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New IMF Survey Highlights Extent of Mortgage Market Disruptions in August

How bad was last month in terms of disrupted mortgage closings and the availability of loans? Pretty bad, according to a new *Inside Mortgage Finance*-sponsored study that found as many as one in three home purchase closings were cancelled as the result of mortgage-related problems in the latter part of August.

Perhaps more disturbing, the new research suggests that nearly half of mortgage borrowers with adjustable-rate mortgages that are resetting to higher rates won't be able to refinance due to much tougher underwriting requirements.

The new study of mortgage market conditions is based on a national survey of mortgage brokers conducted by Campbell Communications during the last two weeks of August. The real-time survey of brokers, who accounted for about 30 percent of all mortgage originations during the first half of 2007, is one of the first research efforts to capture how last month's credit crunch has altered the mortgage market landscape.

"The survey results clearly show the impact of the greatly reduced investor demand for subprime, Alt A and even prime jumbo mortgage product," said Tom Popik, principal of Geosegment Systems and author of the new study. "And we may be seeing some bleed-over into the prime conforming market because of chained home purchase transactions with Alt A and subprime homebuyers. I believe this is the first data that really quantify the extent of the major disruptions seen in the mortgage market last month."

Even borrowers with prime conforming loans are experiencing problems; the survey found that one-fifth of these customers had cancelled home purchase closings in August.

"Our data show not only the decline in mortgage production, but also the causes behind the decline," said Popik. "These causes vary by product category. For potential subprime and Alt A home purchasers, it's often a matter of fewer lenders and less product availability. For prime conforming customers seeking to refinance a resetting ARM, we know that appraised value and LTV are significant issues."

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Among other things, the new research details the scope of the decline in mortgage originations by loan product. It also measures changes in FICO score, maximum loan-to-value and other underwriting requirements – as well as their impact on mortgage borrowers.

Additionally, the study identifies which lenders are still actively accepting – and approving – mortgage applications for various loan products from brokers.

For information on how to obtain the full survey results contact John Campbell at Campbell Communications at john@campbellsurveys.com or (202) 363-2069. The survey form may be viewed online at www.campbellsurveys.com/chgmkt07. ♦

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