



INSIDE MORTGAGE FINANCE®

July 11, 2008

IMF-Sponsored Study Reveals Strengths and Weaknesses of Fannie and Freddie Programs

While the government-sponsored enterprise share of new mortgage originations has grown significantly in 2008, there has been a surprising amount of variation in the volume gains posted by Fannie Mae and Freddie Mac individually.

During the first six months of this year, Fannie Mae's securitization of mortgages – a good proxy for the purchase of new mortgages – jumped a hefty 24 percent on a year-over-year basis. Meanwhile, Freddie Mac's securitization volume grew by a considerably smaller 5 percent during the same period.

The reasons why mortgage originators chose one GSE over the other in general and for specific mortgage products is the focus of a major new study sponsored by *Inside Mortgage Finance*. The research, based on a nationwide survey of more than 3,100 mortgage bankers, mortgage brokers and correspondents conducted by Campbell Communications just last month, reveals that differences in automated underwriting systems, specific underwriting requirements, rates and terms, and lender compensation are all important factors in the selection of a GSE outlet for new mortgages.

As the GSE share of new originations rapidly approaches 70 percent in 2008, it is becoming extremely important for mortgage market players to understand the advantages and disadvantages of various Fannie Mae and Freddie Mac programs and/or systems. These differences not only determine the volume and types of loans a lender can originate, but also how profitable that business will be.

For example, the new study found that “ease of access” to Fannie's Desktop Underwriter and Desktop Originator automated underwriting systems is the biggest reason why smaller lenders – particularly brokers and correspondents – place borrowers into Fannie Mae loan programs. But the “ease of access” to Freddie Mac's competing Loan Prospector AU system also received high marks from originators.

And while survey respondents reported that Fannie's AU systems still are much easier to use than Freddie's, they also indicated that recent underwriting changes have started to blunt Fannie's traditional advantages in the AU area.

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Problems With Fannie and Freddie Programs

But just as mortgage originators found a lot to like about the GSEs' mortgage programs, they also found a lot not to like – specifically in terms of recently tightened underwriting standards.

When asked to elect the significant reasons why a borrower could not be placed in a GSE program, the number one obstacle in using either Fannie or Freddie was “FICO score too low.” This reflects the growing perception that to qualify for the best rates on either Fannie Mae or Freddie Mac mortgages borrowers now need a FICO score of 720 or higher.

The second biggest impediment cited in using Fannie Mae was “LTV too high.” For Freddie Mac, the second greatest problem was “credit history issues.” Other difficulties listed by respondents in using both Fannie and Freddie programs included “debt to income ratio too high,” “applicant cannot document income,” and “mortgage insurance denied.”

Top GSE Wholesalers

Fannie Mae

- 1) Countrywide
- 2) Chase Home Finance
- 3) Wells Fargo
- 4) CitiMortgage
- 5) AmTrust

Freddie Mac

- 1) Wells Fargo
- 2) Taylor, Bean & Whitaker
- 3) Chase Home Finance
- 4) Provident Funding
- 5) Countrywide

Source: Study on “How to Do More Business with Fannie Mae and Freddie Mac”

Significantly, the new study also asked originators to rate the relative attractiveness of Fannie and Freddie based on mortgages with different FICO scores, LTVs, and loan balances.

Although retail mortgage activity has gained prominence in recent months, the wholesale origination channel still accounts for nearly half of new mortgage production. In light of the continuing importance of wholesale lending, the new survey asked mortgage brokers and correspondents to list their most frequently used buyers in 2008.

While there was a strong correlation between Fannie's and Freddie's top customers and the investors most frequently used by originators this year, there were some noticeable differences. Taylor, Bean & Whitaker and Provident Funding both rated higher than their GSE business would suggest.

For information on how to obtain the complete report entitled “How to Do More Business with Fannie Mae and Freddie Mac,” contact John Campbell at Campbell Communications at john@campbellsurveys.com or (202) 363-2069. ♦

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INSIDE MORTGAGE FINANCE[®]

July 25, 2008

New *IMF*-Sponsored Study Highlights Why FHA Mortgage Activity Has Soared in 2008

The single-family FHA mortgage program, which all but vanished in the boom times of subprime and Alt A lending, is experiencing a huge surge in popularity in 2008. In fact, FHA lending was the fastest growing sector of the mortgage market in the second quarter of this year, according to new numbers compiled by *Inside Mortgage Finance*.

A detailed explanation of why FHA volume is soaring in the face of an overall decline in residential mortgage lending is found in a new *Inside Mortgage Finance*-sponsored study of the so-called agency mortgage market. The research, which is based on a nationwide survey of more than 3,100 mortgage bankers, mortgage brokers and correspondents conducted by Campbell Communications in June, examines why originators increasingly are choosing the FHA over Fannie Mae and Freddie Mac in a mortgage market that has largely abandoned small downpayments and low credit scores.

With housing prices continuing to slide in most areas of the country and Fannie and Freddie increasing their downpayment requirements, the FHA has emerged in 2008 as the only game in town for borrowers shopping for a new loan with a small downpayment. The new study found that FHA's willingness to allow loan-to-value ratios up to 97 percent – and even higher with downpayment assistance – was the number one reason why originators place borrowers in FHA mortgages.

“In our [housing] market, FHA has seen a complete resurgence. All the business that FHA lost to Alt A and subprime is coming back. The 97 percent LTV with gifts available for downpayments and downpayment assistance have made FHA the best solution for many borrowers,” commented one survey respondent from Southern California.

Survey respondents reported that the increase in mortgage insurance premiums being charged by private mortgage insurers with Fannie and Freddie loans has made FHA mortgages less expensive for many borrowers.

Importantly, the new study found that FHA has clearly benefited from Fannie and Freddie significantly tightening their underwriting this year, especially regarding credit scores.

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For borrowers with high FICO scores and sizeable downpayments, survey respondents favored Fannie or Freddie loan products over FHA. But in cases where a borrower's FICO was in the low 600s, FHA was the overwhelming choice by survey respondents.

"I am much more willing to place loans with FHA due to the many restrictions that Fannie and Freddie as well as the MI companies have implemented," reported another survey respondent. "I anticipate that by the end of this year and into 2009 over 50 percent of my loan volume will be government-insured loans, with the vast majority being FHA. "

Top Investors for FHA Mortgages

- 1) Taylor, Bean & Whitaker
- 2) Wells Fargo
- 3) Countrywide
- 4) Flagstar Bank
- 5) SunTrust

Source: Study on "How to Do More Business with FHA"

Problems with Using FHA

Despite the growth in FHA lending this year, many originators – particularly mortgage brokers – complain that the government mortgage program is overly bureaucratic and hard to use. And a surprisingly large number of originators are still not approved to make FHA loans.

More than one-third of the respondents in the new survey reported they were not FHA-approved. In the case of mortgage brokers, FHA's requirement that they submit audited financial statements annually was frequently mentioned as a reason for not getting FHA approval. "We cannot do enough volume to justify the costs of audited financial statements," complained one broker in the study. "After weighing the costs of the audit vs. the potential net profit, we chose NOT to offer FHA."

Another problem with using FHA, especially for lower income borrowers, is the agency's debt-to-income ratio maximum of 50 percent.

FHA also continues to suffer from slow underwriting and processing. Processing FHA loans took nearly twice as long as Fannie or Freddie loans, the study found. "Underwriting and processing at FHA is ridiculously long and cumbersome. We only place a borrower in an FHA loan if there is no other alternative," noted one survey respondent.

For information on the complete report entitled "How to Do More Business with FHA," contact John Campbell at Campbell Communications at john@campbellsurveys.com or (202) 363-2069. ♦

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