23rd Annual ABA Residential Real Estate Survey Report

April 2016
Contents

Acknowledgements..................................................................................................................3
Summary of Key Survey Findings..........................................................................................4
Survey Participant Profile......................................................................................................5
Loan Production......................................................................................................................7
Loan Destination....................................................................................................................13
Mortgage Products and Features..........................................................................................23
Regulatory Impact..................................................................................................................34
Compliance Concerns............................................................................................................43
Mortgage Market Concerns.................................................................................................44
The American Bankers Association extends its appreciation to the bankers who contributed essential information to the 23nd edition of the Real Estate Lending Survey. Their participation in this extensive study, despite already heavy reporting burdens, ensured the success of this research project.

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A Summary of Key Findings

The 23rd Real Estate Lending Survey had the participation of 159 banks. The data was collected from February 3, 2016 to March 18, 2016, and in most cases reports calendar year or year-end results. In other cases, data reflect current activities and expectations at the time of data collection. Of the survey participants, 60 percent of respondents were commercial banks and 40 percent were savings institutions. About 68 percent of the participating institutions had assets of less than $1 billion. This survey continues to be an important tool as it reflects the increased impact of regulations on the mortgage industry.

- About 86 percent of loans originated by banks were QM compliant compared to 90 percent in 2014, likely because more banks are adjusting underwriting criteria to target selected non-QM loan opportunities
- Despite increased non-QM lending, approximately 72 percent of respondents expect the current ATR/QM regulations will continue to reduce credit availability – down from nearly 80 percent in 2014
- Relatedly, the percentage of banks restricting lending to QM segments dropped from 33 percent to 26 percent, and those providing targeted non-QM lending rose to 54 percent from 48 percent
- High debt-to-income levels continue to be the most likely reason why a non-QM loan did not meet QM standards
- The percentage of single family mortgage loans made to first time home buyers continues to climb to a new all-time high as it represented 15 percent of loans underwritten in 2015 – up from 13 percent in 2013 and 14 percent in 2014
- Approximately half of the respondents state that regulations have a moderate negative impact on business, while nearly a quarter report the impact as extremely negative
Survey Participant Profile

Bank Demographics

**Bank Asset Size**
- Up to $50 million: 27%
- $51-$100 million: 16%
- $101-$200 million: 12%
- $201-$300 million: 11%
- $301-$500 million: 6%
- $501 million-$1 billion: 11%
- $1 billion-$10 billion: 4%
- $10 billion-$20 billion: 3%
- Over $20 billion: 2%

**Chief Federal Regulator**
- OCC: 35%
- FDIC: 51%
- Federal Reserve: 14%

**Bank Charter Type**
- Commercial Bank: 60%
- Savings Bank/Institution: 40%

**Bank Ownership Type**
- Mutual/MHC: 33%
- Stock: 67%
### Survey Participant Profile

#### Bank Location

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>New England (Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, Vermont)</td>
<td>10%</td>
</tr>
<tr>
<td>Mid-Atlantic (D.C., Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia)</td>
<td>25%</td>
</tr>
<tr>
<td>Middle Southeast (Kentucky, North Carolina, South Carolina, Tennessee, West Virginia)</td>
<td>5%</td>
</tr>
<tr>
<td>Lower Southeast (Alabama, Florida, Georgia, Mississippi, Puerto Rico)</td>
<td>2%</td>
</tr>
<tr>
<td>Great Lakes (Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin)</td>
<td>26%</td>
</tr>
<tr>
<td>South (Louisiana, Oklahoma, Texas, Arkansas)</td>
<td>8%</td>
</tr>
<tr>
<td>Plains (Iowa, Kansas, Missouri, North Dakota, Nebraska, South Dakota)</td>
<td>16%</td>
</tr>
<tr>
<td>Mountain (Colorado, Idaho, Montana, Utah, Wyoming)</td>
<td>3%</td>
</tr>
<tr>
<td>Southwest (Arizona, California, Hawaii, Nevada, New Mexico)</td>
<td>4%</td>
</tr>
<tr>
<td>Northwest (Alaska, Oregon, Washington)</td>
<td>1%</td>
</tr>
</tbody>
</table>
## Loan Production
### Top Loan Origination Systems

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Loan Origination System</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Encompass (Ellie Mae)</td>
</tr>
<tr>
<td>2</td>
<td>Calyx Point (Calyx Software)</td>
</tr>
<tr>
<td>3</td>
<td>Mortgagebot (D+H)</td>
</tr>
<tr>
<td>4</td>
<td>Wolters Kluwer (Compliance One)</td>
</tr>
<tr>
<td>5</td>
<td>EasyLender (Fiserv) &amp; Laser Pro (Harland)</td>
</tr>
</tbody>
</table>
## Loan Production
### Participant Loan Volume for 2015

<table>
<thead>
<tr>
<th></th>
<th>1-4 Family Mortgage Loans ($)</th>
<th>Home Equity Loans (drawn lines-of-credit) ($)</th>
<th>Second Trust Loans (closed-end) ($)</th>
<th>Multifamily Mortgage Loans ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average</strong></td>
<td>$489,968,009</td>
<td>$23,720,408</td>
<td>$4,182,379</td>
<td>$10,594,399</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>$40,000,000</td>
<td>$2,000,000</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>
Loan Production
1-4 Family Mortgage Loan Originations

2015
55%
45%

2014
45%
55%

2013
56%
44%

- Purchase
- Refinance
# Loan Production Servicing Portfolios (Data as of 2015 YE)

<table>
<thead>
<tr>
<th>By Asset Size</th>
<th>Serviced for Bank (averages in millions, unless otherwise noted)</th>
<th>Serviced for Others (averages in millions, unless otherwise noted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $20 Billion</td>
<td>$32,650.0</td>
<td>$116,850.0</td>
</tr>
<tr>
<td>$10 - $20 Billion</td>
<td>$3,509.6</td>
<td>$1,691.0</td>
</tr>
<tr>
<td>$1 - $10 Billion</td>
<td>$600.0</td>
<td>$232.3</td>
</tr>
<tr>
<td>$501 Million - $1 Billion</td>
<td>$209.9</td>
<td>$71.8</td>
</tr>
<tr>
<td>$301 - $500 Million</td>
<td>$161.1</td>
<td>$79.0</td>
</tr>
<tr>
<td>$201 - $300 Million</td>
<td>$80.7</td>
<td>$25.2</td>
</tr>
<tr>
<td>$101 - $200 Million</td>
<td>$38.8</td>
<td>$9.7</td>
</tr>
<tr>
<td>$51 - $100 Million</td>
<td>$12.4</td>
<td>—</td>
</tr>
<tr>
<td>Up to $50 Million</td>
<td>$21.2</td>
<td>$4.3</td>
</tr>
</tbody>
</table>
Please estimate the number of 1-4 family loans your bank serviced as of December 31, 2015.

- 0 – 2,000: 56%
- 2,001 – 5,000: 28%
- 5,001 – 10,000: 7%
- 10,001 – 25,000: 3%
- More than 25,000: 5%
Loan Destination
Servicing Released and Servicing Retained

2015
- Both 37%
- Servicing released 33%
- Servicing retained 30%

2014
- Both 31%
- Servicing released 43%
- Servicing retained 26%

2013
- Both 34%
- Servicing released 33%
- Servicing retained 33%
Loan Destination
Servicing Released and Servicing Retained

The average percentage breakdown for banks that both release and retain the servicing

- Servicing released: 32%
- Servicing retained: 68%
Loan Destination
1-4 Family Mortgage Origination Destination

2015
- Loans retained in portfolio: 51.7%
- Sold to Fannie Mae: 13.9%
- Sold to Freddie Mac: 12.2%
- Securitized through Ginnie Mae: 10.4%
- Sold to private mortgage conduits or aggregators: .8%
- Sold to other financial institutions as portfolio investment: .5%
- Sold through FHLB MPF/MPP Program: 3.3%

2014
- Loans retained in portfolio: 45.9%
- Sold to Fannie Mae: 19.2%
- Sold to Freddie Mac: 13.1%
- Securitized through Ginnie Mae: 11.0%
- Sold to private mortgage conduits or aggregators: 7.8%
- Sold to other financial institutions as portfolio investment: 10.4%
- Sold through FHLB MPF/MPP Program: 2.4%
Loan Destination
A Historical Perspective

Percentage of originations sold to each of the following buyers

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduits/Wholesalers</td>
<td>12%</td>
<td>19%</td>
<td>18%</td>
<td>18%</td>
<td>17%</td>
<td>22%</td>
<td>19%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>10%</td>
<td>11%</td>
<td>14%</td>
<td>12%</td>
<td>15%</td>
<td>13%</td>
<td>12%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Freddie Mac</td>
<td>14%</td>
<td>13%</td>
<td>15%</td>
<td>15%</td>
<td>13%</td>
<td>15%</td>
<td>17%</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td>FHLB MPF/MPP</td>
<td>8%</td>
<td>8%</td>
<td>9%</td>
<td>9%</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
<td>7%</td>
<td>8%</td>
<td>4%</td>
<td>2%</td>
<td>3%</td>
</tr>
</tbody>
</table>
## Loan Destination
### Top Aggregators

<table>
<thead>
<tr>
<th>Ranking</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wells Fargo</td>
<td>BB&amp;T, U.S. Bank</td>
<td>U.S. Bank</td>
</tr>
<tr>
<td>2</td>
<td>U.S. Bank</td>
<td>Wells Fargo</td>
<td>Wells Fargo</td>
</tr>
<tr>
<td>3</td>
<td>BB&amp;T</td>
<td>FHLB</td>
<td>FHLB</td>
</tr>
<tr>
<td>4</td>
<td>Franklin American</td>
<td>SunTrust</td>
<td>BB&amp;T</td>
</tr>
<tr>
<td>5</td>
<td>FHLB</td>
<td>Franklin American</td>
<td>Franklin American</td>
</tr>
</tbody>
</table>
Loan Destination
Subservicer vs. Component Servicer

2015
- Subservicer: 5%
- Component servicer: 3%
- Neither: 92%
- Both: 0%

2014
- Subservicer: 7%
- Component servicer: 1%
- Both: 4%
- Neither: 88%
Loan Destination
Mortgage Servicing Rights

Have you sold mortgage servicing rights in the past year due to regulatory requirements or capital treatment of mortgage servicing assets?

2015
- Yes: 5%
- No: 95%

2014
- Yes: 5%
- No: 95%
For those selling, what were the key factors in your decision to selling servicing rights?

- Regulatory requirements: 44% (2015) - 10% (2014)
- Both: 22% (2015) - 50% (2014)
- Other: 22% (2015) - 10% (2014)
Are you contemplating selling servicing rights due to new regulatory requirements or capital treatment of mortgage servicing rights?

2015
- Yes: 14%
- No: 86%

2014
- Yes: 14%
- No: 86%

2013
- Yes: 11%
- No: 89%
For those contemplating sales, what will be the key factors in decisions to sell servicing rights in the future?

<table>
<thead>
<tr>
<th>Factor</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory requirements</td>
<td>33%</td>
<td>15%</td>
</tr>
<tr>
<td>Capital treatment of mortgage servicing assets</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Both</td>
<td>38%</td>
<td>55%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>
Mortgage Products and Features
Breakdown of Offered Mortgage Products

2015

- Fixed Rate (30-Year): 47.4%
- Fixed Rate (15-Year): 12.5%
- Other Fixed Rate: 7.0%
- 6-Month ARM: 0.5%
- 1-Year ARM: 1.5%
- 3/1 ARM: 1.7%
- 5/1 ARM: 5.0%
- 7/1 ARM: .1%
- Interest-Only ARM: 17.6%
- Other ARM: .1%

2014

- Fixed Rate (30-Year): 50.5%
- Fixed Rate (15-Year): 13.3%
- Other Fixed Rate: 4.0%
- 6-Month ARM: .2%
- 1-Year ARM: 1.7%
- 3/1 ARM: 7.1%
- 5/1 ARM: 15.6%
- 7/1 ARM: .2%
- Interest-Only ARM: 13.3%
- Other ARM: .2%
Mortgage Products and Features
First Time Home Buyers

Average Percentage of 1-4 Family Loans Made to First Time Home Buyers

2015: 15%
2014: 14%
2013: 13%
Mortgage Products and Features
LTV Ratios for Mortgage Loans Originated

2015

- 60% or less: 17%
- 60% - 80%: 7%
- 80% - 85%: 9%
- 85% - 90%: 14%
- 90% - 95%: 27%
- 95% and greater: 18%

2014

- 60% or less: 46%
- 60% - 80%: 7%
- 80% - 85%: 6%
- 85% - 90%: 14%
- 90% - 95%: 6%
- 95% and greater: 18%
Mortgage Product and Features
Private Mortgage Insurance

For 1-4 family mortgage loans with an LTV above 80%, do you require private mortgage insurance?

2013
- Yes: 81%
- No: 19%

2014
- Yes: 77%
- No: 23%

2015
- Yes: 75%
- No: 25%
For 2015, up to what level of LTV did your bank underwrite mortgage loans that did NOT require private mortgage insurance?

- Loan-to-value greater than 95%: 18
- Loan-to-value between 90% and 95%: 18
- Loan-to-value between 85% and 90%: 37
- Loan-to-value between 80% and 85%: 57
- Loan-to-value below 80%: 127
Mortgage Product and Features
FICO Categories

Percentage of 1-4 Family Mortgage Loans by FICO Categories

- 720 and above: 50.2% (2014), 48.6% (2015)
- 680 and 719: 30.4% (2014), 31.1% (2015)
- 620 and 679: 16.5% (2014), 16.5% (2015)
- Below 620: 2.9% (2014), 4.0% (2015)
Mortgage Product and Features

Escrow Services

Does your bank provide escrow services for its mortgage customers?
- Yes: 83%
- No: 17%

Are escrow accounts mandatory for mortgage customers?
- Yes: 25%
- No: 75%
Mortgage Product and Features
Reasons not to Providing Escrow Services

- Lack of escrow capabilities/adequate staff: 55% (2015), 63% (2014)
- It is cost prohibitive: 52% (2015), 51% (2014)
- Lack of third-party service provider: 12% (2015), 17% (2014)
- Customer preference: 18% (2015), 31% (2014)
- Difficulty obtaining tax information for certain dwellings classified as personal property: 0% (2015), 3% (2014)
- Other: 36% (2015), 20% (2014)

Other reasons include regulatory requirements, small servicer exception, and LTV lower than 70%
Mortgage Product and Features
Delinquency and Foreclosure Rates

Average Delinquency Rates (60-Days or More Past Due) and Foreclosure Rates

- Delinquency rate: 1.27% (2015) vs. 1.76% (2014)
- Foreclosure rate: 0.37% (2015) vs. 0.57% (2014)
Regulatory Impact
Percentage of QM vs Non-QM Loans

- **2015**
  - Qualified Mortgages (QM): 86%
  - Non-Qualified Mortgages: 14%

- **2014**
  - Qualified Mortgages (QM): 90%
  - Non-Qualified Mortgages: 10%

- **2013**
  - Qualified Mortgages (QM): 84%
  - Non-Qualified Mortgages: 16%
Regulatory Impact
Impact of ATR/QM Rules on Lending

Bank restricted lending to QM segments
- 2015: 26%
- 2014: 33%

Bank originated primarily QM loans, and non-QM loans were restricted to targeted markets or otherwise limited
- 2015: 54%
- 2014: 48%

Bank originated loans without regard to QM status
- 2015: 20%
- 2014: 19%
If you originate non-QM loans, do you:

- Hold as portfolio investments: 79% (2015), 68% (2014)
- Sell to secondary market investors: 3% (2015), 4% (2014)
- Sell directly to other investors: 1% (2015), 1% (2014)
- All the above: 0% (2015), 6% (2014)
- Not applicable: 19% (2015), 21% (2014)
What do you expect will be ongoing impact of the Ability-to-Repay/QM rules on credit availability?

2015
- Severe: 7%
- Negligible: 28%
- Moderate: 65%

2014
- Severe: 19%
- Negligible: 22%
- Moderate: 59%

2013
- Severe: 10%
- Negligible: 24%
- Moderate: 66%
Regulatory Impact
Non QM Loans

Of your 2015 production, what are the reasons why a non-QM loan does not meet QM standards? (check all that apply)

- Interest rate exceeded available spread over the average prime offer rate: 18%
- Loan had negative amortization features: 1%
- Loan exceeded 30 years: 2%
- Loan exceeded the limits on points and fees: 10%
- Loan had interest-only payment features: 9%
- Loan had a balloon payment within the first 60 months: 7%
- Loan exceeded the debt-to-income ratio: 66%
- Documentation requirements prevented consideration of all income and/or assets: 40%
- Other: 7%
- Did not make non-QM loans: 23%
Of your 2015 production, which was the most important reason why a non-QM loan does not meet QM standards?

- Interest rate exceeded available spread over the average prime offer rate: 5%
- Loan had negative amortization features: 0%
- Loan exceeded 30 years: 1%
- Loan exceeded the limits on points and fees: 3%
- Loan had interest-only payment features: 2%
- Loan had a balloon payment within the first 60 months: 5%
- Loan exceeded the debt-to-income ratio: 48%
- Documentation requirements prevented consideration of all income and/or assets: 12%
- Other: 4%
- Did not make non-QM loans: 21%
Has FEMA remapping or any other issue related to National Flood Insurance Program pricing affected affordability for loans in your market?

2015:
- Yes: 31%
- No: 69%

2014:
- Yes: 38%
- No: 62%
How much of a negative impact is regulation having on your business?

2015

- No negative impact: 7%
- Small negative impact: 18%
- Moderate negative impact: 24%
- Extreme negative impact: 51%

2014

- No negative impact: 1%
- Small negative impact: 12%
- Moderate negative impact: 33%
- Extreme negative impact: 54%
Compliance Concerns
Outsourcing Quality Control Function

Do you outsource your quality control function or perform it in-house?

- Outsource: 17%
- In-house: 45%
- Both: 38%
### What are the primary drivers of increased compliance costs?
(check all that apply)

<table>
<thead>
<tr>
<th>Driver</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of profitable business lines</td>
<td>21%</td>
</tr>
<tr>
<td>Loss of customers due to increased time between loan application and final loan approval</td>
<td>34%</td>
</tr>
<tr>
<td>Loss of customers due to increased paperwork and/or complexity of disclosures</td>
<td>36%</td>
</tr>
<tr>
<td>Loss of efficiency</td>
<td>83%</td>
</tr>
<tr>
<td>Increased costs for third-party vendor services</td>
<td>69%</td>
</tr>
<tr>
<td>Increased personnel costs</td>
<td>80%</td>
</tr>
<tr>
<td>Increased time allocation</td>
<td>92%</td>
</tr>
<tr>
<td>Increased technology costs</td>
<td>84%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>
# Primary Concerns Regarding the Residential Mortgage Market

- Increased regulatory burden.
- TRID and other compliance concerns
- Economic uncertainty.
- Interest rate environment.