NationalMI

ECONOMIC MARKET SNAPSHOT

WINTER 2023 | ISSUE NO. 21

NATIONAL MI IS PLEASED TO BRING YOU OUR

Winter 2023 Edition of the **Economic Market Snapshot**

Early 2023 is starting out on a much-needed positive note for housing, with consistent signs of easing inflation across every key indicator (e.g. wages, rent, consumer inflation expectations, CPI, and PCE). As a result, mortgage rates are now slightly declining, a sharp reversal from just a few months ago, and are mirroring the bond market's now more subdued inflationary expectations.

For the first time since September 2022, the 30-year fixed rate mortgage rate sits at 6.0%, down from November 2022's 7.3% peak. Due to falling rates, buyers are estimated to now have 13% more purchasing power today compared to November. As a rule of thumb, every 1% (100 basis points) rise/fall in mortgage rates impacts a buyer's mortgage payment up/down roughly ~10%.

Home prices have also started to soften in many markets, amplifying the purchasing power boost already spurred by mortgage rates dropping from 7.3% to 6.0% in just two months. According to John Burns Real Estate Consulting, Current Market Conditions reflect that 81% of markets are Slow (50%) or Very Slow (31%) as sales and pricing conditions continue to slip nationwide. 19% of markets are Normal, which reflects 2–3/month sales per community with rising net prices.

Despite recent home pricing improvements, housing affordability remains a challenge. The bond market assumes mortgage rates will average ~6.0% for full-year 2023. Sales volumes are likely to struggle until affordability improves, dropping -20% this year for home builders and -19% for resale. Housing construction is expected to fall further in 2023, with single-family starts declining -25% and multifamily starts declining -30%, Unsold single-family homes under construction along with homes not started are finally declining as builders reduce future supply where possible. Unfortunately, completed unsold homes are rising, which will likely continue for the foreseeable future, placing downward pressure on prices.

While pressure in the housing market continues, we are seeing solid income growth across the labor market and consumers continue to slowly rebuild their credit profiles. In 2021, 62% of borrowers had FICO® scores above 700, and 84% had FICO scores above 600. As of Q3 of 2022, only 3% of mortgages went to borrowers with a credit score less than 620. Mortgage Originations by Credit Score continues to reflect positive credit profiles. We also continue to see a rise in homeownership by Age rising for those under 45.

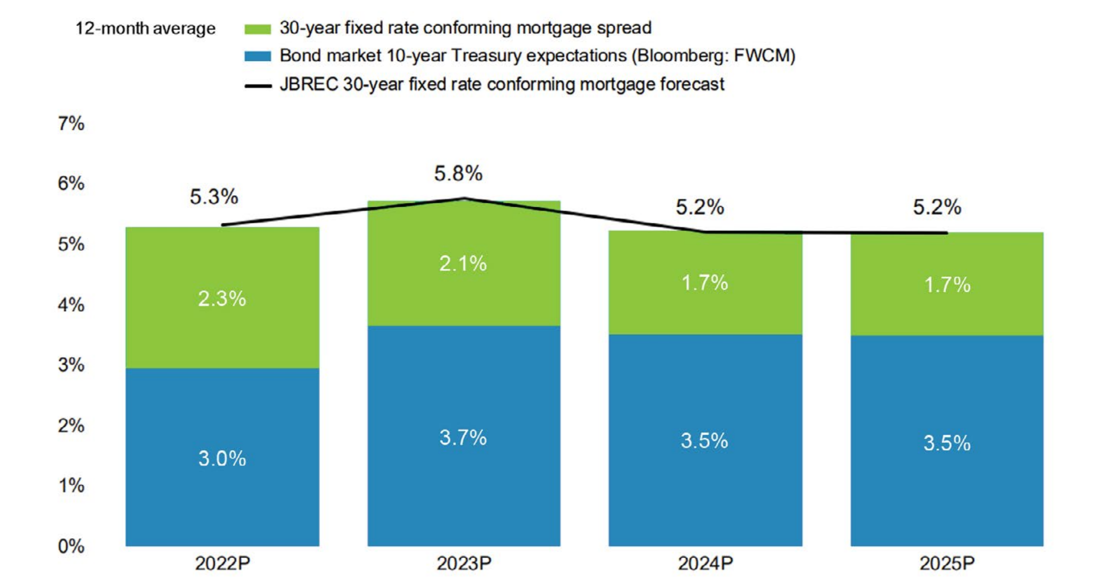
Inflationary pressure will likely continue in 2023, however home affordability should improve as we progress/proceed/advance through this cycle.

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.

ANNUAL AVERAGE 30-YEAR FIXED CONFORMING MORTGAGE RATE FORECAST

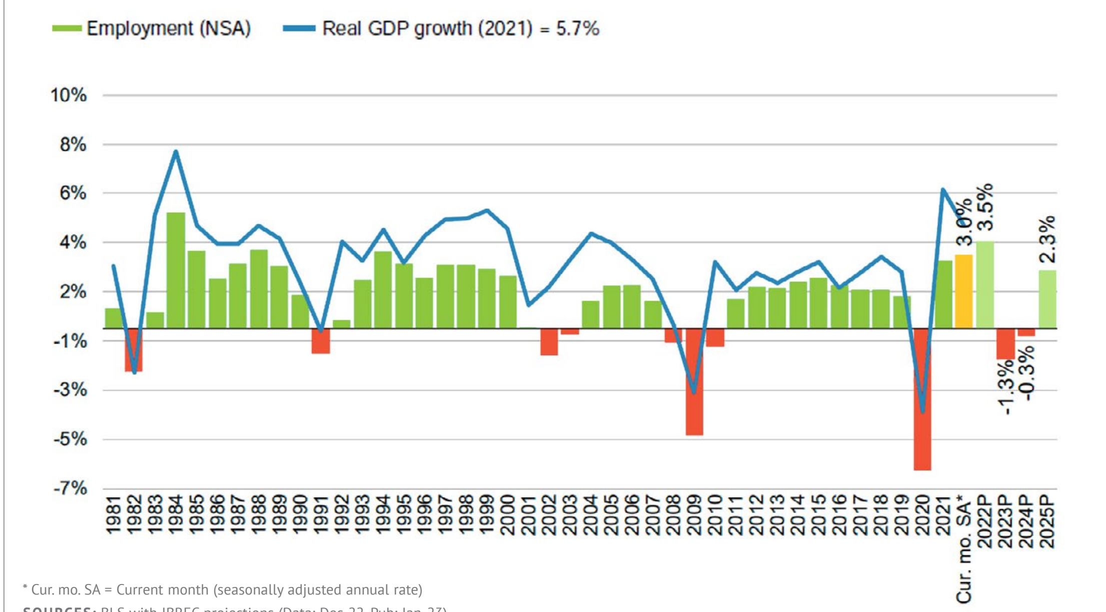


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Dec-22, Pub: Jan-23)

U.S. Employment Growth Rates

We expect employment to fall -1.3% YOY in 2023 and -0.3% in 2024 as the Fed attempts to tame inflation and likely tips the economy into recession.

US EMPLOYMENT ANNUAL GROWTH RATES



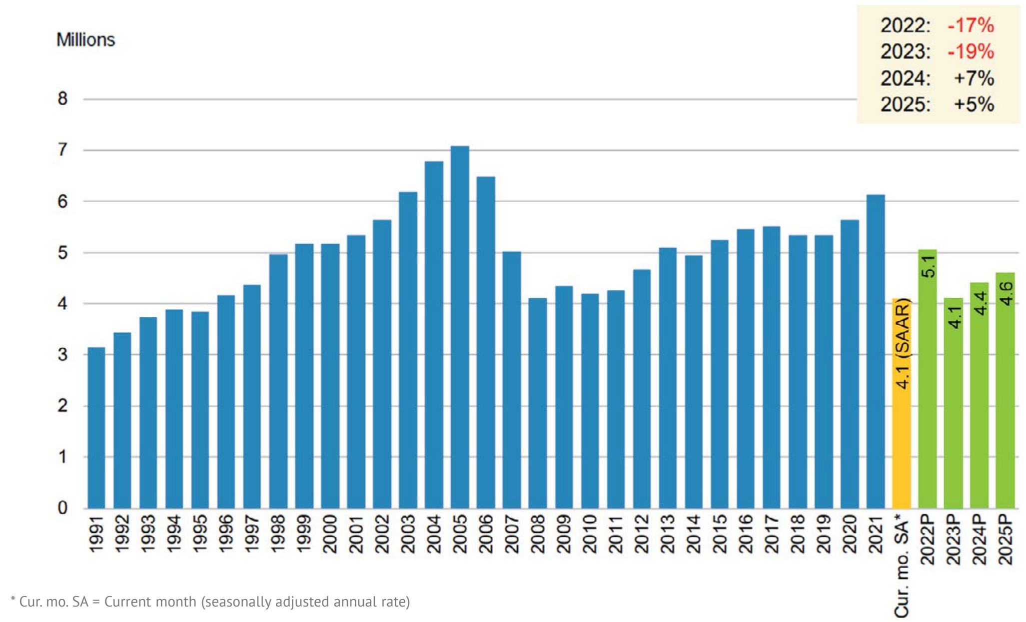
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Dec-22, Pub: Jan-23)

U.S. Existing Home Sale Closings

We forecast existing home sales will fall -23% YOY due to still elevated mortgage rates, soft 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: Dec-22, Pub: Jan-23)

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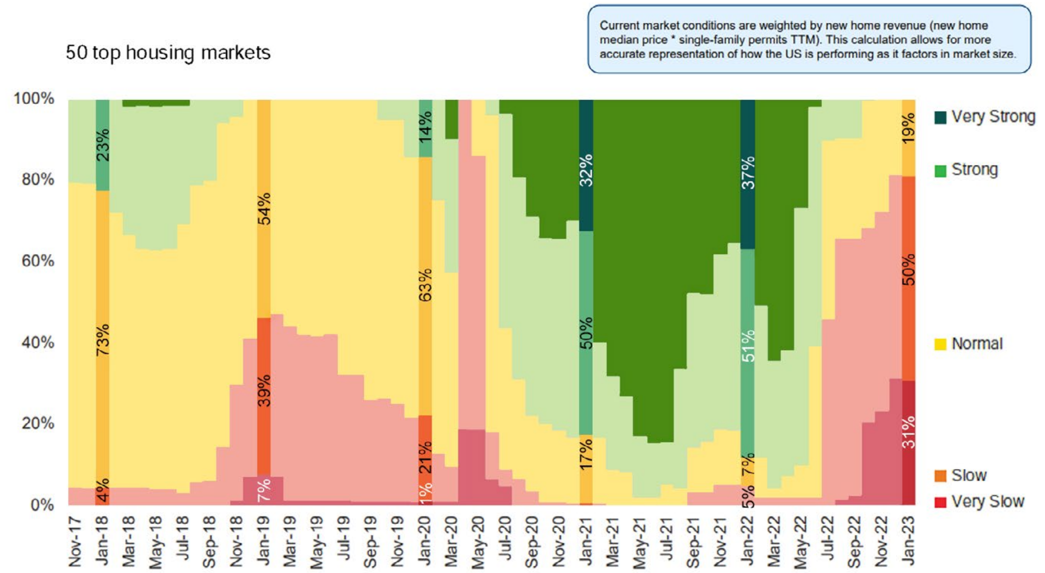
Current Market Conditions: 31% of Markets are Very Slow

81% of markets are Slow or Very Slow as sales and pricing conditions continue to slip nationwide. 19% of markets are Normal, which 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: Jan-23)

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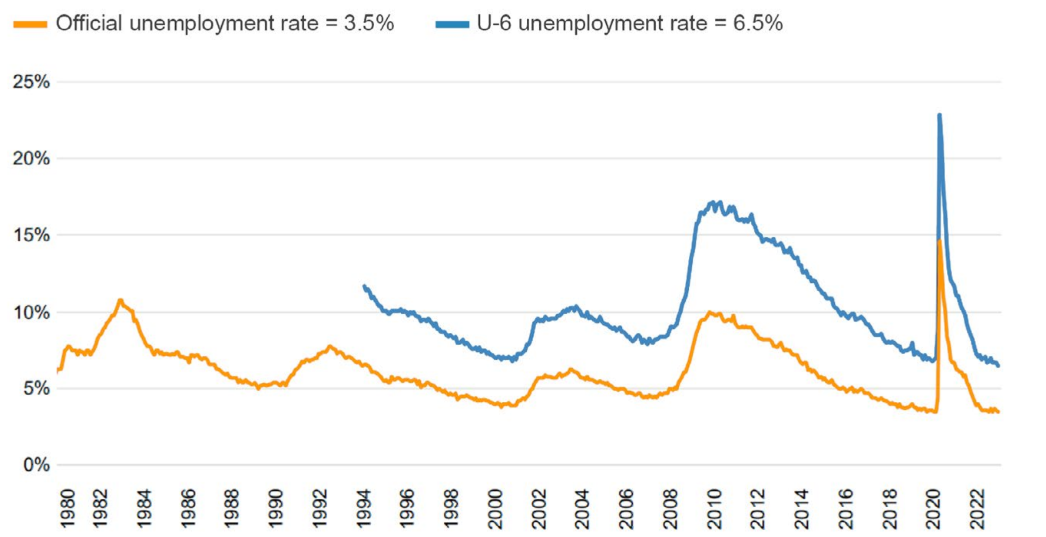
Unemployment Rate

The unemployment rate fell to 3.5% in December. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 6.5%.

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.

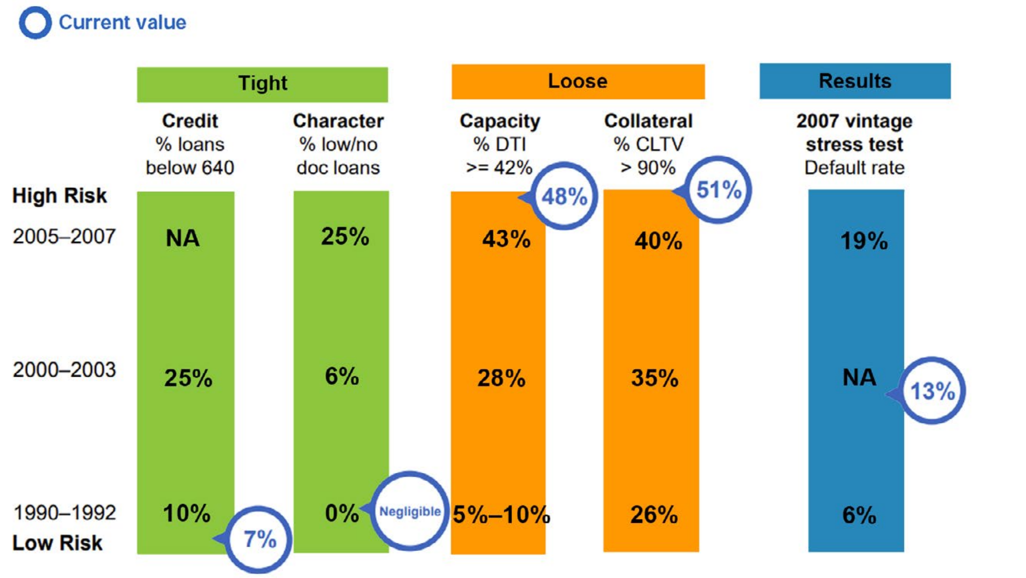
SOURCE: BLS (Data: Dec-22, Pub: Jan-23)

Lending Standards on Government-Backed Loans: 80% 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



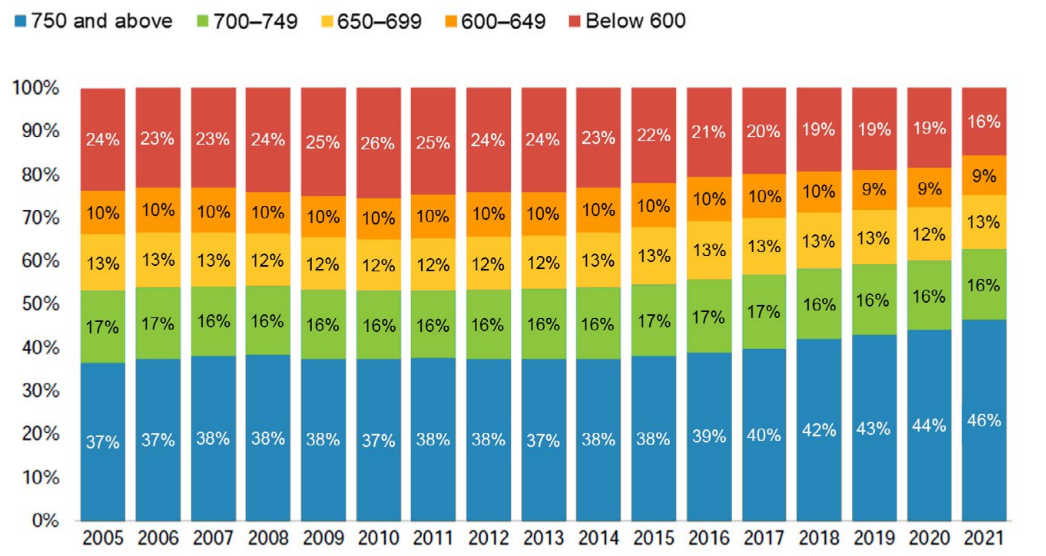
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Jul-22, updated quarterly[1]) Pub: Jan-23

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 FOR ALL CONSUMERS



SOURCE: FICO® Banking Analytics Blog (Data: Apr-21, updated quarterly[†]) Pub: Jan-23

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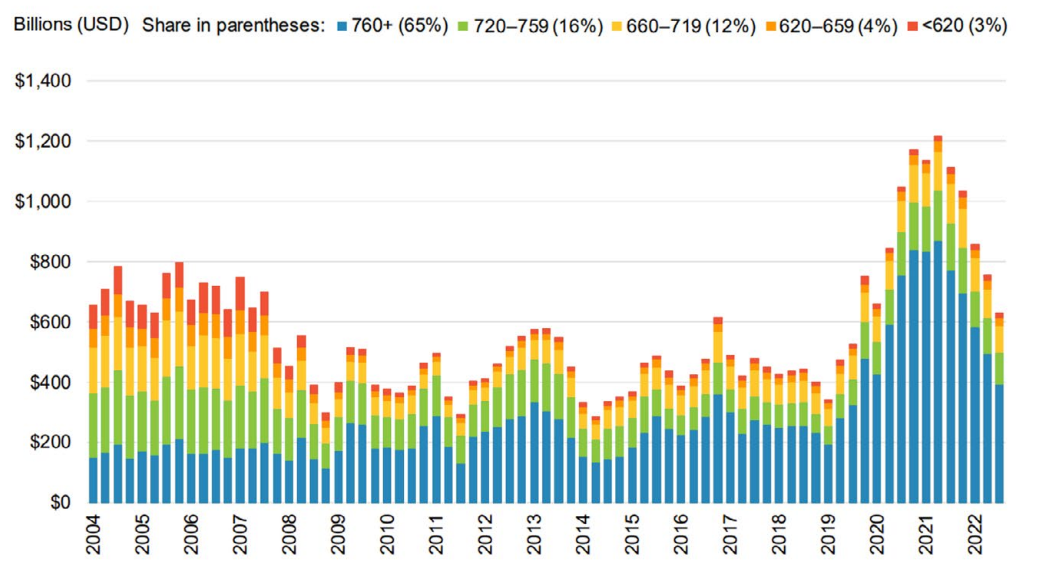
Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 3Q22, 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: 3Q22, updated quarterly[†]) Pub: Jan-23

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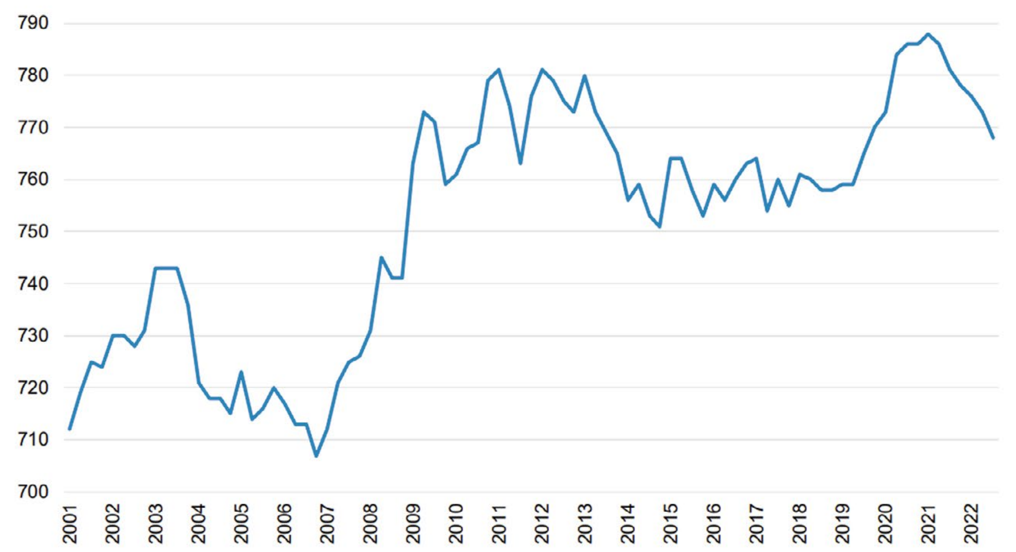
Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 3Q22 median score at origination was 768.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



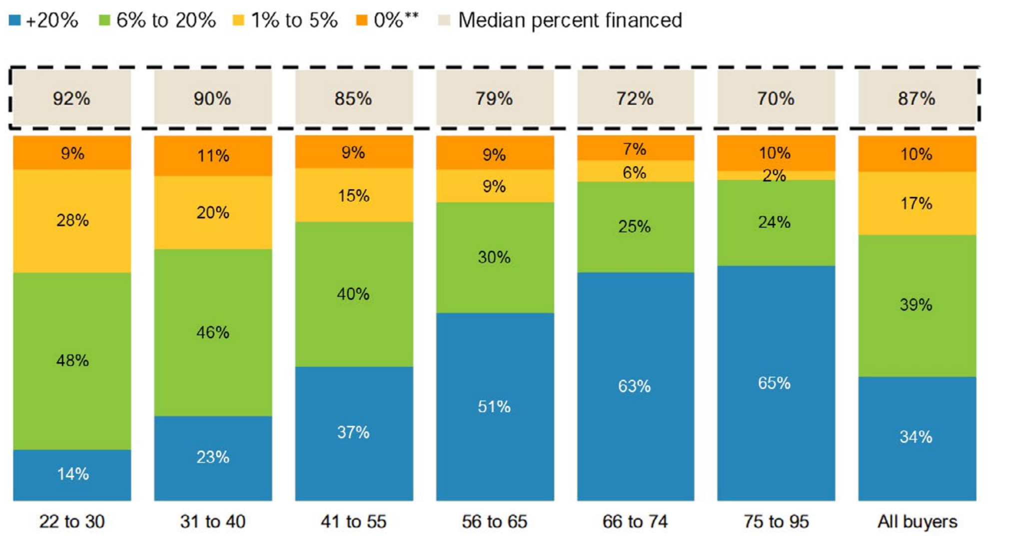
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 3Q22, updated quarterly[†]) Pub: Jan-23

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

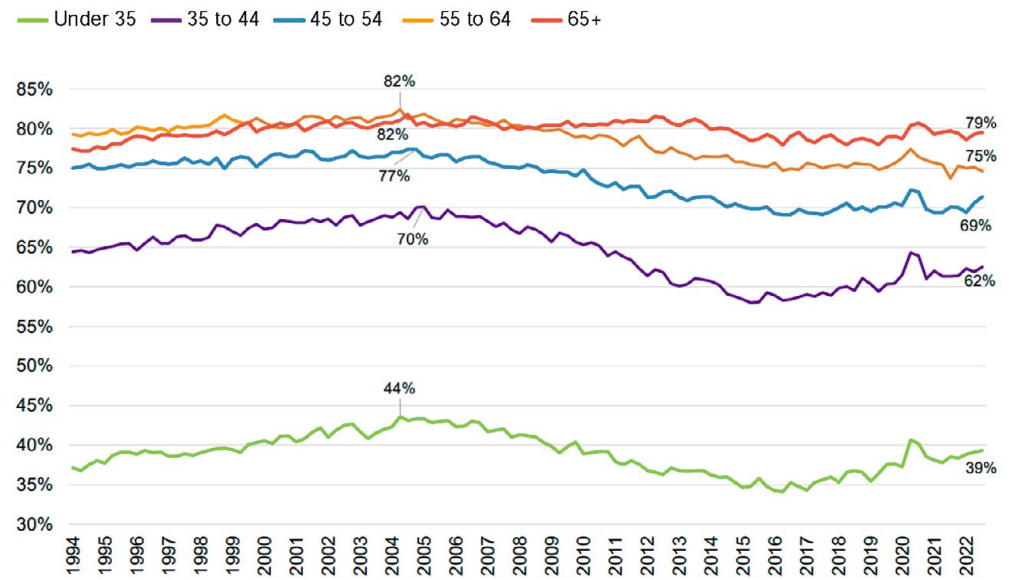
SOURCE: ©2021 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2022, updated quarterly[†]) Pub: Jan-23

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.

HOMEOWNERSHIP RATE BY AGE

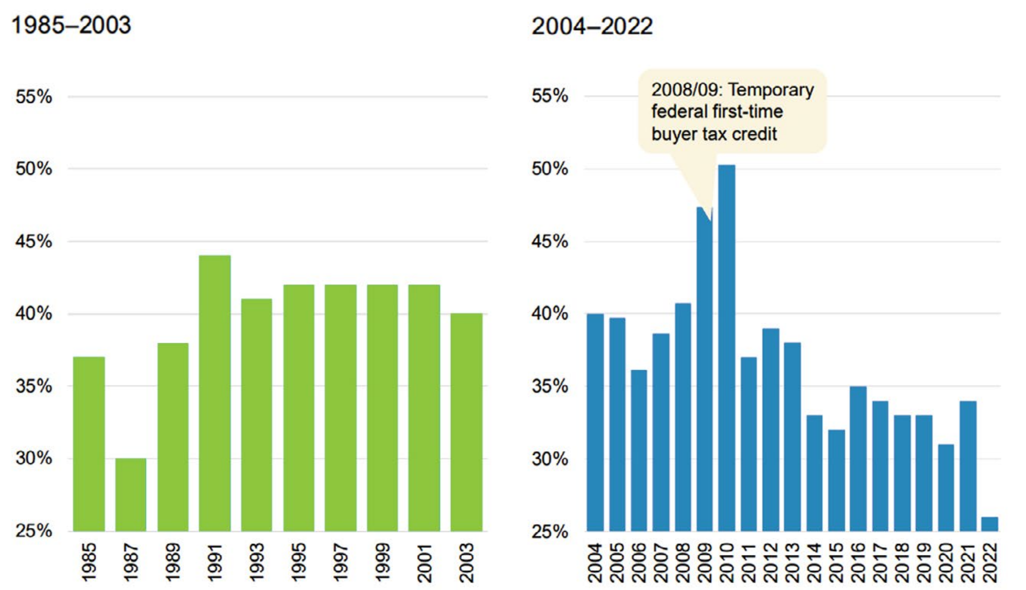


SOURCE: U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 3Q22, updated quarterly[1]) Pub: Jan-23

Share of Homes Sold to First-Time Buyers

The share of existing homes sold to first-time buyers rose in 2022 to a record low of 26%. 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: 2022, updated quarterly[1]) Pub: Jan-23

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$.23 FOR 23

National MI will donate $.23 per new loan insured to help keep families with ill or injured children in their homes 365 days a year.

Your support has helped families get:

130 months of groceries
for a family of 4
(Average cost of groceries per month for a family of 4: $914)

21,577 gallons of gas
to get them from home to their treatment facility.
(Average cost of gas in CA: $5.50/gallon)

283 two-night stays
in a hotel near a CA hospital
(Average cost of 2-night hotel stay near a hospital in CA: $420)

3,709 dinners for 4
at McDonalds
(Average cost of dinner for 4 at McDonalds: $32)

9,889 parking days
in a hospital parking garage
(Average cost to park at a hospital for one day: $12)

79 months of childcare
for a family in need
(Average cost of child for a month: $1,500)

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