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Borrower Demand for Some Loan Products Outstripping Supply, New Study Reveals

The availability of high loan-to-value mortgages – even in the prime market – seems to be rapidly drying up in 2007. And it could take its toll on mortgage volume in the months ahead as borrower demand for certain mortgage products appears to be outstripping the supply offered by lenders and investors.

This is one of the takeaways found in a new *Inside Mortgage Finance*-sponsored study released this week that examines the new underwriting environment of 2007. The new research is based on a nationwide survey of mortgage brokers conducted by Campbell Communications of Washington, DC in May.

The study, “A Look at the Prime Market after the Subprime Meltdown,” is the third in a series of annual surveys tracking mortgage brokers on prime lending issues. Among other things, the research analyzes how the nation’s top lenders are responding to rising loan problems and flattening or declining home prices.

“To reduce risk, lenders can tighten guidelines, drop programs, or drop brokers from approved status. Our survey results show that most major prime lenders are opting to first tighten guidelines—but this causes more work underwriting each loan, which in turn causes increases in underwriting turn times,” commented Tom Popik, principal of Geosystem Systems and the author of the new report. “Broker frustration with slow underwriting is building, even with prime products.”

The research found individual lenders employed somewhat different strategies for managing their mortgage lending risk. For example, brokers reported that lenders such as Bank of America and Washington Mutual were the most aggressive in dropping higher-risk brokers. Meanwhile, CitiMortgage and Countrywide were cited as lenders whose primary focus was tightening underwriting guidelines on individual loans.

Importantly, brokers reported that the two prime loan products where supply has dried up the most are 80/20 combo or piggyback mortgages and high LTV loans with private mortgage insurance. These products have been extremely popular with borrowers over the past several years and rapidly rising home prices helped fuel their availability.

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7910 Woodmont Avenue
Suite 1000
Bethesda, MD
20814-1709
Tel. (301) 951-1240
Fax (301) 656-1709

Publisher
Guy D. Cecala

Managing Editor
John Bancroft

Associate Editors
George Brooks
Brandon Ivey
Thomas Ressler
Tim Warren

Statistics
Tommy Mompont

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“When lenders drop programs to manage risk, they tend to drop high LTV programs,” stated Popik. “However, that doesn’t mean that consumer demand for these products has decreased. Brokers have a good feel for their market and they report that the supply of high LTV products has fallen much faster than demand. Another alternative for investors – instead of dropping programs outright – would be to increase rates.”

Among other topics, the study shows how specific underwriting guidelines – on both prime and subprime loans – have changed in recent months. The research also details which products are in greatest demand among borrowers, and which products lenders/investors are most willing to supply.

In addition, the study identifies which lenders have tightened underwriting the most for prime and subprime loans as well as those lenders that have tightened underwriting the least. Also, lenders are rated by individual loan programs.

Some 2,800 mortgage brokers responded to the survey, which included more than 100 separate questions related to this year’s mortgage lending environment and the broker/lender relationship. For most general questions, the number of responses yielded a margin of error of 3 percent or less.

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

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INSIDE MORTGAGE FINANCE'S

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

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Survey Shows Tightening of Subprime Underwriting

While lenders have tightened underwriting across the mortgage market, the most significant increase in standards has occurred in the subprime sector, according to a new survey.

The tightening of subprime guidelines has occurred virtually across the board, in 32 categories, according to “A Look at the Prime Market after the Subprime Meltdown 2007.” The report, released this week, is sponsored by Inside Mortgage Finance Publications and is based on a survey of 2,800 mortgage brokers conducted by Campbell Communications in May.

Respondents indicated that guidelines have tightened twice as much, in general, for subprime loans as compared to prime loans. The most frequently tightened guideline for subprime mortgages is maximum loan-to-value ratios and combined LTVs. Respondents reported that current LTV guidelines are 40 percent stricter than they were in 2006.

Other significantly tightened guidelines include those relating to a loan’s purpose, with cash-out refinance, debt consolidation, and home purchase seeing significant tightening by most subprime lenders.

Guidelines related to assets have also changed, with lenders increasing requirements for down-payments, financial reserves, and asset documentation. Surprisingly, “income consistent with occupation,” a guideline frequently cited by lenders as one they have tightened, ranked only in the middle of the pack.

While federal regulators and mortgage-backed securities investors are pushing for tighter underwriting in the subprime market, some brokers were upset with how far lenders have gone. Many subprime lenders stopped making mortgages for borrowers with 100 percent combined LTVs, for example.

“The biggest problem with the whole market is that there was a complete knee-jerk reaction to the subprime fallout,” one broker complained. “There are still great loans to be made in the sub-

prime arena if you lower debt-to-income requirements and increase reserves.”

“Responding brokers indicated that they are often liable for early payment defaults,” noted Tom Popik, principal of Geosegment Systems and designer of the survey instrument. “We believe that their concerns with assets and reserves relate to the hope that borrowers will be able to make their payments at least for the first six months.”

Another broker said the underwriting tightening has limited his income. “I specialize in sub-prime loans and many of them are now impossible to do,” he said. “These most recent guidelines changes have not only prevented some good subprime borrowers from buying homes, they have severely affected my bottom line as a broker.”

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

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