MBA Forecast Commentary
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Mortgage Originations Estimates Revised Higher

MBA Economic and Mortgage Finance Commentary: February 2016

In our most recent forecast, we presented revisions to our mortgage originations estimates for 2015 through 2018. The 2015 originations total was revised from $1.49 trillion to $1.63 trillion, which included upward revisions of purchase originations for 2015 from $821 billion to $881 billion and refinance originations from $665 billion to $749 billion. Generally, our adjustments were the result of re-examining data on 2015 applications, pull-through rates and other factors impacting originations. We also raised our expectation for both purchase and refinance originations in 2016 given the higher starting point and also a lower rate outlook for 2016. Despite the recent surge in refinance activity as rates have dropped, we still expect to end the year in a purchase dominated market.

Looking further into the future, the estimates for 2016 through 2018 continue to show steady growth in the purchase market with refinances expected to decrease as rates rise. The chart below summarizes both historical originations and the current forecast estimates. We also note that the 2015 originations estimates are subject to change, and will be benchmarked to the 2015 Home Mortgage Disclosure Act (HMDA) data once those are released later in the year.
The economic outlook for 2016 remains mostly unchanged from last month, and slow but steady growth is expected in 2016, driven by consumer spending and residential fixed investment as housing demand increases. There have been signs of upward pressure on wages beginning to take shape, and we expect that will materialize more significantly in coming months. Rates however, are expected to take a lower path given uncertainty about China’s economic health, its repercussions and increased financial market volatility, causing a flight to quality once again into US Treasuries. After sitting around the 2.2 percent mark at the beginning of 2016, 10 Year Treasury yields have been as low as 1.6 percent and currently sit around 1.75 percent, more than 40 basis points below where yields were in the first week of January this year. The silver lining to these uncertain conditions is that mortgage rates have also declined, dipping below 4 percent again, causing a 60 percent increase in refinance activity between early January and February’s most recent data point. While a majority of borrowers already have mortgages with rates below 5 percent, there are still borrowers rebuilding their equity and financial positions who benefit from refinancing at these lower rates.

Despite near-term market uncertainty, we maintain our outlook that the US economy is expected to return to trend growth levels of about 2 percent in 2016. We expect consumer spending to continue to drive economic growth, along with a gradual increase in residential fixed investment as housing demand grows. This is likely to cause rates to rise again, bearing in mind that given the lack of certainty around situations like economic growth in China and the downward slide in oil prices (and concerns over global growth related to that), there is notable downside risk to our rate path.
Given that the FOMC has been communicating with a more cautious tone on its outlook, in addition to highlighting tighter financial conditions, we expect any further fed funds rate increases to be pushed later into the year. The Fed plans to continue to reinvesting proceeds from its securities holdings until the rate increases are well under way, and current market and financial conditions might push that back as well.

**US 10 Year Treasury Yield and Dow Jones Industrials Index**

Inflation continues to be a key concern as a stronger dollar, lower oil prices, and lower import prices pushed most inflation measures lower than expected. In the most recent report on consumer prices from the BLS for January 2016, the overall CPI grew 1.4 percent on a year over year basis, the strongest growth since October 2014, but was flat relative to its December 2015 reading. Core CPI inflation, which excludes food and energy, grew at a pace of 2.2 percent compared to the same month a year ago, the largest year over year gain since 2012. Motor fuel prices have seen their decline ease, but still remain around 8 percent lower than a year ago. Prices on shelter continued to remain firm and contributed to the upward pressure on the broader CPI measures. The pickup in inflation not only provides the Fed more impetus for another rate increase, but is an indication that we may be seeing stronger wage increases on the horizon.

Source: Federal Reserve, NYSE
Payroll employment, one of the most broadly watched job market indicators in the US, grew by 151,000 jobs in January 2016, and the unemployment rate decreased to 4.9 percent, the first time since 2008 that the unemployment rate has been below 5 percent. The average monthly job growth count for 2015 was 228,000 jobs, marking 2015 as the second strongest year for job growth since 1999. The labor force participation rate, which remains a concern despite robust performance of other job market indicators, increased for the second straight month to 62.7 percent. This was the highest participation rate since May 2015.

Weekly unemployment claims, another key gauge of job market health, declined steadily through 2015 and continue to move around the 270,000 claims mark. This is well below the historical average of 377,000 claims, and weekly claims have remained below 300,000 for almost a year now.

Source: BLS
The strides made in labor market recovery have also contributed significantly to improvement in mortgage performance. According to MBA’s National Delinquency Survey for the fourth quarter of 2015, the delinquency rate was at its lowest level since 2006, and the rate at which new foreclosures were started decreased to its lowest level since 2003. As the job market has improved and national home prices have rebounded, fewer borrowers became seriously delinquent (either 90+ days delinquent, or in the process of foreclosure), while borrowers previously behind on their payments were in a better position to pursue alternative options to resolve their delinquent loans. Mortgage performance is closely connected to job market health and most states saw employment growth continue over the past year.
However, there were increases in the foreclosure starts rate in a handful of states that have economies closely tied to the oil industry. Out of 12 states that had an increase in foreclosure starts in the fourth quarter, five of those were in states with oil-dependent local economies. Oklahoma, North Dakota, Louisiana, Colorado, and Texas saw increases in new foreclosures while the national average continued to trend lower. As noted in a recent MBA Chart of the Week, employment trends in each of these states were running below the national average during 2015.

Recent data also show that four of the five states (with the exception of Colorado) were ranked among the 10 weakest states in terms of second quarter 2015 real GDP growth. Oklahoma’s economy in particular contracted by 2.4 percent in the second quarter (the latest quarter for which state data is available). It also suffered the largest increase in foreclosures starts during the fourth quarter according to the NDS, increasing by 13 basis points.
The states that were hardest hit at the onset of the foreclosure crisis, also known as the sand states, continued to see drastic improvements in terms of their percent of loans in foreclosure, although Florida and Nevada have yet to return to pre-crisis levels. Following the recession, Florida not only had the largest percent of loans in foreclosure, but was also a judicial state and saw a huge backlog in the foreclosure pipeline. As housing markets recovered in Florida, the percent of loans in foreclosure started to decline more rapidly. California and Arizona, both non-judicial states, saw a much quicker recovery in comparison.

As the job market strengthens and as home prices continue to grow and stabilize, we expect that recent loan origination vintages will continue to show strong performance with fewer serious delinquencies. Older vintages have benefited from these favorable market conditions as well, resulting in fewer new foreclosures, and more opportunities to be resolved for those who have fallen behind in their payments.

Source: MBA National Delinquency Survey
Sand States - Loans in Foreclosure
Percent, based on # loans

Source: MBA National Delinquency Survey