
National Association of REALTORS®

Seventh Survey of Mortgage Originators 2015:

TRID, FHA's New Taxonomy and Tax Transcripts



NATIONAL
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Executive Summary

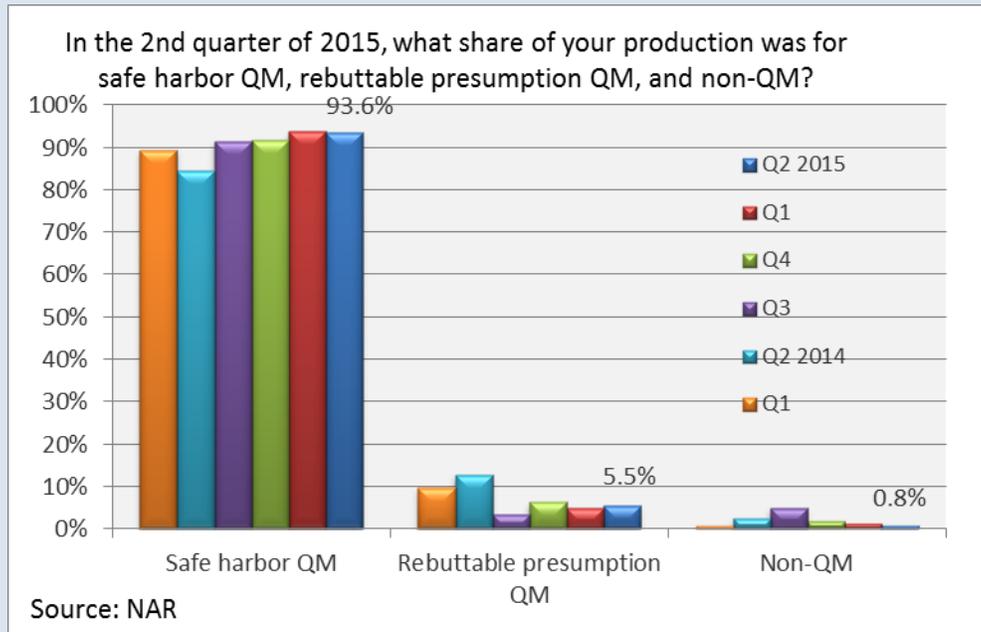
The survey covering the second quarter of 2015 reviews trends in mortgage production with an emphasis on changes in the availability of non-prime, QM rebuttable presumption, and non-QM products. Survey participants were also queried about the impending implementation of the TILA RESPA Integrated Documentation (TRID), the FHA's new defect taxonomy, and problems attaining tax transcripts. As in previous surveys, this quarter's panel of respondents includes members of Community Mortgage Lenders of America.

Highlights of the Survey

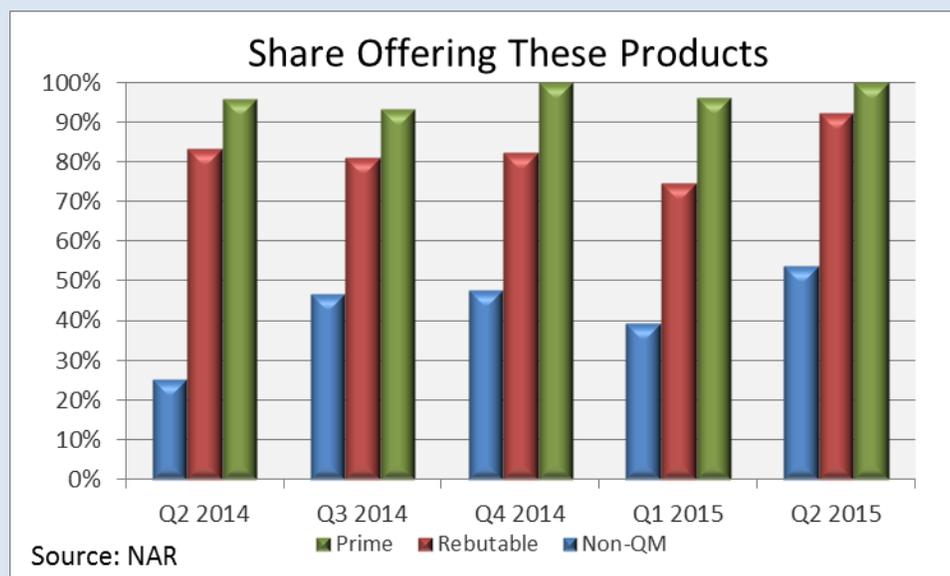
- The non-QM share of originations shrank again to just 0.8 percent of production in the second quarter, while the rebuttable presumption share expanded to 5.5 percent.
- While willingness to originate non-QM and rebuttable presumption loans eased, the share of lenders offering these products increased dramatically.
- For the second consecutive quarter, the share of respondents indicating an increase in investor demand for non-QM loans surged reaching 46.2 percent.
- Over the next six months, respondents expect access to credit for non-QM loans to moderate slightly, while access for rebuttable presumption products remains steady and prime products continue to expand. Respondents indicated that investor demand is likely to mimic these patterns.
- More than half of lenders are concerned about the potential impact of TRID timelines, but only expect 9.5 percent of closings to be delayed and 1.0 percent to be cancelled.
- However, 38.5 percent of lenders report that TRID will moderately impact their willingness to issue pre-approval letters.
- Only 15.4 percent of respondents felt the FHA's new defect taxonomy helped to clarify the risk around the FHA's enforcement policies and an equal share would be more willing to lend to borrowers with credit scores below 640 as a result.
- Finally, a significant share of originators reported having issues attaining tax transcripts from the IRS, but the issue was more evident with smaller producers.

Market Dynamics and Willingness to Lend

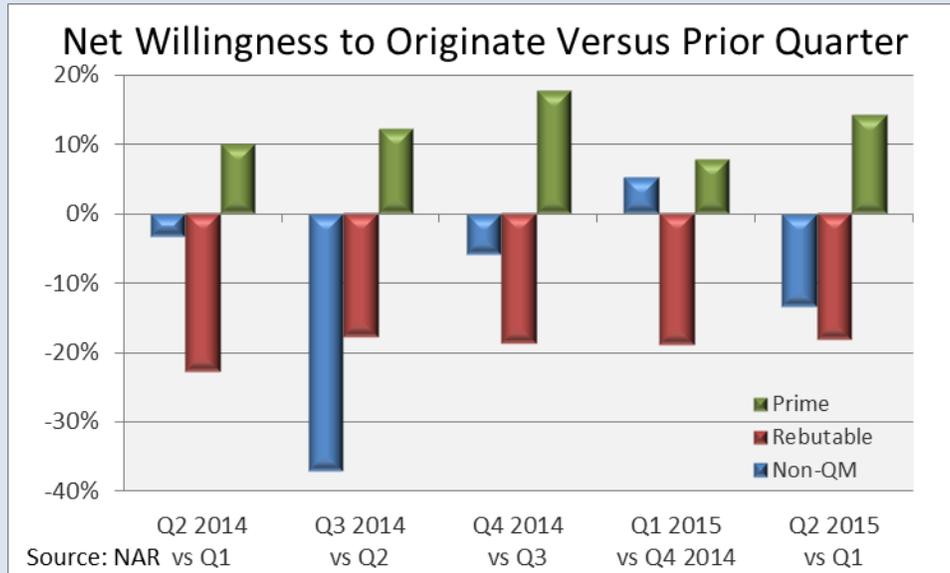
In the second quarter of 2015, respondents indicated a production-weighted share of 0.8 percent for non-QM loans, the second decline in as many quarters and equal to the 0.8 percent measured in the first quarter of 2014. The rebuttable presumption share rose from 5.0 percent to 5.5 percent in the second quarter, but was still nearly half the 9.8 percent registered in the first quarter of 2014.



The share of firms in the survey offering non-QM products jumped from 39.3 percent in the first to 53.6 percent in the second, the highest share to date. All lenders offered prime products and the share offering rebuttable presumption loans surged from 74.5 percent to 92.3 percent over this time frame setting a high for this survey.

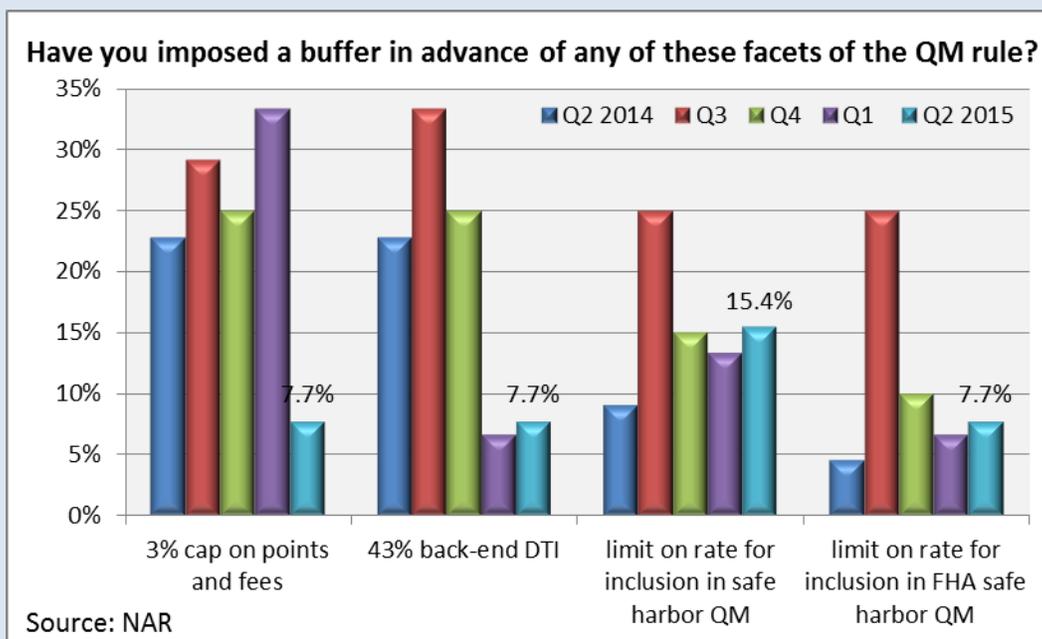


While more lenders added non-QM and rebuttable presumption loans to their offerings, lenders' net willingness to originate non-QM loans eased after showing improvement in the first quarter. Willingness to originate prime loans gained steam growing at a strong pace in the second quarter compared to the first quarter, but willingness to originate rebuttable presumption QM loans continues to muddle along.

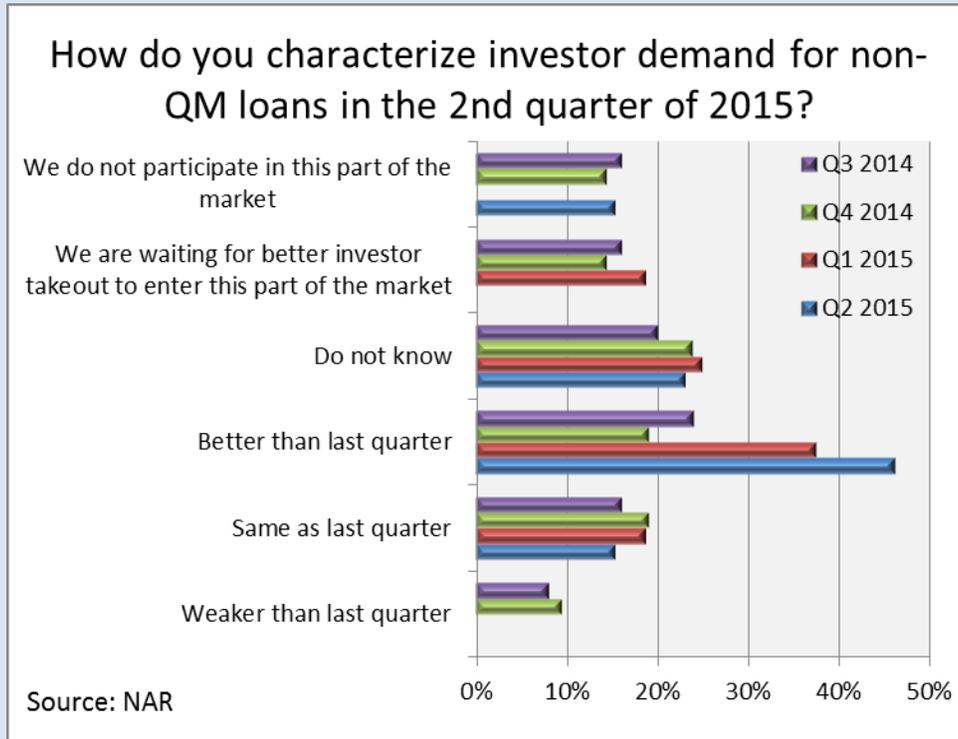


At a more granular level, willingness to originate non-QM mortgages with low balances, those with fees greater than three percent, or low-documentation fell more sharply than non-QMs with higher credit scores, DTIs less than 45 percent, and interest-only structures. FHA rebuttable presumption loans gained in both the share of originators offering them and willingness to originate given offering.

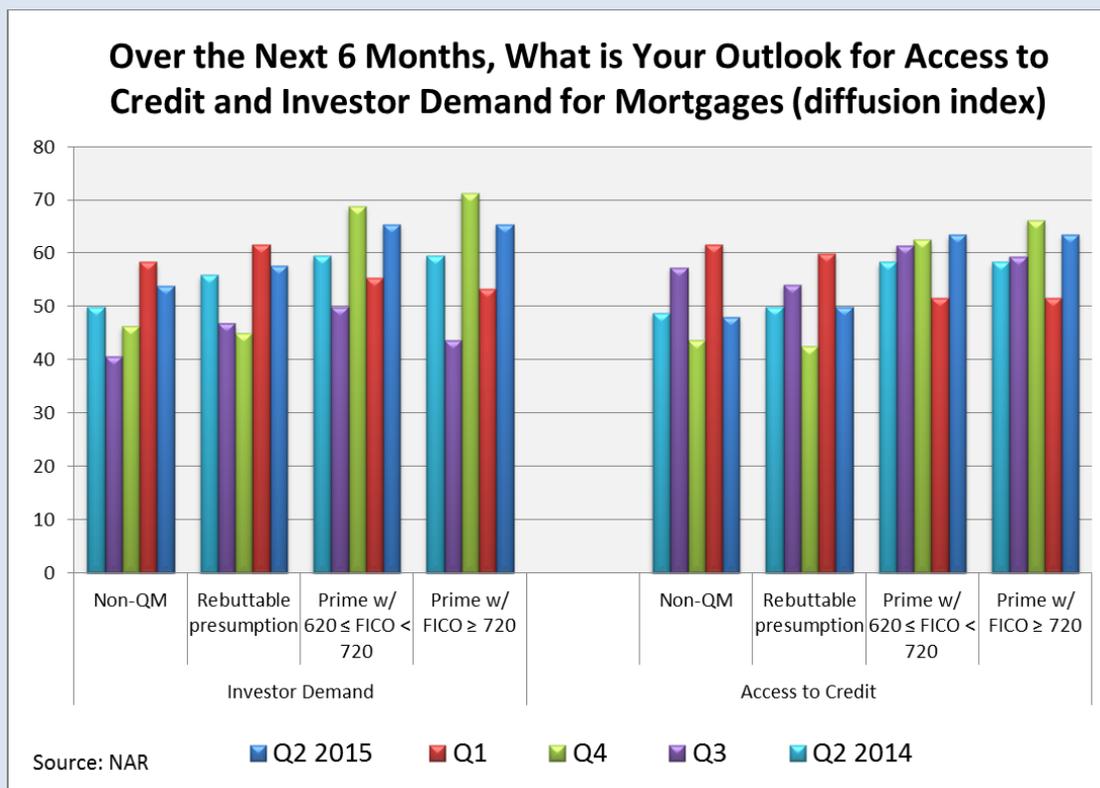
Fifty-seven percent of respondents indicated that they had an issue closing a mortgage(s) due to some facet of the ATR/QM rule, a sharp increase from 33.3 percent in the first quarter. However, the weighted average share of production that was not originated due to some facet of the ATR/QM rule was only 3.3 percent.



The share of respondents that employed a buffer or overlay ahead of the three percent cap on points and fees fell sharply in the second quarter to 7.7 percent of the sample compared to 33 percent in the first quarter. Buffers on other features like the 43 percent back-end DTI limit, and the APR demarcation for rebuttable presumption increased, though.



Most lenders in this survey do not do portfolio loans, so investor takeout is critical. The share of respondents reporting an improvement in investor demand surged for the second consecutive quarter reached 46.2 percent. No respondents indicated a weakening of demand or that they were waiting for better investor demand before entering the non-QM space.



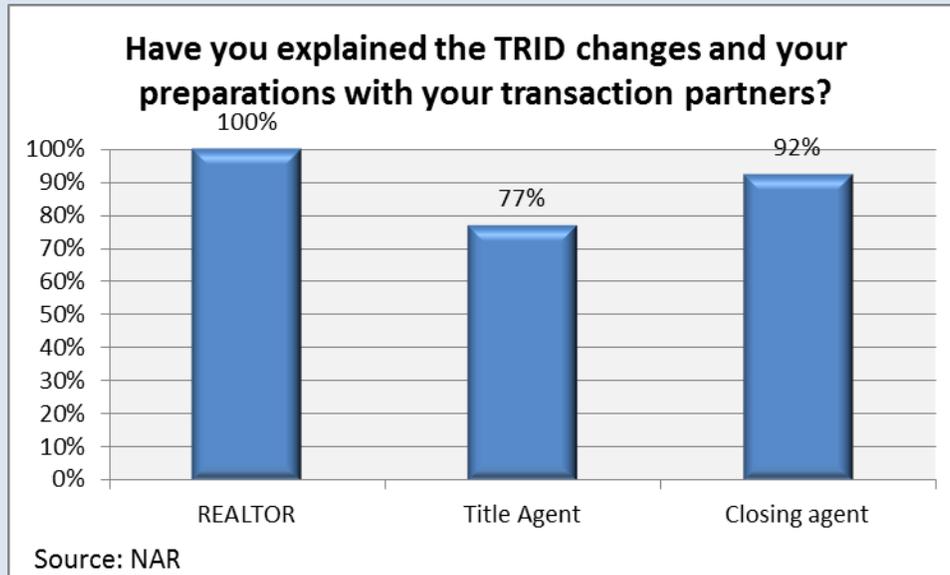
Survey respondents expect a flattening in the pace of access expansion over the next two quarters. Over the six months of 2015 ending in December, lenders expect access for non-QM products to soften modestly, while rebuttable presumption will break even (e.g. a diffusion index measure of 50). Access for prime and near prime borrowers is expected to improve over the coming six month period. Likewise, investor demand for prime production is expected to expand as is demand for non-QM and rebuttable presumption. This slowing trend does not suggest a retrenchment, rather an easing of the rapid pace of improvement that took place over the first half of 2015.

Industry and Policy Issues

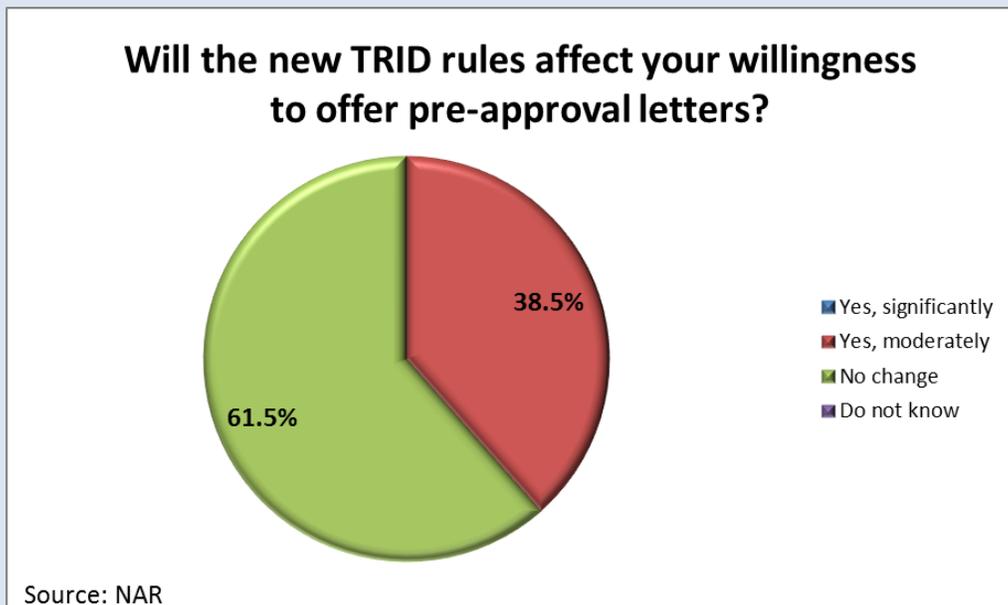
On October 3 2015, the new TILA RESPA Integrated Documentation (TRID) will be implemented. Under TRID, the current closing documentation is streamlined and features are added to help consumers better understand their financial commitment. Violations of the rule can carry penalties or legal enforcement. Once a lender receives a mortgage application, they must issue a loan estimate (LE) to the consumer within three days. The LE contains particular disclosures. The transaction cannot be completed until at least seven days have passed from when the applicant receives the LE, but the applicant must receive a finalized set of disclosures called the closing document (CD) at least three days prior to closing. The CD restates and expands on the disclosures in the LE. Thus, issues with the new disclosures in the LE or CD might derail the timing of the process.

When asked about their efforts to come to compliance with the new requirement under TRID, none of the respondents were ready as of late July, but 100 percent expected to be compliant by October 3. In preparation for the implementation of TRID, all of the survey respondents had discussed their

preparations with their REALTOR® partners. However, only about three quarters had discussed their preparations with title agents.

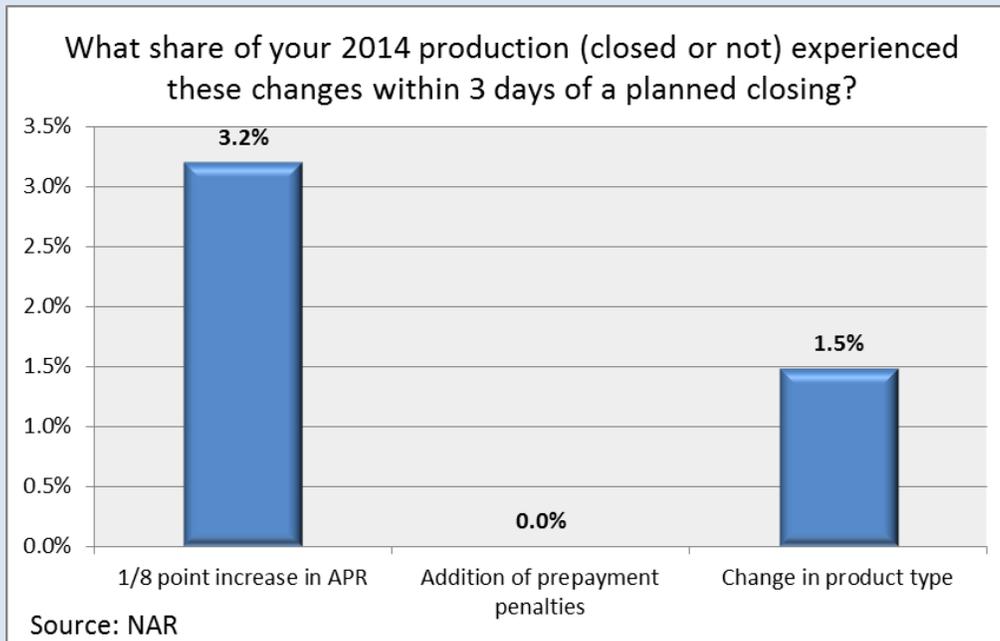


Because the timing under TRID starts with an application for a mortgage, the definition of an application is critical since it defines when certain legal obligations take hold. Some lenders have voiced concern about the new rule because the new definition of an application was streamlined and made identical to the definition of a pre-approval letter. The CFPB suggests a means of labeling the pre-approval letter to distinguish it from an application. However, more than a third of respondents indicated that the new TRID rules would affect their willingness to offer pre-approval letters.

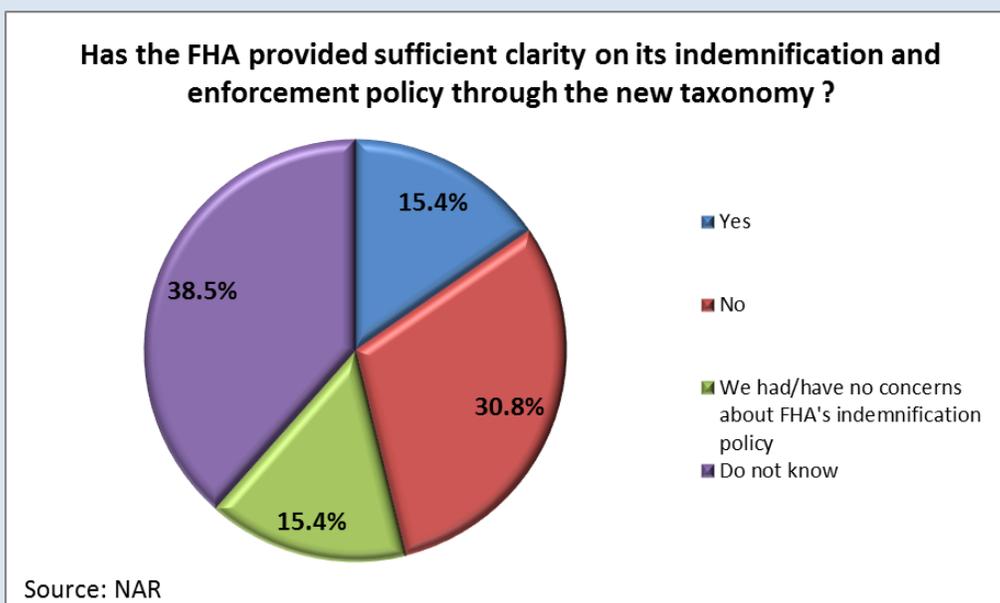


The timing of the LE and CD are important to a smooth closing. In each case, if a particular disclose changes more than a maximum amount or if particular features change, the lender will have to provide a new LE or CD and the clock starts over. Fifty-three point eight percent of respondents felt that the new requirements of the LE and CD, respectively, could create issues.

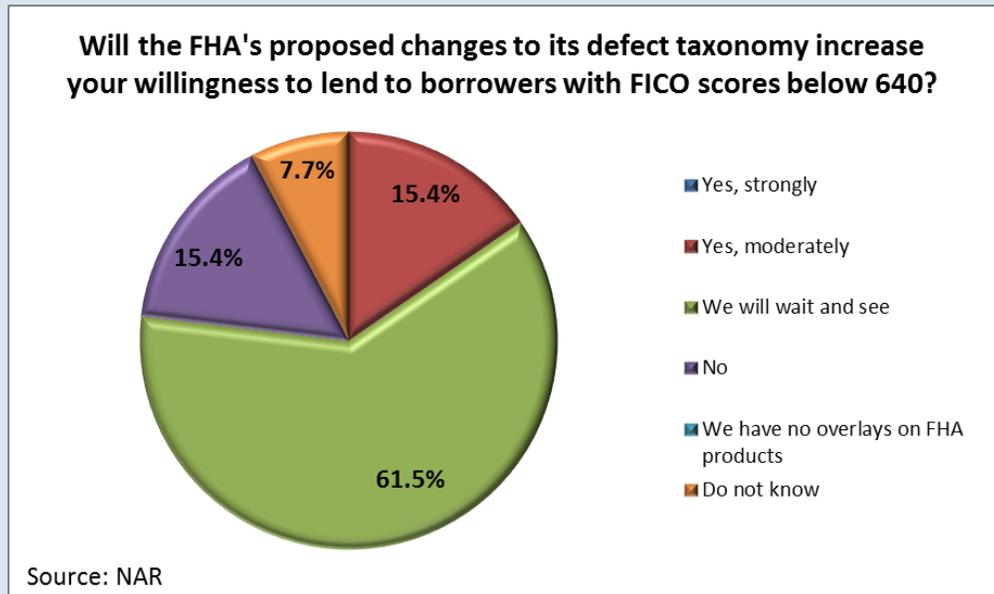
When a CD is issued three days in advance of a closing, only three factors can trigger a required re-issue of the CD: an increase in the APR of more than an eighth, the addition of a prepayment penalty or a change in mortgage product (e.g. 15-year fixed rate mortgage vs. a 30-year FRM). As depicted below, the incidence of these changes within three days was low in 2014. Respondents indicated they expect the new rules to result in 9.5 percent of transactions being delayed and 1.0 percent being cancelled.



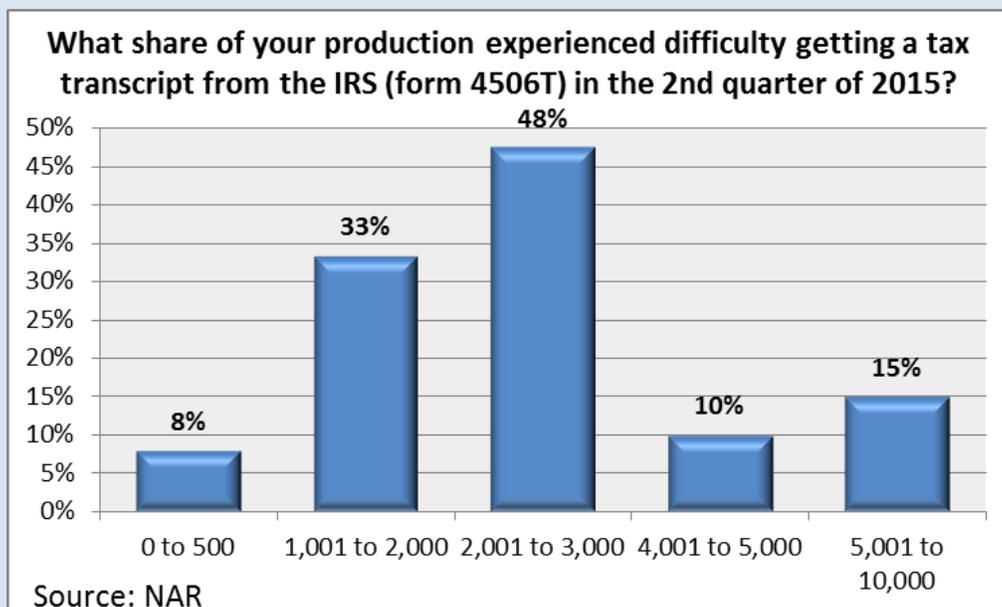
In June, the Federal Housing Administration (FHA) introduced a new defect taxonomy intended to demonstrate how it identifies and ranks different production errors in terms of severity. Lenders have been concerned about potential legal actions from the FHA as well as the Department of Justice (DOJ) over errors in their production processes. Fifteen point four percent of respondents indicated that the new taxonomy did provide sufficient clarity on its indemnification or enforcement actions, while nearly twice as many felt that it did not.



The same 15.4 percent share of respondents indicated that they were more willing to lend to borrowers with credit scores below 640 as a result of the clarity provided by the new taxonomy. An additional 61.5 percent indicated that they would wait and see.



Finally, news reports in May and June indicated that the IRS has denied some lenders' requests for tax transcripts as a means of fraud protection. However, certain lenders or their investors require these transcripts for underwriting and documentation. A smaller share of large producers reported having issues attaining transcripts, while a higher proportion of originators in the 1,000 to 3,000 annual production range reported issues. This discrepancy may reflect the originator's internal rules for income verification requirements or that of their preferred investor. In July Fannie Mae clarified that it does not require the transcripts and several large lenders issued guidance for acceptable forms of alternative income verification.



Appendix A: About the Survey

In July of 2015, NAR Research sent out a survey to a panel of 135 different mortgage originating entities including members of Community Mortgage Lenders of America. The survey instrument was sent by email on Wednesday July 8 and closed on Wednesday, July 22. As in past surveys, a subset of questions measure the characteristics of the originators, their market coverage, share devoted to purchase lending, disposition channel, and market segments of production. There were 15 unique responses to the survey for a response rate of 11.1 percent and a margin of error of 5.3 percent at a 95 percent level of confidence.

Mortgage bankers continue to dominate this sample, but traditional banks made up nearly 20 percent while joint ventures and wholesale lenders made up a small share. The distribution of originators by volume was more concentrated than in prior surveys with the majority bunched around 1,000-3,000 units per year while a significant number concentrated in a production range of 5,000 to 10,000 per year. A modestly larger share of originator in the second quarter focused on selling to aggregators and production in the super conforming and jumbo spaces.

Questions can be directed to:

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