CONSUMER LENDING
2018 MARKET UPDATE

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KEY FINDINGS

- Mortgage originations in 2018 are expected to come from new purchases, with rising mortgage rates making refinancing less attractive to homeowners.
- Emerging risks contingent on developing federal policy are contributing to market turbulence and heightened inflationary concerns. Some lawmakers are concerned that the Consumer Financial Protection Bureau's (CFPB) new direction under acting director Mick Mulvaney—including its stance toward mortgage lending requirements—will have negative repercussions for consumers.
- Increasing rates and rising housing prices are squeezing many potential buyers out of the market.
- Mortgage delinquency rates—including foreclosures—are trending down, continuing a pattern of decrease that has pertained since 2010. There are several state and metropolitan exceptions to this trend.
- In concert with falling foreclosure rates, litigation related to mortgage foreclosures is also declining. The number of cases filed in 2017, as reported by Monitor Suite, is almost 50% lower than the number of cases filed in 2013.

MORTGAGE ORIGINATIONS AND FEDERAL POLICY

In 2018, mortgage originations are expected to come from new purchases, with rising mortgage rates making refinancing less attractive to homeowners.

- Freddie Mac asserts that the mortgage market is transitioning from a refinance-driven market to a purchase-oriented one.
- A flurry of refinance applications early in 2018 drove an increase in mortgage demand in the first half of February to its highest point in five weeks. The uptick in activity is attributed to homeowners attempting to get ahead of mortgage rates, which are anticipated to continue to rise.
- Most current homeowners have likely refinanced to take advantage of rates in the 3% range over the past few years and will be reluctant to give up those rates, either to downsize or upsize to a new home, fearing higher rates.
- Despite reaching a high in the beginning weeks of 2018, mortgage application activity has since fallen to its lowest point in five weeks as interest rates on 30-year fixed-rate home loans jump to a four-year high.
- For 2018, FanniΩae projects that purchase mortgage originations will rise about 5% to $1.19 trillion. It anticipates refinance originations of $498 billion in 2018, a drop of 29% from 2017 levels.
- Current projections are 1,688,000 mortgage originations in 2018, of which 1,189,000 will be new purchases and 498,000 refinances.
- Fannie Mae, however, points to "volatility in a rising-rate environment." Although it forecasts strong 2.7% real GDP growth in 2018, Fannie Mae notes that upside and downside risks contingent on federal policy are emerging that will contribute to new market turbulence and heightened inflationary concerns.

MORTGAGE ORIGINATIONS AND FEDERAL POLICY (CONTINUED)

- These policies include a sea change at the CFPB, where acting director Mick Mulvaney has implemented a freeze on the agency's collection of private financial data, or "personally identifiable information." This freeze is hampering the agency's efforts to monitor financial companies for compliance and conduct research on financial products.
- Mick Mulvaney has also expanded the CFPB's mandate to include working on behalf of banks and lenders in addition to consumers. The CFPB's news releases now feature a new mission statement that emphasizes its role in "regularly identifying and addressing outdated, unnecessary, or unduly burdensome regulations." In December, the CFPB said that it plans to reopen its rulemaking for the Home Mortgage Disclosure Act and will not assess penalties against mortgage landers for any errors in data collected in 2018. Some lawmakers and consumer advocates are concerned that Mick Mulvaney's efforts to loosen mortgage lending requirements and reverse the collection of home loan data will result in more fair-lending violations at a time when the CFPB is demoting the office of fair lending.
- The proposed federal budget requests a $20 million spending increase for the Federal Housing Administration. If the budget is approved, this increase is earmarked for technology upgrades and support.

INCREASING MORTGAGE RATES AND PAYMENTS

Increasing rates and rising housing prices are squeezing many potential buyers out of the market.

- With a strong economy and historically low interest rates in 2017, the rate of homeownership climbed to a three-year high of 64.2% in Q4 2017.
- However, even as lending standards on residential mortgages continue to ease, demand for mortgages experienced its largest quarterly decline in two years for the three months ending January 31, 2018.
- Fannie Mae anticipates higher mortgage rates and high spreads in 2018. The impact on the home purchase market will depend on the rate of adjustment. The home purchase market does not respond well to large, rapid moves in mortgage rates. The 30-year mortgage rate jumped from 3.95% on January 4, 2018 to 4.26% on February 20, 2018 (see Figure 1). Fannie Mae expects the 30-year fixed mortgage rate will increase to an average of 4.4% in 2018.
- The principal factor restraining home sales in 2017 was the lack of supply. The year-over-year decline in the for-sale inventory of existing homes, which accounted for 90% of total home sales in 2017, continues unabated in 2018 to date. Homebuilders who are benefiting from the shortage of existing homes for sale, however, are optimistic that an economic boost from tax cuts will strengthen the housing market and support overall economic growth.
- The lack of inventory for sale is driving home prices up. Home prices increased 6.6% between December 2016 and December 2017, and are anticipated to continue rising by 4.3% between December 2017 and December 2018. As home prices and the cost of originating loans rise, affordability continues to erode, making it a challenge both for first-time buyers to enter the market and for moderate-income families to move within it.

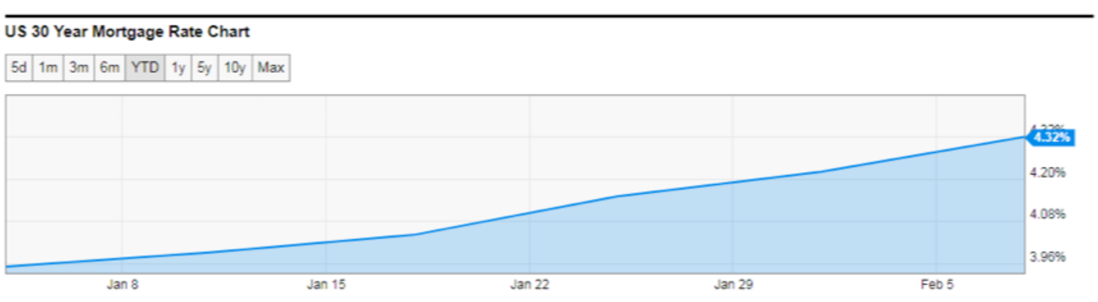

Figure 1. 30-Year Mortgage Rate, January 2018. Source: YCharts

- Mortgage payments have risen about 12% year over year due to higher mortgage rates (see Figure 2). Freddie Mac anticipates that a decline in housing affordability will slow the housing market.

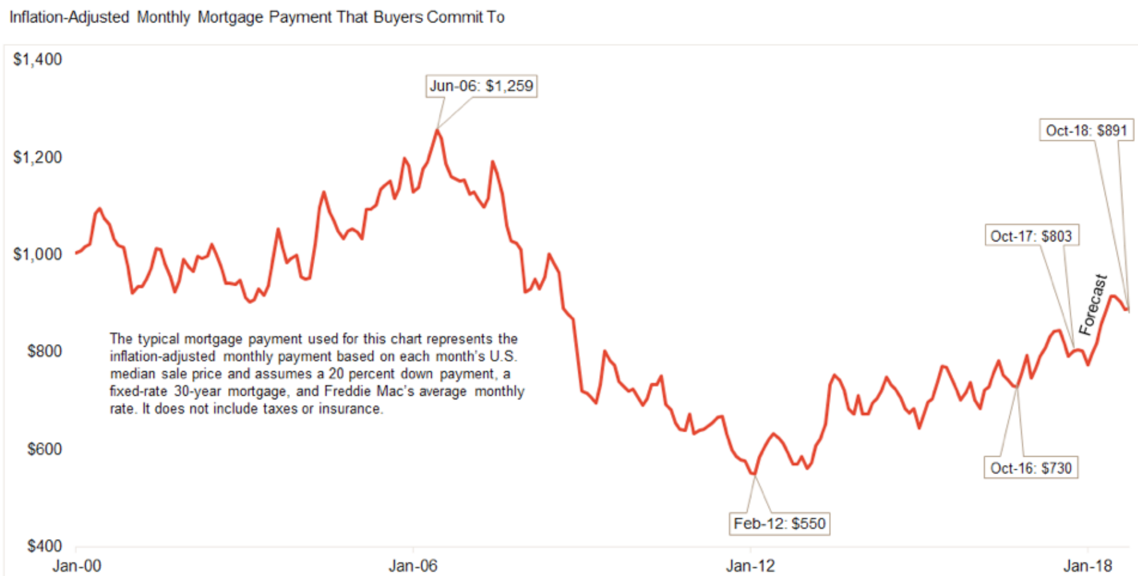

Figure 2. The "Typical Mortgage Payment," January 2000 – January 2018. Source: CoreLogic Homebuyers' "Typical Mortgage Payment" Up 12% Year Over Year

- In late 2017, Fannie Mae noted that the seven-year waiting period following foreclosure was drawing to a close for those who faced foreclosure at the end of the recession. It speculated that the end of this waiting period could signal a pickup in the real estate market.

DECLINING OVERALL RATES OF MORTGAGE DELINQUENCY

Mortgage delinquency continues to trend downward overall.

- The overall market delinquency rate rose in Q4 2017 for the second consecutive quarter, marking only the second back-to-back quarterly increases since the delinquency rate peaked at the beginning of 2010, and ending 2017 at a 23-month high (up 164,000 over the same period in 2016). This increase, however, was due to seasonal factors: serious delinquency is up sharply in hurricane-affected areas (Texas, Florida and Puerto Rico), whereas in non-hurricane impacted areas (90% of the total market) delinquency rates declined to 11% below long-term norms (see Figure 3).
- The 30-plus delinquency rate, the most comprehensive measure of mortgage performance, is near a 10-year low. The share of mortgages that transitioned from current to 30 days past due was 1% in November 2017, unchanged from 1% in November 2016. By comparison, in January 2007, the current-to-30-day transition rate was 1.2%, peaking in November 2008 at 2%. The continued improvement in mortgage performance bodes well for the health of the U.S. market in 2017.
- As of November 2017, the foreclosure inventory rate, which measures the share of mortgages in some stage of the foreclosure process, was 0.6%, down 0.2% from November 2016. It held steady at 0.6% between August and November 2017, its lowest level since June 2007.
- December 2017 represented the 27th consecutive month with a year-over-year decrease in foreclosure activity.
- Foreclosure filings—default notices, scheduled auctions and bank repossessions—were reported on 676,535 U.S. properties in 2017, down 27% from 2016 and down 76% from a peak of nearly 2.9 million in 2010. This represents the lowest level of filings since 2005 (see Figure 4).

DECLINING OVERALL RATES OF MORTGAGE DELINQUENCY (CONTINUED)

- Although foreclosures are fading overall, there has been a notable uptick in foreclosures completed by some nonbank entities, counter to the shared downward trend among big banks and government-backed loans. This is likely the result of big banks and government agencies selling off distressed loans over the past few years to nonbank entities that are now foreclosing on an increasing volume of that deferred distress.
- U.S. properties foreclosed in Q4 2017 had been in the foreclosure process an average of 1,027 days, a 14% jump from the previous quarter and a 28% increase from a year ago.
- Default rates for Fannie Mae and Freddie Mac government-sponsored enterprises (GSEs) with post-2009 vintages are on pace to fall below pre-2003 levels. For Fannie Mae and Freddie Mac's 1999 – 2003 vintages, cumulative defaults total around 2%, while cumulative defaults for the 2007 vintages are around 13% – 14% (see Figure 5).

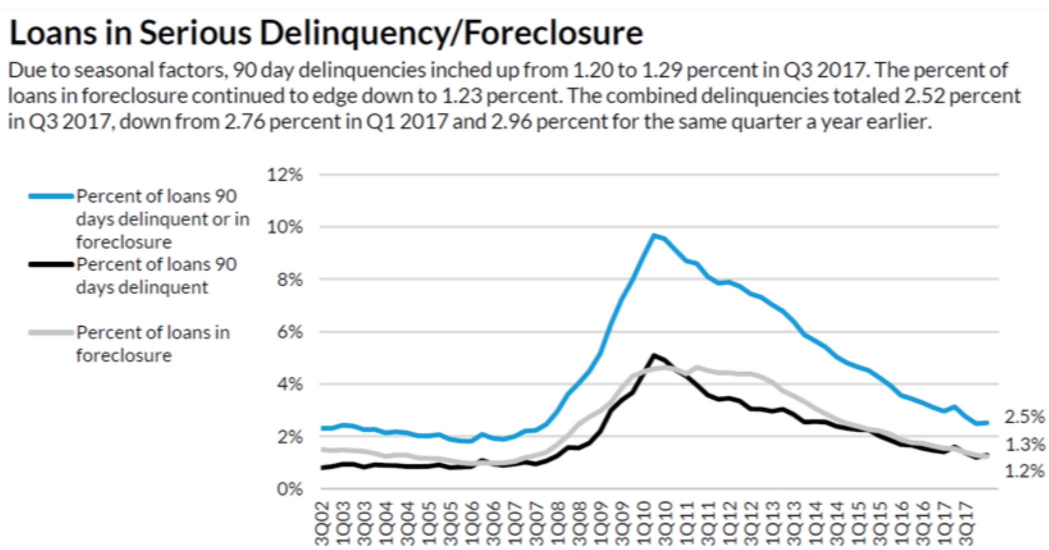

Figure 3. Mortgage Delinquency Rates, Q3 2002 – Q3 2017. Source: Urban Institute, Housing Finance at a Glance: Monthly Chartbook, January 2018

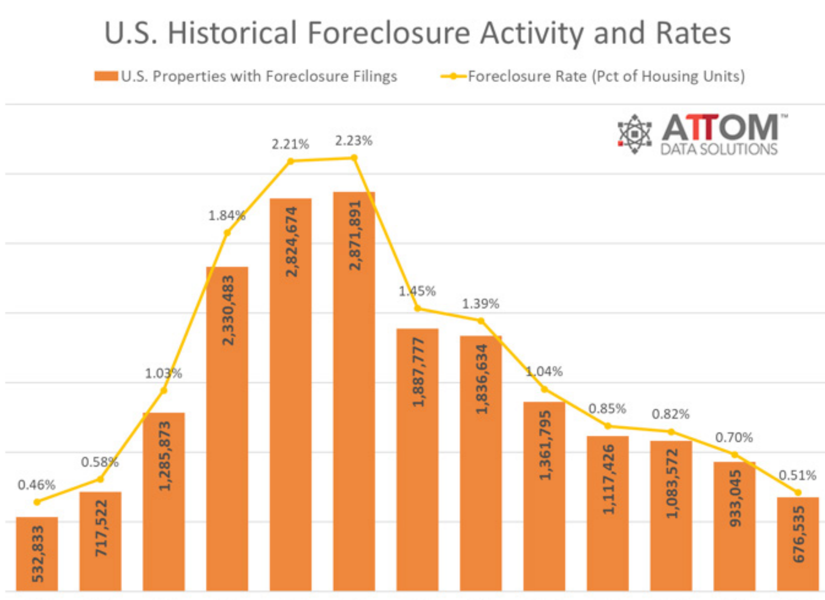

Figure 4. U.S. Historical Foreclosure Rates. Source: ATTOM Data Solutions, U.S. Foreclosure Activity Drops to 12-Year Low in 2017

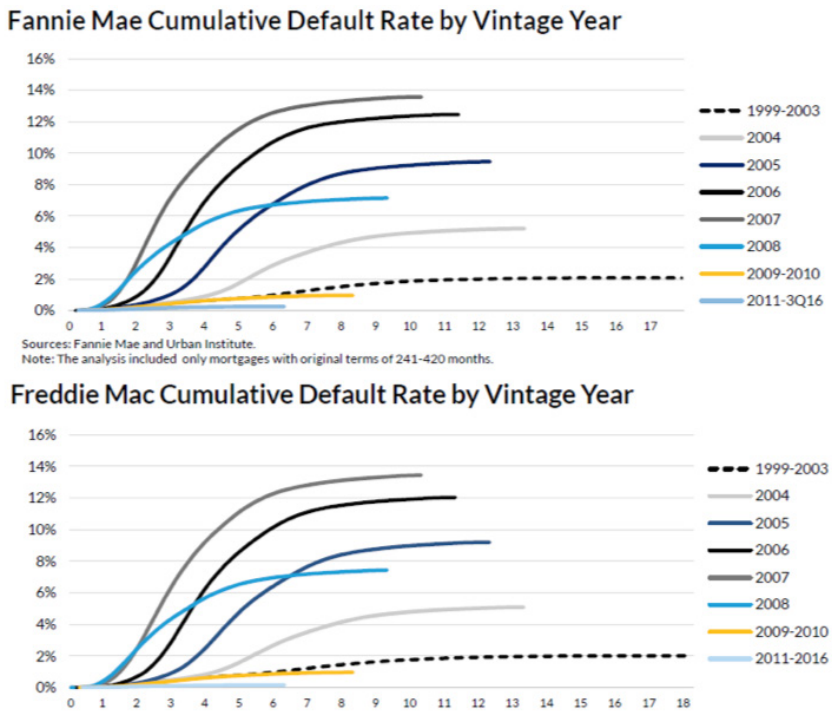

Figure 5. Fannie Mae and Freddie Mac GSE Default Rates by Vintage. Source: Urban Institute, Housing Finance at a Glance: Monthly Chartbook, January 2018

LOCALIZED AREAS OF INCREASED DELINQUENCY

Although mortgage delinquency rates continue to decrease overall, there are several areas that serve as localized exceptions to this trend.

- Some states and metropolitan areas are seeing an increase in foreclosure rates.
- The District of Columbia and five states posted year-over-year increases in foreclosure starts in 2017, including:
  - District of Columbia (+54%);
  - West Virginia (+32%);
  - Vermont (+27%);
  - Oklahoma (+23%);
  - Illinois (+2%); and
  - Louisiana (+2%).
- The District of Columbia and seven states posted year-over-year increases in scheduled foreclosure auctions in 2017, including:
  - District of Columbia (+54%);
  - West Virginia (+32%);
  - Vermont (+27%);
  - New York (+9%, its highest level since 2006);
  - Connecticut (+7%);
  - Oklahoma (+4%);
  - Louisiana (+2%); and
  - Maine (+2%).

LOCALIZED AREAS OF INCREASED DELINQUENCY (CONTINUED)

- Among 217 metropolitan statistical areas with a population of at least 200,000, those with the highest foreclosure rates in 2017 were:
  - Atlantic City, NJ (2.72% of housing units with a foreclosure filing);
  - Trenton, NJ (1.68%);
  - Philadelphia, PA (1.26%);
  - Fayetteville, NC (1.17%);
  - Rockford, IL (1.14%);
  - Cleveland, OH (1.06%);
  - Columbia, SC (1.05%);
  - Baltimore, MD (1.05%);
  - Chicago, IL (1.04%); and
  - Albuquerque, NM (0.99%).

SOURCES

02/16/2018 | Dems Demand Fair-Lending Docs from CFPB's Mulvaney | American Banker. Democratic lawmakers are demanding that acting CFPB Director Mick Mulvaney turn over "all documents" related to his decision to strip the agency's fair-lending office of enforcement powers. Some lawmakers and consumer advocates are concerned that Muvlaney's efforts to loosen mortgage lending requirements and reverse the collection of home loan data will result in more fair-lending violations at a time when the CFPB is demoting the office of fair lending.

02/15/2018 | Growth Outlook Unchanged Despite Recent Market Volatility | Fannie Mae. Rising long-term interest rates and soaring market volatility are not enough to alter the forecast for strong 2.7% real GDP growth in 2018. Strength in economic fundamentals continues to underpin the current forecast, including recent momentum in domestic demand and a historically healthy labor market. Nonetheless, upside and downside risks are emerging that are contingent on federal policy—in the months ahead Fannie Mae expects the economy to navigate newfound turbulence and heightened inflationary concerns.

02/15/2018 | The CFPB's Declaration of Dependence | ProPublica. Under acting director Mick Mulvaney, the CFBP is conducting a comprehensive internal review of enforcement and supervision. Mulvaney ordered a survey of financial firms to get their sense of the "burdens" that the CFPB's investigative process places on them. He split the fair lending oversight operations in two, putting the heads of the office under his direct control. In early December, Mulvaney froze the agency's collection of private financial data, known as "personally identifiable information" or PII. The effect of this freeze has been to curtail enforcement activities.

02/15/2018 | Homebuilders Shrug Off Higher Mortgage Rates, Stay Optimistic on Economic Boost from Tax Cuts | CNBC. Tax cuts are making homebuilders feel better, even as mortgage rates rise to the highest level in more than four years. Builder confidence was unchanged in February from the prior month, remaining at 72 on the National Association of Home Builders/Wells Fargo Housing Market Index. Anything above 50 is considered positive sentiment.

02/14/2018 | U.S. Mortgage Applications Fall as Home Loan Rates Hit Four-Year High: MBA | Reuters. U.S. mortgage application activity fell to its lowest point in five weeks as interest rates on 30-year fixed-rate home loans jumped to a four-year high, the Mortgage Bankers Association said. The Washington-based industry group's index on mortgage request volume fell 4.1% to 399.4 in the week of February 9.

02/13/2018 | Early-Stage Mortgage Delinquencies Dip Again in November as Hurricanes' Impact Wanes | CoreLogic. As of November 2017, the foreclosure inventory rate, which measures the share of mortgages in some stage of the foreclosure process, was 0.6%, down 0.2 percentage points from 0.8% in November 2016. The foreclosure inventory rate has held steady at 0.6% since August 2017, the lowest level since June 2007 when it was also at 0.6%. This past November's foreclosure inventory rate was the lowest for the month of November in 11 years, since it was also 0.6% in November 2006.

02/13/2018 | Will Republicans Be Able to Dismantle the Consumer Financial Protection Bureau? | The Washington Post. Mick Mulvaney has revamped the agency's mission. He described his vision as a CFPB that works on behalf of banks and lenders in addition to ordinary Americans. All news releases now feature a new mission statement that emphasizes the CFPB's role in "regularly identifying and addressing outdated, unnecessary, or unduly burdensome regulations."

02/12/2018 | Strong Economic Activity Triggers Overheating Concerns | Fannie Mae. Economic activity gathered momentum at the end of 2017 and start of 2018. Over the past several weeks, the markets started to appreciate the broader implications of the stronger growth path and related change in the direction of monetary policy, including the reintroduction of volatility in a rising rate environment.

02/12/2018 | Housing Forecast: February 2018 | Fannie Mae. For 2018, Fannie Mae projects that purchase mortgage originations will rise about 5% to $1.19 trillion. It projects refinance originations of $498 billion, a drop of 29% from 2017 levels. The refinance share should decline 8 percentage points to 30% in 2018 (current projections are 1,688,000 mortgage originations in 2018, of which 1,189,000 will be new purchases and 498,000 refinances).

02/12/2018 | Trump White House Proposes Even Deeper Cuts to HUD | The Real Deal. The proposed federal budget requests an increase for the Federal Housing Administration. If approved, the increase in spending of $20 million above 2017 levels will be earmarked to upgrade technology and support. The federal government is currently operating on a continuing resolution of the previous budget that lasts until March 23, at which time Congress will pass another such resolution, or agree to a new budget for 2019.

02/09/2018 | Weekly Note – February 9, 2018 | Fannie Mae. Lending standards on residential mortgage loans eased for the 15th consecutive quarter, while demand for mortgages experienced the largest quarterly decline in two years. The overall market delinquency rate rose in Q4 2017 for the second consecutive quarter, marking only the second back-to-back quarterly increases since the delinquency rate peaked at the beginning of 2010. The foreclosure starts rate, linked closely to labor market conditions, was little changed, largely due to hurricane-related moratoria on foreclosures.

02/07/2018 | Mortgage Volume Stalls as Rates Rise to the Highest Level in Four Years | CNBC. The housing market is already facing a supply crisis, with demand substantially higher than the supply of homes for sale. Higher mortgage rates will exacerbate that problem because most current homeowners have likely refinanced to rates in the 3% range over the past few years and will be reluctant to give up those rates, either to downsize or upsize to a new home. Hence, there are fewer new listings. For first-time buyers, even a quarter point difference in mortgage rates could price them out of the type of home they are looking to buy.

02/06/2018 | CoreLogic Reports December Home Prices Up More than 6 Percent Year-Over-Year for Fifth Consecutive Month | CoreLogic. Home prices nationally increased year over year by 6.6% from December 2016 to December 2017, and on a month-over-month basis home prices increased by 0.5% in December 2017 compared with November 2017. Looking ahead, the CoreLogic HPI Forecast indicates that home prices will increase by 4.3% on a year-over-year basis from December 2017 to December 2018, and on a month-over-month basis home prices are expected to decrease by 0.4% from December 2017 to January 2018.

02/05/2018 | Real Estate Daily Market Update: February 5, 2018 | Inman. Though mortgage delinquencies ended 2017 at a 23-month high (up 164,000 from 2016 year-end), in non-hurricane impacted areas (representing 90% of the total market) delinquency rates declined to 11% below long-term norms. A total of 649,000 foreclosure starts were initiated in 2017, the fewest of any year since 2000.

01/23/2018 | Housing Finance at a Glance: A Monthly Chartbook, January 2018 | Urban Institute. Fannie Mae, Freddie Mac and the Mortgage Brokers Association all forecast origination volume in 2018 to be marginally lower than the $1.6 billion to $1.7 billion estimated for 2017. These 2017 and 2018 numbers are considerably lower than the $2 trillion of originations in 2016. The differences owe primarily to a decline in the refinance share: from 48% – 49% in 2016 to 34% – 37% in 2017, to a forecast 25% – 31% in 2018.

01/22/2018 | Homebuyers' "Typical Mortgage Payment" Up 12% Year Over Year | CoreLogic. U.S. home prices have risen more than 6% over the last year but that's only part of the challenge for home shoppers, who face mortgage payments that have risen about 12% year over year because of higher mortgage rates.

01/18/2018 | Maintaining Momentum: 2018 and Beyond | Freddie Mac. A spike in interest rates similar to what the market saw in the spring of 2013 would significantly slow housing market activity.

01/16/2018 | U.S. Foreclosure Activity Drops to 12-Year Low in 2017 | ATTOM Data Solutions. Foreclosure filings – default notices, scheduled auctions and bank repossessions – were reported on 676,535 U.S. properties in 2017, down 27% from 2016 and down 76% from a peak of nearly 2.9 million in 2010 to the lowest level since 2005. December 2017 represented the 27th consecutive month with a year-over-year decrease in foreclosure activity.

12/21/2017 | CFPB to Reopen Mortgage Disclosure Rule, Will Not Penalize Data Errors | American Banker. The CFPB said that it plans to reopen its rulemaking for the Home Mortgage Disclosure Act (HDMA) and will not assess penalties against mortgage lenders for any errors in data collected in 2018. The announcement marked a big win for the mortgage industry, which has repeatedly asked for a so-called safe harbor from HMDA reporting errors and wanted a delay in the rule, which takes effect January 1, 2018.

12/07/2017 | Wells Fargo Sanctions Are on Ice Under Trump Official – Sources | Reuters. The new acting head of the U.S. consumer finance watchdog is reviewing whether Wells Fargo should pay tens of millions of dollars over alleged mortgage lending abuse, according to three sources familiar with the dispute. The San Francisco-based bank said in October that it would refund homebuyers who were wrongly charged fees to secure low mortgage rates—a black mark against a lender that has already been roiled by scandal over its treatment of customers.

11/20/2017 | Recap of 2017: The Best Year in a Decade | Freddie Mac. The mortgage market is transitioning from a refinance-dominated market to a purchase-dominated one. Through the first three quarters of 2017, refinance originations are down 35% from last year's pace. It is unlikely the economic environment will be much more favorable for housing and mortgage markets in 2018 and 2019.

11/20/2017 | A Look at the 2017 Foreclosure Market and the Future in 2018 | Markets Insider. According to Fannie Mae, the waiting period following a foreclosure is seven years, measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower. With this seven-year period coming to an end for those who faced foreclosure toward the end of the Great Recession, there is reason to believe that the real estate market could pick back up.