ECONOMIC MARKET SNAPSHOT

NationalMI

FALL 2018 | ISSUE NO. 6

National MI is pleased to bring you our Fall Edition of the Economic Market Snapshot.

Affordability remains one of the biggest risks to housing forecasts. Home prices have been climbing faster than incomes. With mortgage rates now approaching 5 percent, more shoppers are hitting a payment ceiling, pressing pause, and pushing back on prices.

When the mortgage industry hit a similar affordability problem in 2003/2004, it responded with low/no doc mortgages and option ARMS. Unfortunately, these specialized products were not always used appropriately. Numerous consumer protections, including those found in the Dodd-Frank Act, were put in place after the financial crisis. As a result, these products are more expensive and credit expectations are higher. While this is good, the result could mean less growth in sales volume and home prices.

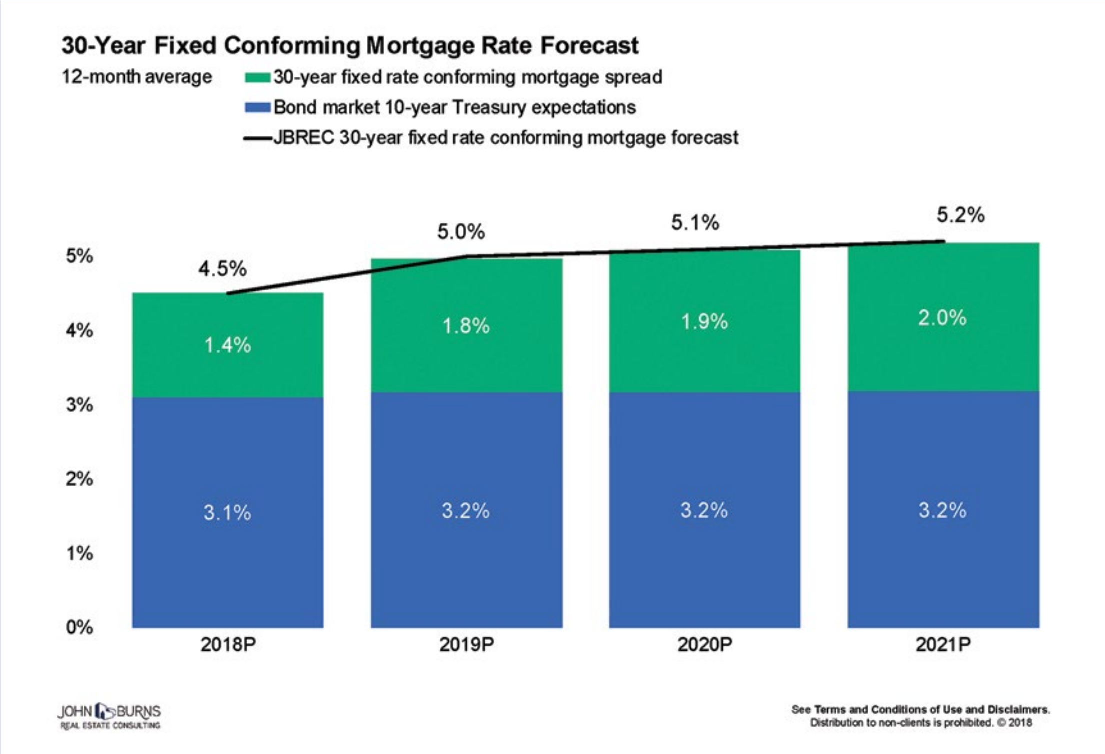
- Existing home sales are currently running at a 5.3 million annual rate, a slight dip from 2017. Several factors contribute to a declining forecast in existing home sales volume through 2021. Rising interest rates and affordability are two contributing factors.
- Economic conditions are at the highest level since 2005. This goes hand-in-hand with the annual job growth of 2.1 million in 2018.
- The Unemployment Rate is now at 3.7 percent, the lowest level since 2000. In addition, the measure that captures underemployment and discouraged workers has trended down and remains near the lowest level since 2001.
- Current lending standards are tight on credit and documentation but LTV and DTI have been increasing. Mortgage originations are less risky than in 2006 but riskier than in 2002. That being said, consumer credit profiles have improved – e.g., 57% had a credit score above 700 in 2017.
- 43% of consumers age 37 and younger are providing 5% or less for a down payment. This decreases to 21% of consumers 63-71 years old with down payments of 5% or less.
- In 2010, 50% of buyers were first–time homebuyers. In 2017, this has dropped to nearly the lowest level since 1987 at just over 30%.

For the remainder of 2018 and early 2019 we expect to see positive but moderate home appreciation but challenges with affordability and rising interest rates may start to dampen new and existing home sales. Overall it appears that under current assumptions, economic performance is expected to remain high and initial jobless claims is expected to remain low through 2019.

Please refer to our Economic Market Snapshot webpage for a full graphical representation of this data and previous editions of this report: nationalmi.com/economic-market-snapshot

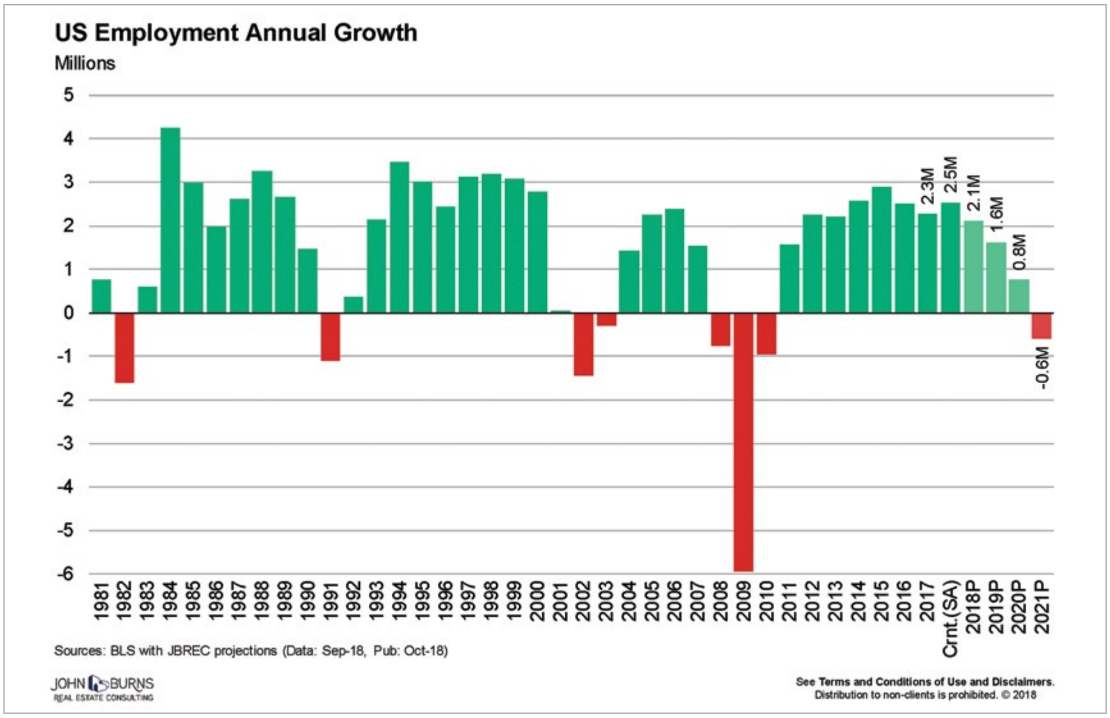
We Base Our Mortgage Rate Forecast on Market Pricing for 10-Year Treasuries and Our View of the Mortgage Premium

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.



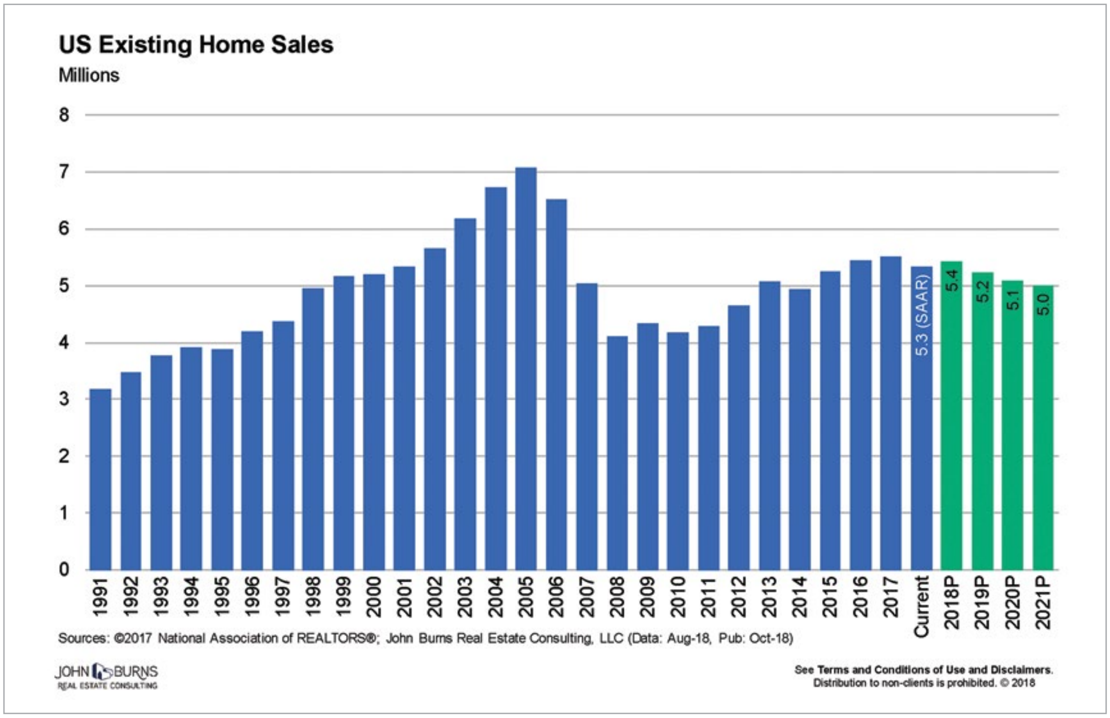
US Employment Growth

Our forecasts show that annual job growth of 2.1M in 2018 will decline to negative growth in 2021.



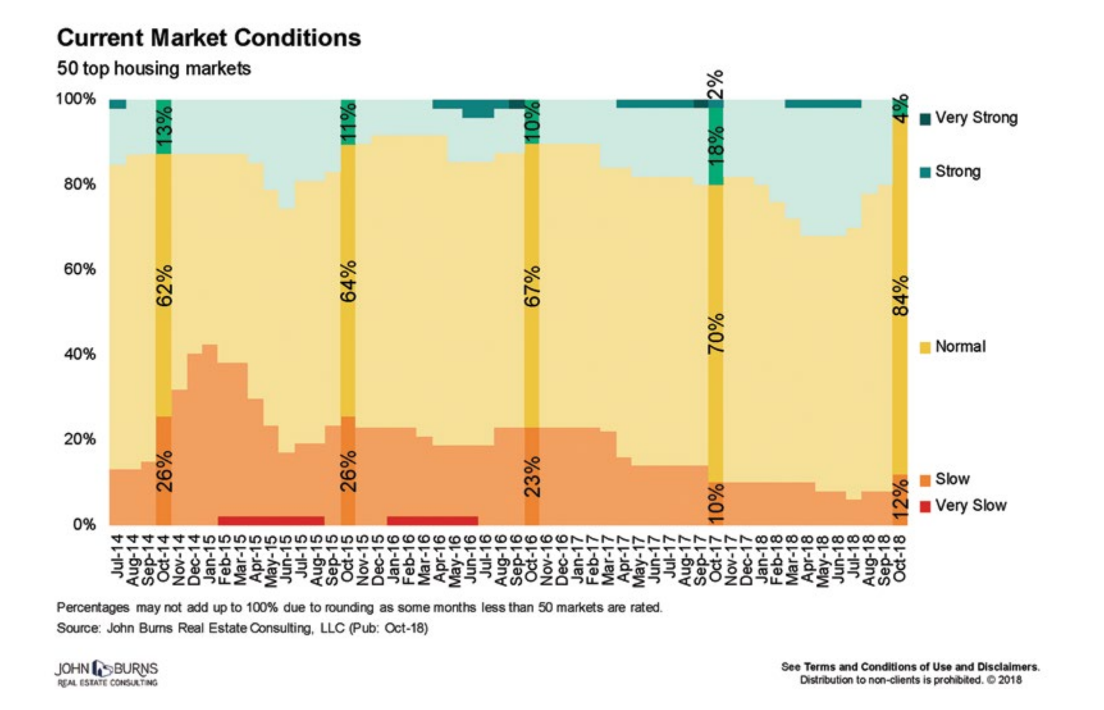
US Existing Home Sales

Existing home sales are currently running at a 5.3 million Seasonally Adjusted Annual Rate (SAAR). We forecast a decline in existing home sales volumes through 2021.



Current Market Conditions: 88% are Normal or Better

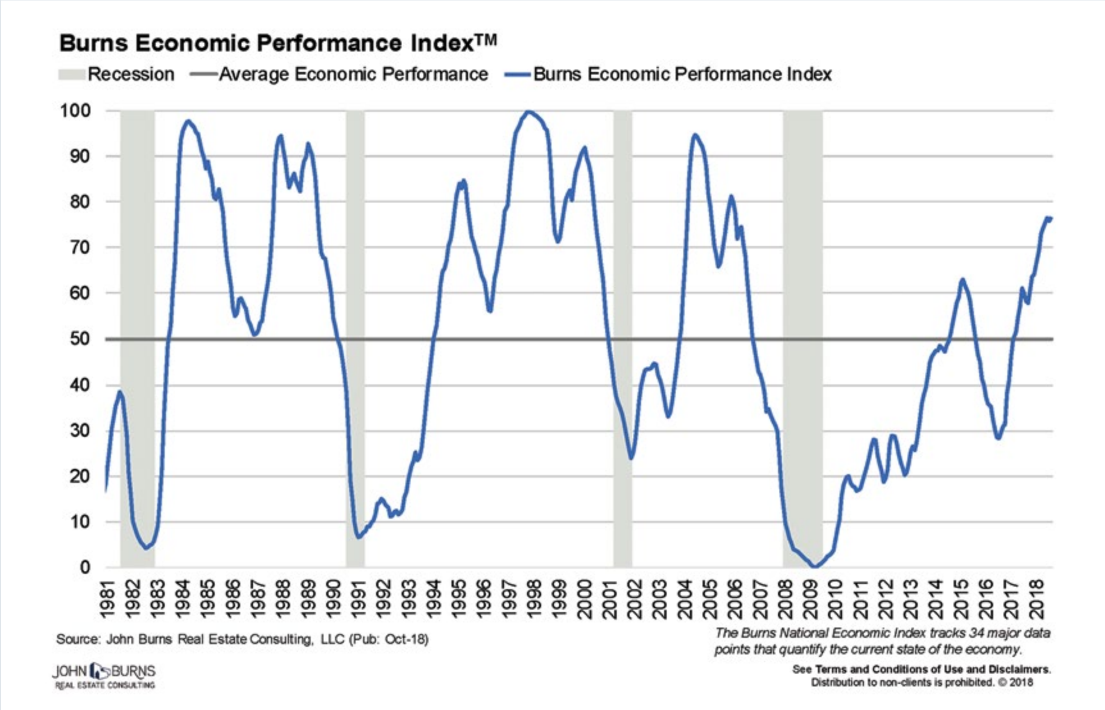
In our rating process, normal sales reflect builders selling 2-3/month per community with flat to slightly rising net prices.



Burns Economic Performance Index™

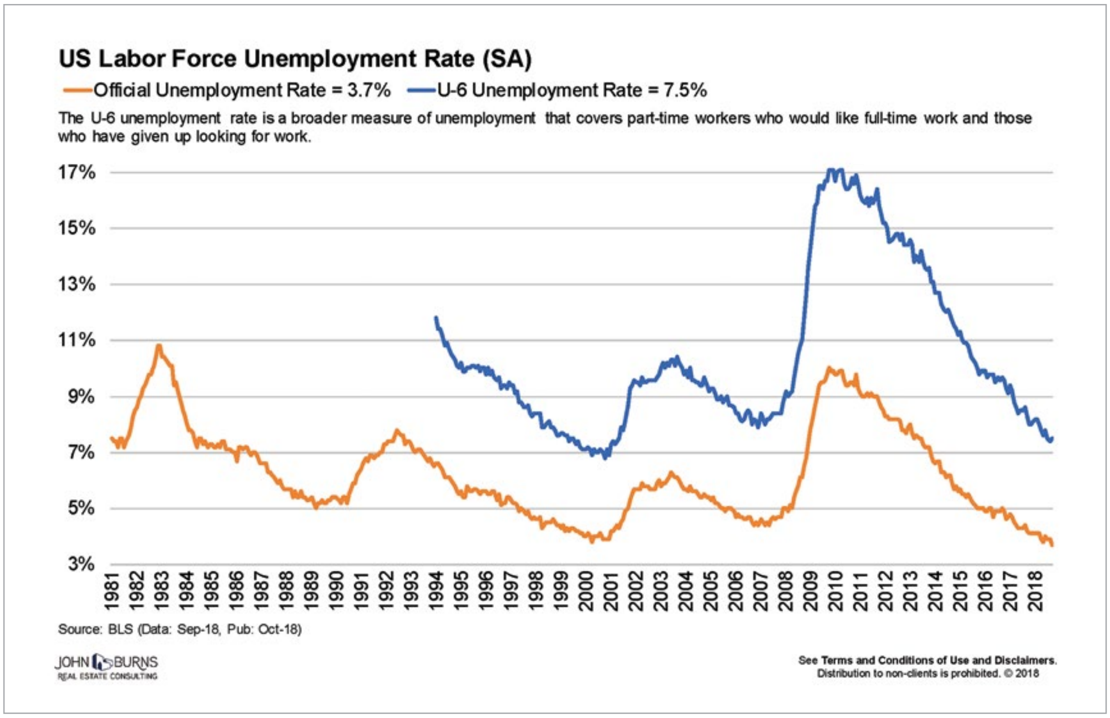
Our Burns Economic Performance Index signals above average economic conditions, at the highest index level since 2005.

The Burns National Economic Index tracks 34 major data points that quantify the current state of the economy.



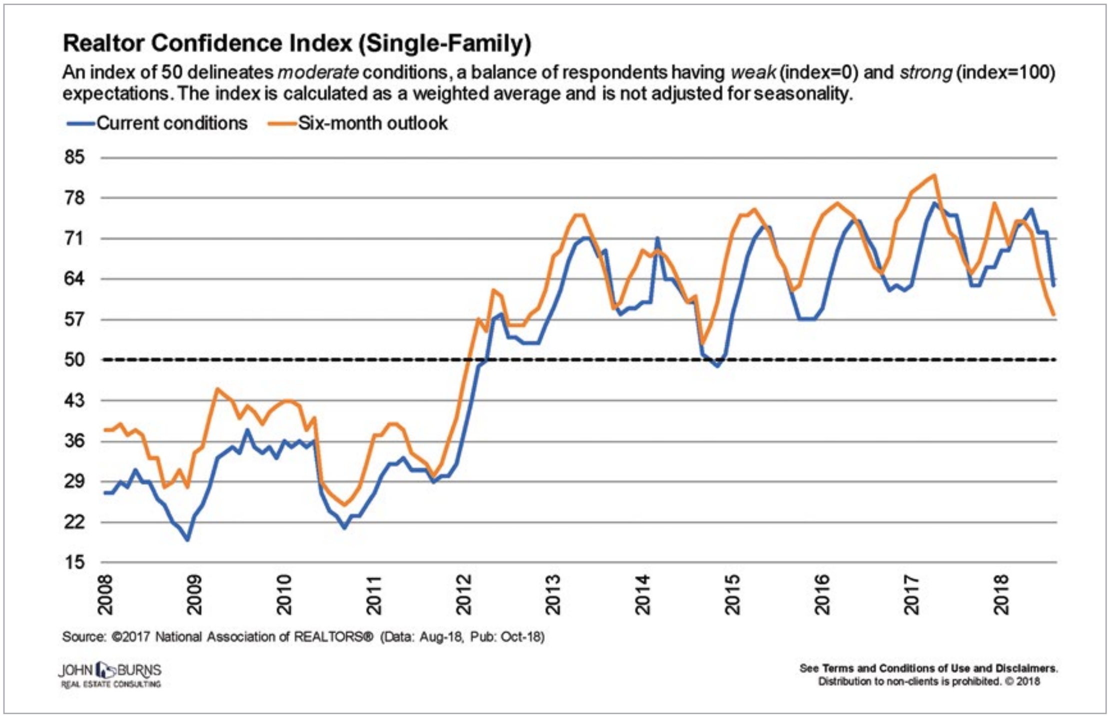
Unemployment Rate

The Unemployment Rate is now at the lowest level since 2000 at 3.7%. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, has been trending down and remains near the lowest level since 2001.



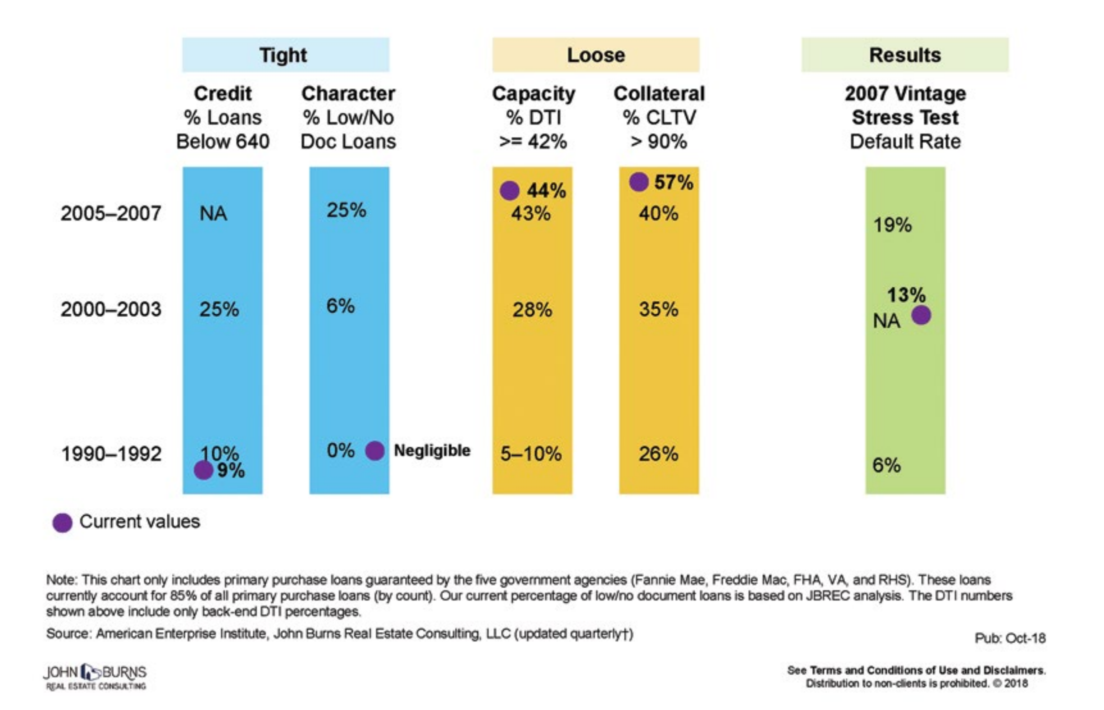
Realtor Confidence Index

The Realtor Confidence Index declined after hitting recent spring/summer peaks, consistent with historical seasonality. Real estate specialists are still optimistic about current conditions and the near-term outlook.



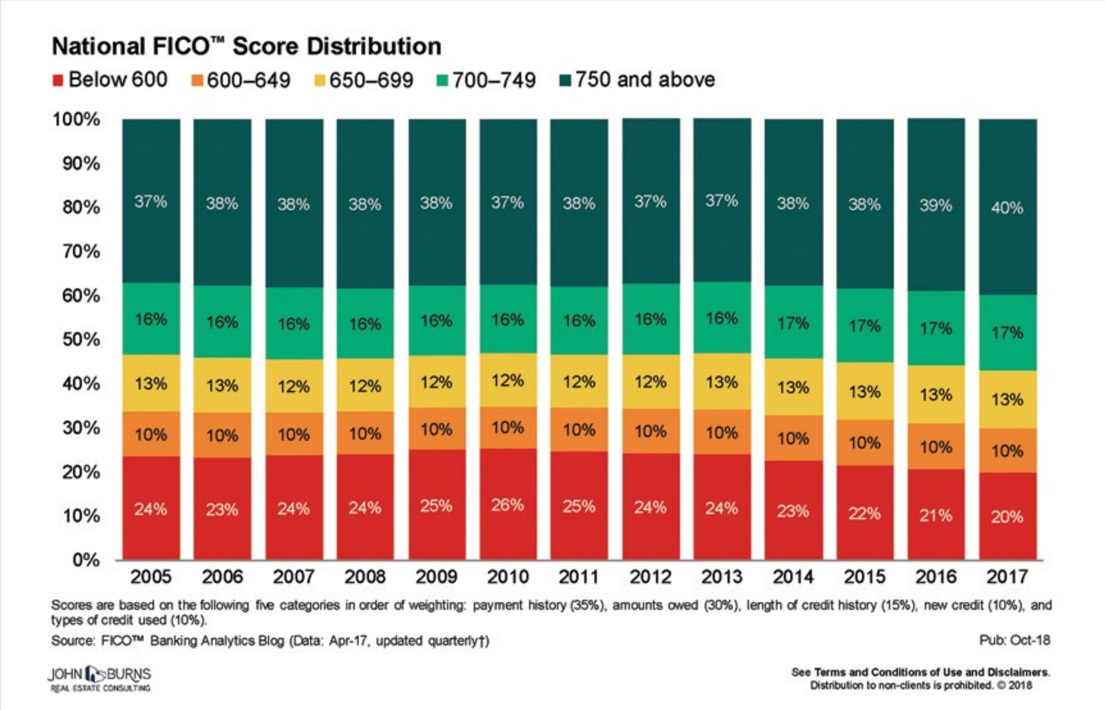
Lending Standards

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



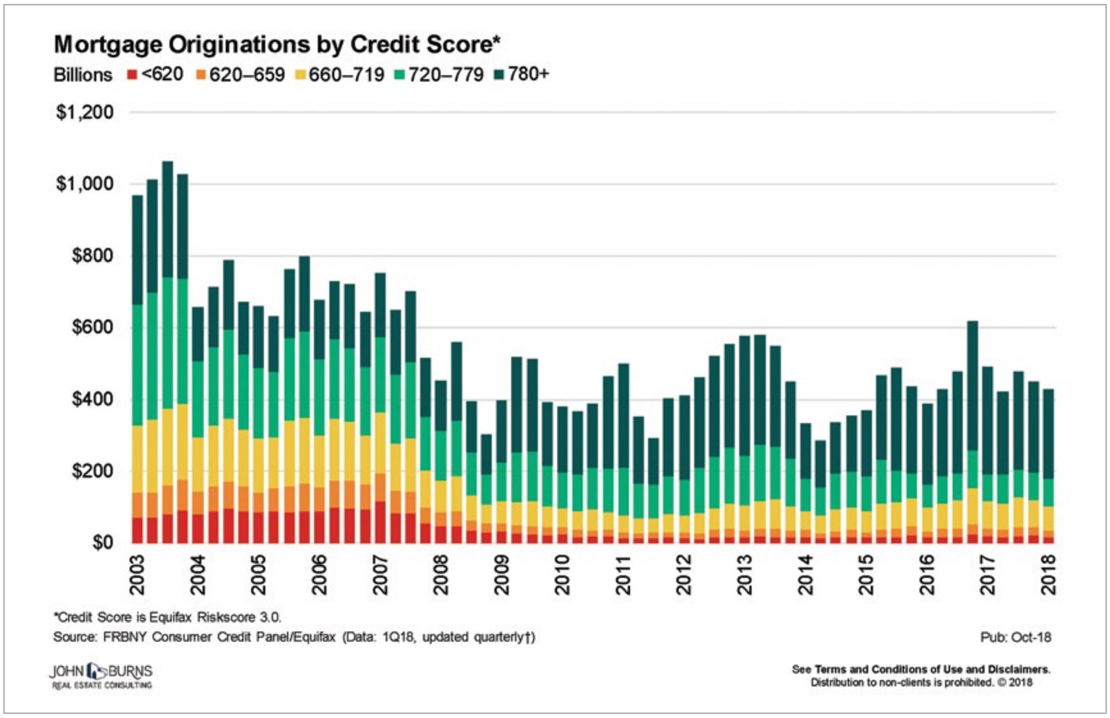
National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2017, 57% had FICO scores above 700, and 80% had FICO scores above 600.



Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 1Q18, only 3% of mortgages went to borrowers with a credit score less than 620.



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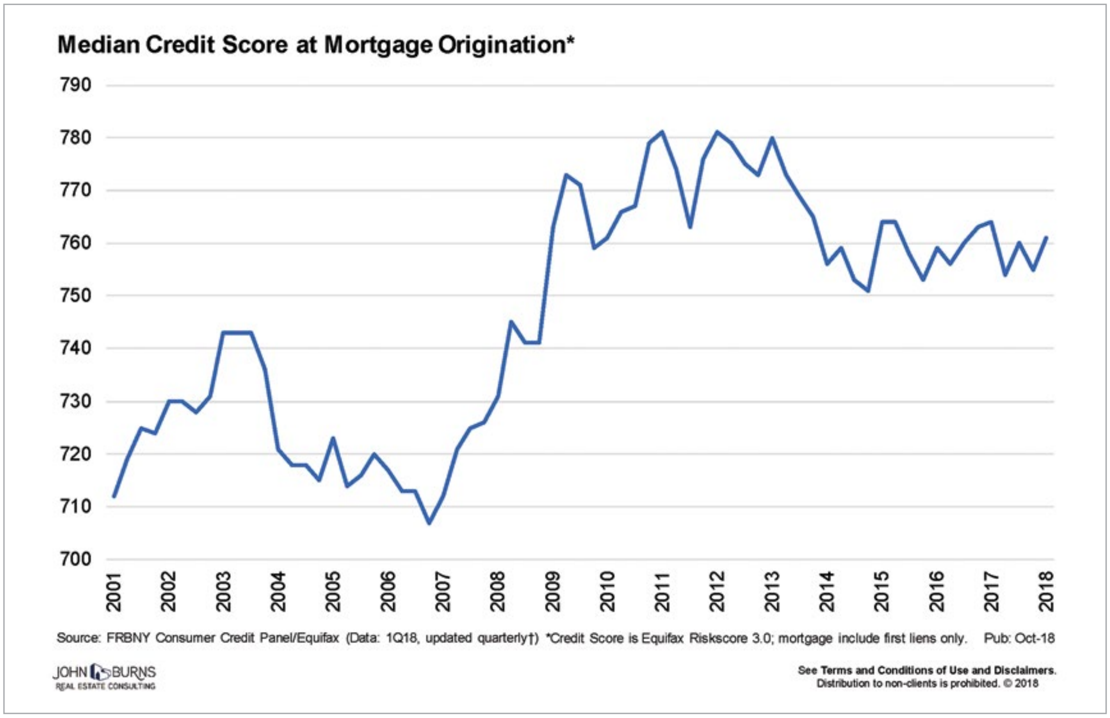
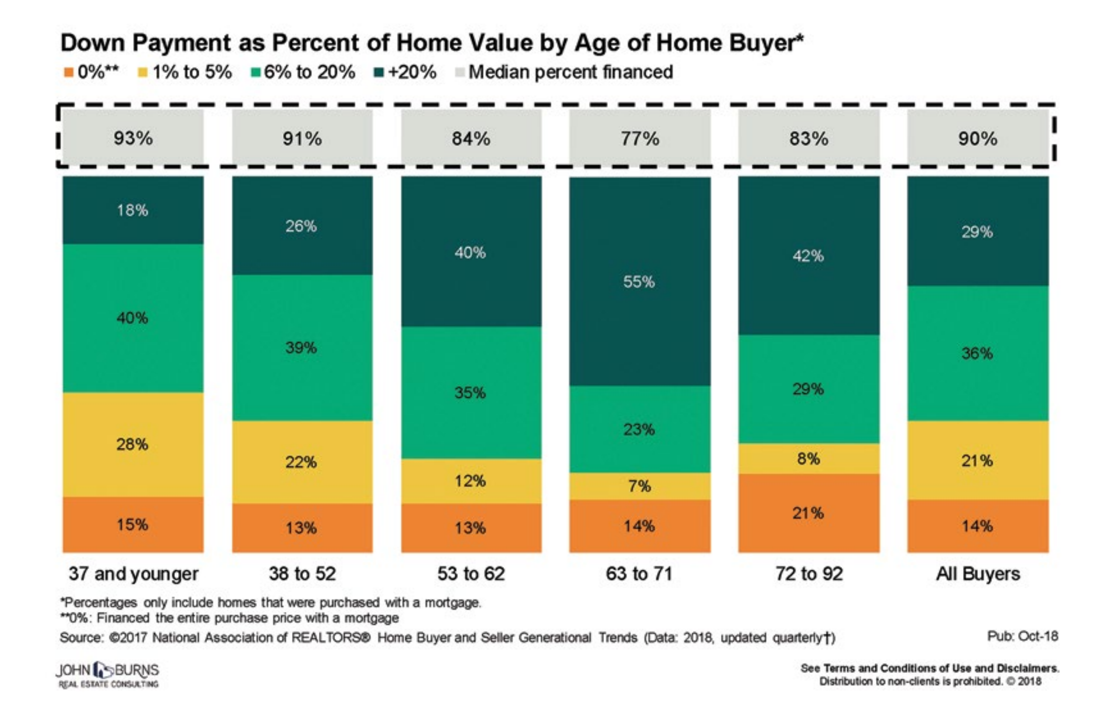
Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 1Q18, median score at origination was 761.



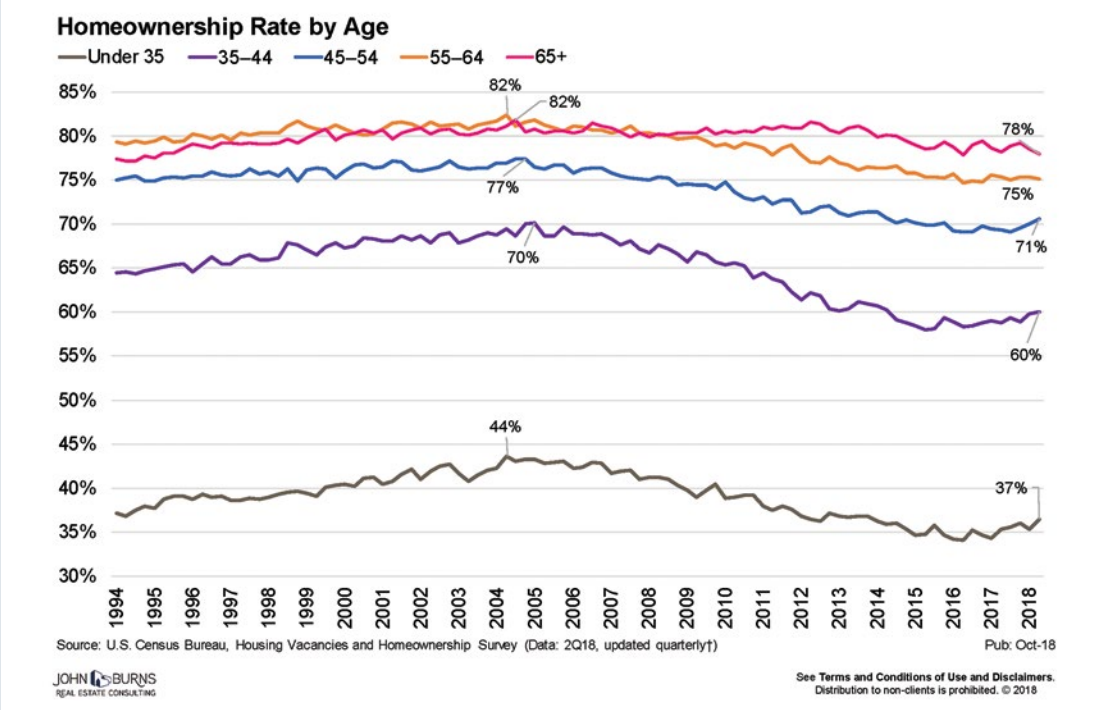
Financing the Home Purchase by Age Group

35% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 43% among those 37 and younger. Only 21% of 63- to 71-year olds have a LTV of +95%.



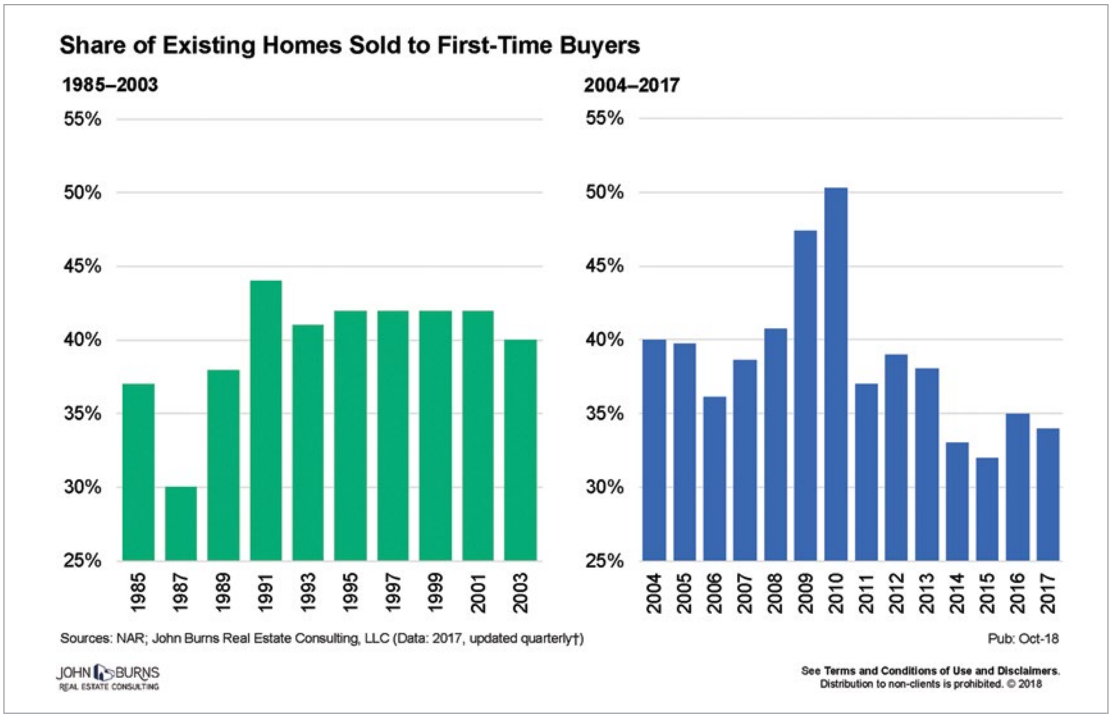
Homeownership Rate by Age

Homeownership rates across age groups have dropped noticeably from 2004-2005 levels.



Share of Existing 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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