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MBA Forecast Commentary

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Purchase Originations Expected to Grow Seven Percent in 2015

MBA Economic and Mortgage Finance Commentary: October 2014

We project that home purchase originations will increase in 2015 as the US economy continues on its current path of stronger growth, job gains and declining unemployment. The job market has shown sustained improvement this year; with robust monthly increases in both payroll jobs and job openings. Strong job growth, coupled with still low mortgage rates, should translate to an increase in home sales and purchase originations. Despite little to no owner household growth in recent years, we expect that this will turn around in the coming years as potential borrowers who have "consolidated" housing with roommates and house mates see better employment conditions, leading to increased activity in the purchase market.

Our forecast is for $1.19 trillion in mortgage originations during 2015, a seven percent increase from 2014. The increase is expected to be driven by purchase originations, which are expected to increase 15 percent to $731 billion in 2015, up from $635 billion in 2014. In contrast, refinances are expected to drop to $457 billion, from $471 billion in 2014, a decrease of around three percent. For 2016, MBA is forecasting purchase originations of $791 billion and refinance originations of $379 billion for a total of $1.17 trillion.

An unusual number of international factors loom over these forecasts, which may have strong impacts on eventual outcomes. For example, a recent flight to quality, with investors seeking safety in US Treasury securities, has pushed interest rates lower than expected, increasing refinances. However, if the global turmoil diminishes and US economic growth continues, we anticipate the rate will exceed three percent in the second half of 2015, continuing to increase through 2016. We think the Federal Reserve will keep short-term rates near zero until mid 2015, when we expect the first fed funds rate increase.

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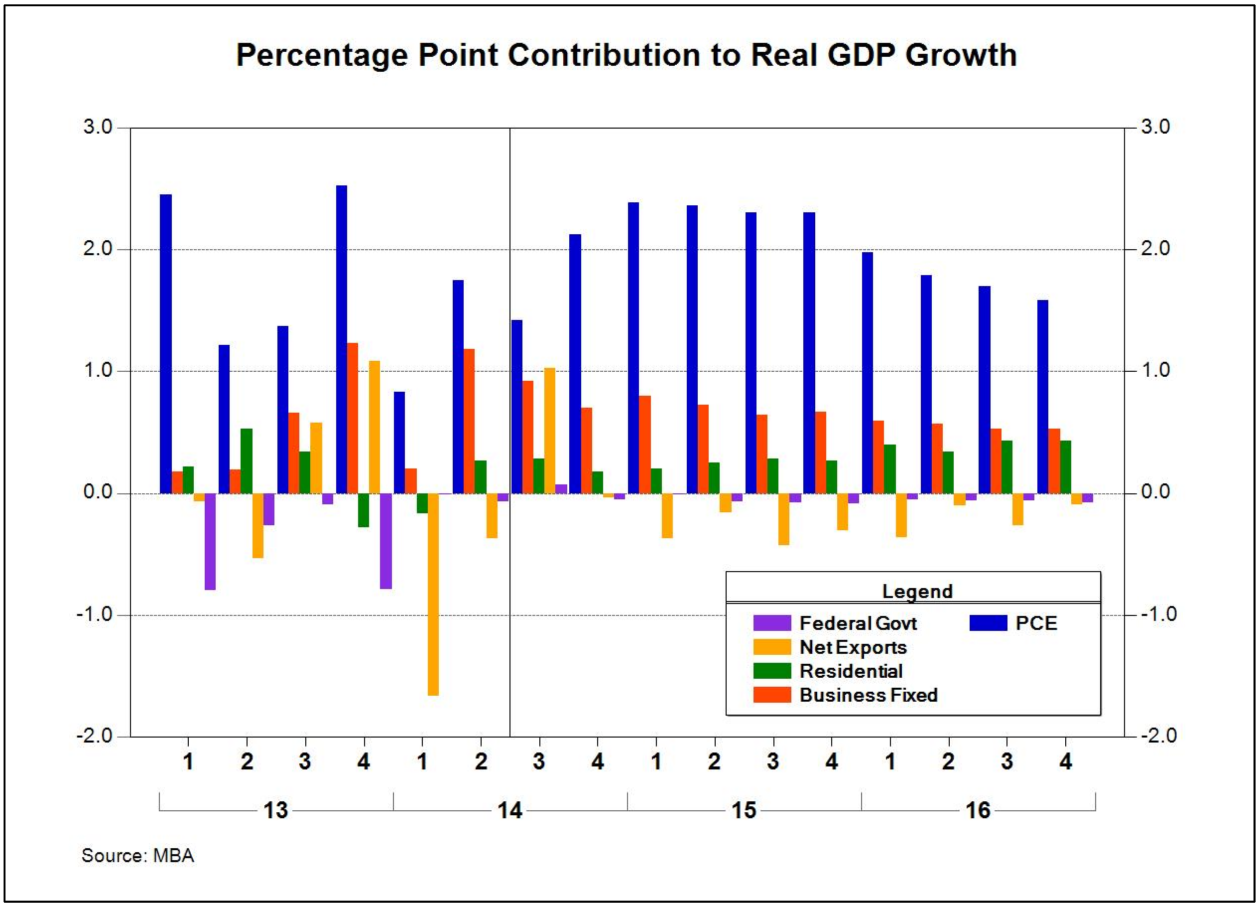
Our projection for overall US economic growth is 2.9 percent in 2015 and 2.4 in 2016, which will be driven mainly by strong consumer spending and business fixed investment, as households continue to spend on durable goods, such as cars and appliances, and as businesses invest in new plant and equipment. Moreover, after several years of contraction, the rate of government spending should no longer be a significant drag on the economy. The chart below shows the components that we expect will contribute to GDP growth in 2015 and 2016.



The BEA's report on second quarter 2014 GDP showed the strongest quarterly growth rate since 2011 as there was increased growth in personal consumption spending, business fixed investment, residential fixed investment, and government spending. Businesses picked up their investment in equipment, structures and intellectual property products in the second quarter. Additionally, separate reports showed that industrial production in September and capacity utilization for the month was the highest since 2008. Shipments and new orders for core capital goods (excluding aircraft) continued to trend higher in August. However, the rate of growth in the manufacturing sector as measured by the ISM

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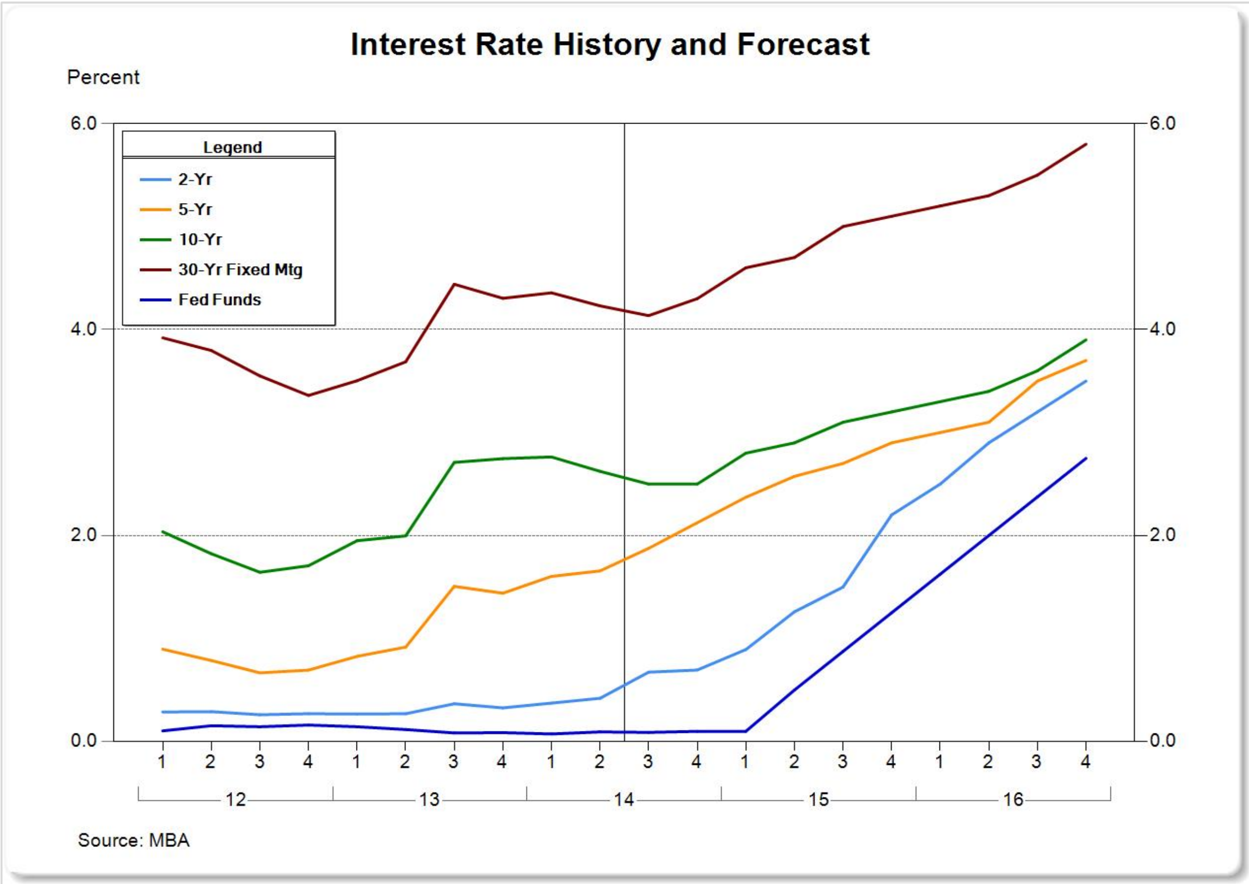
slowed in September as the new orders and employment components of the index decreased from the previous month.



The employment picture has been encouraging, as job openings in both private and government sectors have increased steadily this year and weekly unemployment claims have fallen in recent weeks. In the September employment report from the BLS, we saw encouraging news as total non-farm payrolls grew by almost 250,000 jobs over the month and the unemployment rate decreased to 5.9 percent from 6.1 percent in August. There were also upward revisions to previous months' payroll growth numbers, bringing up the average monthly growth for 2014 to around 226,000 jobs. However, the report also showed another tick down in the participation rate to 62.7 percent from 62.8 percent in the previous month. While part of the decrease in the unemployment rate in 2014 has been driven by lower labor force participation, we have seen payroll growth outpace population growth and a declining number of unemployed workers (see chart below).

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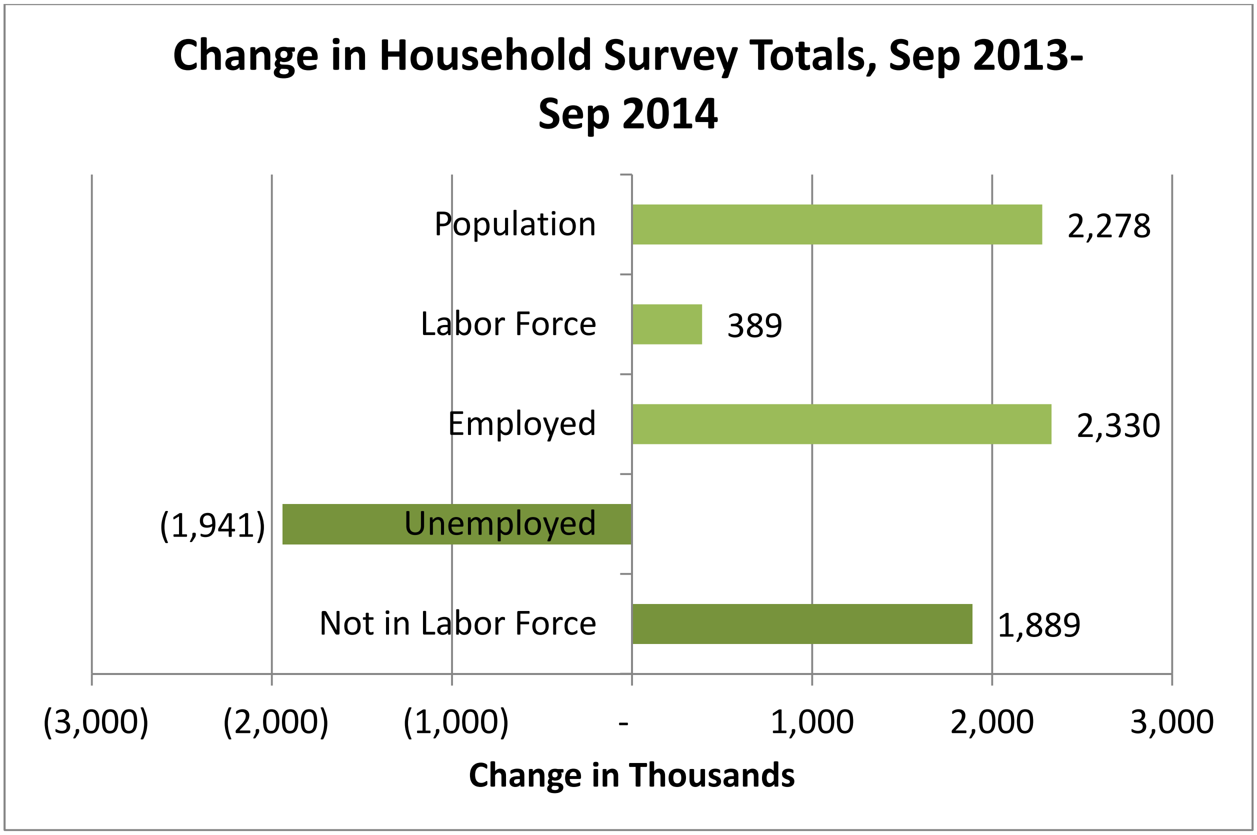

Source: BLS

We anticipate that as the economy grows, more workers may return to the work force to seek employment, and this will temper the decline of the unemployment rate. We forecast monthly job growth will average 220,000 per month in 2015, and that the unemployment rate will decrease to 5.4 percent by the end of 2015 and 5.2 percent in 2016.

The most recent report from Census on housing starts showed increases in both single-family and multifamily starts in September, with single-family starts reaching the highest monthly level since April of this year. Single-family starts increased to a 646,000 unit annualized pace from 639,000 units the month before. Multifamily starts increased to 371,000 units from 318,000 units in August. The Census also reported that new home sales increased 18 percent to a 504,000 unit pace in August, the strongest monthly increase since 2008. The MBA's survey of builder mortgage applications however, showed that new home sales remained essentially flat at a 425,000 unit pace between August and September 2014. We have observed that the first estimates from Census tend to be higher than the estimates implied from the MBA survey data. However, later revisions to the Census data tend to result in a much closer match to MBA's estimates, and we anticipate that will be the case going forward. Possible reasons for this anomaly are different methodologies and an estimated higher rate of coverage in our data. Existing home sales decreased by almost two percent in August, the first decrease after four months of increases. The current pace of 5.05 million units is still about five percent lower than the same month a year ago. Our outlook is for housing starts and home sales to pick up in 2015 and 2016, as much of the restrained household formation growth starts to be reversed, credit availability loosens a little, and the economy and job markets strengthen.

With the recent drop in mortgage rates, some borrowers now have an incentive to refinance and with the home price gains of the last two years more homeowners have enough equity to refinance, so we expect a pickup in refinance application activity over the next few months, which will lead to higher refinance originations in early 2015. There have been some early signs of this as the most recent Weekly Applications Survey Refinance Index readings have increased five percent and 11 percent in the last two weeks, although the current level of the index is still 27 percent lower than a year ago.

To recap, we estimate a total of $1.19 trillion in mortgage originations for 2015, a seven percent increase overall from 2014. Purchase originations will drive the increase, increasing to $731 billion in 2015 from $635 billion in 2014. Despite a slight bump in refinance activity expected in the near term because of lower rates, refinances are expected to drop to $457 billion in 2015 from $471 billion in 2014. For 2016, where above-trend economic growth is still expected, the improvement in the housing and mortgage markets should continue, leading to $791 billion in purchase originations. However, rates will likely continue to rise and cause refinances to decline to $379 billion for a total of $1.17 trillion in 2016.

In our most recent forecast, we upwardly revised our estimates of originations for 2014 to $1.11 trillion from $1.01 trillion, and for 2013 to $1.85 trillion from $1.76 trillion, to reflect the most recent data reported in the 2013 Home Mortgage Disclosure Act data release. Revised numbers are included in the graph and table below.

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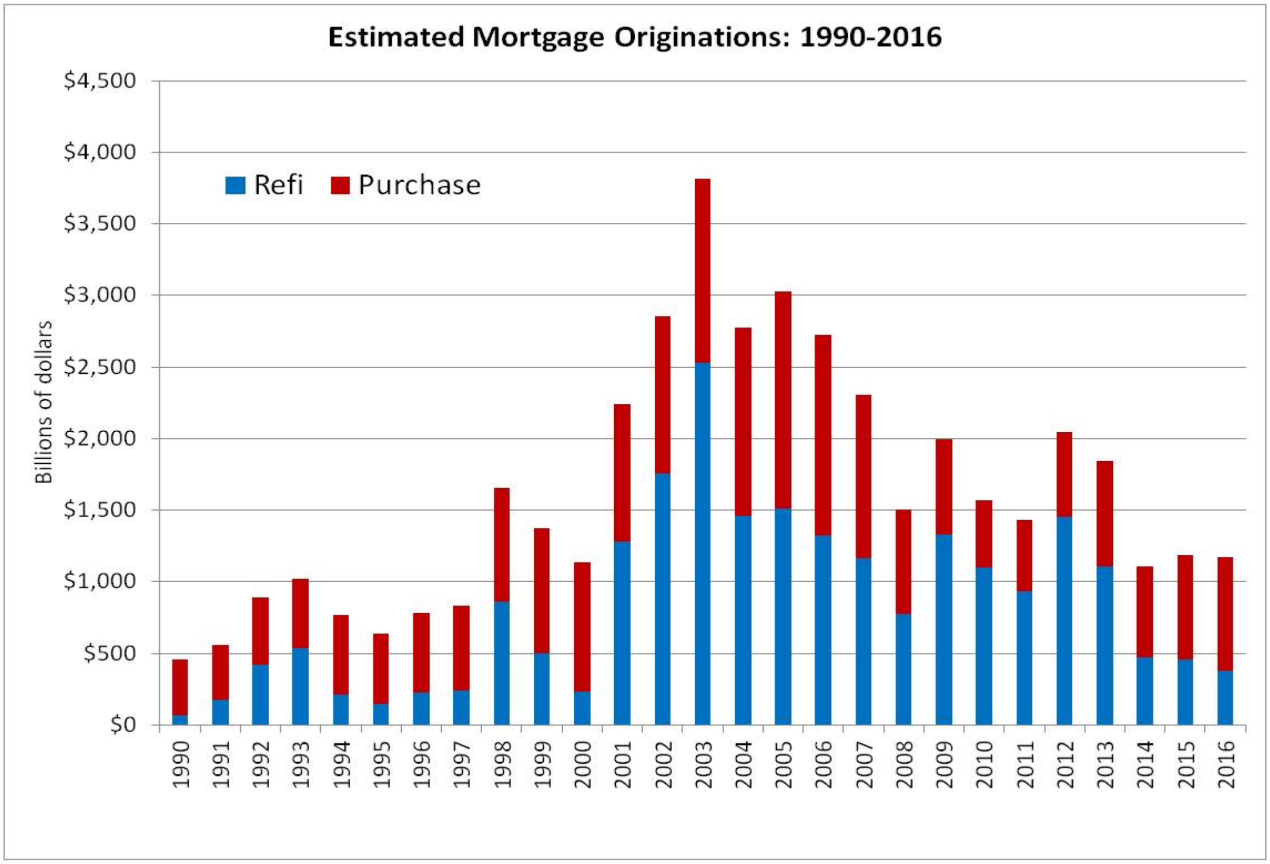
Chart: Mortgage originations from 2000 to 2016



Source: MBA Forecast October 2014

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Table: Mortgage originations from 2000 to 2016

	Total Originations ($ Billions)	Purchase Originations ($ Billions)	Refinance Originations ($ Billions)
2000	1,139	905	234
2001	2,243	960	1,283
2002	2,854	1,097	1,757
2003	3,812	1,280	2,532
2004	2,773	1,309	1,463
2005	3,027	1,512	1,514
2006	2,726	1,399	1,326
2007	2,306	1,140	1,166
2008	1,509	731	777
2009	1,995	664	1,331
2010	1,698	530	1,168
2011	1,436	505	931
2012	2,044	587	1,456
2013	1,845	734	1,111
2014	1,106	635	471
2015	1,188	731	457
2016	1,170	791	379

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