National MI

The Home Front

FALL 2020 | ISSUE NO. 9

HomeBuzz

Welcome to the latest edition of **The Home Front,** your source for homebuyer market information with resources to help first-time homebuyers realize the dream of homeownership.

In this **Fall 2020** edition of The Home Front, we report on new home prices, the latest market data trends, and the effects of COVID-19 on the state of the housing market. We also explain the benefits of mortgage insurance in enabling borrowers to purchase or refinance a new home with less than 20 percent down. Discover some useful resources that you can use during your homebuying journey.

RECORD-LOW MORTGAGE RATES RESULT IN A

Moderate Improvement for the Forecasted Home Prices in Mid 2021

he July 2020 CoreLogic Home Price Index (HPI™) Forecast, designed to provide an early indication of home price trends, shows that home prices rose year-over-year and month-over-month compared to July 2019. Home prices increased 5.5 percent, with the highest year-over-year increases by state in Idaho (9.8 percent), Maine (9.1 percent), and Arizona (9.0 percent) and by metropolitan area in Washington, D.C. (5.3 percent).

CoreLogic has been monitoring shifts in the housing market and economy with the spread of COVID-19. Historically low mortgage rates in the Spring resulted in increased affordability for homebuyers, particularly amongst first-time and millennial buyers. As mortgage rates fell below 3 percent for the first time ever in July and there was further constriction of for-sale inventory, the forecast for year-over-year home prices has improved in response. May 2020's CoreLogic forecast predicted a 6.6 percent decrease in home prices for May 2021. However, the forecast has improved, and in July 2020, it reflected a 0.6 percent increase in year-over-year home prices for July 2021. Although the forecast shows improvement overall, it does not reflect the significant month-over-month increase seen in July 2020 (the fastest rate in nearly two years) due to unemployment rates that are anticipated to increase for the next year. As forbearance periods close, this could result in more homeowners being unable to make mortgage payments and increasing distressed-sale inventory. It should also be noted that the predicted markets at risk of home price decline are correlated to the pandemic – metro areas with increased resurgence of COVID-19 cases are at the greatest risk of decline in home prices over the next 12 months.

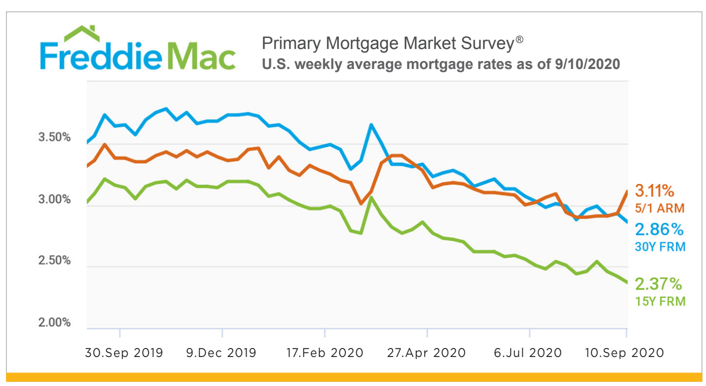
> Spurred by strong demand and record-low mortgage rates, we expect to see more home building in 2021 and beyond, which should help support a healthy housing market for years to come
>
> **FRANK MARTELL**
> President & CEO | CoreLogic

Search Realtor.com to find a local agent.

Mortgage Rates Hit Another All-Time Low

DATA AS OF SEPTEMBER 10, 2020

According to the leading source for mortgage rate data, the Freddie Mac Primary Mortgage Market Survey, rates have hit another record low due to a slowdown in economic recovery. This has further increased purchase demand activity, which has been growing at double-digit rates for the last four months. It is currently up 25 percent from a year ago, but is expected to decline heading into the Fall due to a lack of supply that is already constraining sales activity.



For more information, please visit www.corelogic.com and www.freddiemac.com

NationalMI

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FALL 2020 | ISSUE NO. 9

Did You Know?

Record MortgageOrigination Volume Expected in 2020

ACCORDING TO THE FANNIE MAE ECONOMIC AND STRATEGIC RESEARCH (ESR) GROUP ON SEPTEMBER 15, 2020

The housing sector has remained particularly strong despite COVID-19 with the pace of existing home sales increasing in July at the highest rate since 2006. This, along with pending sales, mortgage applications, and construction data have caused the ESR Group to substantially improve its estimate of total mortgage market originations in 2020 to hit $3.87 trillion, the highest nominal dollar total in the series' 32-year history. The country's economy has been recovering at a strong rate over the last few months, in part due to the support of housing, so the ESR Group has also improved its forecast for 2020 real GDP annual growth to contract only 2.6 percent, up from last month's prediction of 3.1 percent contraction and the previous month's 4.2 percent contraction. This has been attributed to continued strength in consumer spending, which is likely to support growth through the end of the year. Although the ESR Group improved its forecast for third quarter growth, it decreased expectations for the fourth quarter due to the lack of additional legislative stimulus.

> The most important factor in our expectations for U.S. economic performance remains the impact of COVID-19 on household, business, and policymaker actions... As expected, the pace of economic recovery is slowing, but housing remains highly supportive.
>
> **Doug Duncan**
> FANNIE MAE
> Senior Vice President

Home Builder Market Trends

AUGUST 17, 2020

IN PARTNERSHIP WITH JOHN BURNS REAL ESTATE CONSULTING

Despite double-digit unemployment, builder sales and pricing trends are solid in the second quarter of 2020, most likely due to record low mortgage rates, limited supply, and the need for space, mostly in entry-level sales.

- **SALES ORDERS HAVE INCREASED 5% YOY**
- **SALES RATES PER COMMUNITY INCREASED 6% YOY**
  with 3.7 sales per month per community. This is the highest absorption rate since 2006.
- **SALES PRICES FELL ONLY -3%**
  to $377K, due primarily to a mix shift toward lower price points geared towards entry-level buyers.
- **STARTS ARE EXPECTED TO RISE BY AT LEAST 6%**
  indicated by the increase of 6% more lots controlled.
- **THE AVERAGE CANCELLATION RATE FOR HOME BUILDS INCREASED TO 20%**
  due to COVID-19 uncertainty and job losses in early spring.

The 5 Major Benefits of MI

- **GET INTO A HOUSE SOONER**
  Utilizing private MI when purchasing a home reduces the barriers to homeownership by allowing for a lower down payment when purchasing a home. In 2019, low down payment lending backed by private MI increased by 22.9 percent.[1] This is because saving the 20 percent down that many people mistakenly believe you need to purchase a home can take an average of 3x longer to save than a low-down payment of 5 percent with MI.[2]
- **SAVE YOUR MONEY**
  When you put a lower down payment on a home, your extra savings can be put to good use by reducing student debt, funding new appliances or furnishings, replenishing your nest egg, investing, or maintaining your savings for unexpected costs. This is particularly important, considering in 2018, 44 percent of homeowners said that they experienced their first unexpected home repair within the first year after buying a home.[3]
- **START BUILDING YOUR EQUITY**
  When you don't rely on saving up a 20 percent down payment, which would take the average American 21 years,[2] you miss the opportunity to get into your first home sooner. In an upside economy, there is also the potential that home price appreciation could lead to a greater return on your initial investment, so you can begin building your equity sooner and more affordably.[4]

NationalMI

The Home Front

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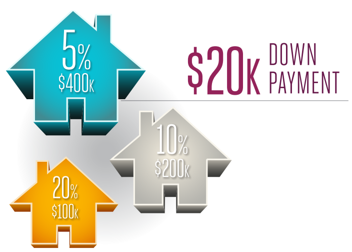
TAKE ADVANTAGE OF TAX BENEFITS

When you purchase your own home, you may become eligible for tax deductions that are not available to renters. These deductions are available on your mortgage interest, property taxes, and borrower-paid private MI. [5,*]

FIND A HOME FOR YOUR FUTURE

Assuming you are flexible in what you can afford monthly, opting for a lower down payment with MI will allow for the opportunity to find a home that better suits your needs, rather than being limited by what is available with 20 percent down.



1 https://www.mpamag.com/news/oped-low-down-payments-backed-by-mortgage-insurance-more-important-than-ever-230199.aspx
2 U.S. Mortgage Insurers report, Private Mortgage Insurance, June 2020
3 https://www.nerdwallet.com/blog/2018-home-improvement/
4 https://themortgagereports.com/18520/20-percent-downpayment-risk-mortgage-interest-rate
5 https://www.hsh.com/finance/mortgage/tax-incentives-and-issues-for-homeowners.html
* For general informational purposes only. Not to be construed as legal or tax advice. Homeowners should consult their tax advisor for advice pertaining to their own individual circumstances.

Leveraging MI: Private MI in the Marketplace

Considering the recent data outlined below, there are advantages to leveraging private mortgage insurance (MI) with borrowers.

- **According to Ellie Mae's Origination Insight Report for June,** the average FICO score on all closed loans has been increasing over the last several months. As of June 2020, the average FICO score was 751, up one point from May and up twenty points from June 2019. Overall, FICO scores increased month-over-month for both purchase and refinances across conventional, FHA, and VA loans.

  Don't assume FHA is the best option. Private MI is typically a better choice for high credit quality home buyers.

- **According to the National Association of Realtors' RCI Survey,** first-time homebuyer share was 33 percent of existing homes sold in August 2020, down from 35 percent in June 2020, but still higher than the 29 to 32 percent average since 2012. This is most likely due to historically low mortgage rates, brought on by the pandemic.

  If you're looking to purchase a home, there are many options for first-time homebuyers.

Mortgage 101: Qualifying for a Mortgage

DOWN PAYMENTS

From loan officers to the general public, many people do not fully understand the benefits of private mortgage insurance (MI), or how MI can be used to help borrowers get into a home sooner and more affordably. The low-down payment options available, including the ability to purchase a home with as little as 3 percent down, is quite a drop from the typical 20 percent down payment required for a conventional loan. FHA requires 3.5 percent down. The time it takes for a borrower to save the additional funds could delay their getting into a home.

CREDIT SCORES

At its essence, a credit score indicates a consumer's likelihood to make his or her future loan payments based on their credit data and credit patterns over time. It is a numerical expression based on an analysis of a person's credit files. Three quarters of U.S. mortgages are approved using the Fair Isaac Corporation (FICO®) score, which ranges from approximately 300 to 850 points.

A FICO® SCORE OF 620 AND ABOVE QUALIFIES FOR AN MI LOAN

While a higher FICO score will garner the best rates on most types of loans, a FICO score of 620 and above qualifies for an MI loan. According to an Ellie Mae report released in December 2019, the average FICO score on all closed loans reached 730, the highest average score of 2019.

MORTGAGE PROCESS

For the loan process to go smoothly, the initial application needs to be complete. The loan officer will obtain information and documentation pertinent for receiving loan approval. A borrower will need to obtain their credit report, gather documentation, consult with a lender to review their income, expenses, and financial goals, and consider obtaining a pre-approval letter or prequalification for a mortgage.

The Home Front

FALL 2020 | ISSUE NO. 9

Getting Started

USE A MORTGAGE CALCULATOR – RENT VS BUY

Use a mortgage calculator to test different scenarios for your future – **Should you rent or buy? How much can you afford to spend on a home? What kind of payments can you handle?** There are four variables in any mortgage calculator – **1**| Loan Term, **2**| Loan Amount, **3**| Monthly Payment, **4**| Mortgage Interest Rate. If you know any of these three variables, you can figure out the last one to help plan your future living space.

You can find our Rent Vs. Buy Calculator on our Mortgage Calculators page. Give our calculators a try and share with your clients: National MI Calculators

TIPS FOR BORROWERS STARTING THE LOAN PROCESS

1. **Do NOT** change companies or end a job during the loan process.
2. **Do NOT** open or apply for any new credit cards, car loans, or any other type of debt.
3. **Do NOT** make big purchases during the loan process (TVs, home electronics, furniture, etc.).
4. **Do NOT** make any large deposits into your bank accounts without documented proof from the source you received it from.
5. **ALWAYS** make your payments on time each month.
6. **Do** call your real estate agent and Loan Officer to help guide you through the process.

Mortgage Application Checklist

Salaried Borrowers and/or Co-Borrowers (Not Self-Employed)

- Signed federal personal tax returns for the two most recent years filed including W-2s and all schedules (and current extension if applicable)
- Paystub(s) covering most recent 30-day period including year-to-date earnings
- Verification of the two most recent years' history of bonuses or commissions if applicable, via paystubs or employer written verification
- Written explanation for any gaps in employment

All Applicants

- Bank and asset account statements for past 2-3 months for all checking, savings, investment, and retirement accounts
- Name and phone number of insurance agent
- Copy of one of the following identity verification documents: driver's license, government-issued photo ID, U.S. Military ID, or passport
- If condominium or planned unit development, name and phone number of homeowner's association
- If title or property vesting will be held in trust or other entity, please contact your financial institution's relationship manager for a list of applicable documents.

Purchasing a Property

- Fully executed purchase agreement with all addendums
- Name and phone number of real estate agent

Refinancing a Property

- Copy of current evidence of homeowners insurance

Self-Employed Borrowers and/or Co-Borrowers

- Signed federal personal tax returns for the three most recent years filed with all schedules (and current extension if applicable)
- Signed federal entity(ies) tax returns (1120, 1120S, 1065) for the three most recent years filed with schedules and K1 statements
- Signed and dated current profit & loss statement and balance sheet for the entity(ies) on company letterhead
- Written explanation for any gaps in employment exceeding one month during the past two years

THE HOME FRONT

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