

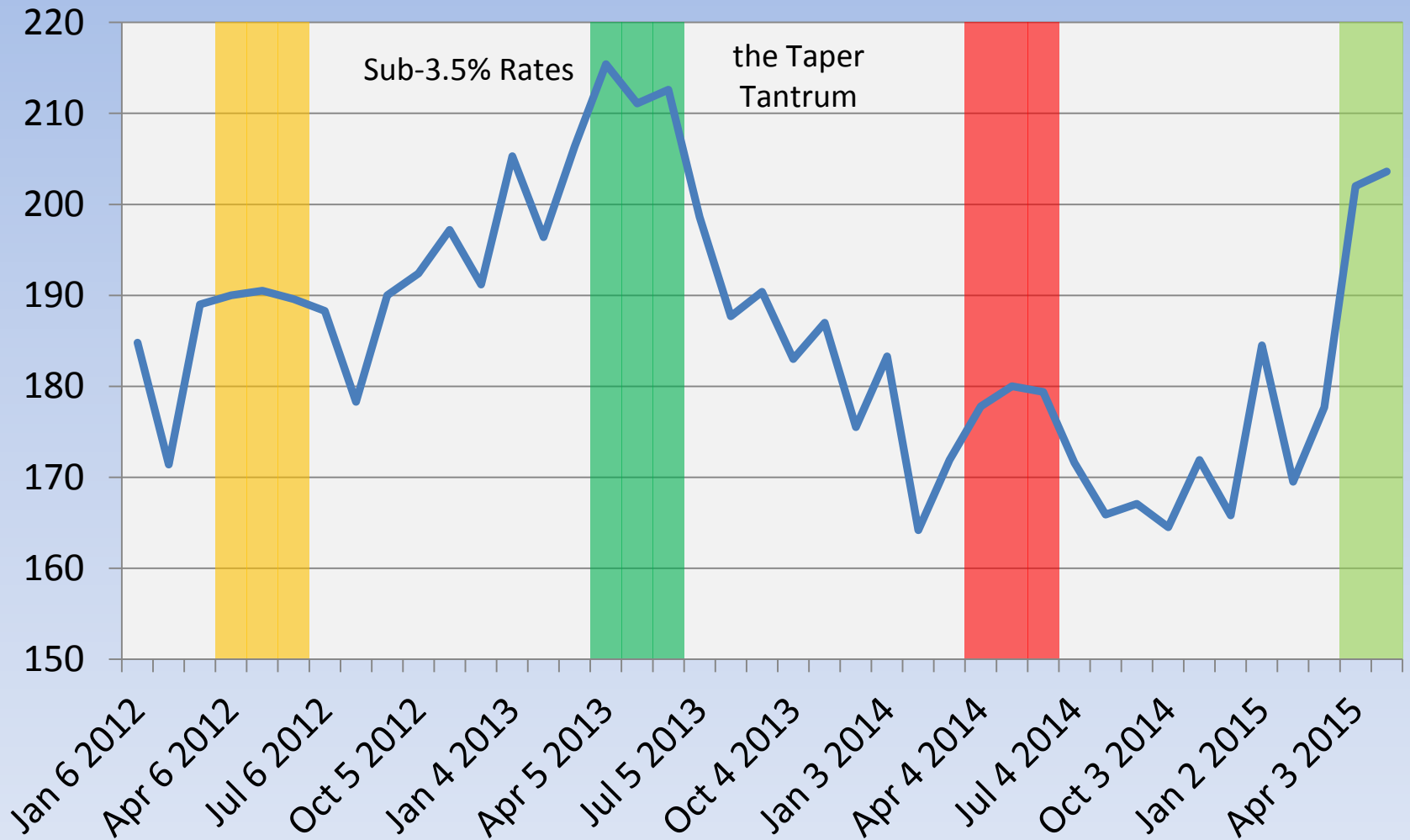
It Feels Different, but Will It Stick?



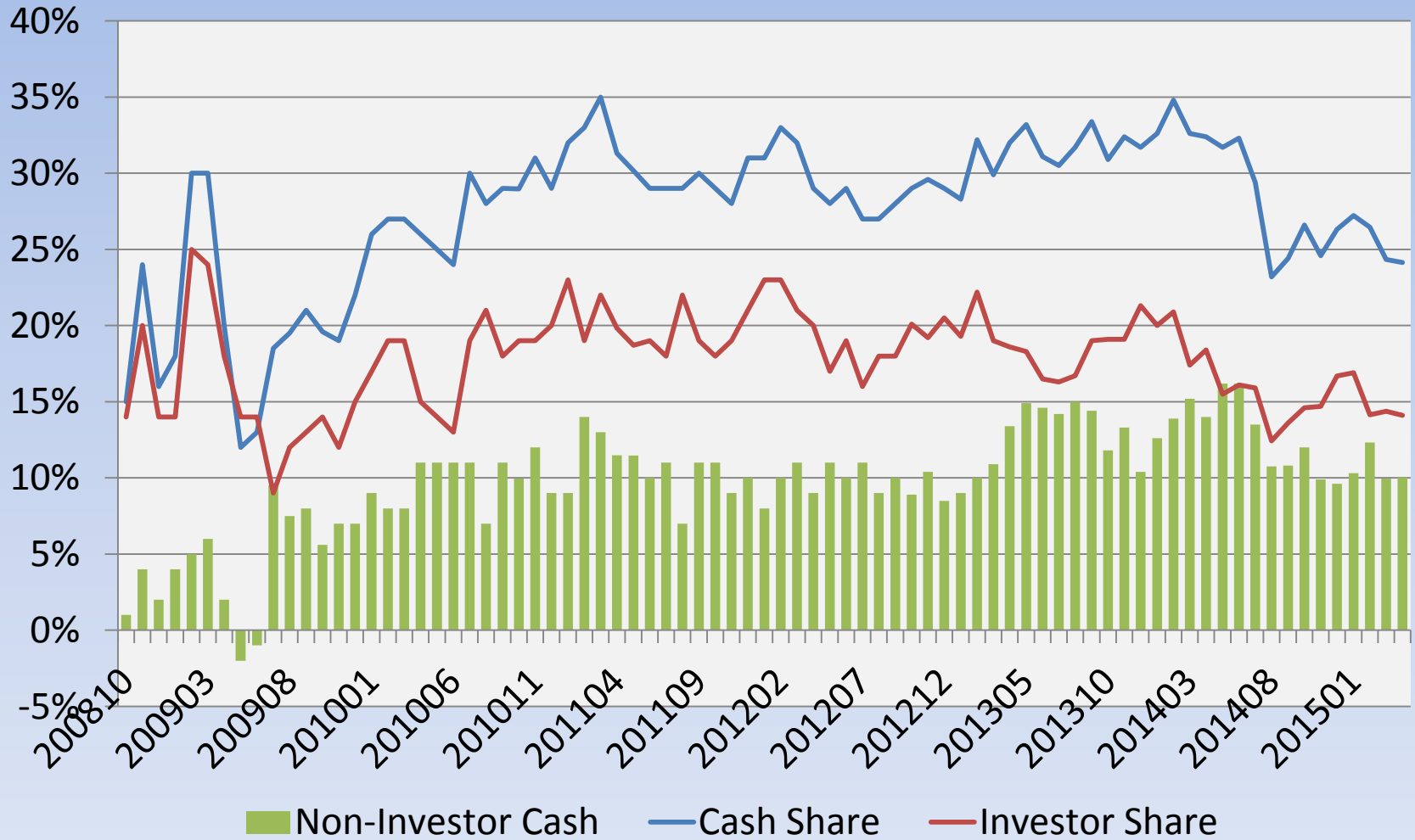
Ken Fears

Director of Housing Finance and Regional Economics

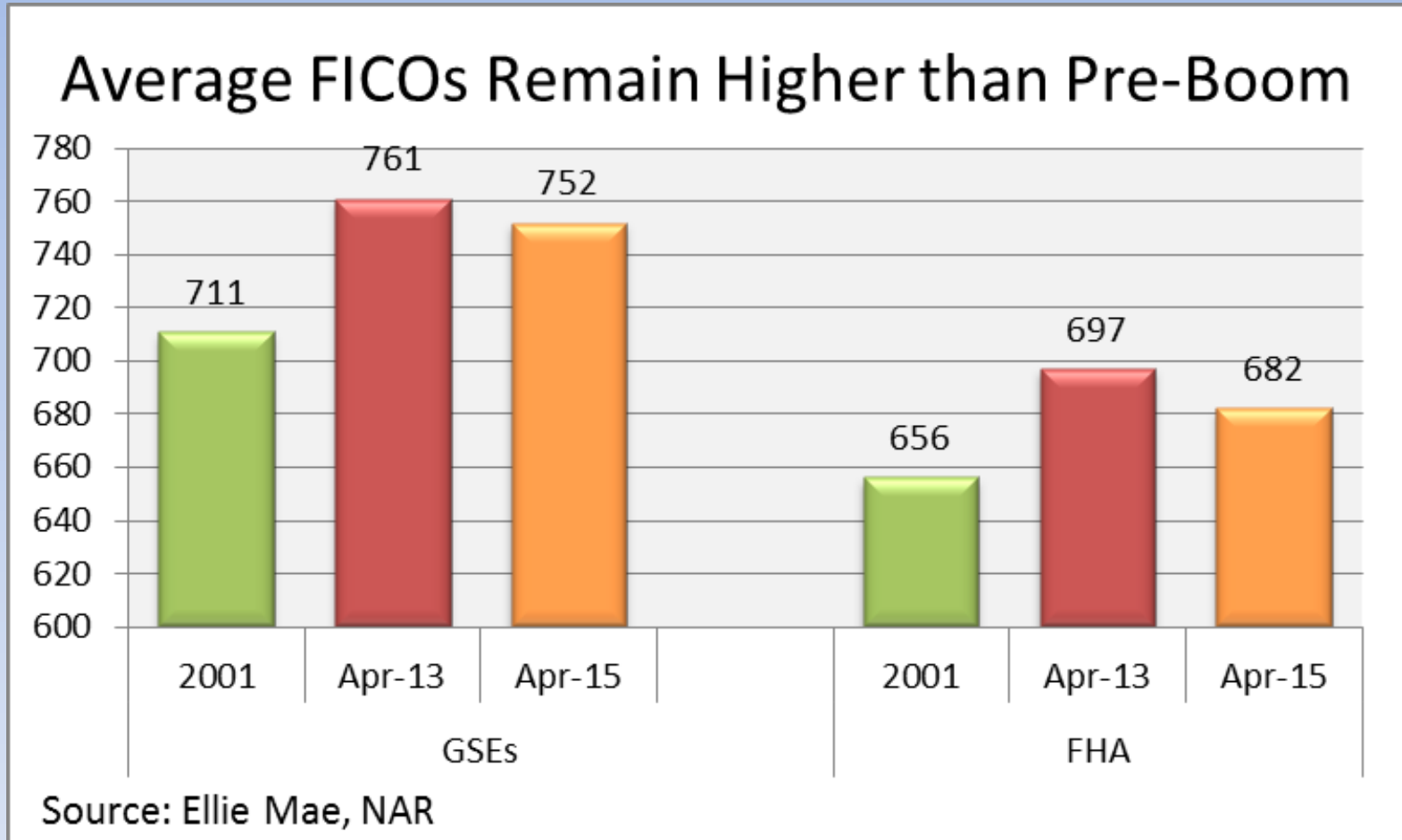
Rising Sales Drives Expansion of Purchases Market



Share of Purchases that are Financed Increasing, but Hamstrung

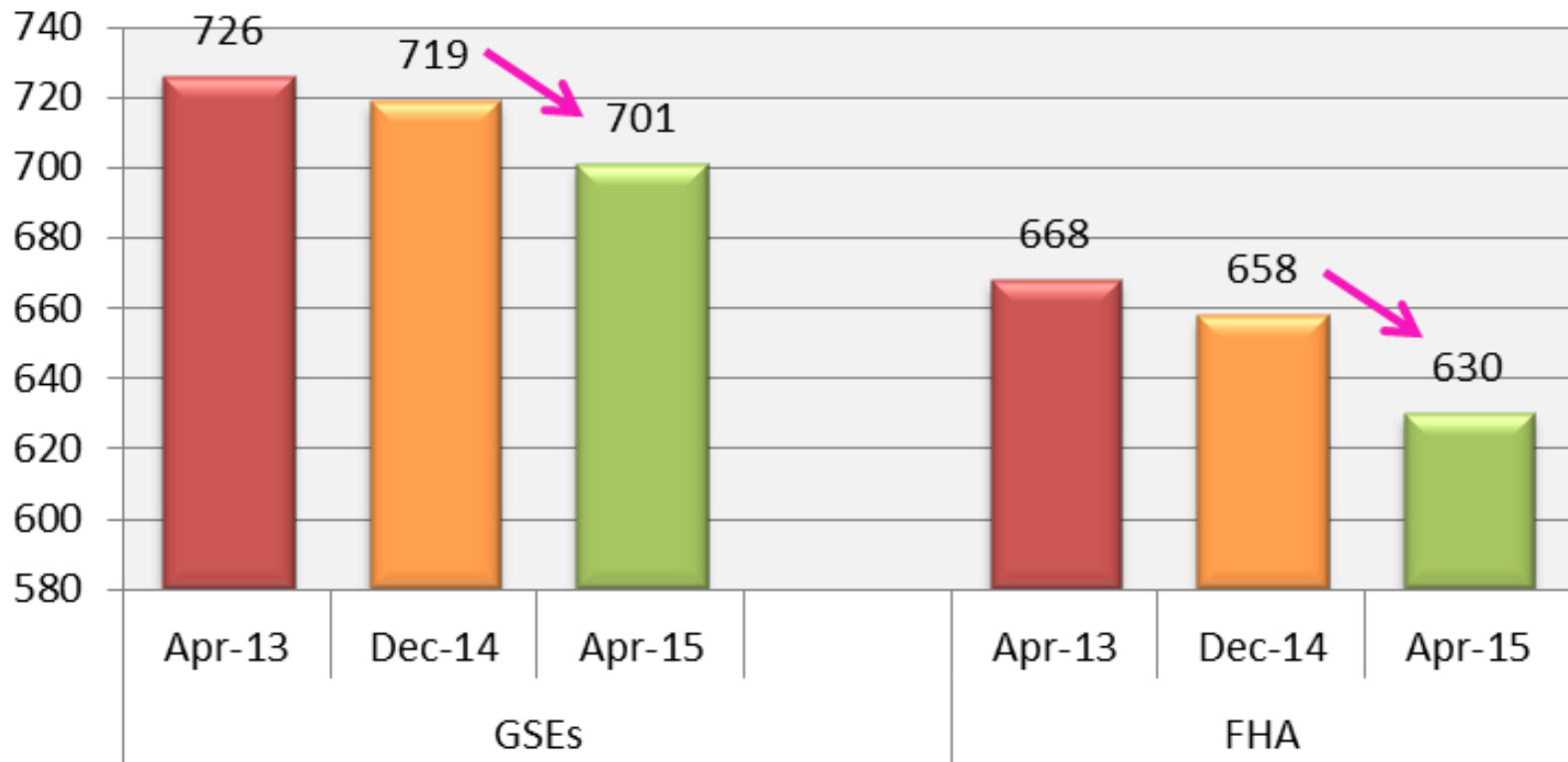


Average Accepted FICOs Remain High



But Rejected Falls Dramatically: Credit Box Opening??

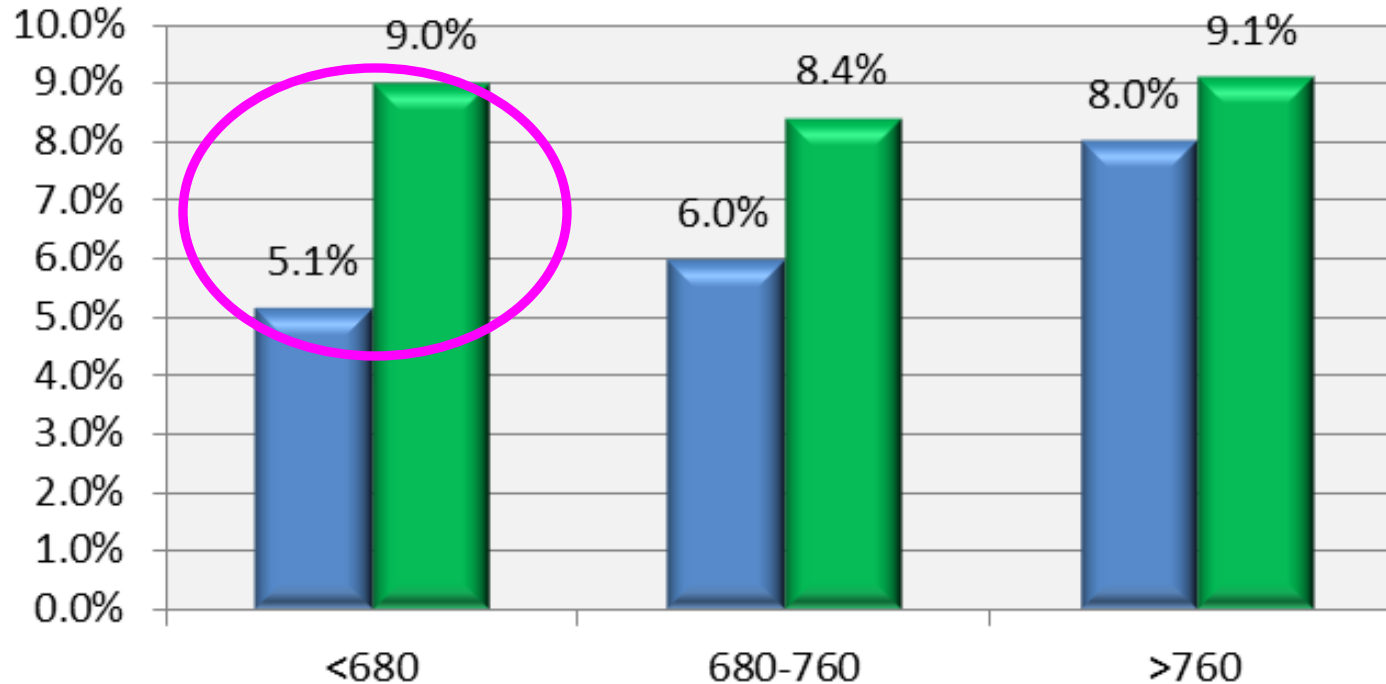
Average Rejected FICOs Tumbled in March



Source: Ellie Mae, NAR

Discouraged Borrowers May Shake It Off

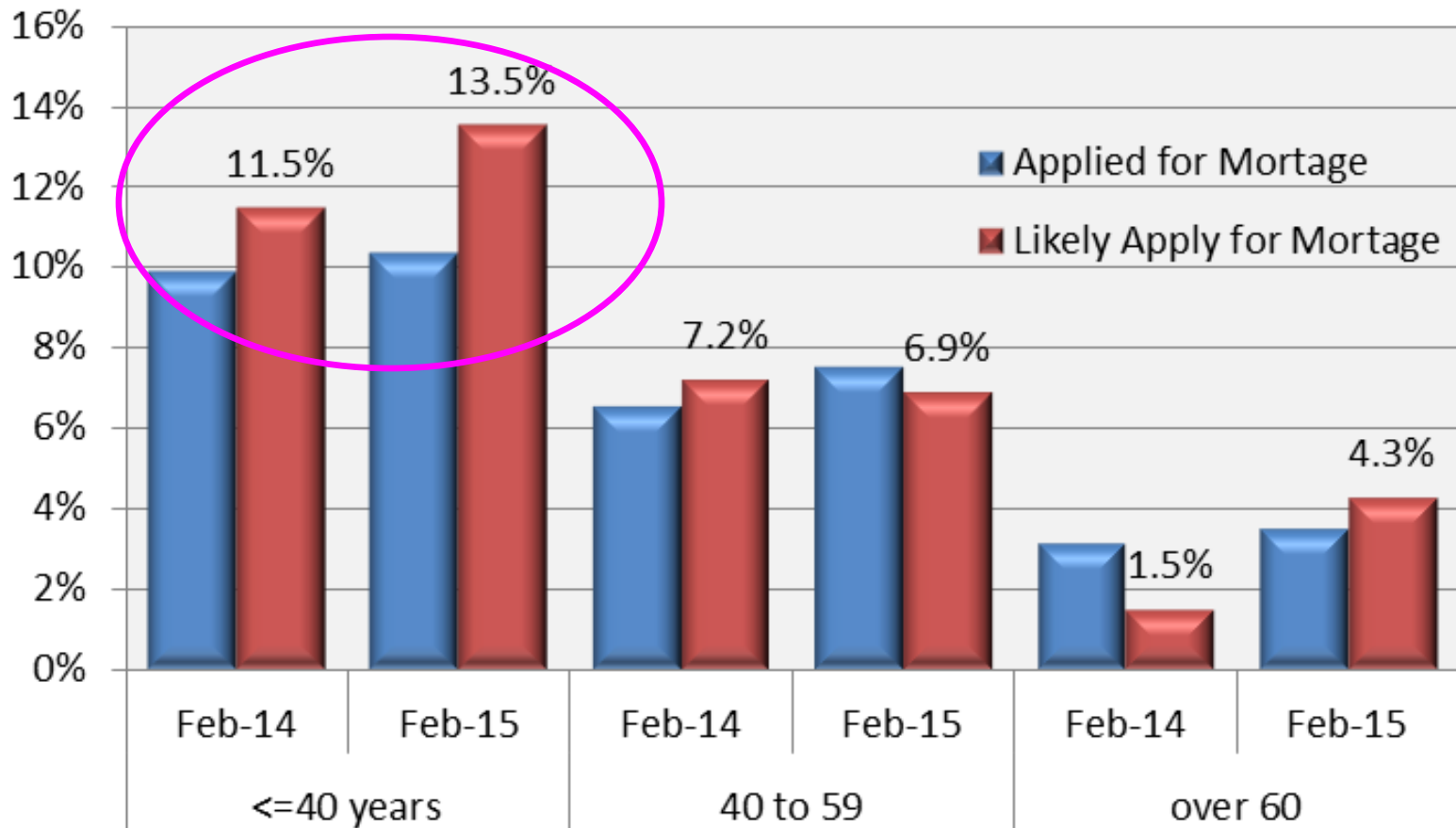
Share of Respondents Who Are Likely to Apply for a Mortgage/Home Based Loan in the Next 12 Months



Source: NYFed, NAR

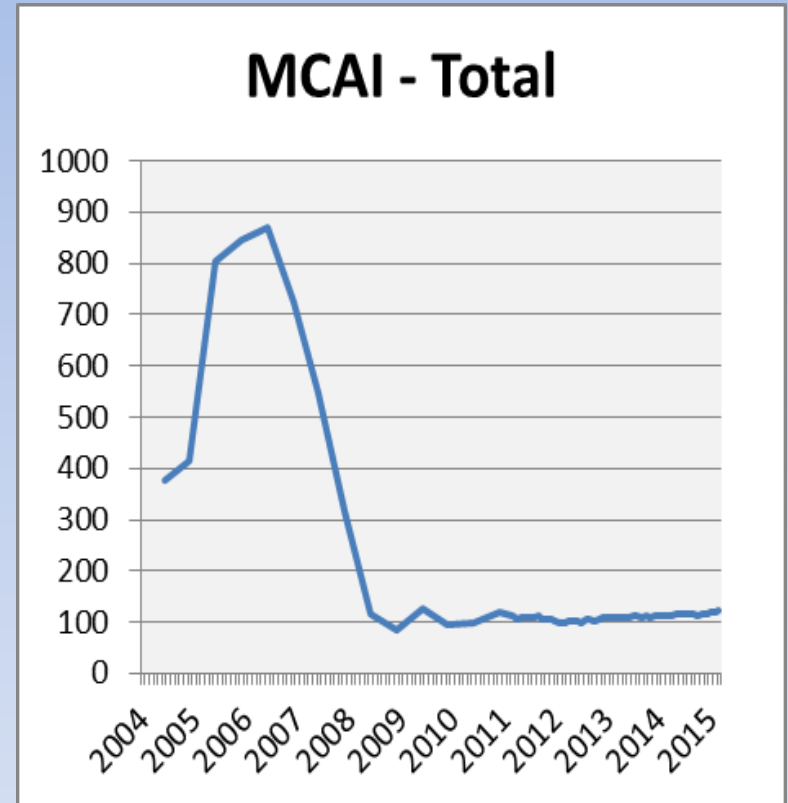
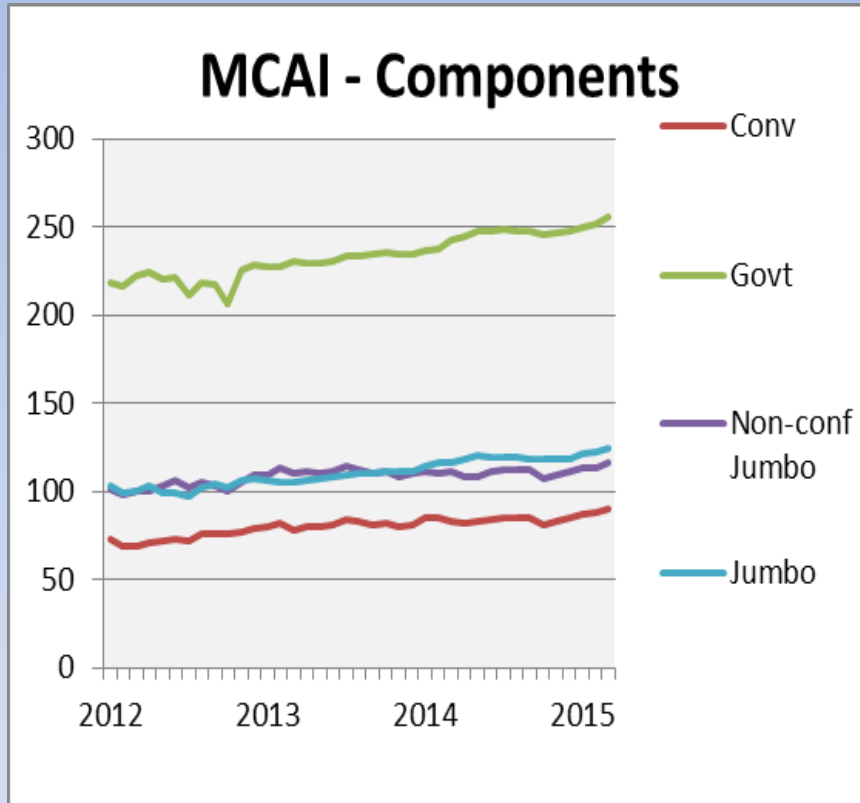
■ Feb 2014 ■ Feb 2015

Gen-Y and Gen-X Interested



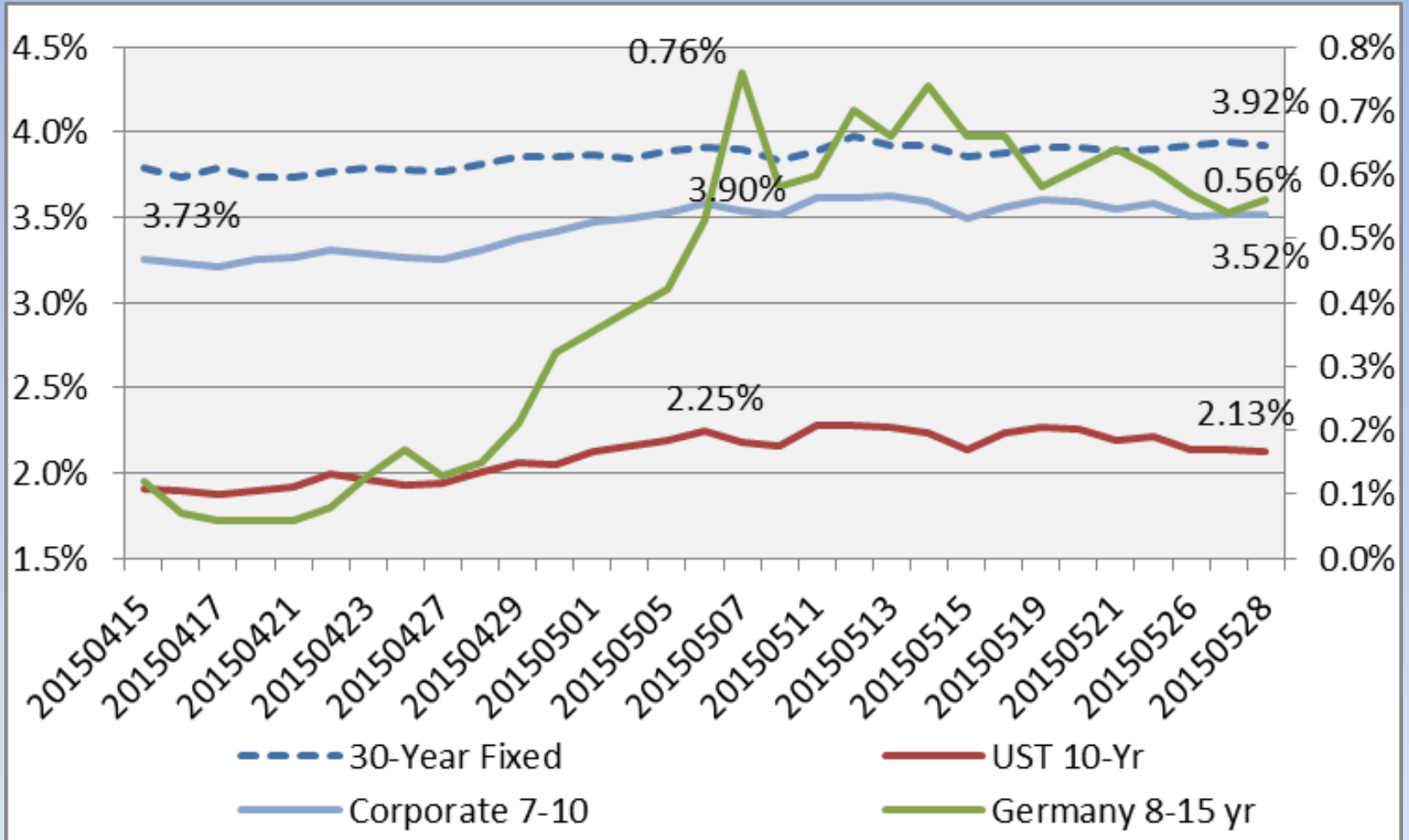
Source: FRBNY, NAR

New Products and Access



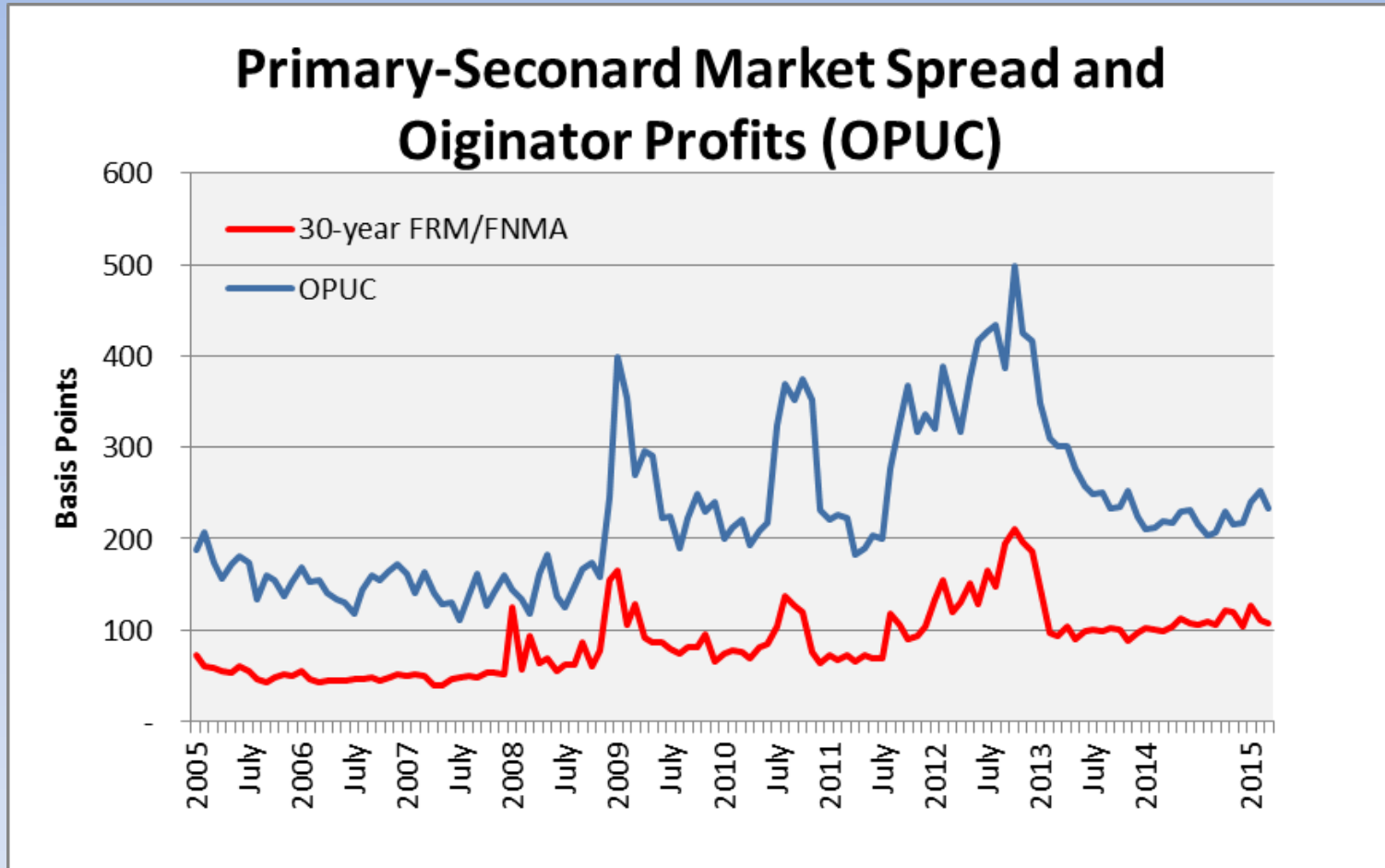
Conventional has seen the strongest growth – 97 LTVs, better pricing

Rates Begin to Climb



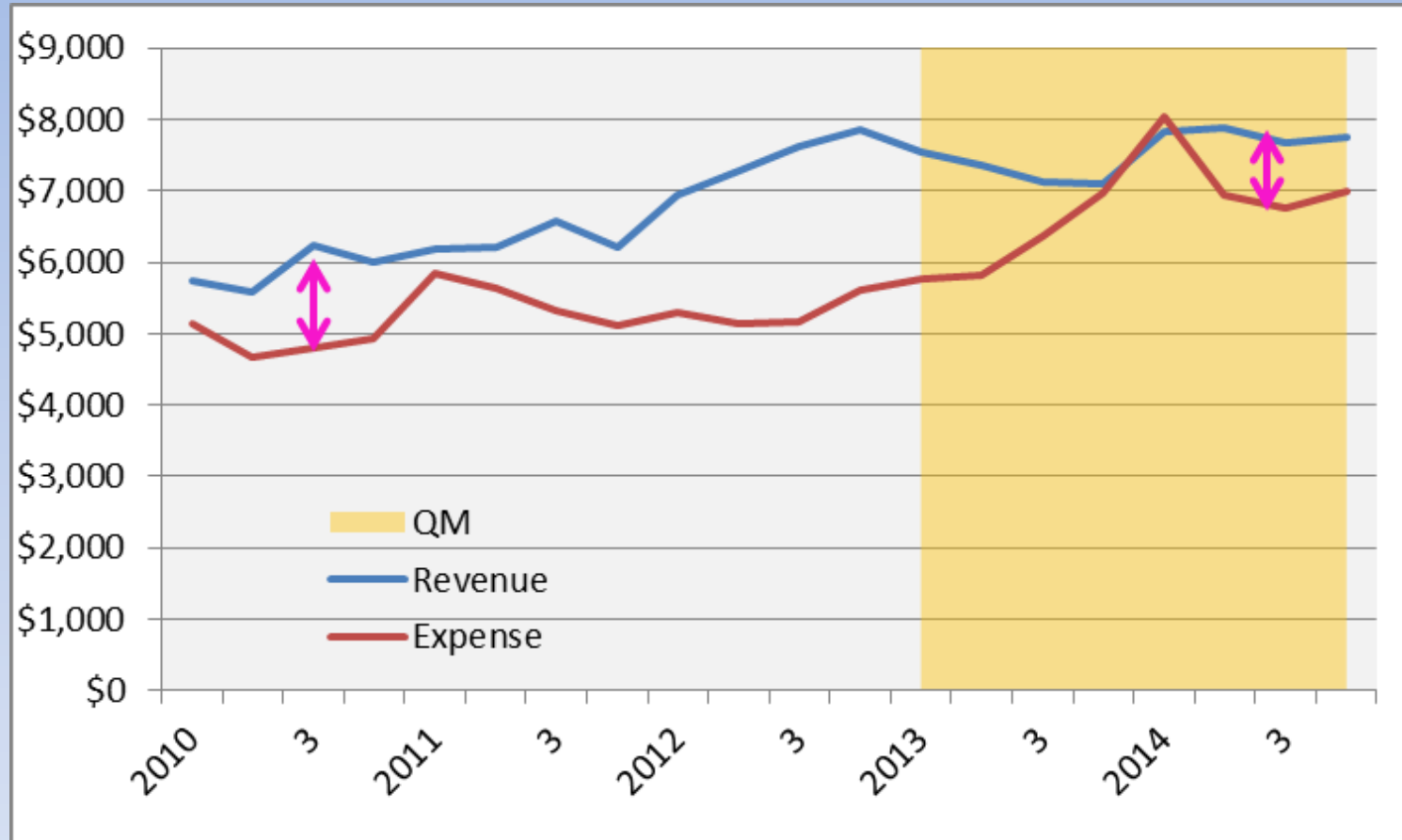
Corporate Issuance, Euro Strength, or US Strength?

Originator Profits Remain Elevated



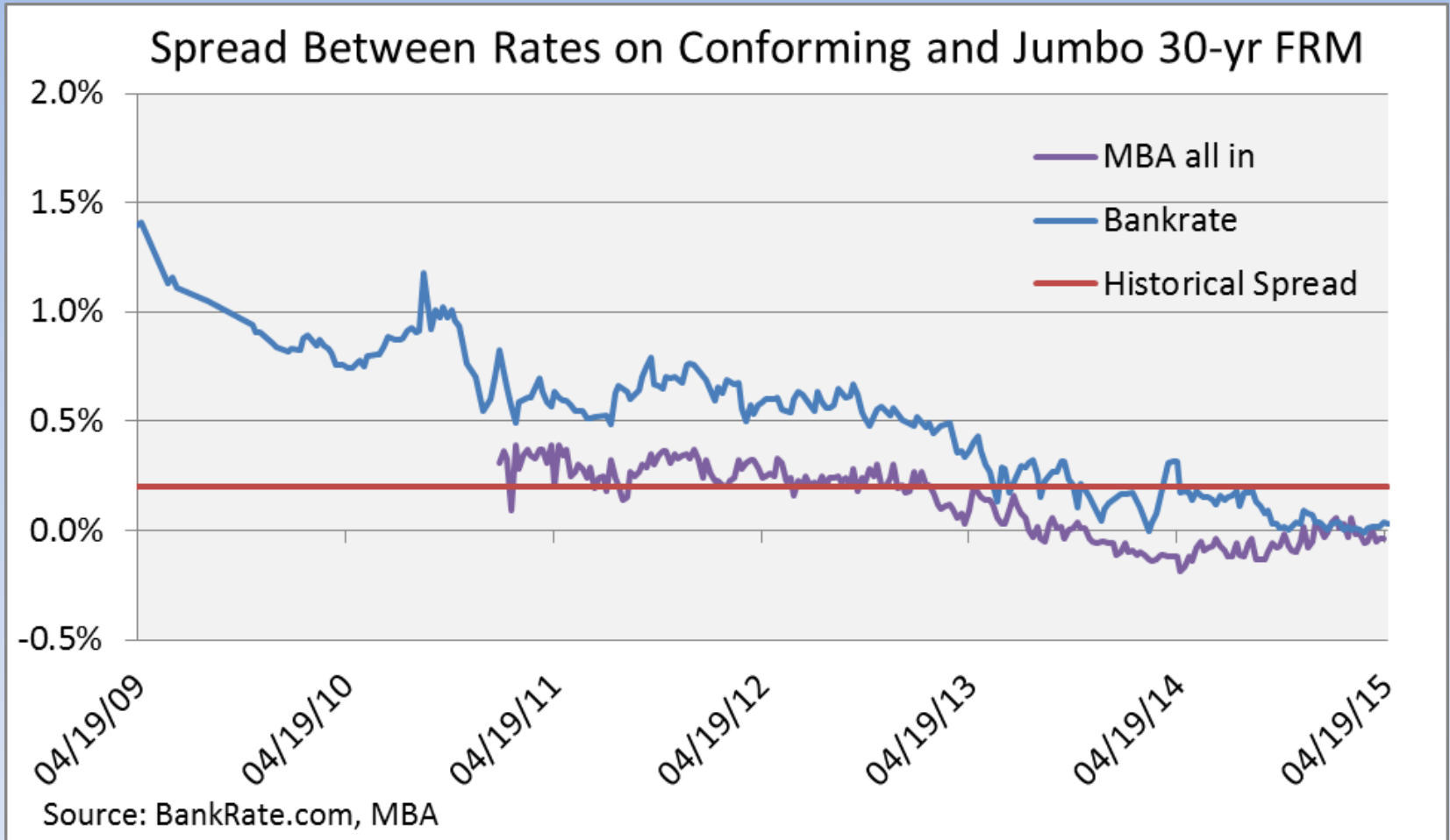
Profit taking or structural? ATR/QM or higher cost of servicing

QM Costs Baked In?



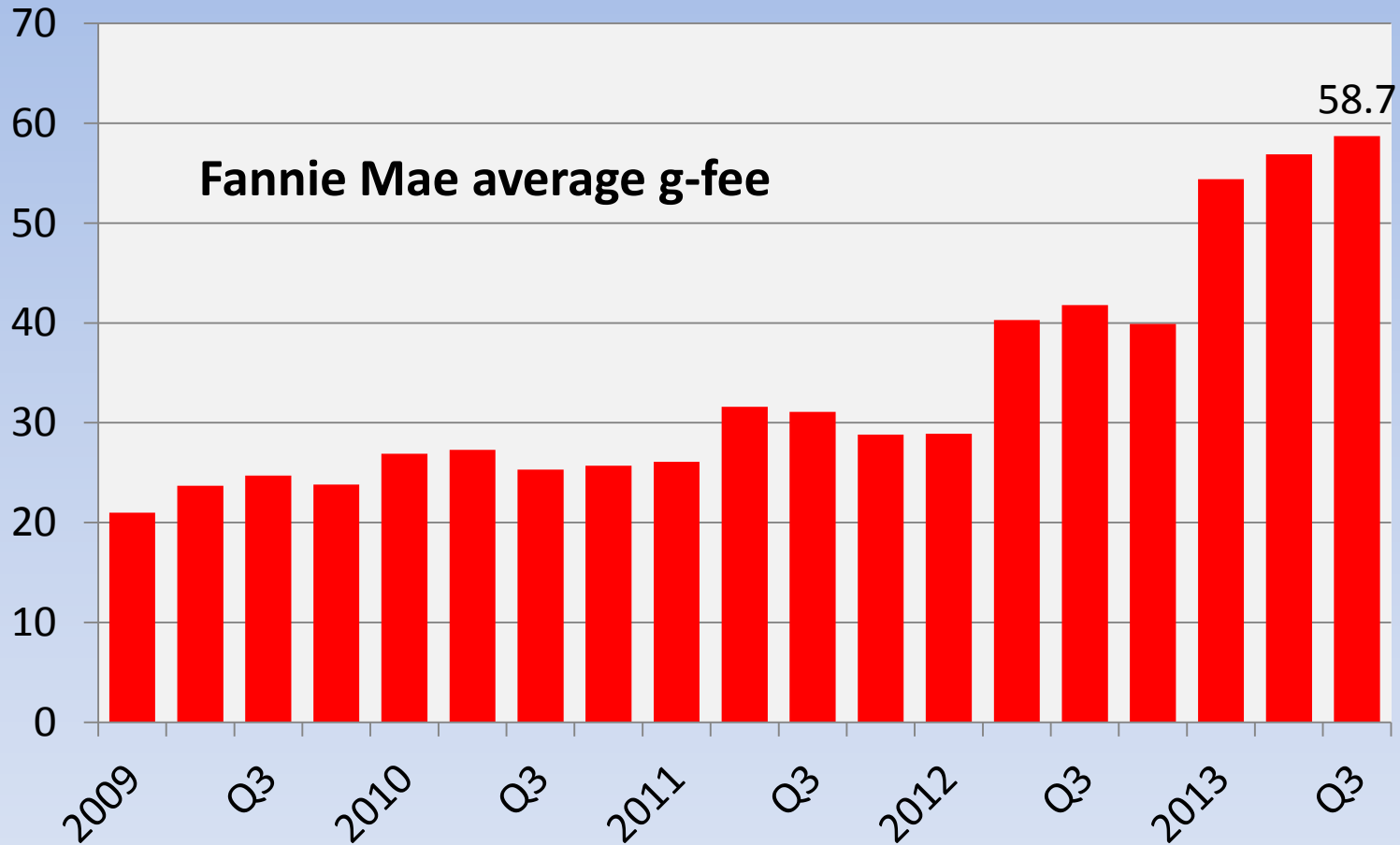
Or could costs come down with innovation and adaptation?

Jumbos Remain Competitive



A decline in G-fees, LLPAs or AMDC could end this trend

G-Fees to Remain at Historic High



AMDC Gone, but Modest Changes to LLPAs

New LLPAs, net AMDC (add 0.25 bp for high cost areas)								
	<620-1	620-639	640-659	660-679	680-699	700-719	720-739	>740
< 60.00%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	0.00%	0.00%	0.00%
60.01 – 70.00%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	0.00%	0.00%
70.01 – 75.00%	-0.25%	-0.25%	0.00%	0.00%	-0.25%	0.00%	0.00%	0.00%
75.01 – 80.00%	-0.25%	-0.25%	-0.25%	0.00%	-0.25%	0.00%	0.00%	0.00%
80.01 – 85.00%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%
85.01 – 90.00%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%
90.01 – 95.00%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%
95.01 – 97.00%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%	-0.25%

- + 25 bp for high-cost areas
- +37.5 bp for cash out, investors and 2nd liens

PMIERS to Raise Costs in the Winter

Impact of PMEIRs on Current PMI Charges							
Original LTV	<620	620-679	680-699	700-719	720-739	740-759	760-850
LTV <=85		0.09%	0.00%	-0.04%	-0.04%	-0.08%	-0.08%
85< LTV <= 90		0.55%	0.34%	0.19%	0.16%	0.05%	-0.03%
90< LTV <= 95		0.71%	0.46%	0.27%	0.30%	0.13%	0.01%
LTV > 95		0.91%	0.50%	0.25%	0.21%	0.00%	-0.19%

- More capital required for lower down payments -> drives higher fees
- Higher capital charges for non-performing -> pro-cyclical
- Capital reduced over time, though -> PMIs could:
 - reduce fees
 - increase ROEs or hold in reserves
- Expands pool of capital for deeper MI

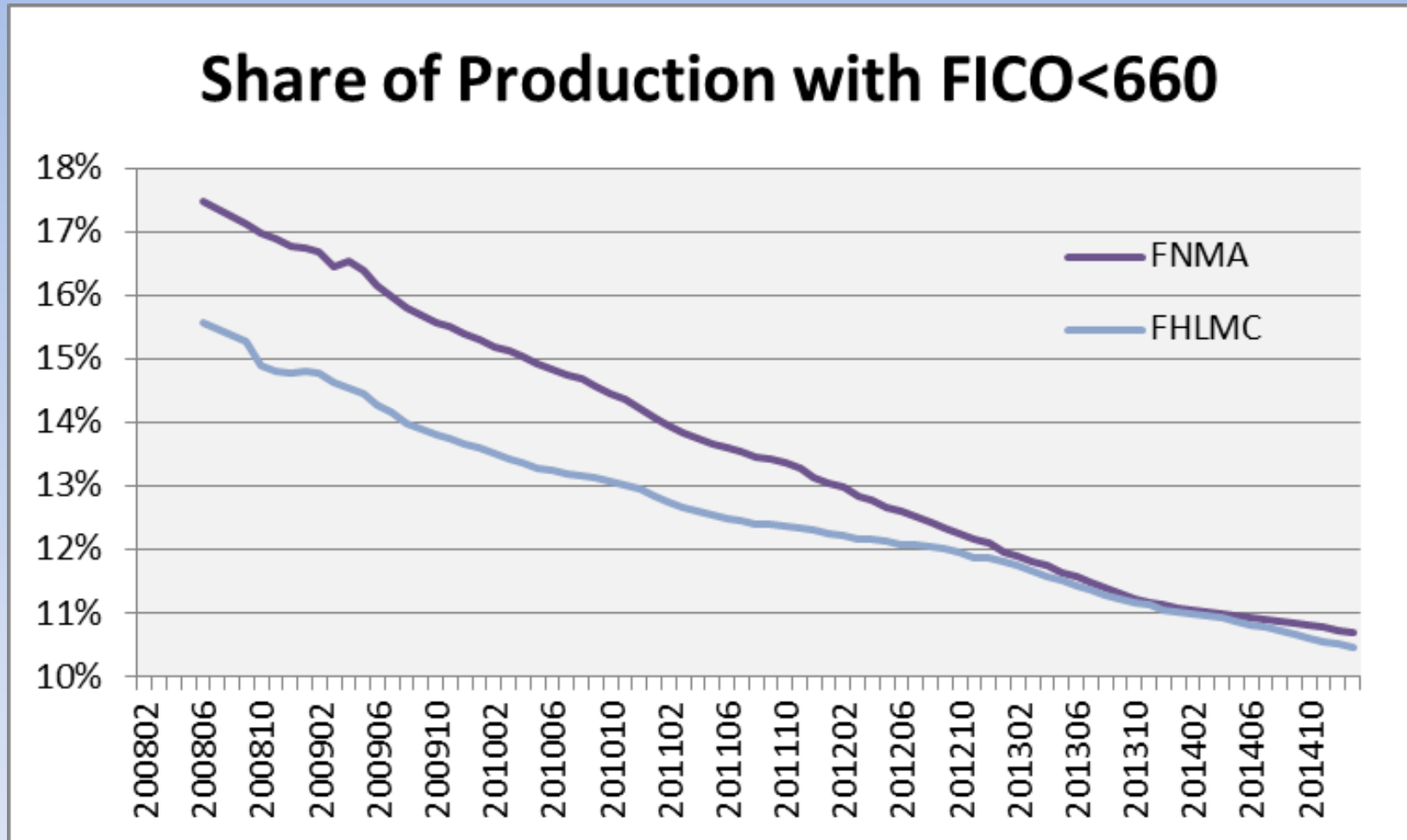
Locks in FHA Role in Near Term

Old Pricing					New Pricing				
GSE vs FHA (PMI, LLPA, AMDC, & Funding Diff)					GSE vs FHA (PMI, LLPA, AMDC, & Funding Diff)				
	80%-85%	85%-90%	90%-95%	95-97%		80%-85%	85%-90%	90%-95%	95-97%
760-850	(\$94)	(\$67)	(\$42)	\$43	760-850	(\$114)	(\$78)	(\$47)	\$17
740 – 759	(\$87)	(\$59)	(\$29)	\$51	740 – 759	(\$106)	(\$56)	(\$13)	\$57
720 – 739	(\$81)	(\$53)	(\$23)	\$57	720 – 739	(\$95)	(\$32)	\$20	\$97
700 – 719	(\$60)	(\$20)	\$34	\$104	700 – 719	(\$73)	\$6	\$72	\$151
680 – 699	(\$48)	(\$14)	\$39	\$104	680 – 699	(\$53)	\$38	\$110	\$194
660 – 679	(\$8)	\$33	\$106	\$150	660 – 679	\$1	\$119	\$219	\$307
640 – 659	\$4	\$45	\$118	\$161	640 – 659	\$13	\$131	\$231	\$319
620 – 639	\$4	\$57	\$130	\$179	620 – 639	\$13	\$143	\$243	\$337
< 620 (1)	\$4	\$57	\$130	\$185	< 620 (1)	\$13	\$143	\$243	\$343

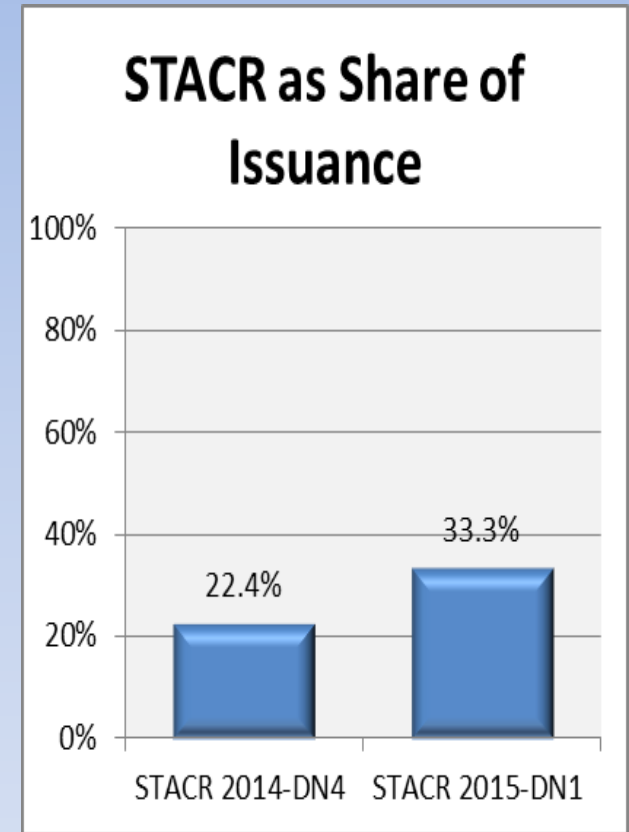
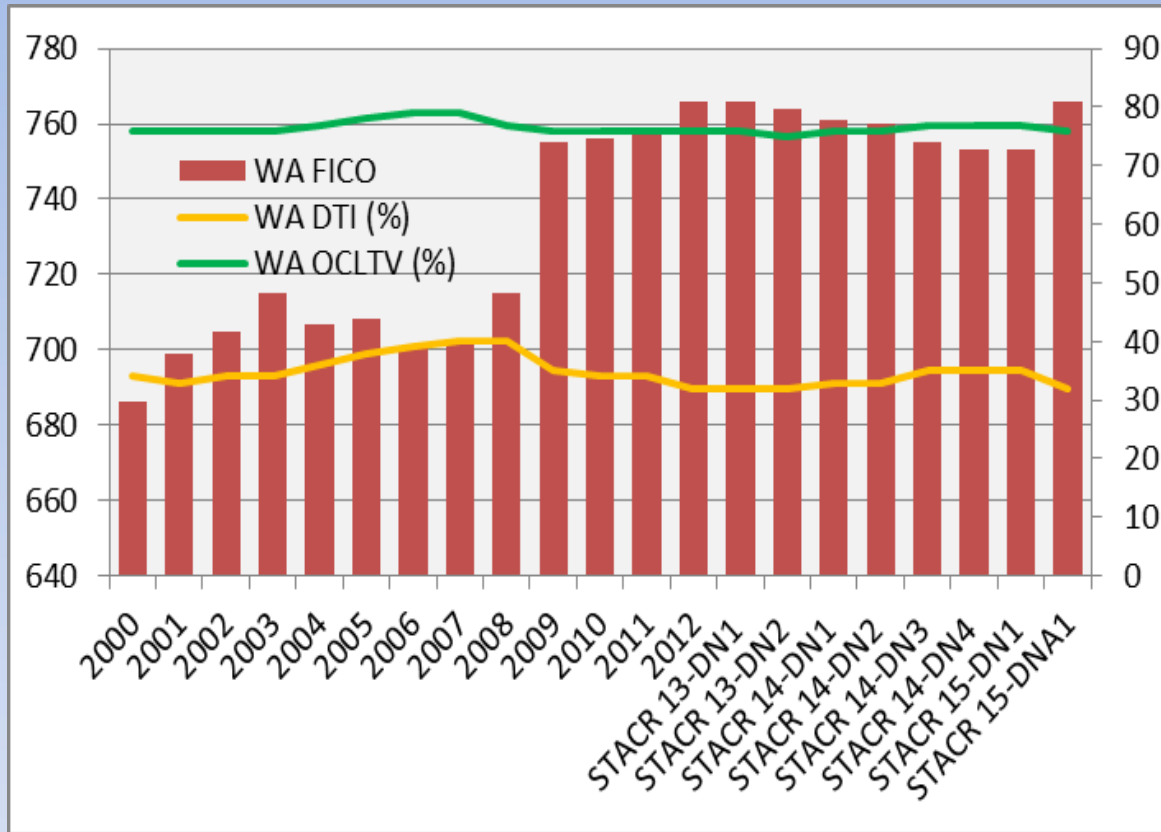
Source: FNMA, FHA, NAR

- Higher fees will drive more borrowers to FHA
 - Reduces need for cross-sub in a reformed system
 - politically sustainable?
- Expanded role of PMIs in front-end risk sharing could change pricing again
- Single security and CSP would help, but “full faith” most helpful

Pricing Reinforces Current Focus

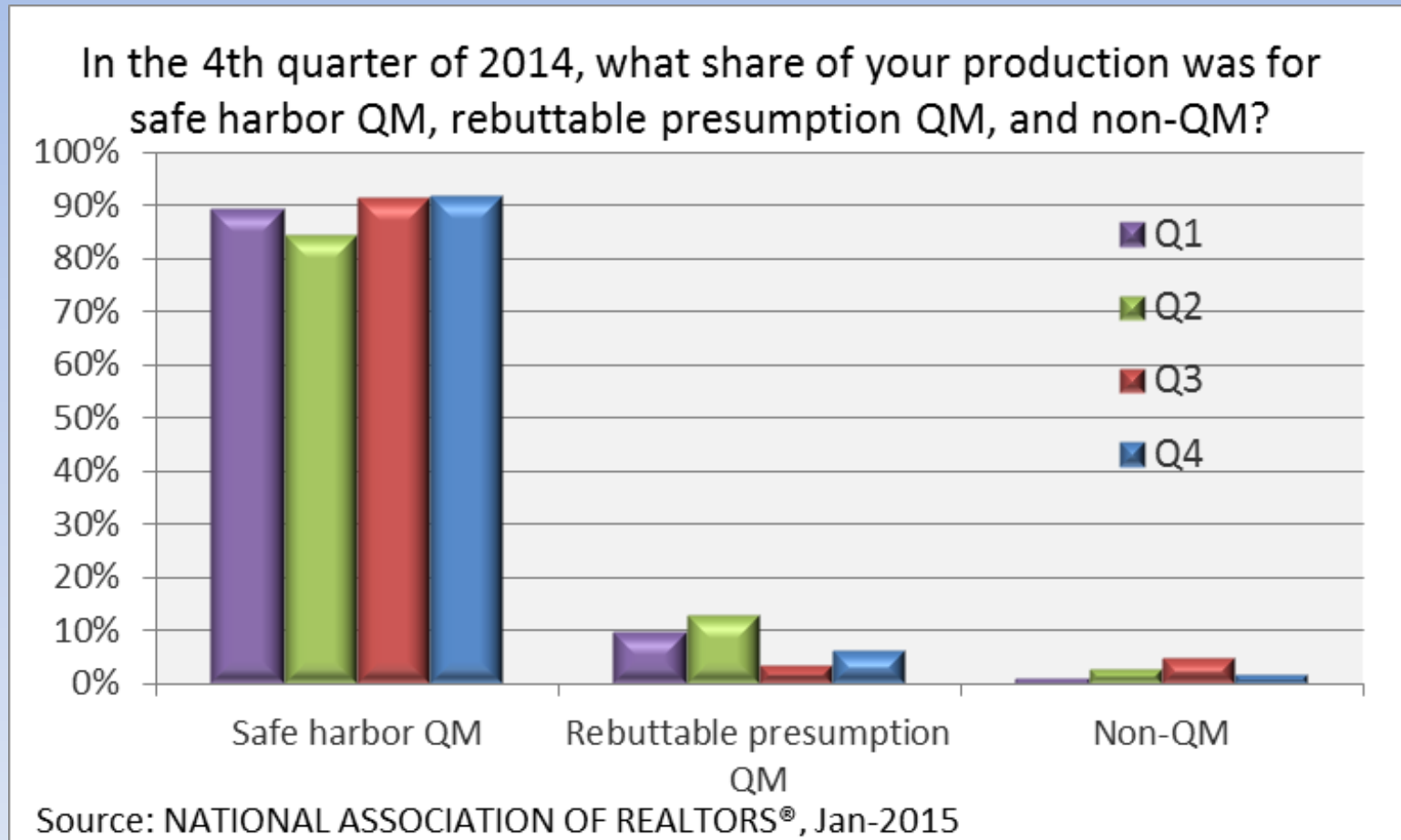


Credit Risk Transfers Expanding and Innovating



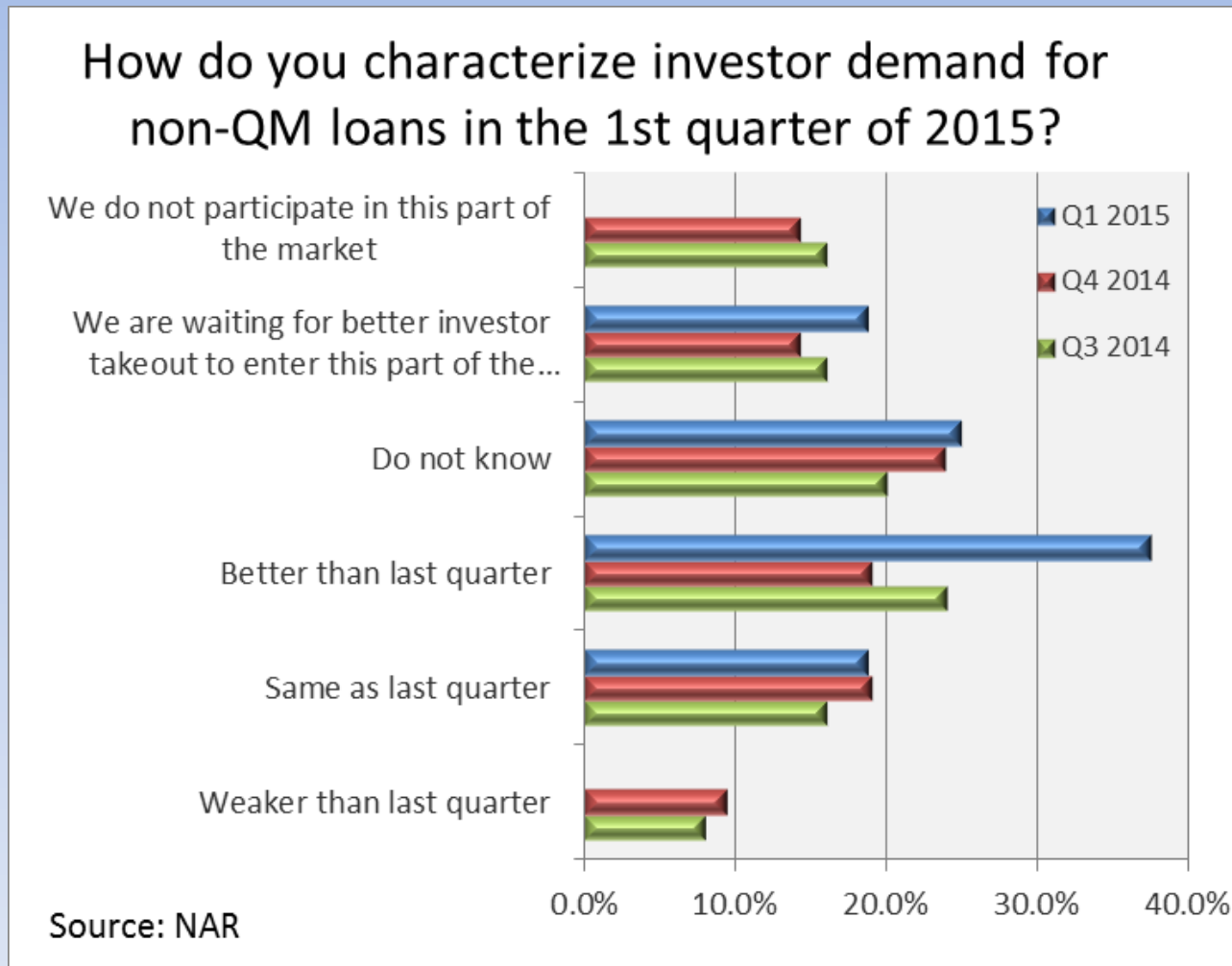
Deep MI on the Way...January?

Non-QM Remains a Small Portion of the Market



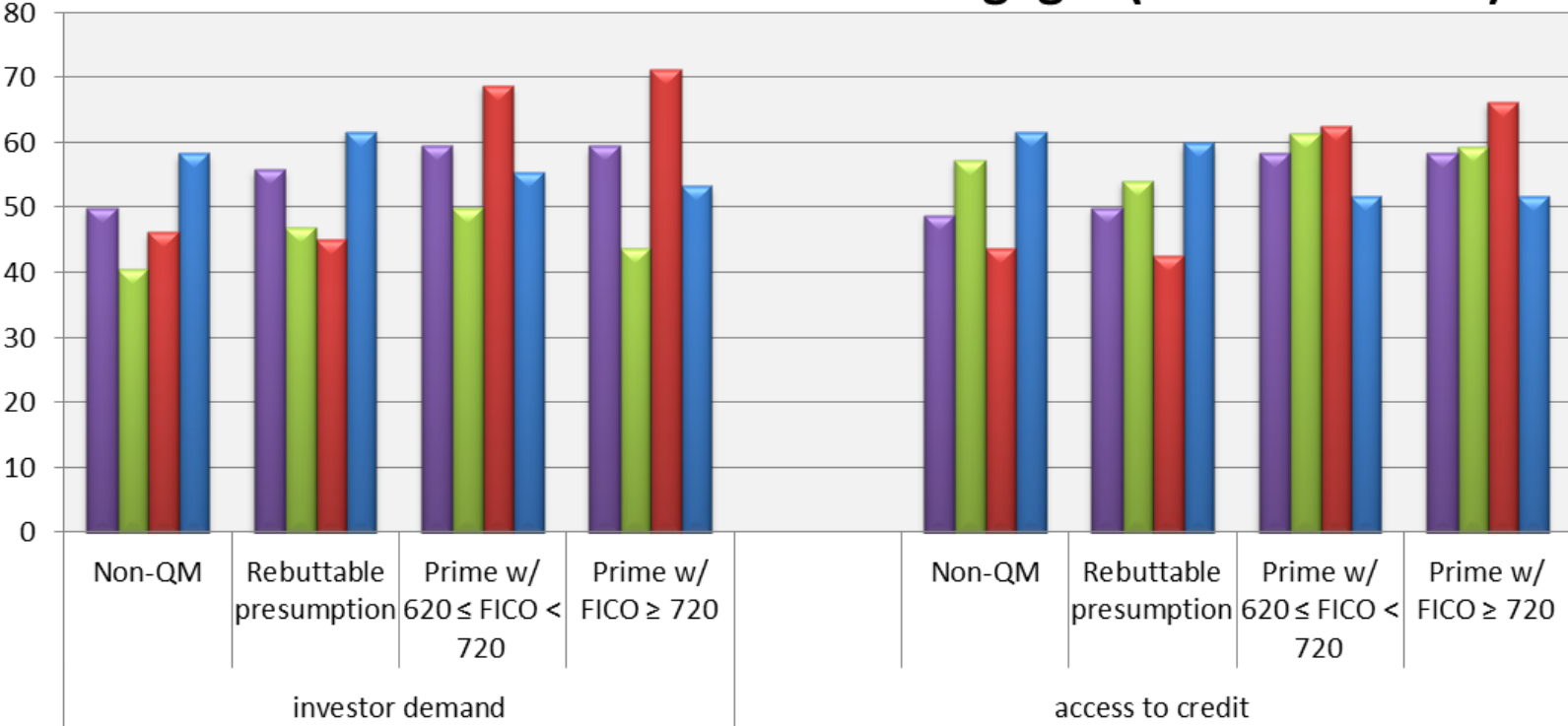
Roughly 16% of GSE production has DTI > 43% --- the exemption is important!

Investor Takeout for Non-QM Improving



Lenders and Investors Lining Up to Take More Risk?

Over the Next 6 Months, What is Your Outlook for Access to Credit and Investor Demand for Mortgages (diffusion index)



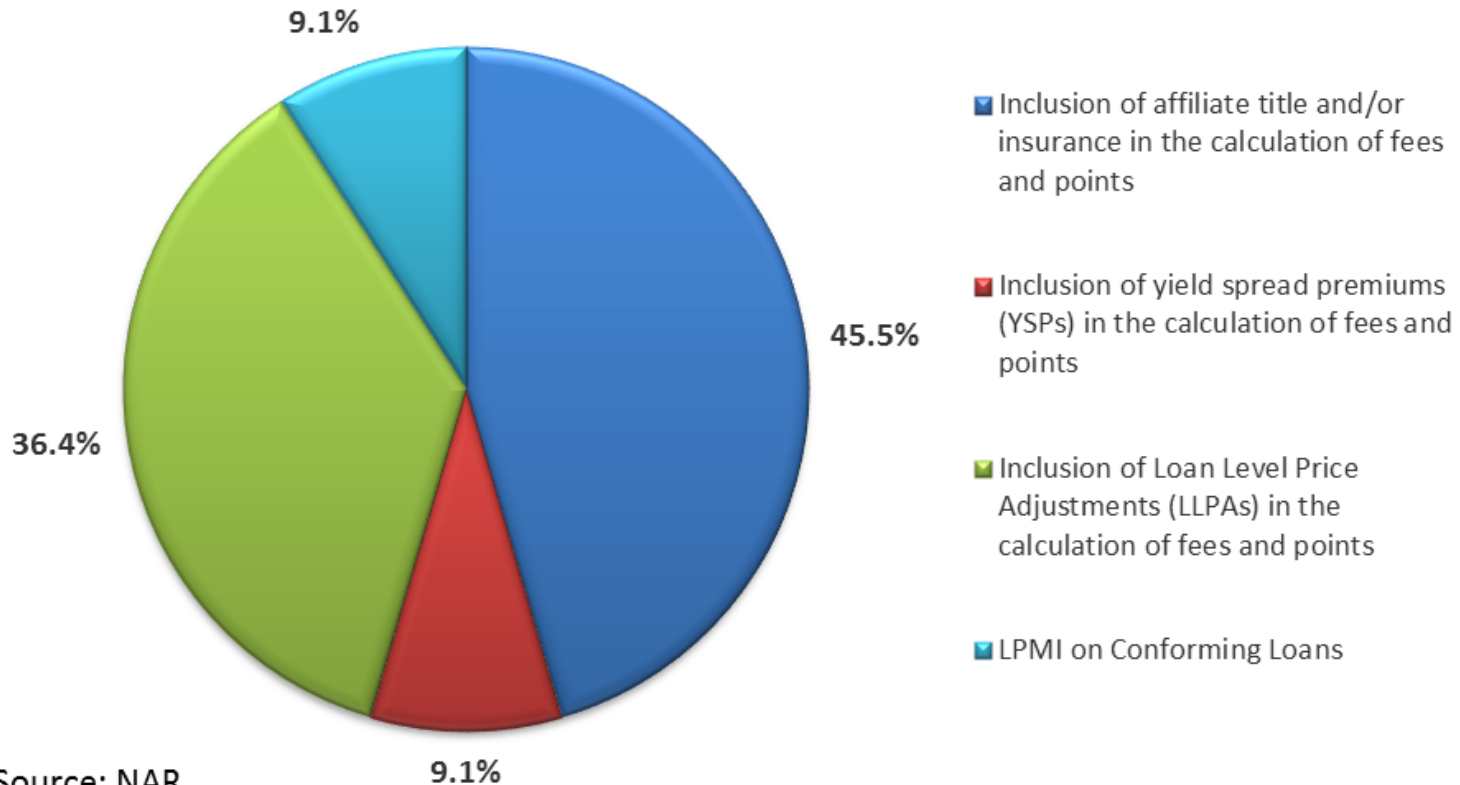
Source: NAR

■ Q1 2014 ■ Q4 2014

■ Q3 2014 ■ Q2 2014

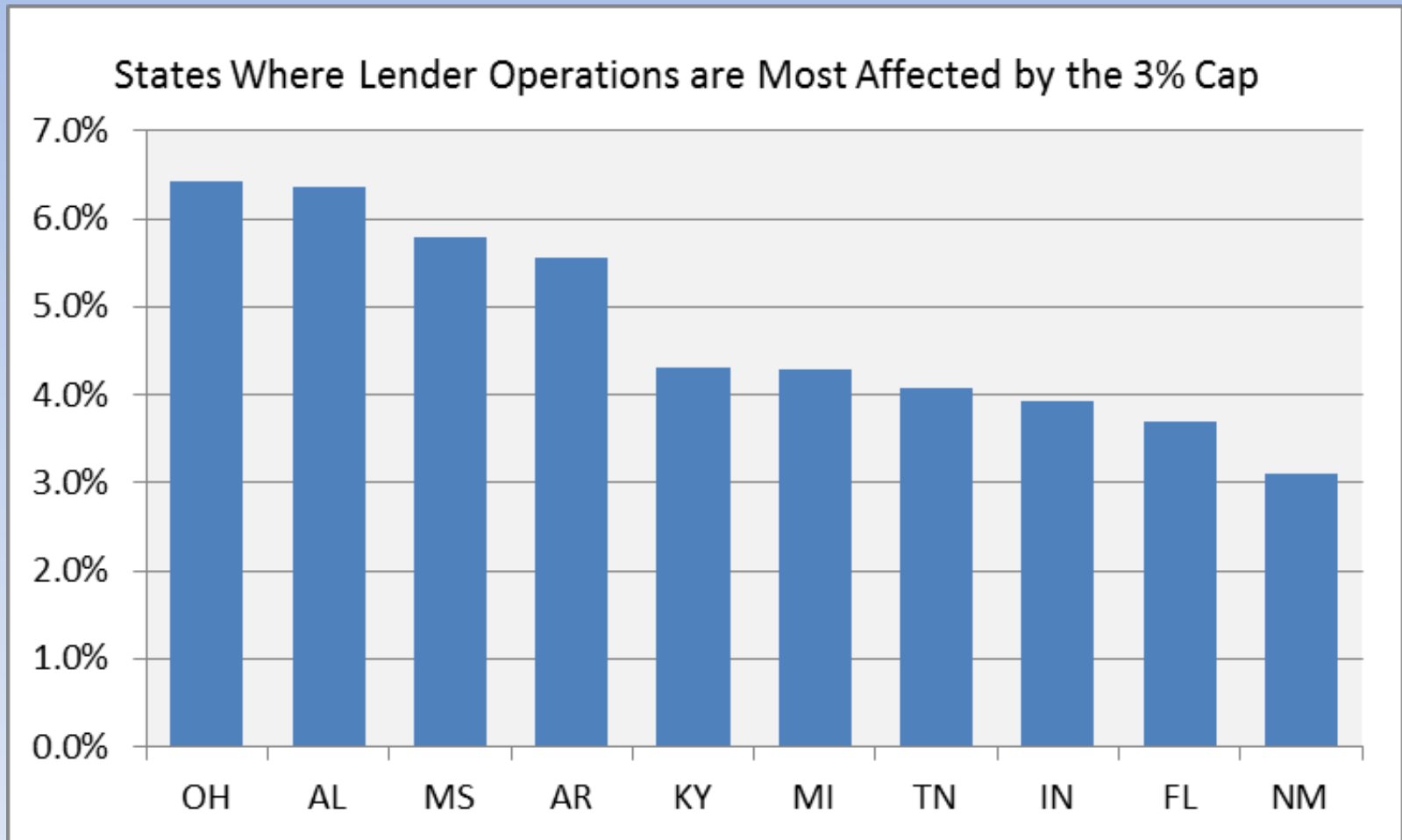
Sources of Issues with 3% Cap

What was the primary reason for the 3% cap impacting your production in the 1st quarter?



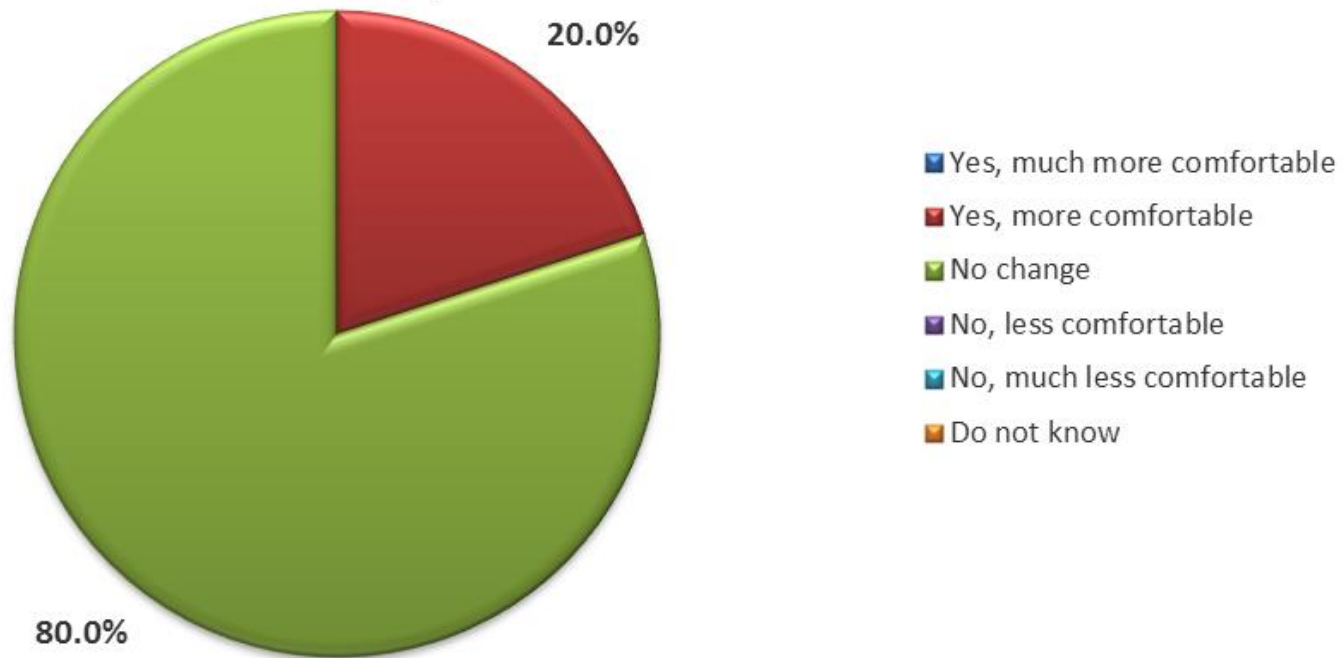
Source: NAR

Impact of 3% Cap Largest in States with Lower Median Priced Homes



Fixes No Comfort

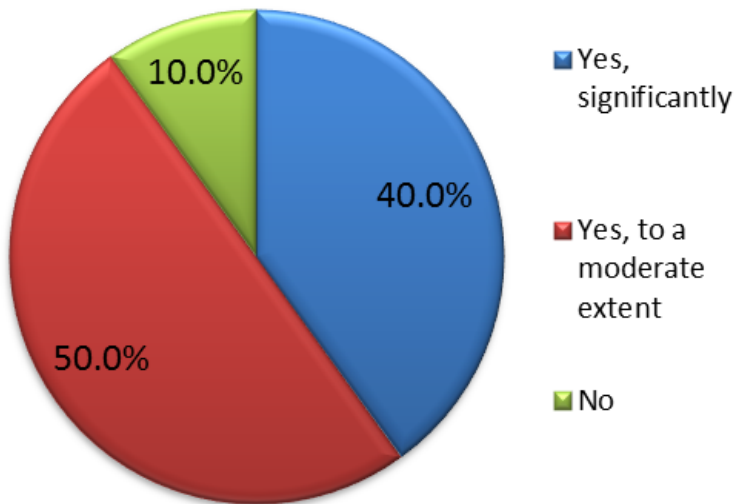
Has the CFPB's amendment to the 3% cap on points and fees that allows lenders to refund excess fees when the cap is breached increased your comfort with the rule?



Source: NAR

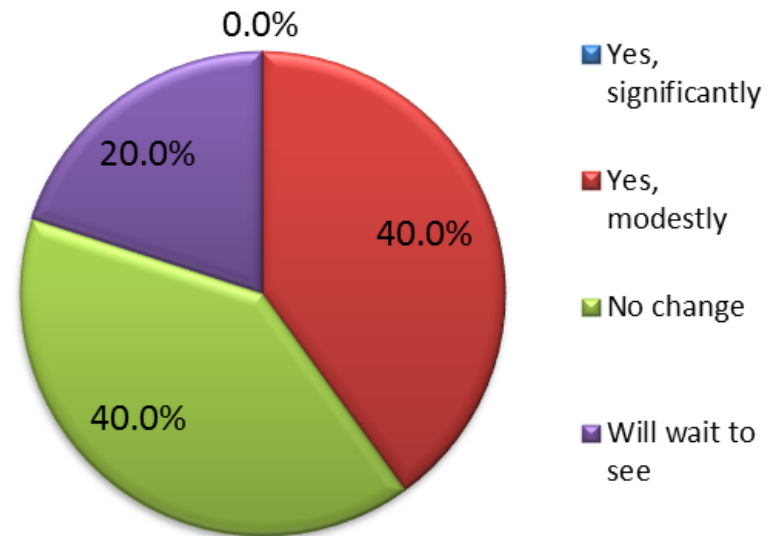
Rep and Warrant Concern Easing

Has concern about repurchase requests from aggregators or investors impacted your



Source: NAR

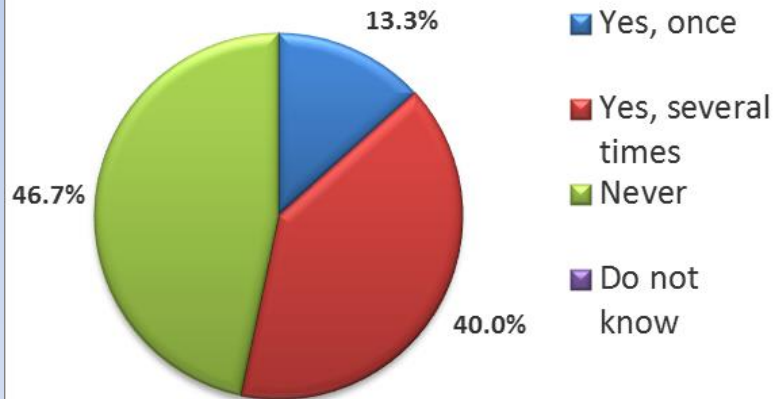
Will these changes impact your willingness to originate higher risk mortgages (e.g. credit scores below 640 or higher DTIs)?



Source: NAR

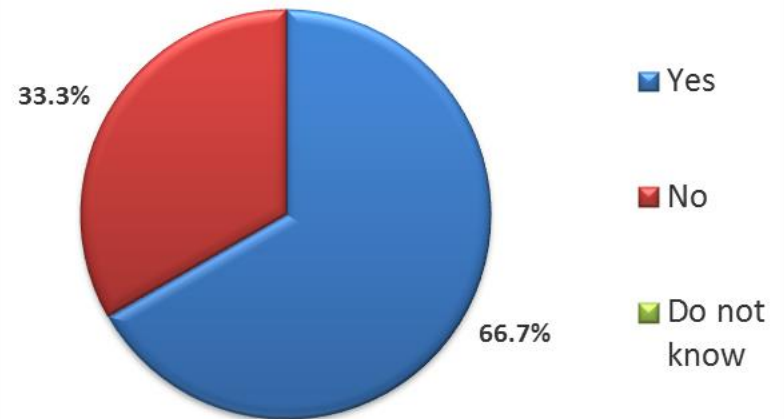
Next Up ... FHA Indemnification?

Since 2009, have you been asked to indemnify the FHA for improperly originating a loan(s)?



Source: NAR

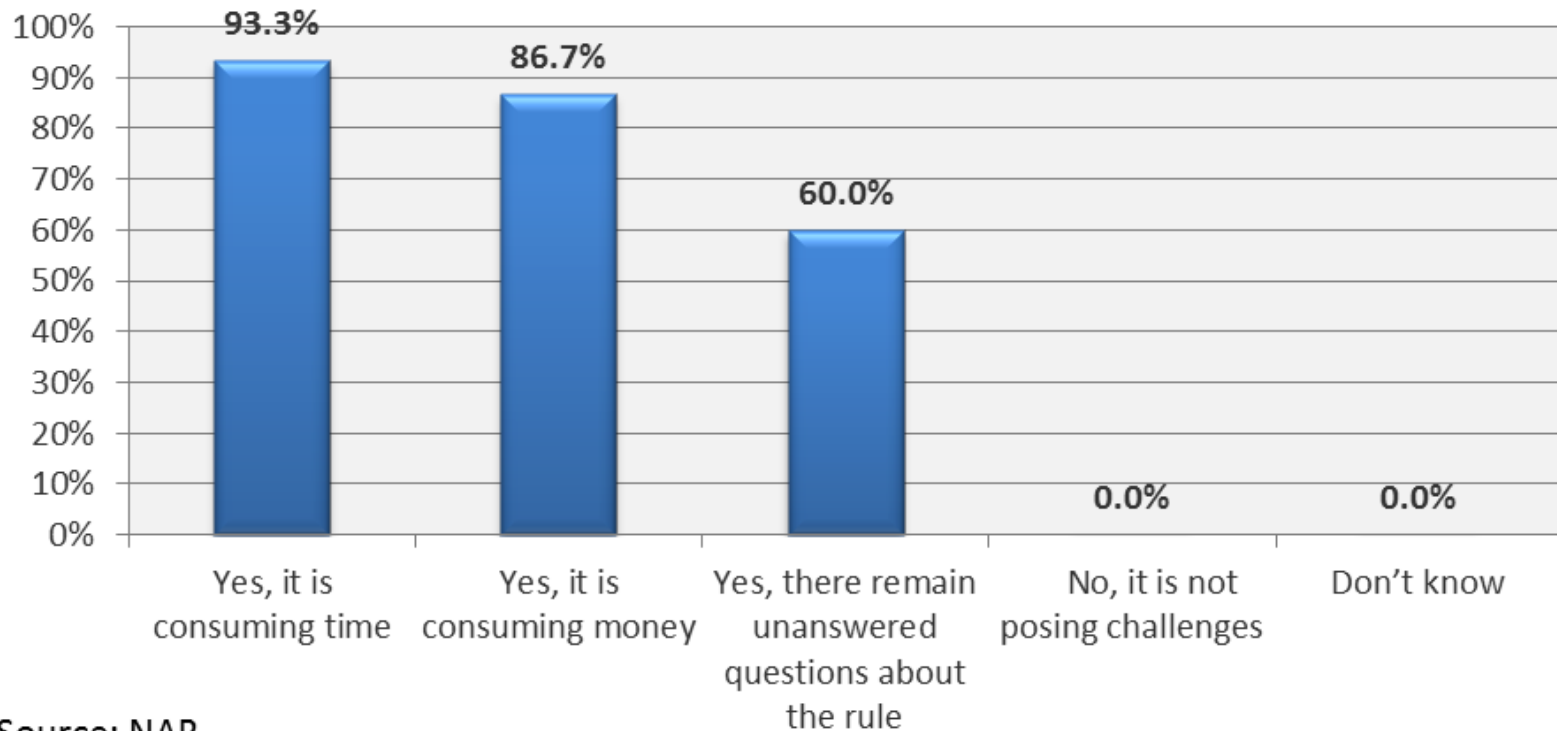
Have you restricted your lending to borrowers with FICO scores below 640 due concern about the FHA's indemnification policy?



Source: NAR

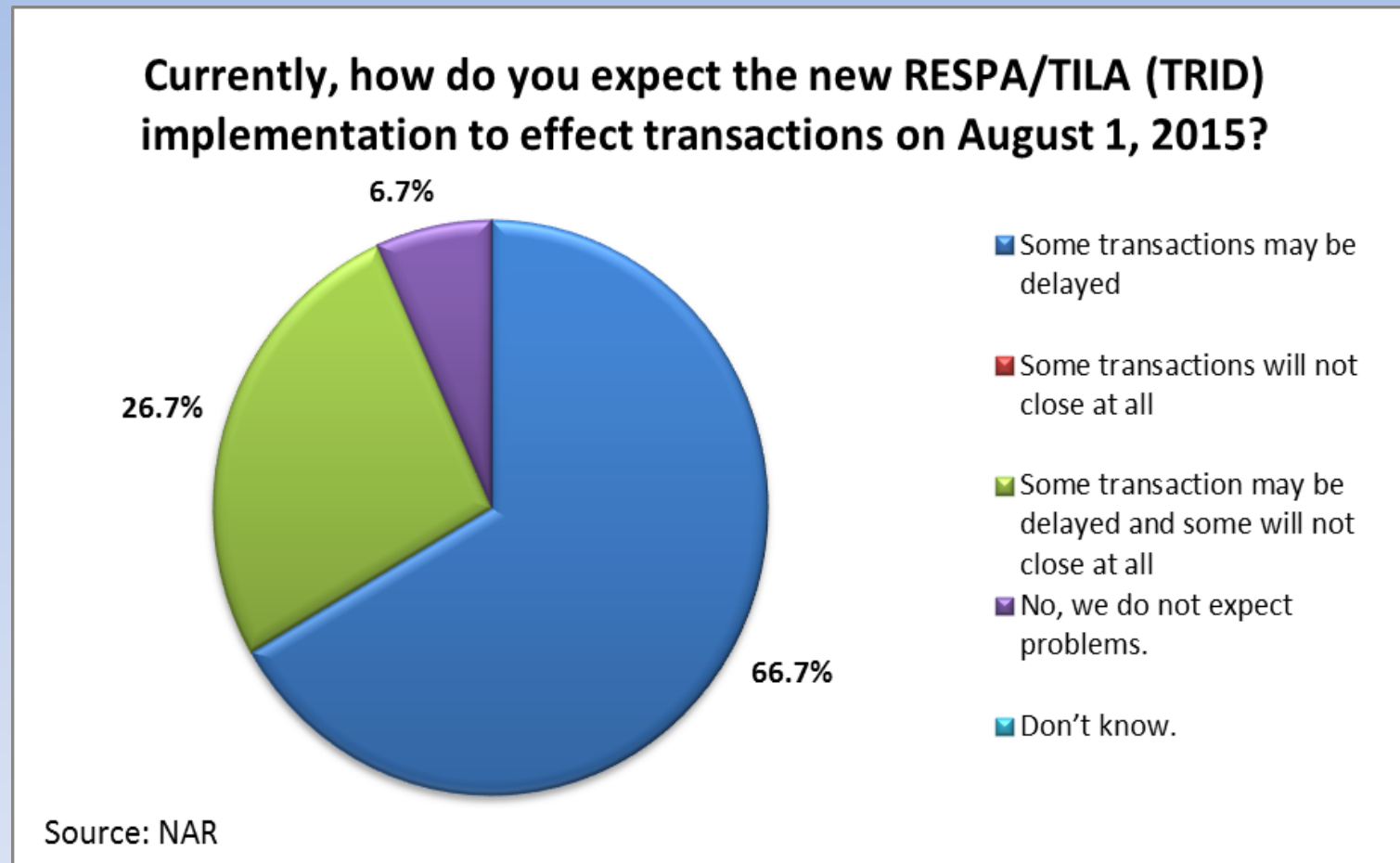
Heavy Preparations for TRID

Will/is the implementation of RESPA/TILA (TRID) posing challenges to your firm? Mark all that apply



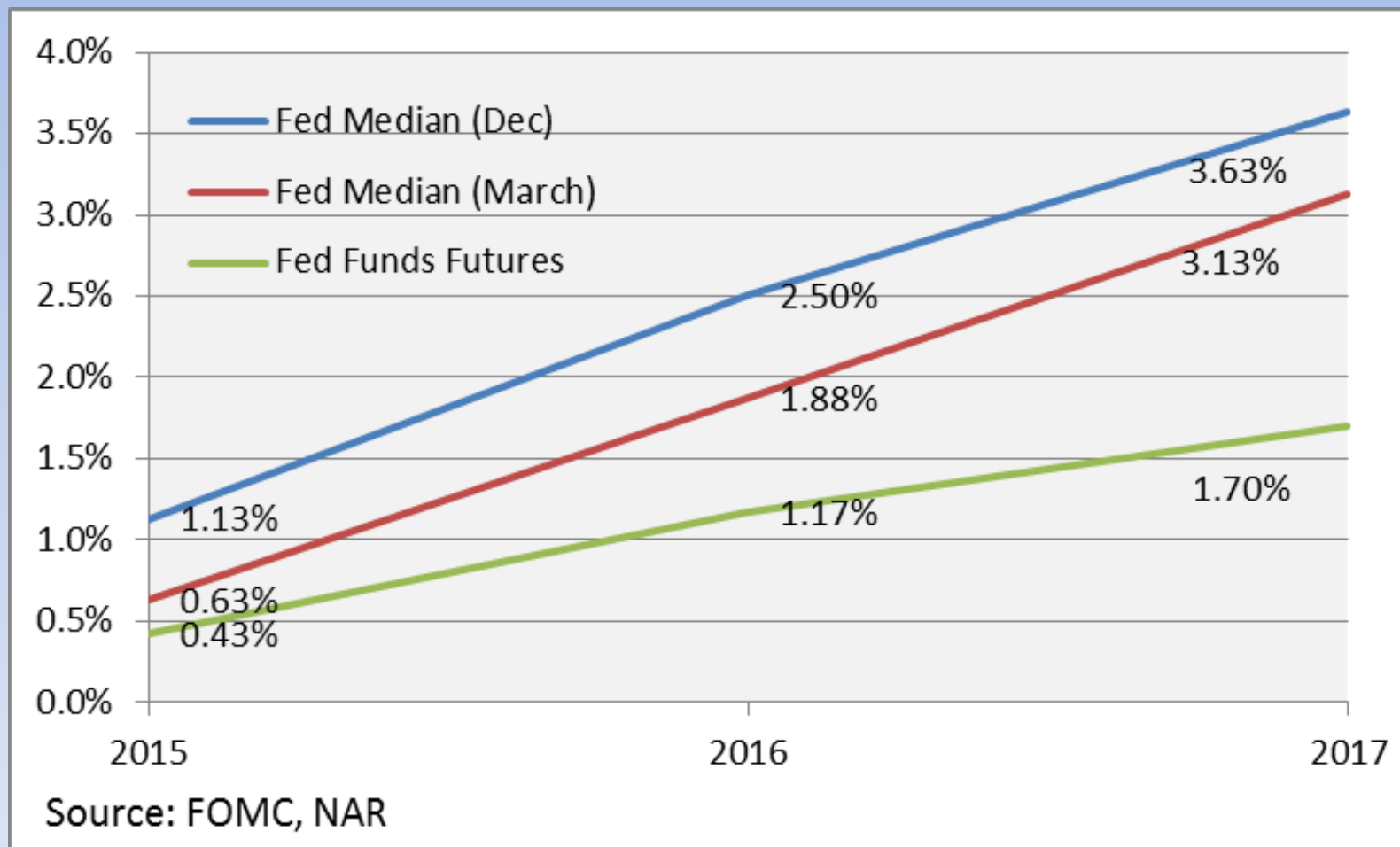
Source: NAR

TRID – Market Could stumble on New TILA/RESPA Docs in Late Summer



FOMC meetings, upside surprise to Europe, US improvement, and TRID

Divergent Rate Expectations – Upside Surprise?



Concerns for 2015

- Opening the credit box:
 - PMIERS
 - FHA indemnifications
 - 3% cap
 - Higher loan limits -> not until 2016
 - New Credit Models (FICO? or Vantage Score)
- When will interest rates rise?
 - Return of demand for GSE MBS? FED end rollover?
 - Rapid improvement in European economy?
 - Diverge between Fed and Market on long-term rates
 - TRID timing

NAR Research—On Line

- Twitter: https://twitter.com/NAR_Research
- Blog:
<http://economistsoutlook.blogs.realtor.org/>
- NAR Research Page
<http://www.realtor.org/research-and-statistics>