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FPA – 2024 Annual Forum

Real Estate Finance: Data, Forecasts, and Advocacy

June 7, 2024

Agenda

- Global Market Trends – Economic Data
- Housing Finance Forecasts and Commentary
- Mortgage Bankers Association (MBA) – Regulatory Issues

Global Market Trends - Data

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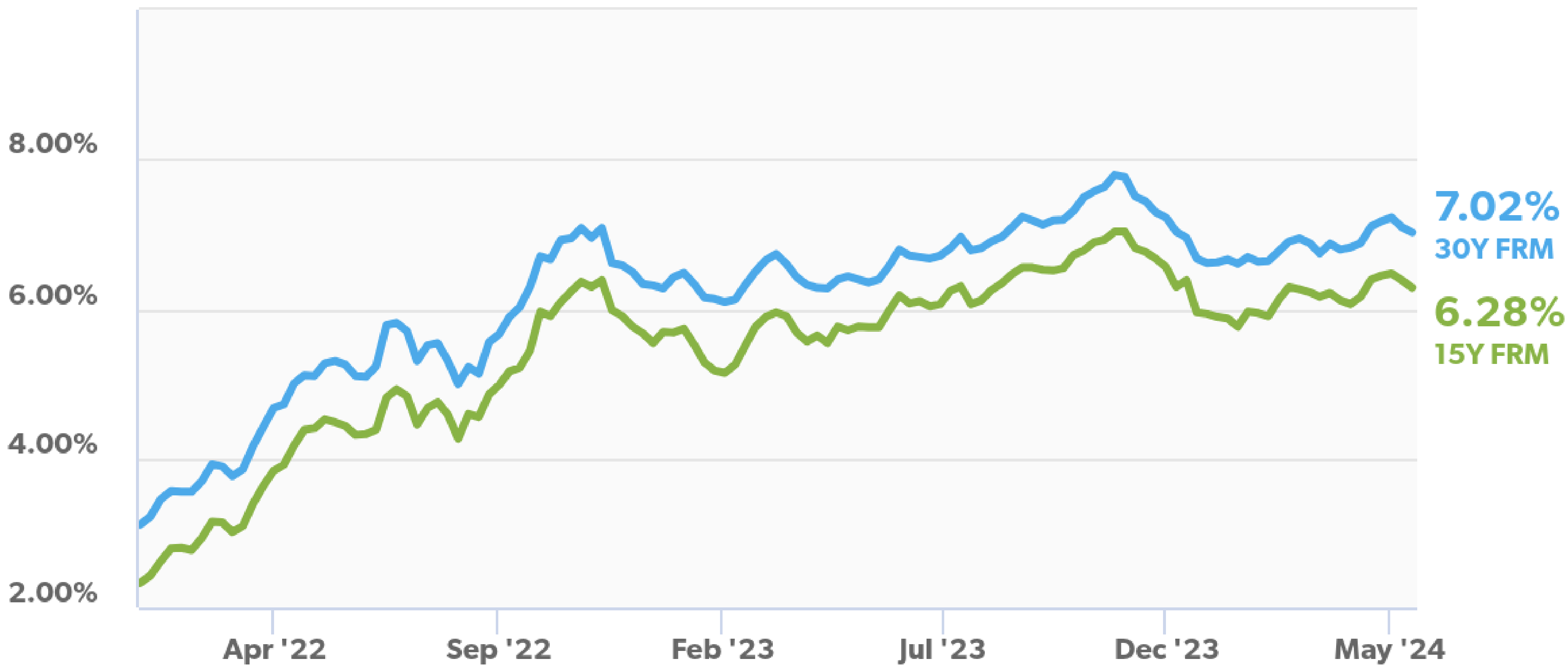
Mortgage Rates 2022 - Present

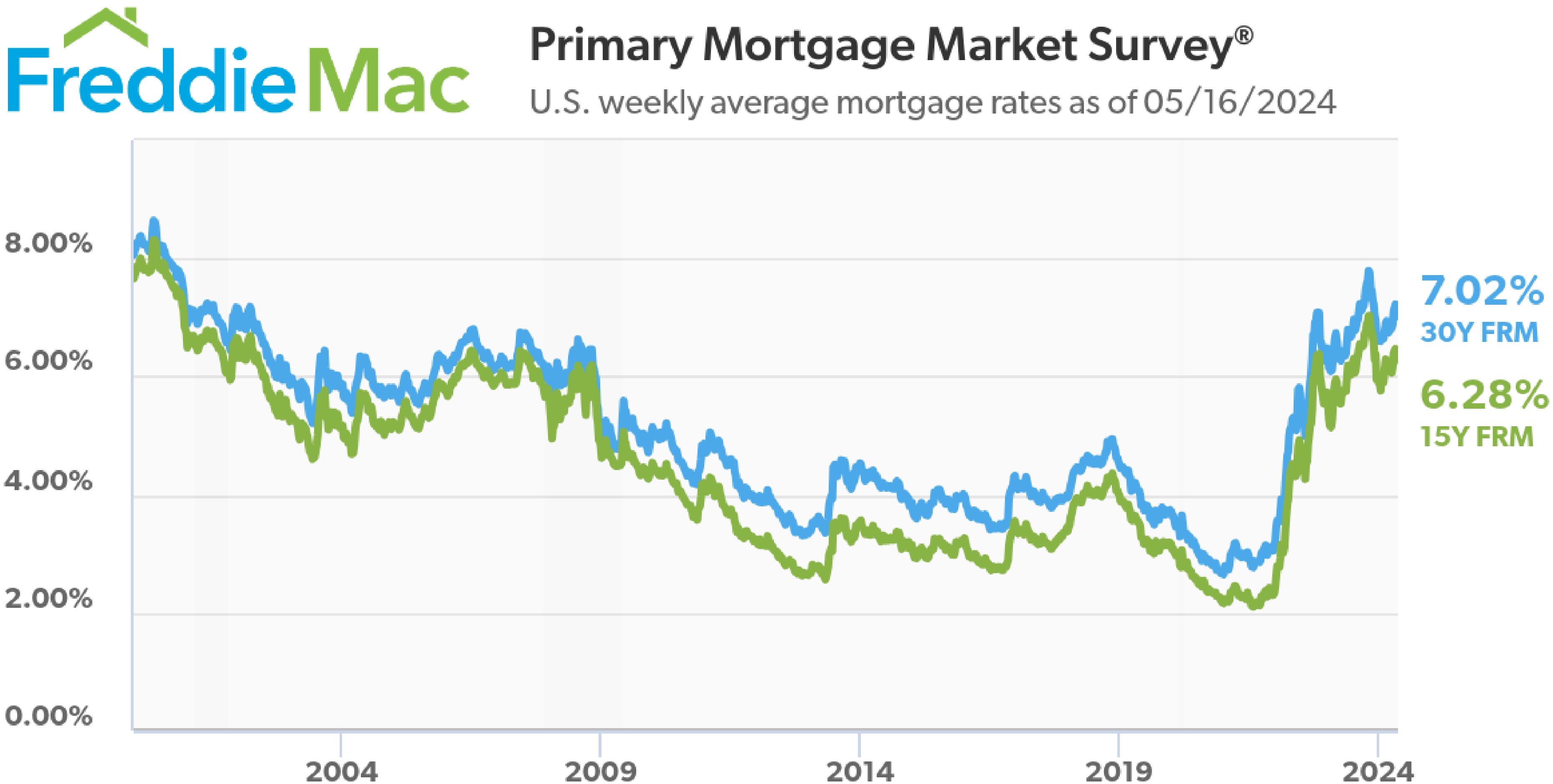
Freddie Mac

Primary Mortgage Market Survey®

U.S. weekly average mortgage rates as of 05/16/2024

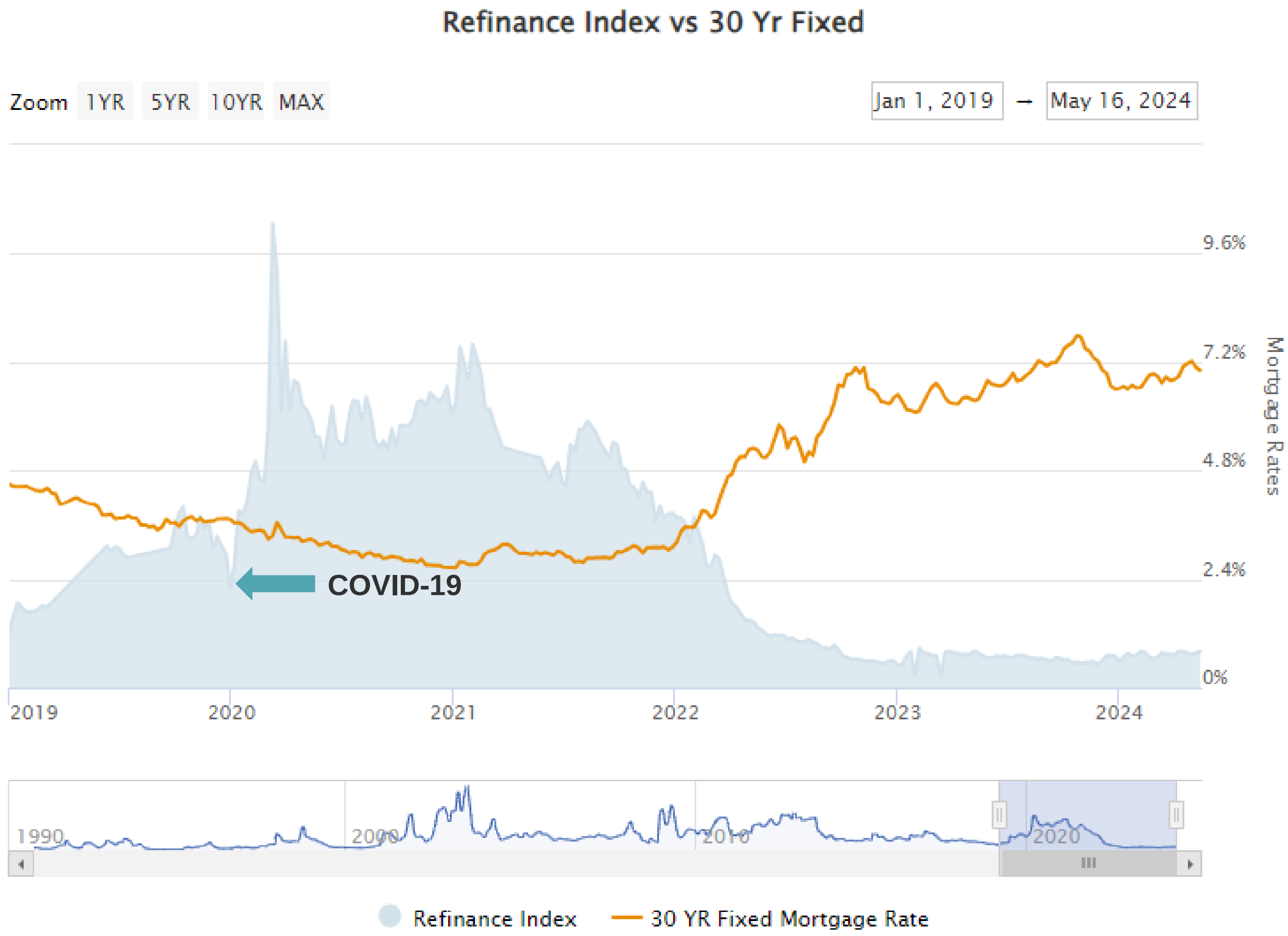


Mortgage Rates 2000 - Present



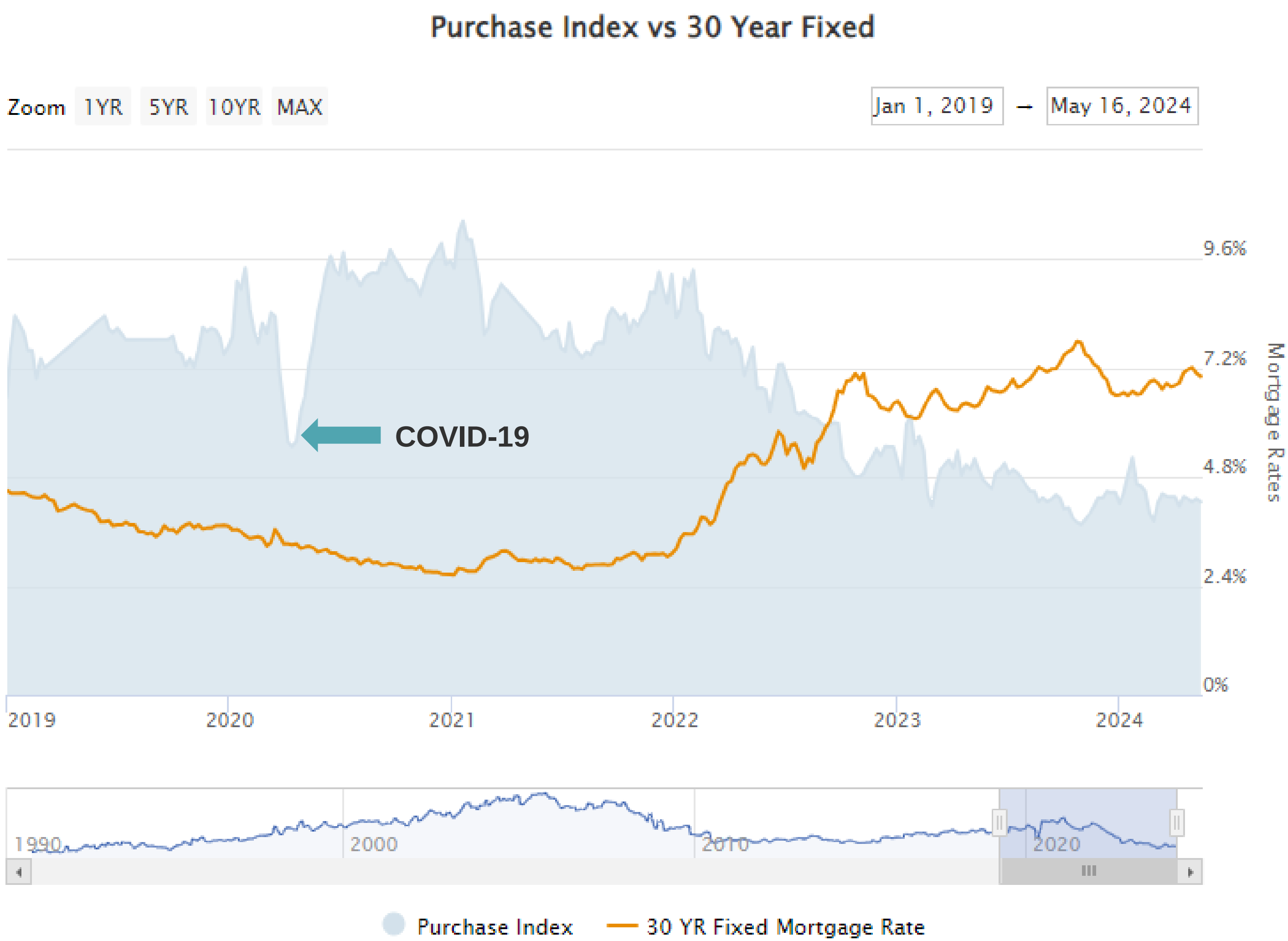
Refinance Market

Rate/term refinance becomes almost non-existent as mortgage rates hit levels not seen since 2000 with ~89% of borrowers having an interest rate below 6.0%.



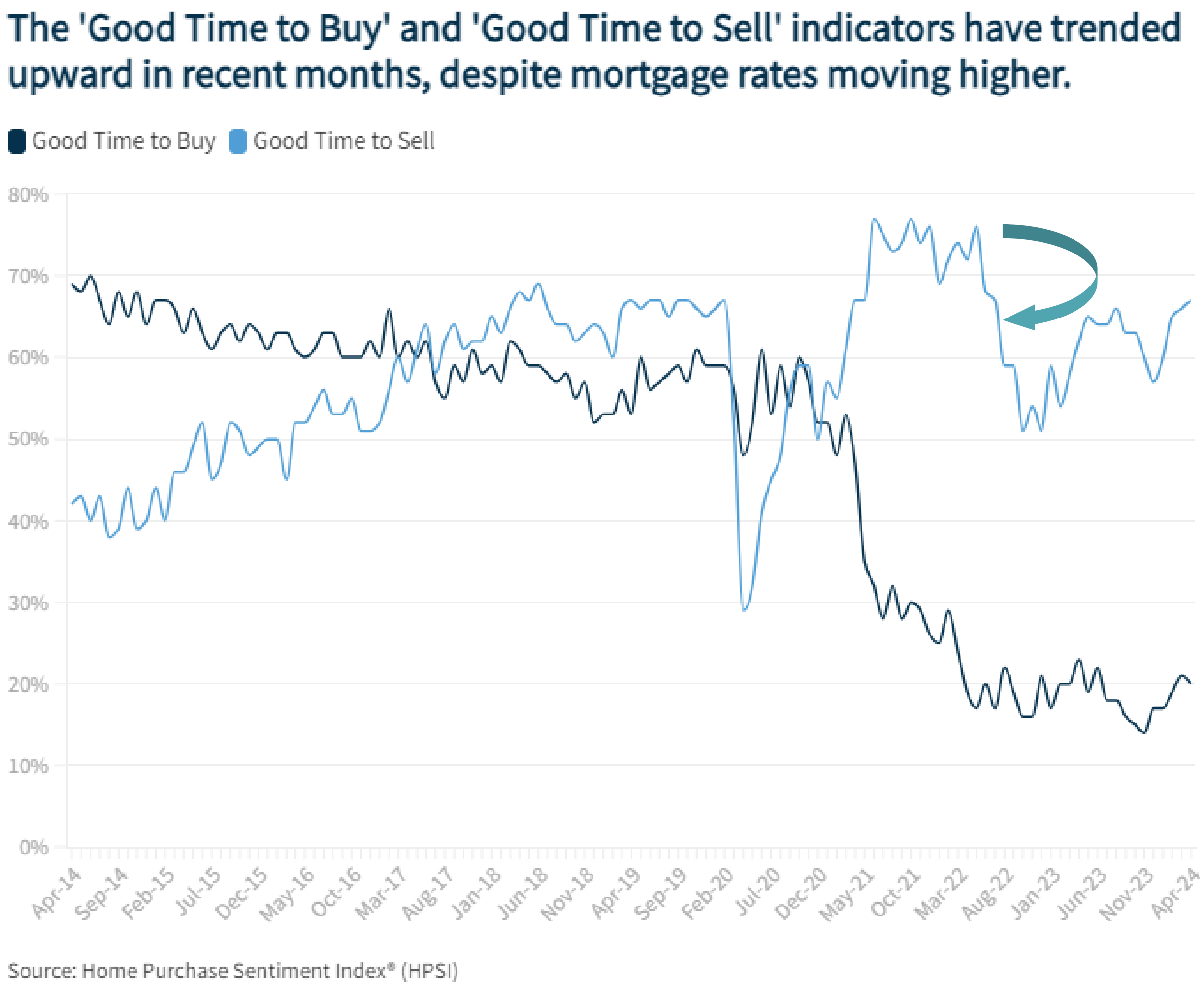
Purchase Market

Higher rates have tempered some buyer demand as the “lock-in” effect impacts buyer’s decisions to move.



Purchase Market

Consumers are starting to accept the reality of the “new normal” rate environment with consumer sentiment showing increasing trends that it is a good time to buy and sell now.



2022 - Rapid decline in listing sentiment

Purchase Market – Affordability Issues

Rapid rate increases caused mortgage payments to exceed lending thresholds as well as consumer's comfort with their own personal budgets.

Debt-to-Income (DTI) Ratio:

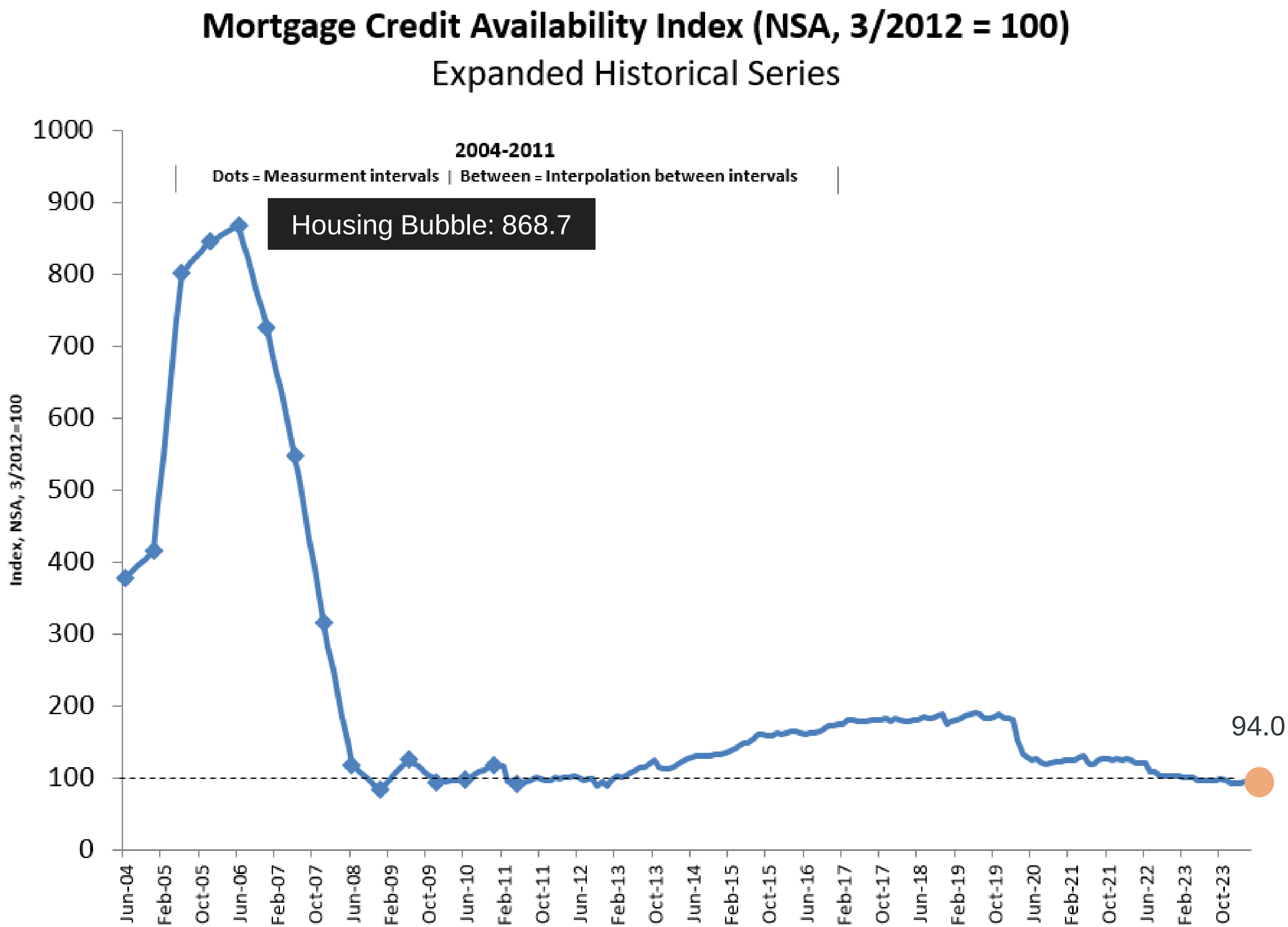
- This ratio dictates how large of a loan amount a consumer can qualify for.
- It compares all monthly debt (mortgage payments, loan payments, credit card payments) to monthly gross income.
- Most conventional products will approve (with good credit) in the 45-50% ratio range while some government products (FHA/VA) can approve up to a 55% ratio.

Affordability Shifts:

- Comparing the mortgage payment of an average loan amount of $350K in December of 2021 to present day:
    - $350K at a 3.00% 30-year fixed rate = $1,475.61
    - $350K at a 7.00% 30-year fixed rate = $2,328.55
    - **Increase of $852.94 or 58%**

Foreclosures & Lending Standards

Even with challenging affordability conditions and strong housing demand, credit and lending standards remains tight.



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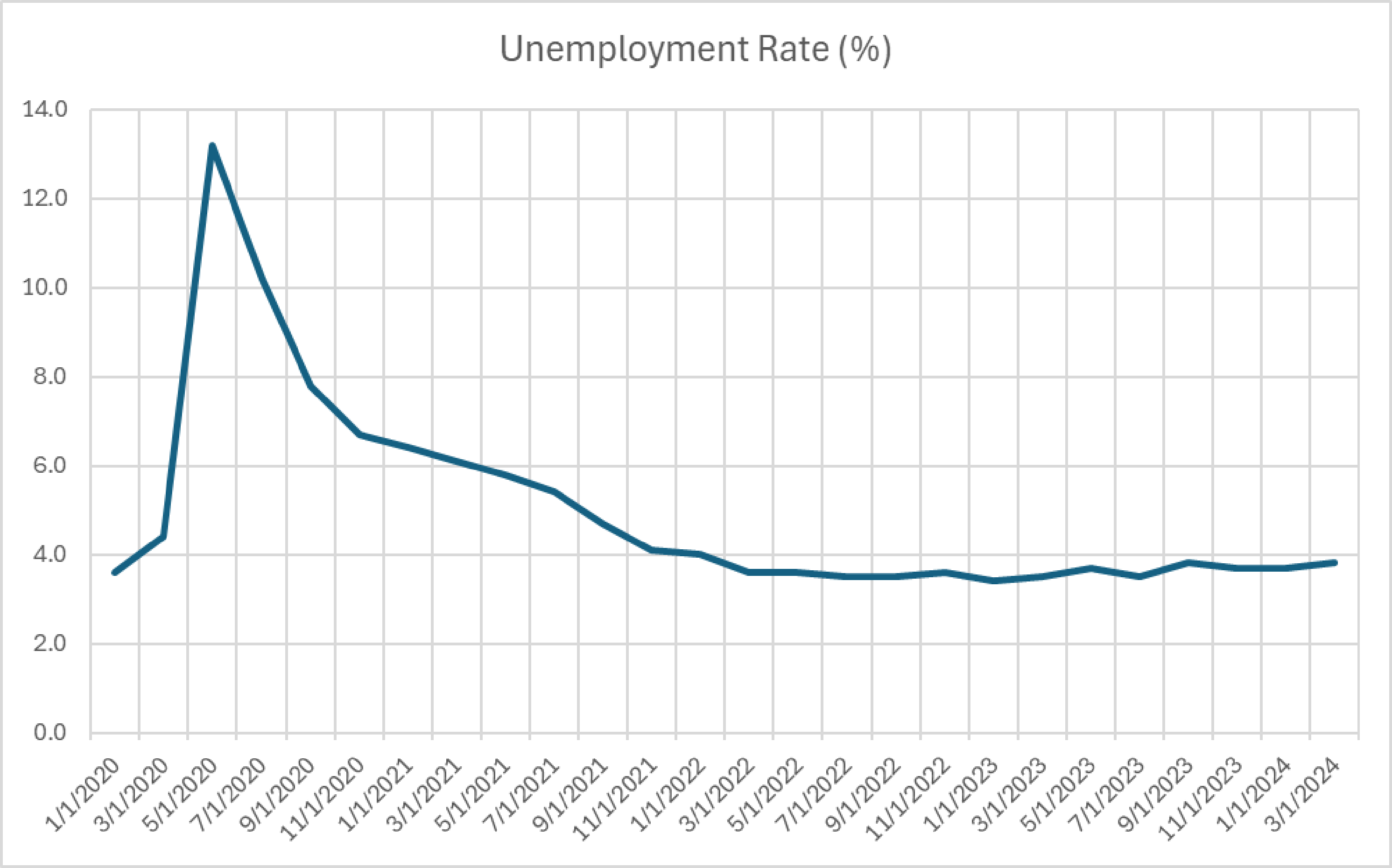
Unemployment Rate

What matter is jobs. Since COVID-19, unemployment rates have been low with April coming in at 3.9%.



Unemployment Rate

There are currently 1.2 available jobs per unemployed person, an indicator of a still strong labor market.

Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

Demographics

The labor market is remaining strong due to an aging US population, eventually leading to a labor shortage without improvements in population or technology.

- An aging population matters.
- US population up 0.4% in 2022.
- US having 1.8 children per family.
- To grow we need greater than 2.1 per family

U.S. population, by age, selected years 1950–2080

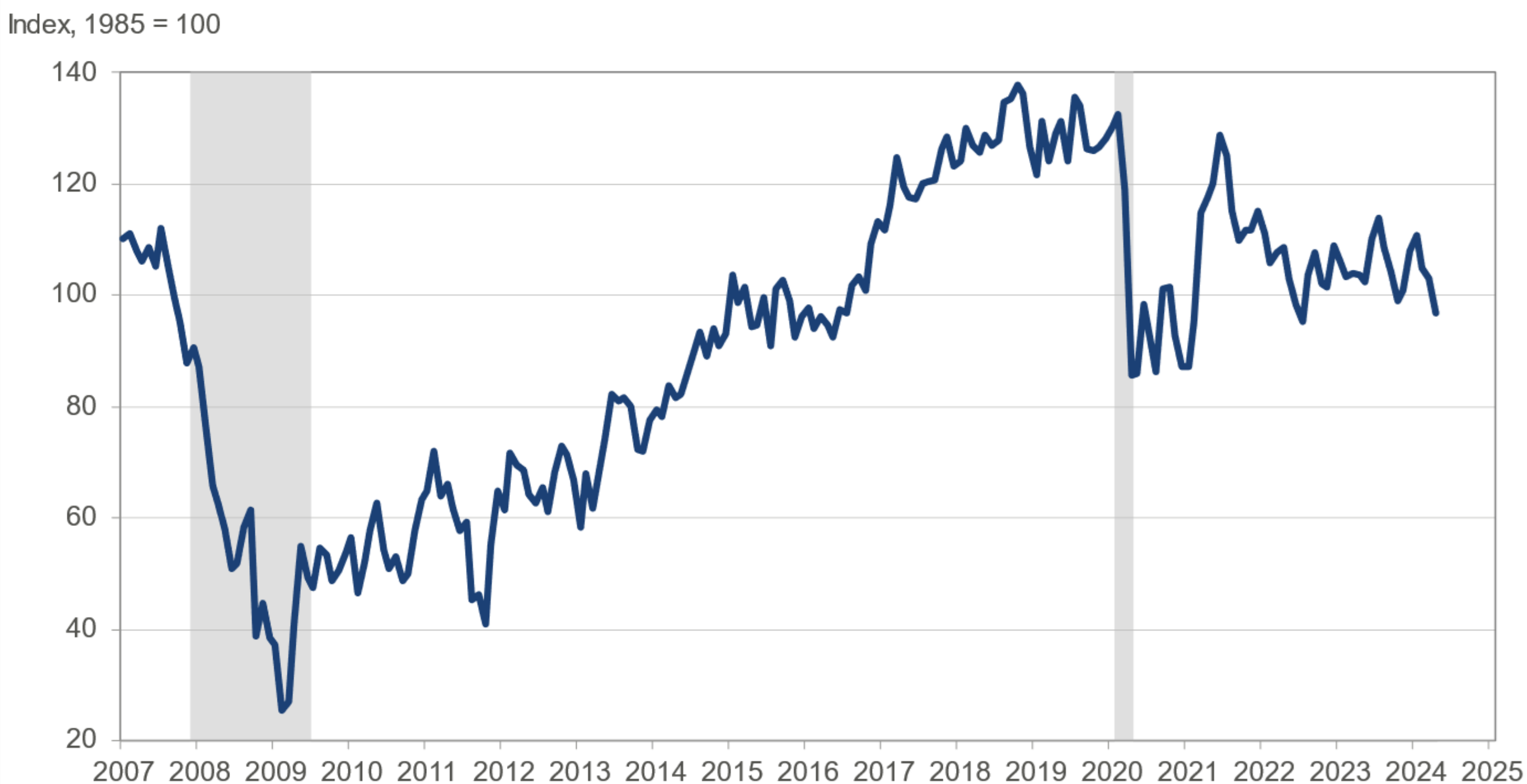
Year	Population (thousands)				Percentage 65 or older
	All ages	Under 20	20–64	65 or older	
			Historical		
1950	160,118	54,466	92,841	12,811	8
1970	214,765	80,684	113,158	20,923	10
1990	260,458	75,060	153,368	32,029	12
2005	302,323	83,963	181,457	36,902	12
			Projected [a]		
2020	339,269	87,547	198,213	53,510	16
2040	376,856	92,268	207,416	77,172	20
2060	402,079	96,760	218,777	86,543	22
2080	428,214	101,159	230,137	96,918	23

SOURCE: Sarah Quinlan, SAQ Economic Advisory

Consumer Confidence

Elevated price levels for food and gas dominated consumer's concerns with politics and global conflicts as distant runners-up. Overall, consumer confidence is improving since plunging in 2022.

Consumer Confidence Index®



*Shaded areas represent periods of recession.
Sources: The Conference Board; NBER

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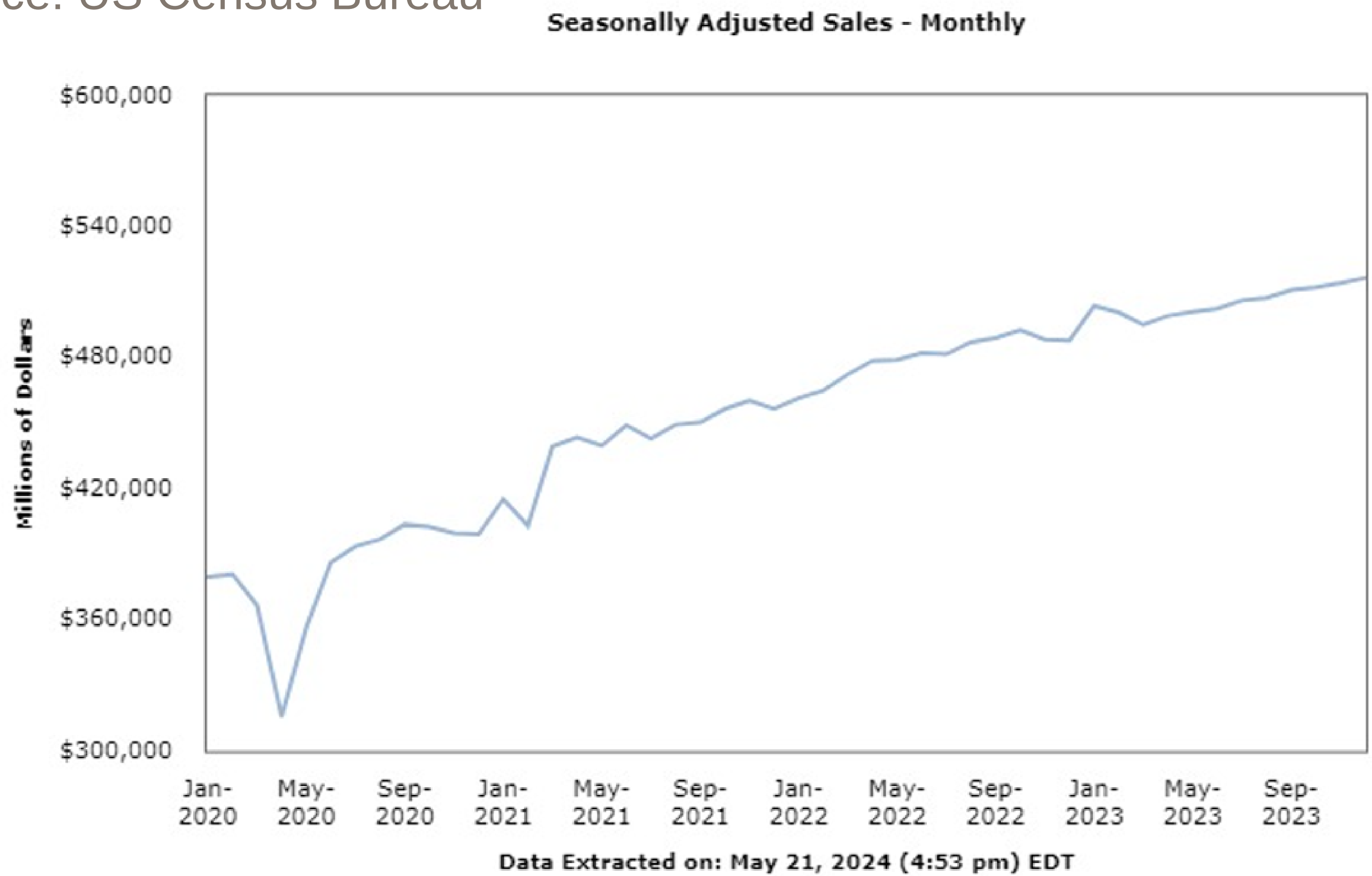
Retail Sales Data

Monthly sales data (excluding Auto/Gas) shows increased spending, even despite higher borrowing costs.

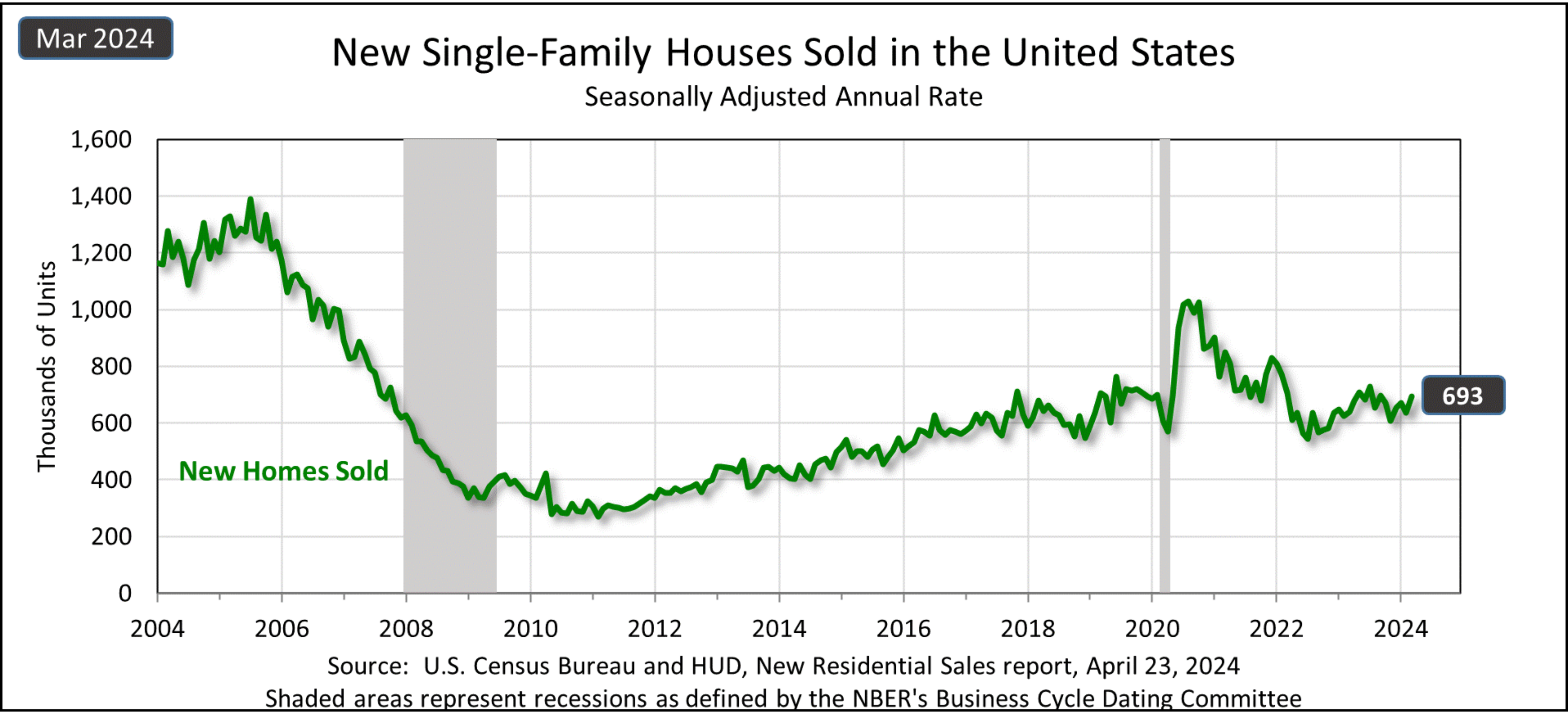
Source: US Census Bureau



Home Sales

Sales of new single-family homes in March were at 693,000, 8.8% above the February estimate of 637,000.

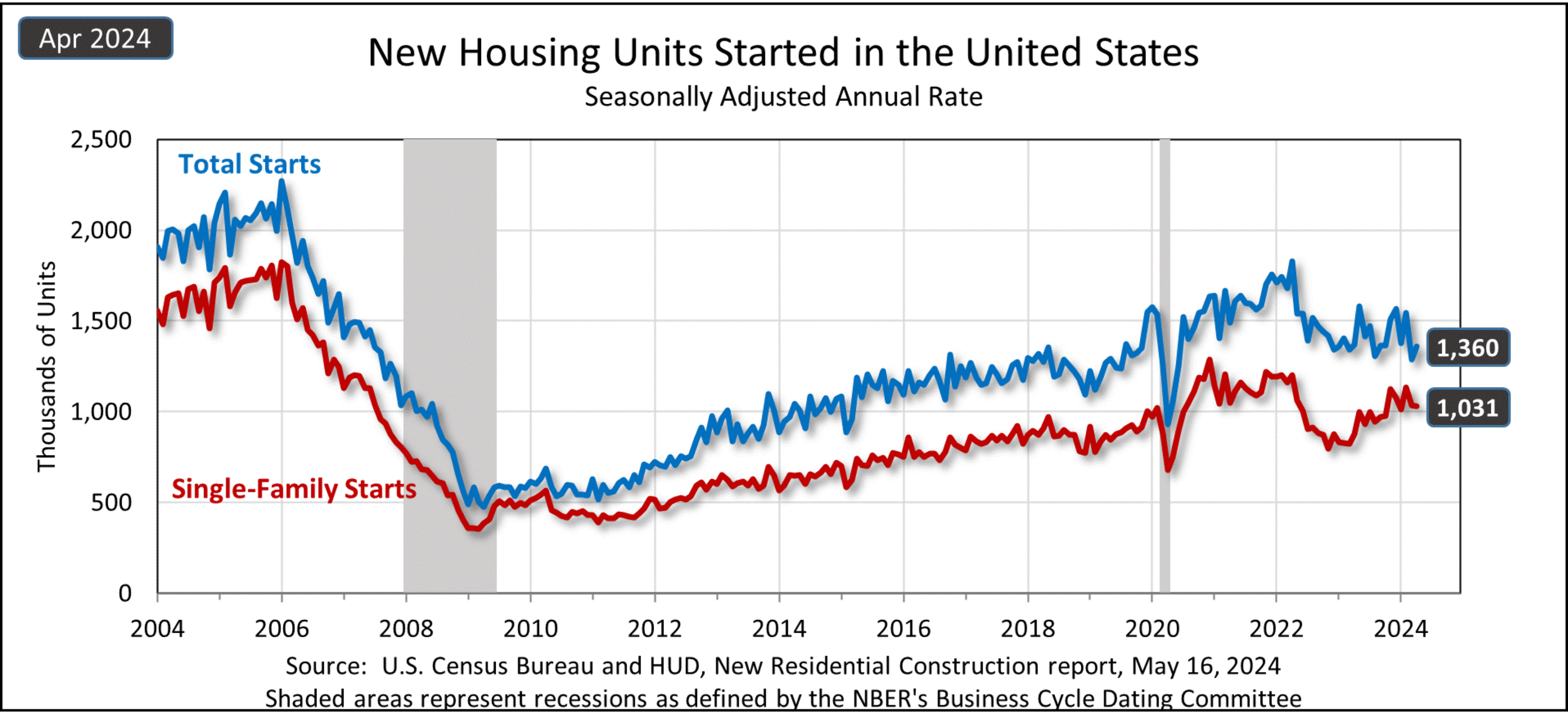
Source: US Census Bureau



New Construction Housing Starts

New construction housing starts in April were at 1,360,000, 5.7% above the March estimate of 1,287,000.

Source: US Census Bureau

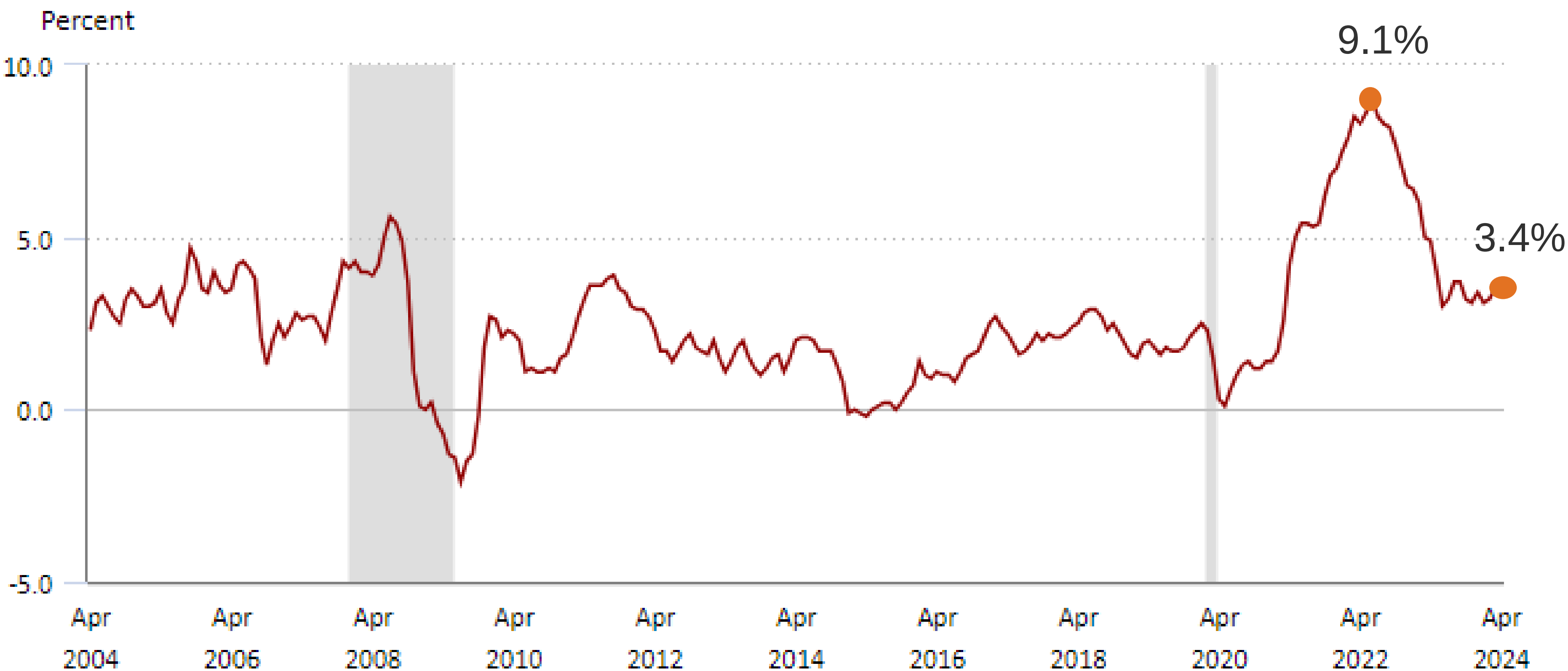


With all this positive news, why do people remain worried?

One word: <u>Inflation</u>
But what's really happening?

Consumer Price Index

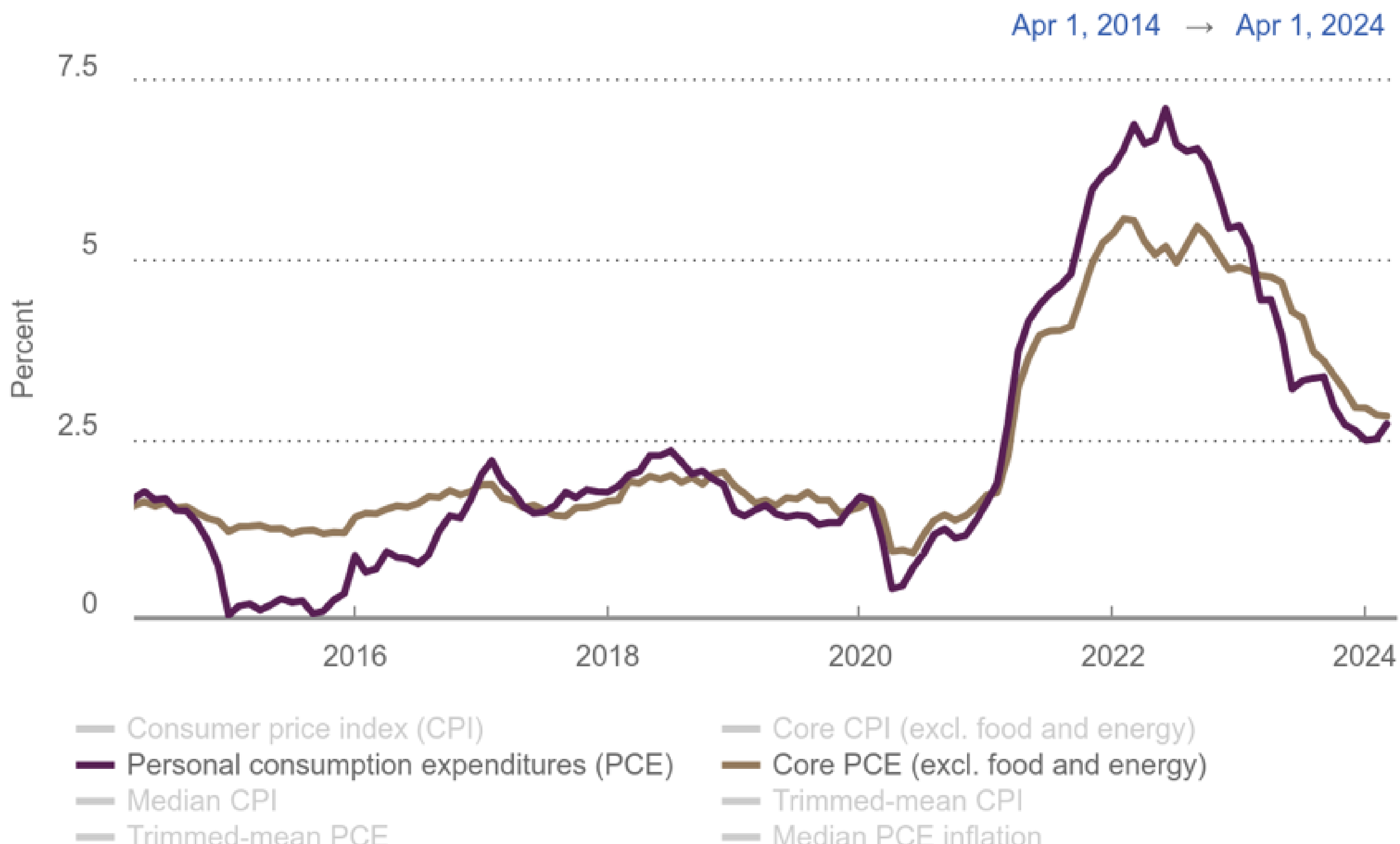
The run up in inflation experienced post COVID is reflected in the CPI data. CPI shows prices are still elevated but coming back down as the Fed's monetary policy works it way through the economy.



Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

Personal Consumption Expenditure (PCE)

The Fed mainly only cares about PCE when monitoring the pace of the economy. Core PCE (excludes food and energy) needs to come down for the Fed to change direction on their monetary policy.



CPI vs PCE

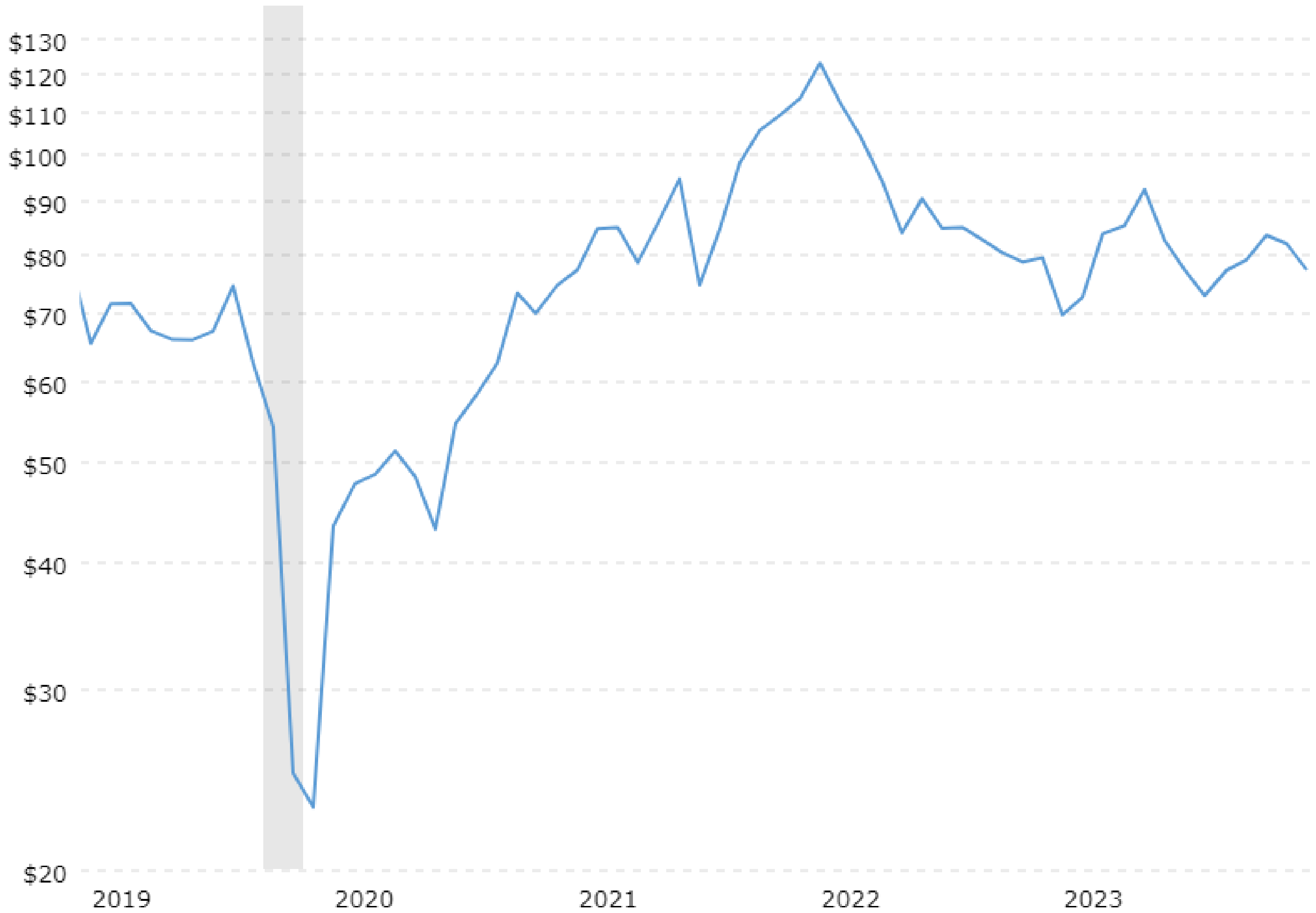
The Federal Open Market Committee (FOMC) focused on CPI inflation prior to 2000 but changed to PCE inflation as a more accurate gauge of the pace of the economy.

Why the change from CPI to PCE?

- PCE data is more comprehensive than CPI using a broader subset of goods and services, as well as spending from urban and rural consumers.
- The weights in the PCE are updated more frequently and can better account for consumer substitution to less expensive alternatives.
- The government can retroactively revise PCE data to account for new data or measurement techniques whereas CPI data is only revised to account for seasonal factors.

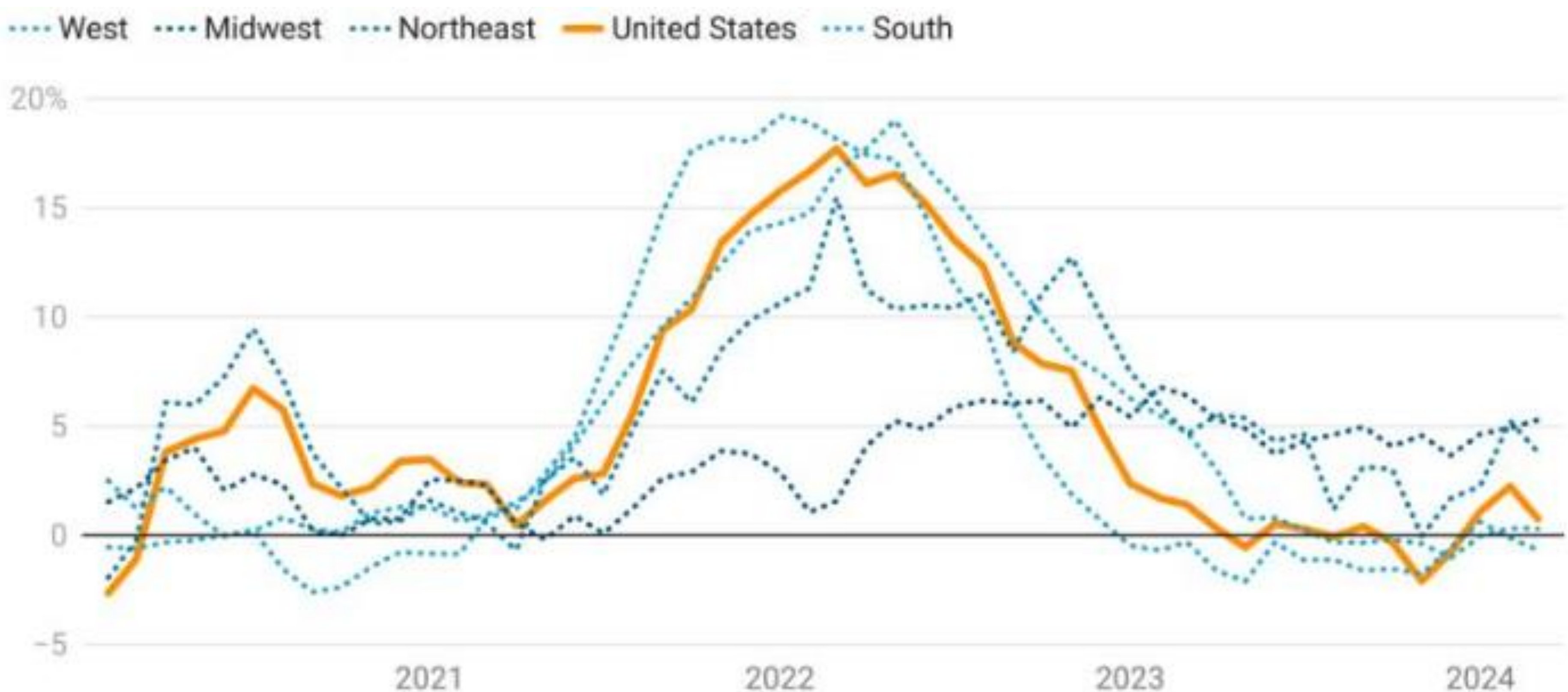
Energy Costs – Crude Oil

Oil prices have come down from $123/barrel in 2022 to $77/barrel or a drop of 38%.



Housing Costs – Rent Growth YoY

Rental prices have cooled off, showing only a 0.77% gain YoY in March of 2024 compared to March of 2023.



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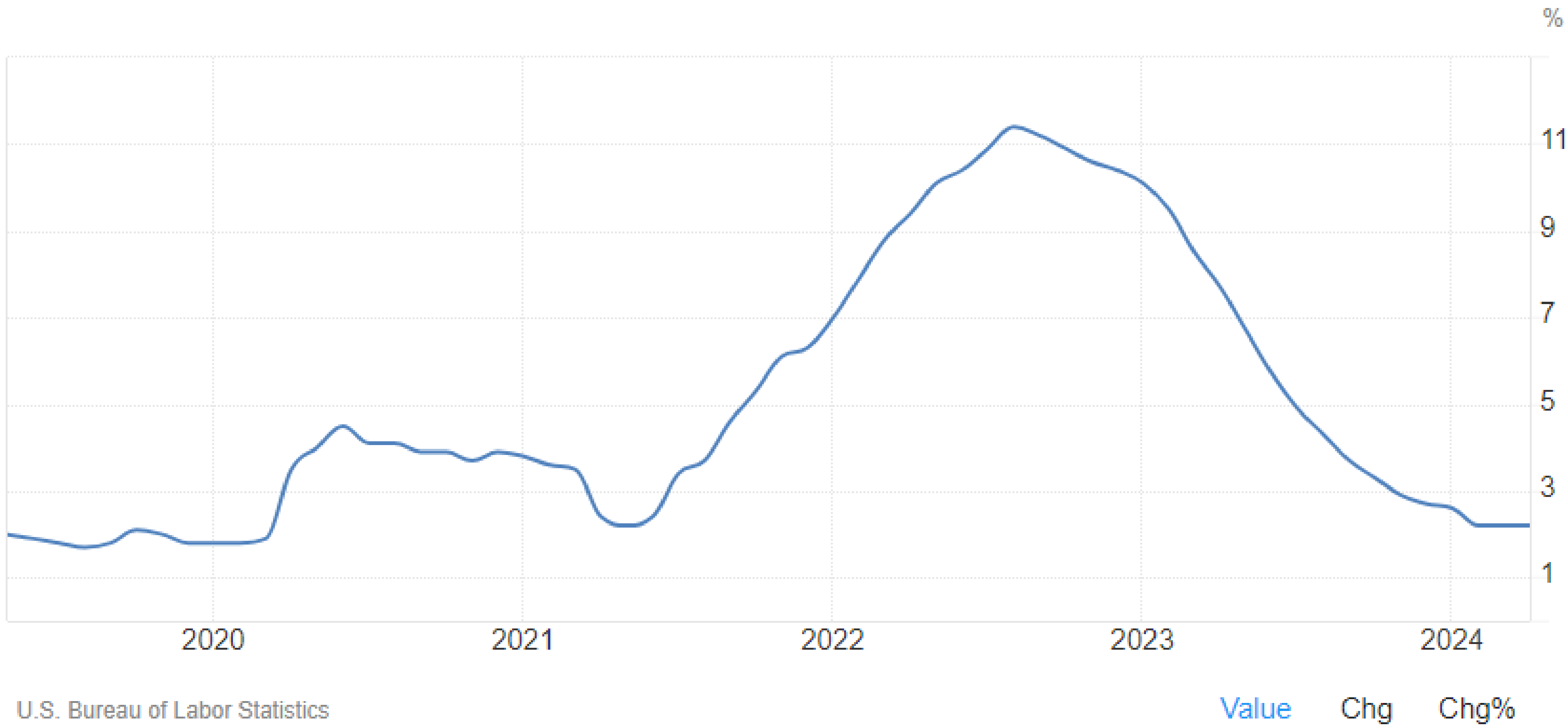
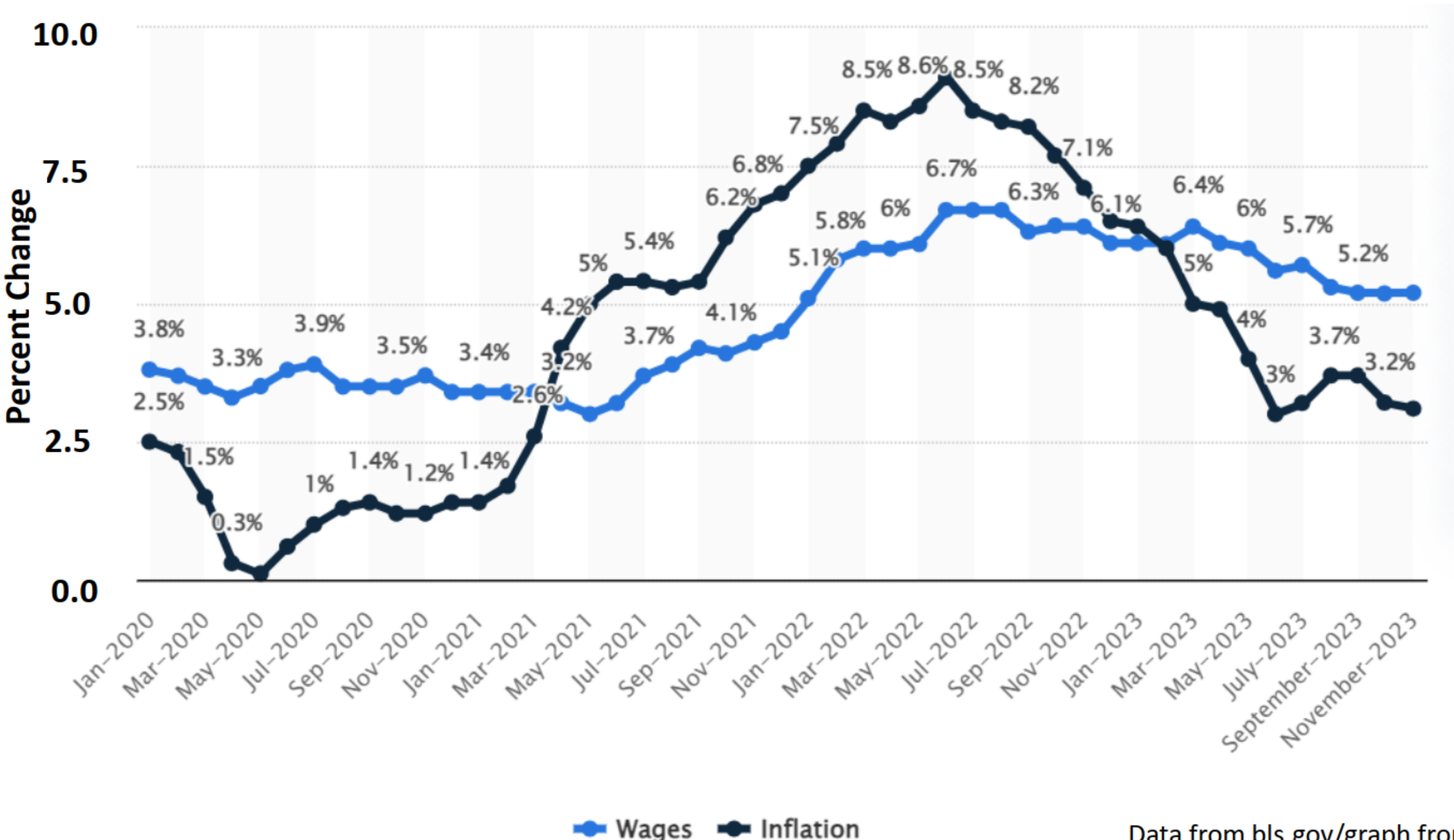
Food Costs

Food inflation is showing positive signs with only a 2.2% change in April of 2024, the lowest level since May of 2021.



Wages vs. Inflation

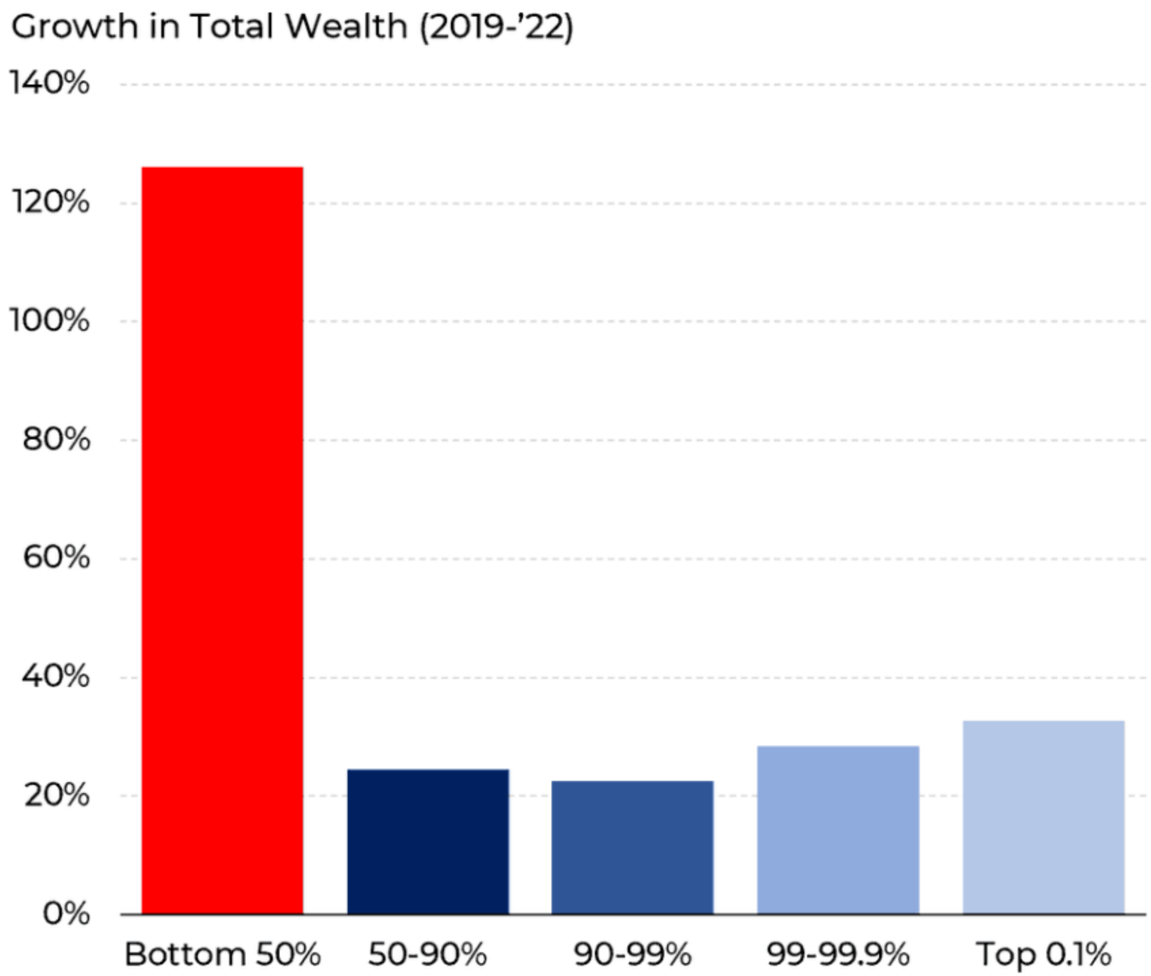
Inflation is currently below wages, meaning employees are getting paid a living wage now.



Data from bls.gov/graph from Statista

Net Wealth

The net wealth in the bottom half of America has doubled since 2019, growing faster than any other group.



Source: Federal Reserve Distributional Financial Accounts

Reality: We have reached peak inflation

Housing Finance Forecasts and Commentary

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Mortgage Bankers Association (MBA)

The MBA publishes periodic forecast commentary for the housing finance industry and is our advocacy group with Congress.

Rate Cut Prediction:

- **Due to some persistent inflation and a strong labor market, the MBA has moved their prediction of the first rate cut from June to September of 2024.**
- Additionally, the MBA is only forecasting two rate cuts this year as opposed to three suggesting that mortgage rates will stay higher for longer resulting in lower total mortgage originations for the year.
- Longer-term rates jumped up following the inflation news with 10-year Treasury yields reaching 4.7% as investors reassessed the likely path of rate cuts from the Fed. The spread has narrowed a bit which is expected to continue as inflation cools, implying 30-year fixed mortgage rates wind up closer to 6.5% by the end of 2024.

Home Buying Activity

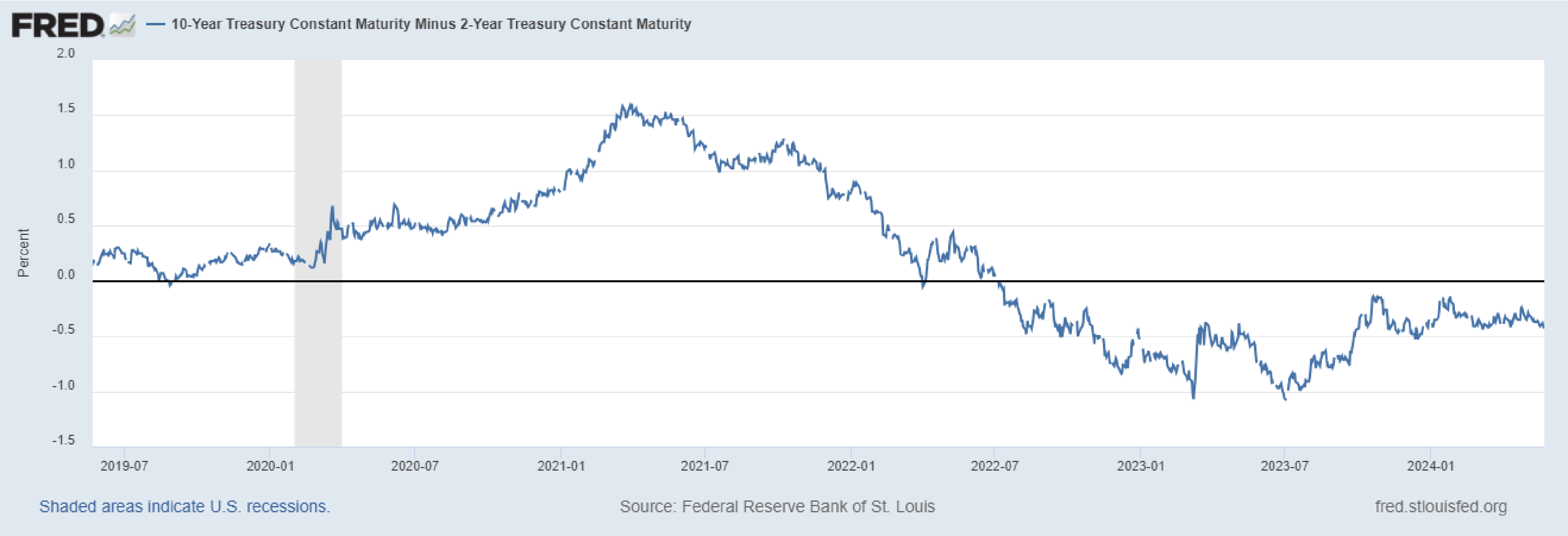
- Mortgage applications have increased in recent weeks, even with the headwind of higher mortgage rates moving above 7% again.
- There is still not enough inventory to meet demand but the stronger outlook in new home sales data is making up some of the difference.

10-Year Treasury Yield

Typically, the gap between the 10-year Treasury yield and 30-year fixed mortgage rates spans 1.5 to 2 percentage points. For much of 2023, that margin grew to 3 percentage points. One key driver of this spread includes expected future inflation levels.

Inverted: 10-Year vs 2-Year Treasury Yield

A key bond market signal of an upcoming recession has flashed red for the longest time ever. The Treasury yield curve plotting 2-year and 10-year yields has continuously been inverted, meaning short term bonds are yielding more than long term bonds dating back to July 2022. This happens when investors expect interest rates to remain high in the short term.



Freddie Mac (FHLMC)

Freddie Mac, one of the GSEs, publishes monthly commentary around the housing and mortgage market outlook.

Homeownership:

- Tight inventory combined with higher rates resulted in a slow start to the year in terms of homeownership. Total housing stock was at 146.4 million units in Q1 of 2024, an increase of around 1.6 million units compared to the same time last year.
- **This country needs around 30 million housing units over the next several years. We need housing density. Getting this many units built will normalize the market, not depreciate it.**

Recession Prediction:

- With a slow rate of growth predicted for 2024/2025, a recession is not expected. Slower growth and a weaker labor market help to rein in inflation while the economy throttles back but avoids stalling.

Rate Cut Prediction:

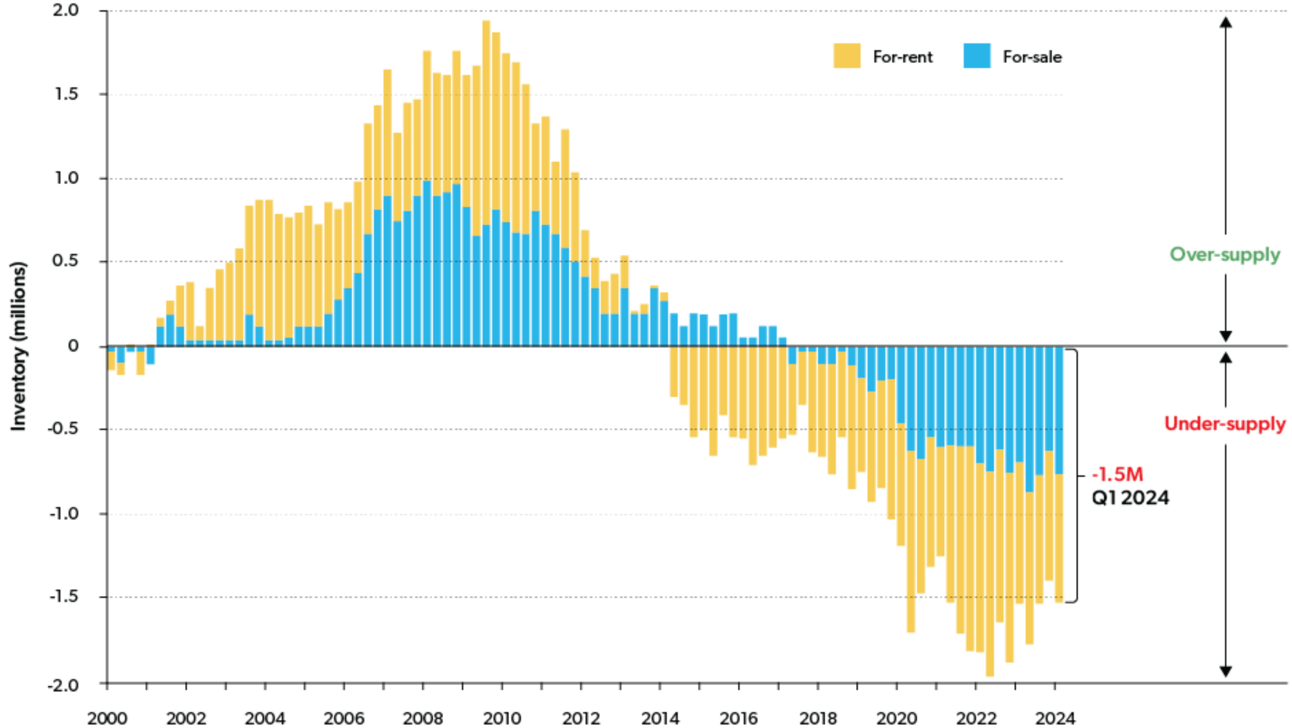
- Freddie Mac is predicting one rate cut towards the end of the year resulting in elevated mortgage rates for the remainder of 2024. The higher rates have already started to readjust prospective buyers housing expectations, but housing demand should remain high.

Housing Inventory

We need to ease restrictions on development. There are a wide range of federal, state, and local regulations, including building codes, environmental laws, land use regulations, and impact fees, as well as government procedures to administer these regulations. This all reduces the supply of housing and generates substantial costs. Many of these forms of regulation are not necessary or efficient.

EXHIBIT 1

Total for-sale and for-rent vacant housing is 1.5 million units below a balanced market



Source: Freddie Mac calculations using U.S. Census Bureau data

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Fannie Mae (FNMA)

Fannie Mae, one of the GSEs, publishes monthly commentary around the housing and mortgage market outlook.

Rate Cut Prediction:

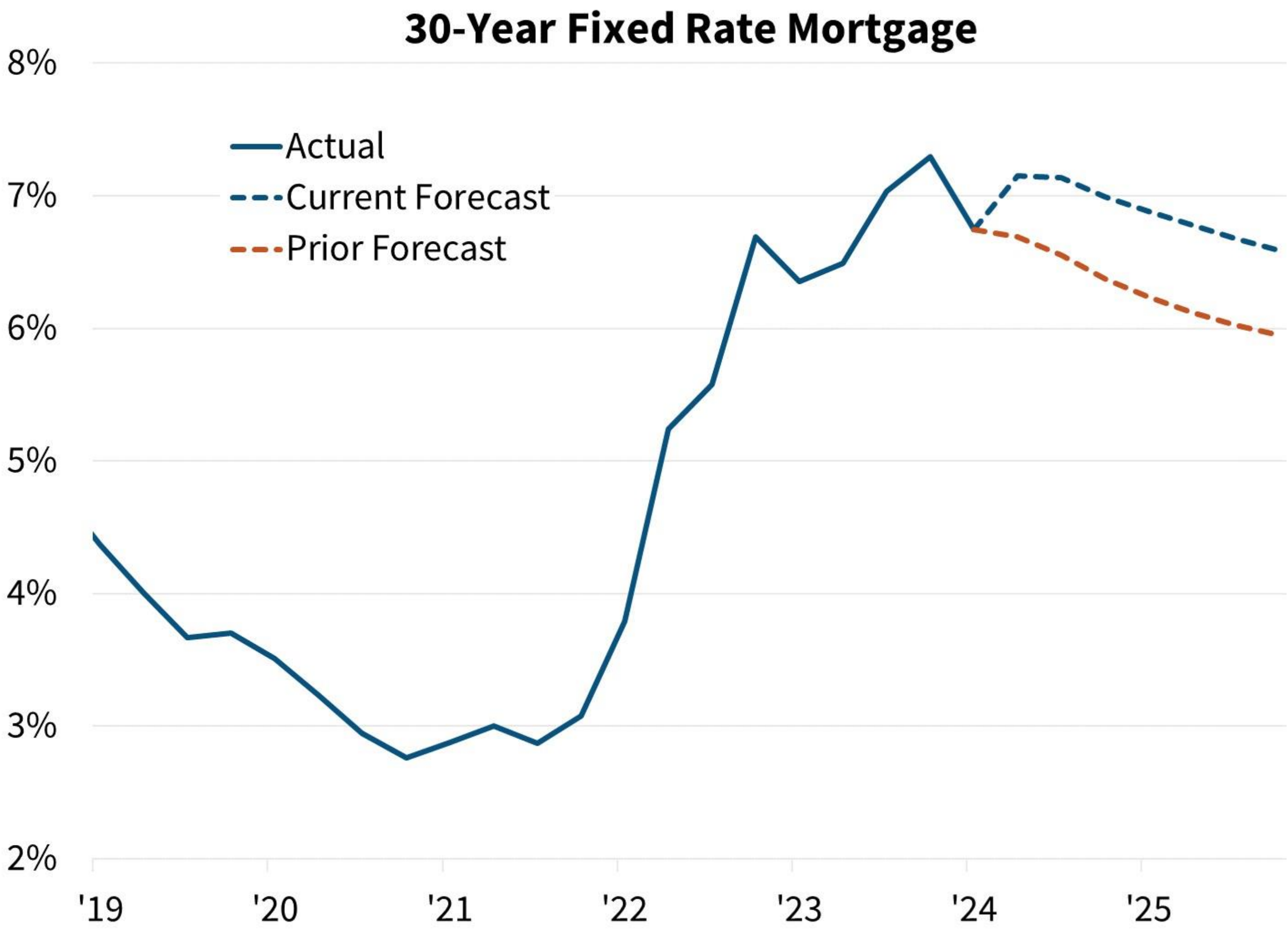
- FNMA forecasts the 30-year fixed rate mortgage to average 7.0% for the remainder of 2024 and adjusting down to 6.7% in 2025.
- Softening labor market conditions and weaker consumption growth should flow through to lower inflation in the second half of 2024. These fundamentals point to decelerating inflation, but recent reports highlight the risk that inflation pressures remain sticky.
- FNMA predicts the Fed will hold off on rate cuts until September and only cut twice this year with the potential for only one rate cut.

Existing Home Sales:

- Existing home sales fell in March, adjusting the outlook for existing home sales for the rest of the year, primarily due to the change in mortgage rate expectations.
- Existing sales are still expected to trend upward for the remainder of the year moving into 2025, but lower than prior forecasts.
- **This bodes well for single-family home prices as prices grew 6.6% in Q4 2023 and forecasted to rise 4.8% in 2024.**

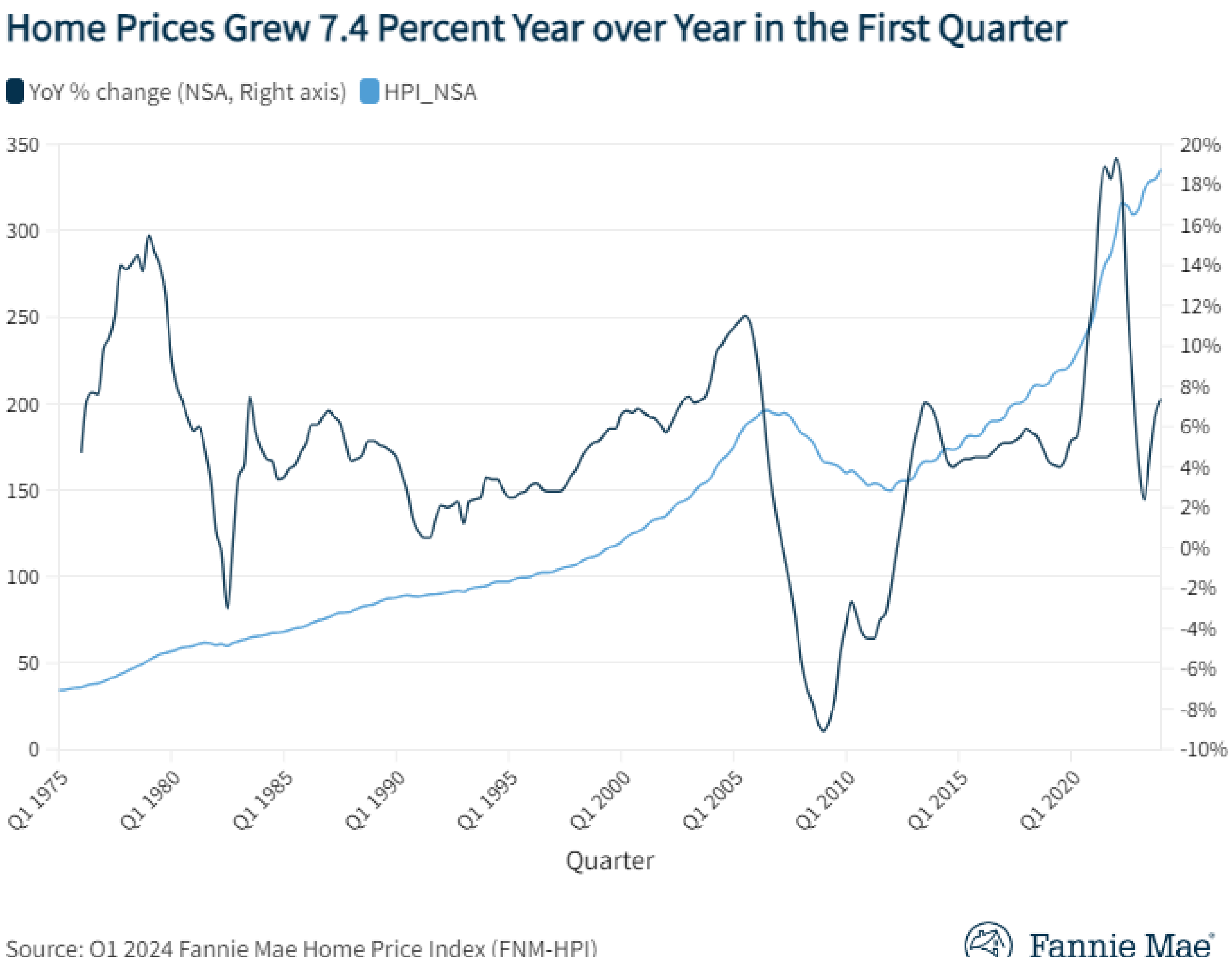
Mortgage Rate Forecast

Forecasts have been revised considering recent Fed policy expectations, with "higher for longer" being the message.



Home Price Forecast

The stabilization of mortgage rates in January helped to boost demand early in the first quarter of 2024, with existing home sales and mortgage applications rising.



TL:DR

Home Prices ↑

Existing Housing ↓

New Construction ↑

Mortgage Rates ↔

Recession Concerns ↓

Mortgage Bankers Association – Regulatory Issues

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Mortgage Bankers Association (MBA) – In Focus

There are several key initiatives the MBA is advocating for the protect consumers and the finance industry at large that are important to support.

Key Regulatory Issues:

- Abusive Credit Trigger Lead Practices
- Community Reinvestment Act Requirements
- BASEL III Implications
- Post COVID-19 Loss Mitigation Policies

Credit Trigger Leads

The MBA is helping to promote limiting abusive marketing practices surrounding the purchase of credit trigger leads.

What is it?

- The credit bureaus resell consumer information to other lending institutions from loan applications who then get solicited for additional mortgage offers the consumer did not request.
- These solicitations can sometimes come from 15-20 companies who call consumers multiple times a day.
- Lenders who purchase this data are often using a call center workforce to get prospective consumers to apply for loan options with their company and can be relentless trying to get consumers on the phone.

Credit Trigger Leads

The MBA is helping to promote limiting abusive marketing practices surrounding the purchase of credit trigger leads.

What is being done?

- There is bipartisan support for the Homebuyers' Privacy Protection Act (S.3502) in the US Senate and the Protecting Consumers from Abusive Mortgage Leads Act (H.R. 4198) in the House.
- The MBA and its members have led the industry in advocating for legislative reforms to stop the unwanted harassment of consumers resulting from trigger lead abuses.

Community Reinvestment Act (CRA) Requirements

The MBA is working to stop regulators from pushing misguided policy onto certain sectors of our industry.

What is it?

- The CRA is a federal law requiring depository institutions to help meet the credit needs of the communities in which they do business, specifically low-moderate income (LMI) neighborhoods.
- The rationale of the CRA is that these banks hold the deposits of the residents from the communities they serve.
- The agencies that supervise depository institutions also conduct examinations for CRA compliance. Banks are evaluated on specified LMI performance areas and issued a rating.
- Some fair lending advocates are pushing to extend the reach of the CRA to independent mortgage banks (IMBs). A handful of states have enacted their own mini-CRAs, some of which extend to IMBs. The MBA opposes this extension as an ineffective and misguided policy choice.

Community Reinvestment Act (CRA) Requirements

The MBA is working to stop regulators from pushing misguided policy onto certain sectors of our industry.

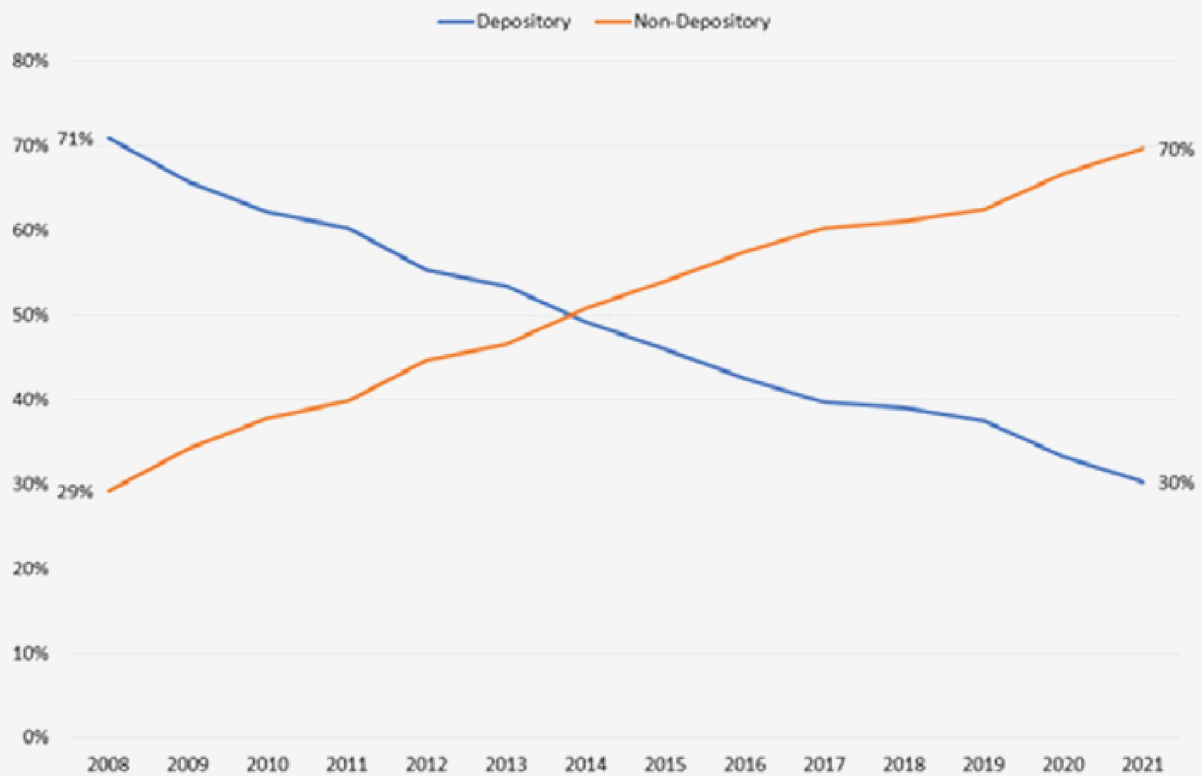
Why is CRA bad for IMBs?

- Unlike banks, IMBs do not receive deposits from their community to reinvest.
- They also do not have access to any direct government support as their entire business model is supported through independent lines of credit, not the Federal Reserve lending money.
- IMBs are already subject to existing fair lending, fair housing, and anti-redlining laws as well as examination and enforcement for compliance with these laws from a very active CFPB.
- IMBs already tend to outperform banks at lending in underserved and LMI communities.
- Imposing CRA requirements on to IMBs increases the inefficiency and cost of doing business, thus increasing mortgage pricing for consumers.

Community Reinvestment Act (CRA) Requirements

70% of LMI households financed their primary residence from an IMB.

FIGURE 3: WHERE LOW- AND MODERATE-INCOME HOUSEHOLDS OBTAIN HOME PURCHASE FINANCING (BY COMPANY TYPE)



Source: Home Mortgage Disclosure Act (HMDA) data, 2008–2021

BASEL III Implications

The MBA is opposed to the Basel "endgame" notice of proposed rulemaking and urges agencies to delay its release, pending more detailed analysis of the effects of the rule on the economy, and on housing and real estate finance markets.

What is it?

- Basel III was developed in response to the financial crisis of 2007-2008. It is a set of international bank regulations developed by the Bank of International Settlements to promote stability in the international financial system. Its design is to decrease damage done to the economy by banks who take on too much risk.
- It is intended to increase bank capital requirements by increasing bank liquidity and decreasing bank leverage.
- It increases the risk-weighting of Mortgage Servicing Rights (MSRs) held by banks and decreases the amount of MSRs a bank can hold on its balance sheet, thus making them one of the costliest assets classes in the entire Basel III framework.

BASEL III Implications

The MBA is opposed to the Basel "endgame" notice of proposed rulemaking and urges agencies to delay its release, pending more detailed analysis of the effects of the rule on the economy, and on housing and real estate finance markets.

How does this hurt the consumer?

- By making MSRs expensive to retain, the Basel III framework reduces demand for MSRs creating a less liquid secondary market resulting in lower prices for mortgages sold on the secondary market. **This in turn will raise rates for consumers.**
- On banks with assets of $100B or more, every million dollars of capital an impacted bank allocates to mortgage lending would translate to **at least $7 million less in lending to first-time homebuyers** who can't produce a 20% down payment. This is the risk weighting applied to loans with a high LTV (loan downpayment) as the rule does not give appropriate credit to the presence of PMI to offset the risk. This would directly hurt lending in underserved communities.

Loss Mitigation Policies

The MBA wants to preserve some of the loss mitigation reform that came out of the COVID-19 pandemic to keep more people in their homes.

What is it?

- Mortgage servicers are the most important conduit for relief for distressed borrowers and the primary means by which they can recover financially and remain in their homes.
- Services must have the resources to ensure borrowers receive timely and durable assistance to avoid foreclosure.
- Throughout the COVID-19 pandemic, mortgage servicers delivered effective payment relief to over 7.5 million borrowers industry-wide through a COVID-19 forbearance.
- These loss mitigation techniques, brought about through the CARES Act, allowed more borrowers to stay in their homes, but some of the flexibilities afforded by the CARES Act have already expired.

Loss Mitigation Policies

The MBA wants to preserve some of the loss mitigation reform that came out of the COVID-19 pandemic to keep more people in their homes.

What is being proposed?

- Limit required documentation to encourage seriously delinquent borrowers to qualify for a permanent solution. These paper chase exercises can delay or prevent a borrower from qualifying for home retention options. FHA/VA must change regulations to follow the GSEs approached on reduced documentation standards.
- Standardization needs to occur as all borrowers should have a consistent loss mitigation experience, regardless of the underlying reason for hardship or who insures/guarantees the loan.
- Loss mitigation should distinguish between short-term vs long-term hardships and use payment deferrals vs loan modifications accordingly.
- The CFPBs servicing rules were designed after the wave of foreclosures that happened after the 2007 crisis. The CFPB should modernize Regulation X to unambiguously allow servicers to continue to qualify borrowers for payment deferrals.

Summary – Regulatory Issues

Key Regulatory Issues:

- Abusive Credit Trigger Lead Practices

  IN FAVOR OF BANNING

- Community Reinvestment Act Requirements

  INADVERTENTLY HURTS CONSUMERS

- BASEL III Implications

  INADVERTENTLY HURTS CONSUMERS

- Post COVID-19 Loss Mitigation Policies

  EXPAND TO KEEP PEOPLE IN HOMES

Questions?

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