Senior Loan Officer Survey Examines Views on HARP 2.0

By: Jann Swanson | Tue, Aug 7 2012, 3:16 PM

Results of the Federal Reserve's July **Senior Loan Officer Opinion Survey** on Bank Lending Practices were released on Tuesday. The survey, in which 64 domestic banks or subsidiaries and 23 U.S. branches of foreign banks participated, addressed changes in the supply of, and demand for bank loans to businesses and households over the past three months. Respondents are categorized as small banks (annual sales under $50 million), or large ones with sales over that amount.

Loan officers were asked to **gauge** whether lending standards had strengthened, eased, or stayed the same for each major category of lending; commercial and industrial, commercial real estate, and household lending, and to also estimate changes in demand for those loans. Of the three special questions that the Fed includes in each survey, one in this round concerned the lending officer's experiences and attitudes toward the Home Affordable Refinancing Program (HARP 2.0).

Household lending includes residential first mortgage lending, home equity lines of credit (HELOCs), credit cards and auto loans. Reported changes in standards for household lending were mixed across loan types.

In the residential mortgage category 94 percent of respondents said their **standards for prime loans** were unchanged but, while less than half of the respondents reported lending on non-traditional mortgages, 15 percent of those said their standards for those loans had tightened somewhat. All six of the banks who said they had originated subprime loans said their standards had not changed.

When asked about the **demand for purchase mortgages**, 9.8 percent reported a substantial increase in the demand for prime mortgages, 48 percent a moderate increase and 38 percent little change. For non-traditional mortgages, of the 27 respondents reporting 56 percent said there was little change in demand and 41 percent had seen a moderate increase.

Standards for HELOCs were unchanged at 98.8 percent of the banks reporting and demand for the loans was relatively unchanged at 62 percent. There was a moderate increase in demand noted by 22.2 percent of respondents and a weaker demand by 15.9 percent.

In the special questions, lenders were first asked about their **level of participation in HARP 2.0**. Thirty banks said they had done HARP loans but most reported a low volume of refinancing through the program, with two-thirds saying it constituted less than 30 percent of their refinancing. Only 6.7 percent reported more than half of their transactions were through the program.

The loan officers were asked, based on their experience to date, what share of HARP 2.0 applications they anticipated would be approved and successfully completed. The largest group of respondents (43 percent) said between 60 and 80 percent while 23 percent said over 80 percent and 17 percent estimated 40 to 60 percent.

The Fed then asked a series of questions about factors affecting the bank's willingness or ability to offer **more refinancing through HARP 2.0**. Forty-nine banks responded to the following questions, ranking them by relative importance.

1. My bank does not offer HARP refinances to borrowers with very high LTV ratios (LTV)

2. My bank requires higher FICO or other measures of creditworthiness than required by the program (Creditworthiness)

3. My bank does not offer HARP 2.0 to borrowers with limited or nonstandard documentation of income or assets (Documentation).

4. My bank offers HARP 2.0 refinances only on mortgages it already owns or services (Ownership).

5. Periods with a high volume of loan refinance applications exceed application processing capacity (Capacity).

Reason	Not Important (%)	Somewhat Important (%)	Very Important (%)	The most Important (%)
LTV	51.0	18.4	22.4	8.2
Creditworthiness	58.8	17.6	15.7	7.8
Documentation	55.1	8.2	26.5	10.2

Ownership	28.6	22.4	24.5	12.0
Capacity	42.9	20.4	24.5	12.2

Unfortunately the Senior Lending Officer Report did not give further details on the most important factors that were specified by 77 percent of the respondents.

The survey also reported that moderate fractions of domestic banks had eased standards on auto loans while somewhat smaller net fractions reported easing standards on credit cards. Standards on other consumer loans were unchanged.

Overall, modest fractions of domestic banks continued to report having eased their lending standards across most loan types over the past three months and relatively large fractions reported stronger demand for many types of loans in the same period. In contrast, lending standards at U.S. branches and agencies of foreign banks continued to tighten for commercial and industrial (C&I) loans and were unchanged for commercial real estate (CRE) loans; demand for both types of loans reportedly weakened, on net, at those institutions.

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