's consumer demand for single-family refinance mortgages go up, go down, or stay the same? Please answer for GSE eligible mortgages, non-GSE eligible mortgages, and Government mortgages.

q18. Over the next three months, apart from normal seasonal variation, do you expect your firm's consumer demand for single-family refinance mortgages to go up, go down, or stay the same? Please answer for GSE eligible mortgages, non-GSE eligible mortgages, and Government mortgages.

Profit Margin Outlook

q22. Over the next three months, how much do you expect your firm's profit margin to change for its single-family mortgage production?

q24. What do you think will drive the decrease in your firm's profit margin over the next three months? Please select the two most important reasons and rank them in order of importance.

q26. What do you think will drive the increase in your firm's profit margin over the next three months? Please select the two most important reasons and rank them in order of importance.

Q53a. You mentioned earlier that "market trend changes" is an important factor for your firm's profit margin to decrease. What market trend changes are you seeing? Please share details with us. (Optional)

Q53b. You mentioned earlier that "market trend changes" is an important factor for your firm's profit margin to increase. What market trend changes are you seeing? Please share details with us. (Optional)

Q53c. You mentioned earlier that "GSE pricing and policies" is an important factor for your firm's profit margin to decrease. How are you seeing it affect profit margin? Please share details with us. (Optional)

Q53d. You mentioned earlier that "GSE pricing and policies" is an important factor for your firm's profit margin to increase. How are you seeing it affect profit margin? Please share details with us. (Optional)

Credit Standards

q27. 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)? Please answer for GSE eligible mortgages, non-GSE eligible mortgages, and Government mortgages.

q28. What do you think drove the change in your firm's credit standards for approving consumer applications for purchase and refinance mortgage loans over the last three months? Please be as specific as possible. (Optional)

q31. 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)? Please answer for GSE eligible mortgages, non-GSE eligible mortgages, and government mortgages.

q32. What do you think will drive the change in your firm's credit standards for approving consumer applications for purchase and refinance mortgage loans over the next three months? Please be as specific as possible. (Optional)

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