ECONOMIC MARKET SNAPSHOT

NationalMI

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

John Burns Consulting expects employment to grow 3.3 percent YOY in 2022 following 3.0 percent growth in 2021. Employment growth will slow but remain positive through 2025. The unemployment rate fell in March to 3.6 percent and the U6, a broader measure of unemployment that captures underemployment and discouraged workers also fell to 6.9 percent.

While employment numbers are positive, there are some headwinds in the housing industry as outlined below:

- In March 2022 — The forecast for 30-year mortgage interest rates has been revised upward to 4.8 percent for 2022 and 2023 based on an increase in the bond market 10-year treasury expectations. The bond market is fluid and may impact further adjustments to mortgage rates as we progress further into 2022.
- U.S. existing home sale closings will fall slightly in 2022 to 5.9 million, due in part to rising mortgage interest rates.
- While 92 percent of the top 50 housing markets continue to have strong or very strong market conditions, some markets were downgraded in April due to slowing sales.
- Homeownership rates fell slightly for those under age 35 in 4Q21.

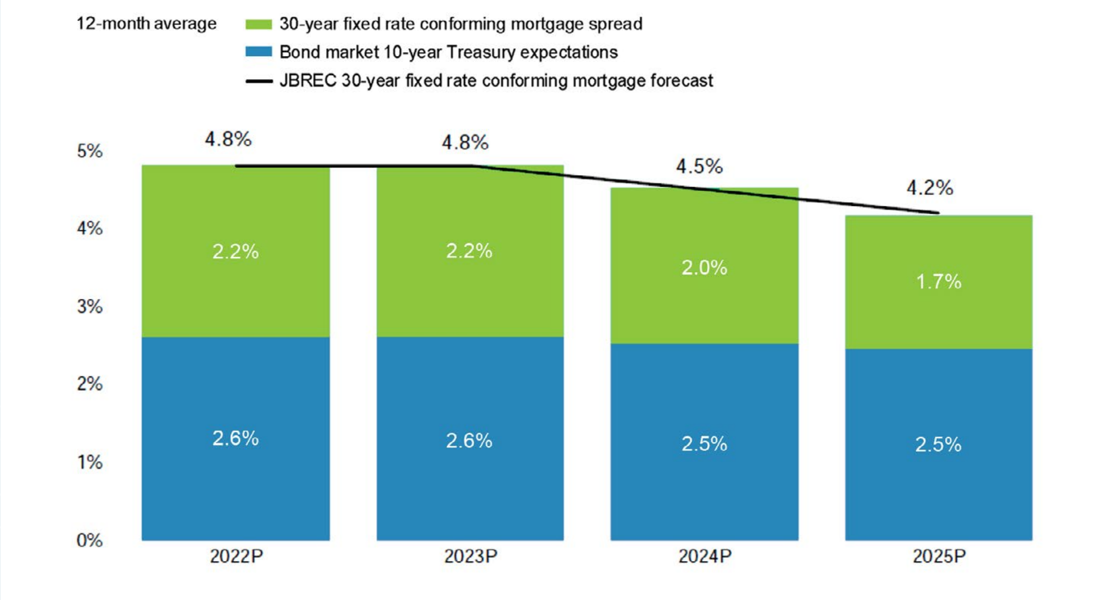
While a rising interest rate environment is contributing to some challenges in the housing industry, there is a foundation of strong employment numbers and while U.S. existing home sale closings are down slightly, they are still strong and expected to remain higher than in recent years. Credit quality remains strong with a median credit score at origination of 778 in 4Q21.

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

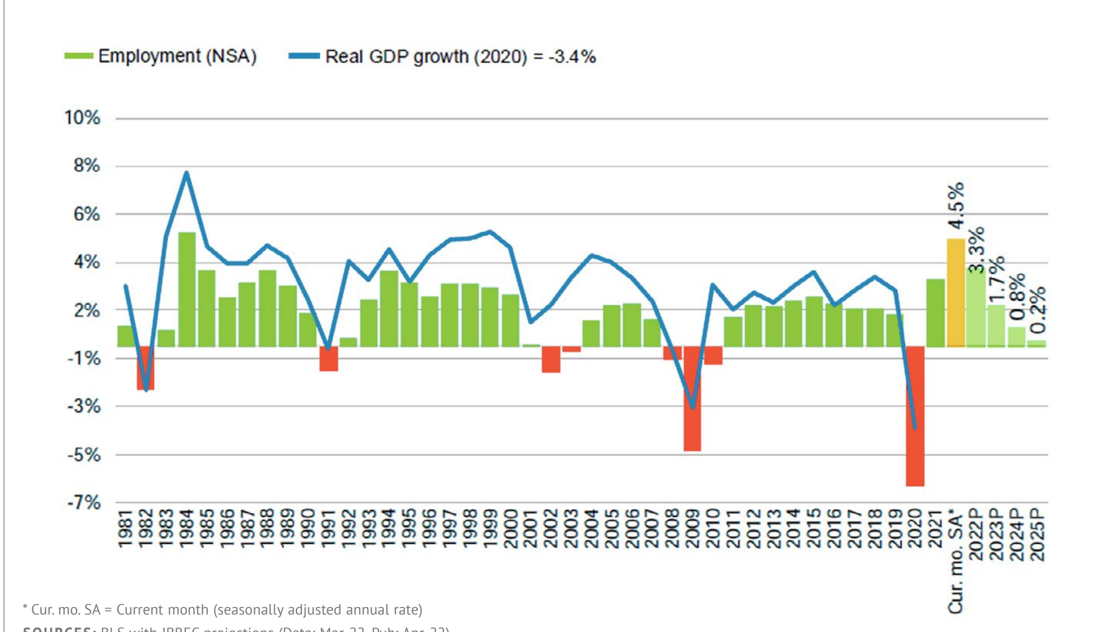


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Mar-22, Pub: Apr-22)

U.S. Employment Growth Rates

We expect employment to grow 3.3% YOY in 2022 following 3.0% growth in 2021. We expect employment growth will slow but remain positive through 2025.

US EMPLOYMENT ANNUAL GROWTH RATES



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

SOURCES: BLS with JBREC projections (Data: Mar-22, Pub: Apr-22)

U.S. Existing Home Sale Closings

We forecast existing home sales will fall slightly in 2022 due to rising mortgage rates.

US EXISTING HOME SALE CLOSINGS

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

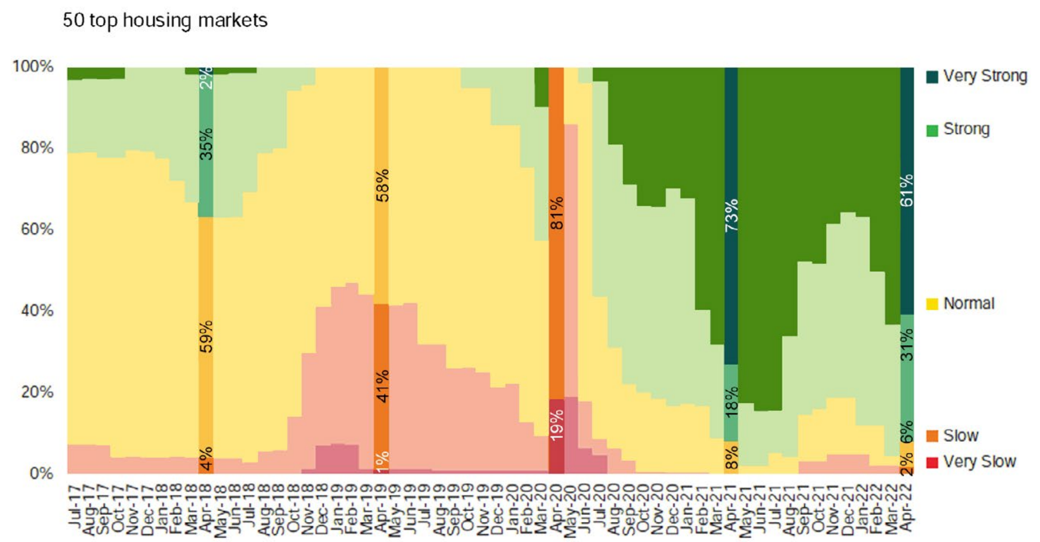
SOURCES: ©2020 National Association of REALTORS®; John Burns Real Estate Consulting, LLC (Data: Feb-22, Pub: Apr-22)

Current Market Conditions: 61% of Markets are Very Strong

92% of markets are Strong or Very Strong. We downgraded some markets in April due to slowing sales, in part due to rate increases. 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.

CURRENT MARKET CONDITIONS



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

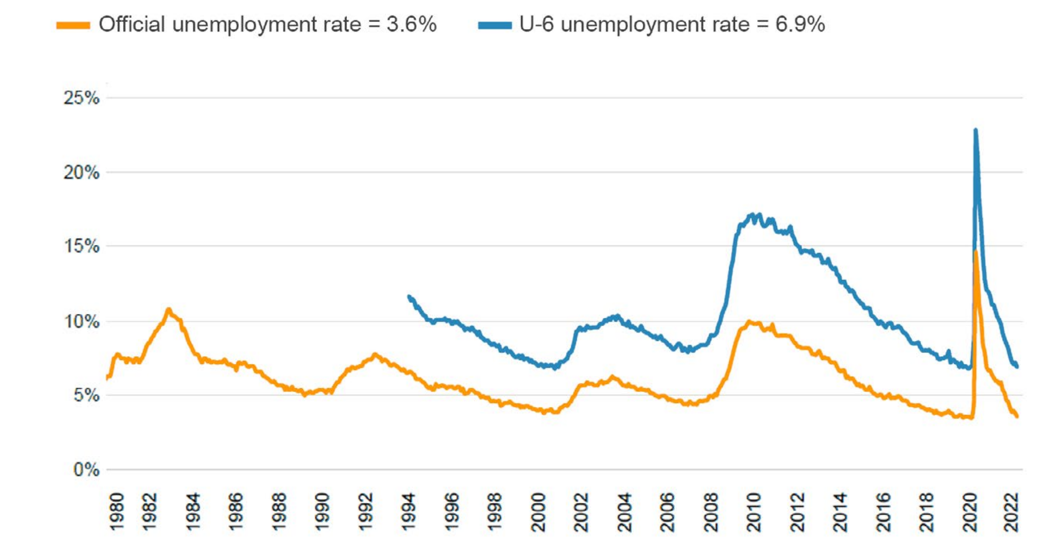
SOURCE: John Burns Real Estate Consulting, LLC (Pub: Apr-22)

Unemployment Rate

The unemployment rate fell to 3.6% in March. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 6.9%.

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)



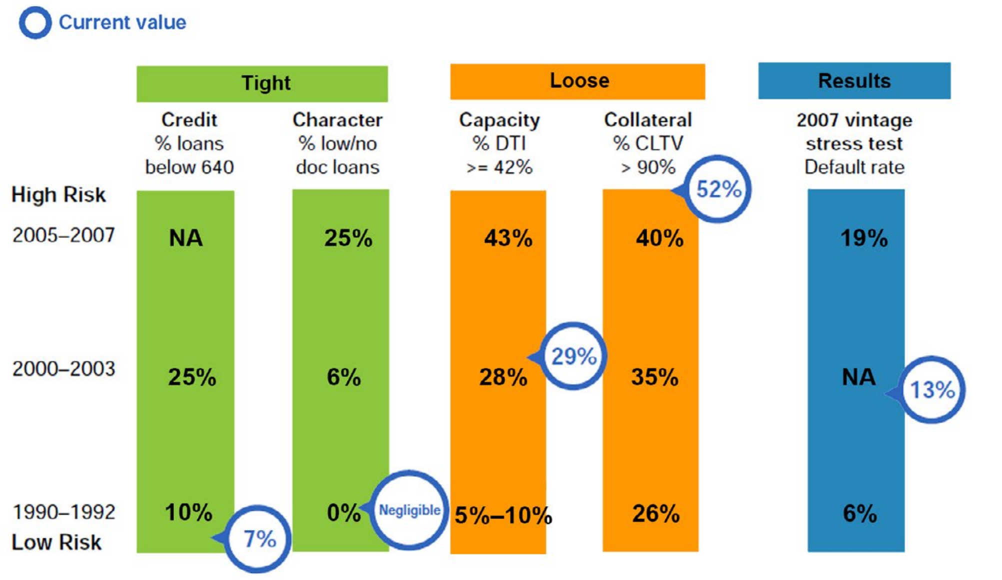
SOURCE: BLS (Data: Mar-22, Pub: Apr-22)

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



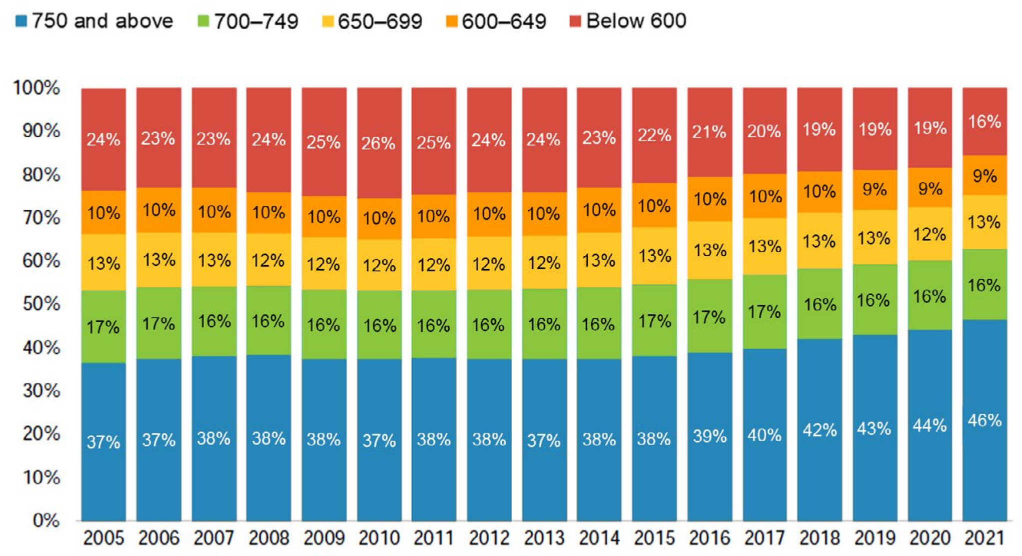
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Sep-21, updated quarterly[1]) Pub: Apr-22

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



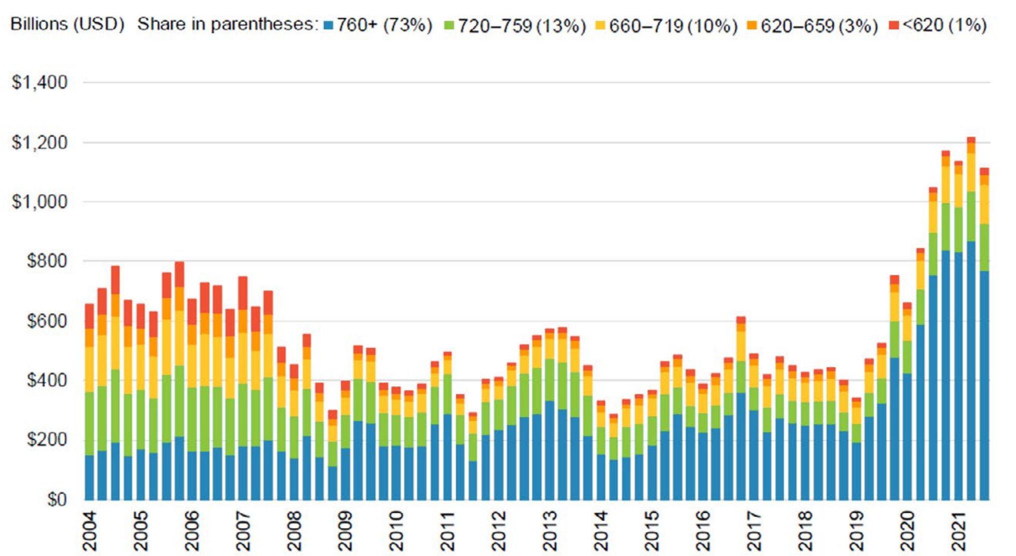
	750 and above	700–749	650–699	600–649	Below 600
2005	37%	17%	13%	10%	24%
2006	37%	17%	13%	10%	23%
2007	38%	16%	13%	10%	23%
2008	38%	16%	12%	10%	24%
2009	38%	16%	12%	10%	25%
2010	37%	16%	12%	10%	26%
2011	38%	16%	12%	10%	25%
2012	38%	16%	12%	10%	24%
2013	37%	16%	12%	10%	24%
2014	38%	16%	13%	10%	23%
2015	38%	17%	13%	10%	22%
2016	39%	17%	13%	10%	21%
2017	40%	17%	13%	10%	20%
2018	42%	16%	13%	10%	19%
2019	43%	16%	13%	9%	19%
2020	44%	16%	12%	9%	19%
2021	46%	16%	13%	9%	16%

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

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 4Q21, only 2% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



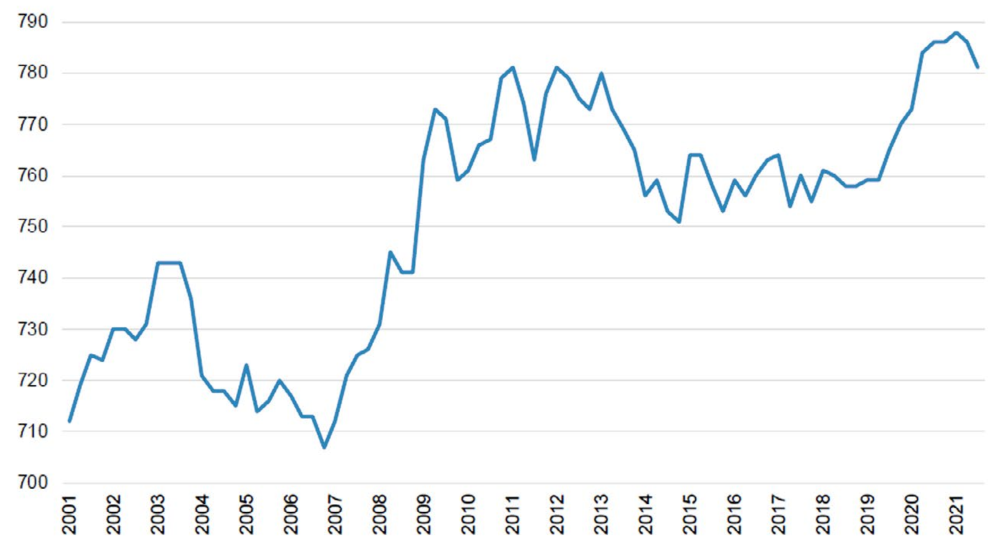
* Credit Score is Equifax Riskscore 3.0

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 4Q21, updated quarterly[1]) Pub: Apr-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 4Q21 median score at origination was 778.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



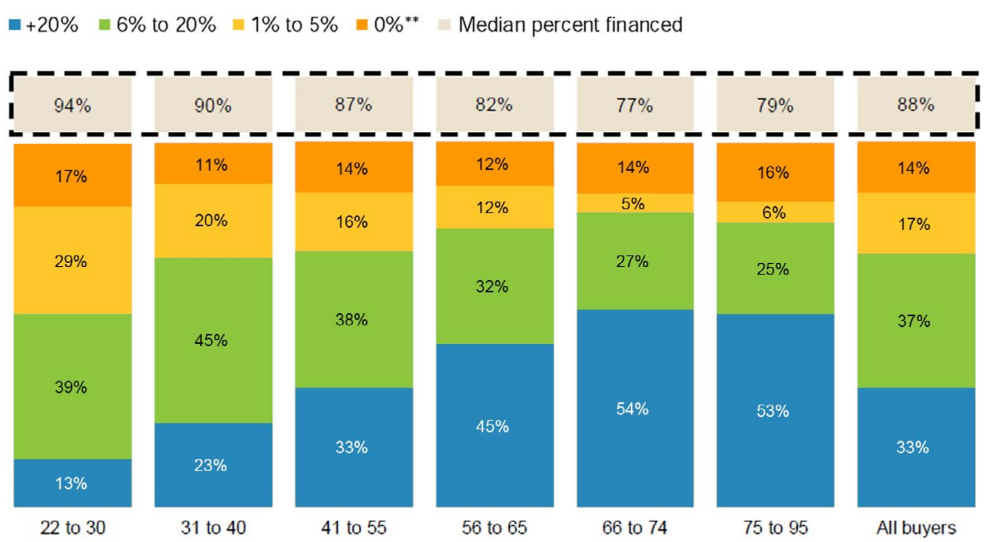
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 4Q21, updated quarterly[†]) Pub: Apr-22

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%.

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

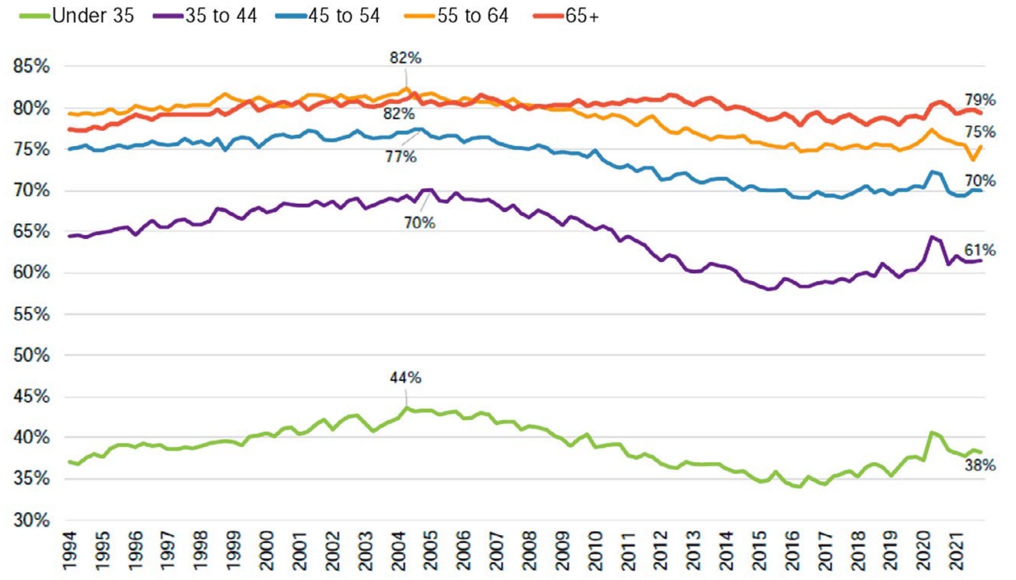
SOURCE: ©2021 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2021, updated quarterly[†]) Pub: Apr-22

Homeownership Rate by Age

Homeownership fell slightly for those under 35 in 4Q21.

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

HOMEOWNERSHIP RATE BY AGE

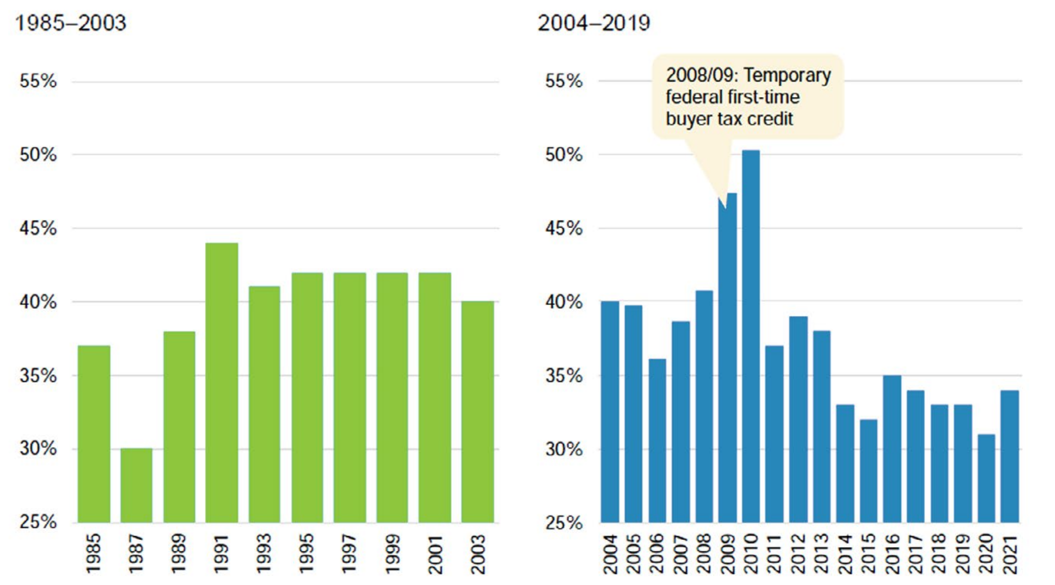


SOURCE: U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 4Q21, updated quarterly[1]) Pub: Apr-22

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.

SHARE OF EXISTING HOMES SOLD TO FIRST-TIME BUYERS



SOURCES: NAR; John Burns Real Estate Consulting, LLC (Data: 2021, updated quarterly[1]) Pub: Apr-22

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