



INSIDE MORTGAGE FINANCE®

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Smaller Lenders, Brokers Must Clear Many Hurdles to Operate in New 'Agency' Dominated Market

Smaller lenders and mortgage brokers are facing a number of significant challenges as they scramble to adjust to a mortgage market that virtually overnight has become dependent on Fannie Mae, Freddie Mac and FHA for funding.

That's one of the major findings of a new study of how mortgage originators – brokers and correspondents as well as smaller mortgage bankers and depository institutions – are coping with the current liquidity-challenged mortgage lending environment.

The study, sponsored by *Inside Mortgage Finance* and based on a nationwide survey conducted by Campbell Communications early in October, found that generally FHA mortgages posed fewer obstacles in terms of most major underwriting requirements than similar Fannie and Freddie loans. In particular, respondents reported that FHA loans had fewer impediments in regards to FICO score, credit history, income documentation, and loan-to-value ratios.

The study, "Mortgage Lenders Transition to Prime and FHA Loans," provides some of the first qualitative insight into what the dramatic shift to government-related mortgage lending has meant for both originators and borrowers. According to numbers compiled by *Inside Mortgage Finance*, Fannie, Freddie and the FHA combined share of mortgage originations jumped from a little over one-third to nearly two-thirds between the third quarter of 2006 and the same period this year.

This development has forced independent loan originators like brokers and correspondents to retool their operations in order to funnel more borrowers into Fannie, Freddie or FHA loans. But the study found that smaller originators face a number of problems in using the government-related programs.

In terms of the government-sponsored enterprises, respondents cited FICO score, maximum loan amount, and loan-to-value ratios as the biggest impediments. Specifically, respondents noted that the GSEs' tough underwriting requirements made it hard for borrowers to refinance out of resetting ARMs or other problem mortgages.

"Both Fannie Mae and Freddie Mac should loosen up their cash-

Continues...

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out [refinance] rules to help with the ARM reset problems. If a borrower is paying off a mortgage with a second included, it should be treated as a rate-term [refinance]. The higher delivery fees [associated with seconds and cash-out refis] make it harder for people trying to survive the downturn,” noted one respondent.

Another respondent suggested that Fannie and Freddie “lower the requirements on FICO scores, allow alternative income sources, and consider compensating factors such as length of time in home or job and the amount of savings on debt consolidation refi.”

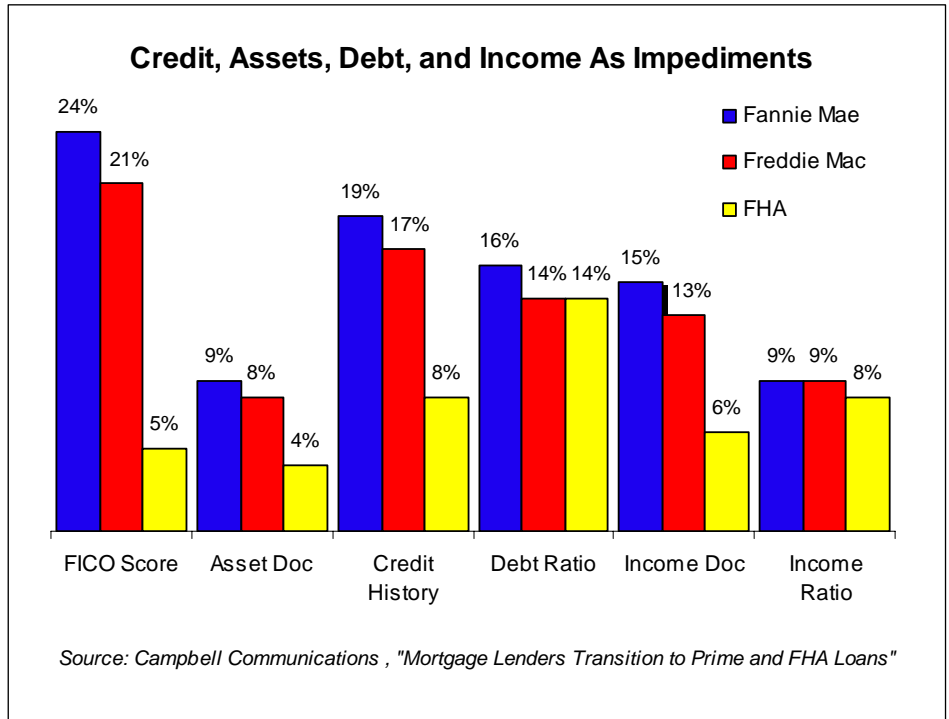
Although lenders generally cited fewer impediments in originating FHA mortgages than GSE loans, the biggest problem reported was “becoming an FHA-approved lender.” This was an issue for both mortgage bankers and mortgage brokers.

“Remove the requirement that mandates that lenders must have offices in each region to originate [FHA loans]. Our company originates conventional and VA loans in all 50 states but we do not have enough offices around the country to do the same with FHA loans,” complained one originator.

“Reduce requirements for HUD approval of brokers. We are currently HUD approved, but the annual financial audit is too much,” said one broker. “Allow brokers to use surety bonds to meet HUD net worth requirements thus removing the costly annual audits. Adopt the same approval and sponsor system for brokers that VA has,” added another broker.

In addition to looking at numerous underwriting issues surrounding Fannie/Freddie and FHA mortgages, the new survey asked originators to evaluate current investor outlets for both conforming and nonconforming mortgage products as well as identify preferred investors or wholesale lenders.

[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 instrument may be viewed online at www.campbellsurveys.com/correspondent07.] ♦



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Real-Time Data Show Scope of Opportunities in October

Find Out What You Need to Know To Be a Mortgage Market Survivor in 2007

How will you identify opportunities during the current mortgage crisis? New research from *Inside Mortgage Finance* and Campbell Communications can show you.

Our unprecedented survey of correspondent lenders and mortgage bankers was conducted in early October and focuses on the wholesale channel. It addressed such critical issues as:

What are the most important products in the current liquidity-impaired mortgage market environment – FHA loans, Fannie/Freddie, or portfolio mortgages?

- What are the best investor outlets for prime conforming, prime jumbo, and nonprime production--broker, flow correspondent, bulk, or agency? Or are loans being put in portfolio?
- Which products have been discontinued by wholesale lenders in the current market climate and why?
- What are the “new” prevailing limits for FICO score and LTV by product category?
- How frequent are buyback requests and other forms of post-sale liability in the correspondent channel?
- Who are the preferred investors now and going forward?
- What are the most common types of post-sale liability for different product types?
- What are the most important factors in selecting an investor for correspondent production?
- And many other key issues related to current market conditions.

The survey was conducted by Campbell Communications the first week of October. A report on the analysis and findings was just published.

The survey instrument may be reviewed online at www.campbellsurveys.com/correspondent07.

To order this urgent report or for more information, contact: John Campbell, 202.363.2069 or john@campbellsurveys.com.





INSIDE MORTGAGE FINANCE'S

Inside B&C LENDING

Your Best Source of News and Data on the Subprime Mortgage Business

November 2, 2007

First Franklin One of Few Remaining Broker Options

The survivors of the subprime market rely greatly on a lender whose parent company just ousted its CEO because of his role in exposing it to that market, according to a recent survey of mortgage bankers and correspondent lenders.

The new study, "Mortgage Bankers Transition to Prime and FHA – October 2007," is based on a national survey conducted by Campbell Communications during the first week of October.

Some 41 percent of the respondents indicated that they would like to sell subprime loans to investors but no investor is available. The most frequently used subprime correspondent investor was First Franklin.

The lender is one of the few remaining that focus on subprime production. Volume in the sector is down significantly as investors have fled causing subprime lenders to close or move toward prime and FHA originations.

However, First Franklin's future looks shaky due to the losses it has caused its parent, Merrill Lynch. In fact, this week Merrill fired Stan O'Neal, its chairman and CEO, due to losses blamed largely on the subprime market. O'Neal oversaw Merrill's purchase of First Franklin from National City at the end of last year.

As recently as last week, O'Neal talked up the long-term potential of First Franklin during a call with investors.

"We did not buy a portfolio with First Franklin, we bought a platform and First Franklin's platform is very high quality," he said. "We have shrunk that platform, reflecting the current state of the market. So there will be an impact, obviously, in terms of revenues related to these areas, but I really don't believe over the intermediate to longer term that it will affect our ability to generate returns."

Merrill reported \$7.9 billion worth of subprime related write-downs for the third quarter alone and O'Neal is out. The company did not comment on the current status of First Franklin but Markham Lee, a management consultant, said Merrill's troubles were larger than O'Neal and the subprime unit.

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“Merrill didn’t lose over \$8 billion in one quarter because a couple of guys made bad decisions, they lost \$8 billion because of the way the company as a whole approached debt investing,” he said.

Meanwhile, Equifirst, Countrywide, Option One Mortgage and Chase also ranked high on the list of subprime correspondent investors.

“Determining the top subprime investors is a moving target,” commented Tom Popik, principal of Geosegment Systems and designer of the survey instrument. “Investors are continually dropping out of the market and every major exit increases the platform values of the remaining subprime investors. Since about a third of Americans have subprime credit, long-term there’s going to be a need and a demand for subprime loans. However, whether the still-standing subprime players have the stomach to stay in the market long-term is an open question – if they do, they’re going to need deep pockets to get past the current disruption. In most cases, they’ll not only have to cover credit losses, but also will be forced to fund their own loan warehouses.”

Some 69 percent of respondents reported “no investor available” for subprime warehouse lending. The few remaining investors include Flagstar, IndyMac and Countrywide, according to the survey.

Respondents that discontinued subprime lending cited no investor available (28 percent), poor pricing/execution (9 percent) and loan buyback liability (5 percent) as factors.

Brokers note that turmoil among lenders has influenced their decision to pull back from originating subprime loans.

“Even though there are some subprime products still available, we chose not to originate them due to the fact that so many lenders are closing and shutting the pipeline between origination and closing/funding,” one respondent said. “We do not like to be in the position to cancel at the last minute which could have a domino effect on several transactions.”

Another respondent noted that the pricing currently offered on subprime mortgages is horrible.

“There seem to be some products out there, but they are all priced under par, no use originating those loans to lose money on them,” the respondent said. “And earlier, if you closed a loan and it would not sell, you could try to sell it to five other investors. Now, if one investor doesn’t buy the loan you could be stuck with it because there are no other options.”

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 instrument may be viewed online at www.campbellsurveys.com/correspondent07. ♦

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