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EQUAL HOUSING LENDER

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A Message from Ted Rood:

"Looks like housing is cooling rapidly. I can't say I'm surprised, given rates' recent rise."

Housing Market Struggles to Keep Pace With US Economy

Freddie Mac's Economic and Housing Research Group said on Monday that the **U.S. economy and job market are firing on nearly all cylinders**, "but the **housing market has essentially stalled**." The solid growth of the U.S. economy during the second quarter, an increase of 4.2 percent and exceeding forecasts of 4.1 percent, was the fastest in nearly four years. Solid consumer spending and business investment, the Group says in its September Forecast, should keep the economy on a very strong growth path of 3.0 percent this year, moderating to 2.4 percent next year.

However, **weaker affordability, homebuilder constraints, and ongoing supply and demand imbalances** over the summer resulted in fewer home sales and less home construction compared to earlier in the year. Those sales declined in the second quarter, typically the strongest period of the year, and showed further weakness at the beginning of the third quarter. July home sales, new and existing, were down for the fourth consecutive month to an annualized rate of 5.97 million units. New home construction also lost momentum in the second quarter, falling 4.5 percent from the first quarter.

Even though inventory conditions have improved marginally, and home price pressures have begun to lessen, Freddie expects sales this year to come in below those in 2017. They are projecting total sales, both new and existing homes, to nudge down by 0.9 percent, from 6.12 million in 2017 to 6.07 by the end of this year. Sales will rebound in 2019, rising 1.8 percent to 6.18 million units. Housing starts are now forecast to rise 7.5 percent this year and 4.7 percent in 2019.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.68	-0.01
10 YR Treasury	5.1281	-0.0061
30 YR Treasury	5.4763	+0.0005

Pricing as of: 11/16 7:51PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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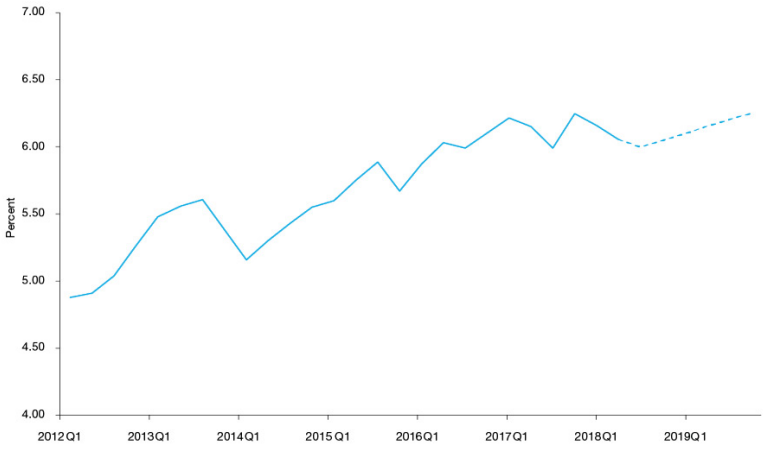
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Exhibit 2

Sales activity is weakening in 2018, but a rebound is expected

Home sales (existing + new)



Source: U.S. Census Bureau, Freddie Mac September 2018 Economic and Housing Research Forecast

Note: Dashed line indicates forecasted data.

"The spring and summer home buying and selling season ultimately ended up being a letdown, despite a faster growing economy and healthy demand for buying a home," said Freddie Mac Chief Economist Sam Khater. "Unfortunately, too many would-be buyers continue to be tripped up by not enough affordable supply and the one-two punch of **much higher home prices and mortgage rates**."

Home prices grew at a slower pace in the second quarter. The Freddie Mac House Price Index (FMHPI) increased 0.9 percent compared to 2.1 percent in the first quarter. Prices are expected to moderate going forward, ending the year with an average appreciation of 5.5 percent, still exceeding the rate of inflation, and 4.5 percent next year. Any easing of prices however will be in the face of rising interest rates. Those rates actually inched backward over the summer, but most have started to trend higher again in recent weeks. Freddie Mac expects the 30-year fixed-rate will average 4.5 percent this year and 5.1 percent in 2019.

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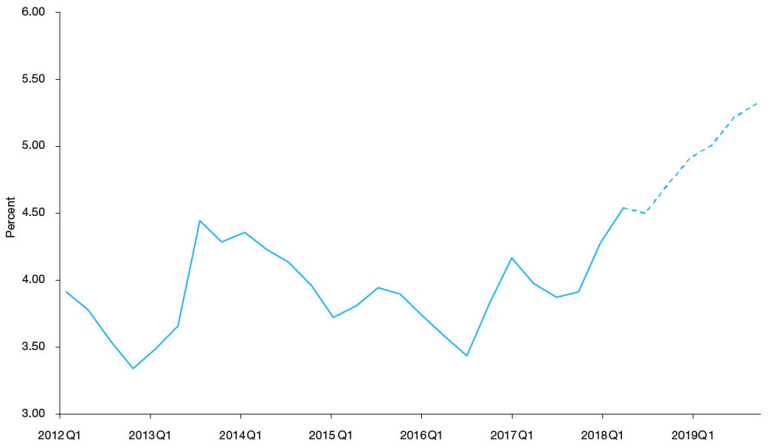
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Exhibit 1

Mortgage rates expected to continue to rise in 2019

Freddie Mac Primary Mortgage Market Survey®



Source: Freddie Mac Primary Mortgage Market Survey® (PMMS®)
Note: Dashed line indicates forecasted data.

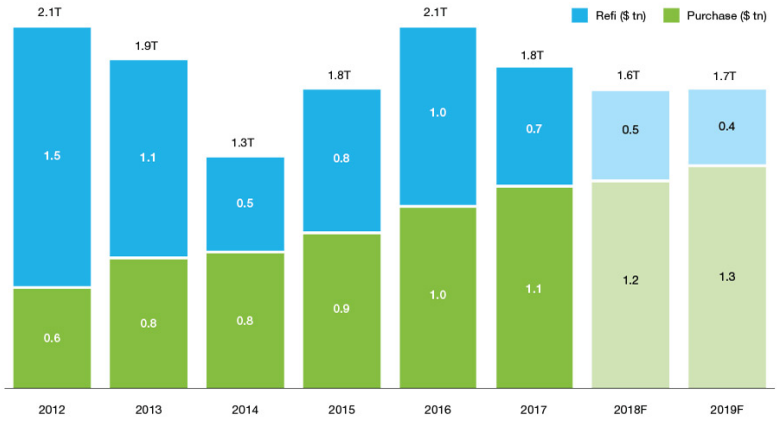
Khater added, "Prospective buyers are being squeezed the most where demand is the strongest: the entry-level portion of the market. While price appreciation is welcomingly starting to ease in many markets, weakening affordability continues to hamper overall activity."

Between the impact of higher rates on refinancing and decreasing home sales, the Group **expects single-family first-lien mortgage originations to slide 8.9 percent** this year to $1.65 trillion.

Exhibit 4

Mortgage originations likely to decline in 2018

Annual single-family mortgage originations ($ trillions)



Source: Freddie Mac September 2018 Economic and Housing Research Forecast
Note: Totals may not add due to rounding; * Includes only 1st liens

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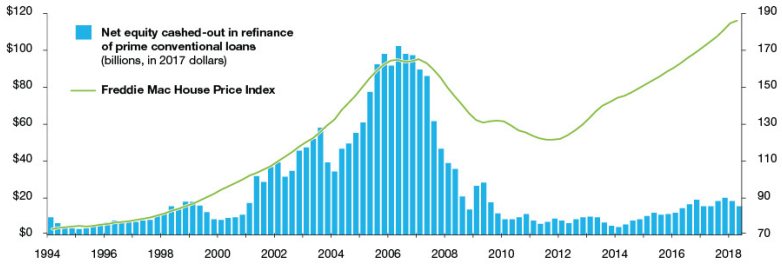
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The September Forecast also contains statistics on **second quarter refinancing activity**. Freddie Mac says the share of those refinances that were cash-out was the **highest since the third quarter of 2008.** Seventy-seven percent of refinance loans were at least 5 percent larger than the loans they replaced, up from a 57 percent share a year earlier. Even as the number of cash-out refinances increases, homeowners are not cashing-out the equity in their homes the way they did in 2005 and 2006, the peak years for equity extraction that preceded the housing crisis. The second quarter 2018 total of equity cashed out is estimated at $15.5 billion. The peak volume was $102.5 billion (in 2017 dollars) in the second quarter of 2006. The Q2 total was even lower than in the second quarter of 2017 when $15.7 billion was cashed out.

Exhibit 5

Borrowers cash-out about $15 billion (in 2017 dollars) when refinancing



Sources: Second Quarter 2018, Equity cashed-out adjusted for inflation (2017 CPI – All Urban Consumers SA), Freddie Mac House Price Index for the United States (SA).

Freddie Mac said borrowers who refinanced their first-lien mortgage last quarter either kept the same interest rate or took slightly higher one. Many of these borrowers refinanced not for rate reduction, but for cashing out equity to consolidate other higher interest debt, pay other bills or use towards home improvements.

More than **95 percent of refinancing borrowers chose a fixed-rate loan.** Fixed-rate loans were preferred regardless of their original loan product. For example, 93 percent of borrowers who had a hybrid ARM refinanced into a fixed-rate loan. In contrast, only 3 percent of borrowers who had a fixed-rate loan refinanced into an ARM.

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

Ted Rood

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