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New Research Shows Tightening of LTV and FICO Requirements Biggest Changes in Nonprime Market

Scrambling to reassure panicky investors that the mortgage industry has reined in risky lending practices, wholesale lenders have been tightening underwriting standards – particularly for nonprime mortgages. But nowhere have the tougher guidelines for nonprime loans been more pronounced than in the areas of maximum loan-to-value ratios and minimum credit scores.

This is one of the major findings of a new study examining how wholesale lenders have responded to the global credit crunch and perceptions that Alt A and subprime lending are overly risky. The new research, “Crisis in Nonprime Lending: Brokers Push Back on Risk Management,” was sponsored by *Inside Mortgage Finance*. The study is based on a nationwide survey of mortgage brokers – a group that originates the vast majority of nonprime loans in the U.S. – that was conducted by Campbell Communications of Washington, DC, in July.

While it has been no secret that lenders have rushed to substantially tighten underwriting requirements for nonprime mortgages in an effort to restore investor faith in the legitimacy of the products, it has been unclear exactly which guidelines have been toughened the most. The new study, scheduled to be released next week, asked mortgage brokers to evaluate 34 separate underwriting guidelines in terms of tightening.

“Lenders have a general sense that their competitors are tightening guidelines,” stated Tom Popik, principal of Geosegment Systems and author of the new report, “but they may not know which specific guidelines are being tightened the most.

“We can now see that some guidelines are being dramatically tightened, while others remain almost unchanged, even within a general category, such as income verification,” he said.

For both Alt A and subprime production, brokers judged “Maximum LTV/CLTV” and “Minimum FICO score” to be the most tightened guidelines. Income verification and appraisals were two other general guideline areas surveyed.

Within the category of income verification, survey respondents judged “Stated income consistent with occupation” as being significantly

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tightened for Alt A borrowers and moderately tightened for subprime borrowers. Likewise, within the category of appraisals, brokers reported greater emphasis on “Desk or field appraisal review” but little lender insistence on “Use of approved appraisers.”

“These survey results show that lenders in the non-prime market for the long-haul have plenty of room to differentiate themselves among brokers,” commented Popik. “For example, a lender could insist on use of approved appraisers, while dropping the requirement for appraisal desk reviews—a practice that brokers find onerous because it extends turn times and results in delayed closings.”

More than 2,000 mortgage brokers responded to the survey, which included more than 100 separate questions related to how nonprime underwriting standards have changed in recent months. Additionally, the survey asked brokers to rate lenders on a variety of factors including loan products and underwriting.

For information on how to obtain the full survey results contact John Campbell at Campbell Communications at john@campbellsurveys.com or (202) 363-2069. ♦

Changes in Alt A Underwriting Guidelines

Full Year 2006 vs. Past 90 Days

-5=Dramatically Loosened, 0=No Change, +5=Dramatically Tightened

Rank	Factor	Avg Rating	Responses
1	Maximum LTV/CLTV	3.28	1728
2	Minimum FICO Score	3.27	1730
7	Stated Income consistent with occupation	2.43	1740
8	Desk or field appraisal review	2.27	1720
17	AVM appraisal limits	1.67	1407
23	Income matches IRS Form 4506	1.53	1731
25	Use of approved appraisers	1.43	1717
34	Paystubs not acceptable	0.75	1731

Source: Crisis in Nonprime Lending: Brokers Push Back on Risk Management

Changes in Subprime Underwriting Guidelines

Full Year 2006 vs. Past 90 Days

-5=Dramatically Loosened, 0=No Change, +5=Dramatically Tightened

Rank	Factor	Avg Rating	Responses
1	Minimum FICO Score	3.57	1480
2	Maximum LTV/CLTV	3.56	1491
7	Stated Income consistent with occupation	2.84	1488
13	Desk or field appraisal review	2.45	1480
22	Income matches IRS Form 4506	2.03	1482
25	AVM appraisal limits	1.94	1475
30	Use of approved appraisers	1.79	1479
34	Paystubs not acceptable	1.48	1482

Source: Crisis in Nonprime Lending: Brokers Push Back on Risk Management

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