SPRING 2023 | ISSUE NO. 22

NATIONAL MI IS PLEASED TO BRING YOU OUR

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

The markets are still cautious as banking noise calms. Following a month after two highly-publicized bank collapses and billions in emergency lending from the Fed, banking distress shows early signs of abating, as the industry attempts to rebuild its confidence with depositors.

In this edition we will highlight a few positive signs reported by John Burns Research and Consulting (JBREC). Inflation is officially back under 5.0% YOY. This represents the lowest inflation rate since June 2021. A Fed pause on rate hikes is becoming an increasing possibility. As of March, economists and Federal Reserve members all expect to end 2023 at a Fed Fund rate around 5%, which implies it may raise the benchmark rate just one more time by 25 bps before a pause, likely at their next meeting in early May.

Housing demand is proving especially resilient, namely on the new home side where supply is available, and rates are often bought down well below today's current 30-year fixed rate of 6.7%. The resale market is also showing strength, with prices picking up ever so slightly on a month-over-month basis between February and March (per the Burns Home Value Index). Sales and pricing conditions are strong in 28% of markets, up from 18% last month. Nearly half of the markets are Normal, which reflects 2-3/month sales per community with rising net prices. Current lending standards are tight on credit and documentation, but not on DTI and LTV. The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 4Q2022, median score at origination was 766.

We continue to see housing affordability as a barrier for first-time home buyers. The share of existing homes sold to first-time buyers fell 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.

The labor market remains healthy but is showing broad signs of cooling, with most indicators pointing towards normalization as opposed to contraction. Prime-age labor force participation is at the highest level since 2010, helping offset headlines of large layoffs at select firms, namely tech financial services.

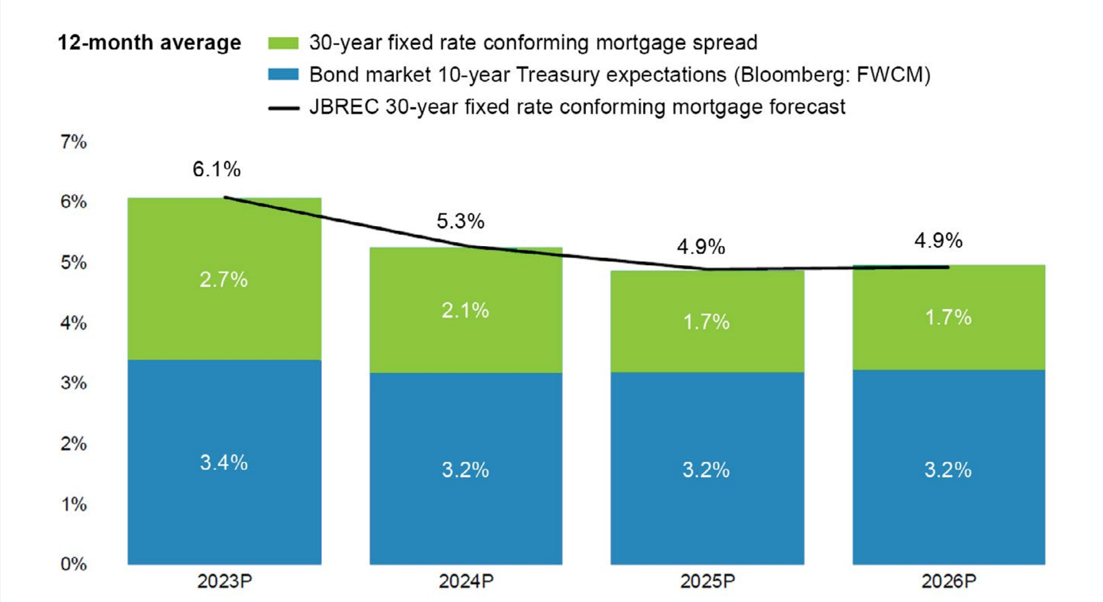
New this spring we bring you a new data point on Key Assumptions on Fixed Rate Mortgage Rates.

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

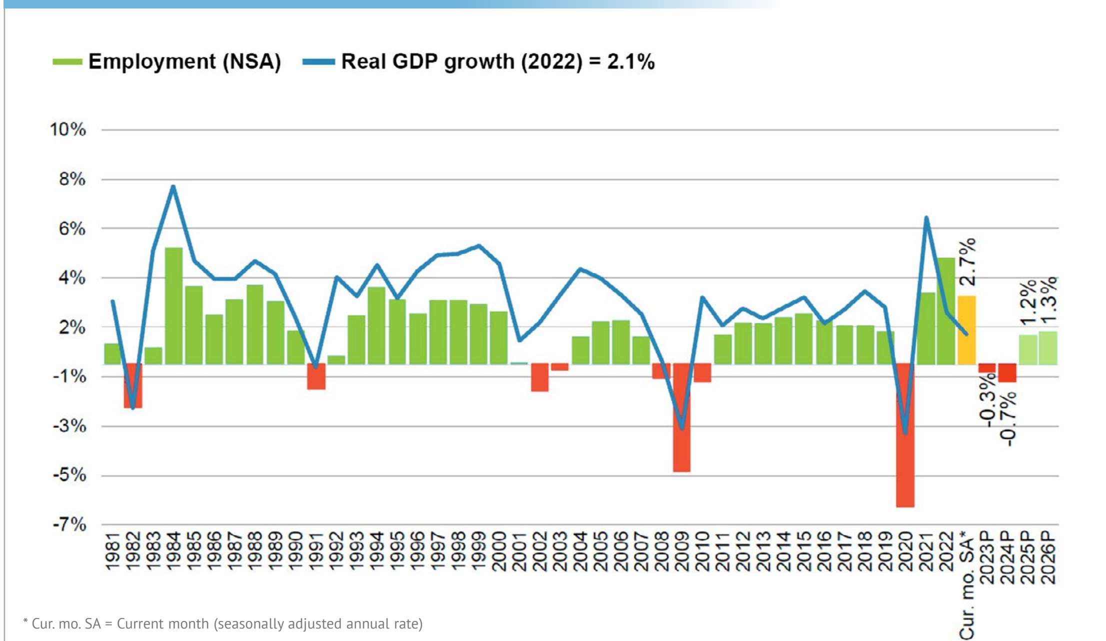


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Mar-23, Pub: Apr-23)

U.S. Employment Growth Rates

We expect employment to fall -0.3% YOY in 2023 and -0.7% in 2024, as the Fed attempts to tame inflation and likely tips the economy into recession.

US EMPLOYMENT ANNUAL GROWTH RATES



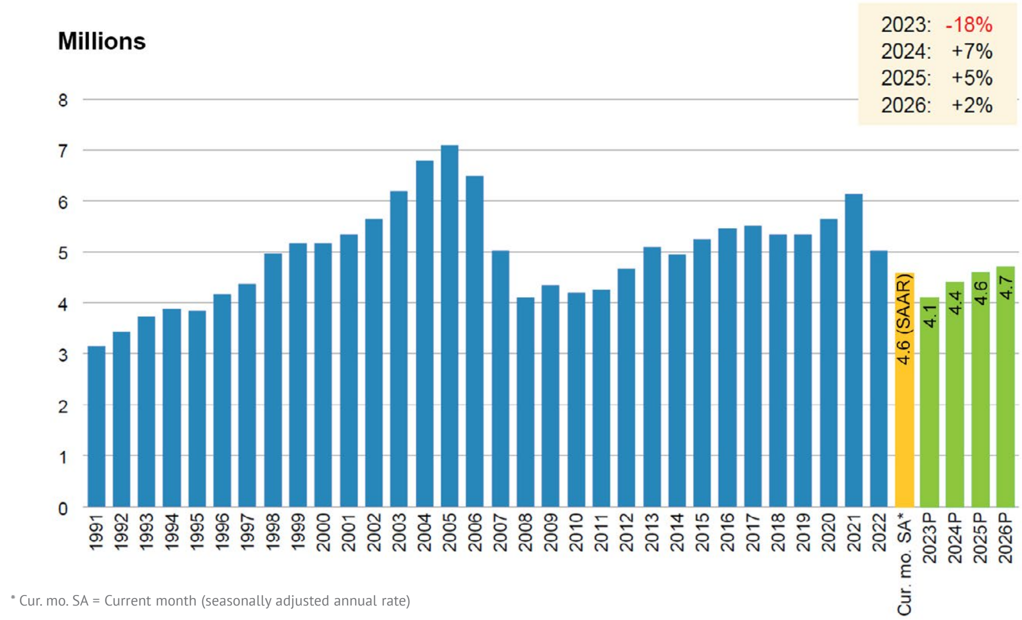
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Mar-23, Pub: Apr-23)

U.S. Existing Home Sale Closings

We forecast existing home sales will fall -18% YOY in 2023 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: Feb-23, Pub: Apr-23)

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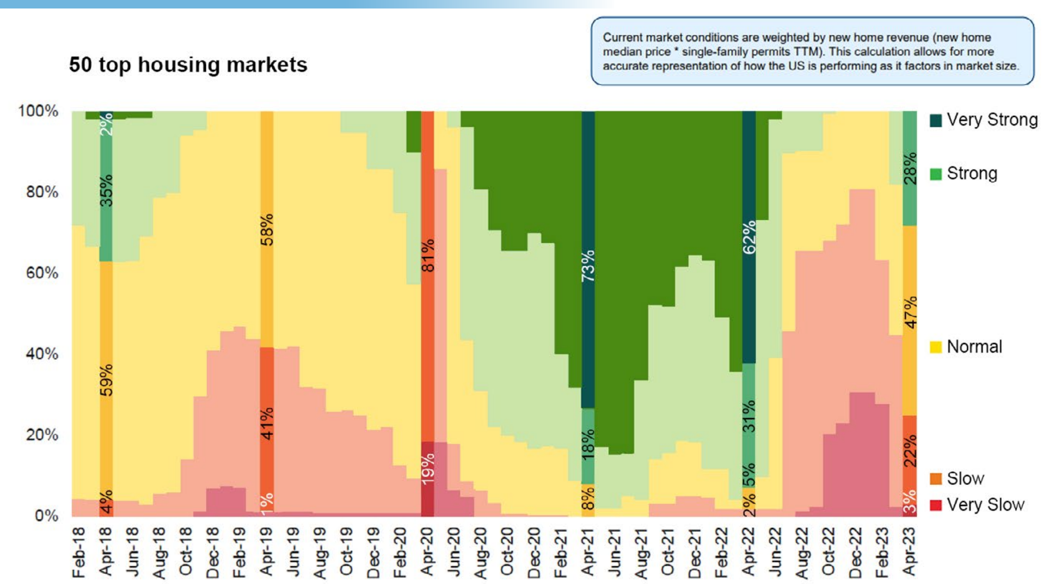
Current Market Conditions: Just 25% of Markets Are Slow

Sales and pricing conditions are Strong in 28% of markets, up from 18% last month. Nearly half of the 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: Apr-23)

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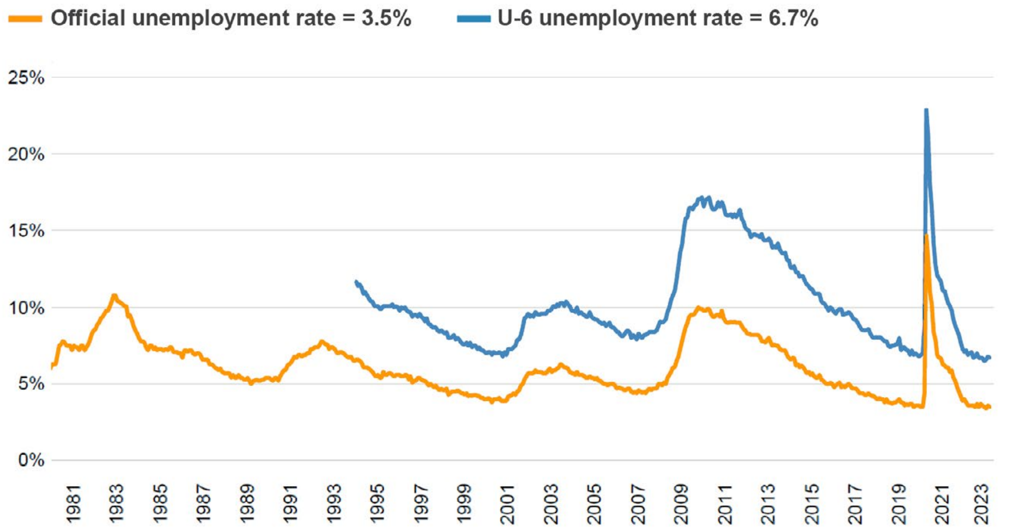
Unemployment Rate

The unemployment rate fell to 3.5% in March. 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.

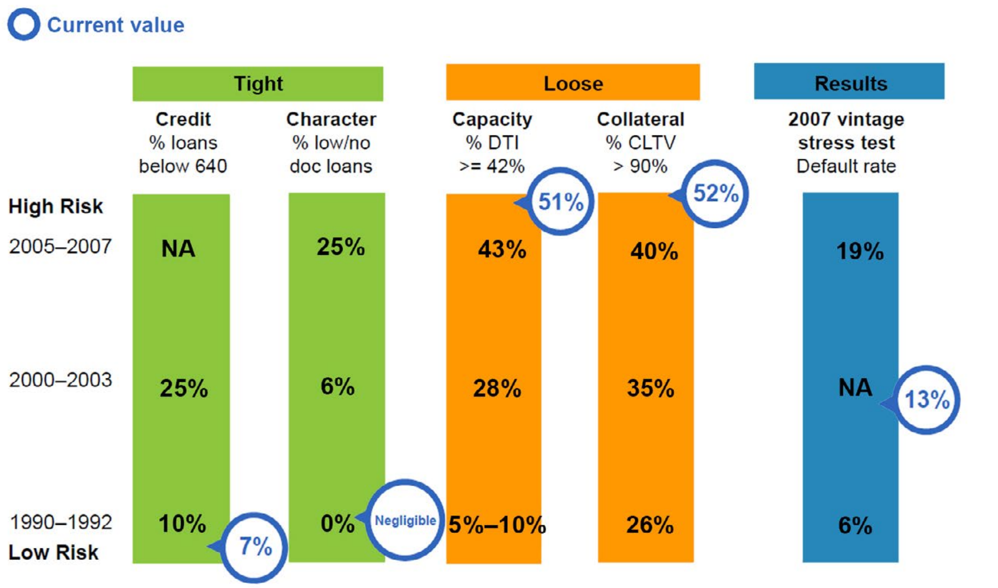
SOURCE: BLS (Data: Mar-23, Pub: Apr-23)

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



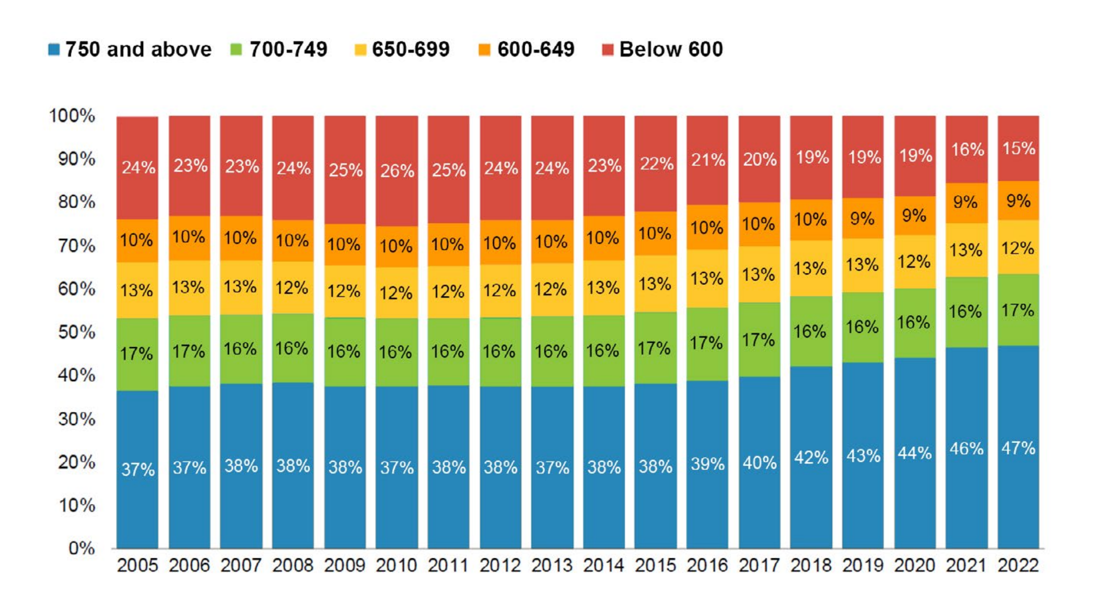
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Oct-22, updated quarterly[†]) Pub: Apr-23

National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2022, 64% had FICO scores above 700, and 85% 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



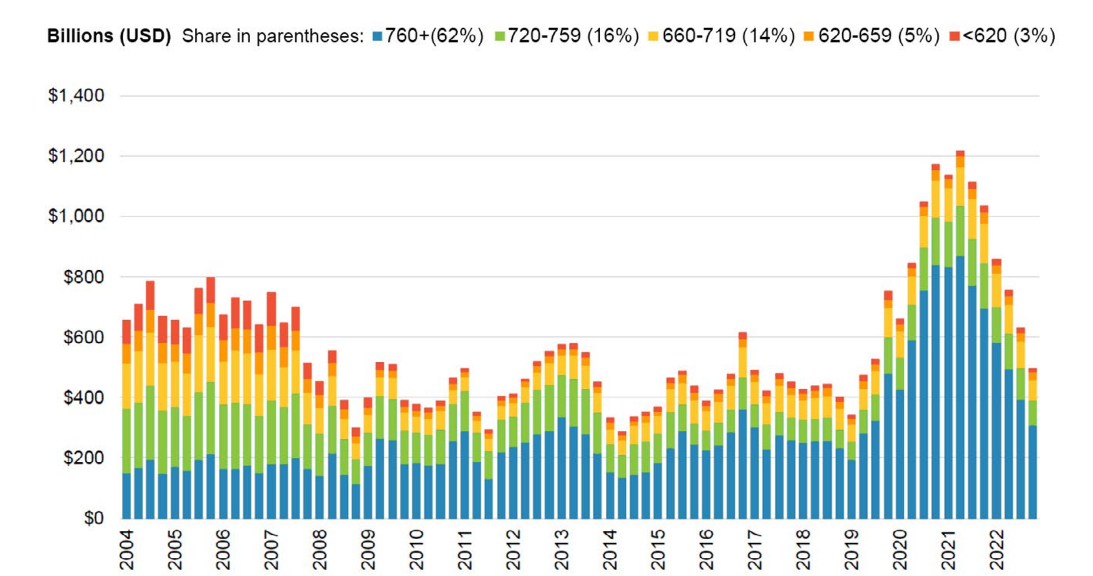
SOURCE: FICO® Banking Analytics Blog (Data: Apr-22, updated quarterly[1])

Pub: Apr-23

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 4Q22, 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

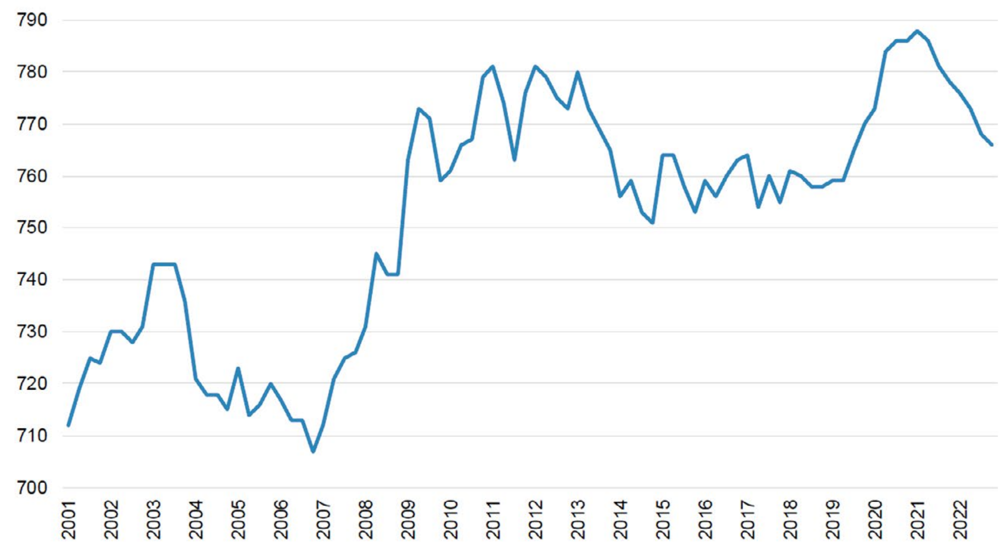
SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 4Q22, updated quarterly[1])

Pub: Apr-23

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 4Q22, median score at origination was 766.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



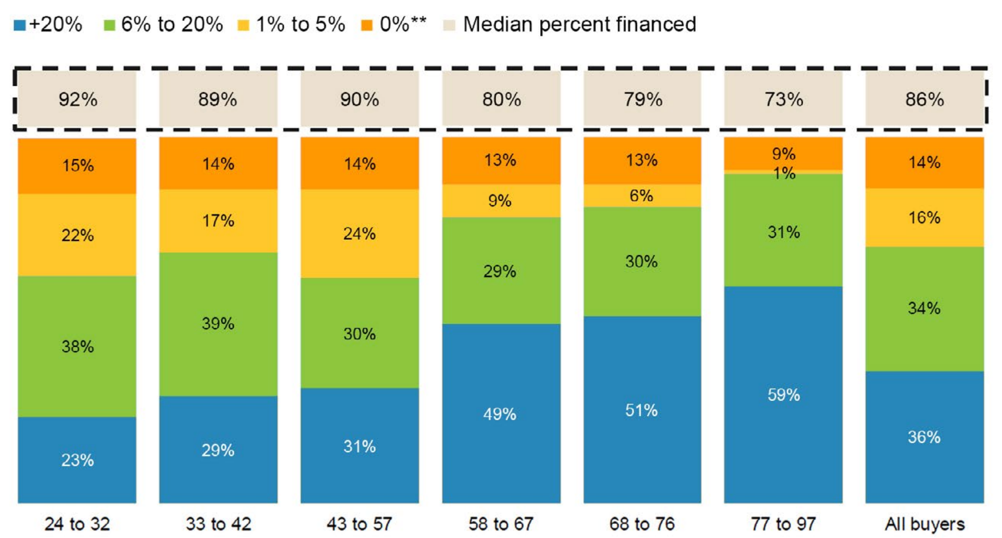
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 4Q22, updated quarterly†) Pub: Apr-23

Financing the Home Purchase, by Age Group

30% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 37% among those 32 and younger. Only 19% of 68- to 76-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

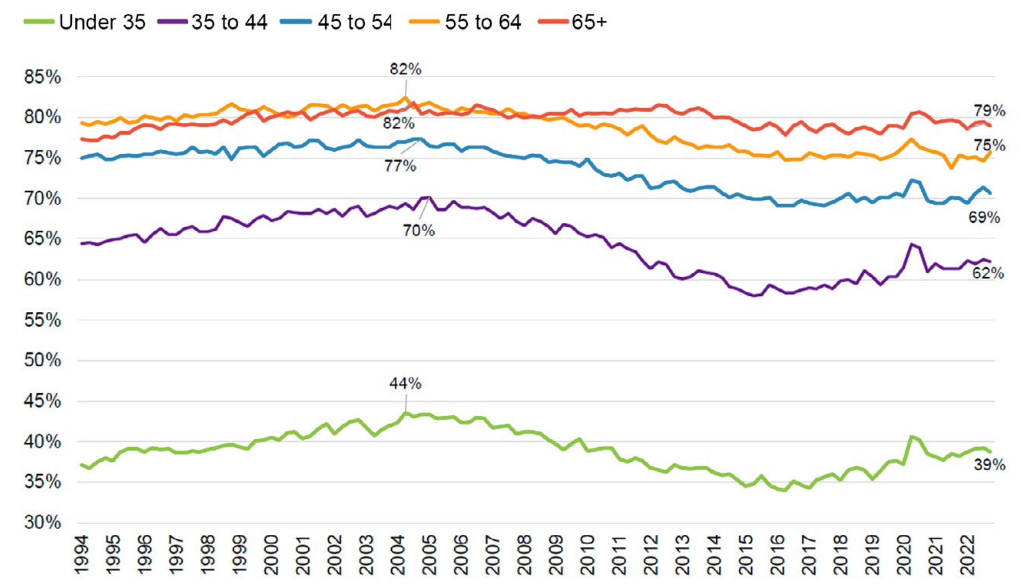
SOURCE: ©2023 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2023, updated quarterly†) Pub: Apr-23

Homeownership Rate by Age

Homeownership is falling 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

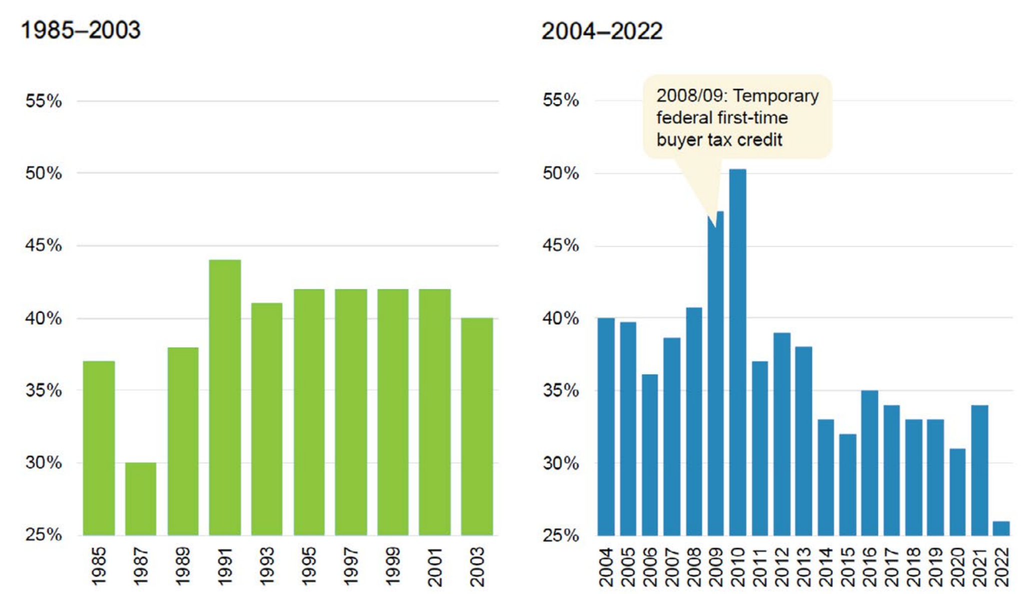


SOURCE: U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 4Q22, updated quarterly[1]) Pub: Apr-23

Share of Homes Sold to First-Time Buyers

The share of existing homes sold to first-time buyers fell 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

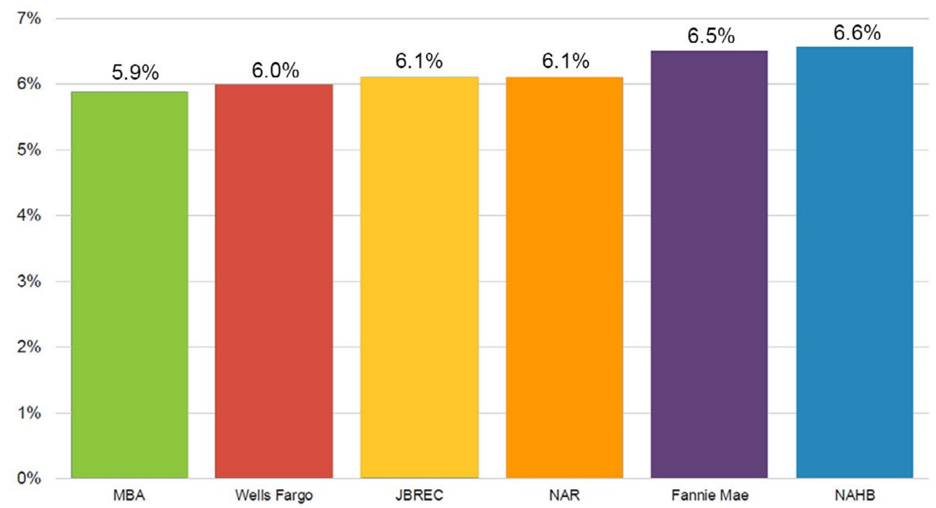


SOURCES: NAR; John Burns Real Estate Consulting, LLC (Data: 2022, updated quarterly[1]) Pub: Apr-23

Key Assumptions for 2023: We are above MBA, below NAR/NAHB on mortgage rates

Key assumptions for 2023, provided by MBA, Wells Fargo JRREC, Nar, Fannie Mae and NAHB.

2023 ANNUAL AVERAGE 30-YEAR FIXED MORTGAGE RATES



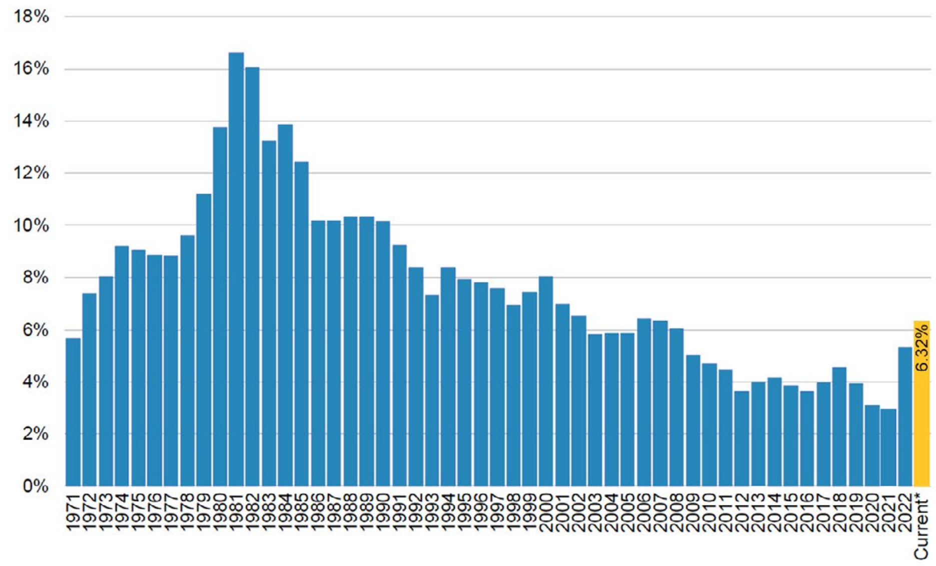
MBA (Mar-23); Wells Fargo (Apr-23); NAR (Feb-23); Fannie Mae (Mar-23); NAHB (Apr-23);

SOURCE: John Burns Research and Consulting, LLC (Pub: Apr-23)

Mortgage Rates

The bond market expects mortgage rates will average in 6.1% in 2023.

ANNUAL AVERAGE 30-YEAR FIXED MORTGAGE RATES



Current* = last value reported by Freddie Mac during Nov-22

SOURCE: Sources: Freddie Mac; John Bums Research and Consulting, LLC forecasts (Data: Mar-23, Pub: Apr-23)

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