

# Top Market Themes Q3 2021

Market Research and Insights

October 2021



# Overview



## COVID-19 and Recovery

- COVID-19 is officially America's deadliest pandemic.
- 2021 economic growth forecasts revised down due to Delta variant concerns.
- COVID-19 pandemic risks are diverse.



## Policy Shifts

- Removal of adverse market fee.
- FHFA amended Preferred Stock Purchase Agreement (PSPA) and Capital Rule.
- Increased focus on affordable housing supply, housing goals, underserved markets and racial equity.



## Labor Market Developments

- Labor market recovery from deep recession slowing.
- Plunge in employment has had disproportionate impact on certain states.



## Housing Trends

- Purchase activity rebounds as mortgage rates stabilize.
- Home sales remains at 2007 levels amidst inventory constraints.



## House Price Appreciation

- High home price increases have led to record homeowner equity.
- Persistently high house price appreciation is affecting affordability.



## Forbearance Trends

- Forbearance share declined as many homeowners are nearing the end of their forbearance terms.
- As of mid-August, market active forbearances accounted for 24% of all loans that entered the program versus 30% the previous quarter.



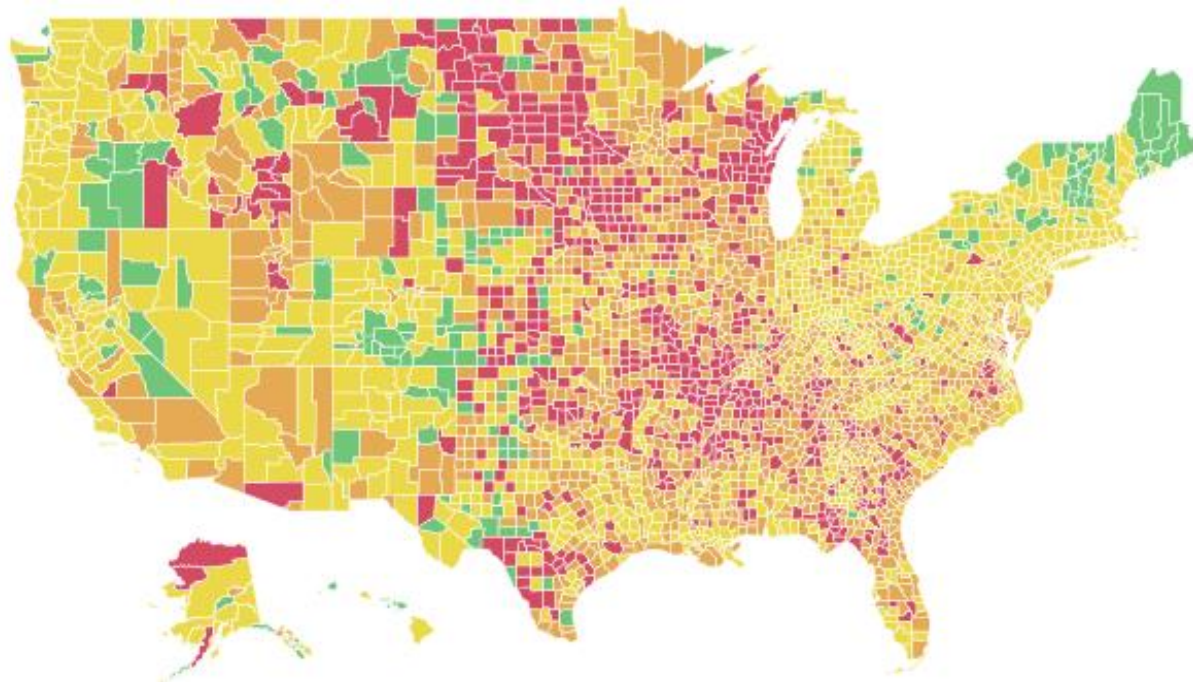
# COVID-19 and Recovery

# Covid is officially America's deadliest pandemic

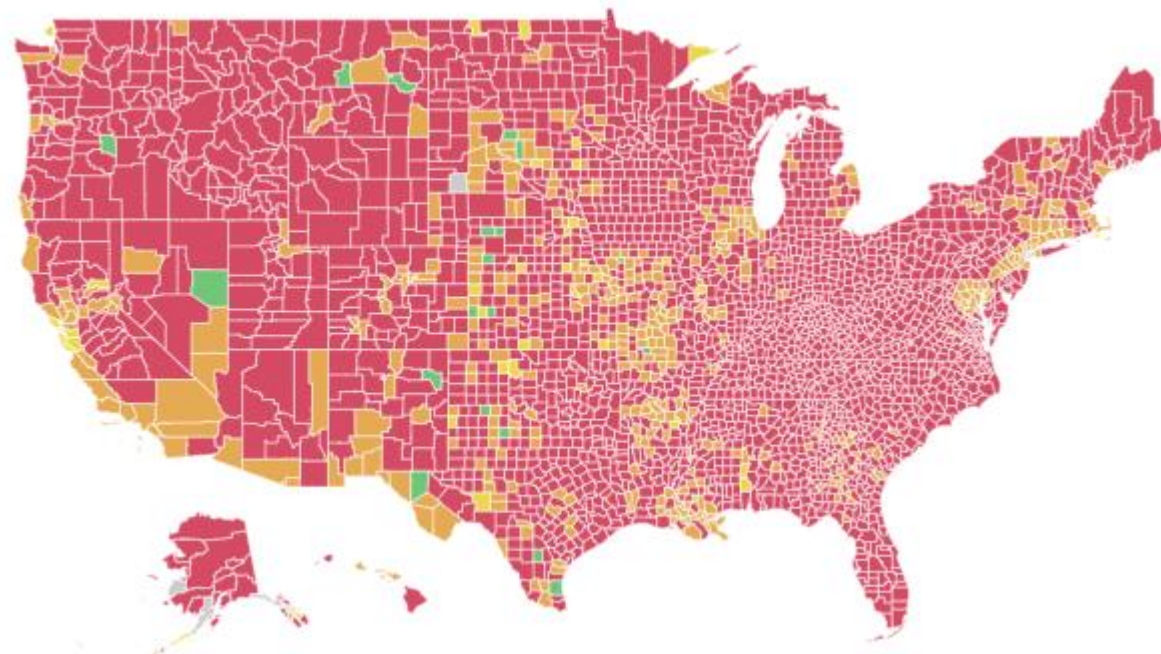


- 43.2M Confirmed cases, 693K deaths
- The new variant is significantly more infectious

Infections as of End of September 2020



Infections as of End of September 2021



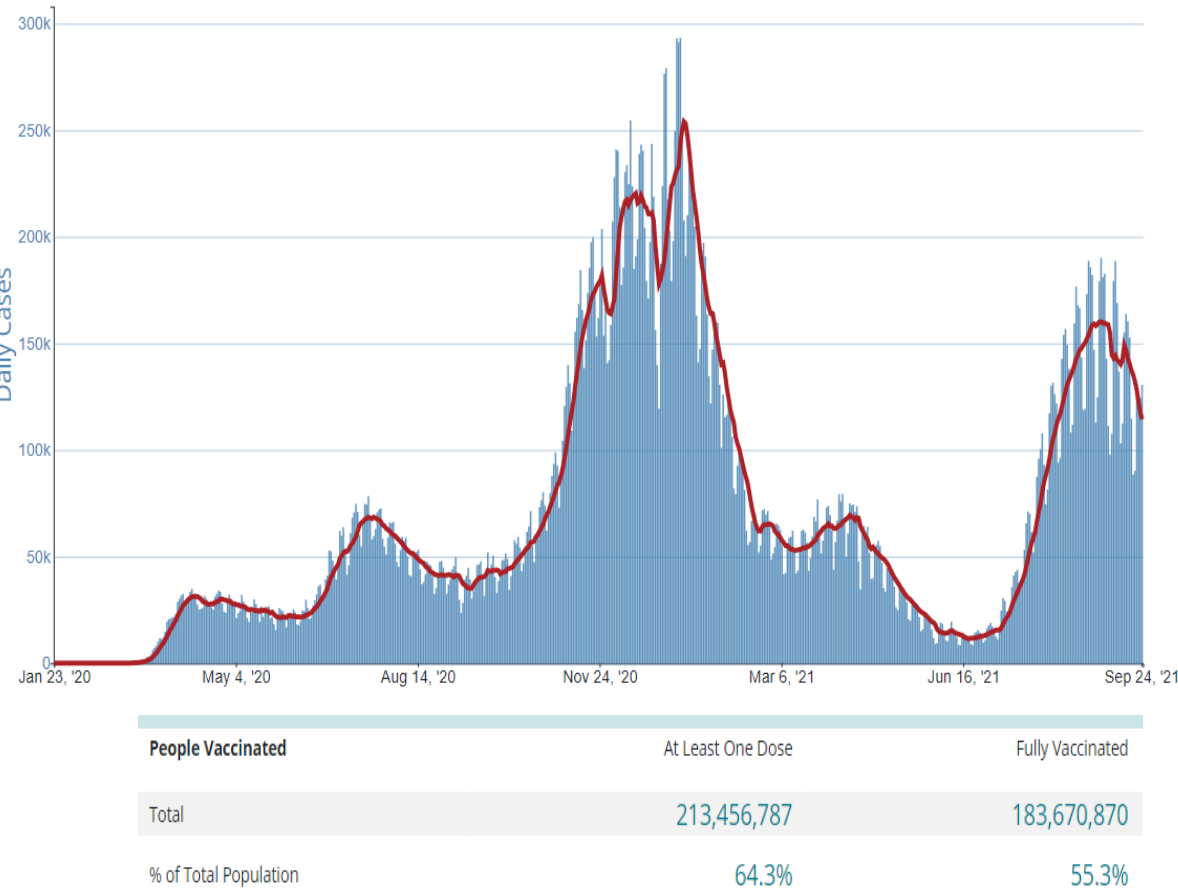
Source: [globalepidemics.org](https://globalepidemics.org)

Risk Levels: ■ Green ■ Yellow ■ Orange ■ Red

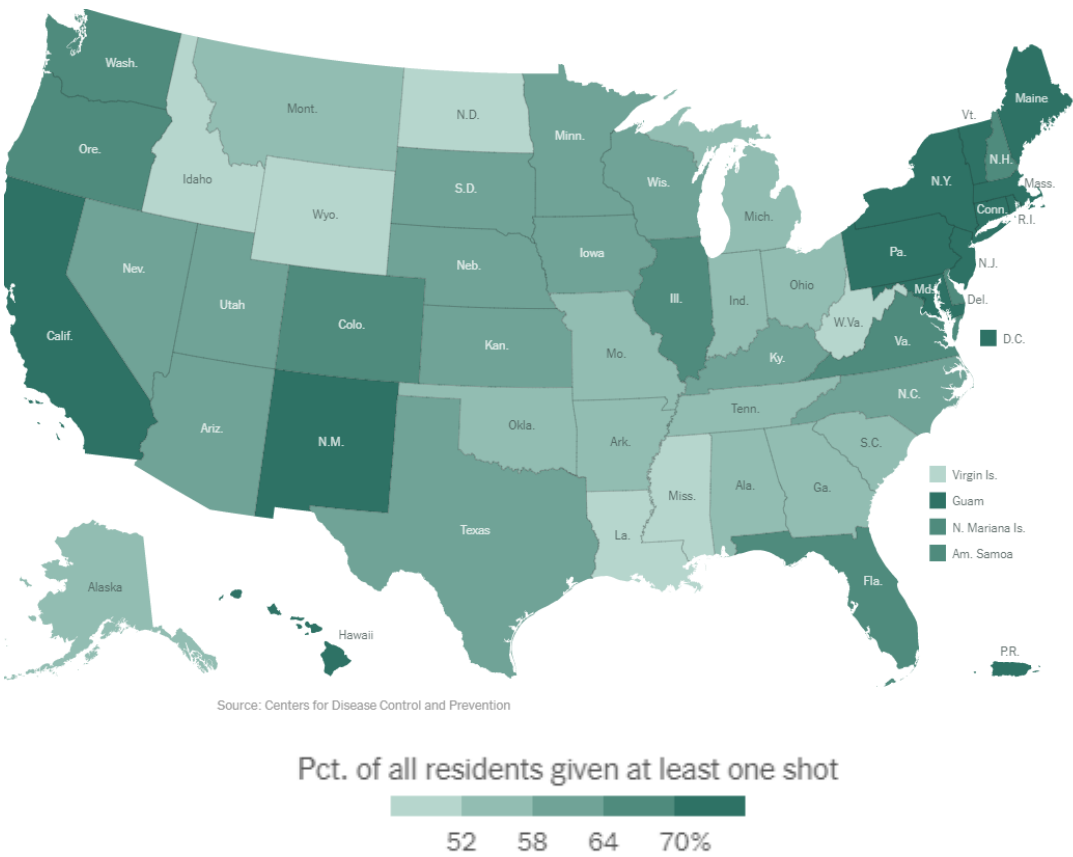
# COVID-19: Pandemic to endemic



Daily Trends in Number of COVID-19 Cases in the US Reported to CDC

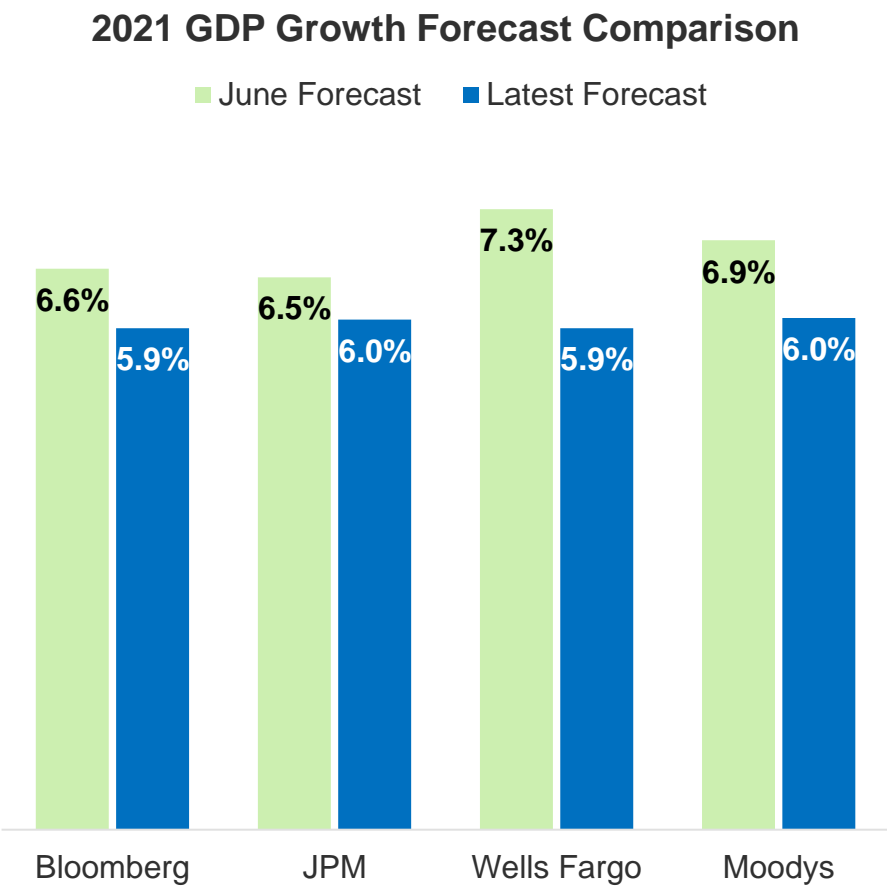
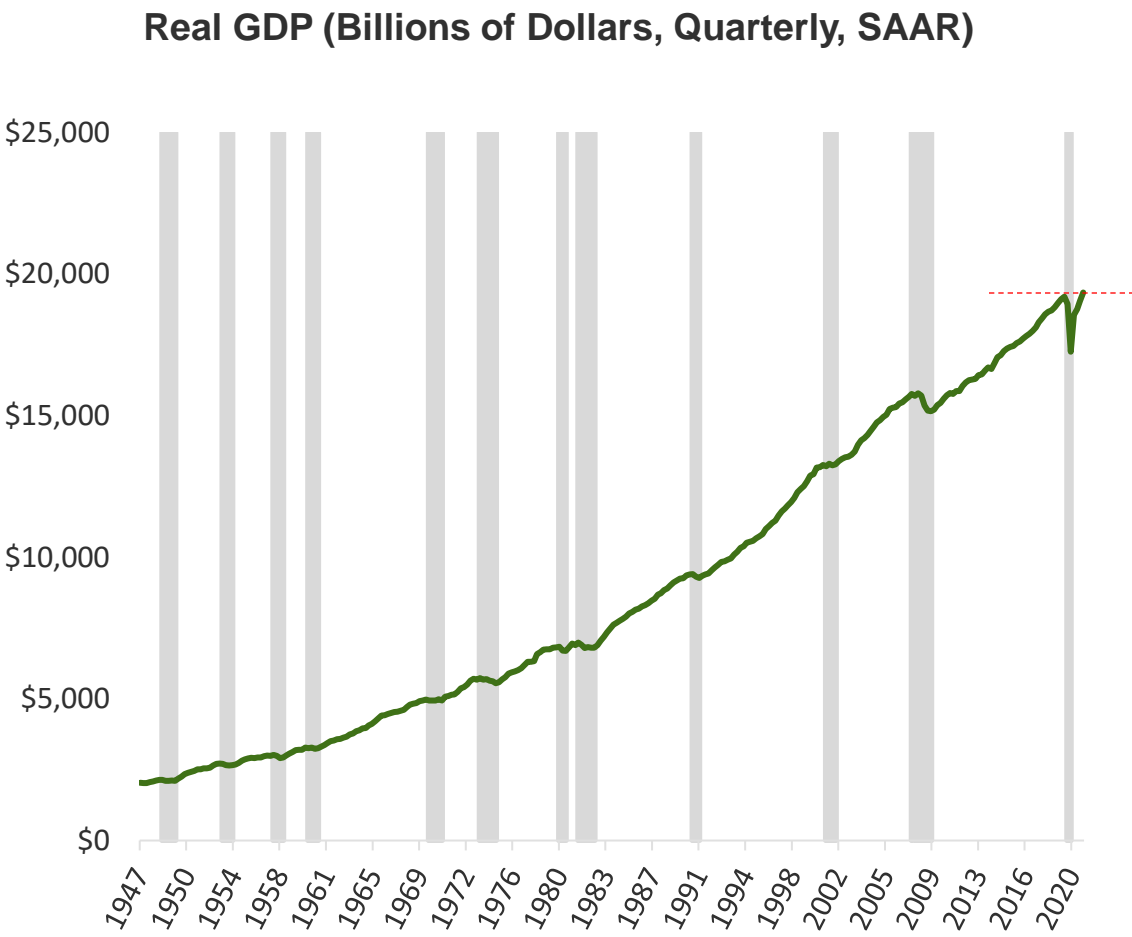


Percent of All Resident Given At Least One Shot



Source: NPR; NYT; CDC

# Economic growth forecasts for 2021 revised down on concerns of Delta variant



Source: BEA, Bloomberg, Moodys



# COVID pandemic risks are diverse



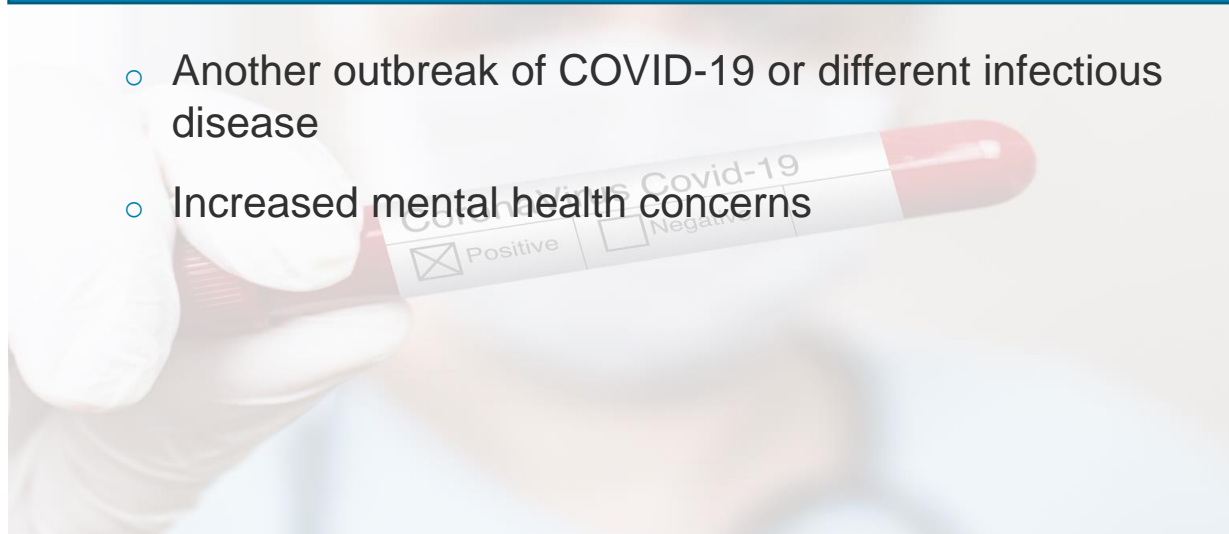
## Economy / Housing / Wealth

- Prolonged recession
- Weakening of fiscal positions in major economies
- Sharp increase in inflation
- Protracted disruption of global supply chains
- Failure of industries or sectors to properly recover
- Surge in bankruptcies and a wave of industry consolidation
- Tighter restriction on the cross-border movement of people and goods
- Households of color and renters falling behind on monthly housing payments
- Growing homelessness
- Increasing wealth gap
- Migration into higher risk areas

Source: WEF, JCSH

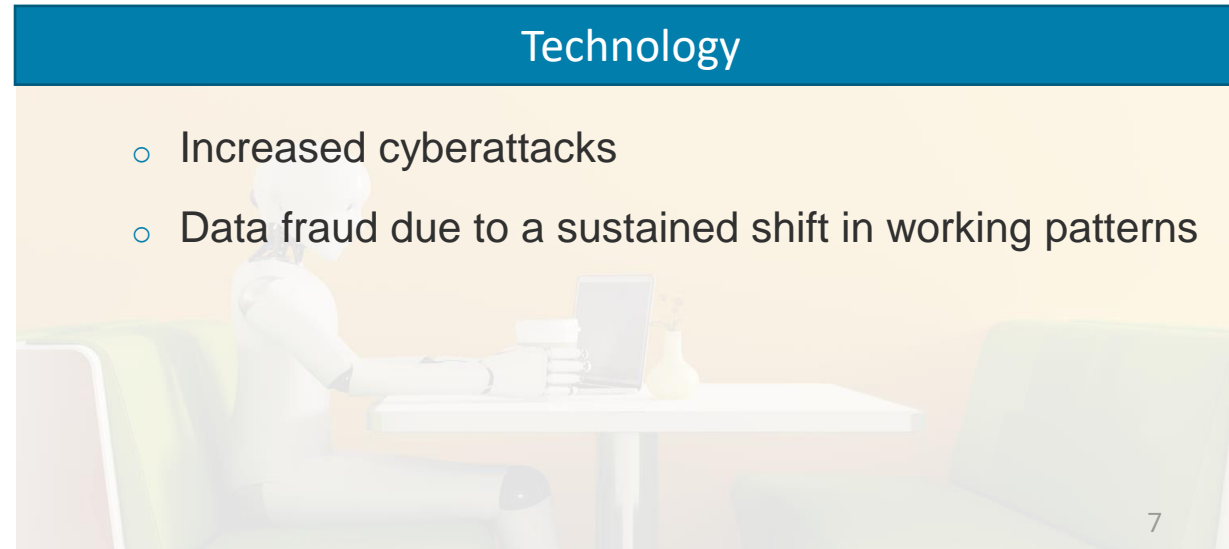
## Health / Society

- Another outbreak of COVID-19 or different infectious disease
- Increased mental health concerns



## Technology

- Increased cyberattacks
- Data fraud due to a sustained shift in working patterns





# Policy Shifts



# Housing policy shifts and updates

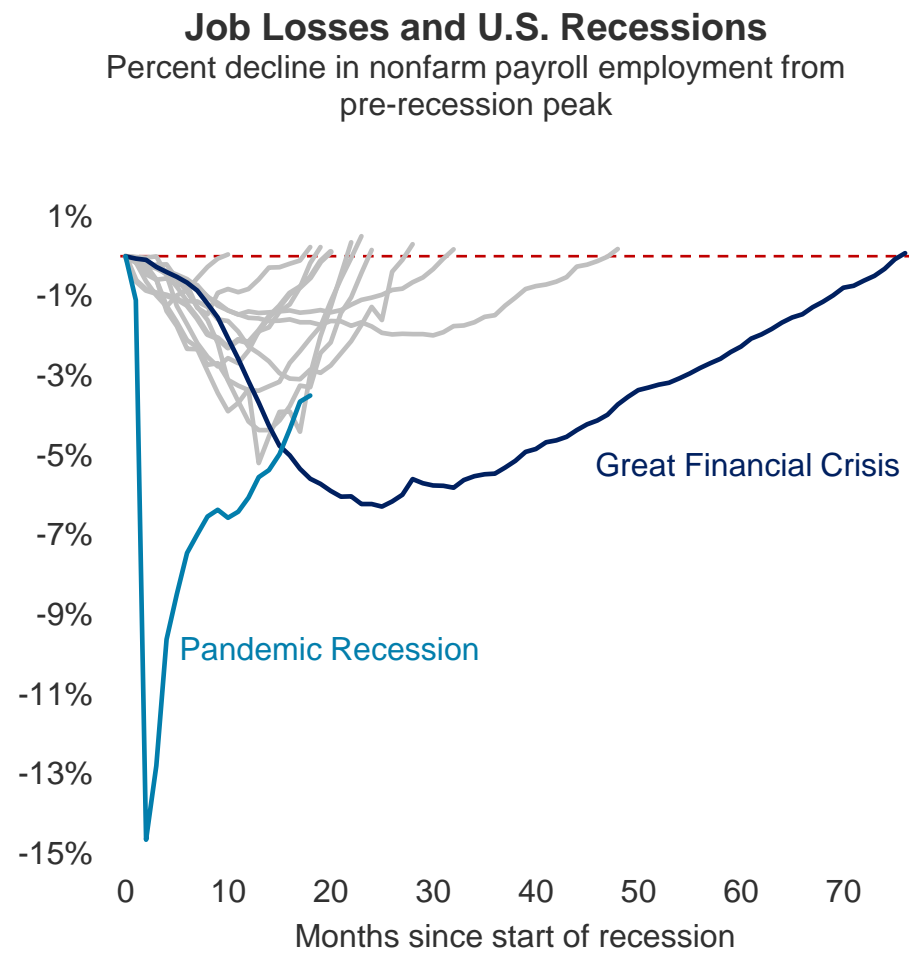
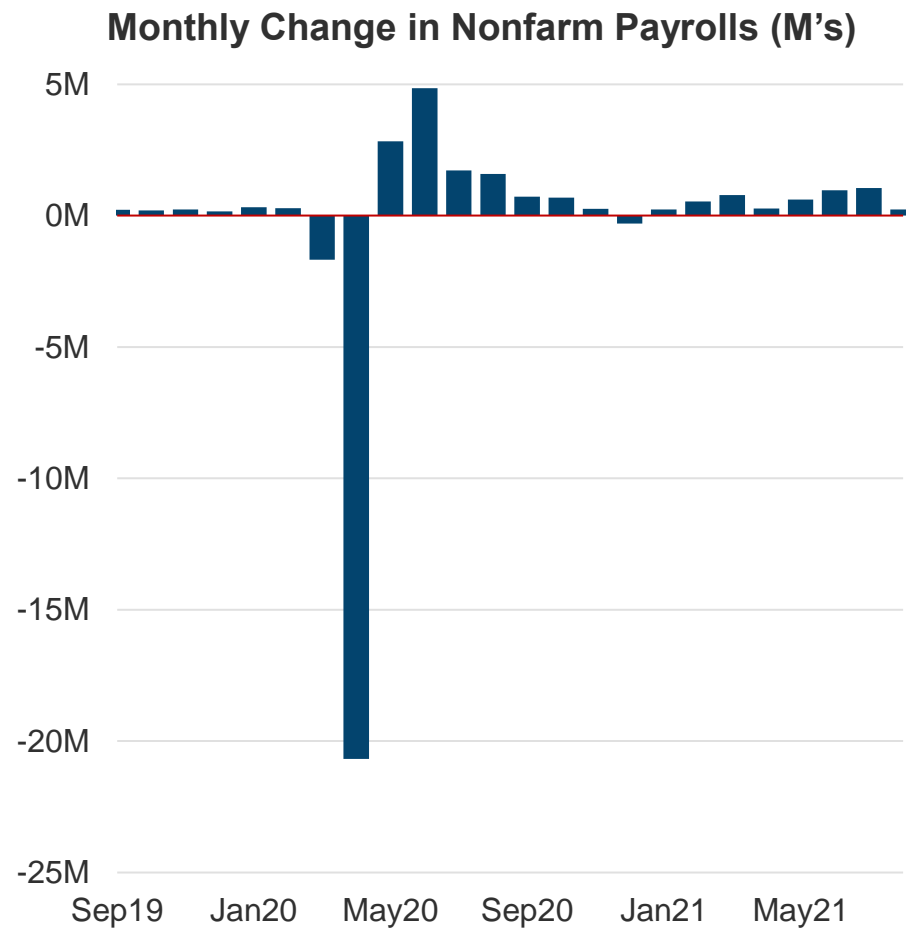


- **Removal of adverse market fee**
- **The FHFA amendments to Preferred Stock Purchase Agreement (PSPA)/Capital Rule**
  - CRT
  - Buffer
  - Cash Window Limits
  - Loans with higher risk characteristics
  - Second homes and investment properties
- **Increased Focus on Affordable Housing Supply, Housing Goals, Underserved Markets and Racial Equity**
  - Boost the supply of affordable rental /owner occupied units (i.e. MH)
  - Make more single-family homes available to individuals, families, and non-profit organizations
  - Zoning Updates (CA, OR, MN)
- **The Federal Reserve signaled that it would start cutting its enormous pandemic stimulus programs as soon as November**



# Labor Market Developments

# Labor market recovery from deep recession slowing

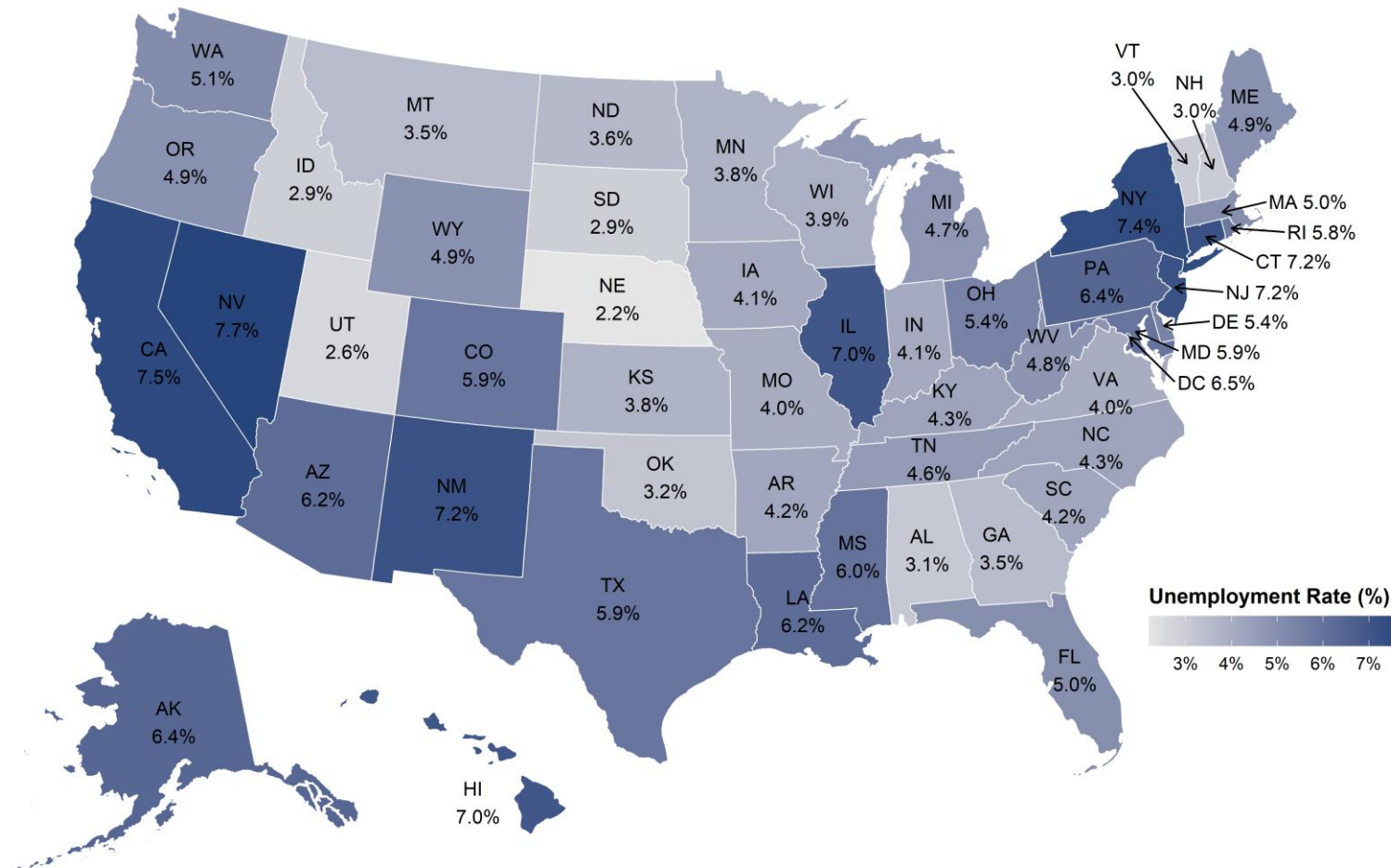


Source: BLS; Business Insider

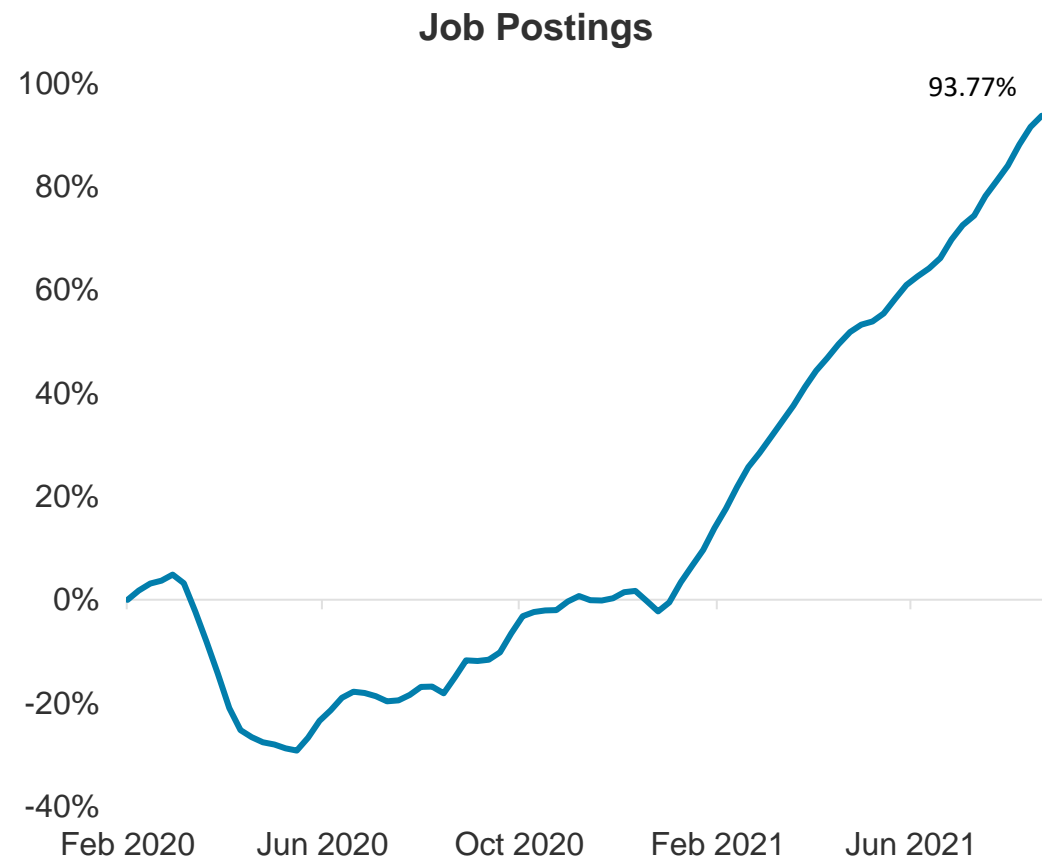
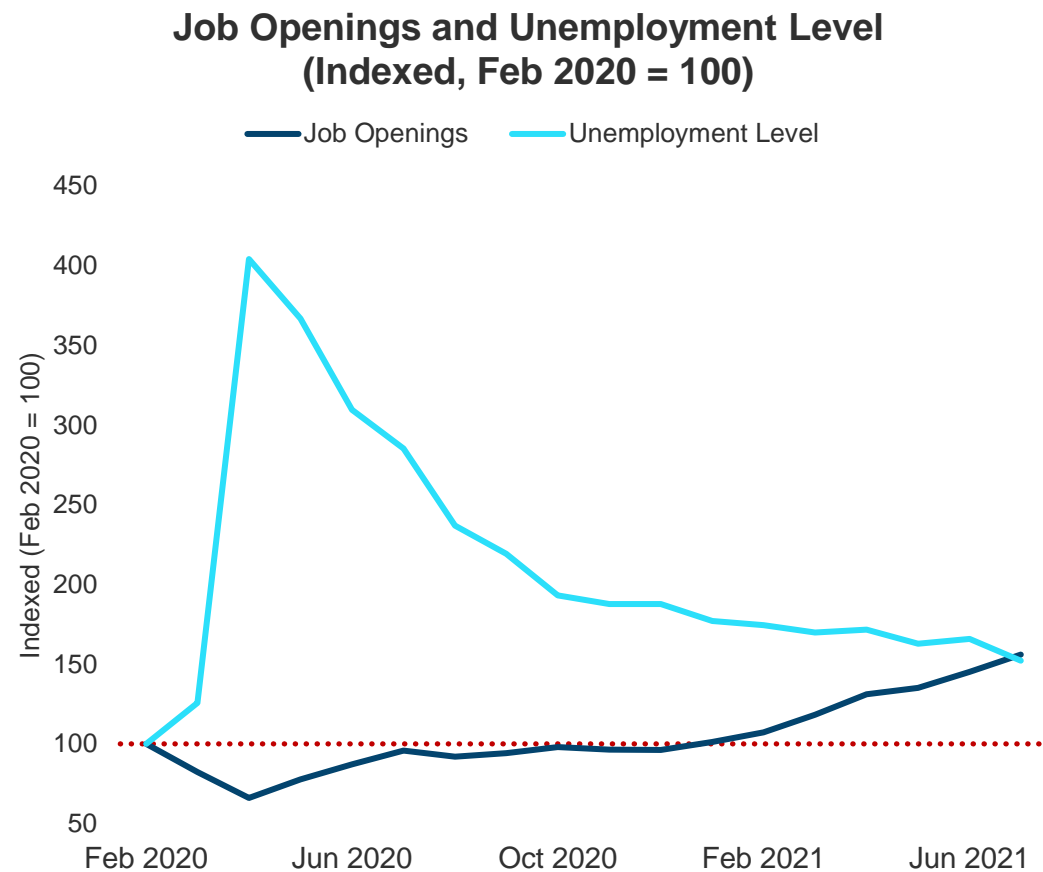
# Plunge in employment has had disproportionate impact on certain states...



State Unemployment Rate - August 2021



# Job openings recovered to pre-crisis level in January 2021, while unemployment level remains elevated



Source: LinkedIn, BLS;  
Note: Note: 14-day average indexed to the week ending February 11, 2020, based on the number of job postings on LinkedIn during this period



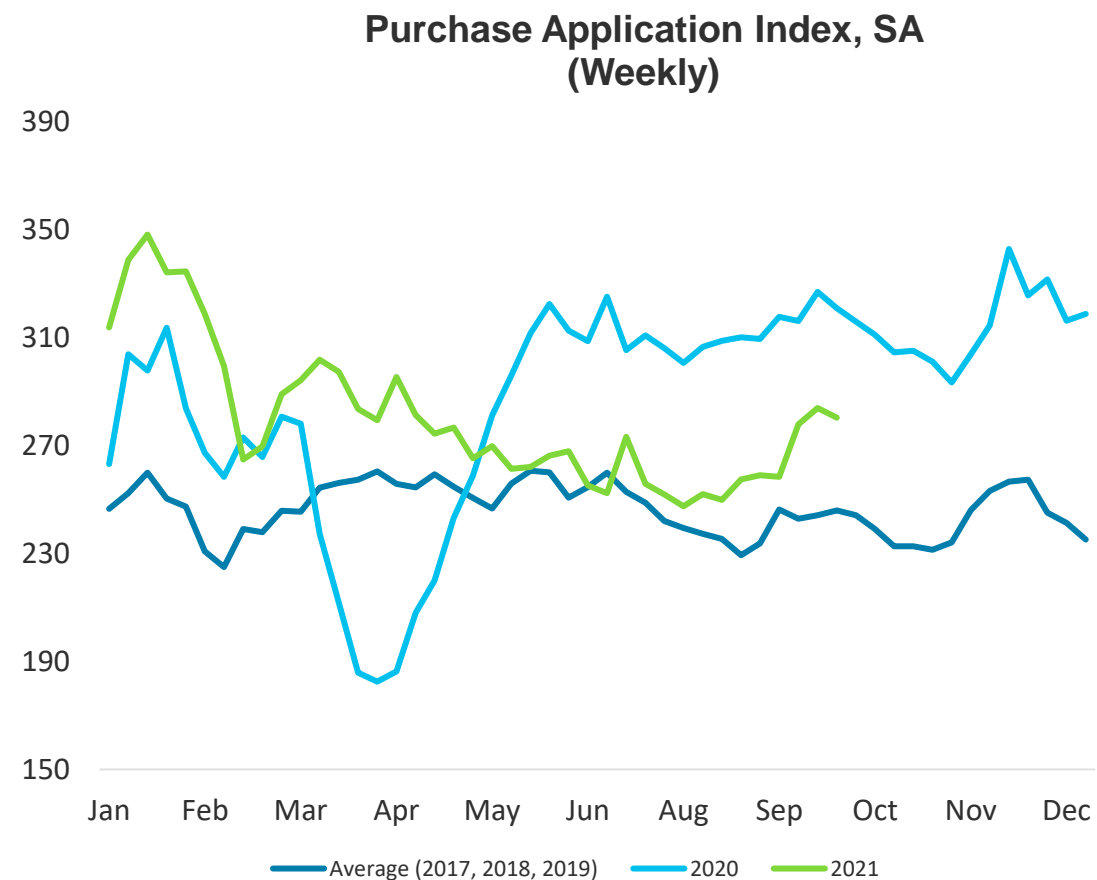
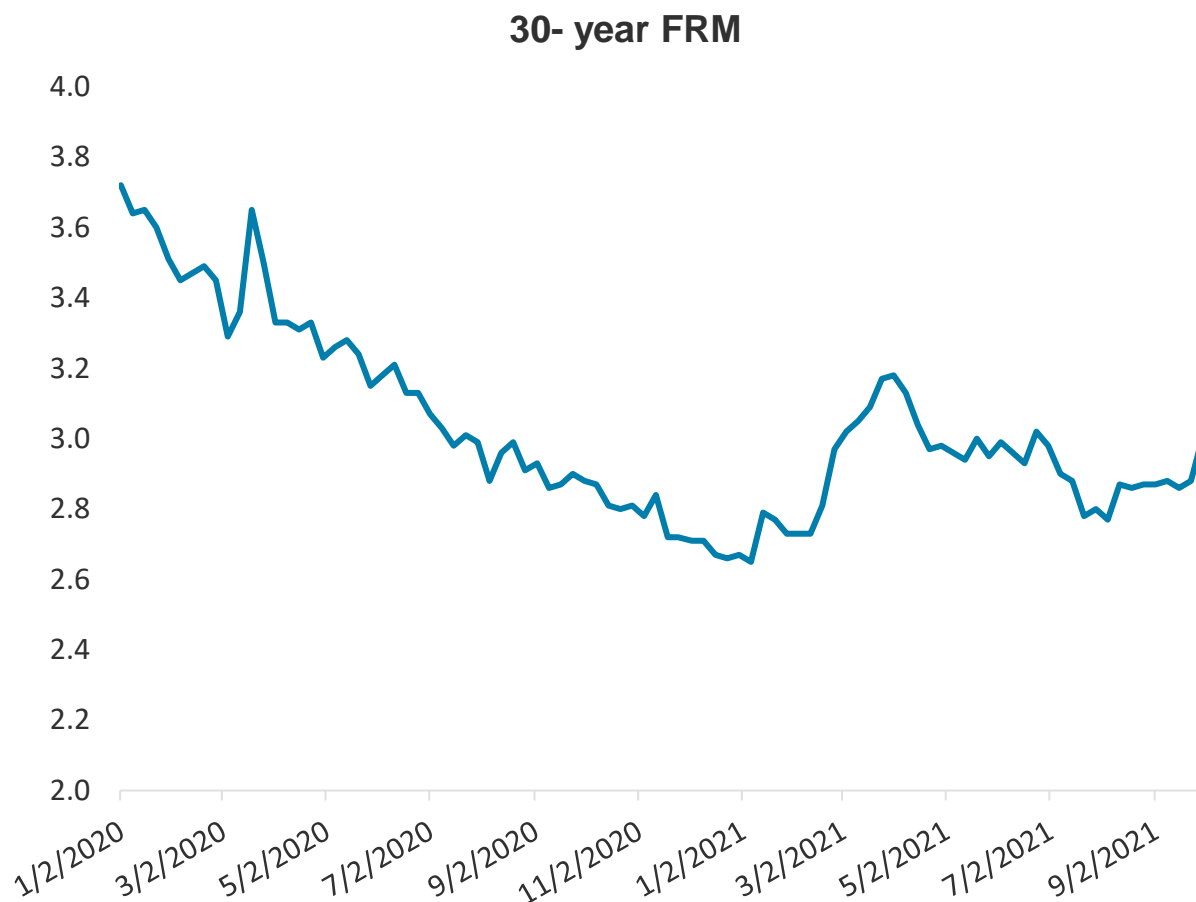
# Housing Trends

# Purchase activity rebounds as mortgage rates stabilize



Freddie Mac 30-yr forecast:

- 2021: 3.0%
- 2022: 3.5%

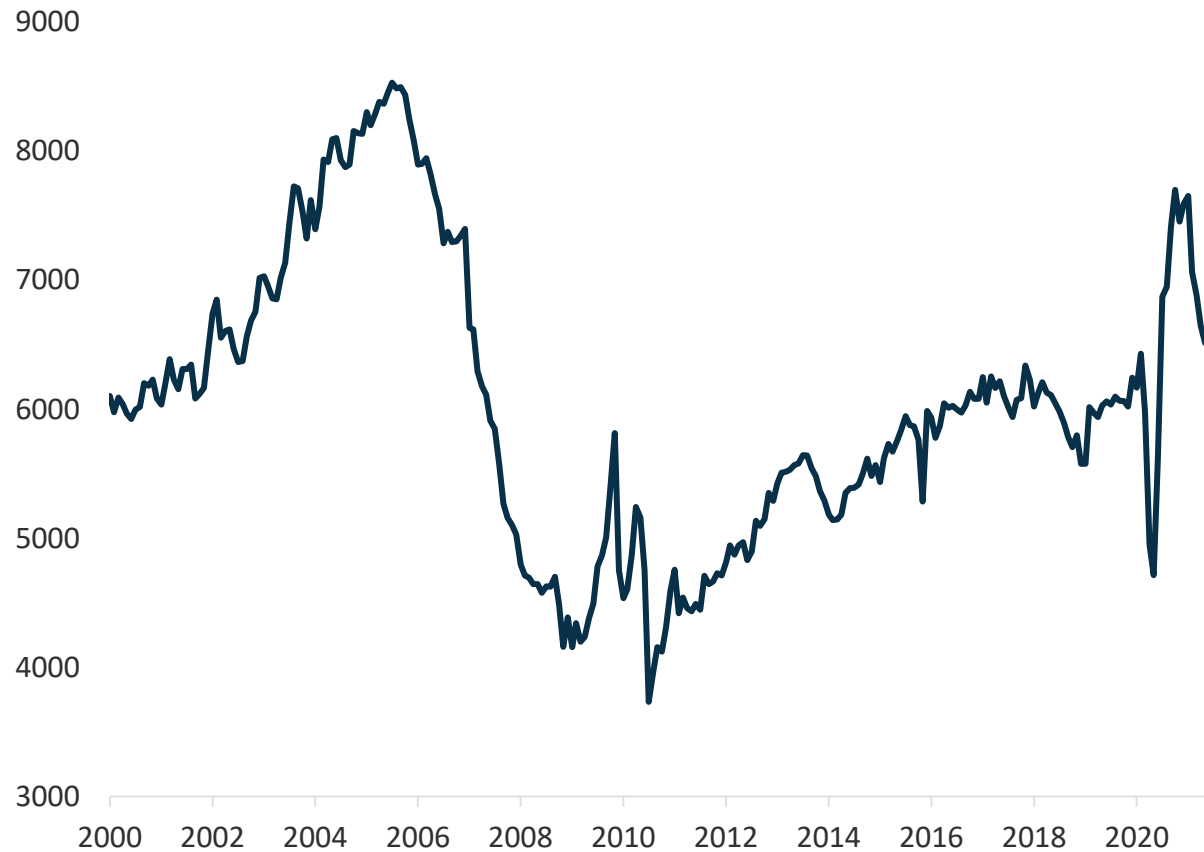




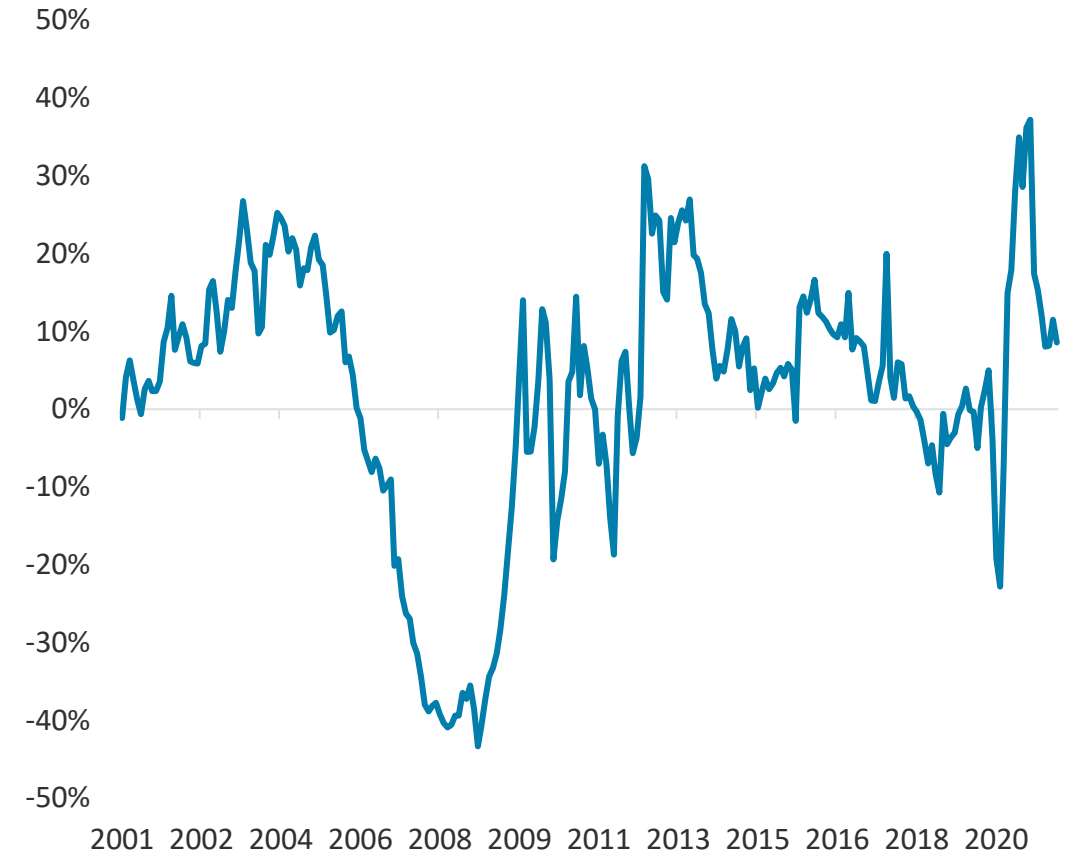
# Home sales remains at 2007 levels amidst inventory constraints



**Total Home Sales (Ths. #, SAAR)**



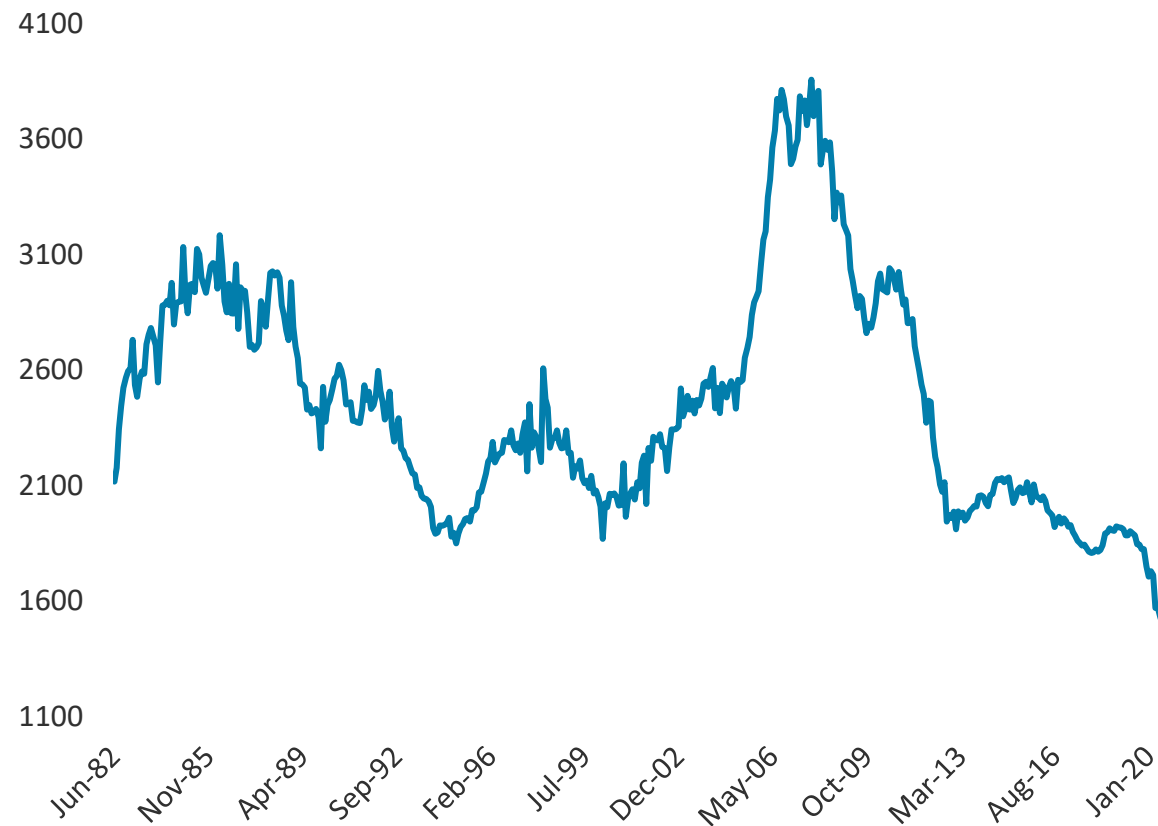
**Total Home Sales  
Percent Change from Two Years Ago**



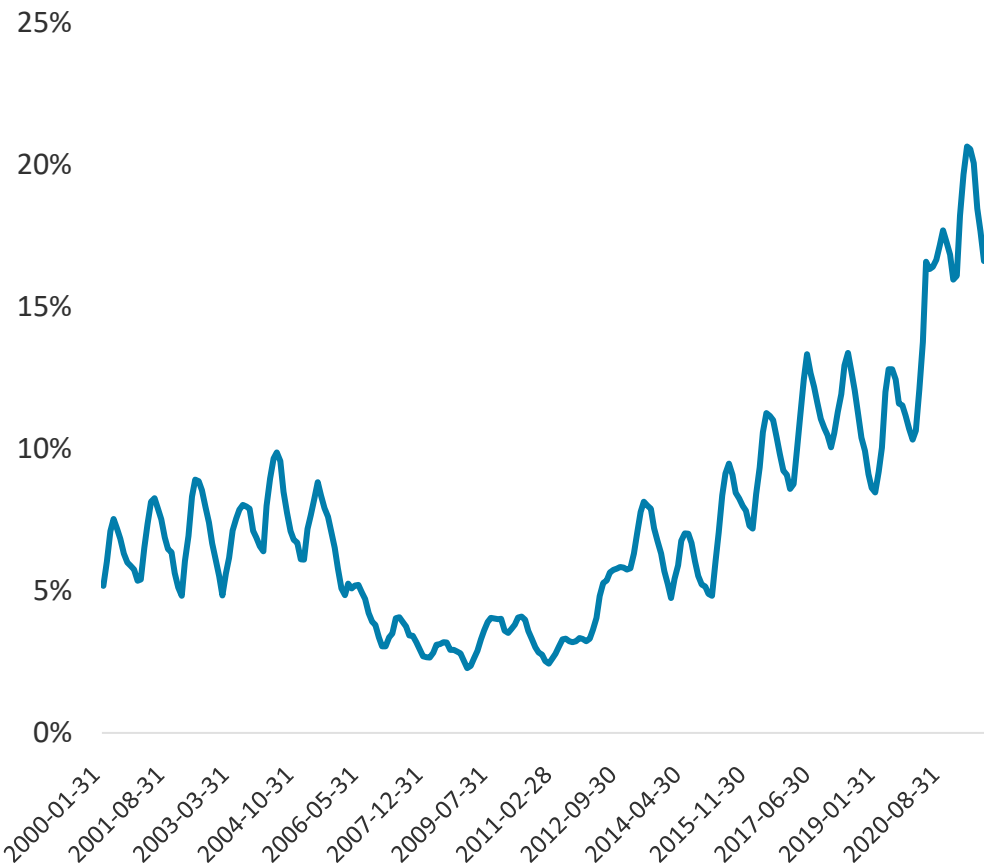
# Homes available for sale continue to be at historically low levels



Total homes available for sale



% Under Contract Within 3 Days



Source: NAR, US Census Bureau, Corelogic

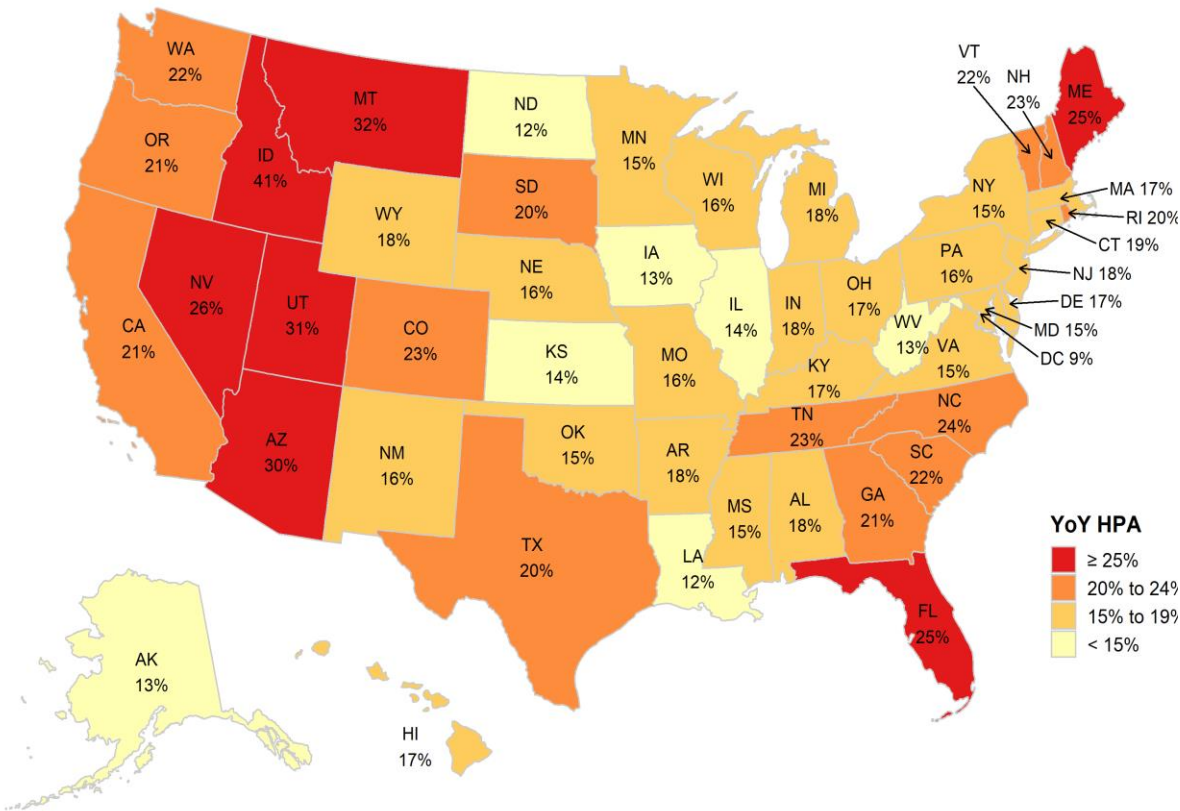


# House Price Appreciation

# House price growth at historical highs; 4 of top 10 hottest markets are in Idaho

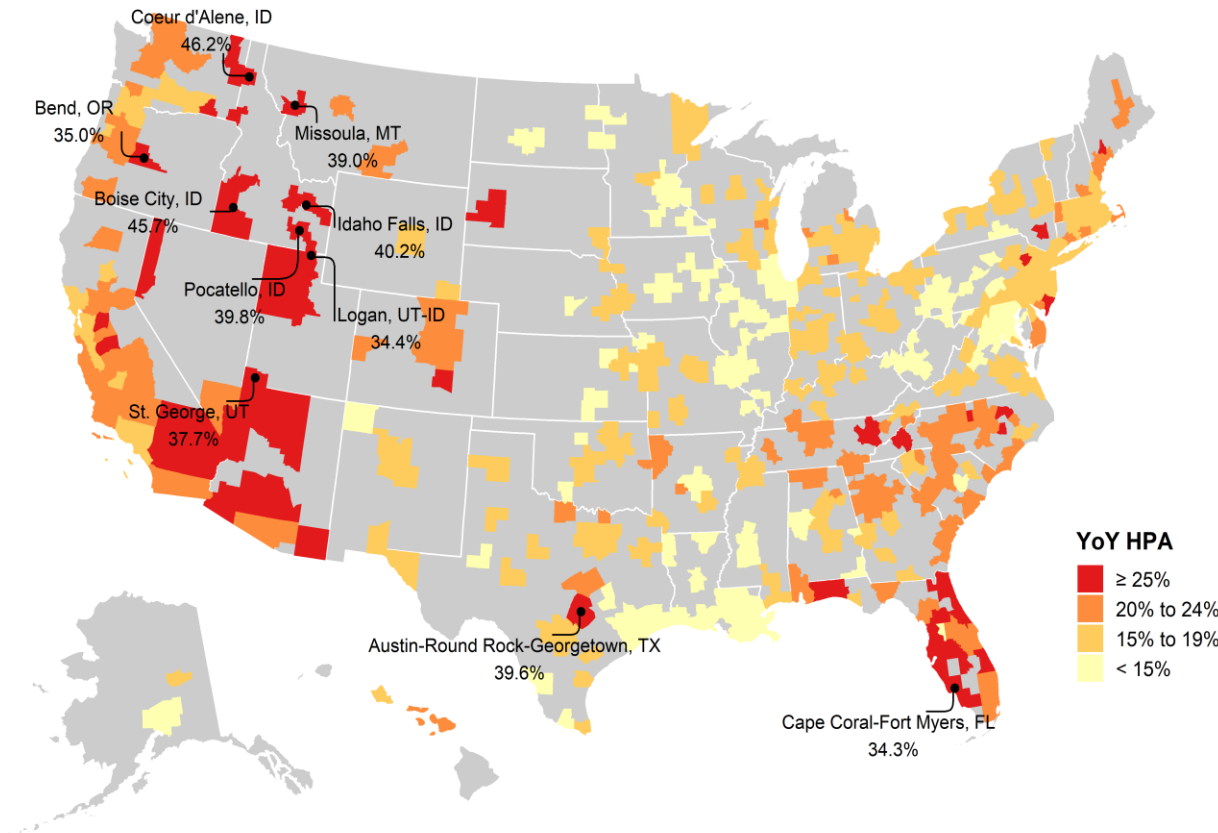


State YoY House Price Growth for August 2021



MSA YoY House Price Growth for August 2021

Top 10 Fastest Growing MSAs Labeled

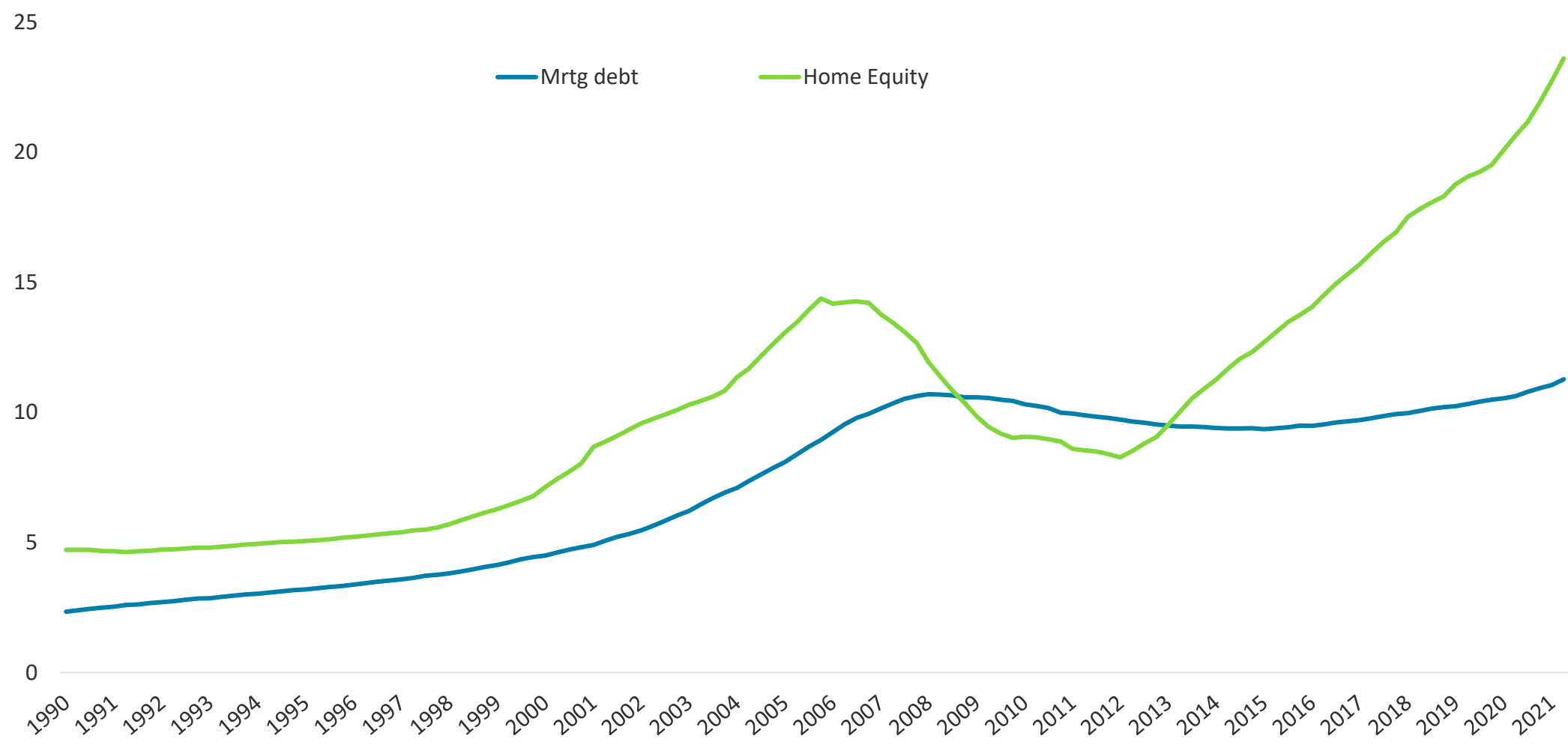


Source: Freddie Mac House Price Index  
The Freddie Mac House Price Index for the U.S. is a value-weighted average of the state indexes where the value weights are based on Freddie Mac's single-family credit guarantee portfolio. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions. The Freddie Mac House Price Index for the U.S. is a non-seasonally adjusted monthly series. Percent changes were rounded to nearest whole percentage point

# High home price increases have led to record homeowner equity



Total Mortgage Debt Outstanding and Total Home Equity (\$T's)

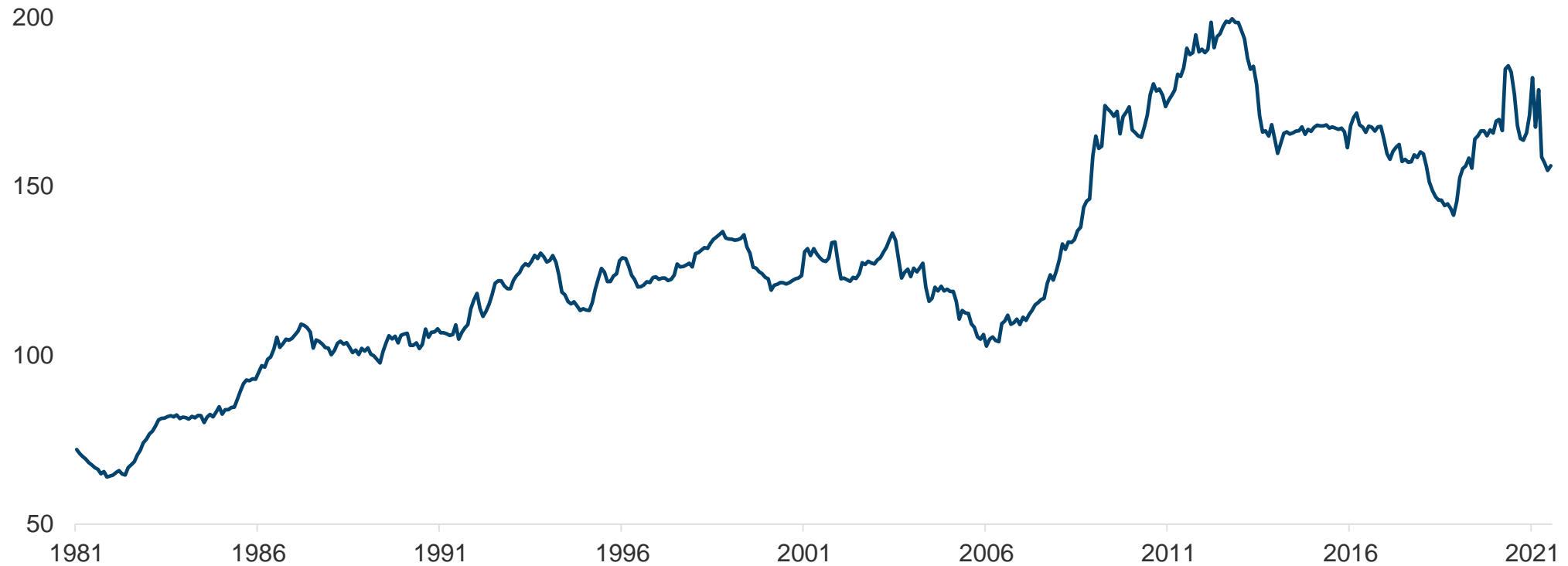


Source: FRB

# Persistently high house price appreciation is affecting affordability



## Housing Affordability Index





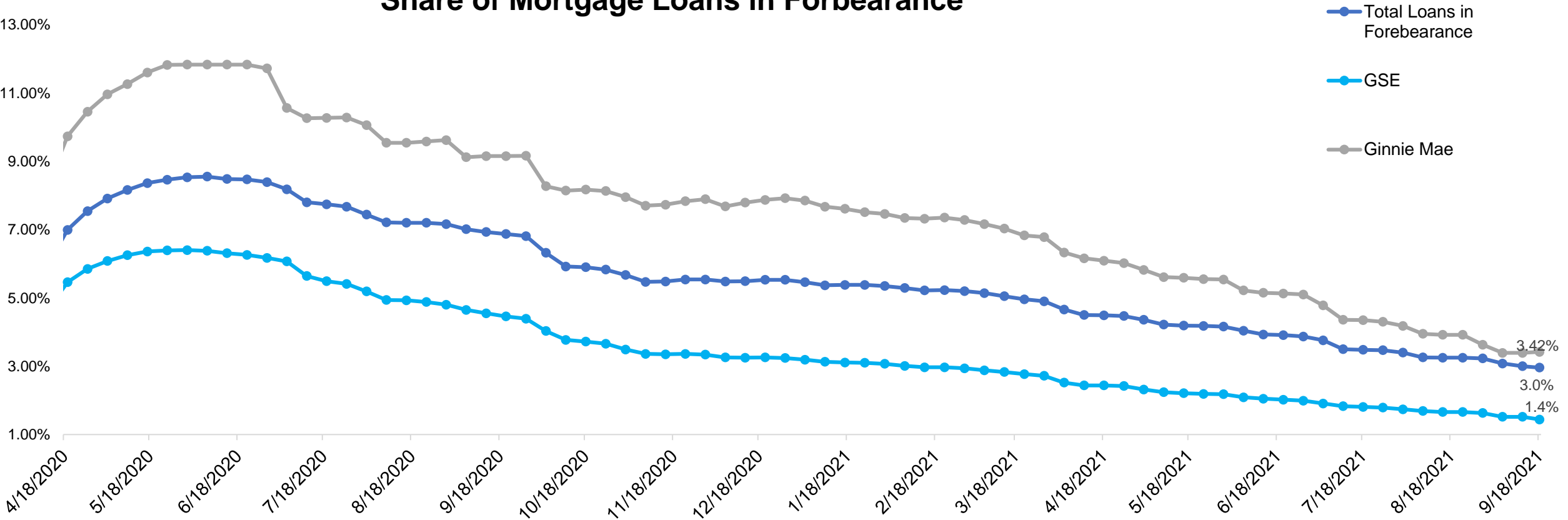
# Forbearance Trends



# The forbearance share declined as many homeowners are nearing the end of their forbearance terms



## Share of Mortgage Loans in Forbearance

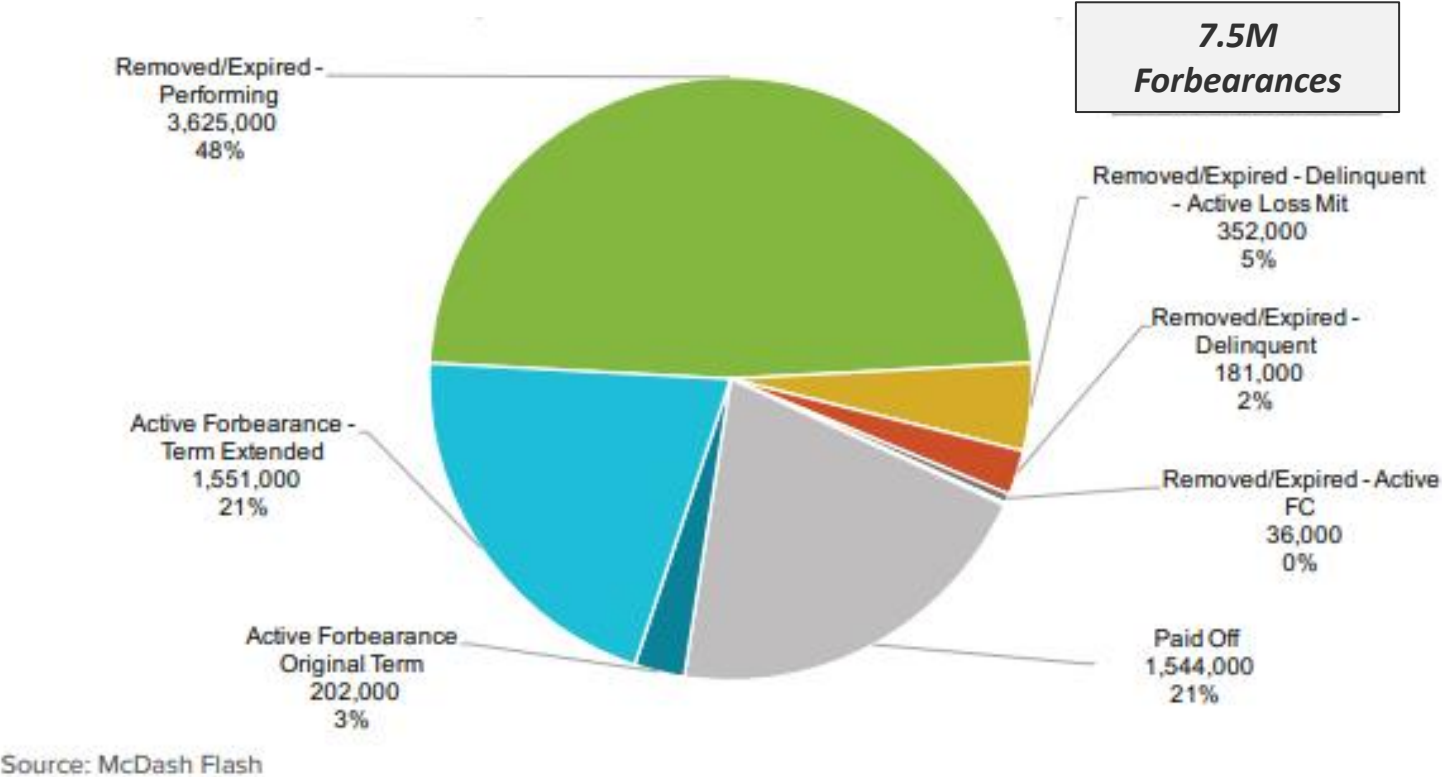


Source: MBA

As of mid-August, market active forbearances accounted for 24% of all loans that entered the program vs 30% a quarter prior



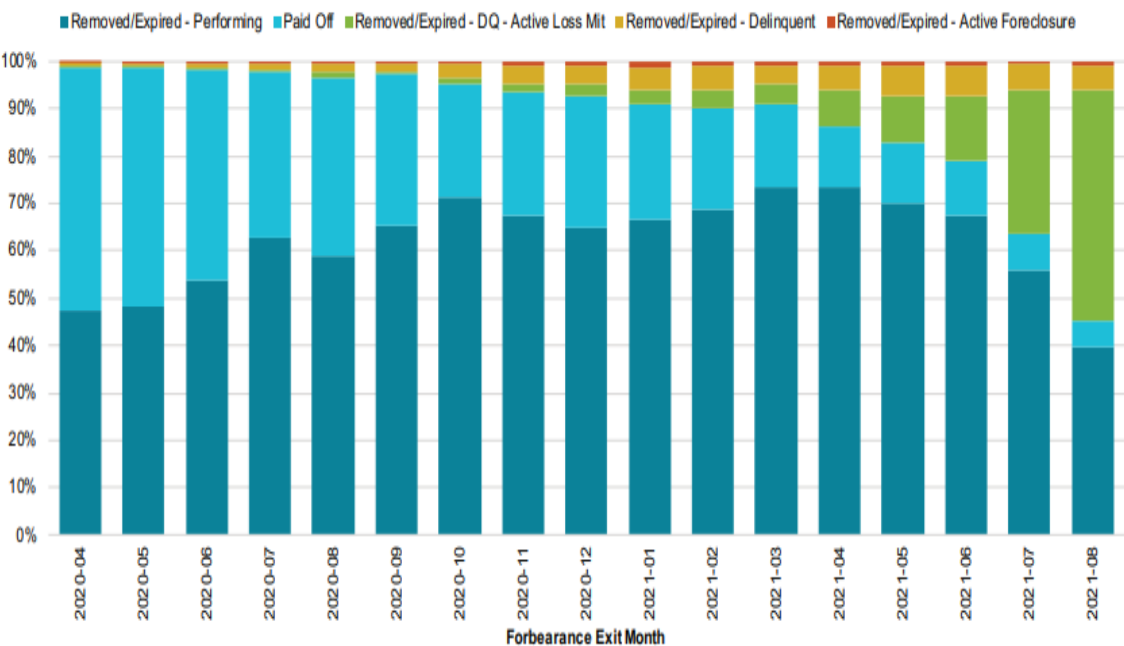
Total Market: Current Status of COVID Related Forbearances  
(As of August 17<sup>th</sup>, 2021)



# High number of forbearance plans reaching the end of their allowable forbearance period in Q3 and Q4 of 2021

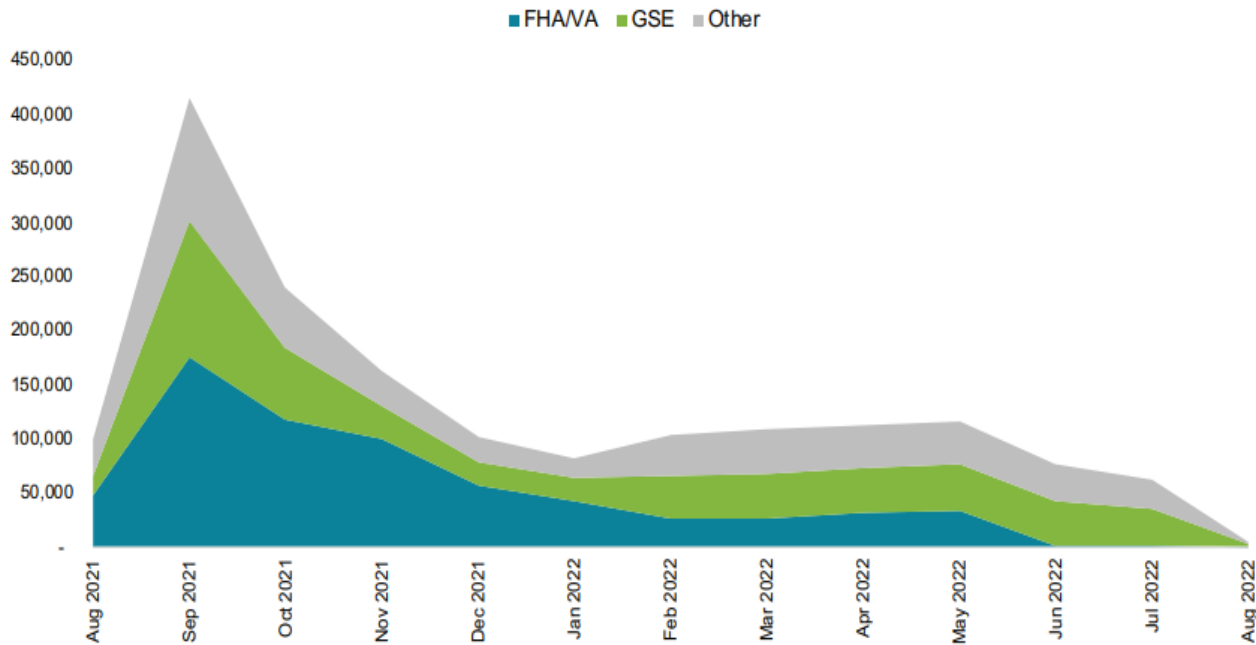


CURRENT STATUS OF LOANS THAT HAVE LEFT COVID-19 RELATED FORBEARANCE PLANS



Source: McDash Flash

FINAL EXPIRATION DATES OF ACTIVE FORBEARANCE PLANS  
(BASED ON CURRENT FHA/VA/USDA/FHFA FORBEARANCE TERM MATRICES)



Source: Black Knight

Estimated expiration volumes above are based maximum forbearance terms by start month published by FHFA, FHA, VA, and USDA along with forbearance volumes by start month reported through Black Knight's McDash Flash dataset.

Maximum allowable forbearance terms for portfolio and PLS loans may vary by servicer. For this analysis, FHFA guidelines were used to estimate expiration volumes and timing for portfolio and PLS loans.