NationalMI

ECONOMIC MARKET SNAPSHOT

FALL 2022 | ISSUE NO. 20

NATIONAL MI IS PLEASED TO BRING YOU OUR

Fall 2022 Edition of the **Economic Market Snapshot**

The general sentiment at the National Mortgage Bankers Association (MBA) Annual Convention, held in late October in Nashville, addressed trends that reflect a tightening mortgage market coupled with economic market conditions that continue to put pressure on the housing market. The rapid and steady rise of interest rates have severely affected housing affordability and origination volume.

In this Fall issue, as reported by John Burns Real Estate Consulting (JBREC), we focus on key data pertaining to the Mortgage Rate Forecasts on Market Pricing, Unemployment rates and forecasts showing YOY declines in US existing home sale closings.

JBREC reports that resale home prices are returning to Q4 2020 levels, and that new home prices are returning to Q1 2020 levels. Affordability will be improving through 2024 but still not back to normal, despite hefty home price declines. The broader housing market is still growing quickly, with industry expectations and actions shifting dramatically in recent weeks. Slowing sales and pricing conditions are causing more than 66% of all markets to slow.

We expect negative job growth in 2023 and anticipate further modest job losses in 2024, as the Fed acts aggressively to curb inflation. The labor market remains strong for the time being. Unemployment is historically low, 100% of the jobs lost during 2020 have been regained, and labor shortages are pushing up wages.

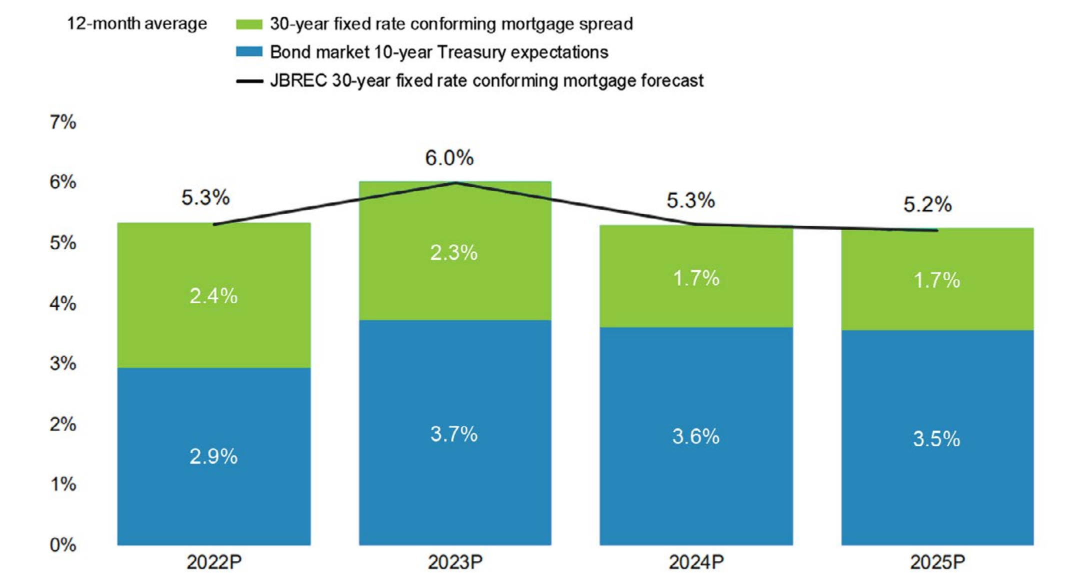
Consumers are slowly re-building their credit profiles and showing stronger FICO scores. Credit quality has remained strong, with 62% of all credit profiles reflecting scores above 700, which will result in more borrowers ready when market conditions change in the next cycle.

PLEASE REFER TO OUR Economic Market Snapshot webpage for previous editions of this report

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

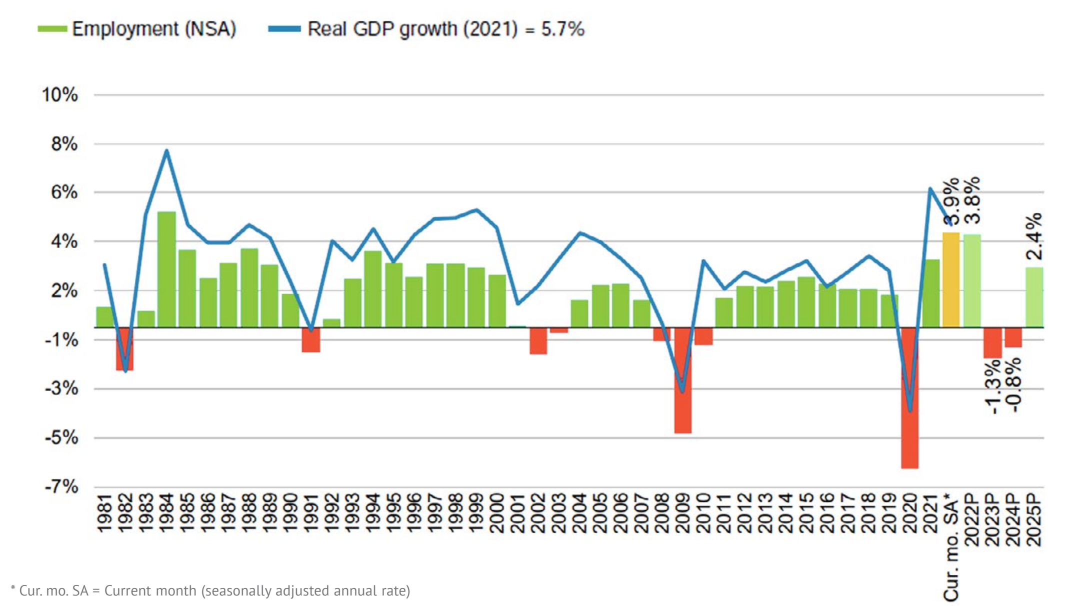


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Sep-22, Pub: Oct-22)

U.S. Employment Growth Rates

We expect employment to fall -1.3% YOY in 2023 and -0.8% in 2024 as the Fed attempts to tame inflation and likely tips the economy into recession.

US EMPLOYMENT ANNUAL GROWTH RATES



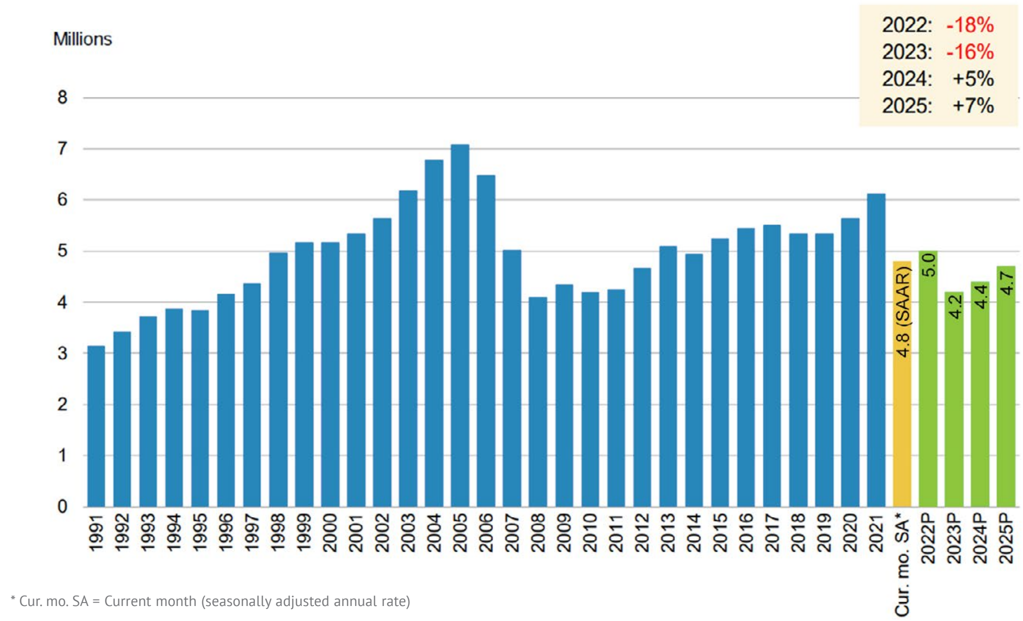
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Sep-22, Pub: Oct-22)

U.S. Existing Home Sale Closings

We forecast existing home sales will fall -16% YOY in 2023 due to rising mortgage rates, cooling demand, and a slowing economy which will hit consumer confidence.

US EXISTING HOME SALE CLOSINGS



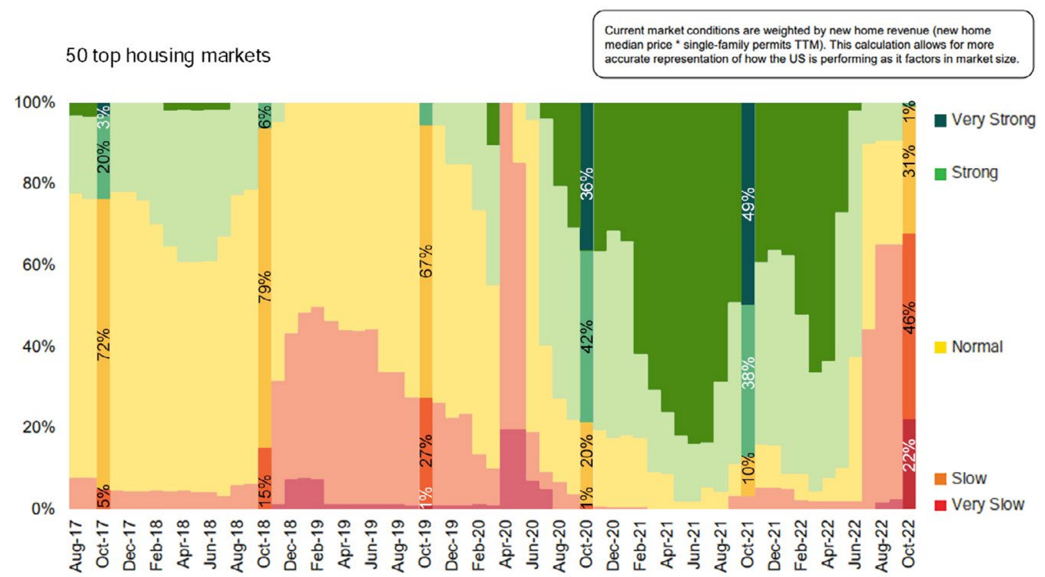
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: ©2020 National Association of REALTORS®; John Burns Real Estate Consulting, LLC (Data: Aug-22, Pub: Oct-22)

Current Market Conditions: 66% of Markets are Slow

We downgraded even more markets in October due to slowing sales and pricing conditions. Just 1% of markets remain Strong. Normal reflects 2-3/month sales per community with rising net prices.

CURRENT MARKET CONDITIONS



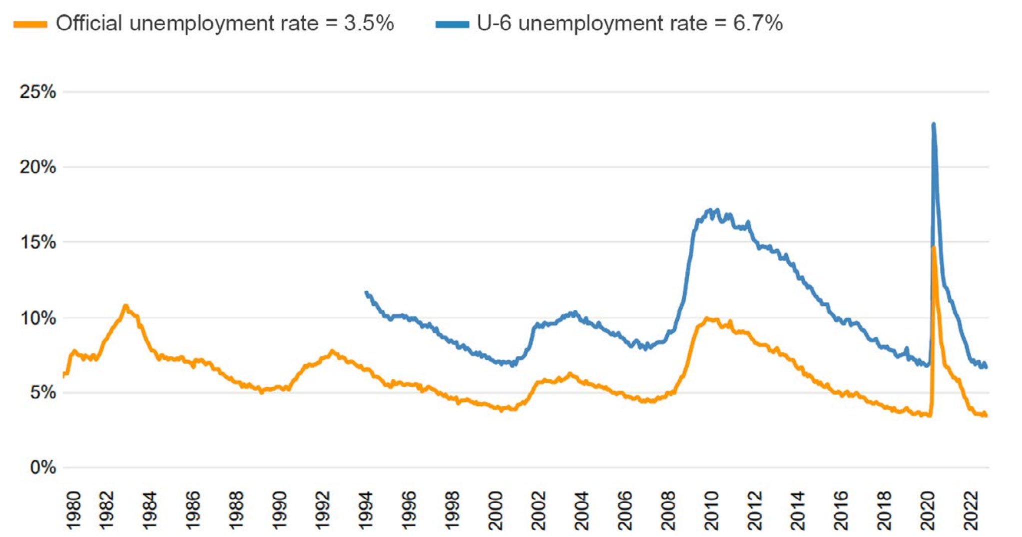
Percentages may not add up to 100% due to rounding, as some months less than 50 markets are rated.

SOURCE: John Burns Real Estate Consulting, LLC (Pub: Oct-22)

Unemployment Rate

The unemployment rate fell to 3.5% in September. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 6.7%.

US LABOR FORCE UNEMPLOYMENT RATE (SA)



The U-6 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.

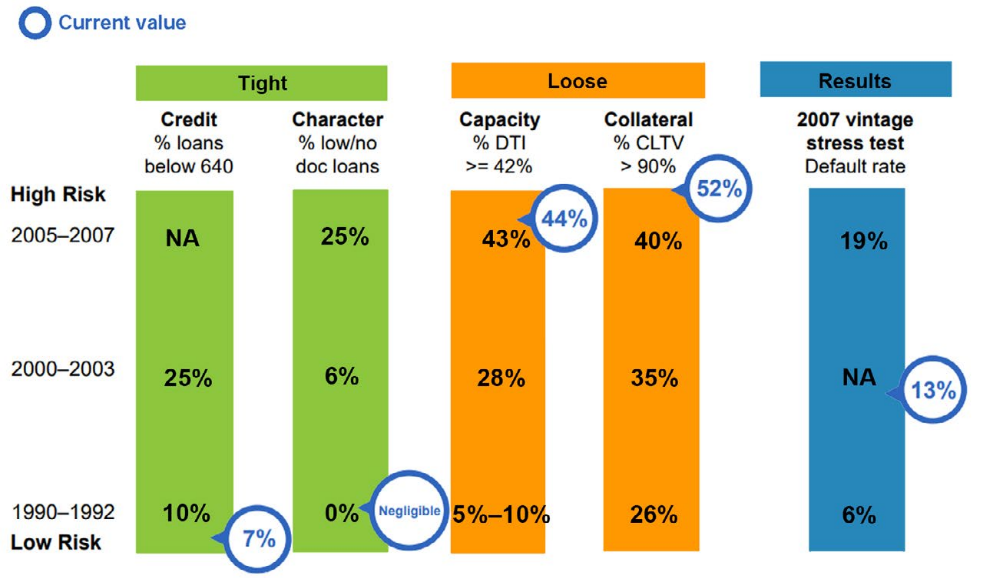
SOURCE: BLS (Data: Sep-22, Pub: Oct-22)

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



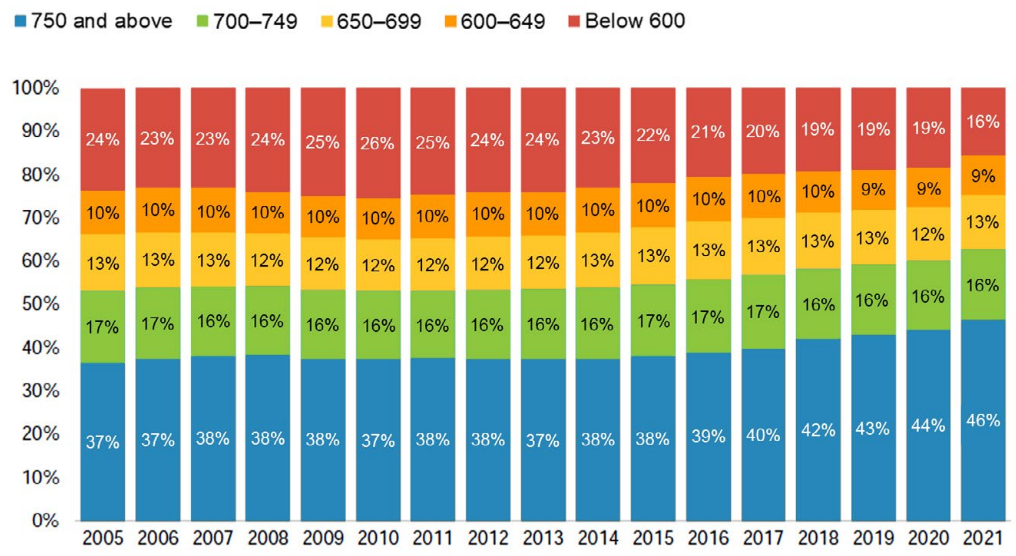
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Jan-22, updated quarterly[1]) Pub: Oct-22

National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2021, 62% had FICO scores above 700, and 84% 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%).

NATIONAL FICO® SCORE DISTRIBUTION

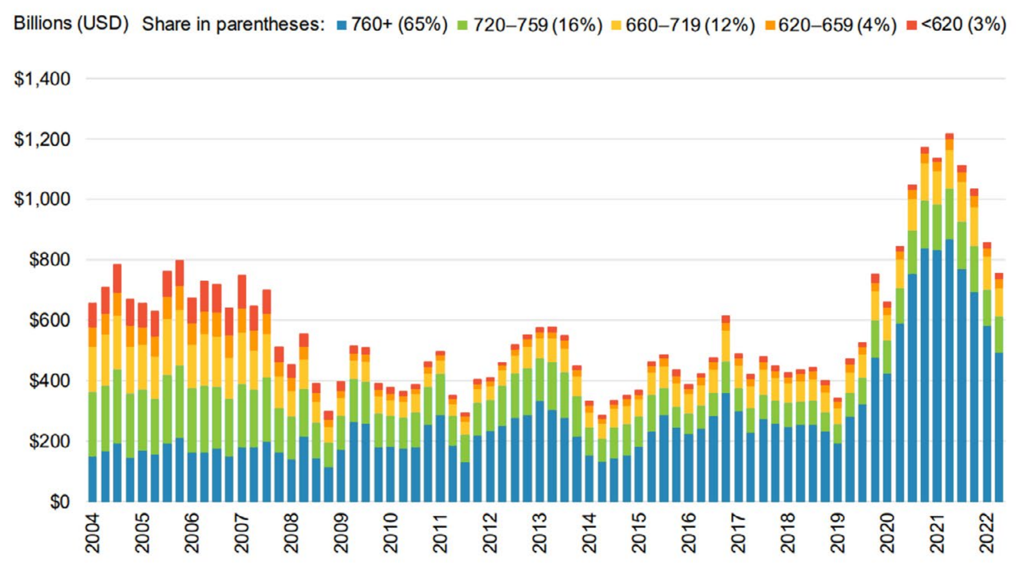


SOURCE: FICO® Banking Analytics Blog (Data: Apr-21, updated quarterly[1]) Pub: Oct-22

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 2Q22, only 3% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



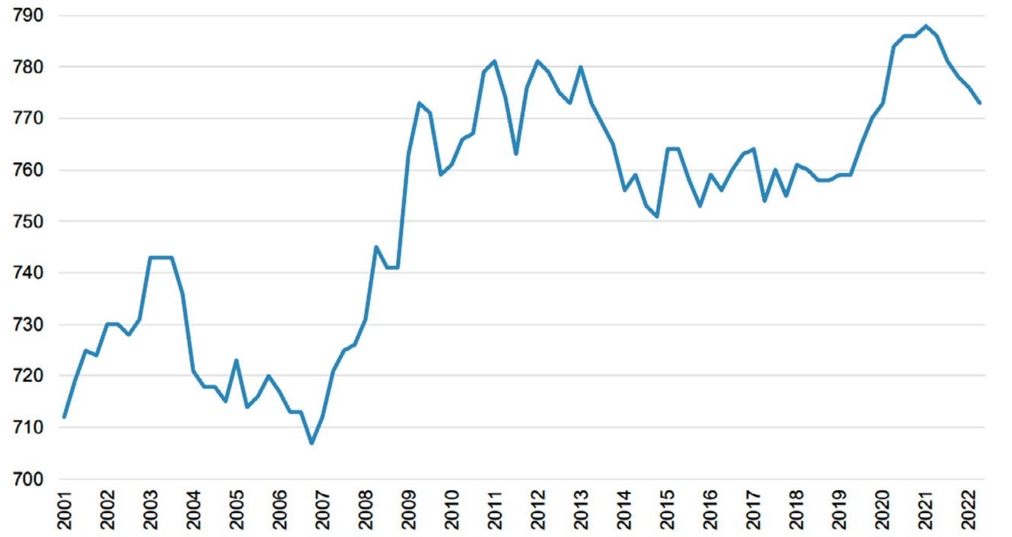
* Credit Score is Equifax Riskscore 3.0

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 2Q22, updated quarterly[1]) Pub: Oct-22

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 2Q22 median score at origination was 773.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



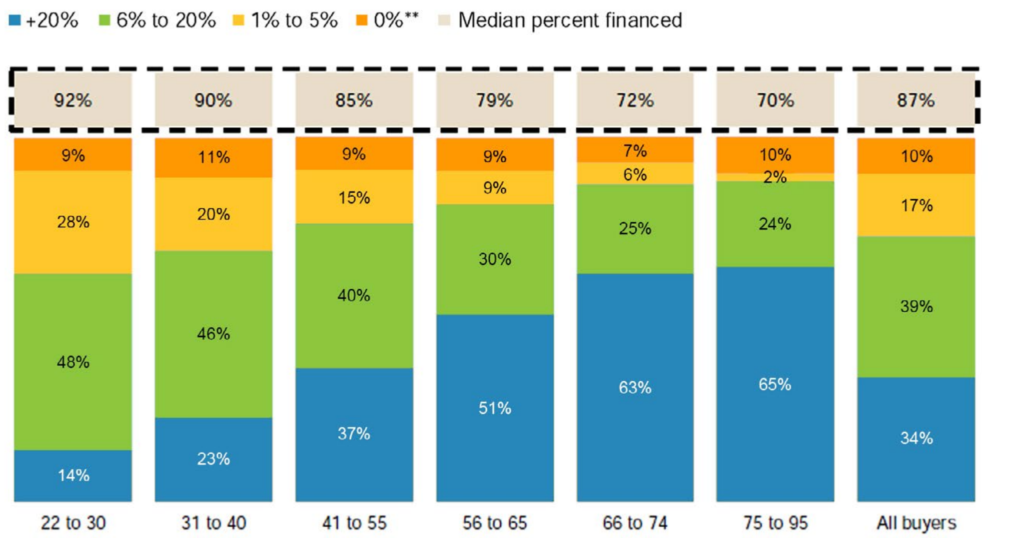
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 2Q22, updated quarterly[†]) Pub: Oct-22

Financing the Home Purchase, by Age Group

27% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 37% among those 30 and younger. Only 13% of 66- to 74-year-olds have an LTV of +95%.

DOWN PAYMENT AS PERCENT OF HOME VALUE BY AGE OF HOME BUYER*



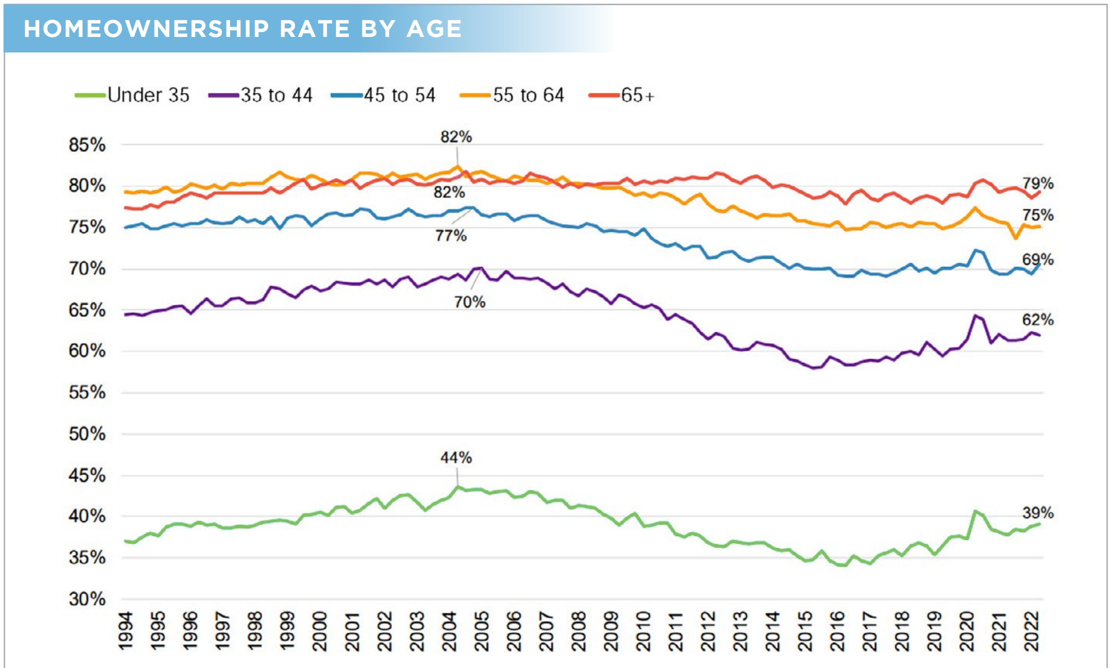
* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

SOURCE: ©2021 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2022, updated quarterly[†]) Pub: Oct-22

Homeownership Rate by Age

Homeownership is rising for those under 45.

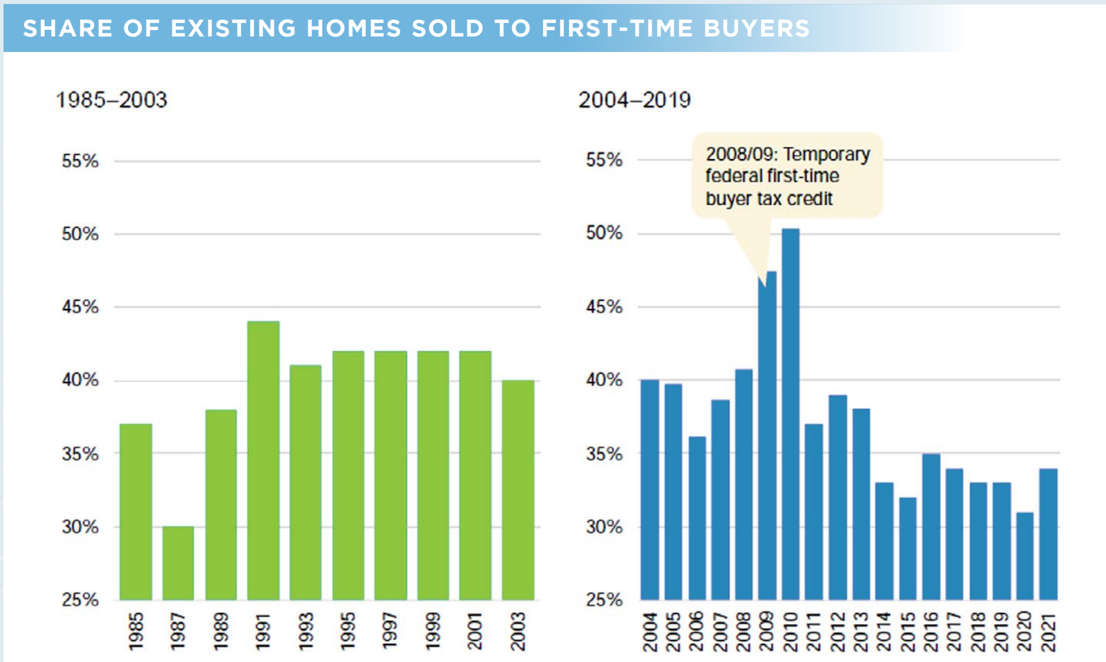
Note: The pandemic complicated the Census Bureau's collection process in 2020. We advise using caution in comparing data from this time period.



SOURCE: U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 2Q22, updated quarterly[†]) Pub: Oct-22

Share of Homes Sold to First-Time Buyers

The share of existing homes sold to first-time buyers rose in 2021 but remains low. Peak share was reached in 2010 when 50% of buyers were first-time buyers due to temporary tax credits.



SOURCES: NAR; John Burns Real Estate Consulting, LLC (Data: 2021, updated quarterly[†]) Pub: Oct-22

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