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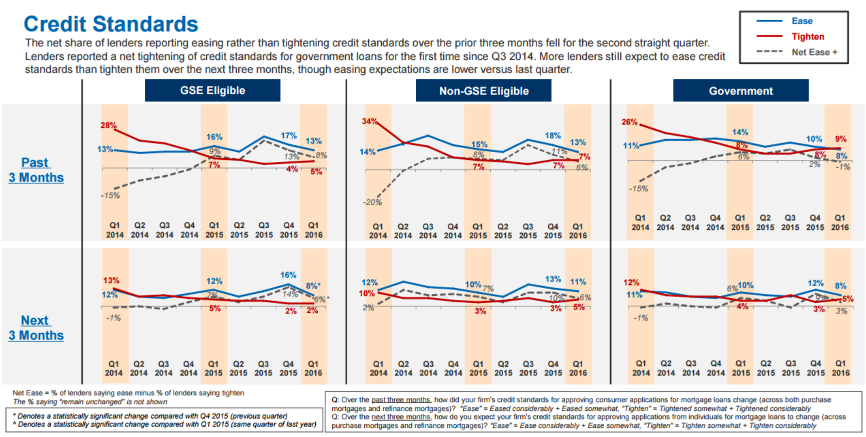
Have Mortgage Underwriting Standards Bottomed Out?

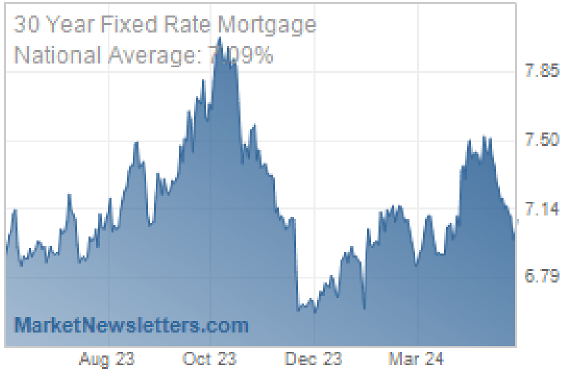
If lenders' opinions count, **credit standards** appear to be as low as they will go, at least in the medium term. On the other hand, it appears they are unlikely to tighten perceptively either. Fannie Mae's first quarter *2016 Mortgage Lender Sentiment Survey* conducted in February, asked respondents whether credit standards for mortgage loans had tightened or eased over the three-months prior to the polling and if were expected to ease or tighten over the upcoming three months.

The company reports that the net share of those reporting that standards had recently eased **fell** for the second straight quarter although the net-reported-tightening of standards for government loans **rose** for the first time since the third quarter of 2014. To keep things in perspective, those reporting tightening for any one loan type are in single digits as are the net differences. Their responses for activity over the next three months shows **even less motion** is expected.



Lenders report a lower demand for purchase loans over the quarter and but they strongly anticipate that demand to pick up over the next three months. For the current quarter the net share reporting purchase demand for all types of loans decreased significantly from a year earlier but the net of those expecting a pickup soared from near zero in the fourth quarter to more than half for each loan type.

National Average Mortgage Rates



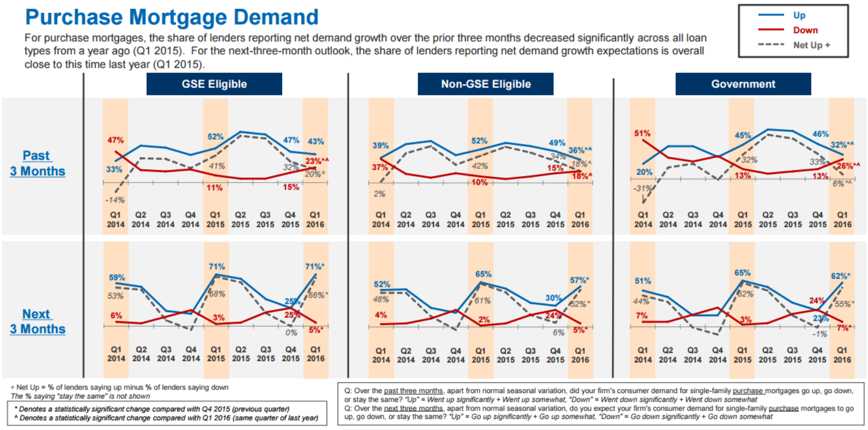
	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

Rates as of: 5/17

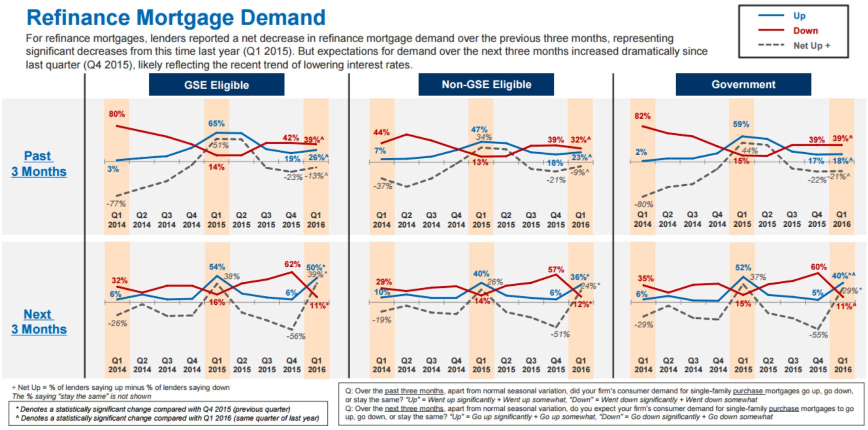
Recent Housing Data

		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%



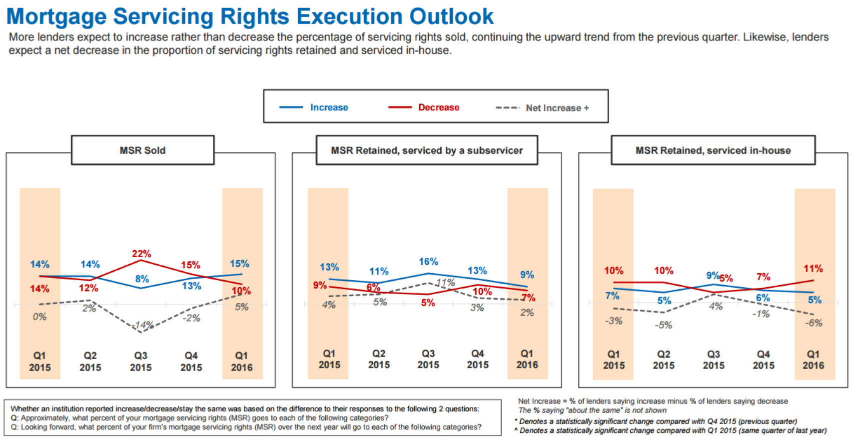
Lenders expecting **greater refinance mortgage demand** over the following three months increased dramatically since last quarter.



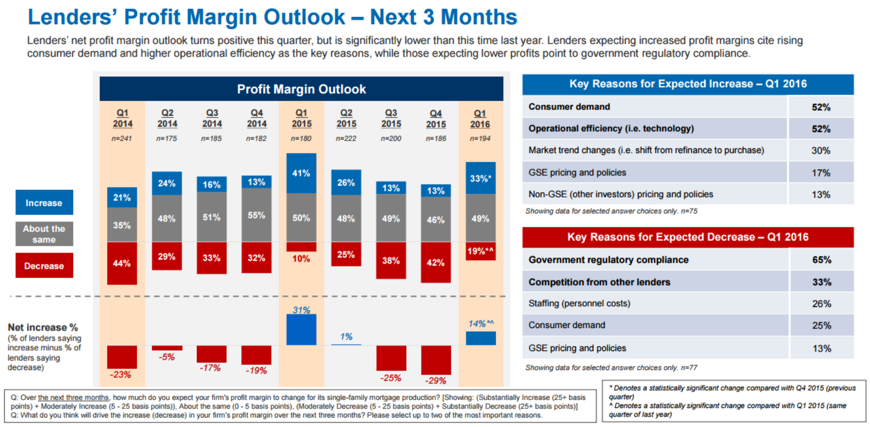
"This quarter's Mortgage Lender Sentiment Survey results reflect recent market volatility. Lenders anticipate a pickup in refinance demand in light of the decline in interest rates this year, but report a **slowdown in purchase demand** perhaps because of a seasonal component," said Doug Duncan, senior vice president and chief economist at Fannie Mae. "The survey suggests a slower pace of easing, as the net share of lenders who reported that they have eased credit standards overall over the past three months remained positive but has declined since the third quarter of last year. Lender expectations for easing over the next three months have also moderated."

Continuing 2015 trends lenders said they intend to **increase the share of their loans** sold to Fannie Mae and Freddie Mac (the GSEs) and to Ginnie Mae. They also intend to decrease the loans kept in their portfolio and whole loans sold to non-GSE correspondents over the next 12 months.

More lenders reported that they expect to increase rather than decrease the percentage of their **MSRs** sold to a third party, continuing the upward trend from last quarter (Q4 2015). In particular, significantly more mid-sized institutions expect to increase their share of MSRs sold to a third party compared with the same period last year (Q1 2015). On net lenders also reported they would decrease the share of MSRs retained and serviced in-house over the next three months.



Only 13 percent of lenders responding to the Q4 2015 survey reported they expected profits over the upcoming three months. That improved to 33 percent in the Q1 survey with lenders primarily basing their that projection on increased efficiencies and rising consumer demand. Among those who thought profits would fall, the leading cause was the cost of regulatory compliance.



Fannie Mae's survey polls senior executives of its lending institutional customers on a quarterly basis to assess their views and outlook across varied dimensions of the mortgage market. The first quarter 2016 edition was conducted between February 3, 2016 and February 16, 2016.

There were 205 institutions participating in the current survey; 63 mortgage banks, 88 depositories, and 47 credit unions. Fannie Mae said 57 were large banks, in the top 15 percent in origination volume and 80 were small institutions, falling in the bottom two-thirds of originators by volume.

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