

Prospectus

The Booming FHA Loan Market

- **Market Size & Growth: Huge Numbers For 2008**
 - **FHA Purchase, Refi, & Reverse Mortgage Details**
 - **Top 50 Players & Market Shares, By FHA Segment**
 - **356 Metro Markets: FHA Production & Growth**
 - **250 Pages Of Information Drawn From Data On Each FHA Loan Produced**
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Important Information about a new SMR Research Study

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SUMMARY OF THE STUDY

Just two years ago, FHA loans were the woolly mammoth of the 21st century – shrunken in numbers to the point of near extinction.

Then came the mortgage credit crisis. One of the government's first reactions was a revitalization of the Federal Housing Administration. FHA loan limits were raised so high in 2008 that by our measure, nearly 96% of all home owners now can use them.

And they are. **In 2008, we now know, FHA lending tripled over 2007 levels, reaching \$249.1 billion in origination volume.**

FHA is the new growth market of the mortgage industry.

This massive change has never before been fully described. There has been an information vacuum. To wit:

- **What is the size of the FHA originations market?** How big are the pieces: purchase loans, refinances, and reverse mortgages? How much has each segment grown?
- **Which lenders are the new leaders in FHA loan production?** What are their production numbers and market shares? Who leads in each FHA segment?
- **Which metro areas have the biggest FHA markets?** How big? Growing how fast? Which have the highest applicant approval rates? Which have the greatest potential for moving borrowers from subprime conventional loans to FHA refis?

This special SMR study has all the answers – across more than 250 pages – with more information about FHA markets and lenders than anyone has ever assembled before.

We developed this study by tapping official federal databases that describe every FHA deal done in 2008, one loan at a time: single-family purchase and refi, plus HECM reverse mortgages. We garnered additional data from HMDA reports and other sources.

If you want to know where your company stands in the mortgage industry's new growth market – and where FHA business is rising most rapidly – **now you can.**

This Prospectus tells more about the contents of this study. We suspect this is the one piece of market research you cannot do without in 2009. An Order Form is enclosed. Thanks.

HIGHLIGHTS

First-Time Disclosures

We began this study by tapping directly into two new HUD databases to examine each of more than 1.5 million FHA loans originated in 2008.

The results tell an astonishing story. In our 25 years of mortgage industry coverage, we've never before seen a market segment that grew this fast.

Using these data, plus other sources, we have put together what we believe is the first-ever complete picture of FHA lending. To wit:

Market Size: Even the annual HMDA reports omit some FHA loans and reverse mortgages. **Our study captures every single FHA loan produced in 2008, for a complete view of how big this market has become.**

Top Players: We have aggregated loan totals by parent company. **We present the first-ever view of industry leaders and market shares in FHA lending, with home purchase, refi, and HECM reverse mortgage breakouts.**

Metro Markets: **The biggest city in FHA lending now is Washington D.C. Atlanta is second; Chicago, third. But the very best market for future business is St. Louis.** SMR has rated each of 356 local markets based on four key "attractiveness" statistics.

Top Players; Fragmented Market

After the turmoil of 2008 – major lenders going bankrupt or being acquired by the still-standing banks – you would expect FHA lending to be heavily concentrated among the surviving giants.

It isn't. The 50 largest FHA single-family lenders held only 37.7% of the 2008 originations market. The other 62.3% of the market was dispersed among thousands of other competitors.

FHA lending today looks like the entire mortgage industry did back in the mid-1980s: Fragmented and ripe for upcoming consolidation.

Bank of America is the largest player, followed by **Wells Fargo**. But after those two, many of the top player names may surprise you. In reverse mortgages, old-time leader **Financial Freedom** has fallen to #3; **World Alliance Financial** (sponsor of Robert Wagner TV commercials) is rising.

Section II of our study presents 18 pages of player ranking tables, plus analysis.

HIGHLIGHTS (continued)

Best & Worst Metro Areas For FHA Originations

FHA lending is booming, yet frustrating. Too many applicants have such severe credit problems that you cannot qualify them.

The good news: This doesn't happen everywhere. Fully **66%** of FHA loan applicants were approved and closed recently in **Johnstown, PA**. In **Newark, NJ**, you see the flip side: **only 29% of FHA apps were closed.**

We used the closing rate as one of four factors in picking best and worst markets for FHA lending. We also used the local origination growth rate in 2008, the penetration rate of FHA loans into the local population, and the size of the non-FHA subprime market. Subprime borrowers of the past are today's candidates for FHA refinances.

Based on all this, FHA markets that got high SMR "attractiveness scores" included **St. Louis, Las Vegas, and Stockton, CA**. The worst markets for FHA were often those where people don't really need these loans: **Honolulu, Cape Cod, and San Francisco**.

This study shows numbers and dollars of FHA loans produced in 2008 and 2007 in each of 356 metro areas, with purchase, refi, and reverse mortgage breakouts. We added additional data on the loan closing rate and the other "attractiveness" statistics, plus our final, overall attractiveness score.

It takes a lot of paper to display all this information on each of 356 metro areas – but every client for this study also gets the metro area data in a handy Excel spreadsheet, easy to use.

What We've Learned From Modeling

As some clients know, SMR not only produces industry research studies, but also builds predictive marketing models. One of our newest models uses household-specific data to predict which home owners are most likely to get an FHA refinance.

We don't reveal the model algorithms in this study, but we do reveal some of the key variables in Section III. The challenge is two-fold: **1) Find people who want an FHA refi, and 2) Find those who qualify to get it.**

If you have an interest in direct marketing to find FHA refi customers, make sure to read this important section. If you want to go further, give us a call and we can show you results of our FHA Refi scoring model.

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We display 24 key FHA statistics on each of the 356 largest metro areas of the United States.

They include originations – both numbers and dollars of loans – in 2008 and 2007 for FHA home purchase, refinance, and reverse mortgages, totals, and growth rates.

Also included are key market facts (like the applicant closing rate) helpful in further understanding the FHA opportunity going forward.

These data, shown two cities to a page, also are provided to all clients in an Excel spreadsheet for easy re-sorting of all the cities by any key statistic you want to look at.

Other SMR Products & Services

Giants Of The Mortgage Industry: Coming Next

Since 1986, SMR has produced an annual study called **Giants of the Mortgage Industry**.

It is our annual "big book," covering the entire mortgage landscape. We rank the key lenders in more ways than any other source, analyze credit quality and trends, report on industry profitability, new products, new rising lenders, and more.

Giants is published in March of each year. The new FHA study may back up the publication date for Giants by a week or two, but we hope to have it out by the end of March.

Refi Modeling & Scoring

Since 2005, SMR has created **Refi Propensity Scores**, updated monthly for each of more than 35 million owner-occupied home owners.

The scores rank-order home owners for their likelihood to get a mortgage refinance during the next three months. High-scored records make ideal direct marketing lists. Scores also can be appended to your existing borrowers or deposit customers.

The news: We have now created two different scores to address the "split" in the refi population.

One score forecasts which home owners will get a prime-quality conventional refinance. The other forecasts which home owners will get an FHA refinance.

These scores incorporate both desire for a loan and (to the extent possible) likelihood to qualify.

Some of the largest mortgage lenders (and some small ones) have used these scores with success. Let us know if you have an interest.

Mortgage & Home Equity Lender Market Shares

Our main studies on mortgage and home equity lending rank players at the national level. But real estate lending is really a local market business. What share of market do you have by county? By state?

Each quarter, we tap our property records database to see which lenders have produced how many loans by county and state over a trailing 12-month period. We compare the data to the prior year to see who's rising or falling in origination market share. We show data as well on outstanding loans.

These are spreadsheet products. One covers first-lien mortgage lending, with purchase and refi breakouts. The other covers junior-lien home equity lending, with free-standing and piggyback loan breakouts.

Not all parts of the nation are included, but we do cover most. For more information, see our web site: www.SMRresearch.com.

Market share reports for year-end 2008 are now available.

TLA Scores For Retail Banking

If you work for a bank, thrift, or credit union, here is something really unique that you may want to pass along to your colleagues on the retail banking side.

Each month, SMR creates newly revised TLA scores for each of more than 50 million home owner households. **TLA means total liquid assets – an estimate for the cash each household has available for investment.**

Most banks today are scrambling for deposit funds. With TLA scores, you can market CDs, annuities, and other investments to the wealthiest people in each of your footprint areas. You also can determine which of your existing deposit customers probably have a lot more cash available, if only you'd ask.

We have the scores – and more than 50 million names and addresses to go with them.

Consulting Services

SMR has a long history in consulting. In 2008, we provided personal bankruptcy research to the American Bankers Association, a long-time client.

SMR has provided consulting services as well to two credit union trade associations, the National Home Equity Mortgage Association, and the American Financial Services Association.

For firms providing services and products to lenders, SMR utilizes its database of property records, updated monthly, to report on rising lenders now stepping up to fill the gaps as some larger players of the past disappear.

For lenders, we provide a number of data-related consulting services. These have included mortgage and home equity loan attrition rates for peer group firms, data on local markets including home values, and more.