

ECONOMIC MARKET SNAPSHOT

WINTER 2022 | ISSUE NO. 17

NATIONAL MI IS PLEASED TO BRING YOU OUR Winter 2022 Edition of the **Economic Market Snapshot**

Based on the current market conditions of 50 top housing markets, John Burns Real Estate Consulting upgraded several markets to strong or very strong in January 2022 based on unusually strong December 2021 sales activity. Ninety-two percent of these markets remain strong or very strong.

- **Strong Labor Market Continues:** The unemployment rate fell to 3.9 percent in December 2021. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 7.3 percent from 8.5 percent in September 2021. Following a 2.8 percent U.S. employment growth in 2021, John Burns Consulting expects employment to grow 3.3 percent YOY in 2022. While employment growth will slow, it will remain positive through 2024.
- **Projected Interest Rate Increases:** Based on Market Pricing for 10-year Treasuries,

30-year fixed conforming mortgage rates may increase from 3.0 percent in 2021 to 3.6 percent in 2022. By 2024 mortgage rates may reach 3.8 percent.

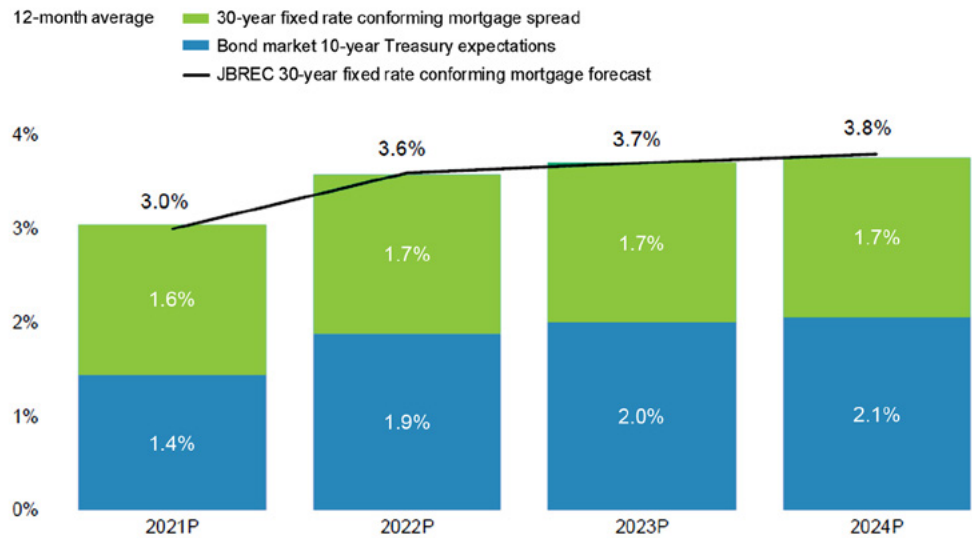
- **Homeownership Rates:** Homeownership rose across most age groups in Q3 2021. 31 percent of all homebuyers who use a mortgage are putting 5 percent or less down. This jumps to 46 percent among those 30 and younger.

U.S. existing home sale closings are expected to grow to 6.7 million in 2023. Strong FICO® scores, low interest rates and employment growth will continue to bolster purchase originations.

We Base Our Mortgage Rate Forecast on Market Pricing for 10-Year Treasuries and Our View of the Mortgage Premium

The future spread for mortgage rates over 10-year Treasuries should be ~20-30 basis points higher than the historical 170 basis point spread for 3 reasons: 1) mortgage servicing compliance costs have risen ~25bps per year, 2) GSE mortgage fees have increased ~25bps per year, 3) mortgage investing risk has increased as some liability shifts to mortgage owners, but has also decreased due to better documentation and an explicit government guarantee, so assume a negligible net effect. We are calling for slowing economic growth going forward, which should gradually drive premiums higher. The spread can vary widely over time for other reasons.

30-YEAR FIXED CONFORMING MORTGAGE RATE FORECAST



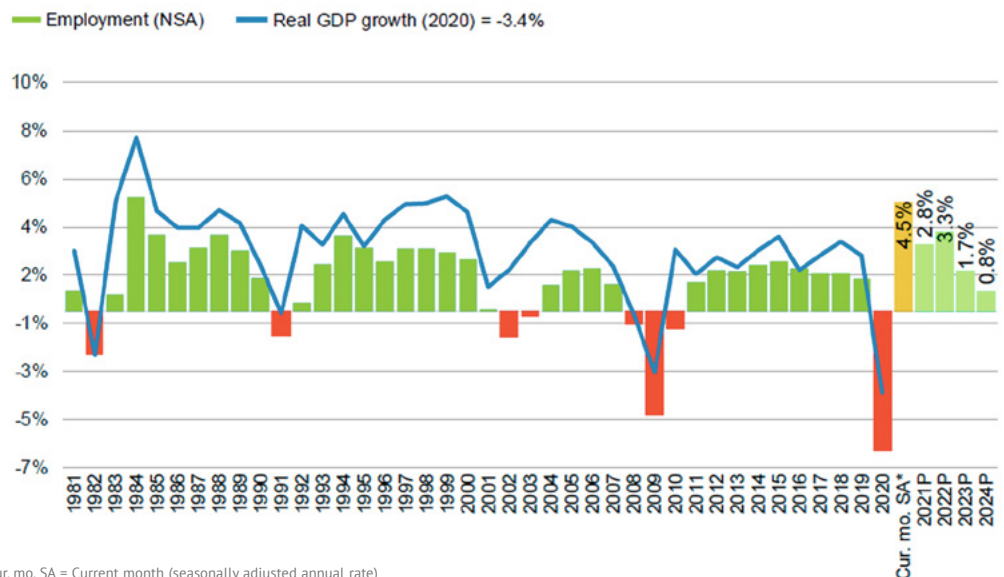
SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Dec-21, Pub: Jan-22)

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U.S. Employment Growth Rates

After a record drop in 2020, we expect employment to grow 3.3% YOY in 2022 following 2.8% growth in 2021. We expect employment growth will slow but remain positive through 2024.

US EMPLOYMENT ANNUAL GROWTH RATES



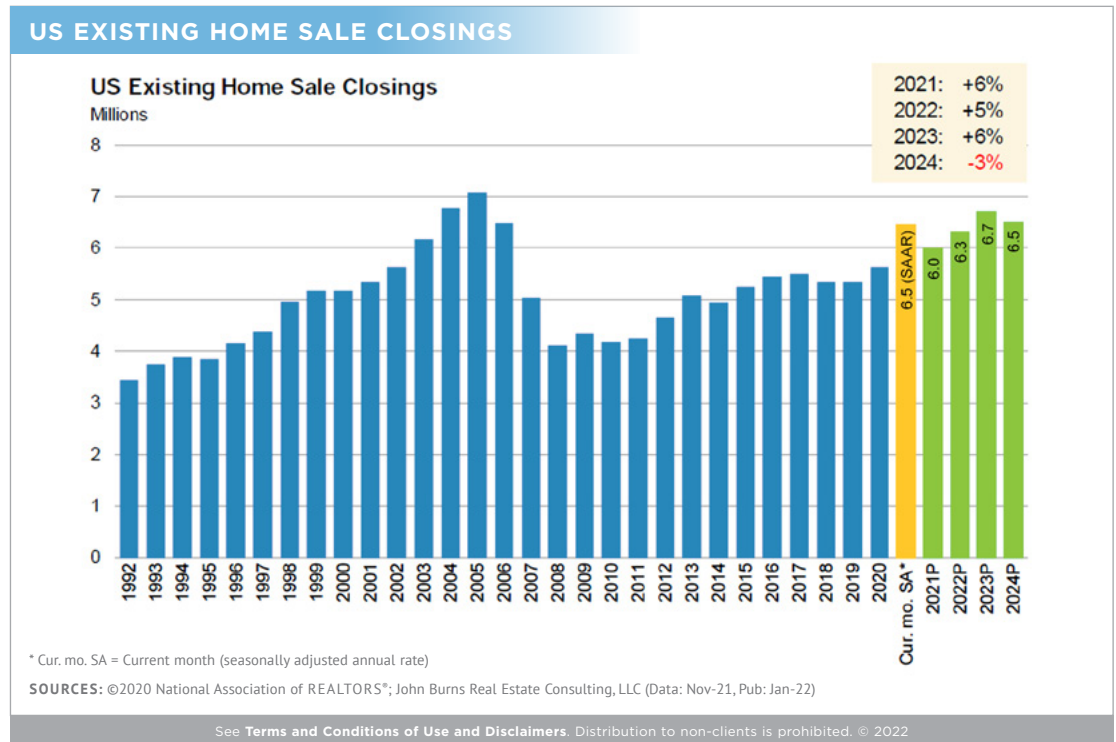
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Dec-21, Pub: Jan-22)

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U.S. Existing Home Sale Closings

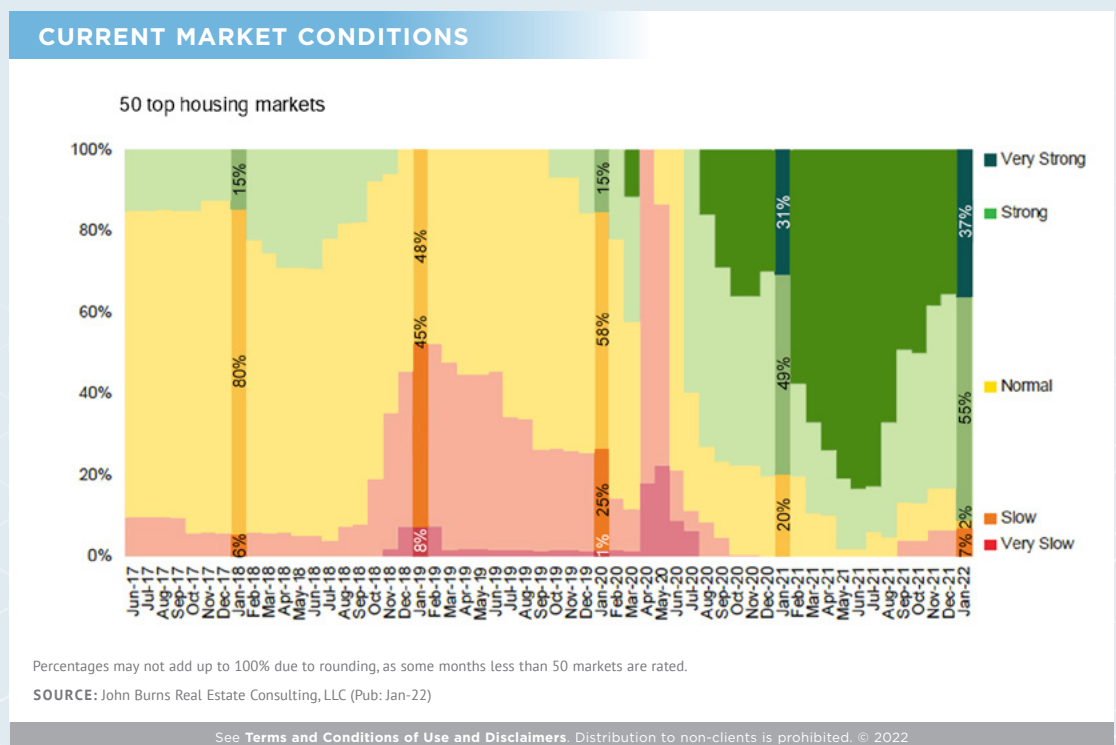
We forecast existing home sales to grow YOY through 2023, reaching 6.7 million (highest since 2005).



Current Market Conditions: 37% of Markets are Very Strong

92% of markets remain Strong or Very Strong. We upgraded several markets to Strong or Very Strong in our rating process due to unusually strong sales in December. Normal reflects builders selling 2-3/month per community with rising net prices.

Current market conditions is weighted by new home revenue (new home median price * single family permits TTM). This calculation allows for more accurate representation of how the U.S. is performing as it factors in market size.

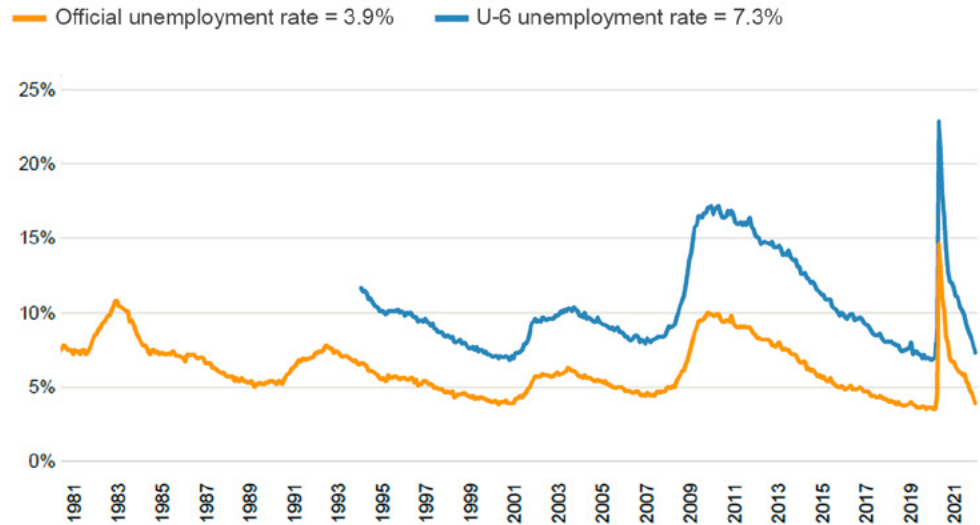


Unemployment Rate

The unemployment rate fell to 3.9% in December. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 7.3%.

The U6 unemployment rate is a broader measure of unemployment that covers part-time workers who would like full-time work and those who have given up looking for work.

US LABOR FORCE UNEMPLOYMENT RATE (SA)



SOURCE: BLS (Data: Dec-21, Pub: Jan-22)

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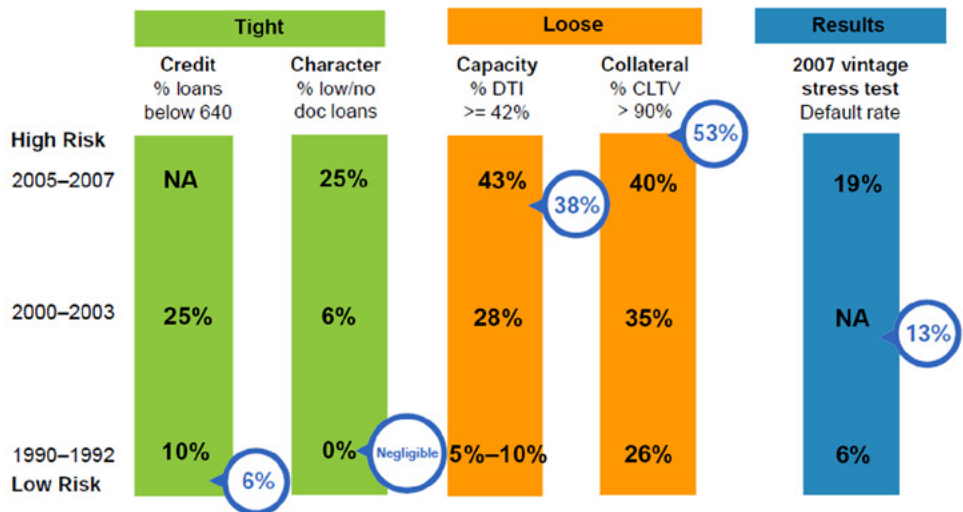
Lending Standards on Government-Backed Loans: 81% of All Loans

Current lending standards are tight on credit and documentation, but not on DTI and LTV.

This chart only includes primary purchase loans guaranteed by the five government agencies (Fannie Mae®, Freddie Mac, FHA, VA, and RHS). These loans currently account for 70% of all primary purchase loans (by count). Our current percentage of low/no document loans is based on JBREC analysis. The DTI numbers shown include only back-end DTI percentages.

LENDING STANDARDS

Current value



SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Sep-21, updated quarterly)

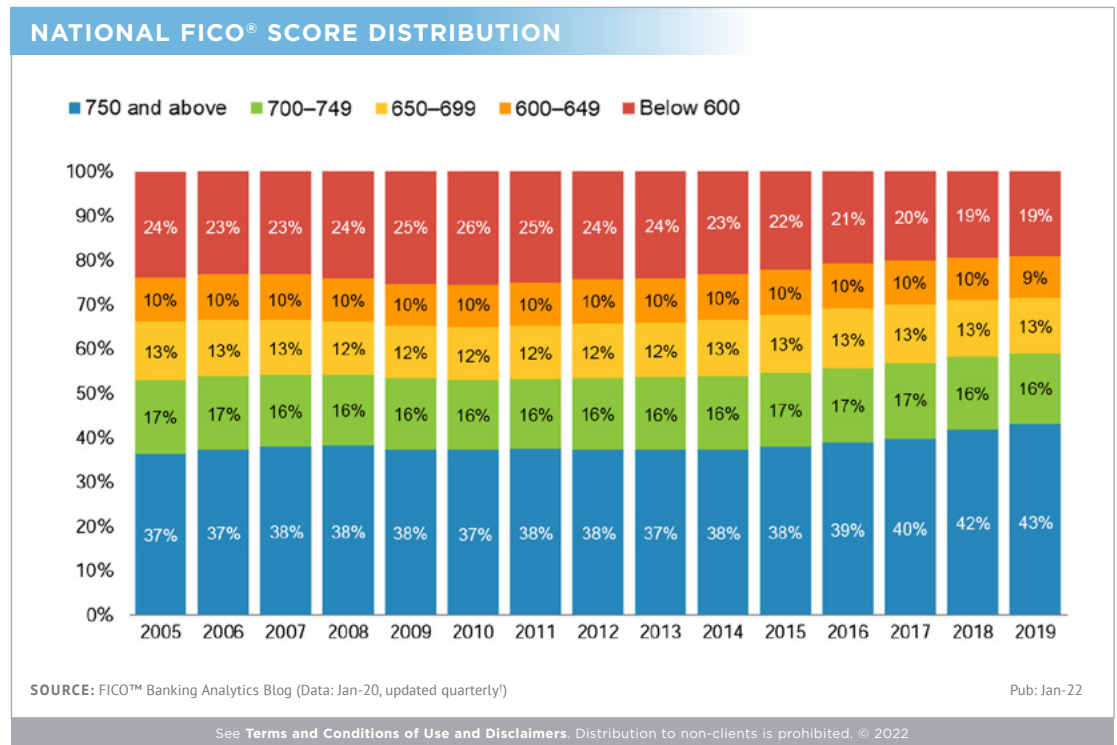
Pub: Jan-22

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National FICO® Score Distribution

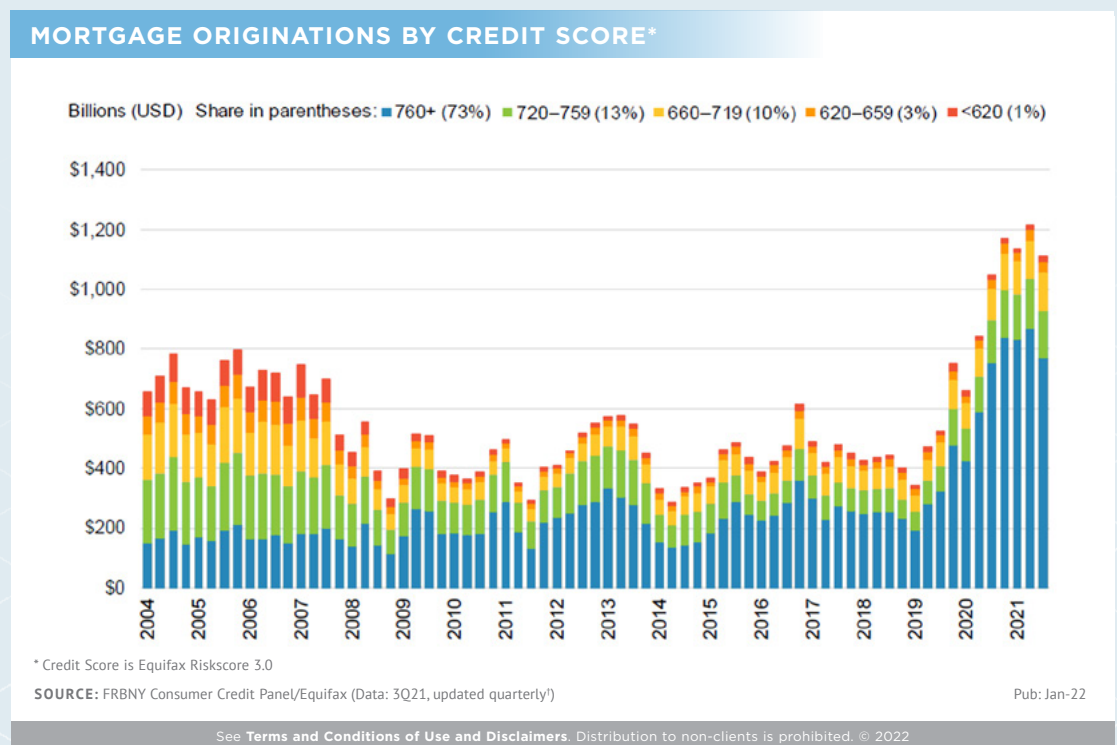
Consumers have slowly rebuilt their credit profiles. In 2019, 59% had FICO scores above 700, and 81% had FICO scores above 600.

Scores are based on the following five categories in order of weighting: payment history (35%), amounts owed (30%), length of credit history (15%), new credit (10%), and types of credit used (10%).



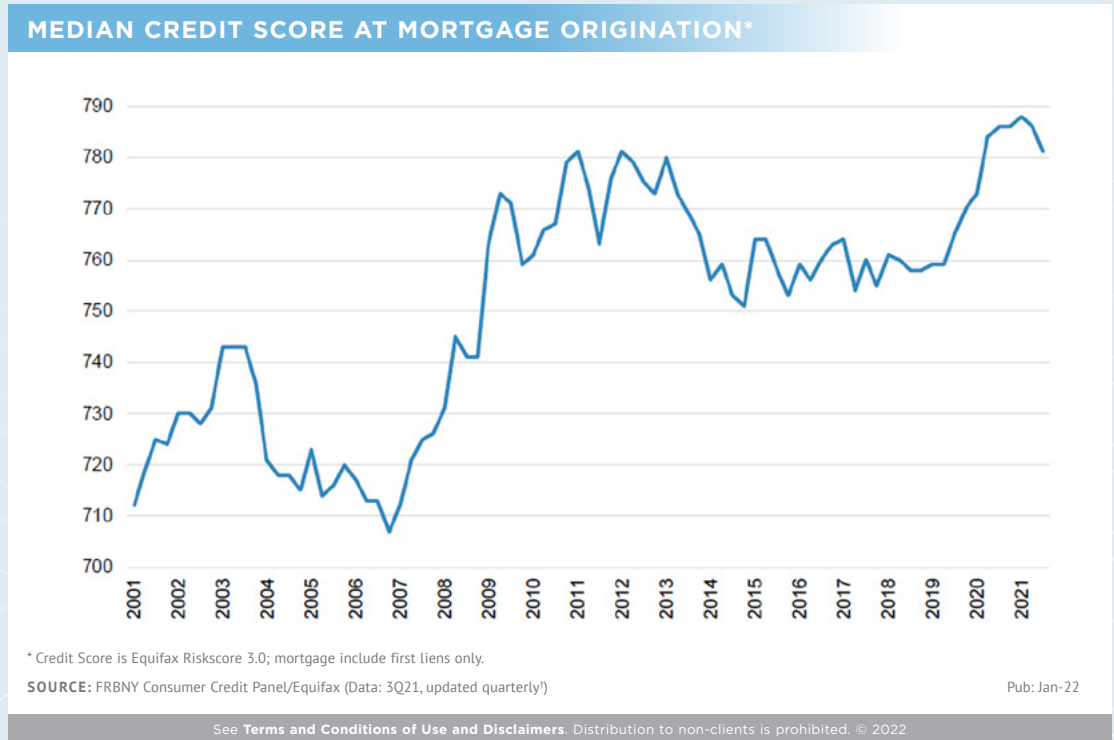
Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 2Q21, only 2% of mortgages went to borrowers with a credit score less than 620.



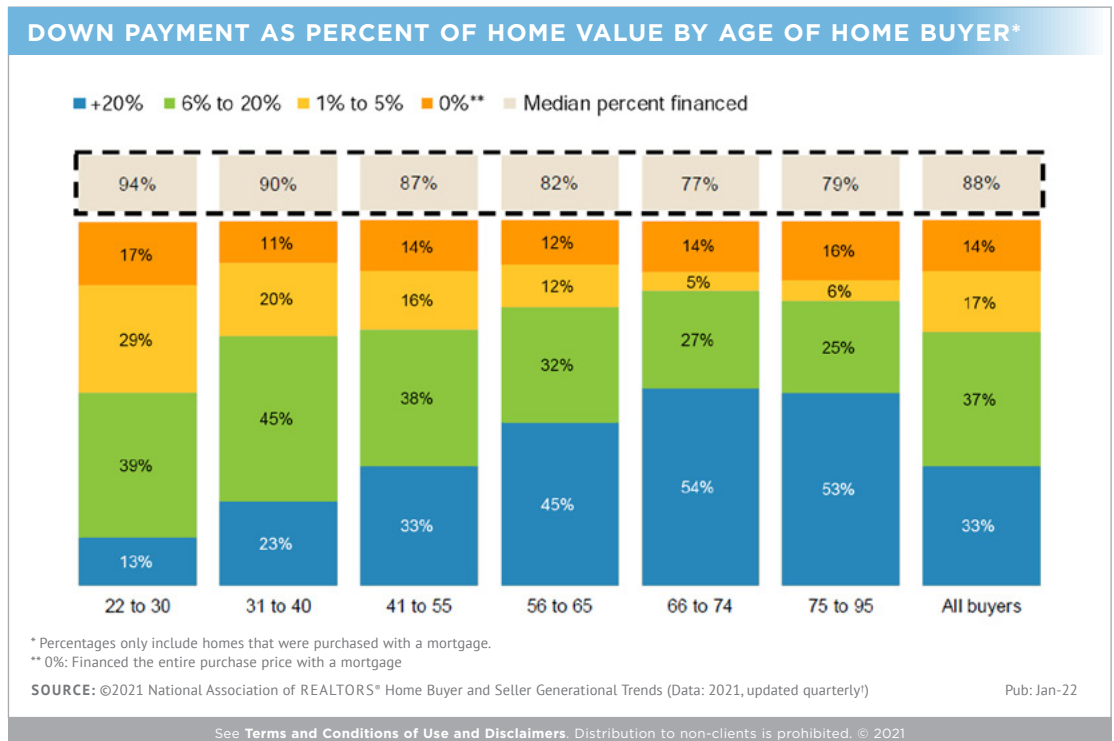
Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 3Q21 median score at origination was a record high 781.



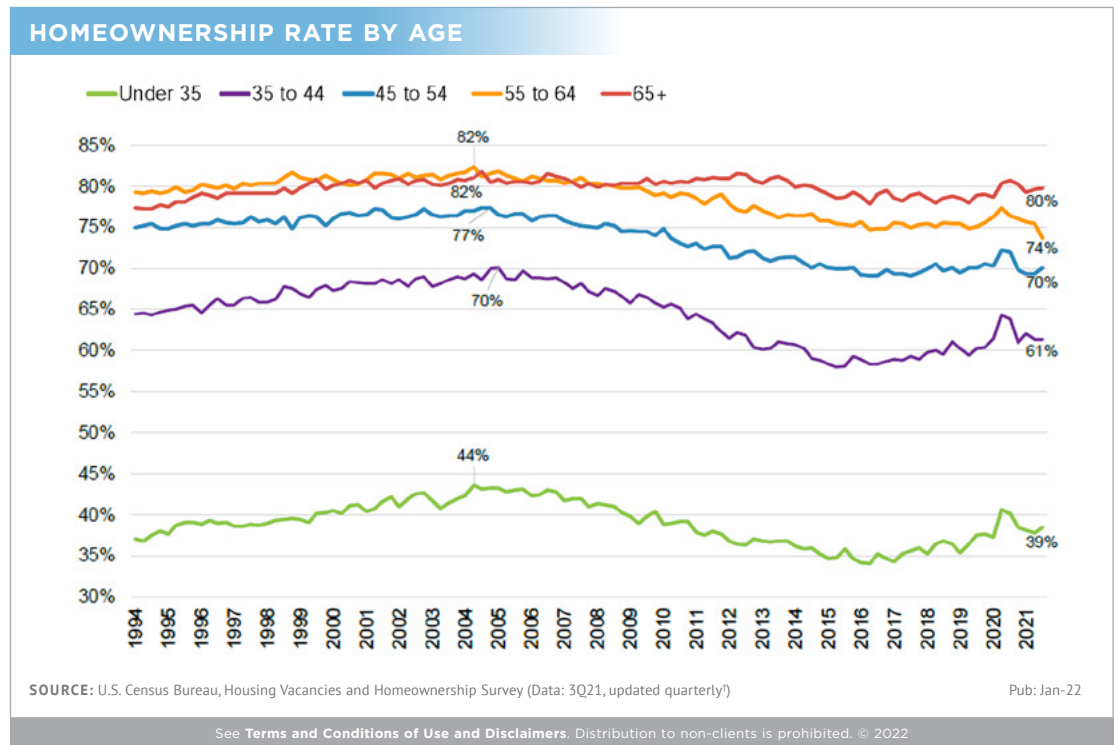
Financing the Home Purchase, by Age Group

31% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 46% among those 30 and younger. Only 19% of 66- to 74-year-olds have an LTV of +95%.



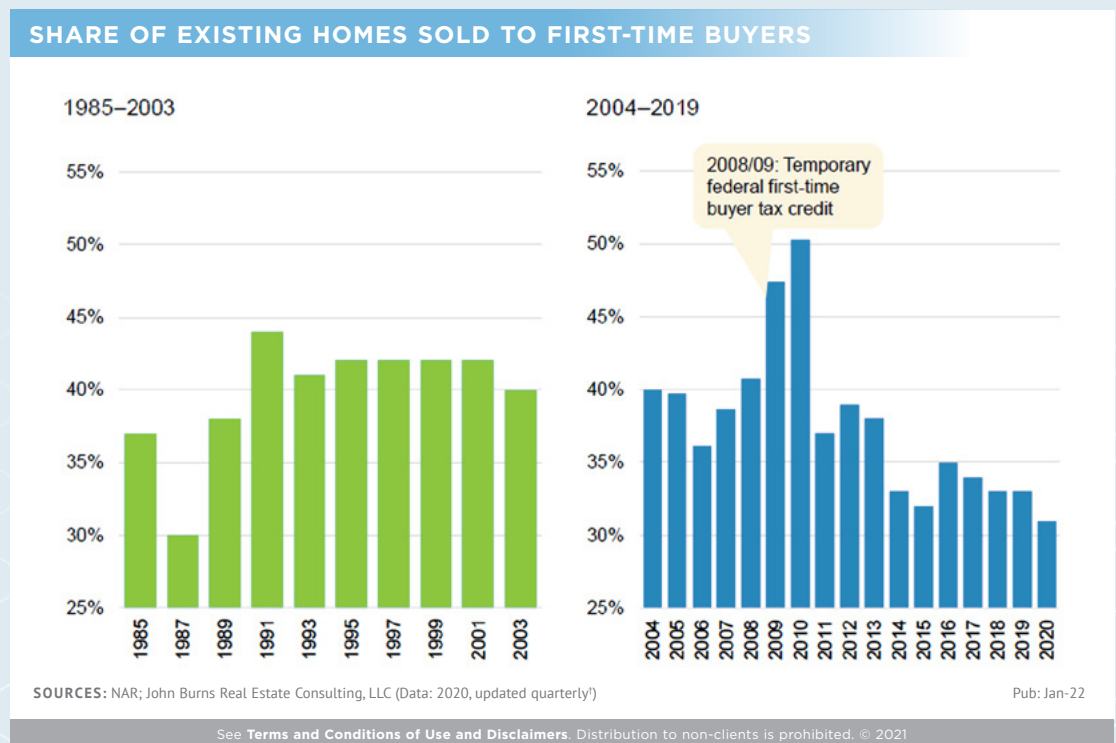
Homeownership Rate by Age

Homeownership rose across most age groups in 3Q21.



Share of Homes Sold to First-Time Buyers

The share of existing homes sold to first-time buyers is near the lowest level since 1987. Peak share was reached in 2010 when 50% of buyers were first-time buyers.



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