

# Economic and Mortgage Market Outlook

November 9, 2023

**Presented by:**

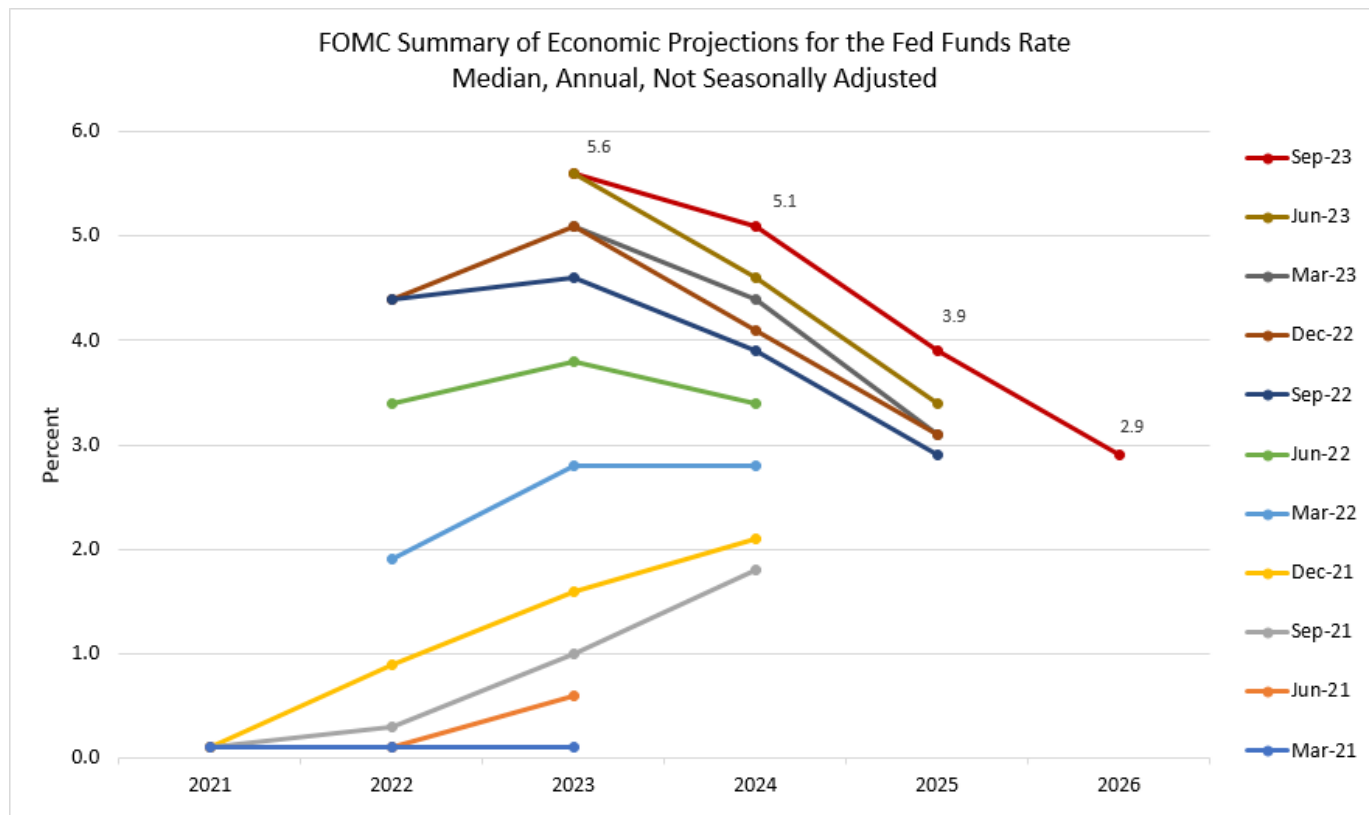
Joel Kan, Vice President, Deputy Chief Economist



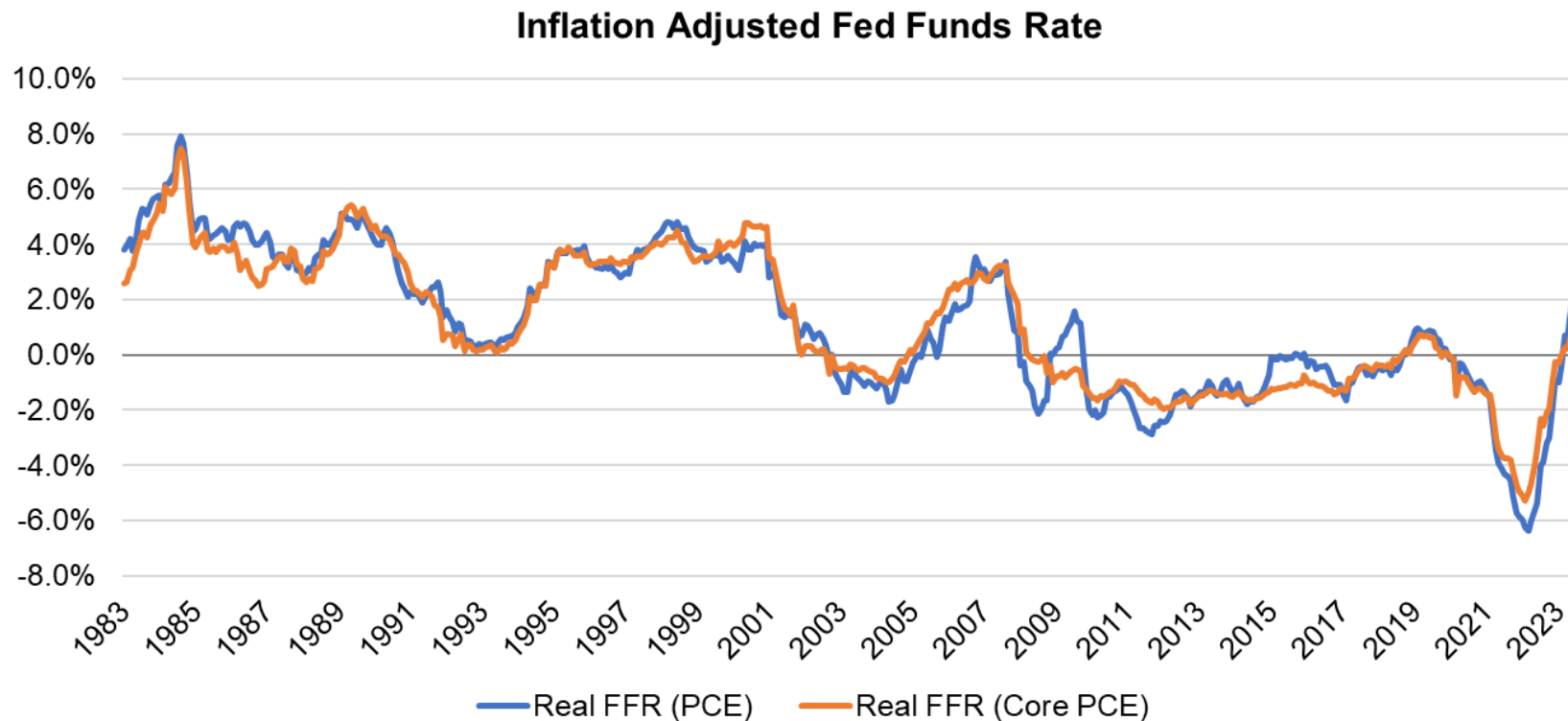
# Market Outlook Summary

- 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.

# Funds Rate Expected to be Higher for Longer

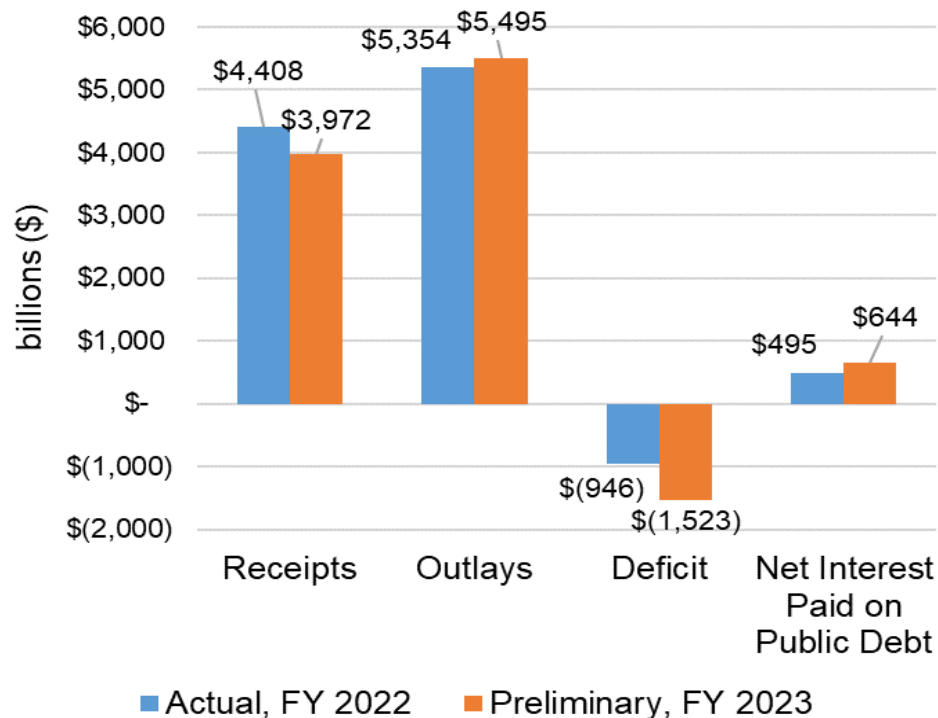


# Real Fed Funds Rate in Restrictive Territory

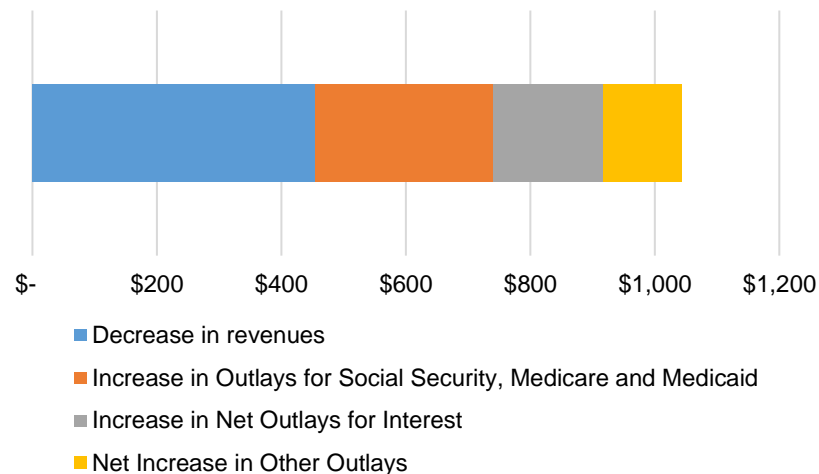


# Deficits and Net Interest Burden Growing

**Budget Totals, Fiscal Year 2022 to 2023**

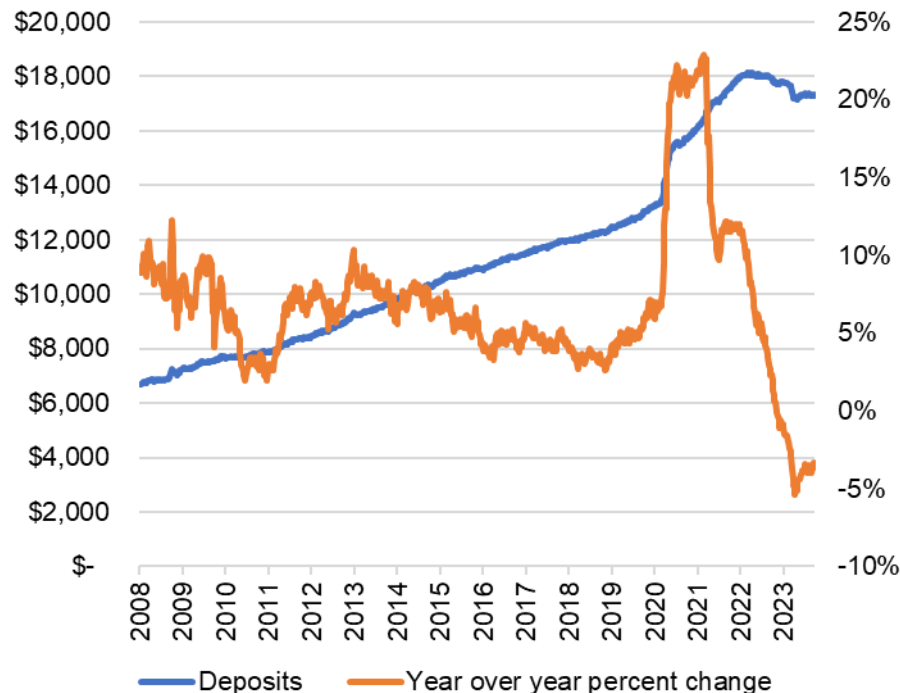


**Increase in the Deficit from 2022 to 2023**

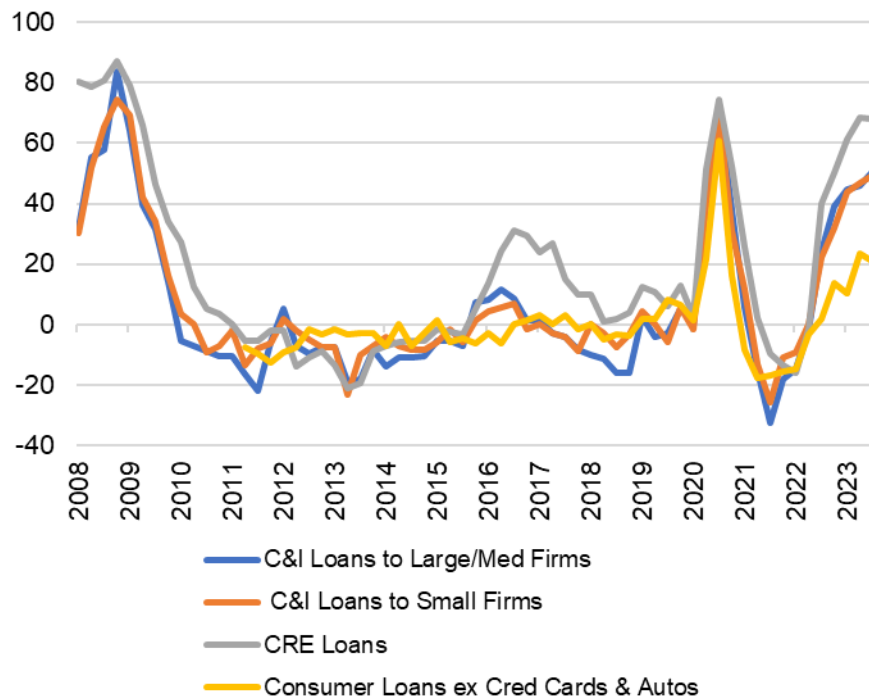


# Banking System Has Pulled Back

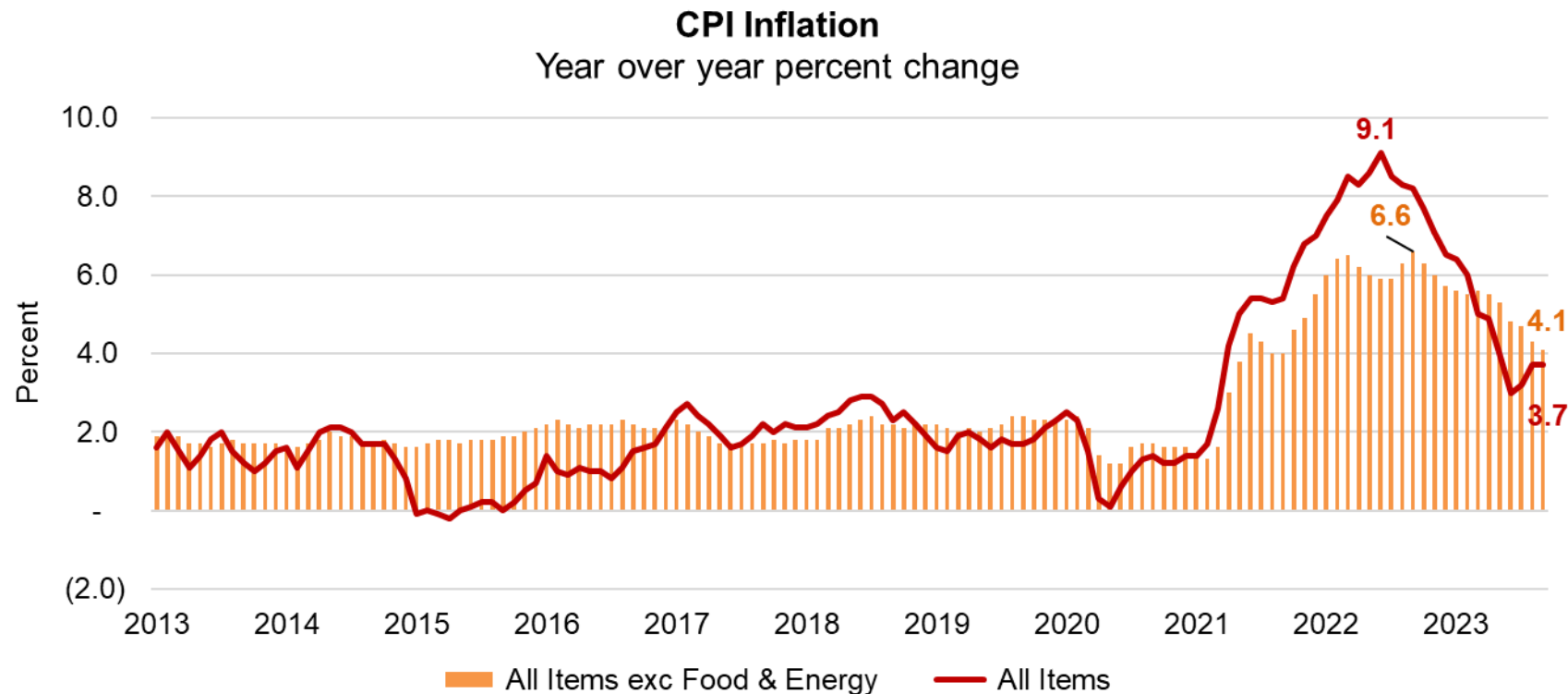
**Commercial Bank Deposits**  
Billions \$, seasonally adjusted



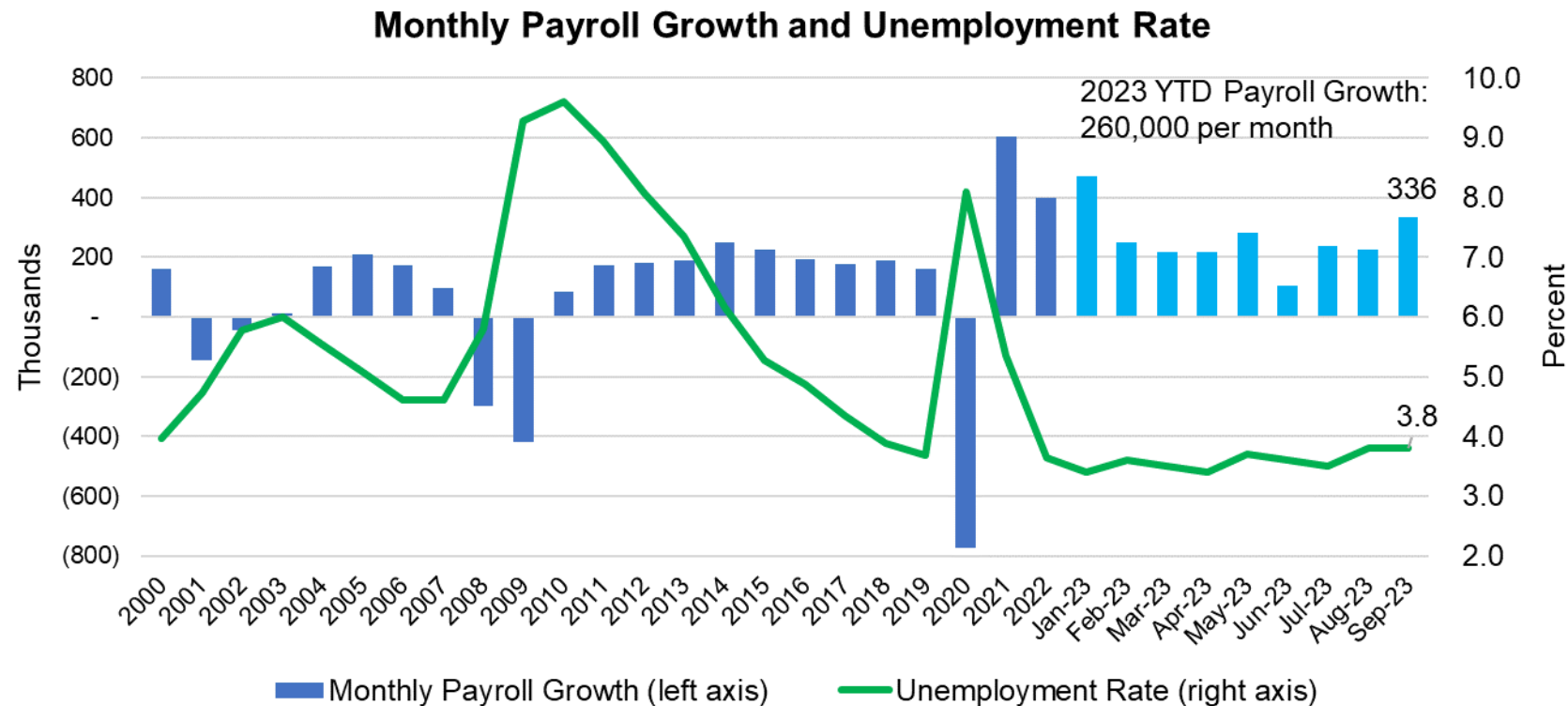
**Senior Loan Officer Opinion Survey**  
Net percent of respondents tightening standards



# Inflation Has Been Slowing

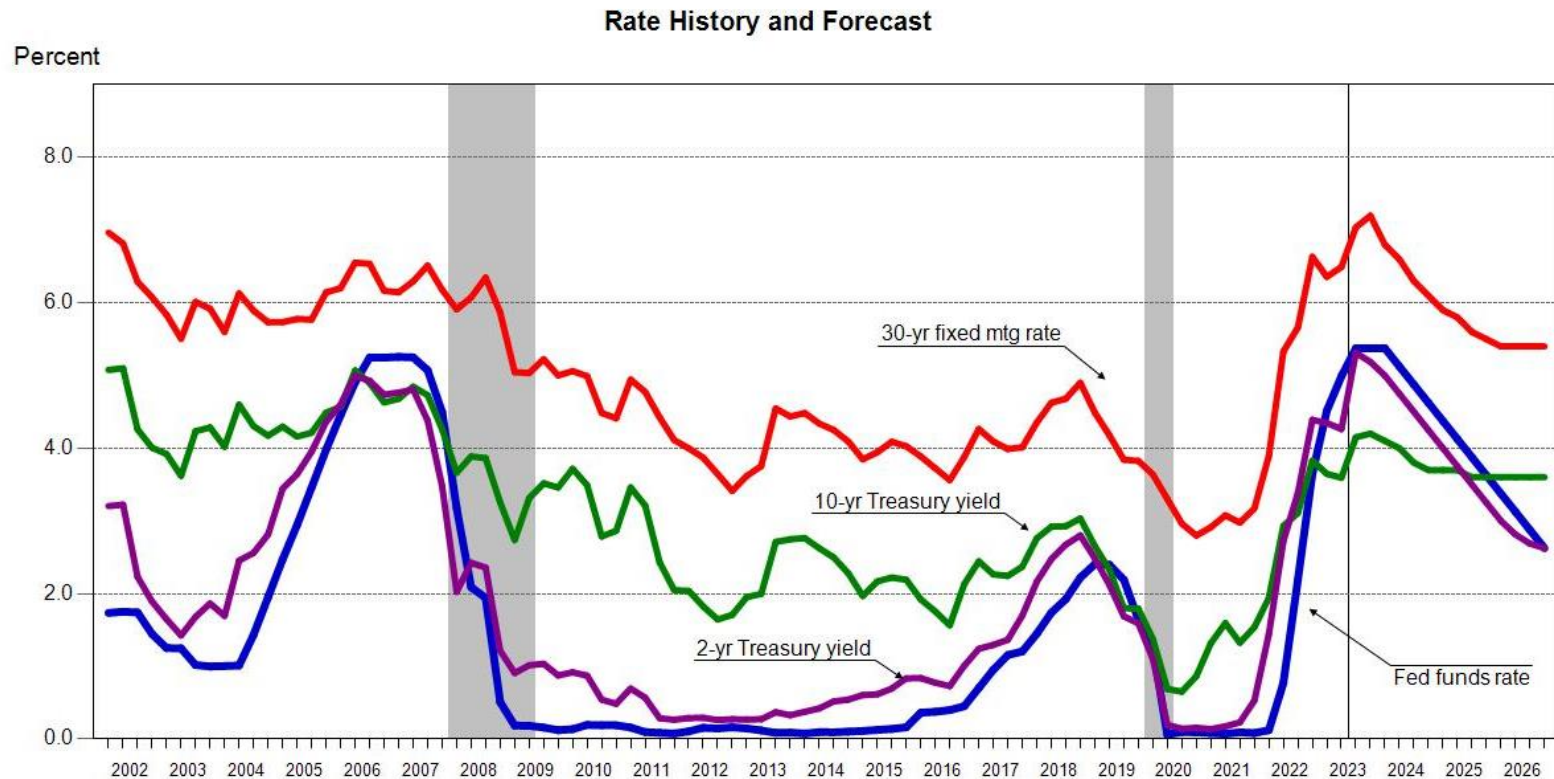


# Job Market Expected to Cool



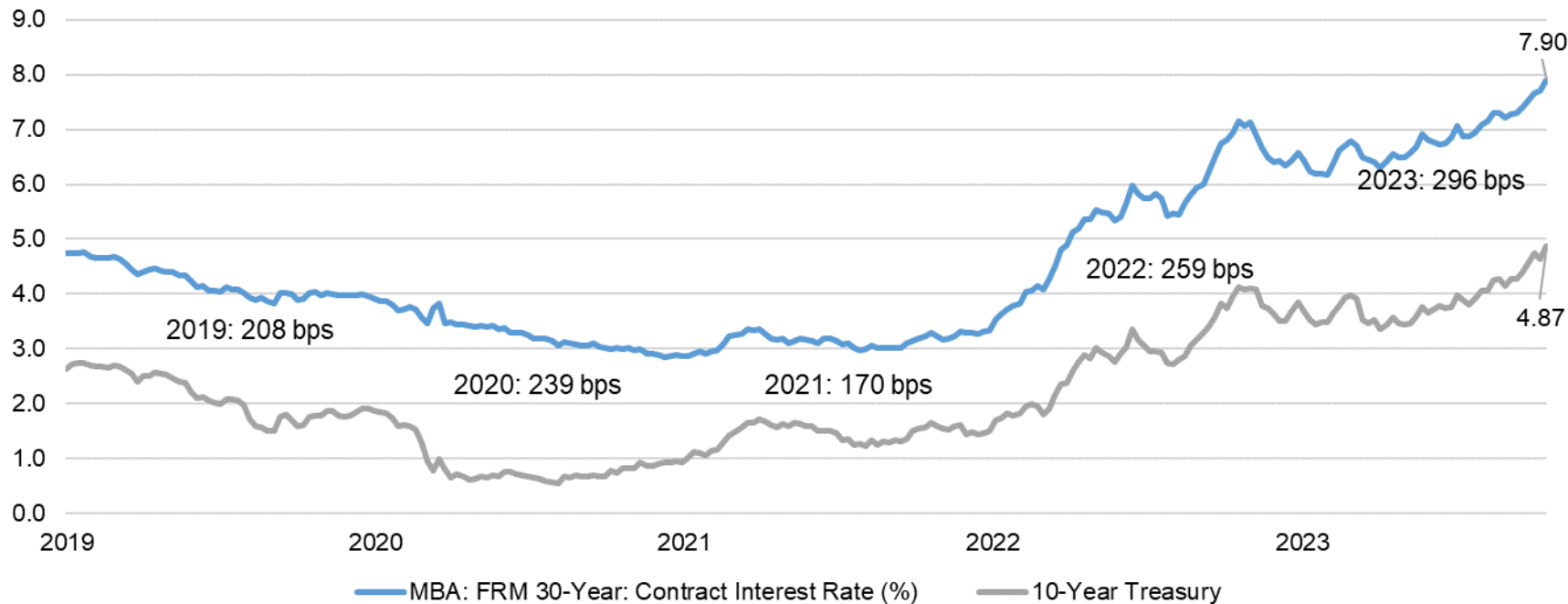


# Fed to Hold Funds Rate Until 2024, Mortgage Rates Expected to Drift Down

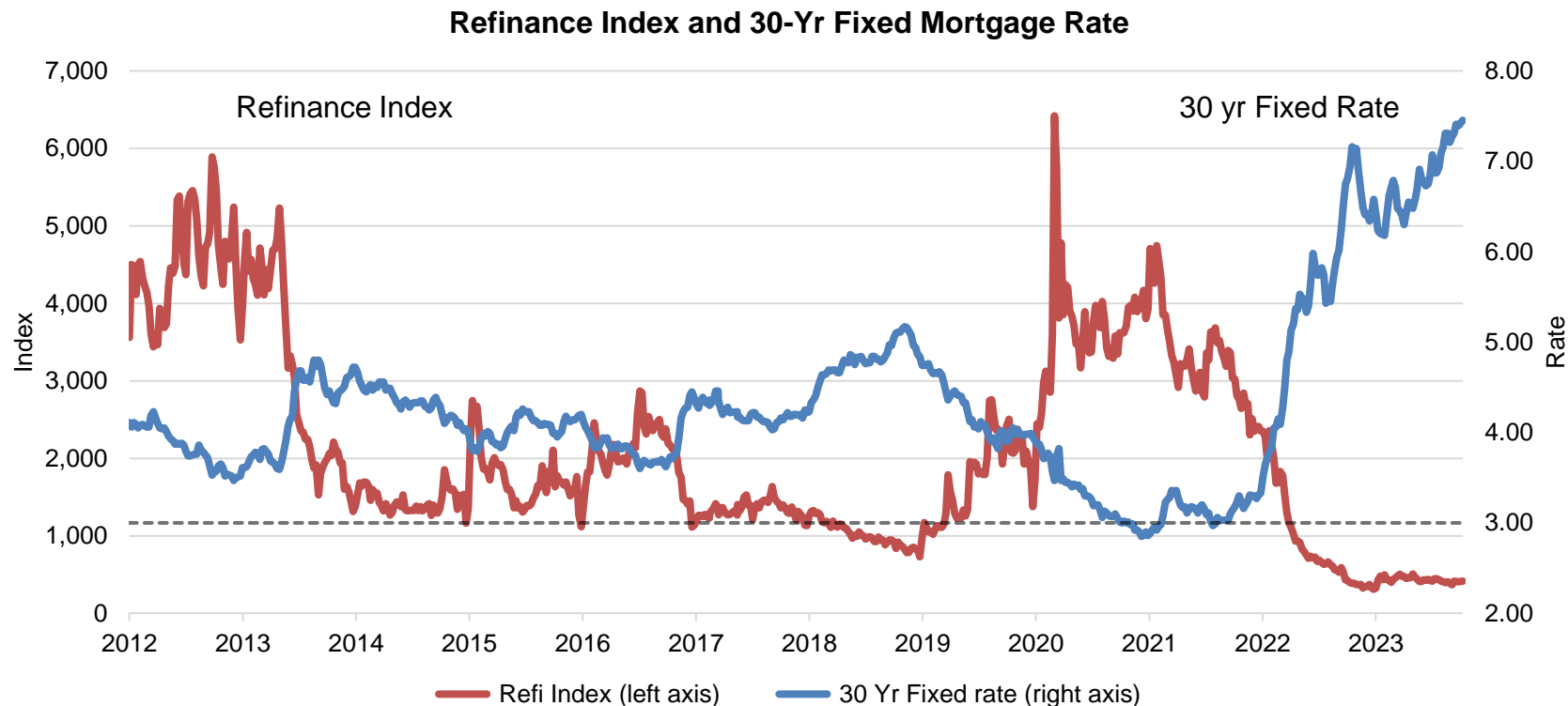


# Mortgage-Treasury Spread Still Wide

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



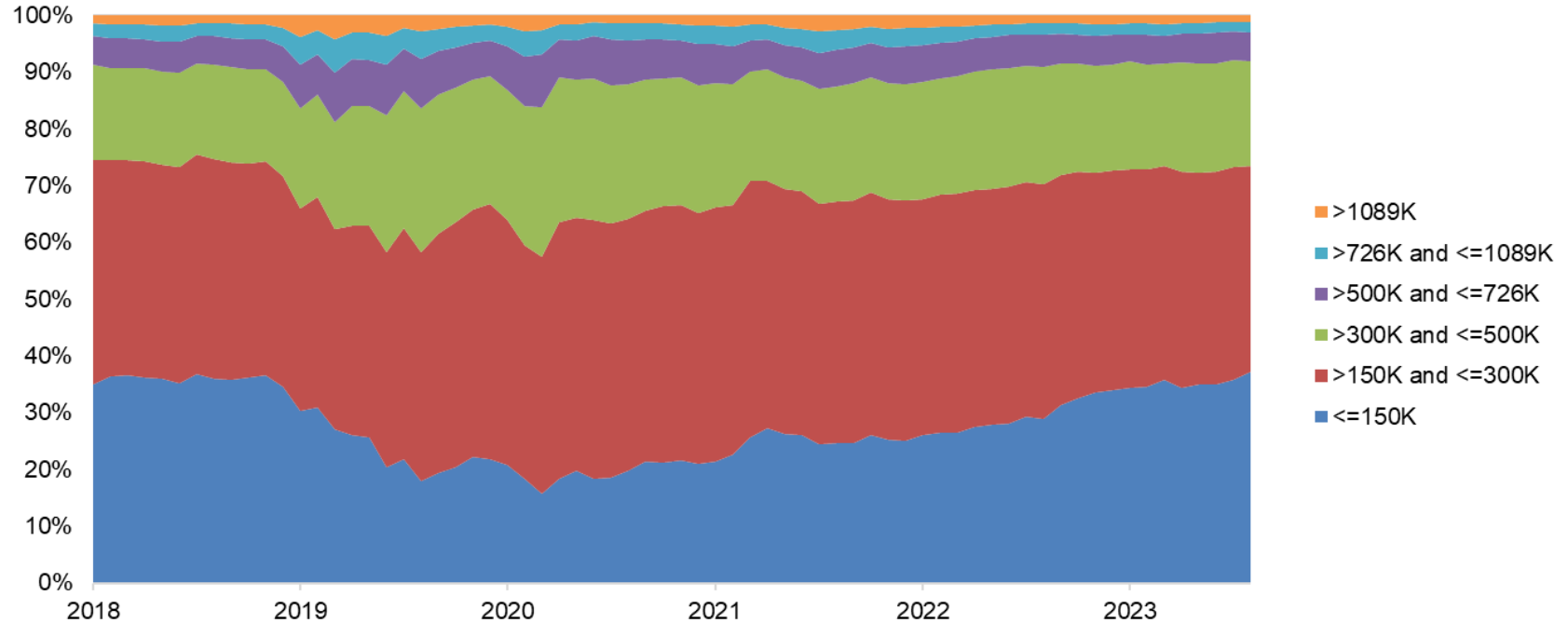
## 30-Year Fixed Rate at 7.9%, Refinances Down 89% From 2020-2021 Averages



# Refi Composition Shifting to Smaller Loan Sizes

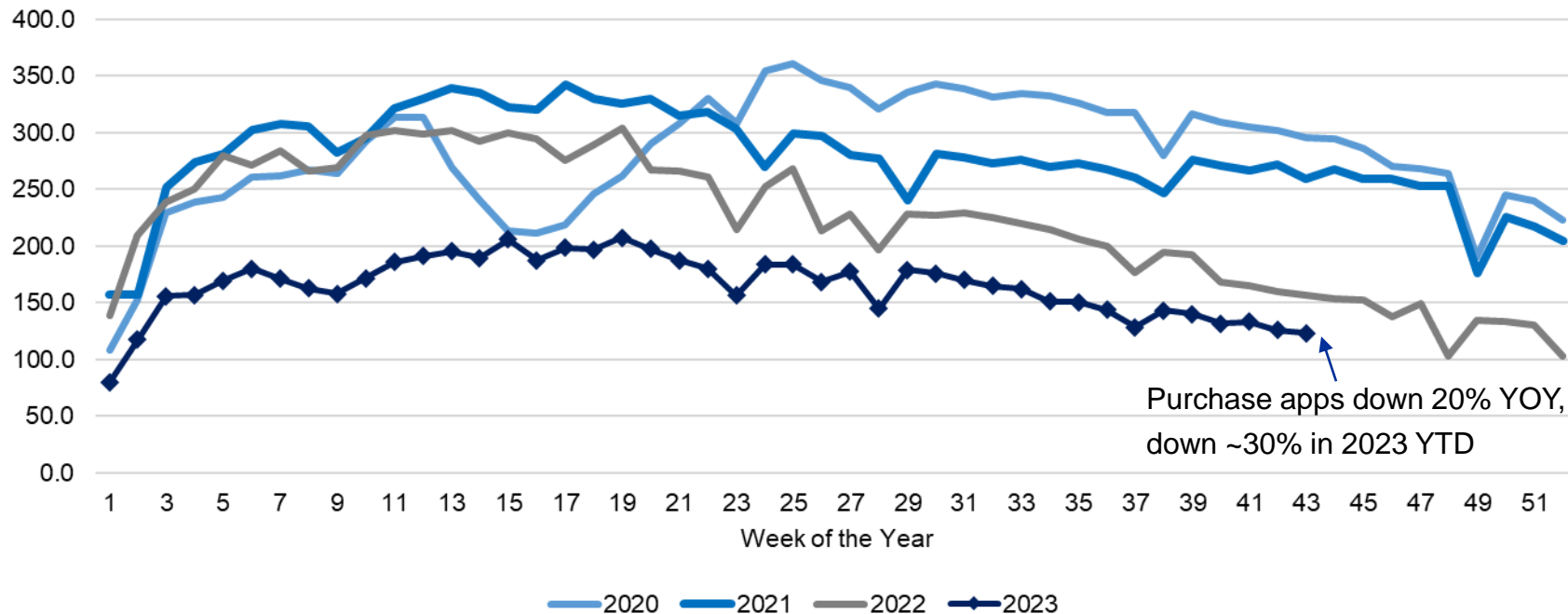
Refi app avg loan size lowest since 2017: \$245,100 as of 10/6/2023

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



# Purchase Applications Continue to Lag Past Years

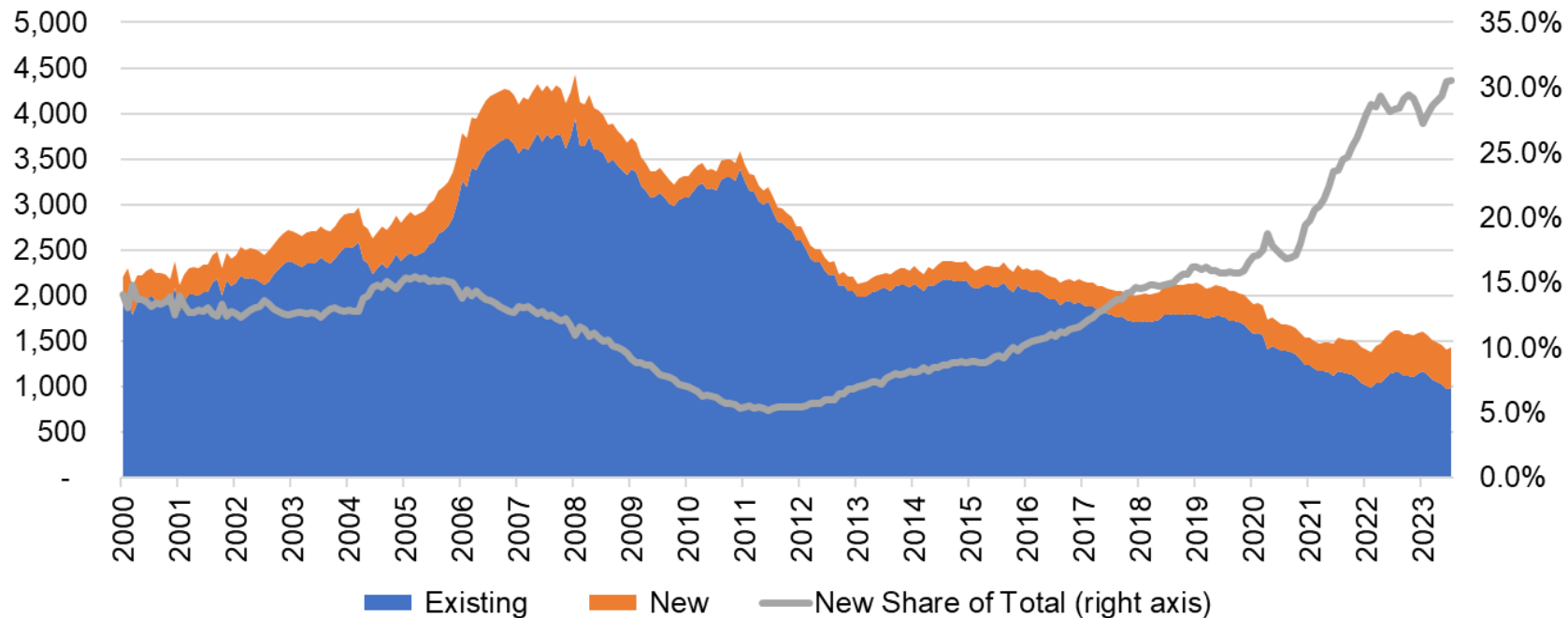
**Purchase Mortgage Applications Index**  
Non-seasonally adjusted, based on loan count



Purchase apps down 20% YOY,  
down ~30% in 2023 YTD

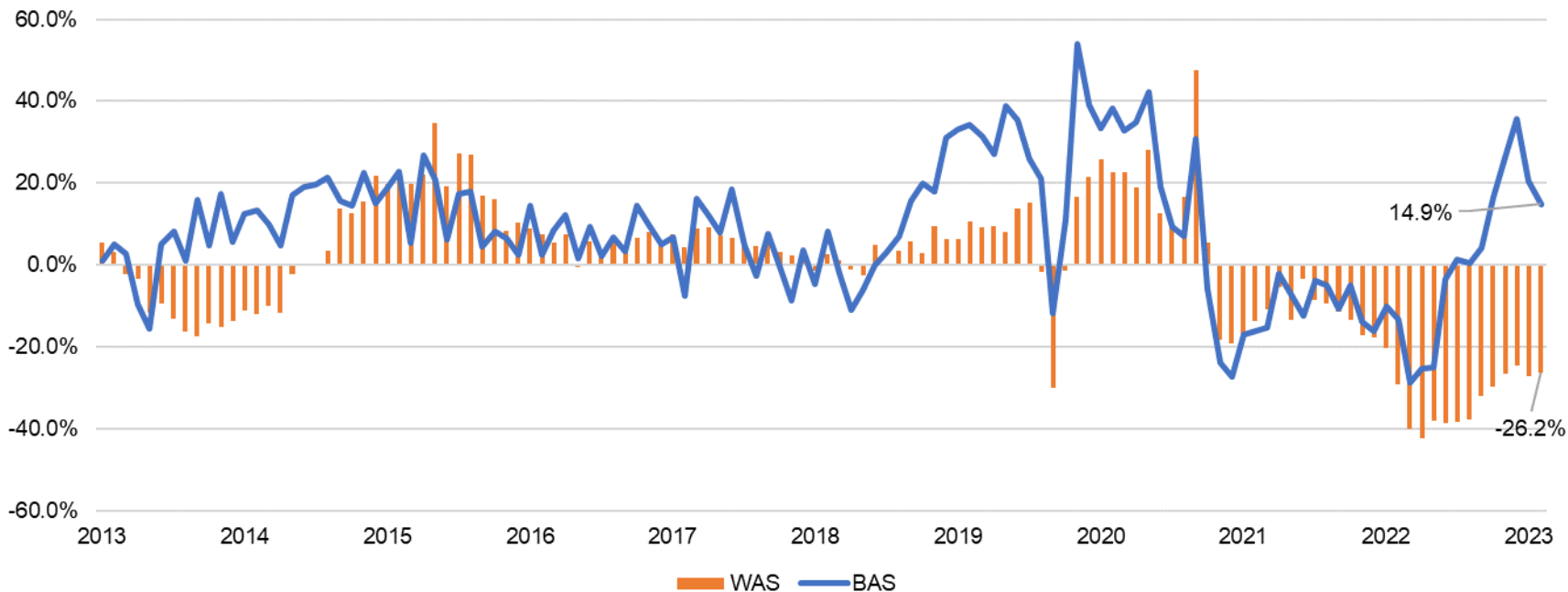
# Newly Built Homes Account for a Third of For-Sale Inventory

Housing Units Available for Sale  
Seasonally adjusted, thousands



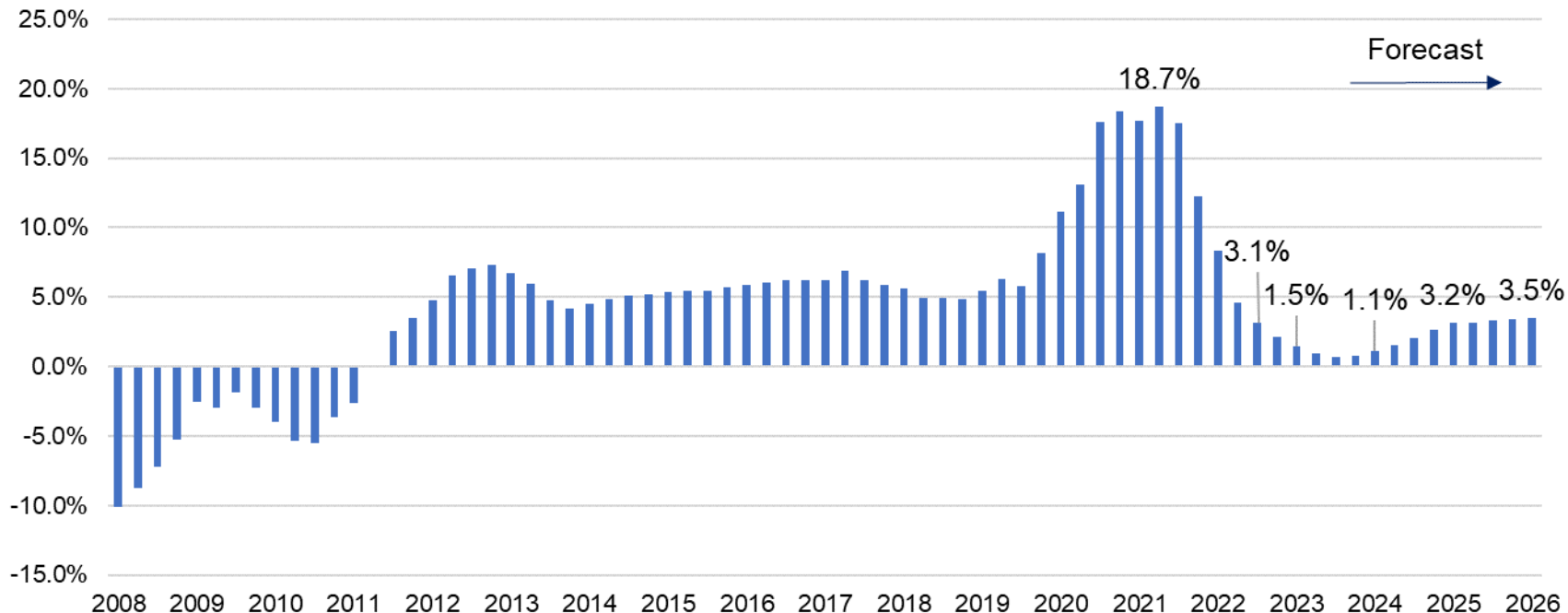
# New Home Purchases Outperforming Broader Purchase Market

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



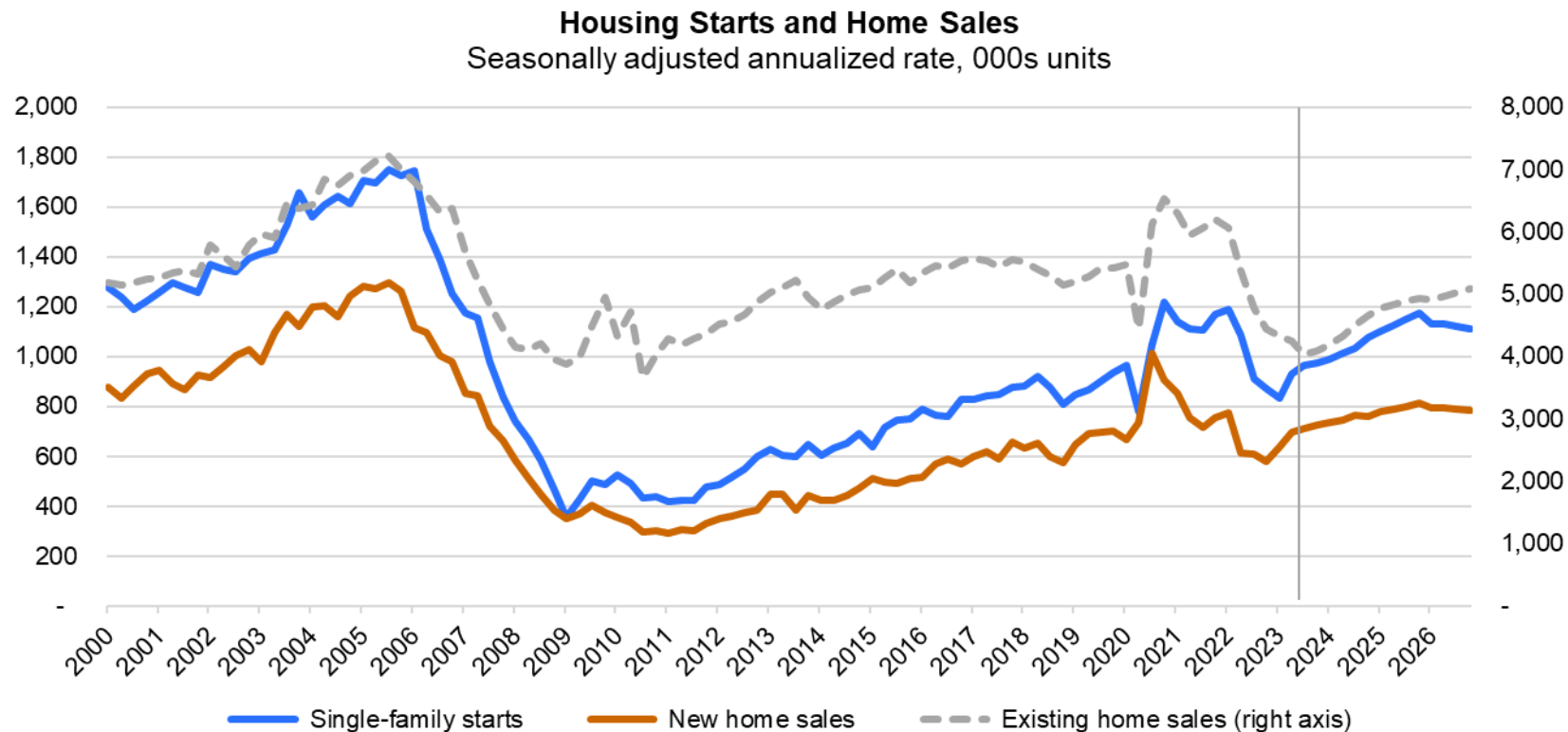
# National Home Price Growth Expected to Stay Positive

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



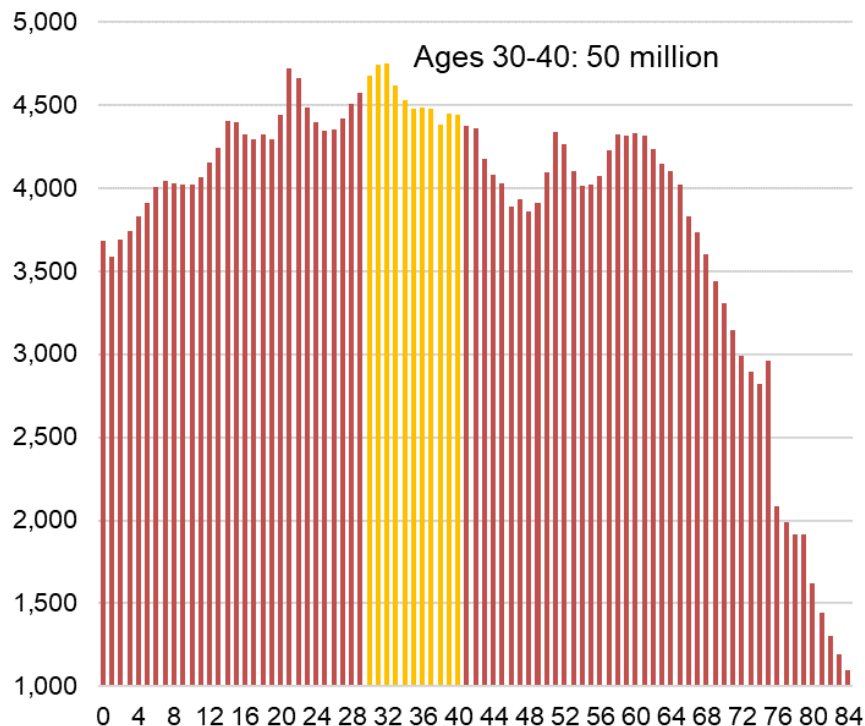


# Growth in 1-4 Unit Starts, Home Sales Expected in 2024

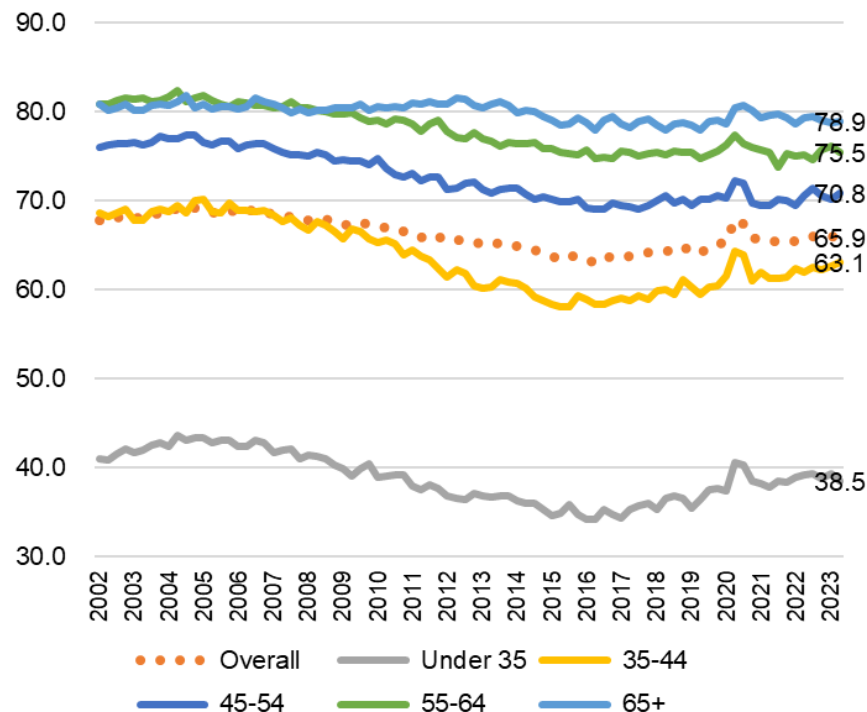


# Demographic Support for Home Purchases

## Population by Age

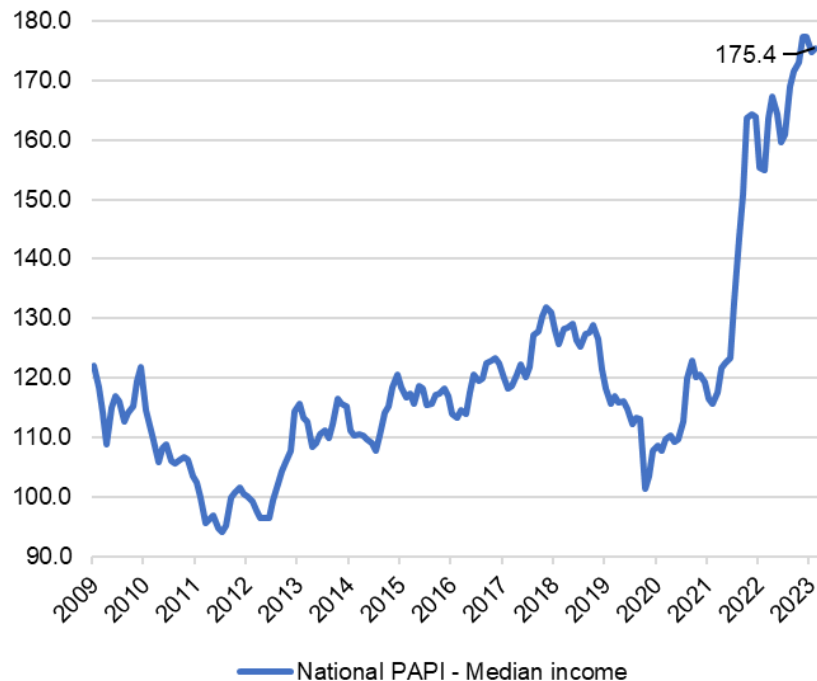


## Homeownership Rate by Age

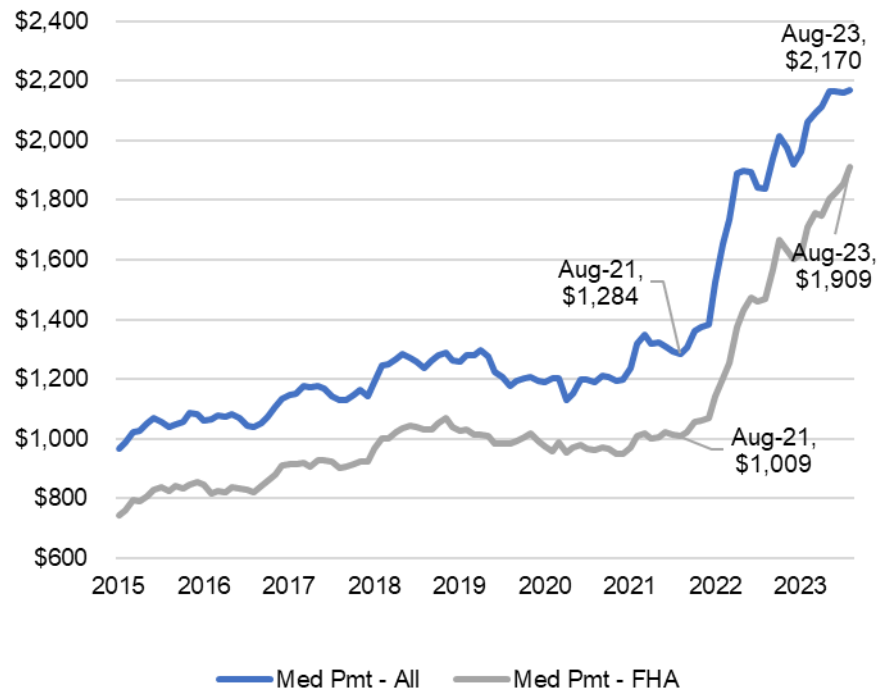


# Affordability Conditions Have Worsened

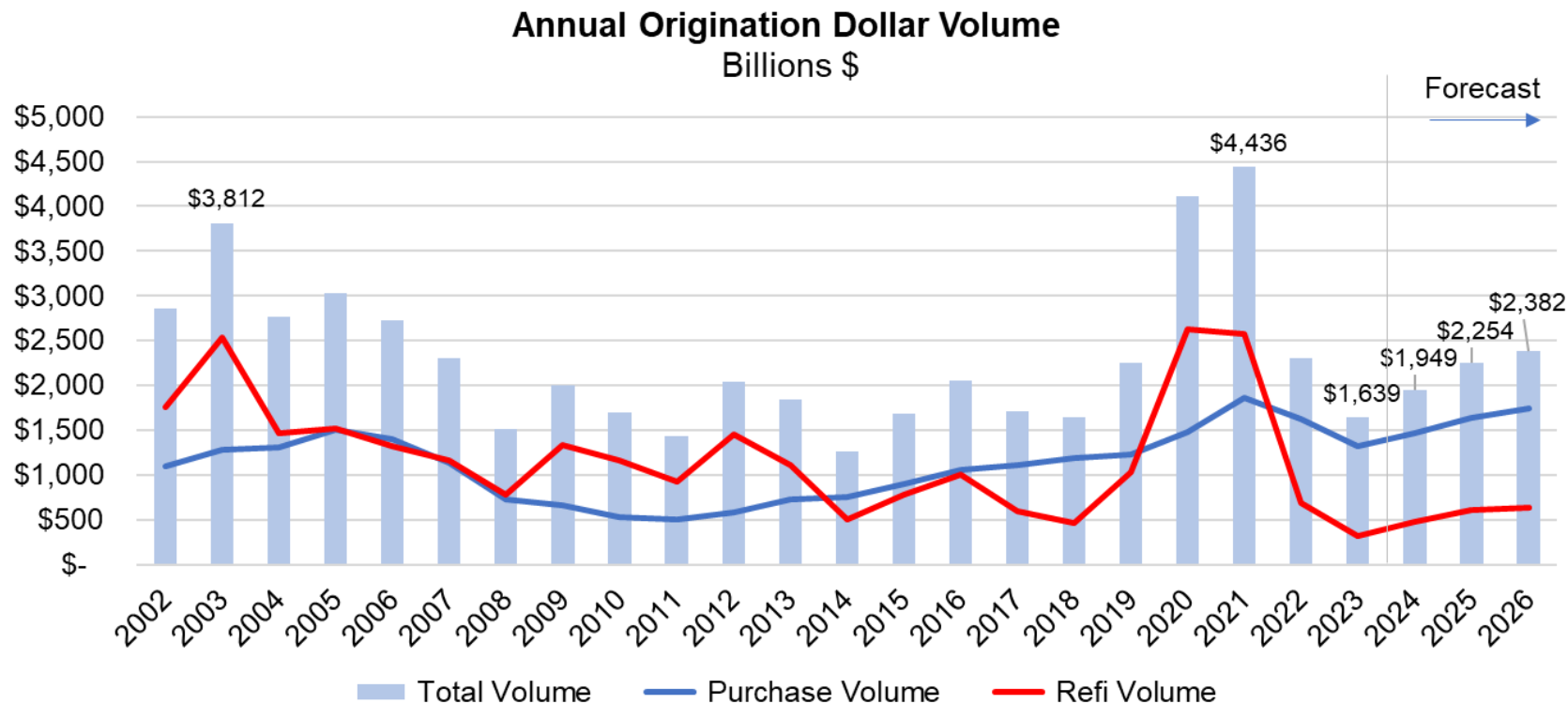
**Purchase Applications Payment Index**  
March 2012 = 100



**Median Principal & Interest Payment**

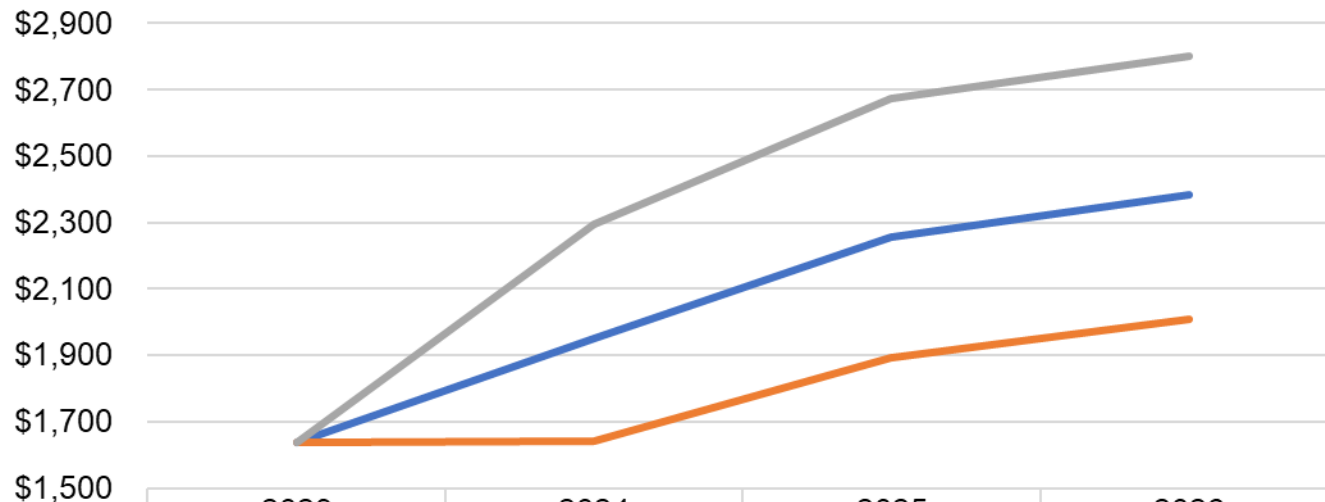


# Mortgage Origination Dollar Volume to Increase 19% in 2024



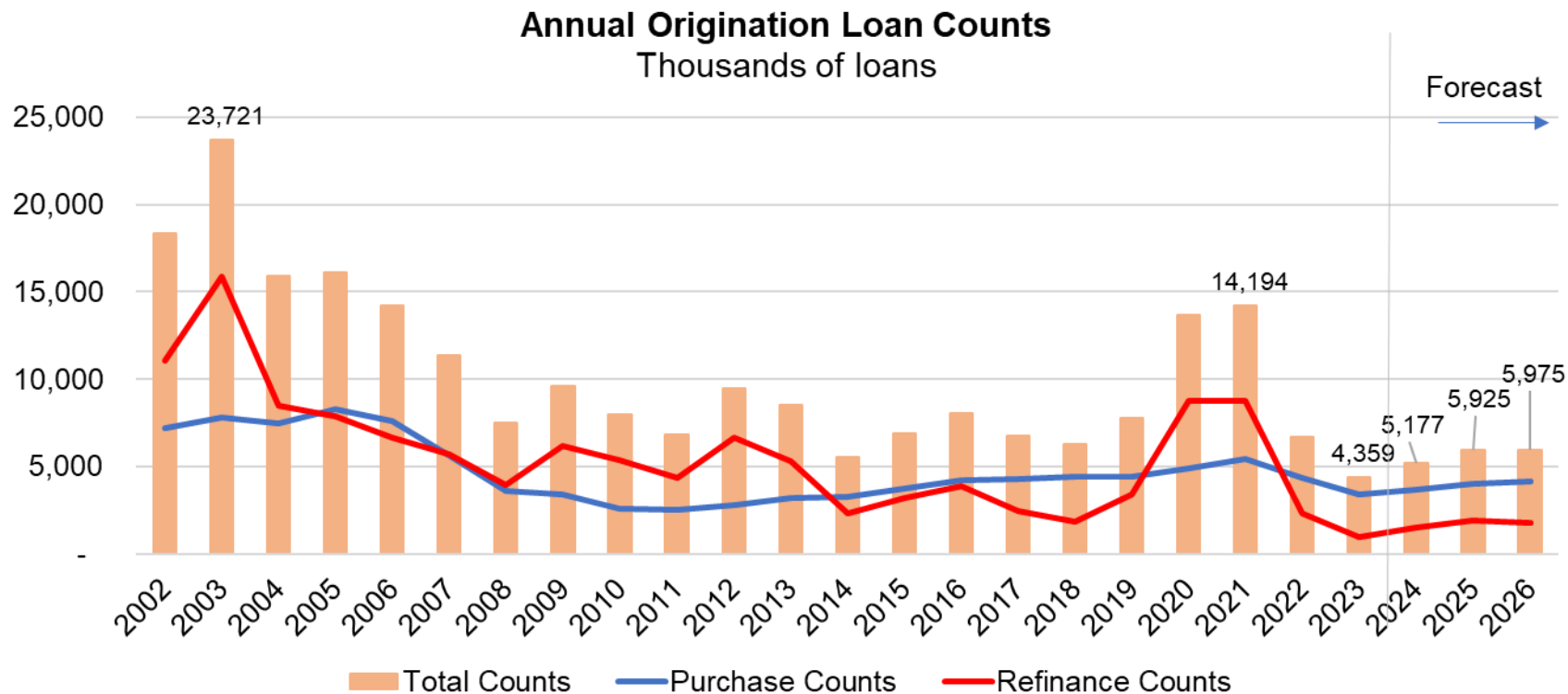
# Alternative Originations Scenarios

**Total Originations Scenarios**  
Billions \$

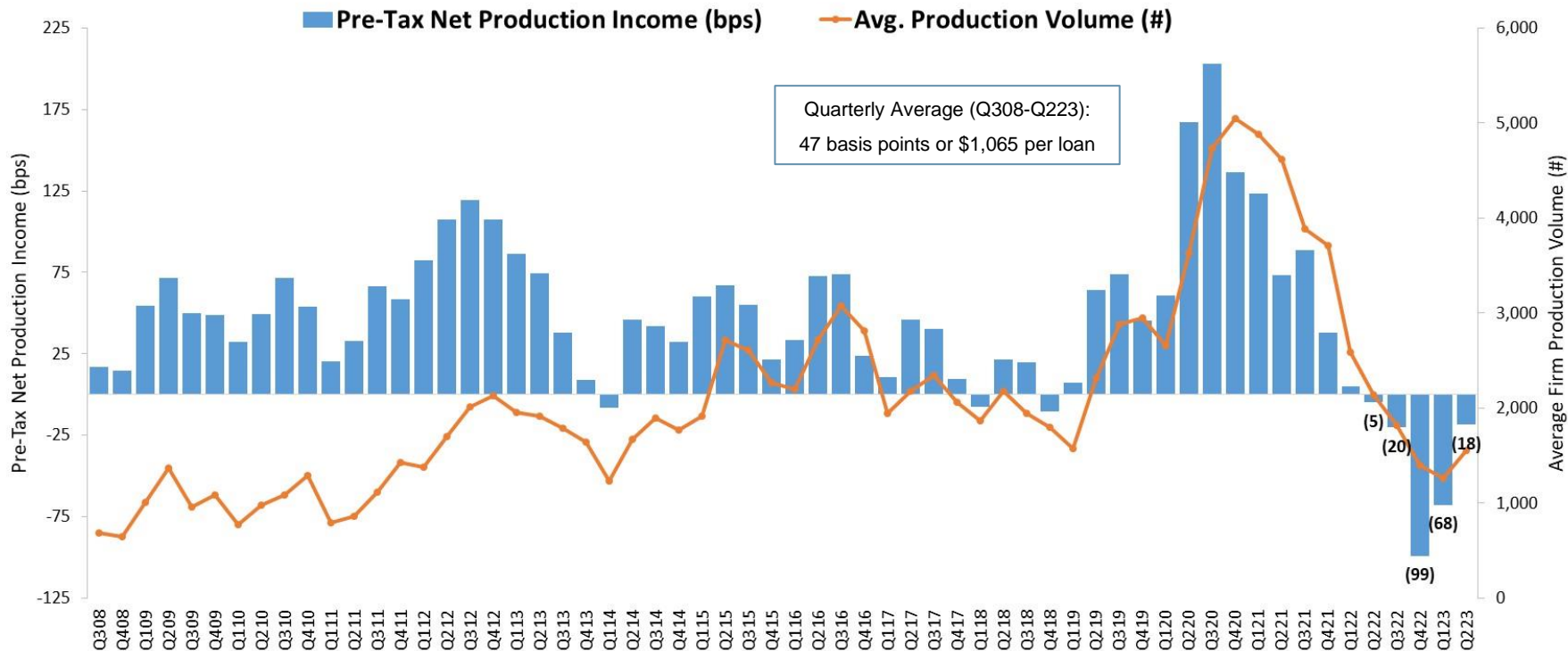


	2023	2024	2025	2026
Baseline forecast	\$1,639	\$1,949	\$2,254	\$2,382
Rate path 100 bps higher	\$1,639	\$1,640	\$1,891	\$2,007
Rate path 100 bps lower	\$1,639	\$2,296	\$2,675	\$2,802

# Mortgage Origination Units to Increase 19% in 2024



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

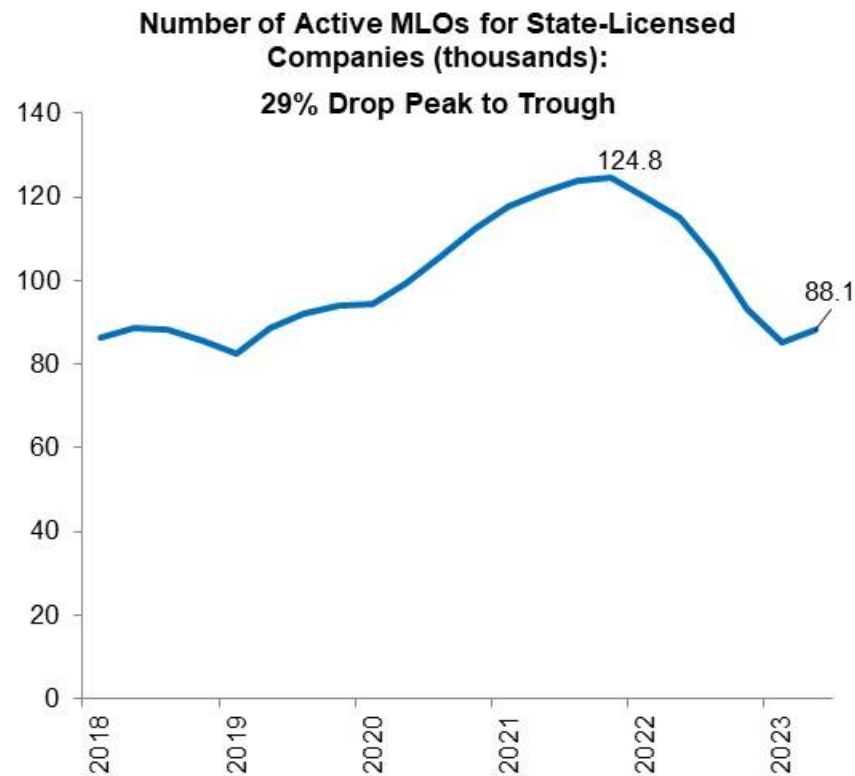
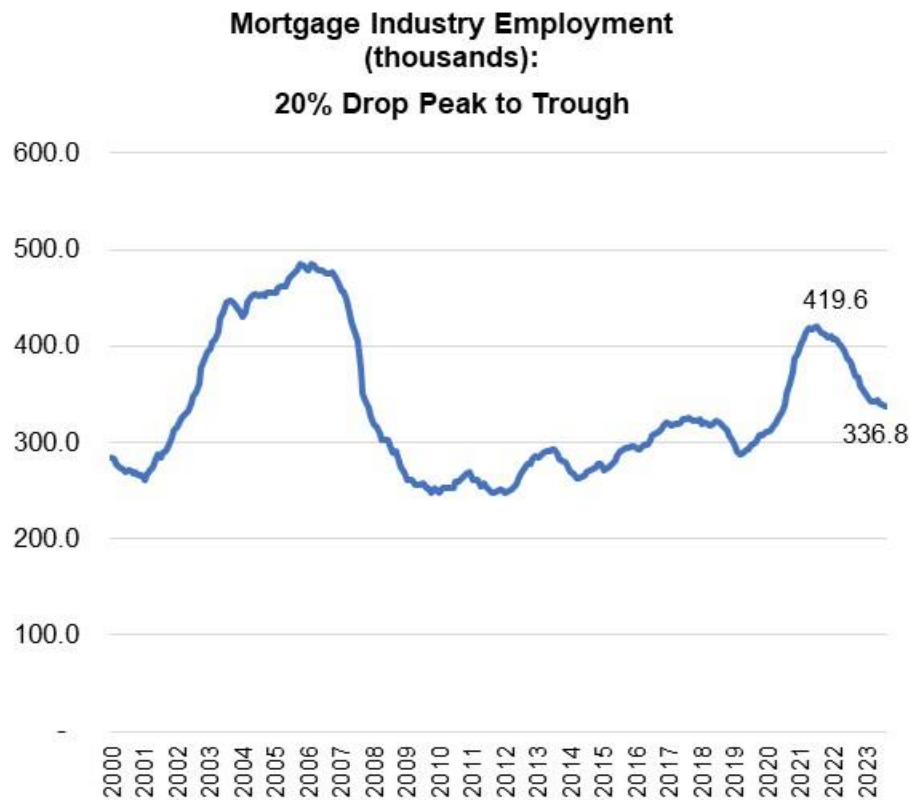


# Cost to Originate per Loan Have Risen, but Gross Production Expenses Have Dropped 58% Drop Peak to Trough



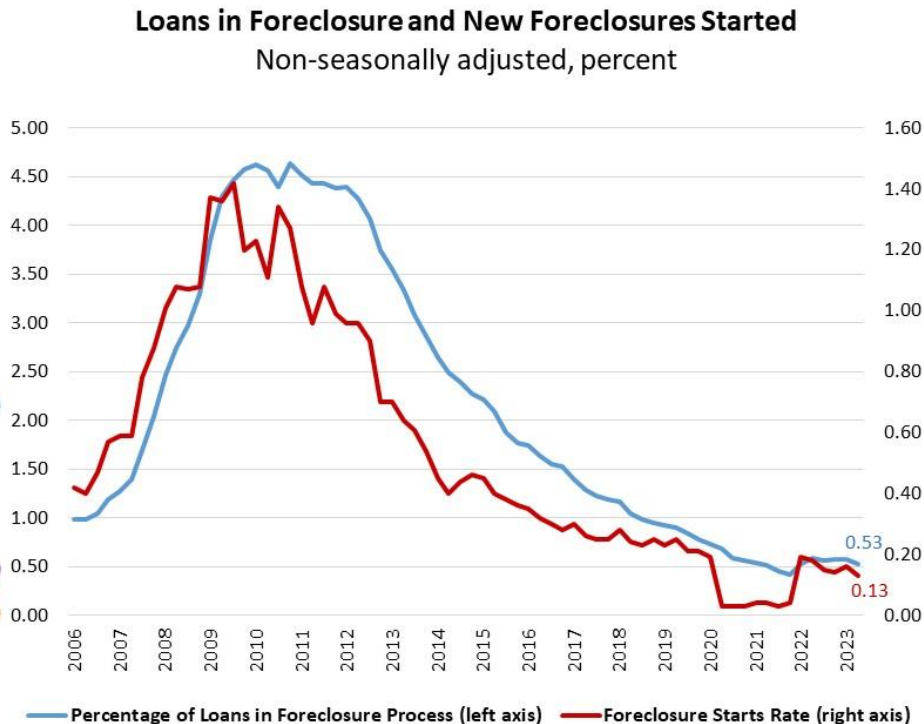
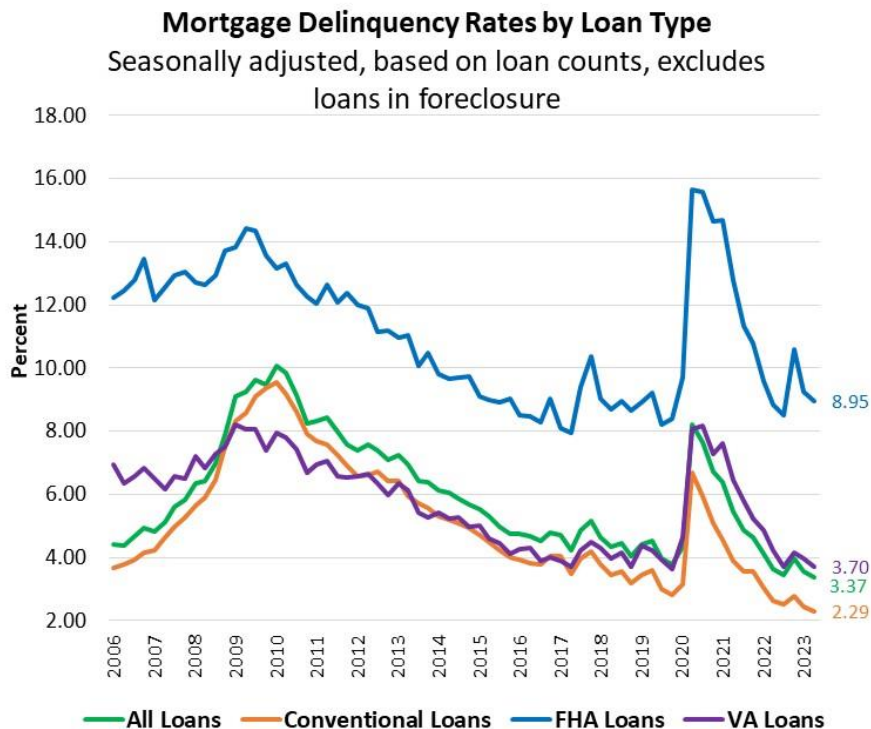


# Mortgage-Related Headcounts Still Adjusting

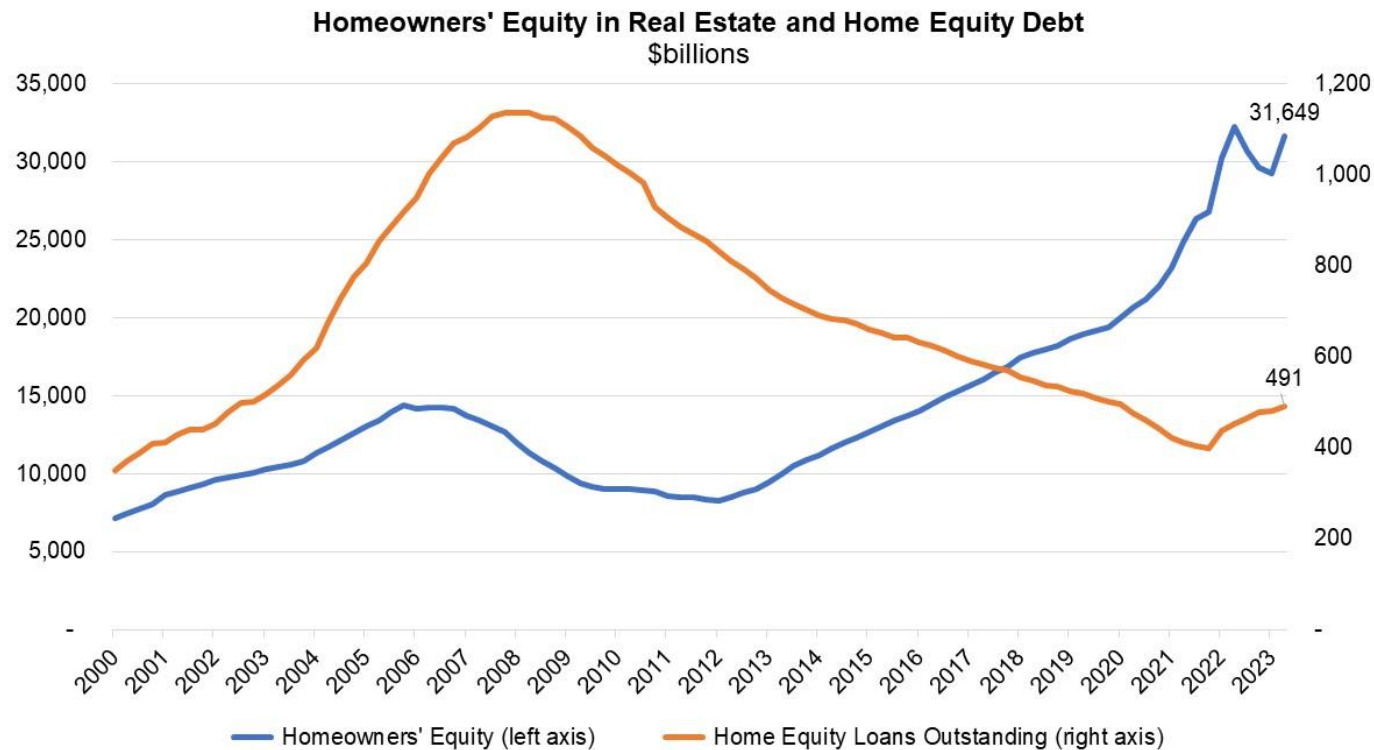


# Mortgage Delinquencies Are Near Record-Lows

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



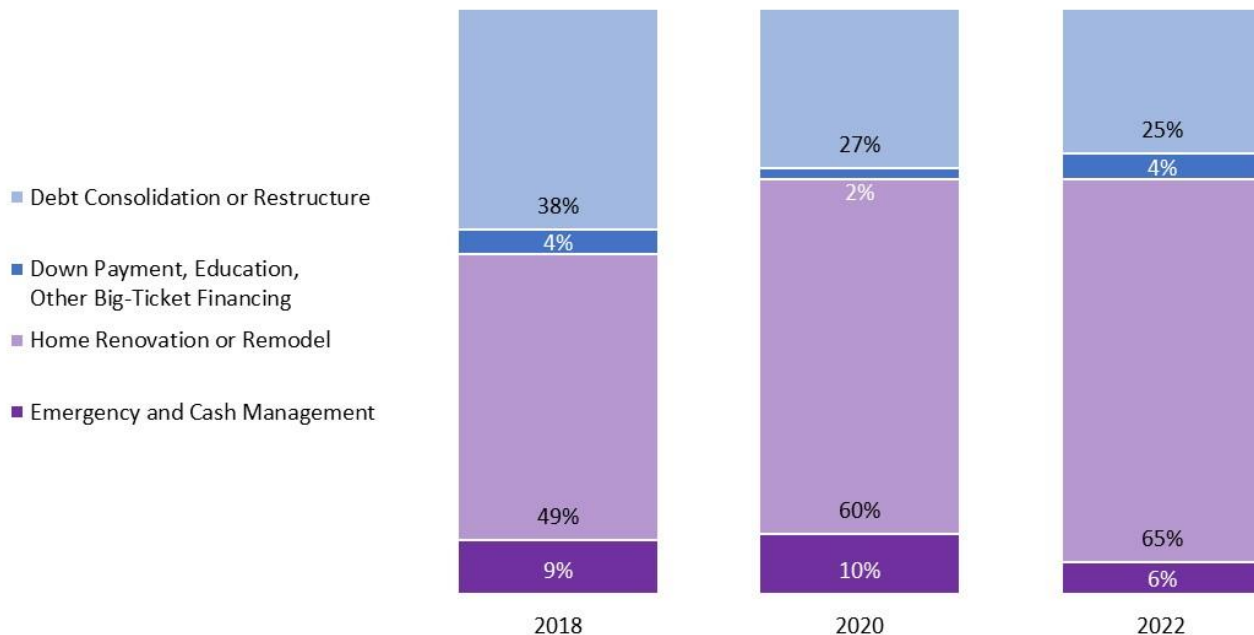
# Accumulated Equity Close to \$32 Trillion



# 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

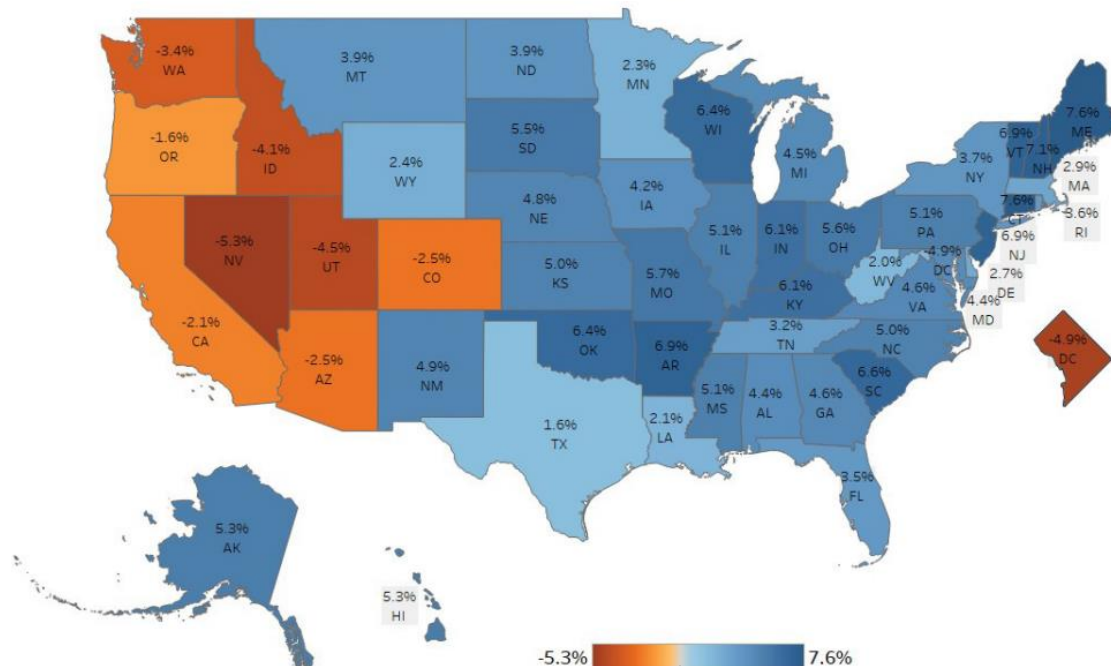


# Differences in State Home Price Trends

## Four-Quarter House Price Change by State

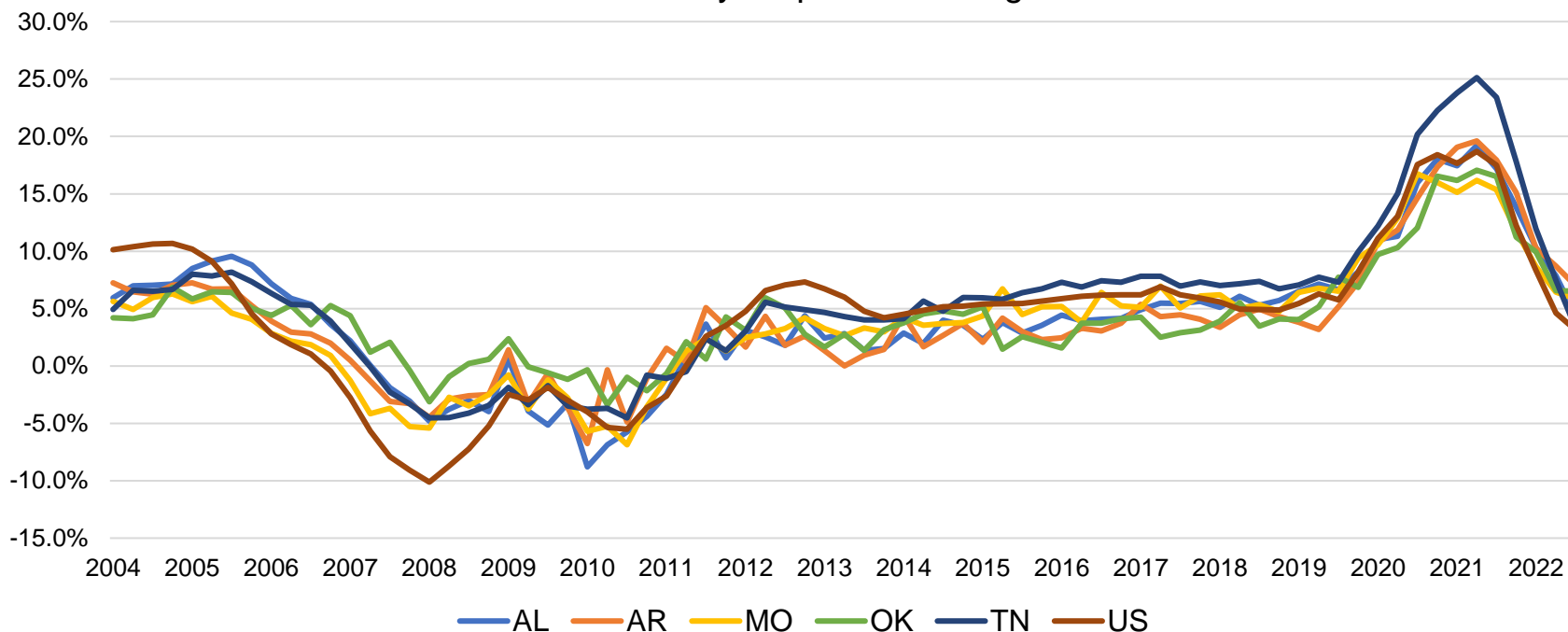
Purchase-Only FHFA HPI® (Seasonally Adjusted, Nominal)

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



# Regional Home Price Trends

**Purchase-Only House Price Index**  
Year over year percent change



# Arkansas Mortgage Applications Trends

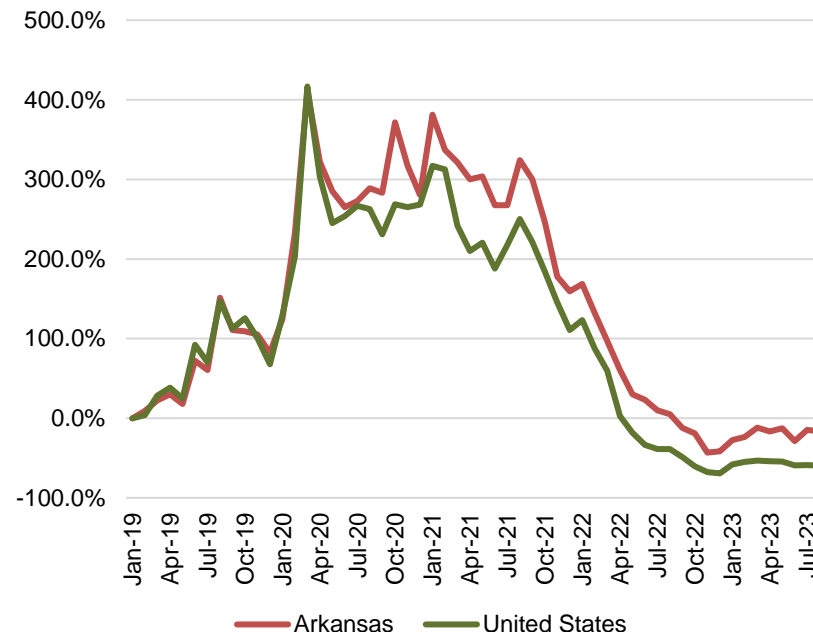
## Purchase Applications

Non seasonally adjusted, change relative to Jan 2019



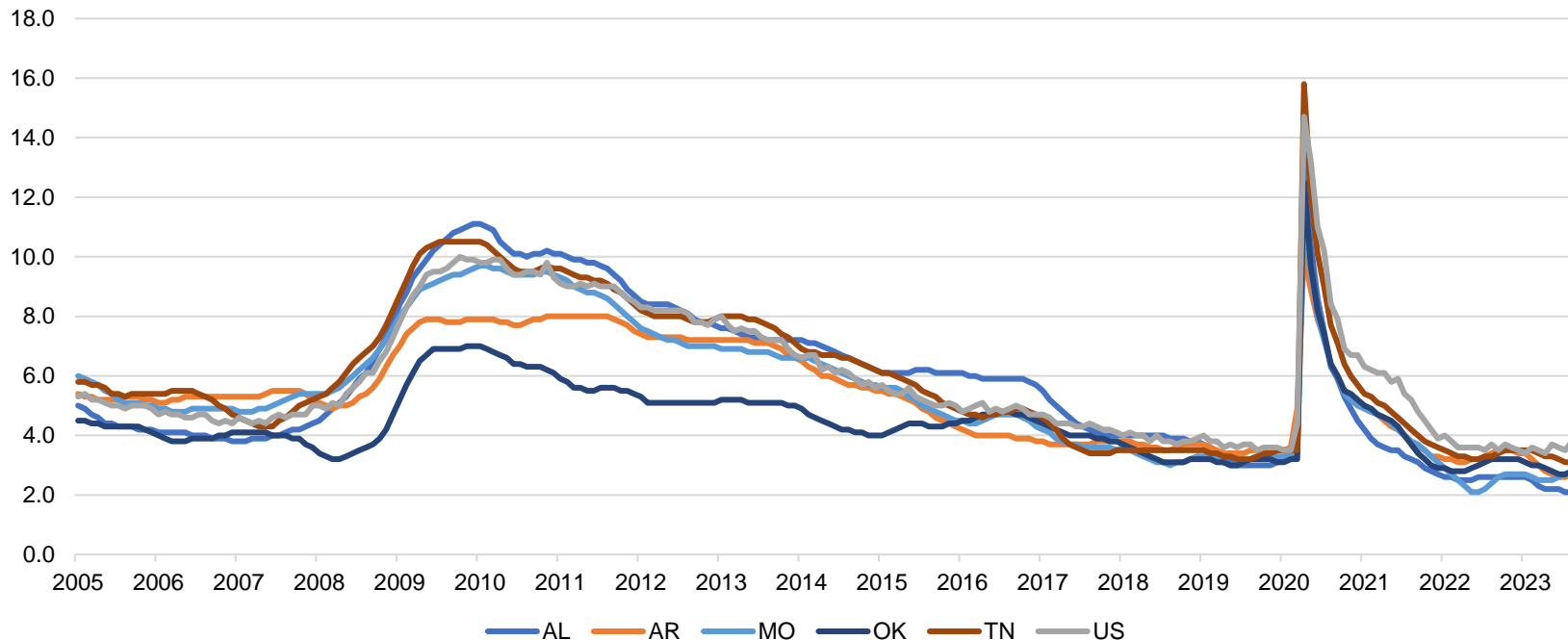
## Refinance Applications

Non seasonally adjusted, change relative to Jan 2019



# Arkansas and Surrounding States Below US Unemployment Rate

State Unemployment Rates  
Percent





# Arkansas

Data as of Second Quarter, 2023, unless otherwise noted.

	Arkansas	United States
<b>Homeownership Rate*</b>		
Q4 2022	69.9%	65.9%
Q1 2023	67.7%	66.0%
Q2 2023	64.1%	65.9%
<b>Total Purchase &amp; Refinance Originations in 2022</b>		
Number of Loans	58,904	6,393,600
Dollar Volume (\$ thousands)	\$ 12,732,010	\$ 2,213,045,224
Average Loan Amount	\$ 216,000	\$ 346,000
<b>FHA Purchase &amp; Refinance Originations in 2022</b>		
Number of Loans	8,822	812,179
Dollar Volume (\$ thousands)	\$ 1,669,690	\$ 218,567,085
Average Loan Amount	\$ 189,000	\$ 269,000
<b>Housing Stock Measures (ACS Data, 2017-2021)</b>		
Total Housing Units	1,361,880	141,200,811
Vacant Units	203,420	15,993,029
Occupied Units	1,158,460	125,207,782
Owner-Occupied	56%	57%
Renter Occupied	29%	31%
<b>Mortgage Performance</b>		
Serious Delinquency Rate (NSA)		
Q2 2022	2.54%	2.12%
Q1 2023	1.93%	1.73%
Q2 2023	1.72%	1.61%
Foreclosure Starts Rate (NSA)		
Q2 2022	0.24%	0.18%
Q1 2023	0.19%	0.16%
Q2 2023	0.13%	0.13%
<b>Employment (SA, quarterly data)</b>		
Non-Farm Employment	1,361,200	155,911,330
Private non-farm	1,152,030	133,284,670
Government	209,170	22,626,670
YOY Change in Total Non-Farm Emp	35,670	3,867,330
Unemployment Rate (SA)	2.70%	3.57%
<b>Mortgage Market Activity (NSA)</b>		
Refinance Share of Total Applications	31.8%	27.3%
Gov't (FHA/VA/USDA) Share of Purchase Apps	31.8%	24.4%
Home Prices (\$)**		
YOY Change in Home Prices	6.94%	3.02%
<b>Population***</b>		
Population	3,045,640	333,287,560
YOY Change in Population	17,520	1,256,000

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Sources: MBA's Monthly Profile of State and National Mortgage Activity (Quarterly, NSA), Bureau of Labor Statistics, Bureau of the Census, Federal Housing Finance Agency, Federal Financial Institutions Examination Council — Home Mortgage Disclosure Act, Mortgage Bankers Association.

NSA: Non-seasonally adjusted

SA: Seasonally adjusted

YOY: Year-over-year

\* CPS/HVS response rates were impacted due to the coronavirus pandemic during year 2020 and 2021. Therefore the CPS/HVS homeownership rate estimates for year 2020 and 2021 may not be comparable to previous quarters.

\*\* Starting with the Q2 2021 profile, the annual home price change is calculated using the FHFA purchase-only house price index. Previously, the FHFA all-transactions index was used.

\*\*\* Annual estimates as of December 2022.

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# Contact Information and MBA Resources

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