

Economic and Mortgage Market Outlook

October 15, 2023

Presented by:

Mike Fratantoni, Ph.D., Chief Economist and Senior Vice President

Joel Kan, Vice President, Deputy Chief Economist

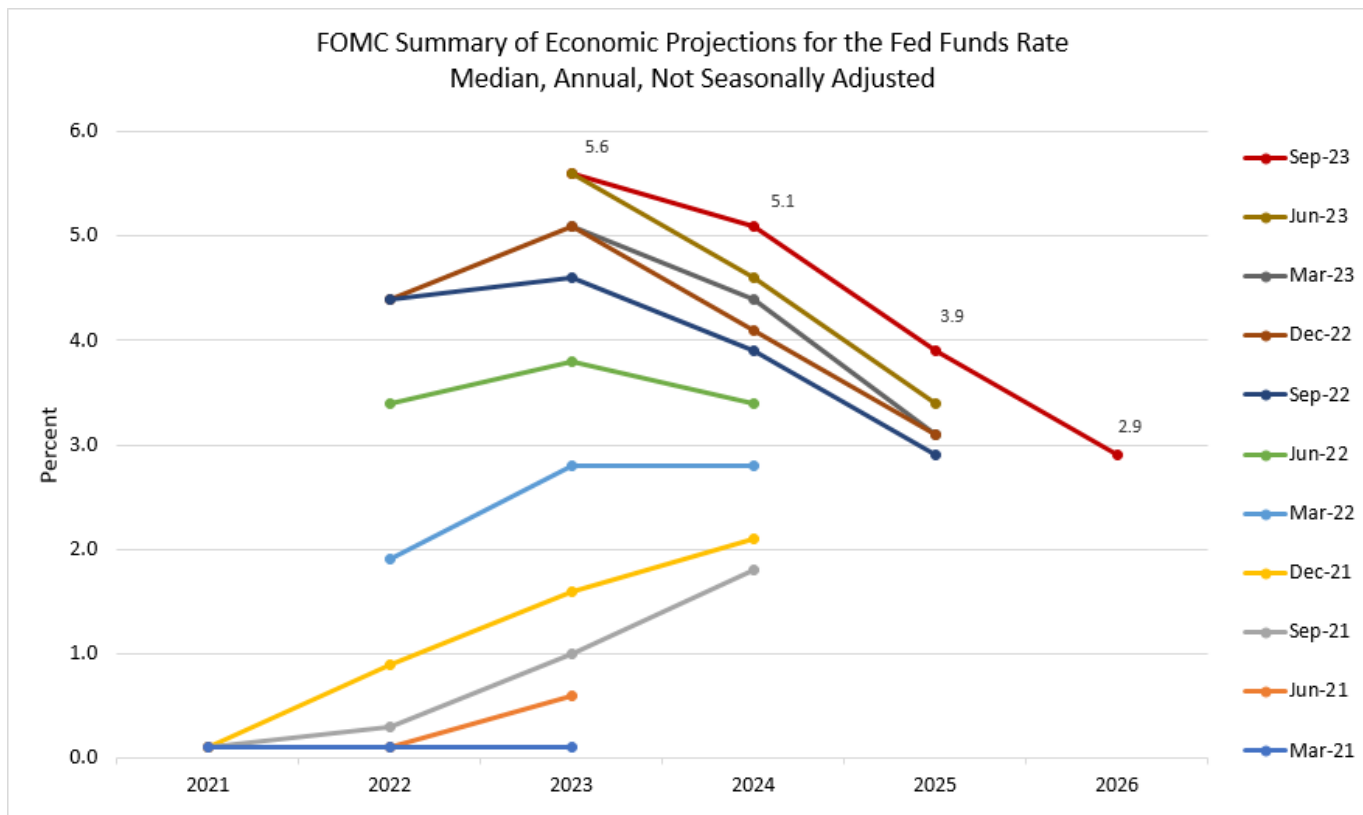
Marina Walsh, CMB, Vice President, Industry Analysis



What We'll Cover Today

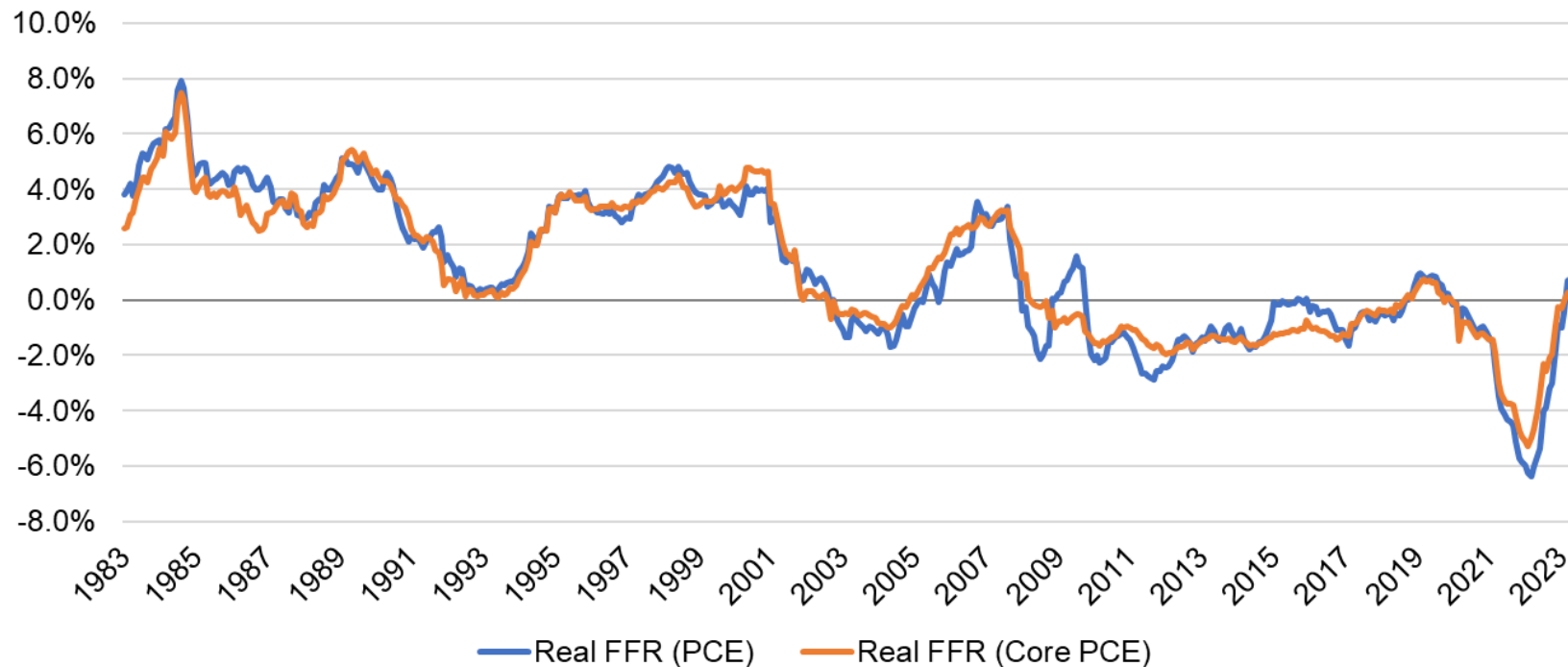
- Macro outlook and interest rate path
- Origination forecast
- Housing and mortgage market trends
- Lender performance
- Servicing trends

Funds Rate Expected to be Higher for Longer



Real Fed Funds Rate in Restrictive Territory

Inflation Adjusted Fed Funds Rate

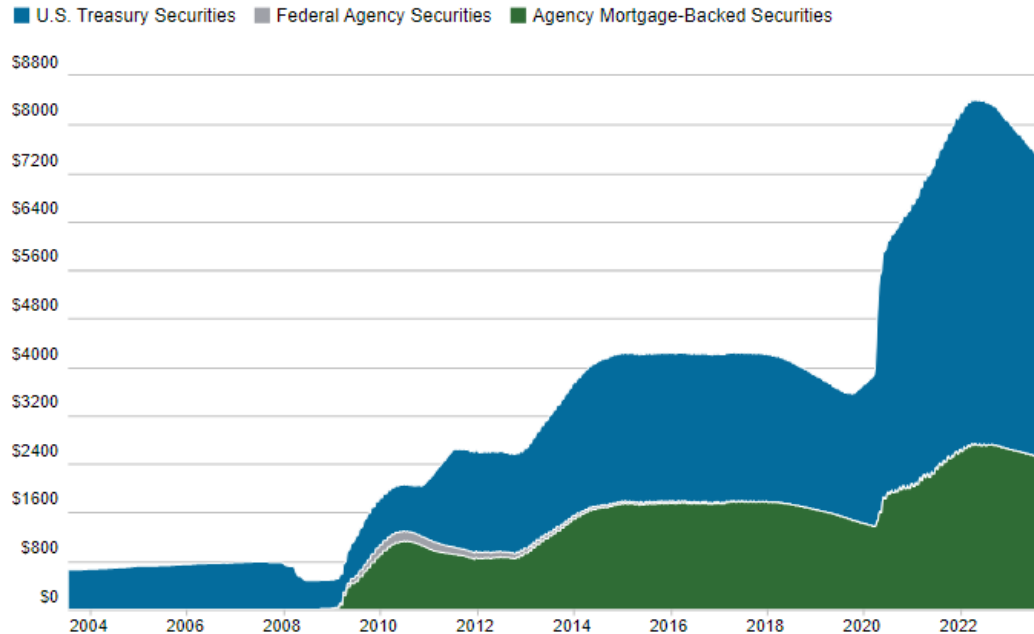


Quantitative Tightening Continues...For Now

Domestic Securities Holdings

Dollars (bns) Percent

From Jul 9, 2003 To Sep 27, 2023



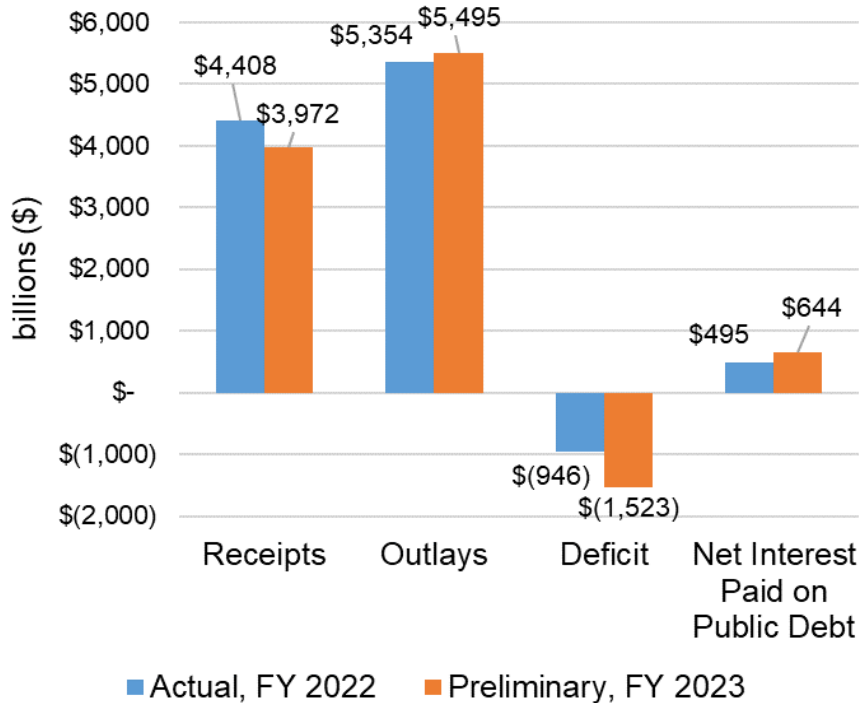
“ ...the FOMC has communicated its intention to slow and stop balance sheet runoff before reserve supply clearly transitions from abundant to ample.”

Roberto Perli - Manager of the System Open Market Account

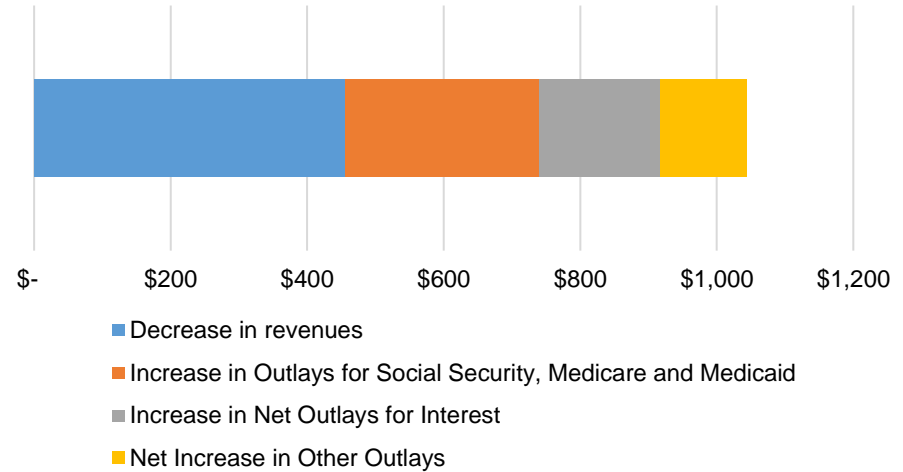
<https://www.newyorkfed.org/newsevents/speeches/2023/per231010>

Deficits and Net Interest Burden Growing

Budget Totals, Fiscal Year 2022 to 2023

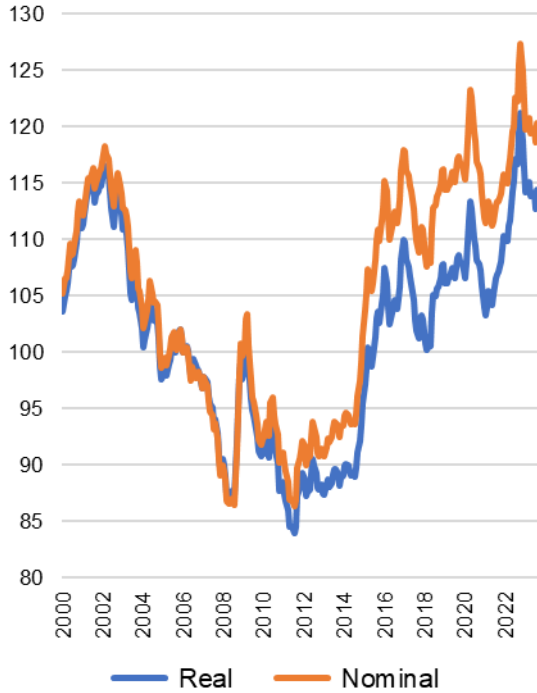


Increase in the Deficit from 2022 to 2023



Global Picture

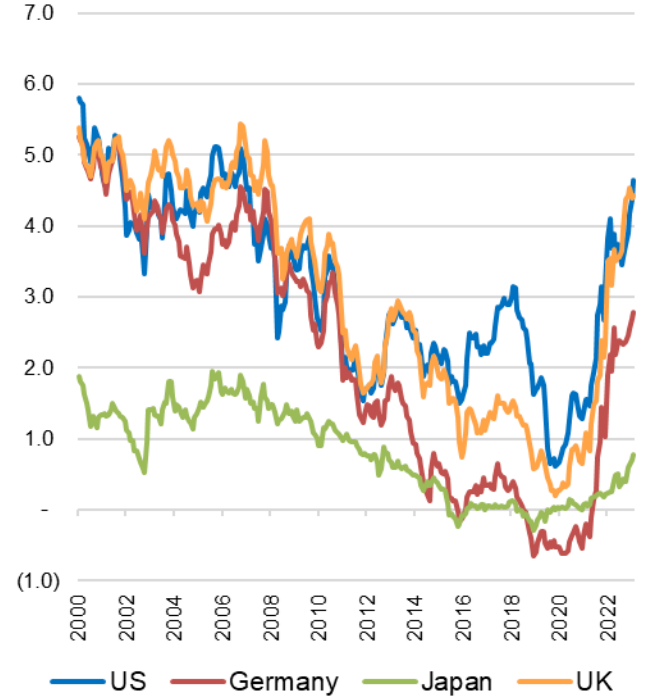
Trade Weighted Dollar (Jan 2006 = 100)



West Texas Intermediate Spot Price (\$/Barrel)

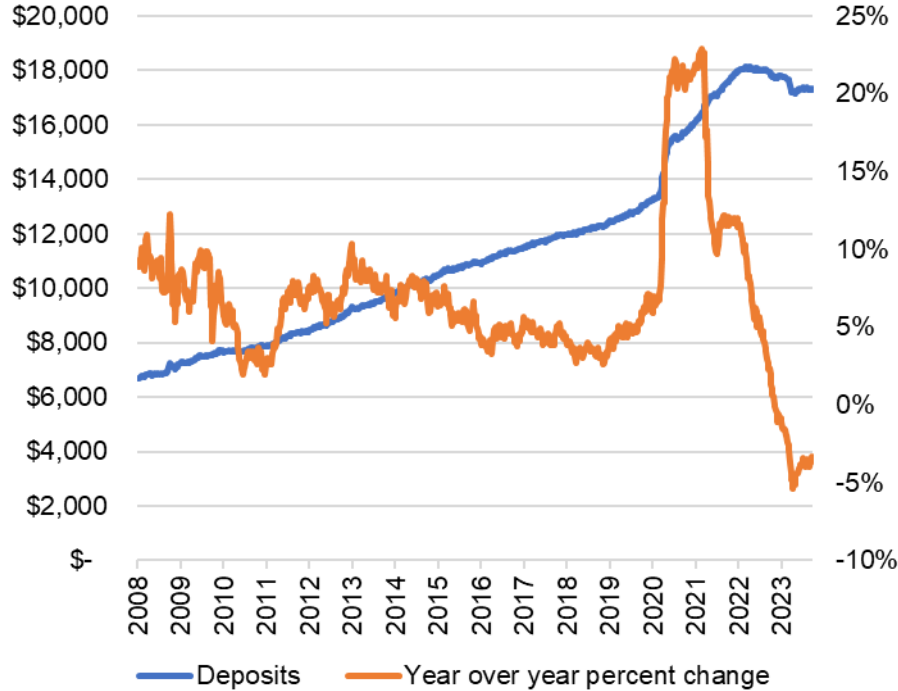


Comparison of 10-Year Bond Yields (Percent)

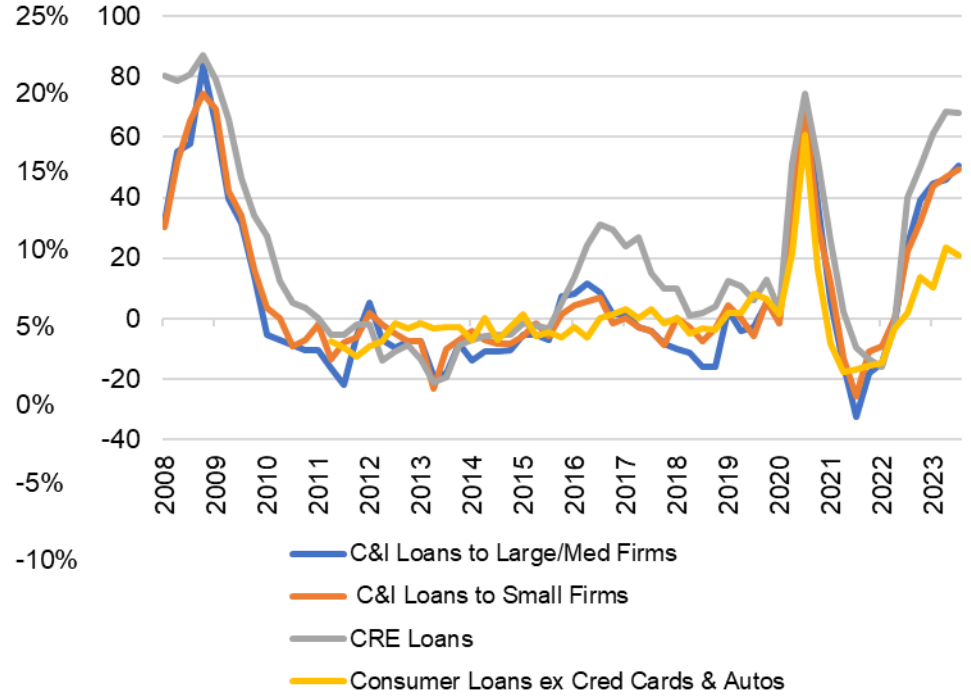


Banking System Has Pulled Back

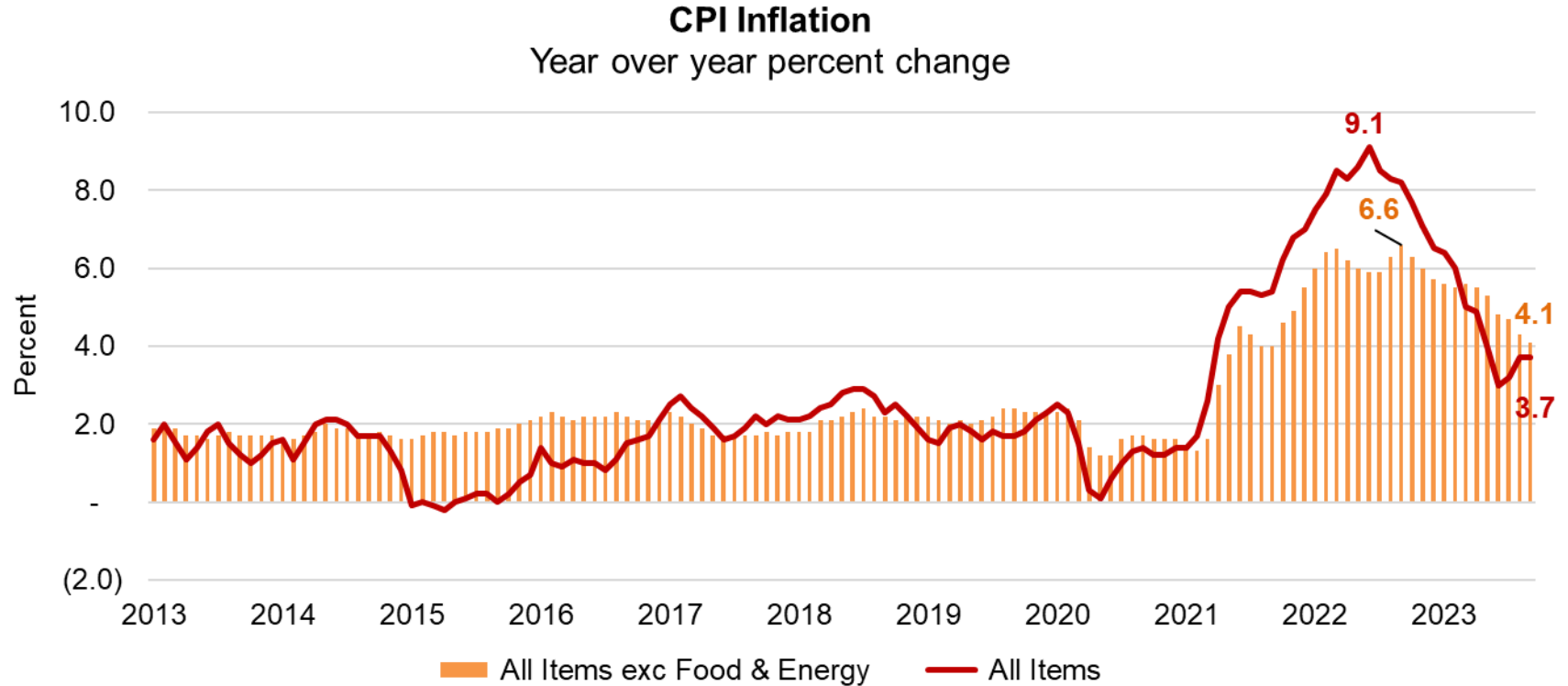
Commercial Bank Deposits
Billions \$, seasonally adjusted



Senior Loan Officer Opinion Survey
Net percent of respondents tightening standards

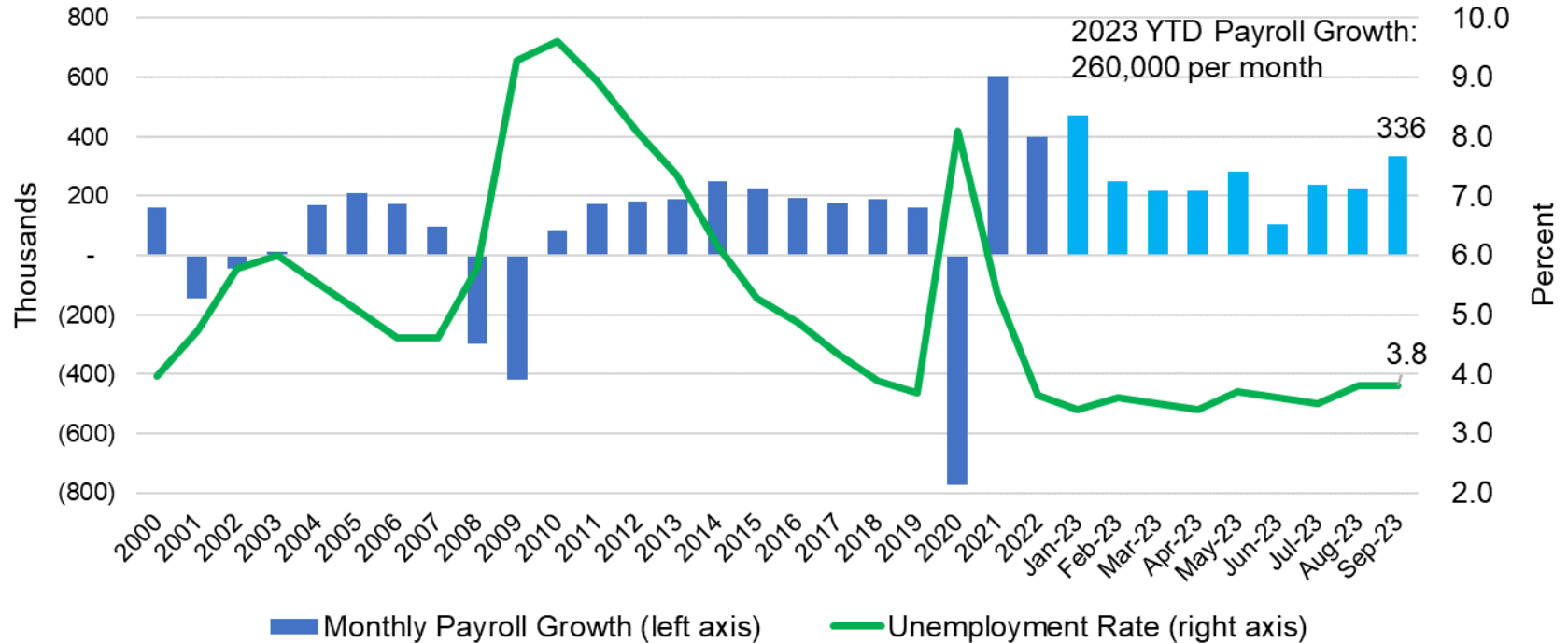


Inflation Has Been Slowing



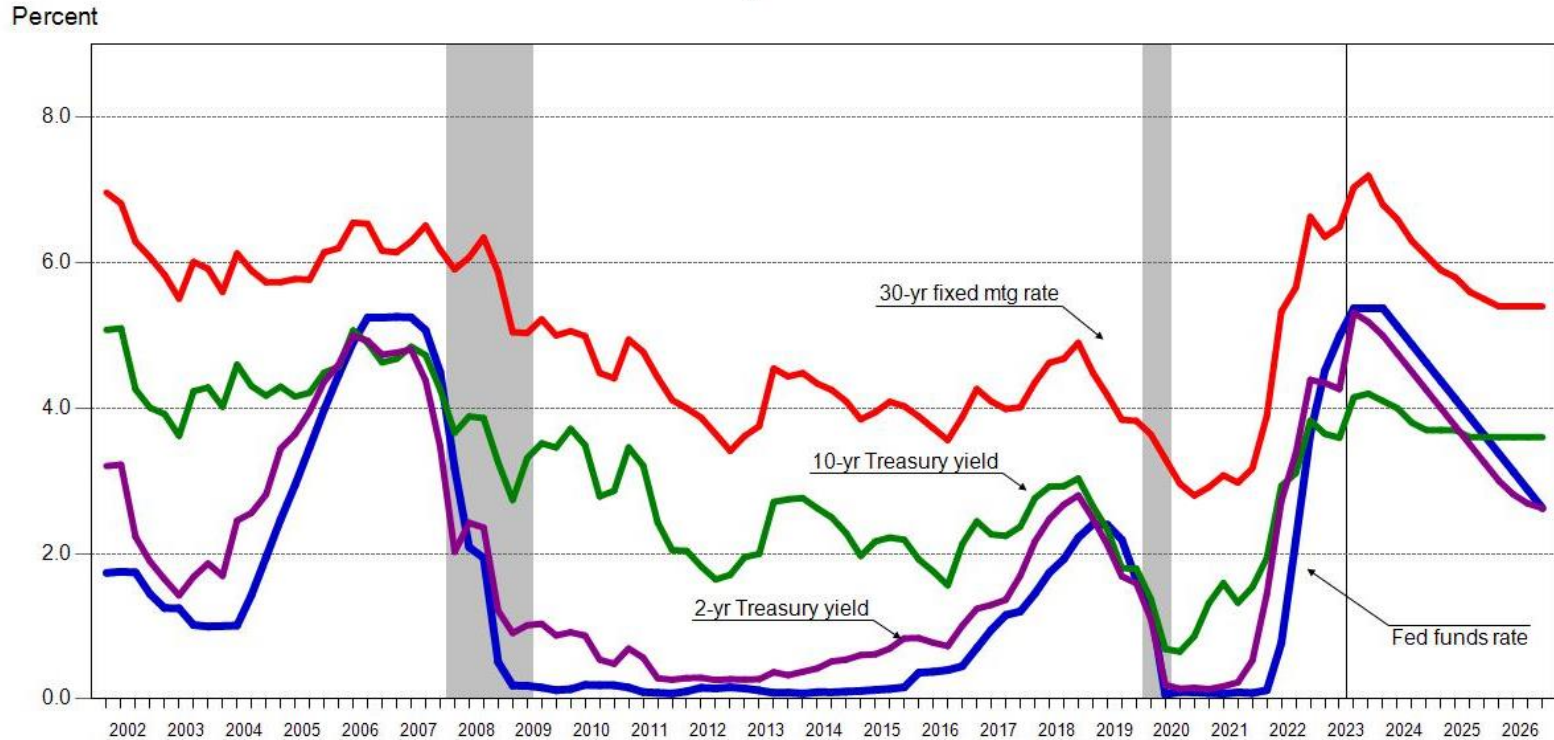
Job Market Expected to Cool

Monthly Payroll Growth and Unemployment Rate



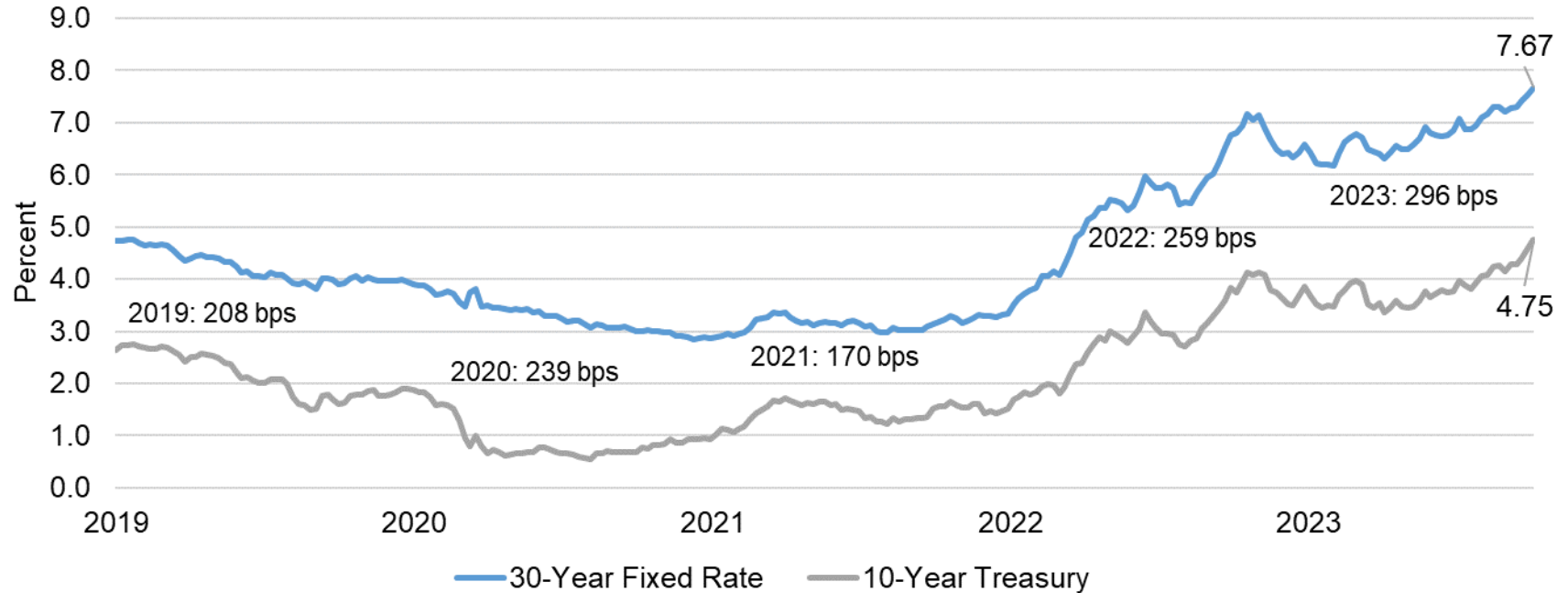
Fed to Hold Funds Rate Until 2024, Mortgage Rates Expected to Drift Down

Rate History and Forecast



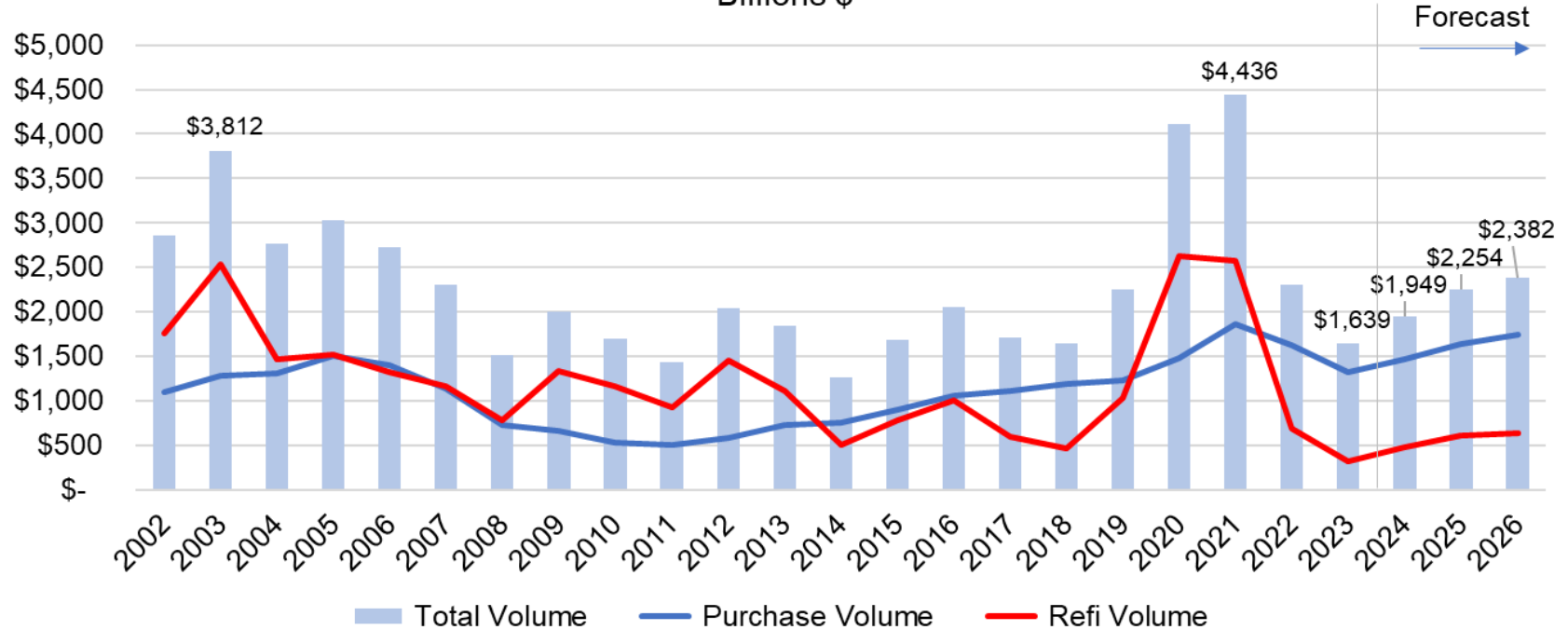
Mortgage-Treasury Spread Still Wide

30-Year Fixed Rate and 10-Year Treasury Yield
Average Conforming-Treasury Spread from 2009 to 2018: 184 bps



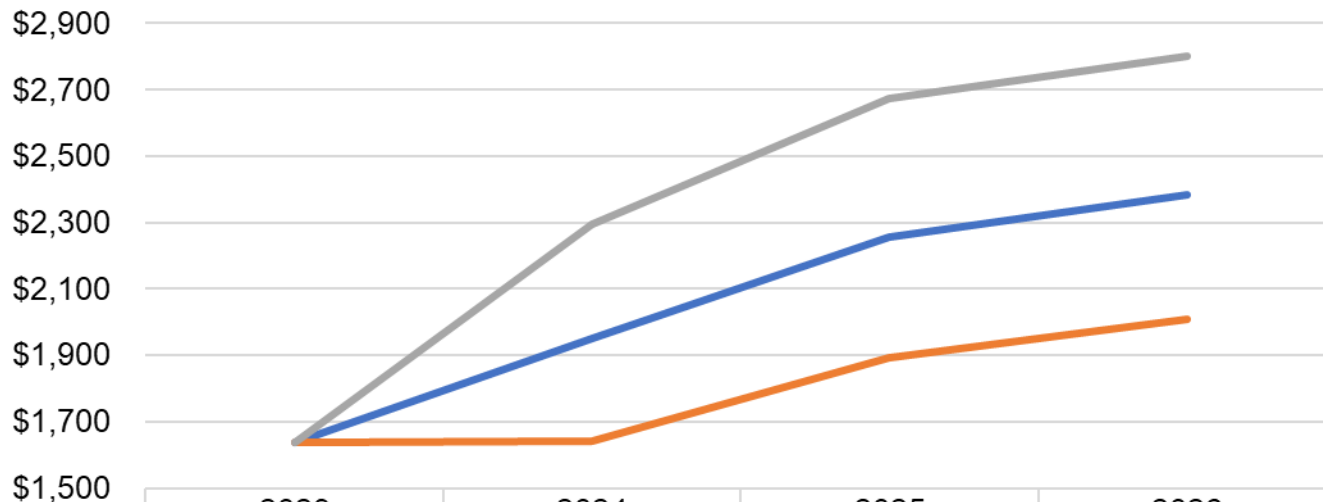
Mortgage Origination Dollar Volume to Increase 19% in 2024

Annual Origination Dollar Volume
Billions \$



Alternative Originations Scenarios

Total Originations Scenarios
Billions \$

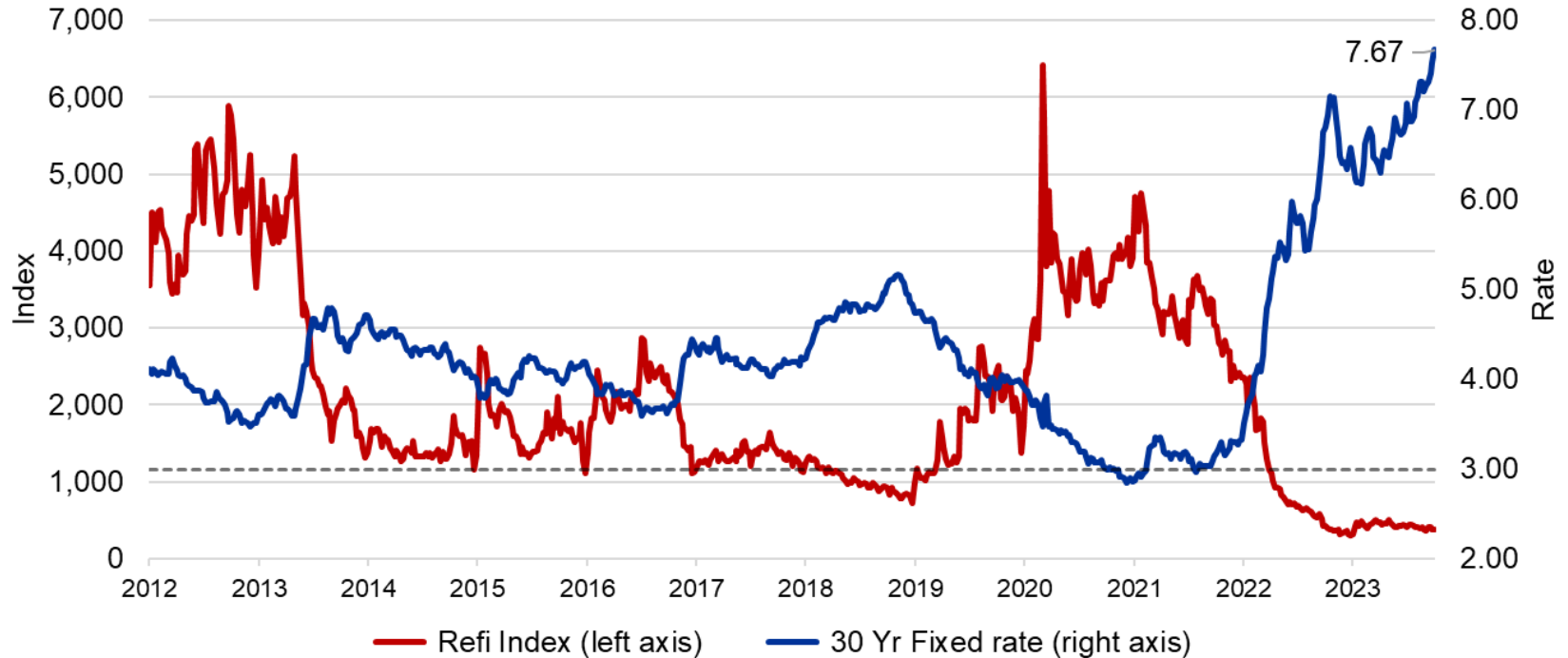


	2023	2024	2025	2026
— Baseline forecast	\$1,639	\$1,949	\$2,254	\$2,382
— Rate path 100 bps higher	\$1,639	\$1,640	\$1,891	\$2,007
— Rate path 100 bps lower	\$1,639	\$2,296	\$2,675	\$2,802

Mortgage Market Trends

30-Year Fixed Rate Over 7%, Refinances Down 89% From 2020-2021 Averages

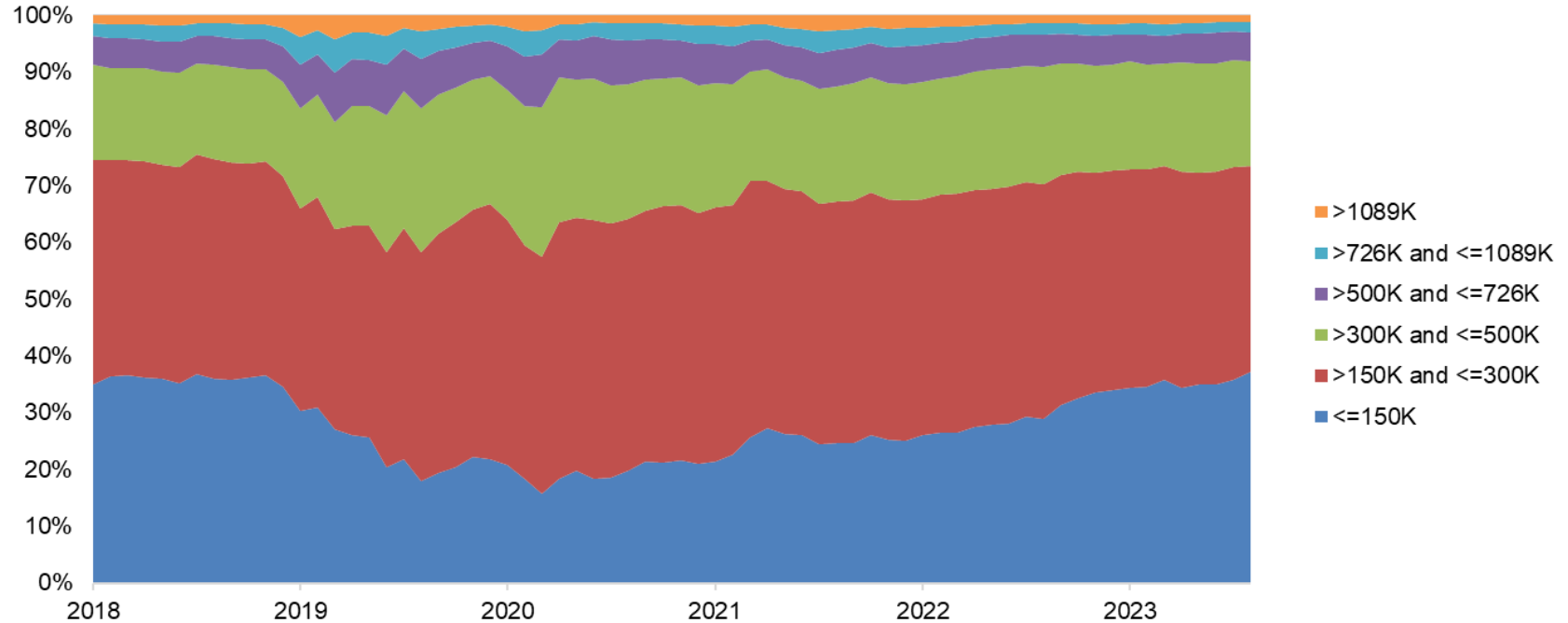
Refinance Index and 30-Yr Fixed Mortgage Rate



Refi Composition Shifting to Smaller Loan Sizes

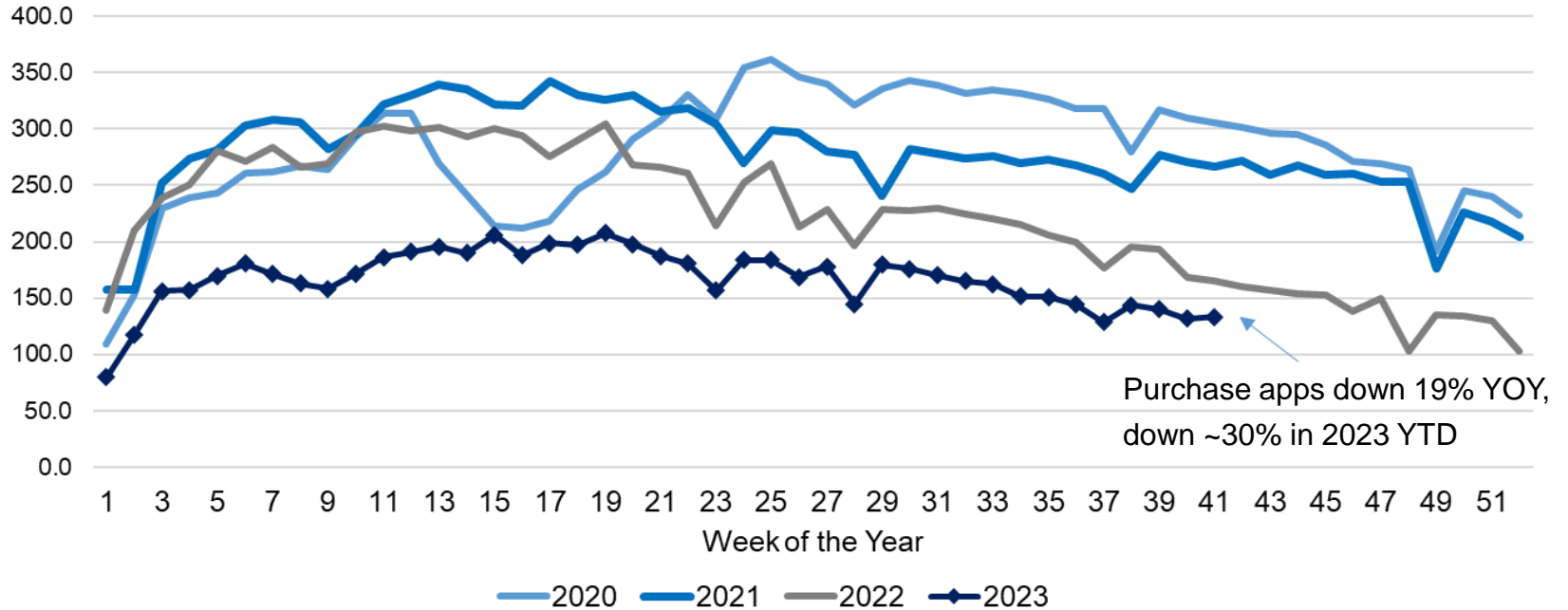
Refi app avg loan size lowest since 2017: \$245,100 as of 10/6/2023

Refinance Applications - Share by Loan Size
Non-seasonally adjusted, based on number of loans



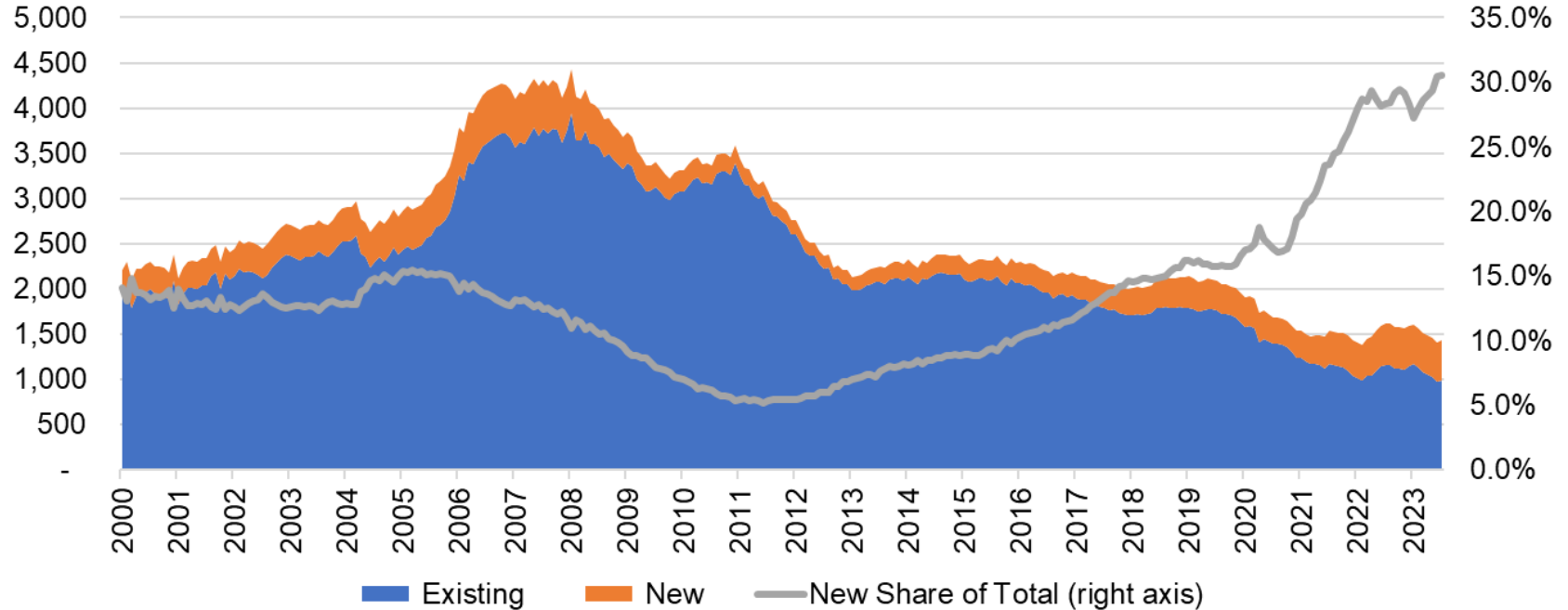
Purchase Applications Continue to Lag Past Years

Purchase Mortgage Applications Index
Non-seasonally adjusted, based on loan count



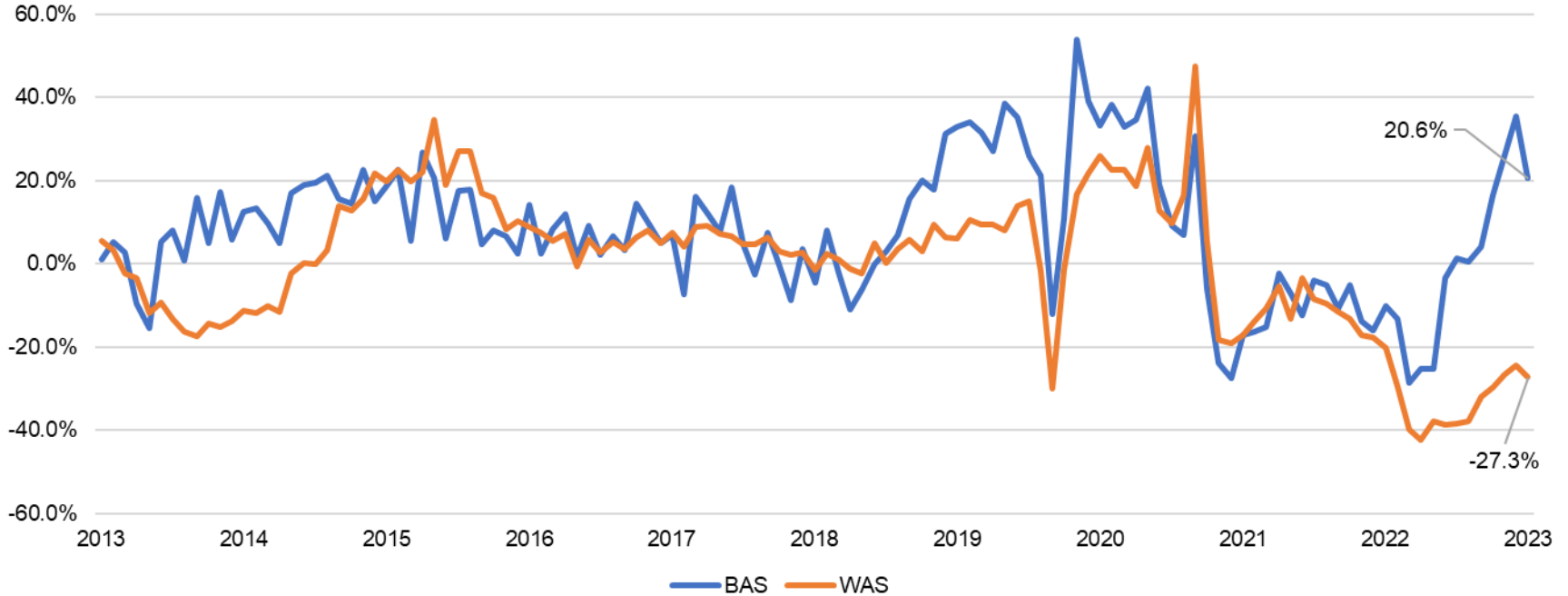
Newly Built Homes Account for a Third of For-Sale Inventory

Housing Units Available for Sale Seasonally adjusted, thousands



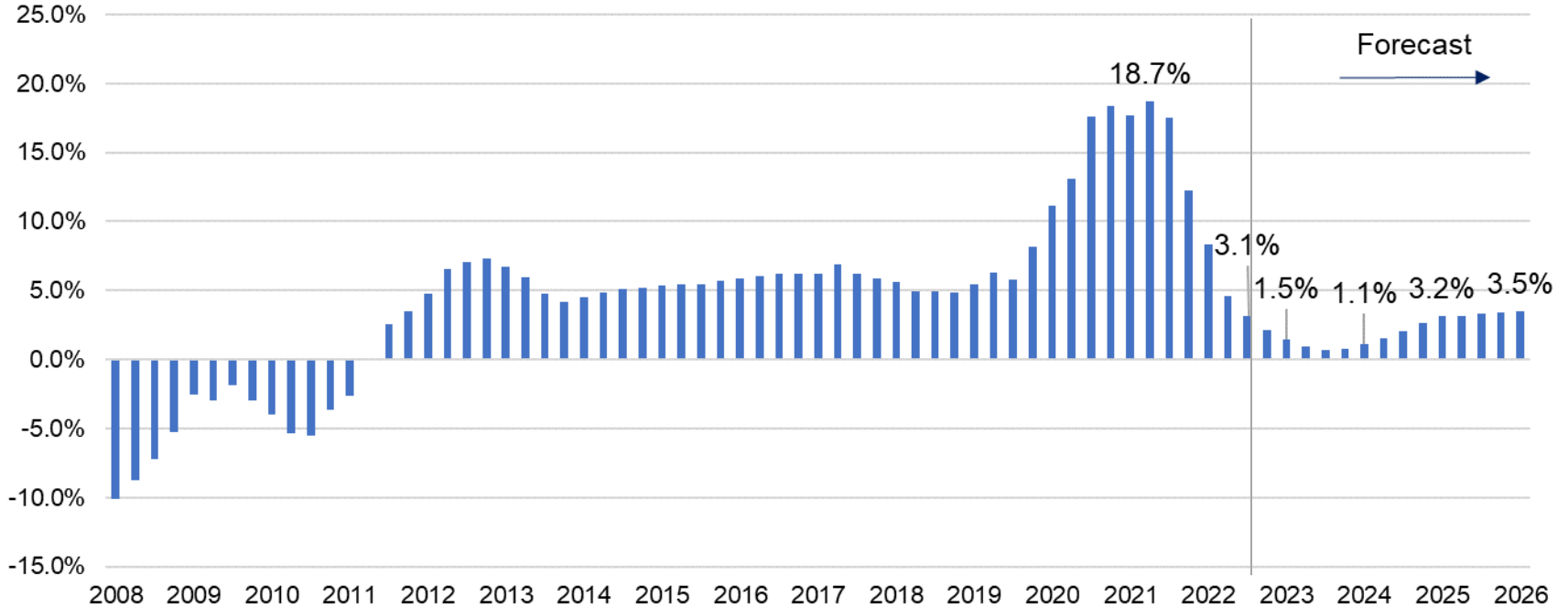
New Home Purchases Outperforming Broader Purchase Market

Builder Applications Index vs Weekly Purchase Applications Index
Non-seasonally adjusted, year over year percent change



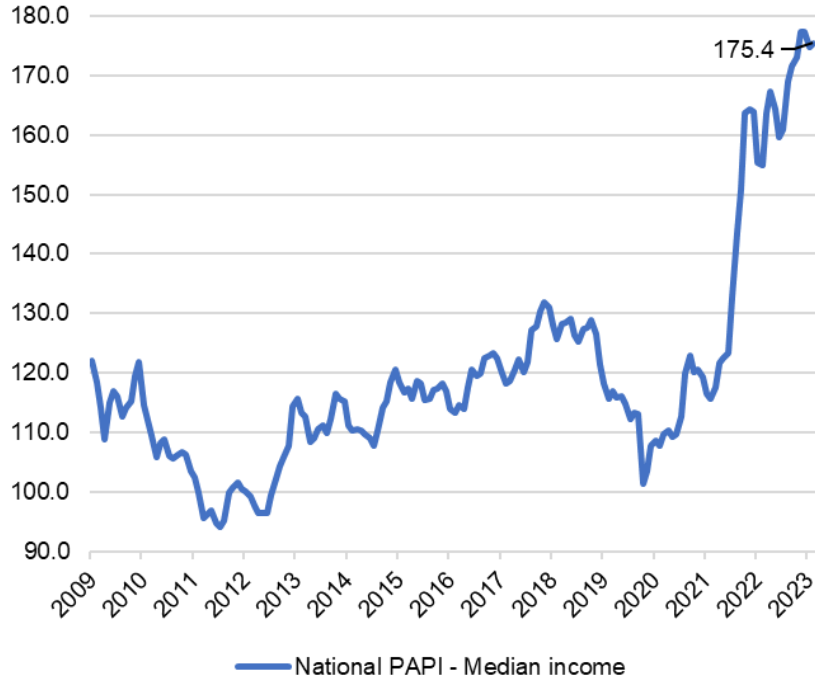
National Home Price Growth Expected to Stay Positive

FHFA Purchase Only House Price Index, MBA Forecast
Non-seasonally adjusted, year over year percent change

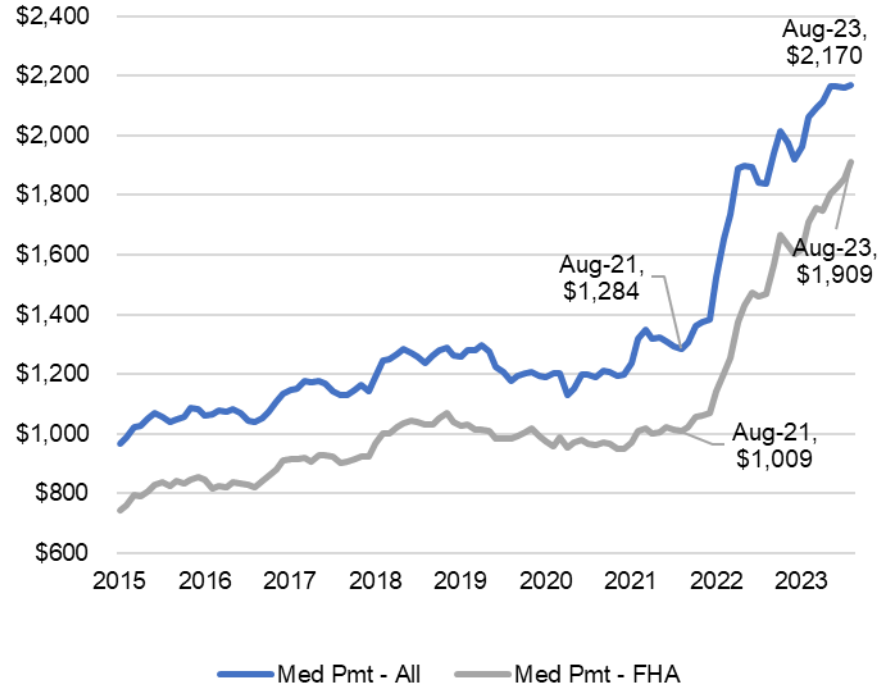


Affordability Conditions Have Worsened

Purchase Applications Payment Index
March 2012 = 100

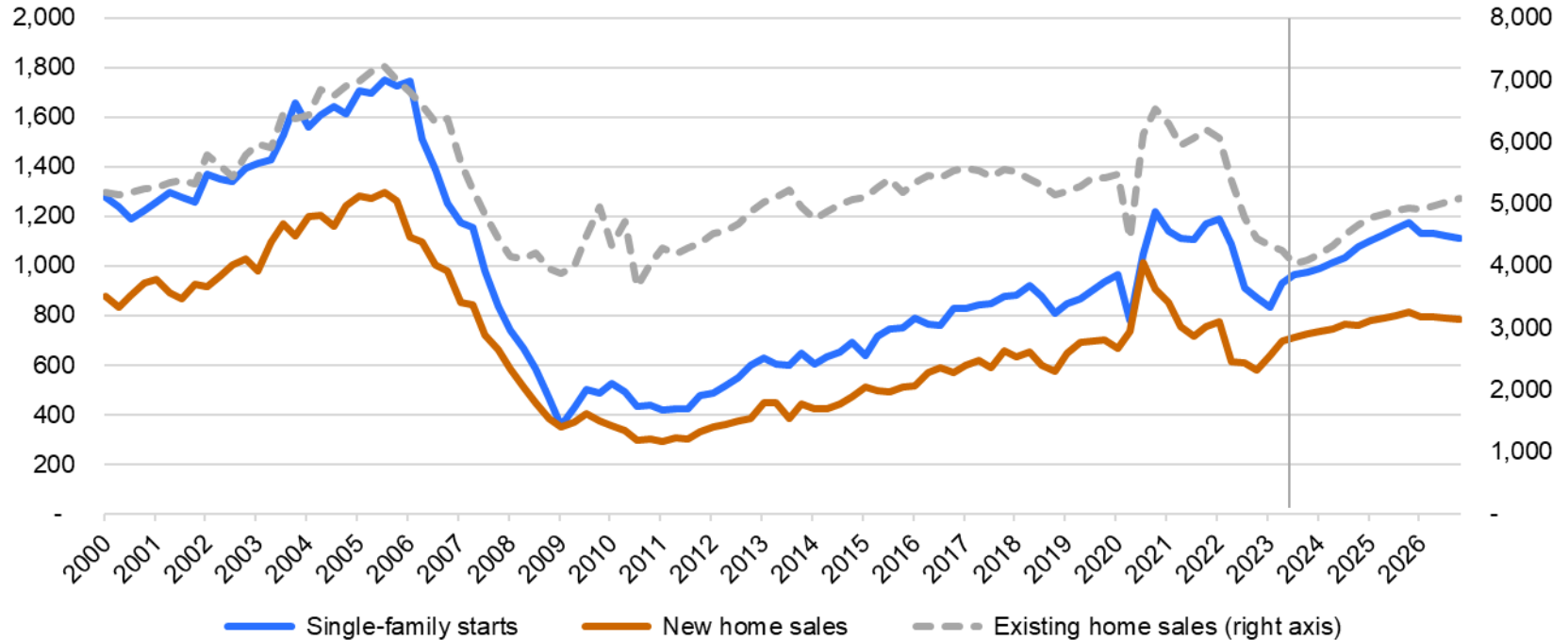


Median Principal & Interest Payment



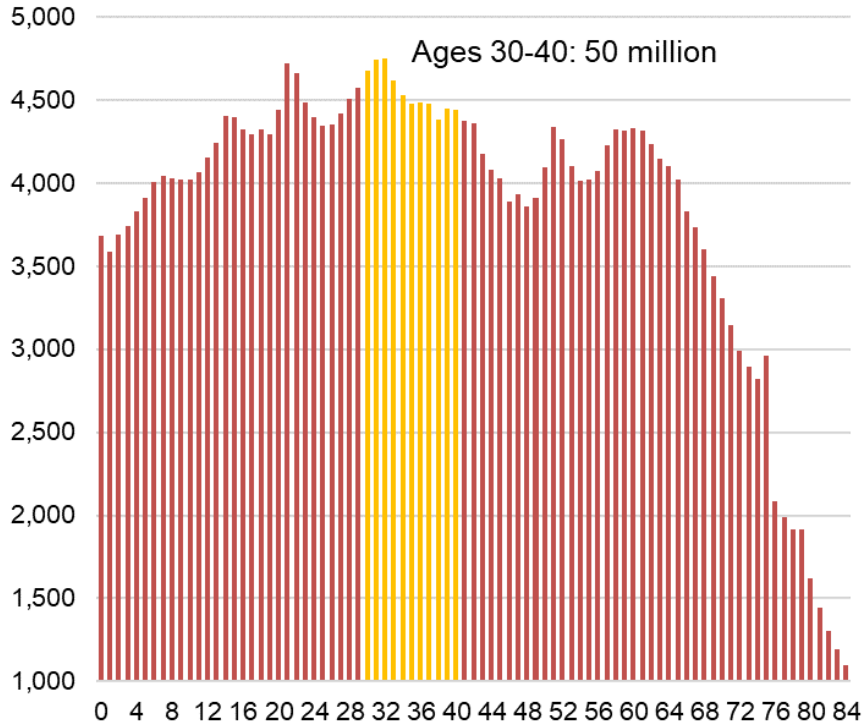
Growth in 1-4 Unit Starts, Home Sales Expected in 2024

Housing Starts and Home Sales
Seasonally adjusted annualized rate, 000s units

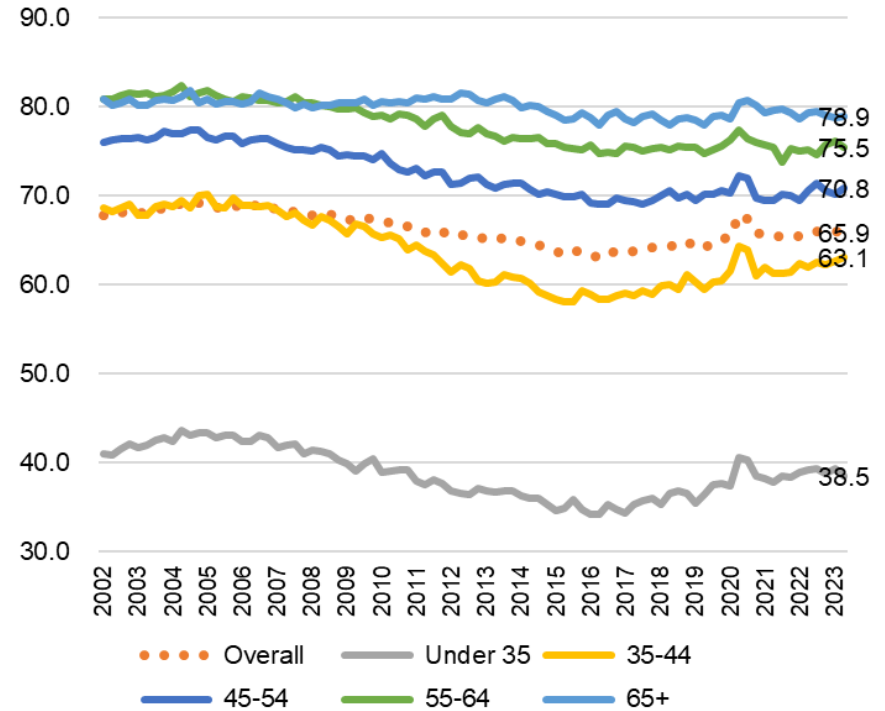


Demographic Support for Home Purchases

Population by Age

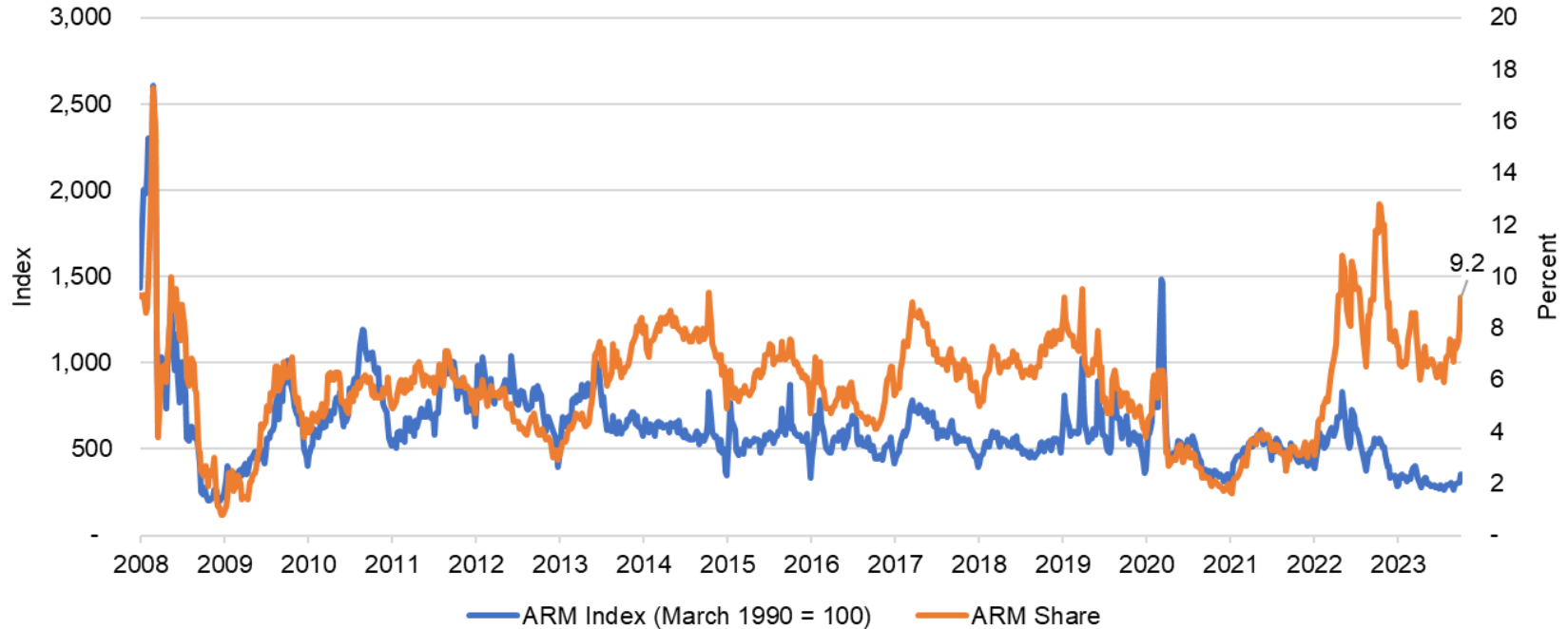


Homeownership Rate by Age



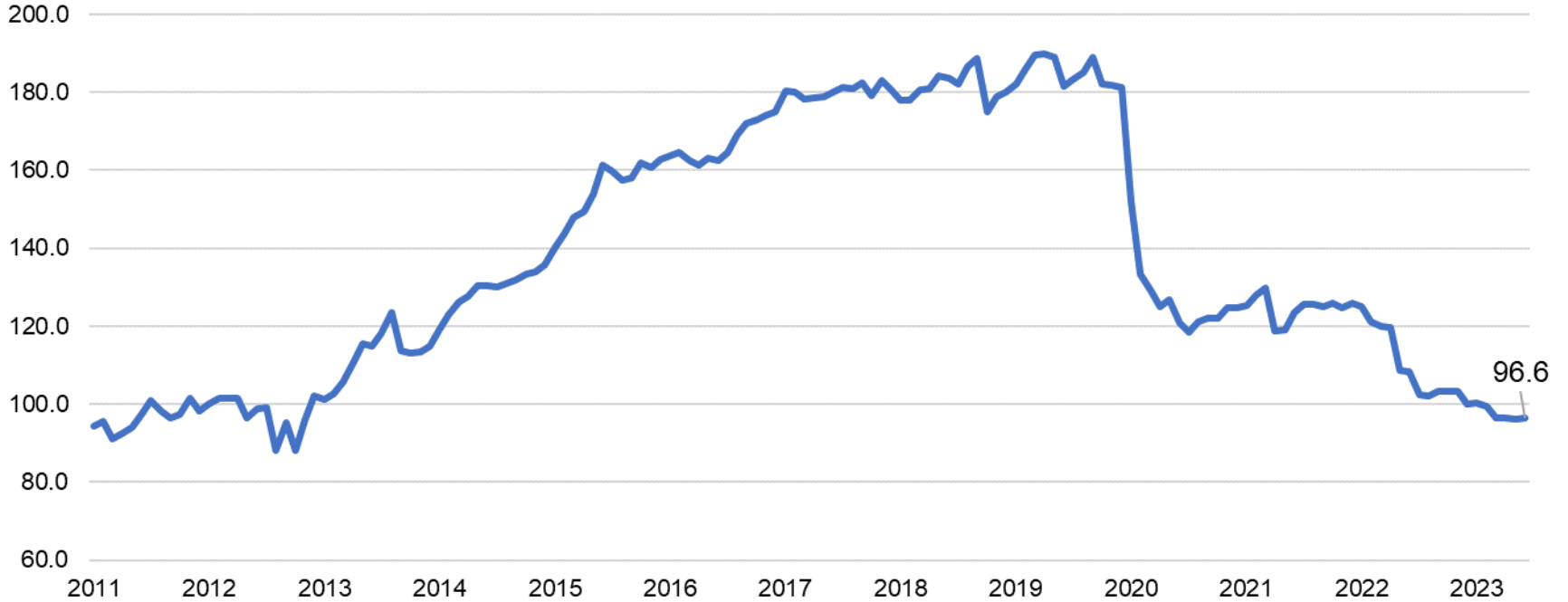
ARM Share Rising, ARM Applications Increased 15% Last week

ARM Applications Index and ARM Share
Based on number of loans

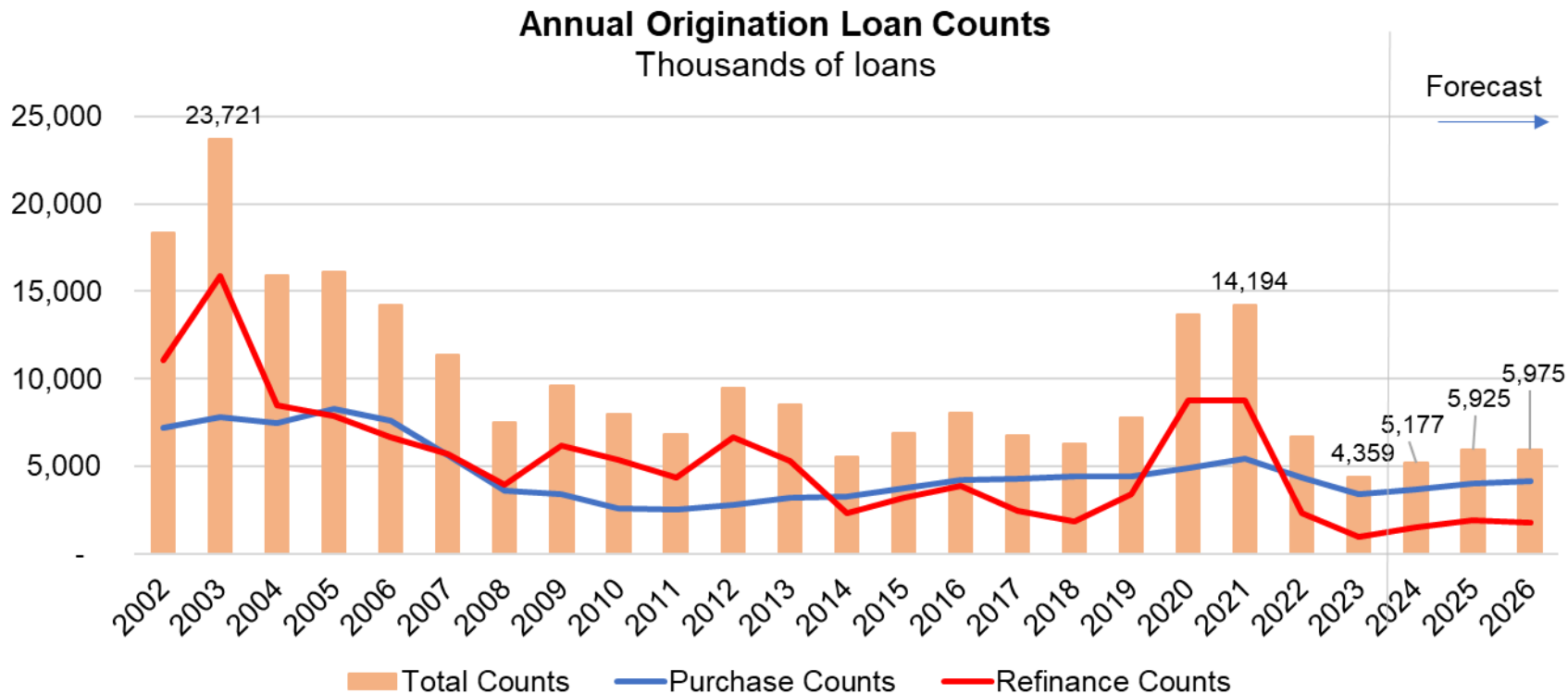


Credit Availability at Decade Lows

Mortgage Credit Availability Index
Non-seasonally adjusted, Mar-12=100

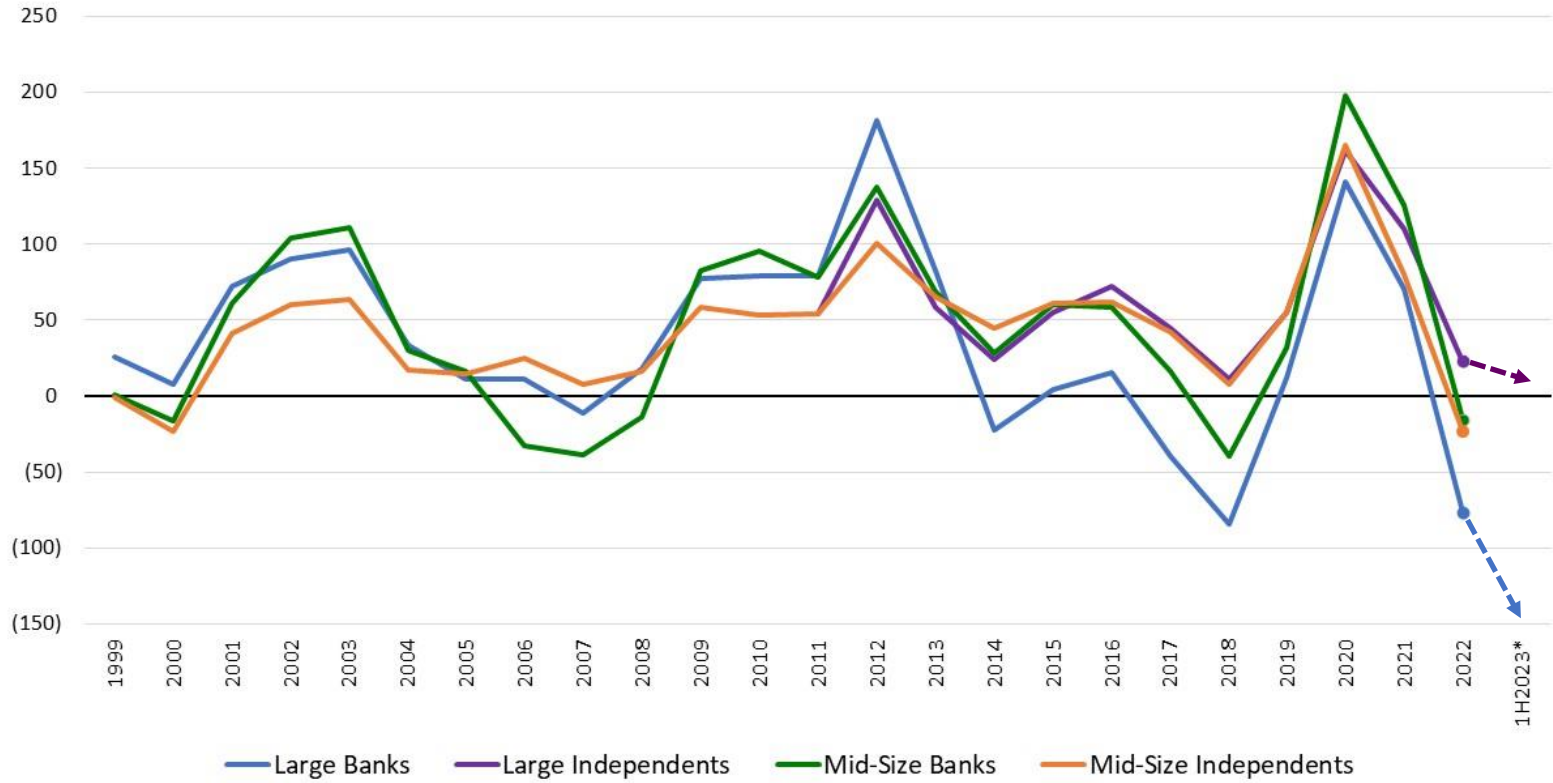


Mortgage Origination Units to Increase 19% in 2024



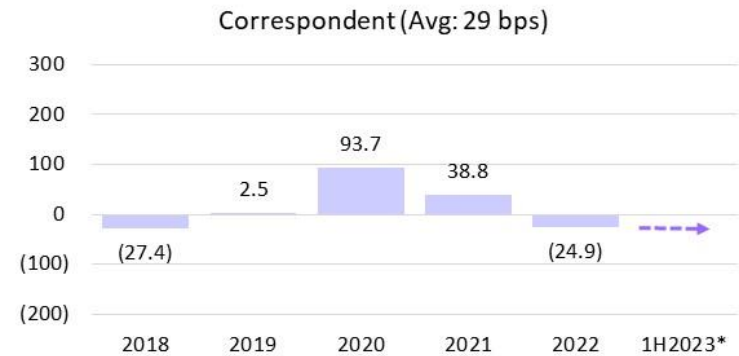
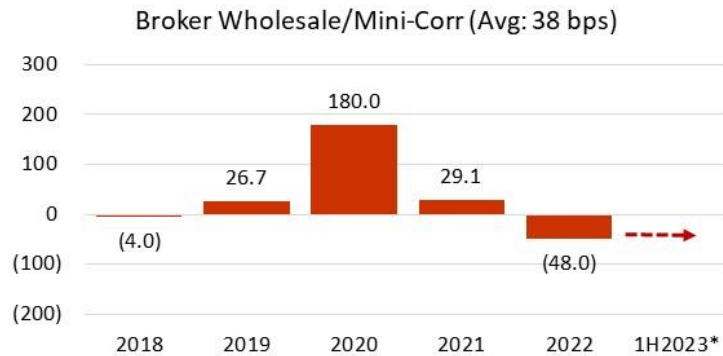
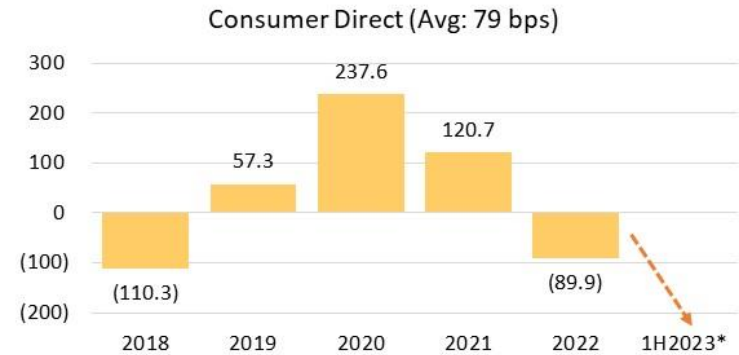
Lender Performance

Net Production Income (bps) Shows Cyclicity of Business Across All Lender Types

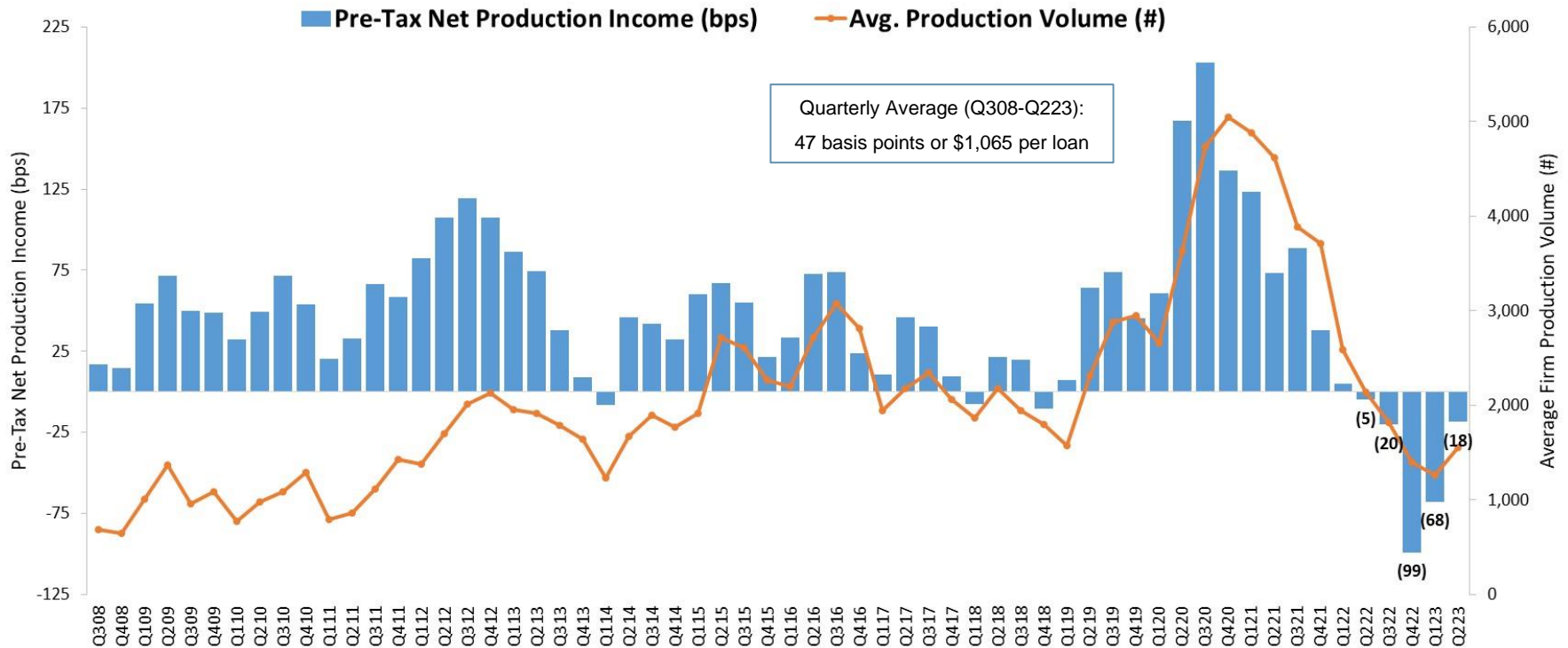


Net Production Losses Across Channels, But Degree of Loss Varies

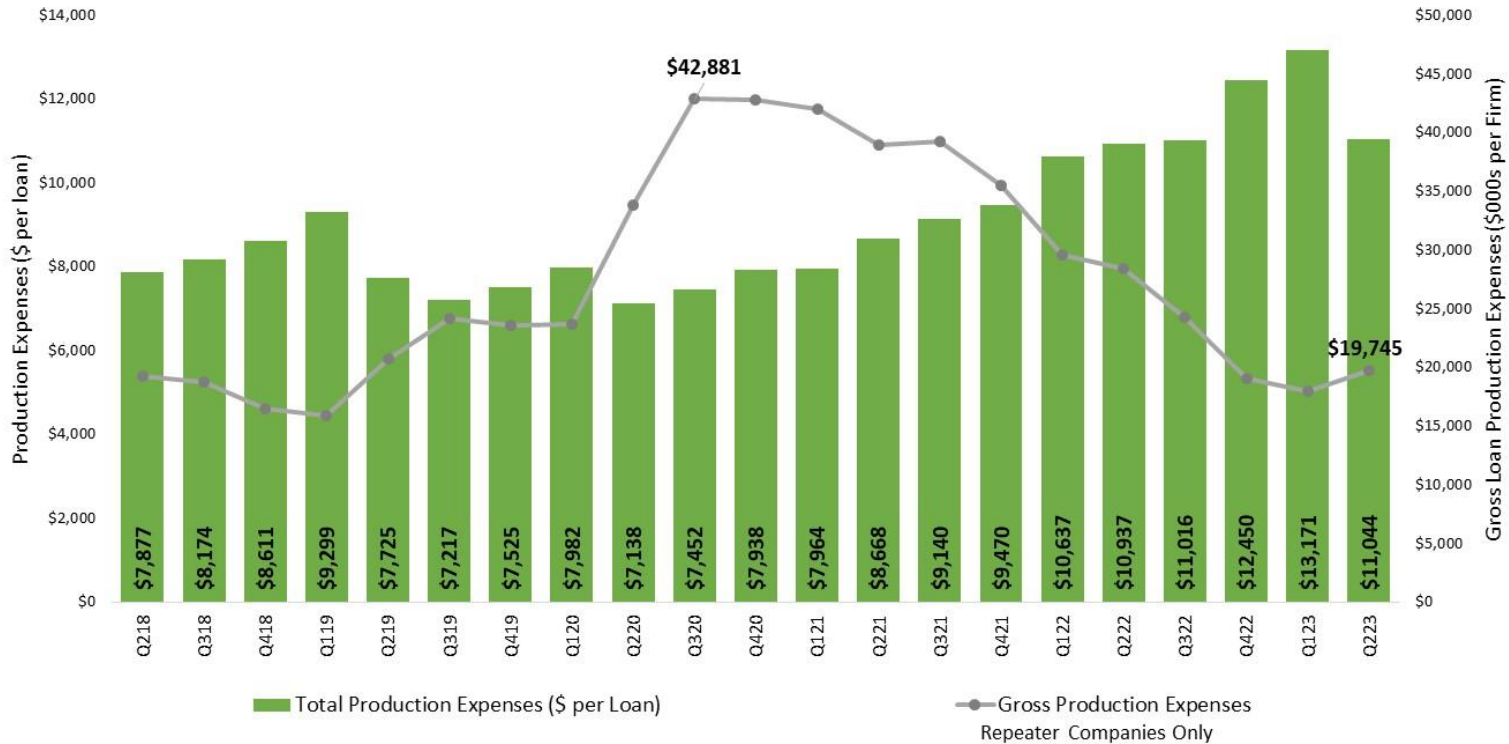
Total PGR Sample (Both Banks and Independents)



MBA's Quarterly Performance Report for IMBs: 5 Consecutive Quarters of Net Production Losses

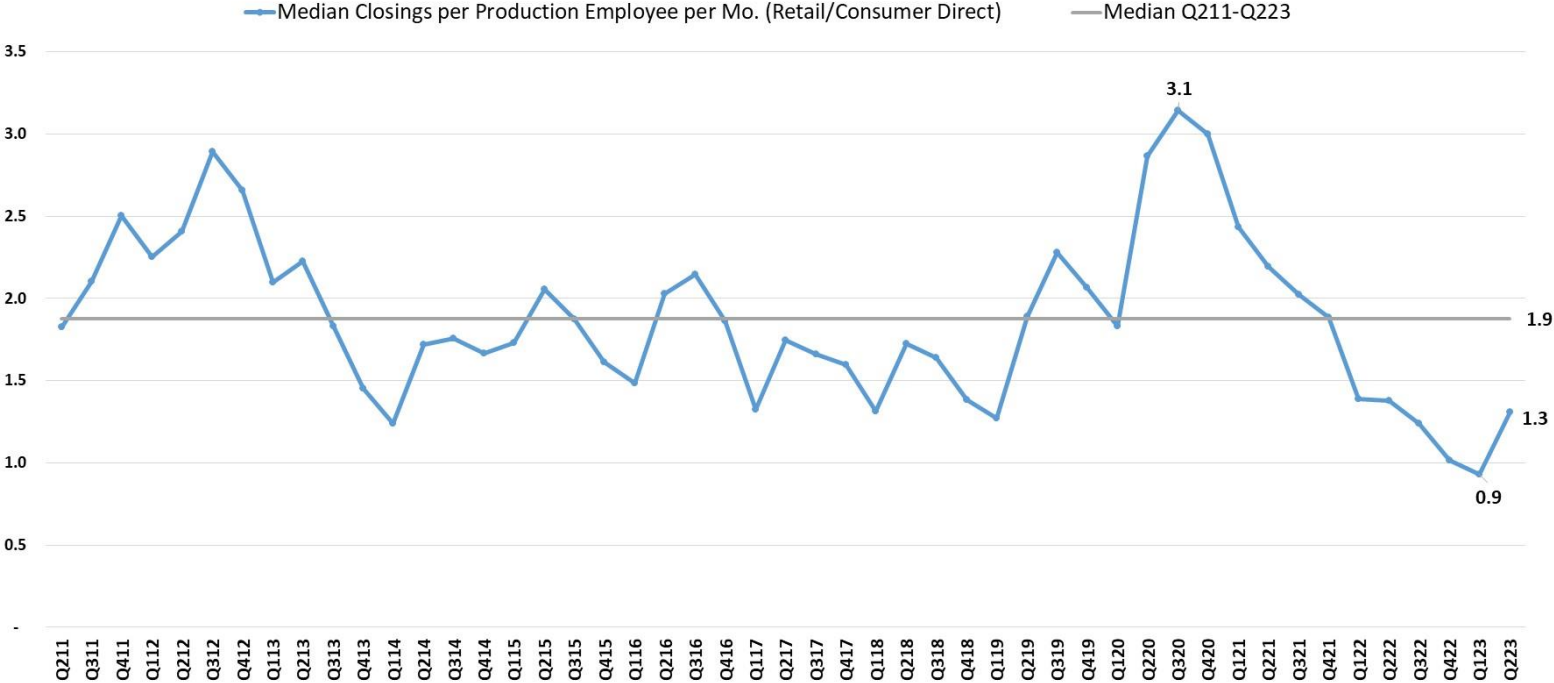


Cost to Originate per Loan Have Risen, but Gross Production Expenses Have Dropped 58% Drop Peak to Trough

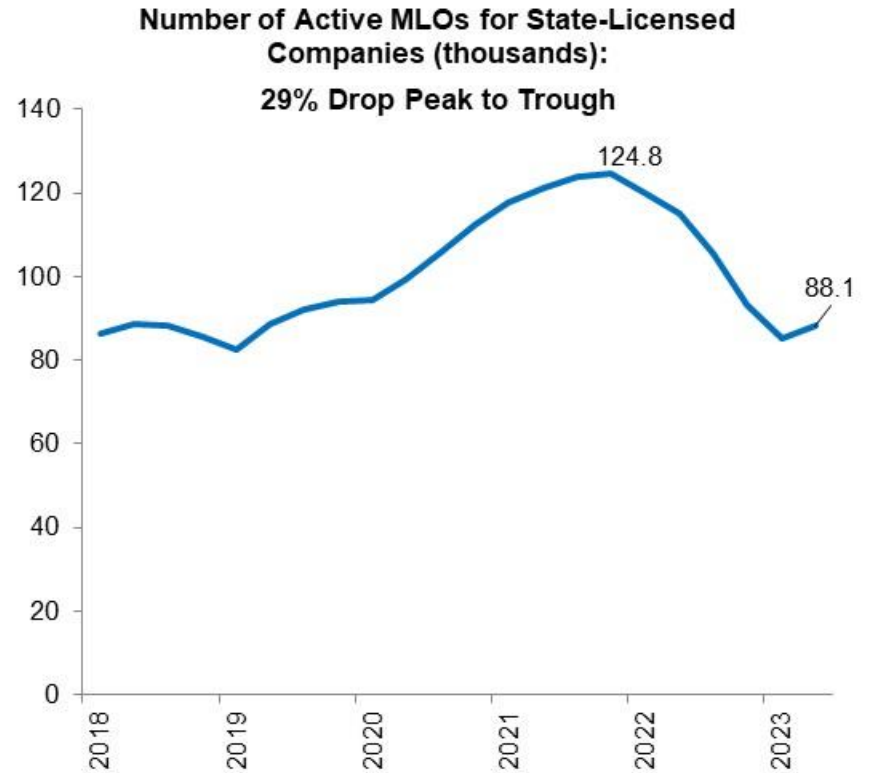
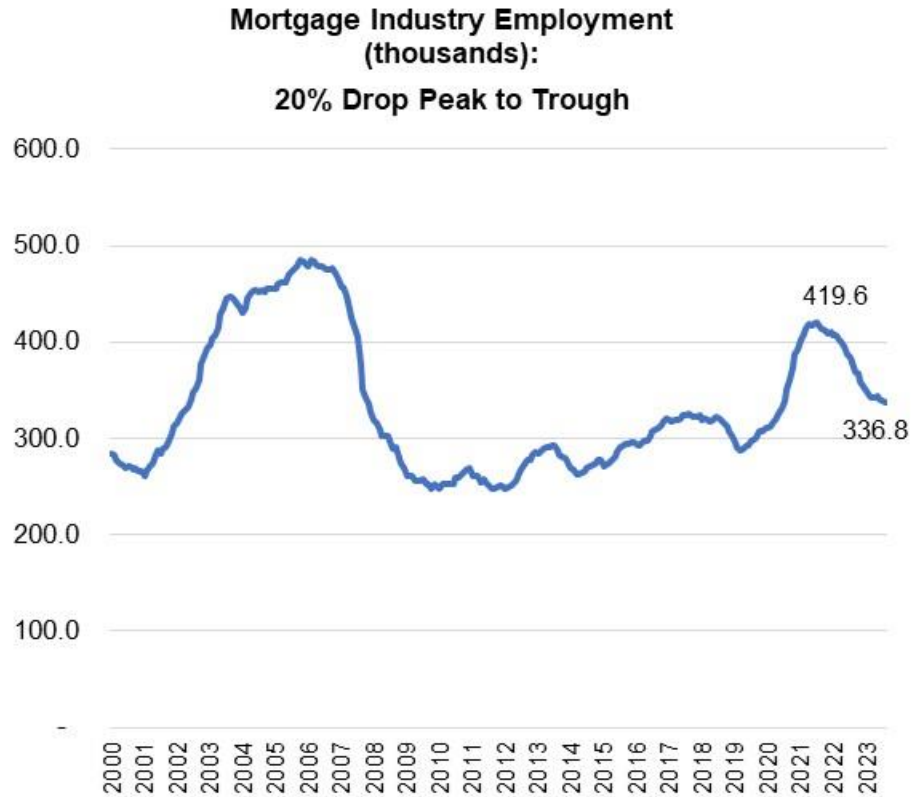


Production Employee Productivity is Well Below the Historical Average, Suggesting Excess Capacity

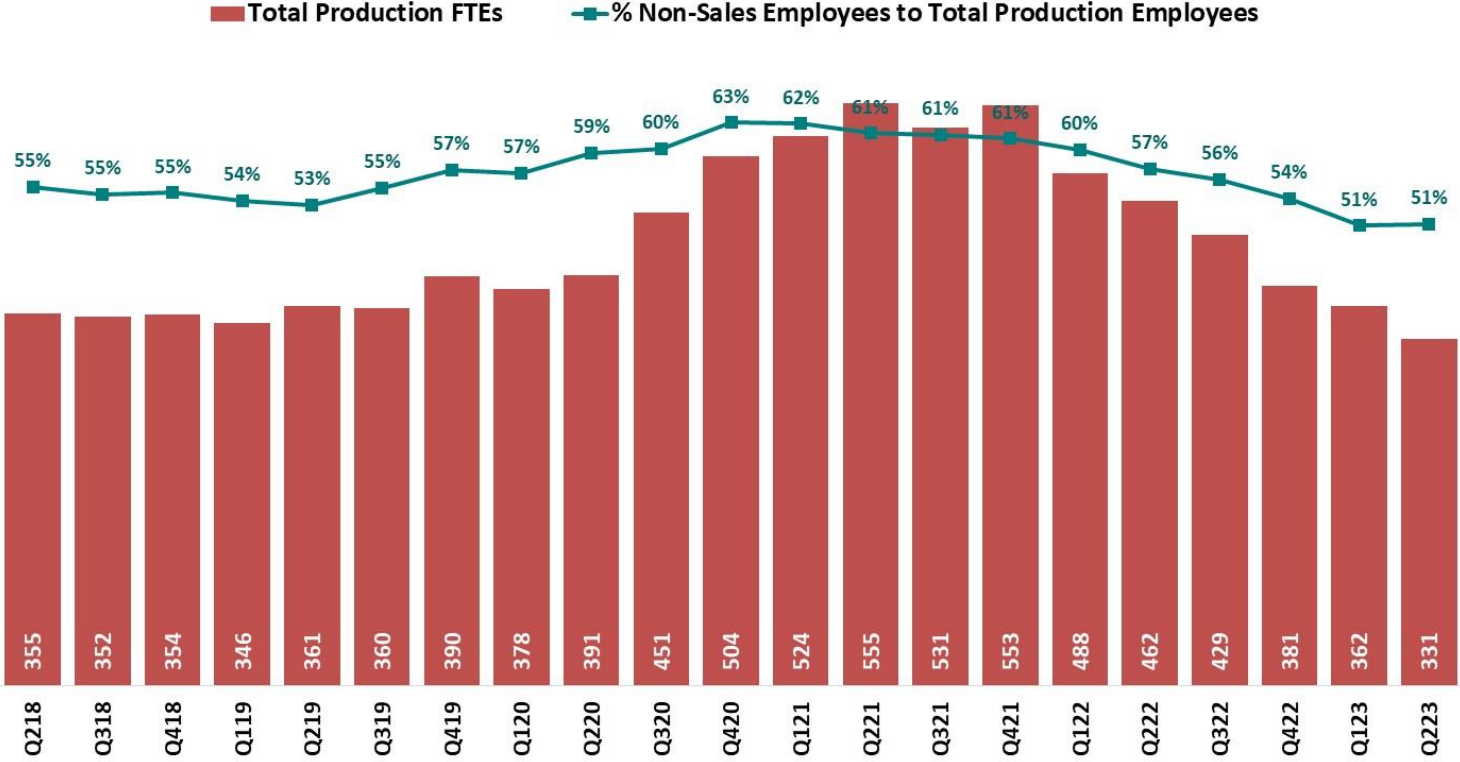
Loans Closed per Production Employee per Month (Retail/Consumer Direct)



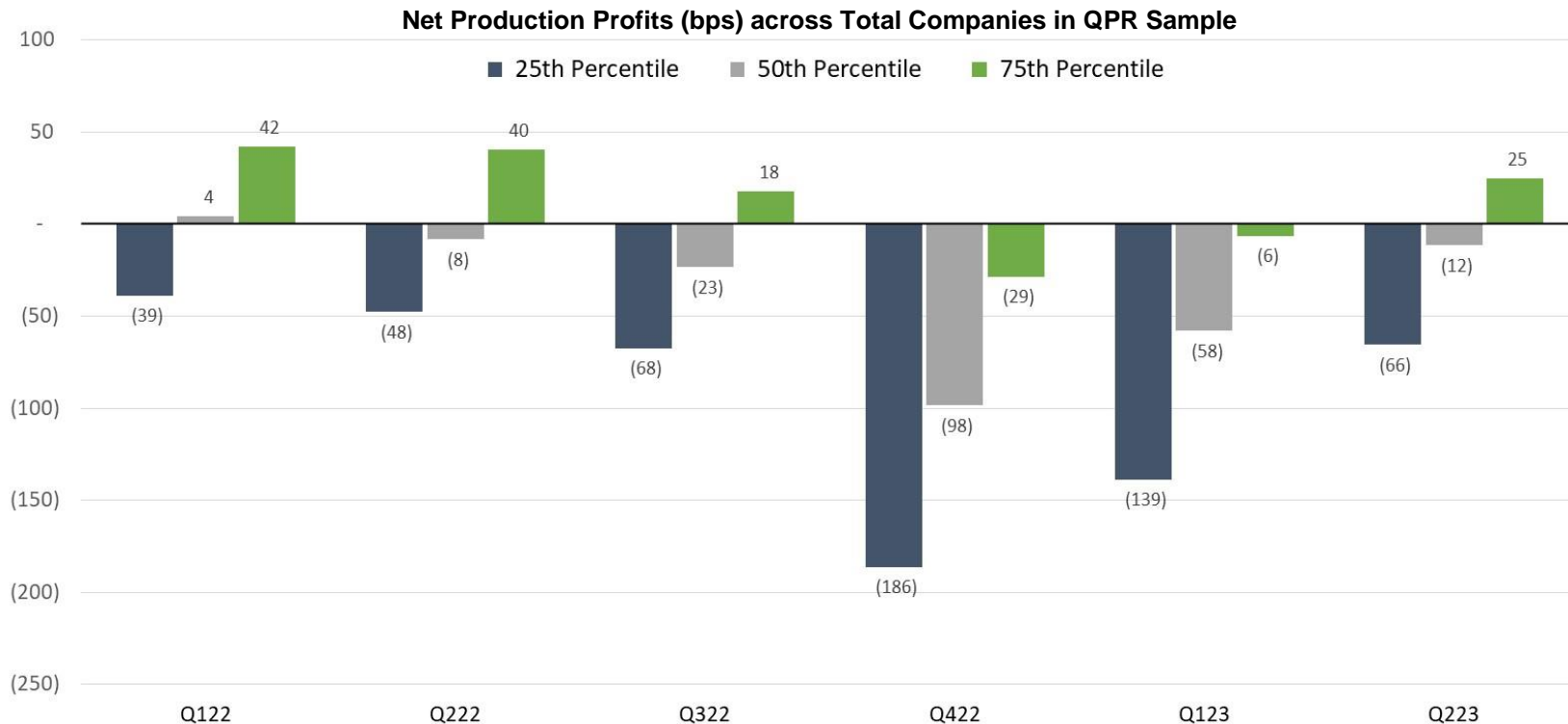
Mortgage-Related Headcounts Still Adjusting



IMB Production Employees per Firm: 41% Drop Since Fourth Quarter of 2021

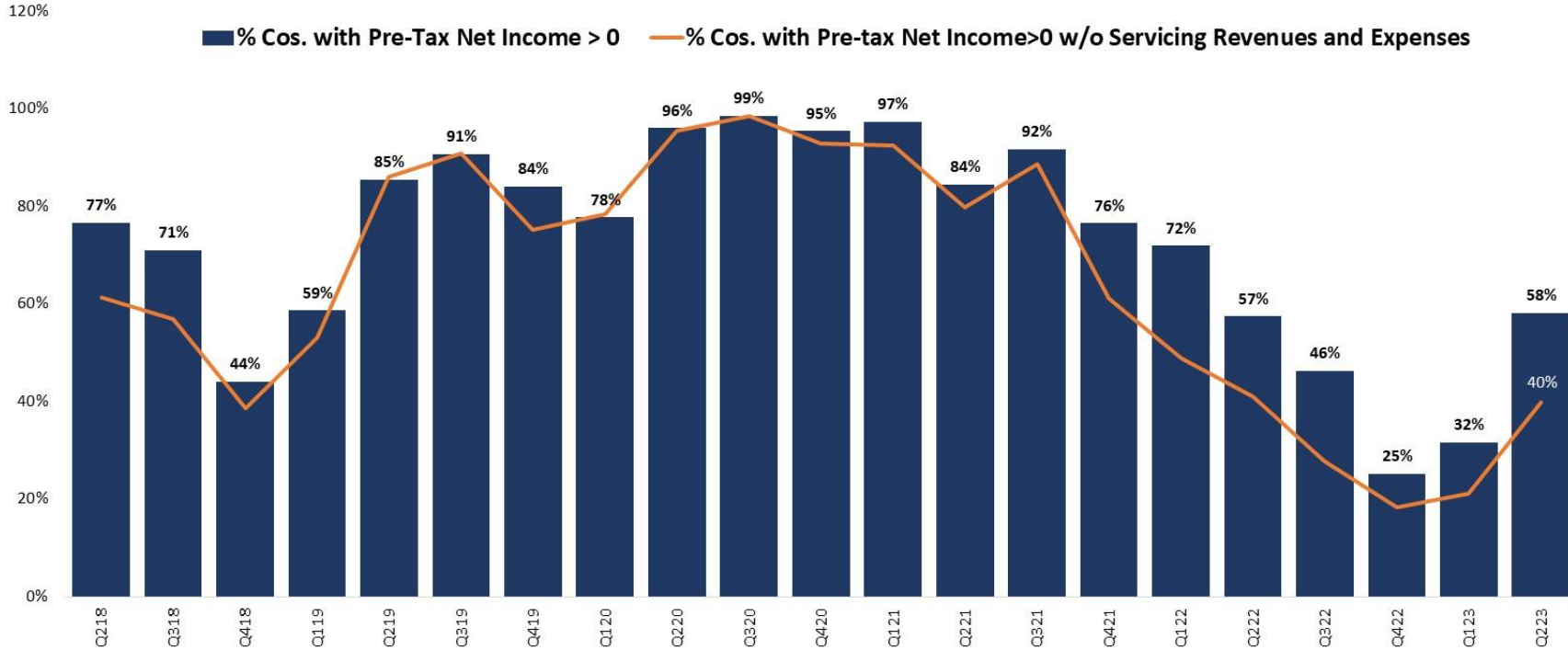


Best Performing Companies Still Eking Out a Production Profit in Most Quarters

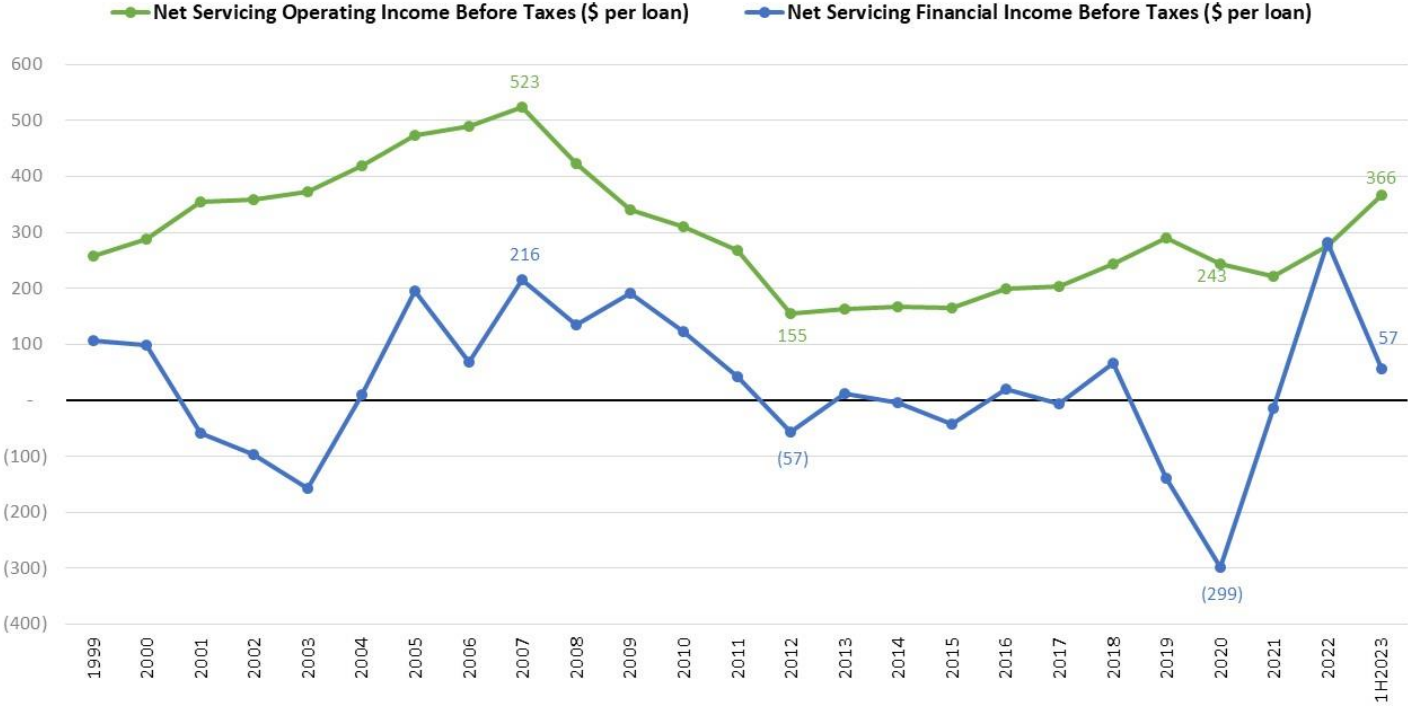


Servicing Trends

Overall Profitability (Production and Servicing Operations Combined): Servicing Helps

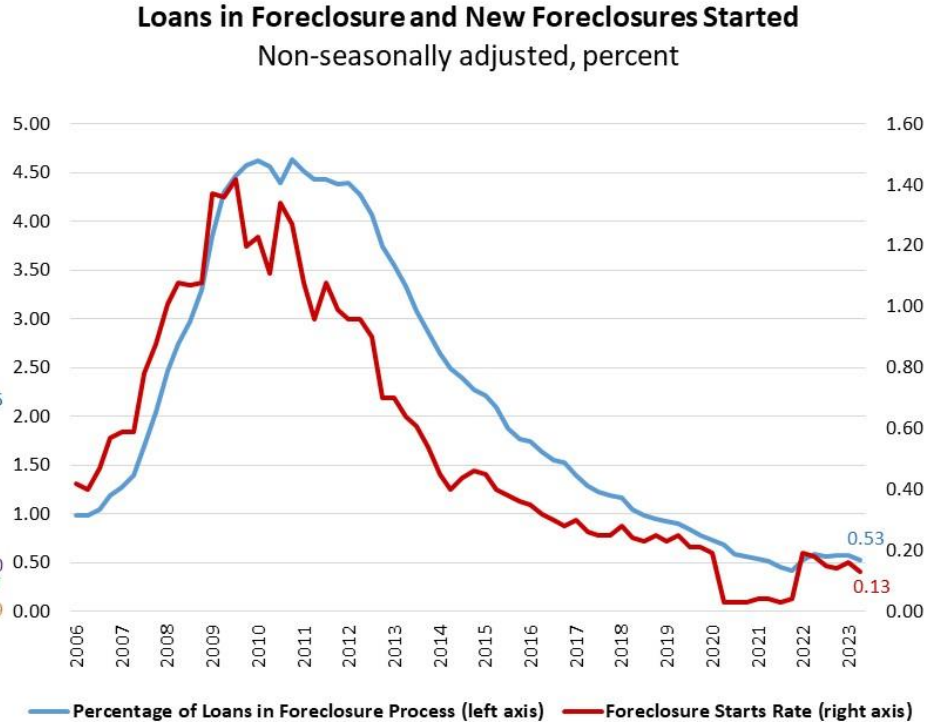
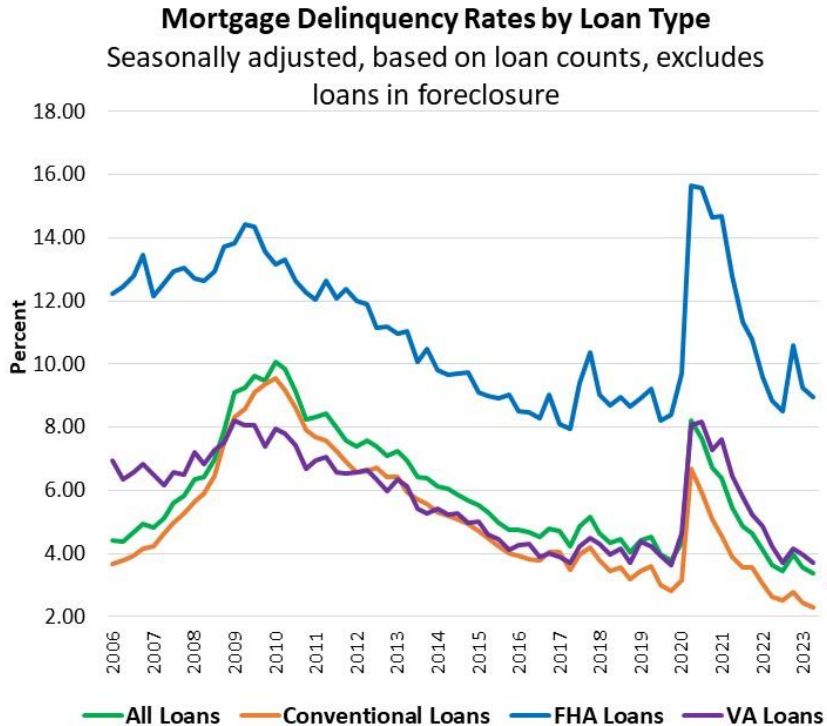


Servicing Net Operational Income Improved in First Half of 2023, Providing Needed Cash Flow to Offset Production Losses

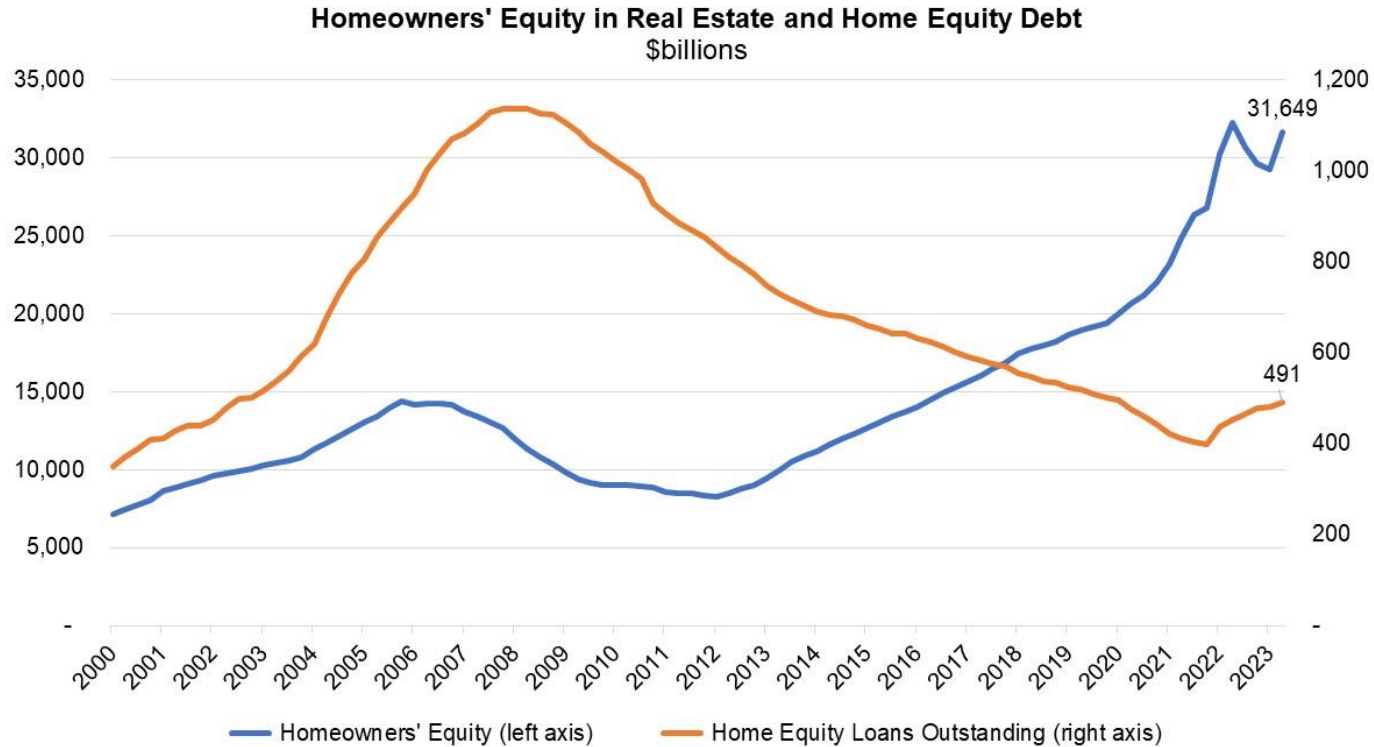


Mortgage Delinquencies Are Near Record-Lows

Factors Such as T&I Payment Shock May Cause Distress, Particularly for Govt Borrowers



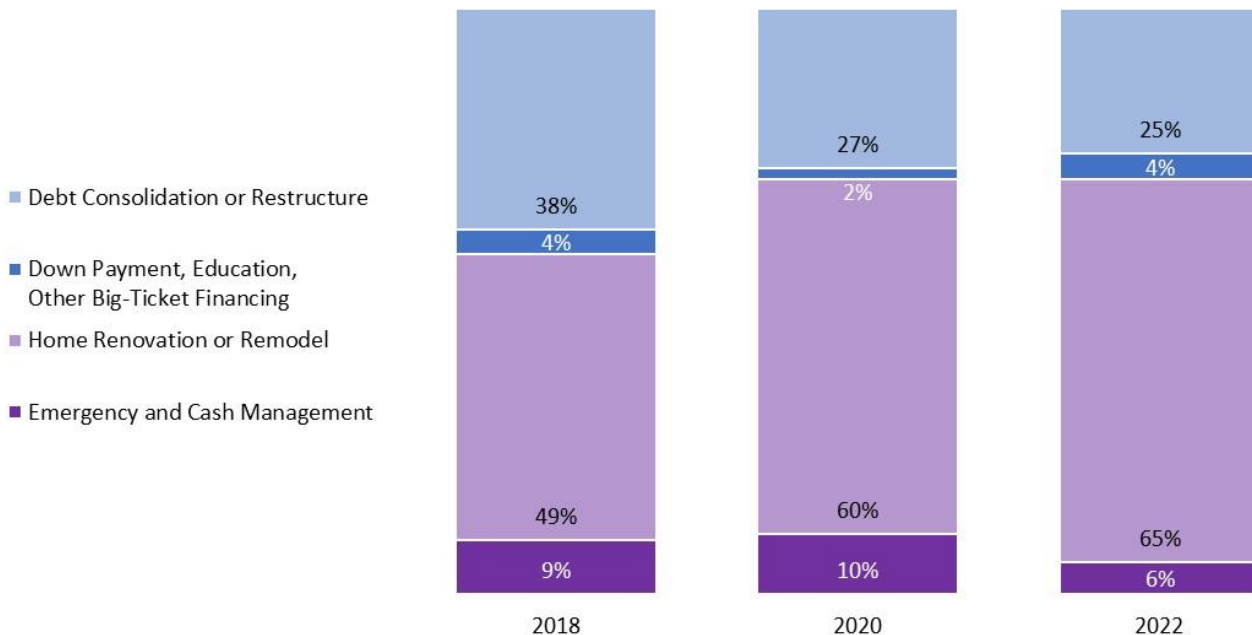
Accumulated Equity Close to \$32 Trillion



With Home Equity Accumulation Comes Possibility for Equity Extraction for Various Borrower Usages

Chart of the Week - September 8, 2023

HELOC and Home Equity Loan Commitment Volume (#) by Known Borrower Usage



Key Takeaways

Market Outlook Summary

- Baseline forecast has a recession in the first half of 2024, unemployment rate increases to 5% by the end of 2024, inflation falls back toward the Fed's target of 2% by 2025.
- Mortgage rates trending down to 6.1% by the end of 2024, below 6% by 2025.
- National home prices continue to increase slowly over the next two years with inventory remaining tight.
- Origination volume (\$) increases 19% to \$1.95 trillion in 2024 and a further 16% to \$2.25 trillion in 2025.
- Origination volume (loan count) also increases 19% to 5.18 million in 2024 and a further 15% to 5.93 million in 2025.
- Production losses persist through 2023 and that will likely continue through the spring of 2024.
- With excess capacity in the mortgage industry and the need for expense reduction, MBA estimated that a 30% decrease in mortgage employment from peak to trough was necessary. We are about two-thirds of the way there.
- Servicing has enabled many lenders to remain profitable overall.
- Delinquency rates are near record lows but are likely to increase in 2024 as unemployment increases and borrowers are stressed by increasing property taxes and insurance, and the resumption of student debt payments.

Contacts and MBA Resources

Contact Information and MBA Resources

Mike Fratantoni, Ph.D.

Chief Economist & Senior Vice President | Research and Industry Technology
(202) 557-2935; mfratantoni@mba.org

Joel Kan

Vice President, Deputy Chief Economist
(202) 557-2951; jkan@mba.org

Marina Walsh, CMB

Vice President, Industry Analysis
(202) 557-2817; mwalsh@mba.org

MBA Research: www.mba.org/research

Research Institute of Housing America (RIHA): www.housingamerica.org

MB Forecasts and Commentary: <https://www.mba.org/news-and-research/forecasts-and-commentary>

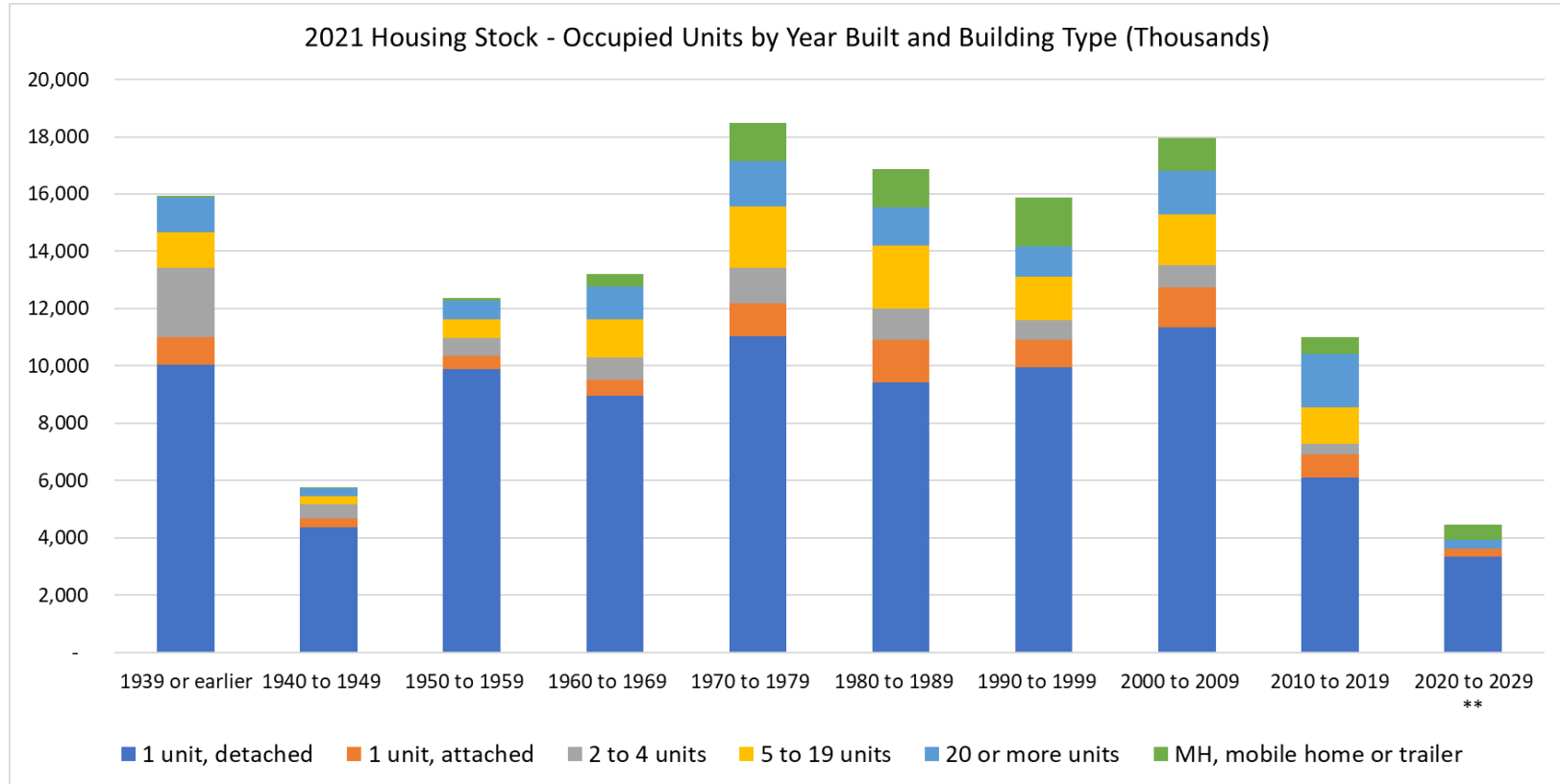
Chart of the Week: <https://www.mba.org/news-and-research/research-and-economics/chart-of-the-week>

MBA Member-Only Research Portal: <https://www.mba.org/news-and-research/research-and-economics/single-family-research/single-family-research-for-mba-members-only>

APPENDIX

Additional Reference Slides

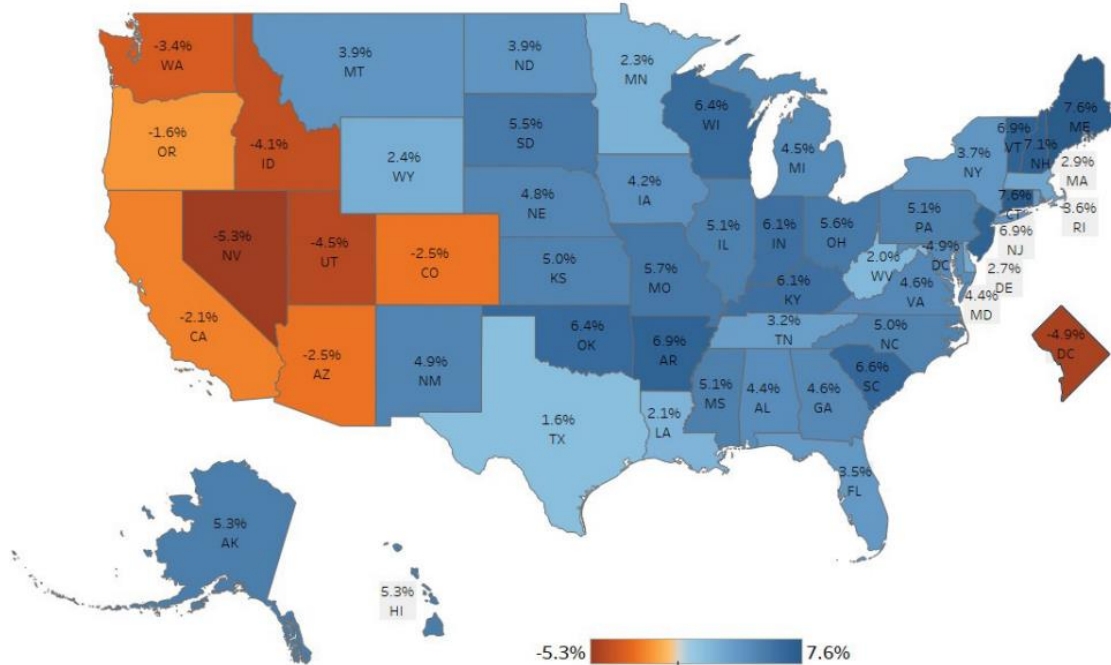
Structural Undersupply of Housing



Differences in State Home Price Trends

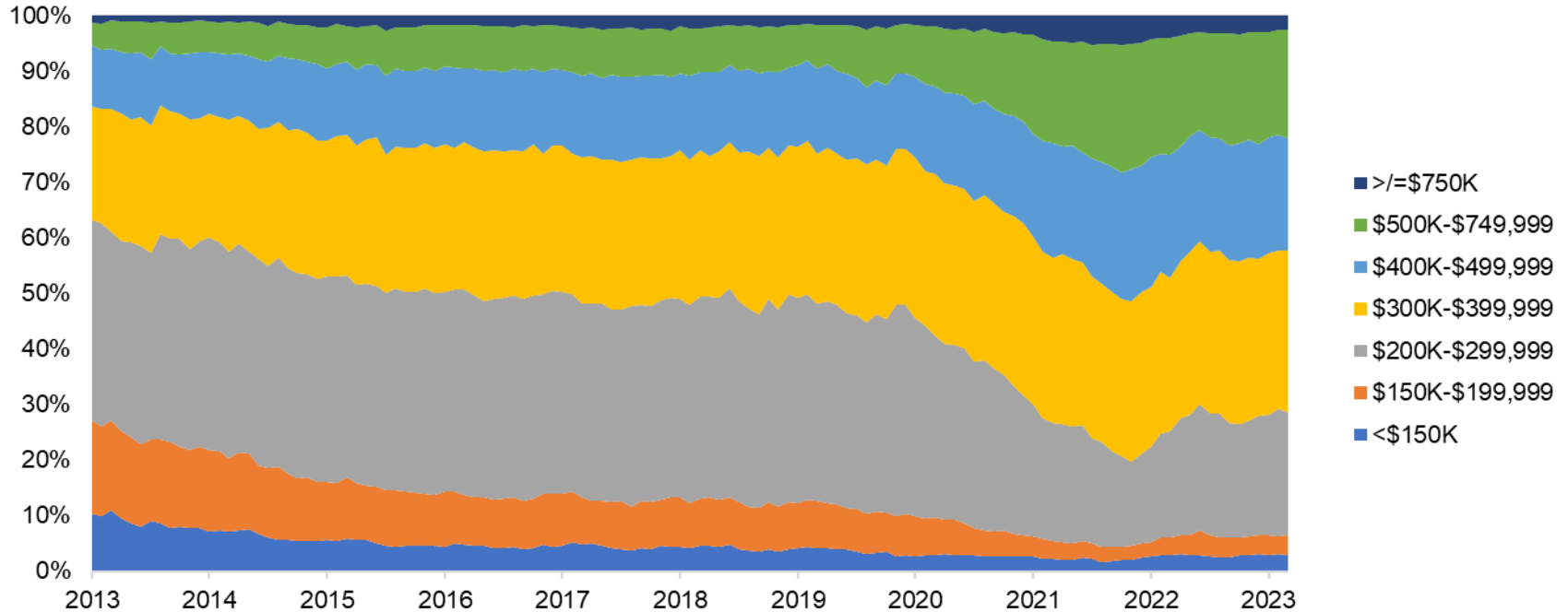
Four-Quarter House Price Change by State Purchase-Only FHFA HPI® (Seasonally Adjusted, Nominal)

U.S. Four-Quarter Appreciation = 3.0% (2022Q2-2023Q2)



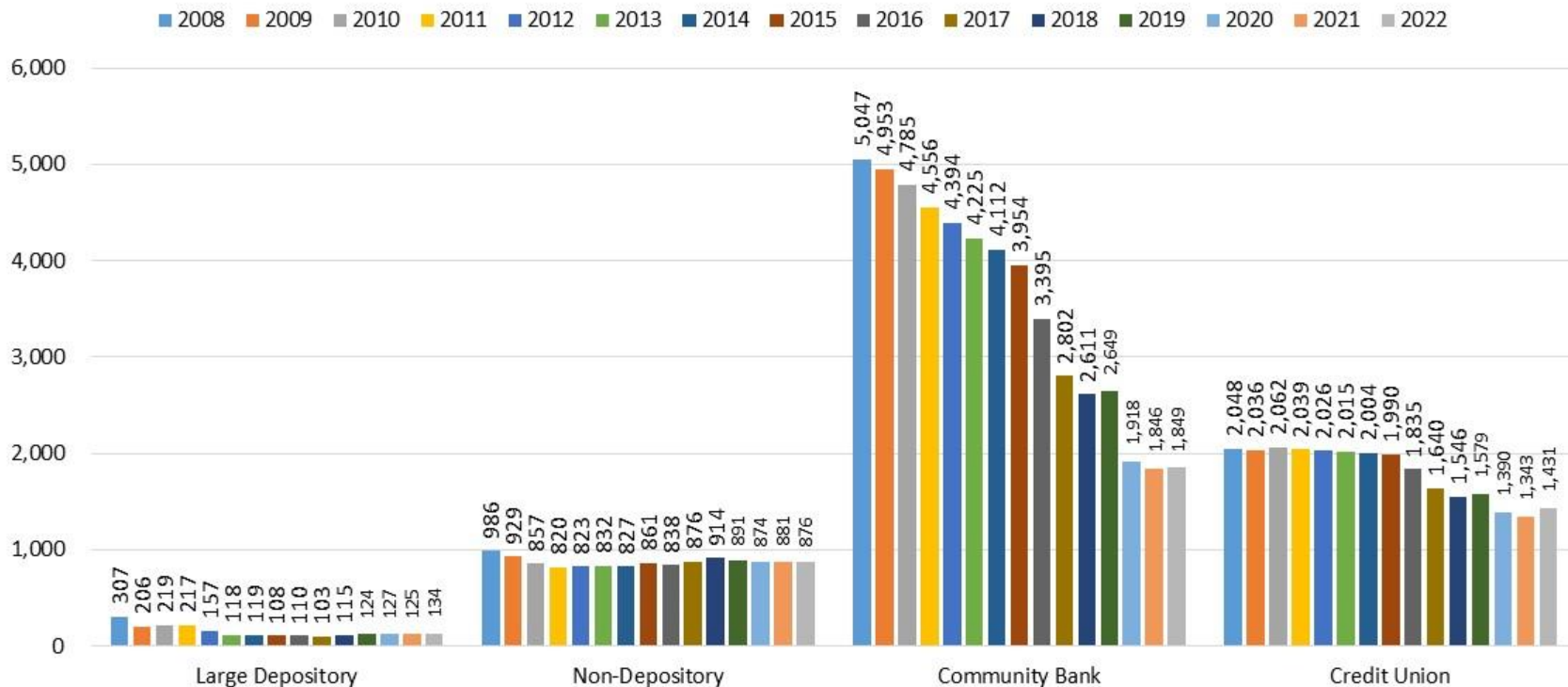
Smaller Loan Sizes Accounting for Growing Share of Builder Apps

Chart of the Week - September 15, 2023
New Home Purchase Applications - Loan Size Distribution

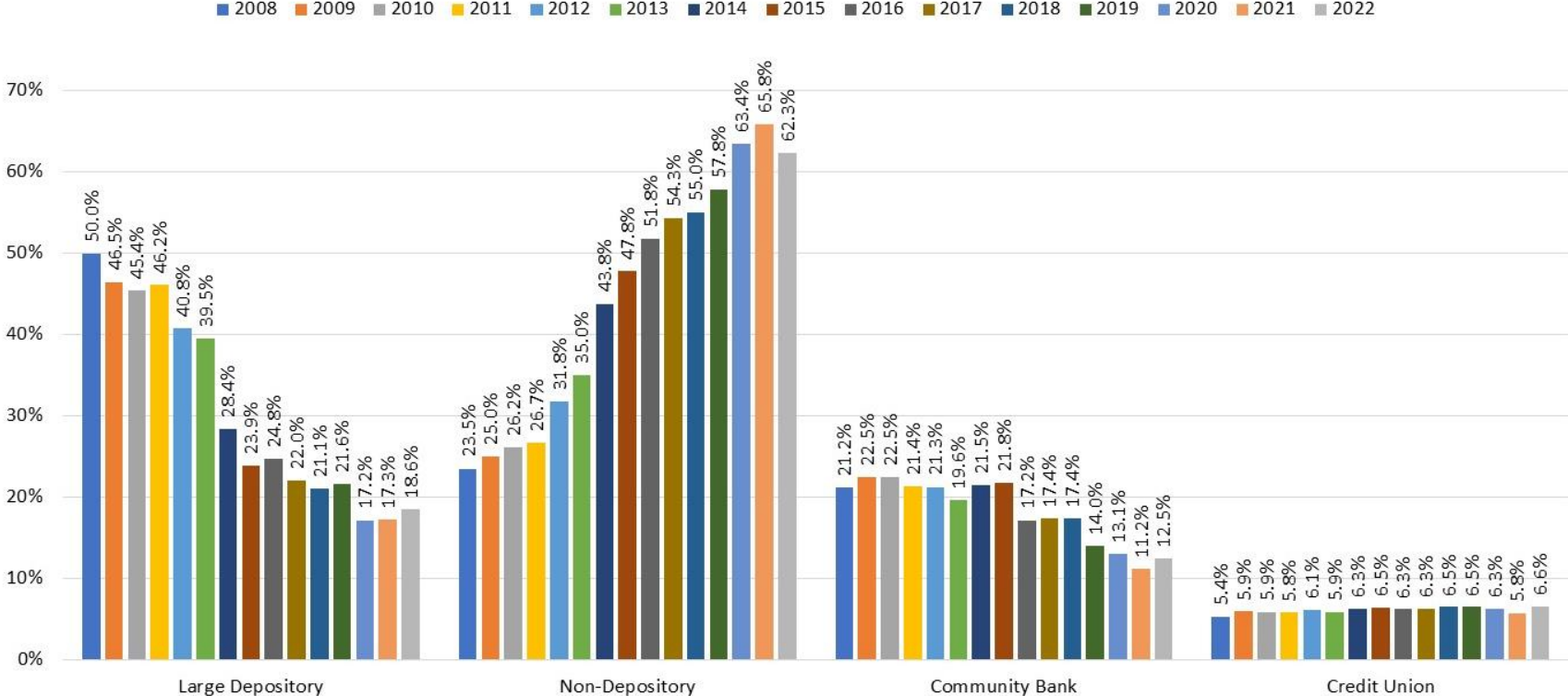


of Companies Reporting to HMDA: Slight Increase in CU Reporters

Number of Companies Reporting to HMDA



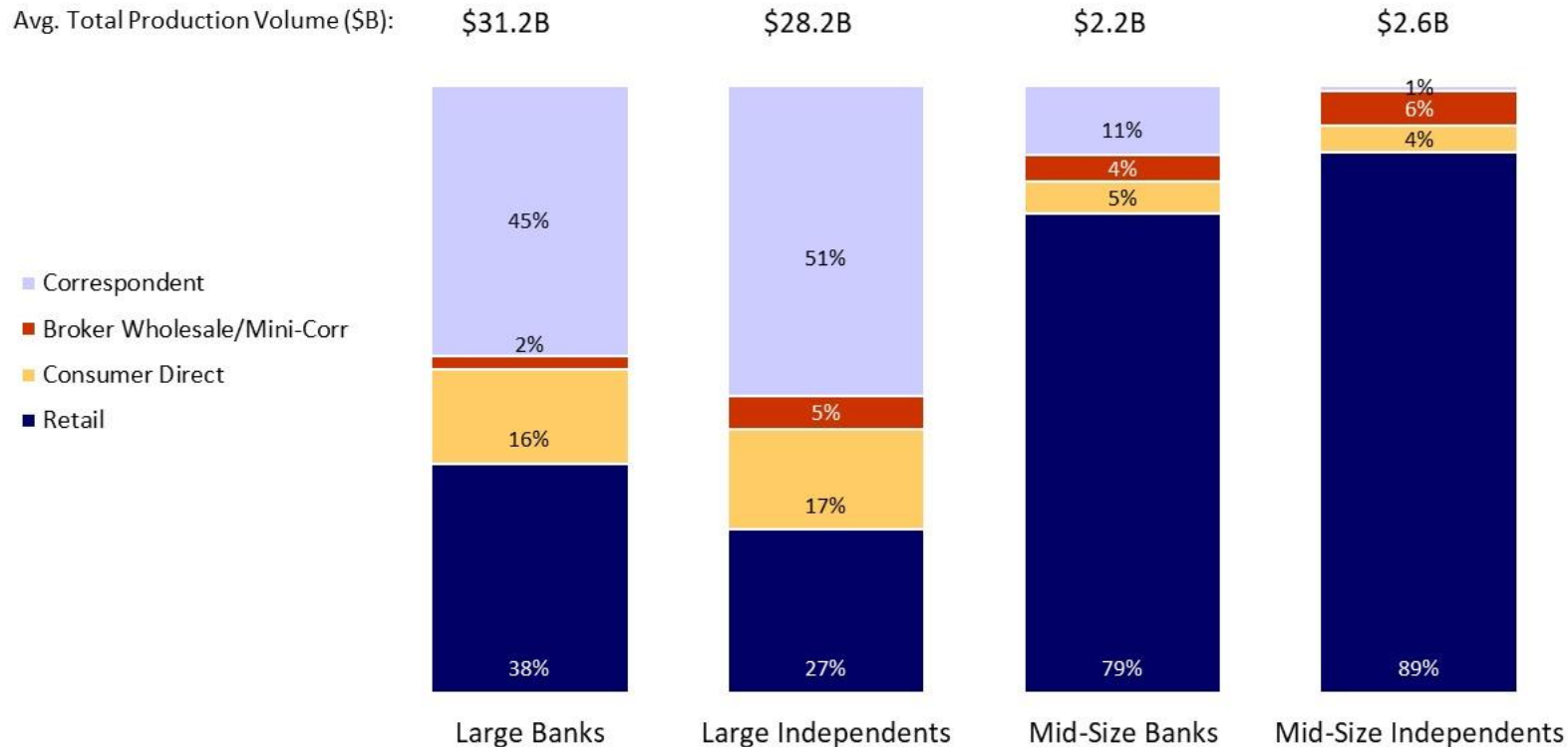
Share of Total Originations (#) by Company Type: Small Pickup for Banks and Credit Unions



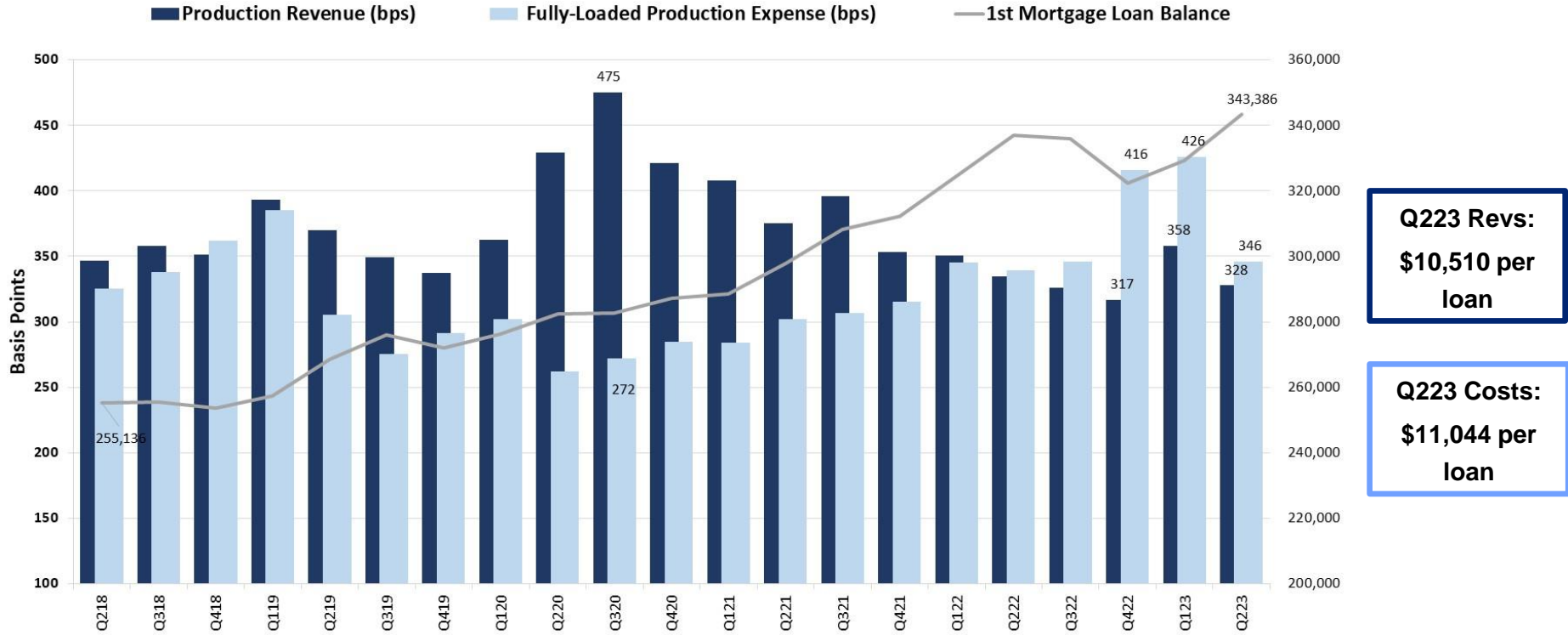
Source: Home Mortgage Disclosure Act (HMDA); www.mba.org/hmda



Different Production Channel Mixes Across Lender Types

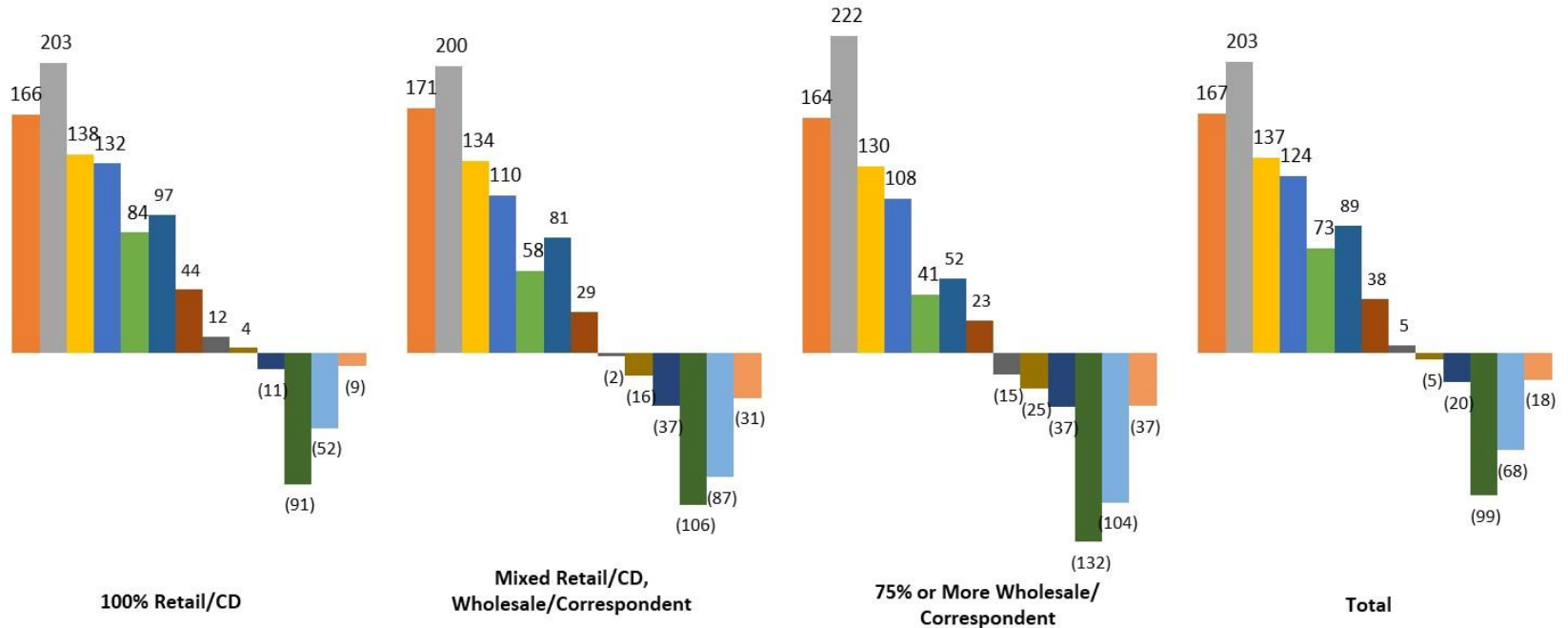


Perfect Storm: Lower Production Revenues and Higher Expenses for IMBs



IMB Production Profitability by Channel Concentration (bps)

■ 2Q 2020 ■ 3Q 2020 ■ 4Q 2020 ■ 1Q 2021 ■ 2Q 2021 ■ 3Q 2021 ■ 4Q 2021 ■ 1Q 2022 ■ 2Q 2022 ■ 3Q 2022 ■ 4Q 2022 ■ 1Q 2023 ■ 2Q 2023



Originator Total Comp Decreases ~30% in 2022

Year-over-year Pay Change	2021 - 2022	2022 - 2023
	Total Comp Median	Salary Median
Loan Originator		
Retail / Consumer Direct	-30%	0%
Underwriting		
	-3%	3%
Operations		
Processing / Closing / Funding	-2% to 0%	3%
Appraisal	3%	3%
Secondary Marketing		
	3%	3%
Servicing		
Default / Core Operations	3% - 6%	2%



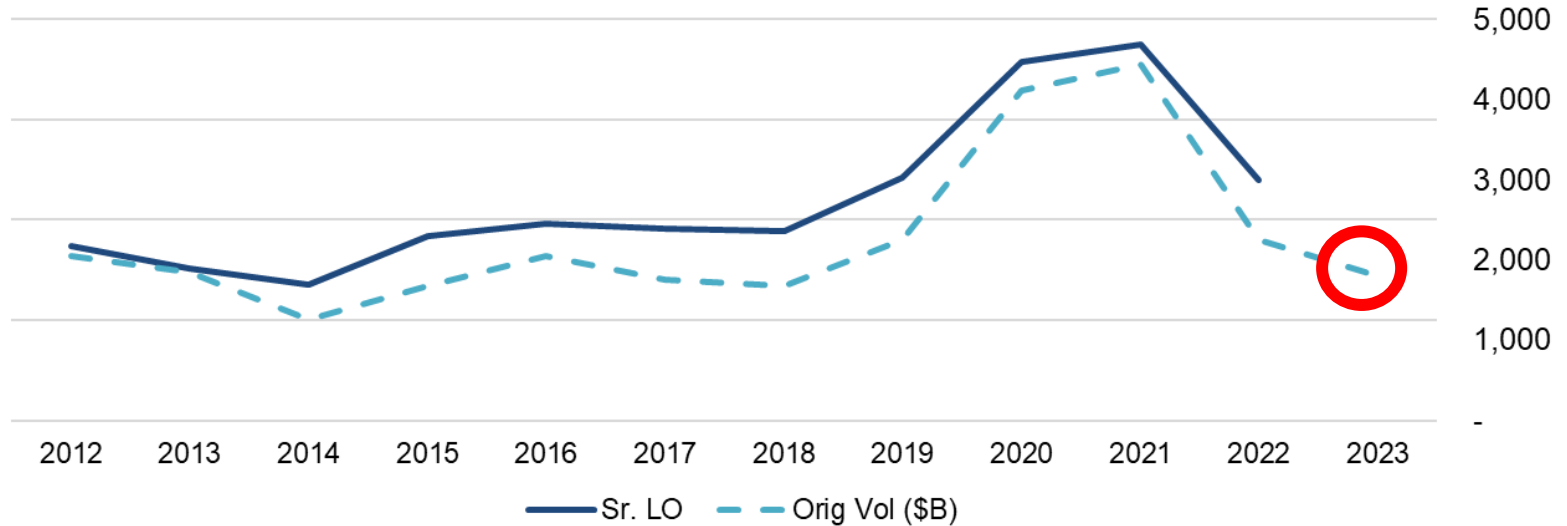
Total Comp increases
~5% following pressure
on base pay, especially
at the banks

Data represents year-over-year same store incumbents from Aon/McLagan's Mortgage Banking Compensation Surveys (2022 – 2023). Market median shown. Data from 87k employees

Originator Pay Tends to Trend with Industry Volume

Median Comp – Retail Sales

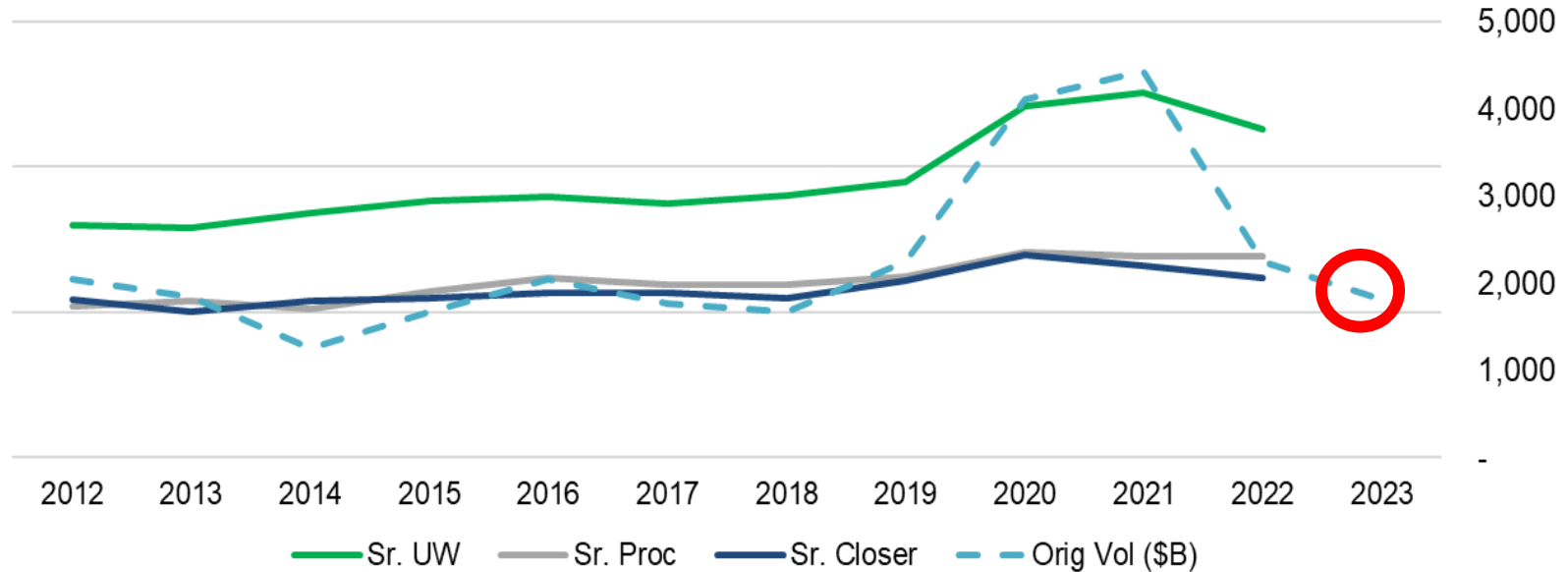
Total Originations
(\$B)



Loan Fulfillment Pay has Historically Seen More Steady Increases

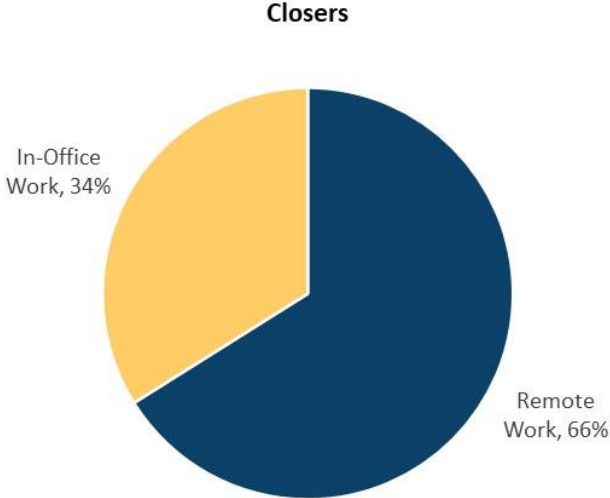
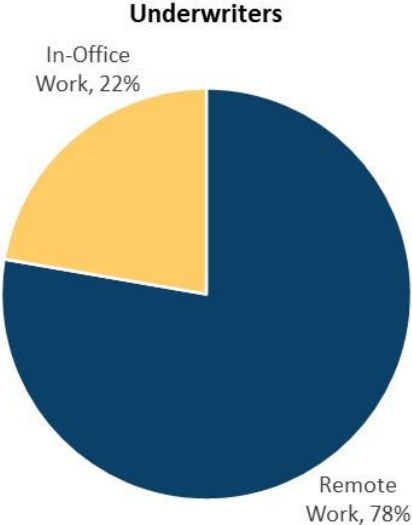
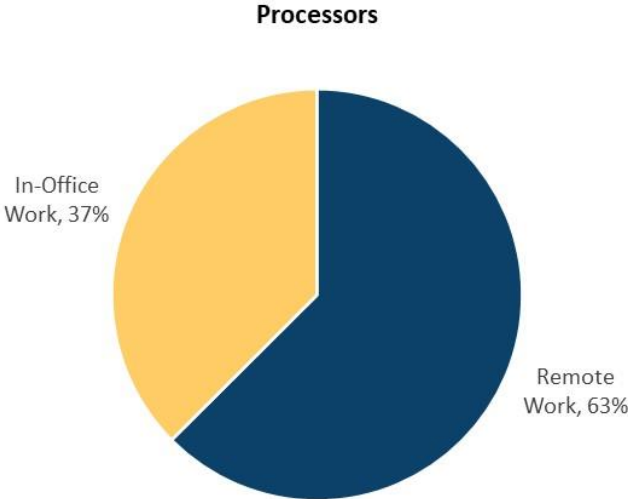
Median Comp – Fulfillment

Total Originations
(\$B)



Remote Work: Could It Alleviate Cost Challenges or Improve Productivity?

Retail Channel Results:



Percent of Loans in Forbearance Near Pre-Pandemic Levels

Percent of Servicing Portfolio (#) in Forbearance by Investor Type

