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New Study Highlights How Alt A Market Fills Gap Between Prime and Subprime

The Alt A lending business, which has posted the biggest volume gains of any sector of the residential mortgage market over the past three years, is clearly filling the large gap between prime and subprime loans.

That's one of the findings contained in a major new study of the Alt A mortgage market released this week. The research is based on a nationwide survey of mortgage brokers that tracks a number of key Alt A lending issues, including compensation, underwriting and ratings of specific lenders. The survey was sponsored by *Inside Mortgage Finance* and conducted by Campbell Communications of Washington, DC, this fall.

"These survey results really point out just how important the Alt A sector is when it comes to the product menu most mortgage brokers offer," said Tom Popik, principal of Geosegment Systems and designer of the Alt A survey instrument. "For the first time, we are seeing how brokers use Alt A loans to qualify hard-to-fit borrowers as well as what they expect in compensation. It's great information."

The new report, "How Mortgage Brokers View the Booming Alt A Market," is the first survey conducted by Campbell Communications devoted exclusively to Alt A lending. A total of 2,140 brokers active in the Alt A market responded to the survey and passed validation criteria. For most general questions, the margin of error was 3 percent or less.

Among other things, the new survey found that brokers preferred wholesale lenders that specialized in both prime and Alt A products. More than a third of respondents said they preferred prime/Alt A lenders as opposed to only about a quarter that favored subprime/Alt A lenders.

In terms of fees charged by brokers, the survey found that Alt A products fell squarely between prime and subprime mortgages. For example, the average yield-spread premium cited for Alt A loans was 1.3 percent, compared to 1.2 percent for prime and 1.4 percent for subprime mortgages. Likewise the average fees charged to borrowers ranged from a low of \$602 for prime loans and a high of \$643 for subprime mortgages. Alt A fees were almost exactly in the middle at \$619.

Another interesting finding was that brokers tended to use or rely on more wholesale lenders as they moved from prime to subprime. Re-

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spondents reported using an average of 2.7 lenders for prime conforming loans, 3.4 lenders for Alt A loans, and 4.2 lenders for subprime products.

Alt A Borrowers Not Exactly Prime

While the new research found some similarities between Alt A and prime conforming lending, the study suggests Alt A borrowers are not exactly prime credit. For instance, a surprisingly large number of brokers reported having Alt A borrowers with significant income that is not reported to the Internal Revenue Service. In fact the number two reason why Alt A borrowers did not document income on a mortgage application is because they were self-employed with unreported income.

Another major reason why Alt A borrowers chose not to document income was because they couldn't qualify under standard debt-to-income ratios, the study found.

In addition to providing a great deal of information on how mortgage brokers view Alt A underwriting standards and documentation, the new study includes detailed broker ratings and rankings of most major wholesale lenders.

For information on how to obtain the full survey results in the new report, "How Mortgage Brokers View the Booming Alt A Market," contact Steve Swanson at Campbell Communications at steve@campbellsurveys.com or (202) 333-0175. ♦

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Alt A Borrowers Resemble Subprime, Poll Finds

Alt A borrowers are a cut above subprime in terms of their income and credit characteristics, right? A new poll suggests the distinction between the two sectors may not be as clear as many believe, at least when it comes to loans generated by mortgage brokers.

The survey, sponsored by Inside Mortgage Finance Publications and conducted by Washington, DC-based Campbell Communications, asked mortgage brokers to weigh in on a number of topics related to Alt A lending. Entitled, "How Mortgage Brokers View the Booming Alt A Market," the report is the first comprehensive view of the way that the wholesale channel is delivering, underwriting and pricing loans, the characteristics of the borrowers getting Alt A mortgages, and the opinions of brokers on the capabilities of lenders in such areas as technology and turn times.

With regard to customer characteristics, the survey results revealed a few surprises. Self-employed borrowers and wage-earners were equally distributed among the Alt A borrower base, accounting for about 39 percent of applicants each. And while Alt A borrowers are typically considered to be prime-quality customers who choose for a variety of reasons not to document their income or assets, brokers report that the situation is much more complicated: a significant number of borrowers in the Alt A market either can't qualify for prime products or are using alternative documentation programs to shelter income that they have hidden from the government.

That fact was highlighted by the response of brokers to a survey question that asked them to choose among 16 reasons that their Alt A customers decline to document income. The winner, listed by 71 percent of brokers, was that the borrower was using additional income from a household member with bad credit to qualify for the loan.

"Self-employed with unreported income" ranked second among the reasons for not documenting income, while "self-employed has not filed tax return" ranked fourth.

In addition, a sizeable share – 43 percent – of brokers said that borrowers don't document income because they "can't qualify under standard ratios."

The survey also unearthed a potentially troubling trend: participating brokers reported that 17 percent of their Alt A clients have "significant income that is not reported to the IRS."*

[For information on how to obtain the full survey results in the new report, "How Mortgage Brokers View the Booming Alt A Market," contact Steve Swanson at Campbell Communications at steve@campbellsurveys.com or (202) 333-0175.]