

# First American Risk Intelligence Forum



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Nashville, Tennessee  
Omni Nashville

Wednesday, July 22 to  
Friday, July 24, 2015

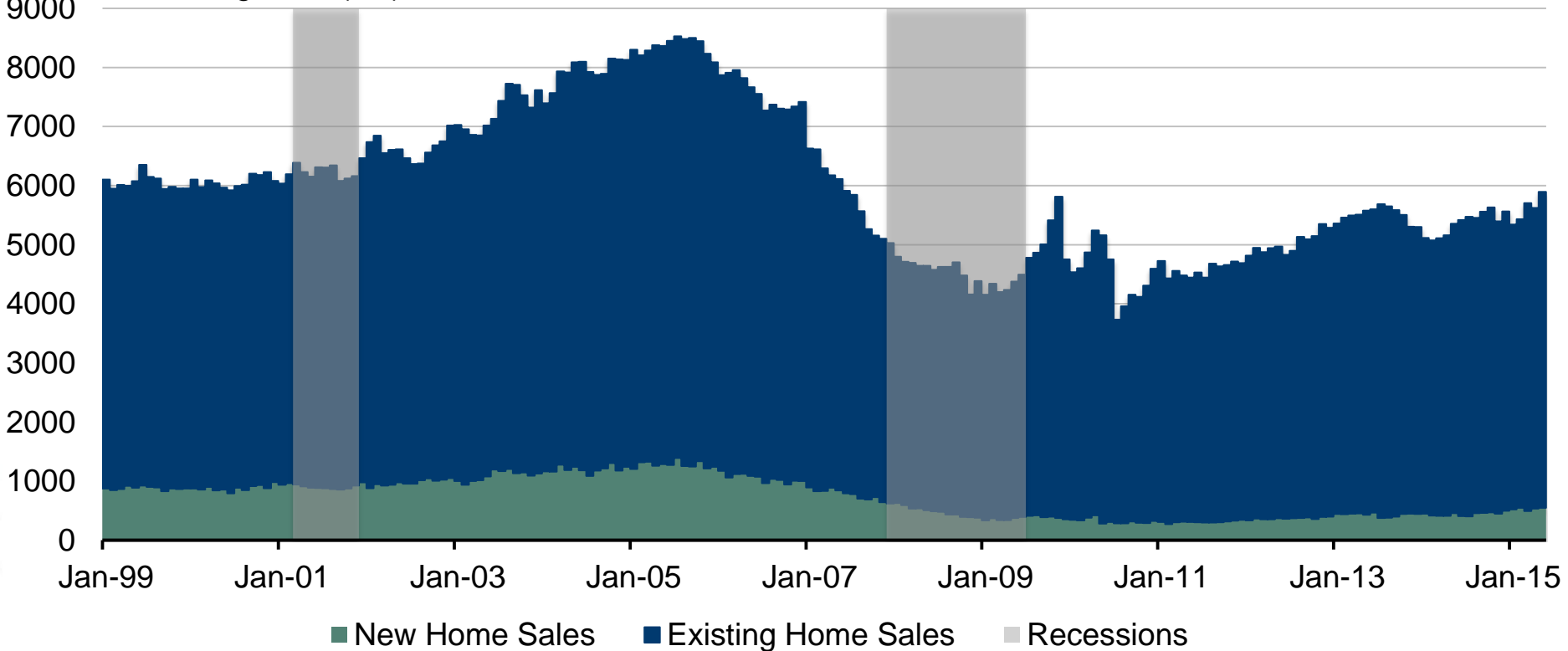
# Rebuilding the American Dream

Is This The New Normal or Anything But Normal

Mark Fleming, Ph.D  
SVP, Chief Economist  
First American

# Sale Volumes Approaching Normal?

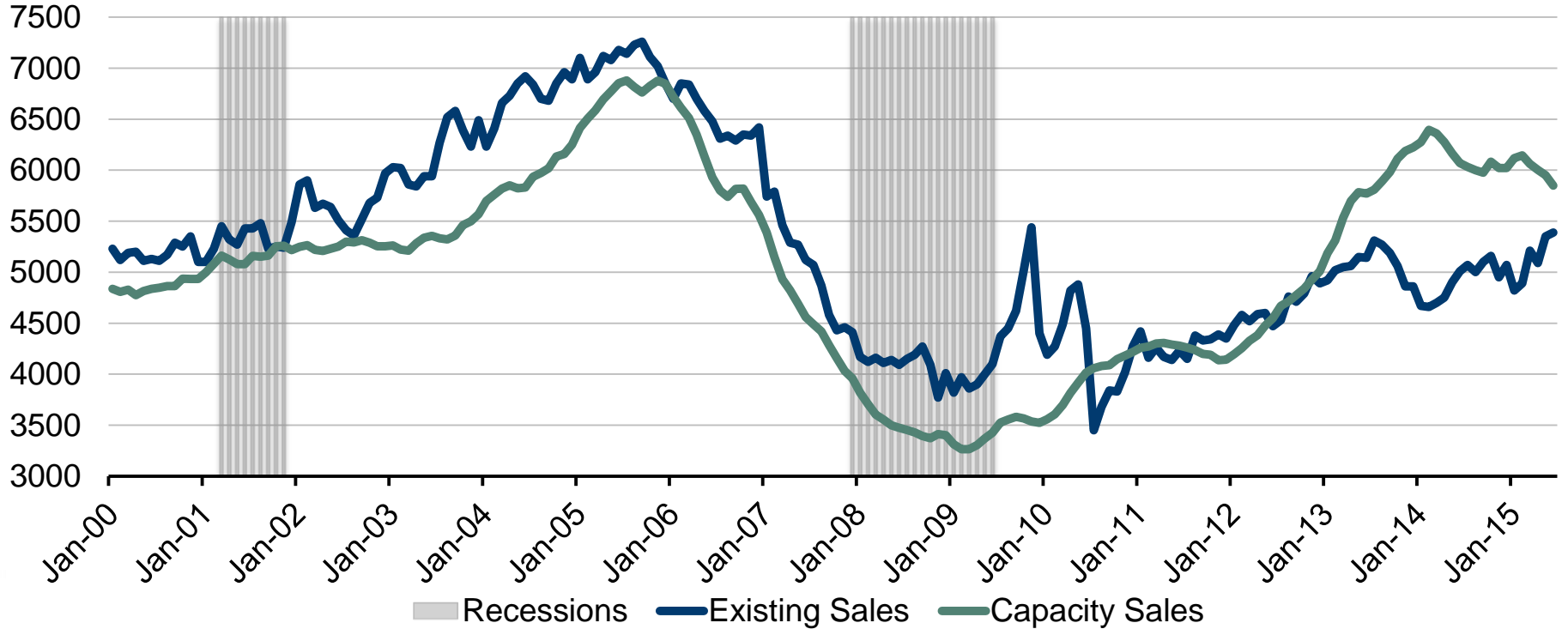
New and Existing Sales(SA)



Source: NAR, US Census Bureau, Federal Reserve Bank of St. Louis, May 2015

# Sales Activity Is Below Capacity

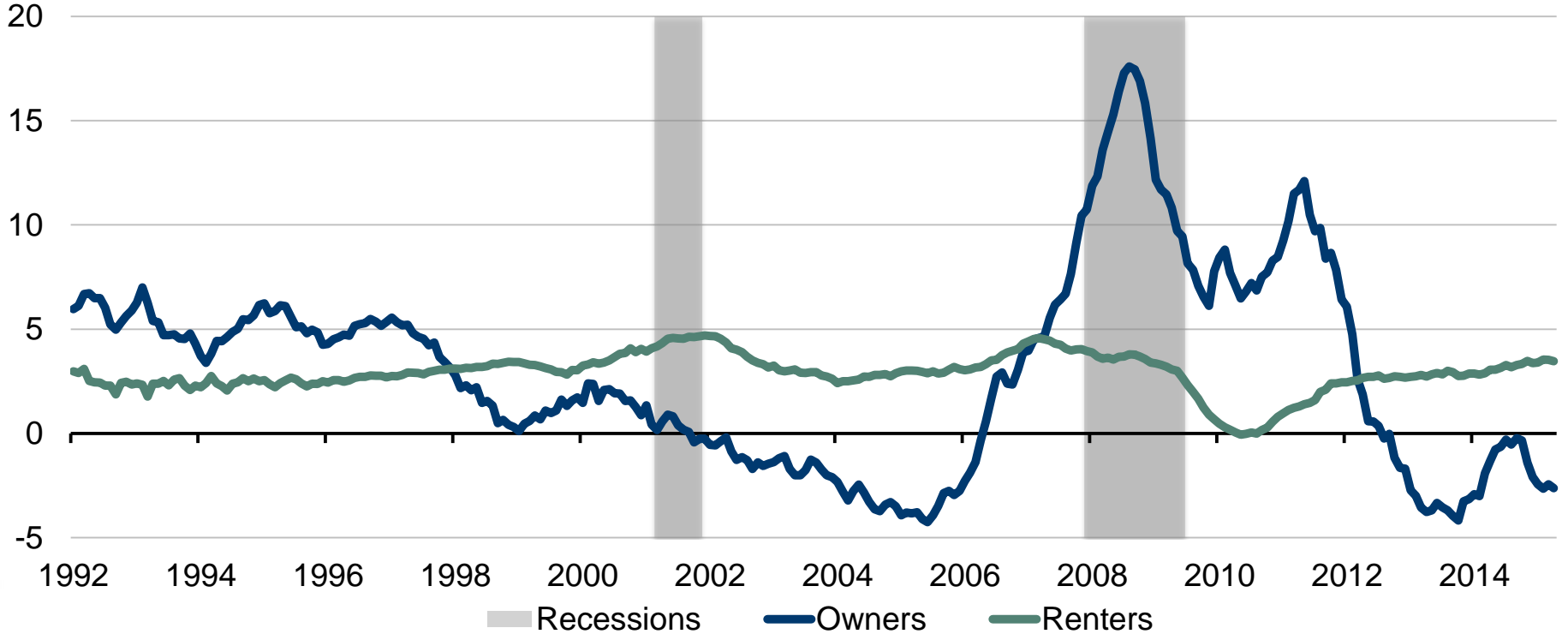
Existing and Capacity Home Sales ('000s, SAAR)



Source: NAR, FRB St. Louis, First American Calculations, July, 2015

# The Annualized Cost of Housing

Housing User Cost, Year-Over-Year Change (%)



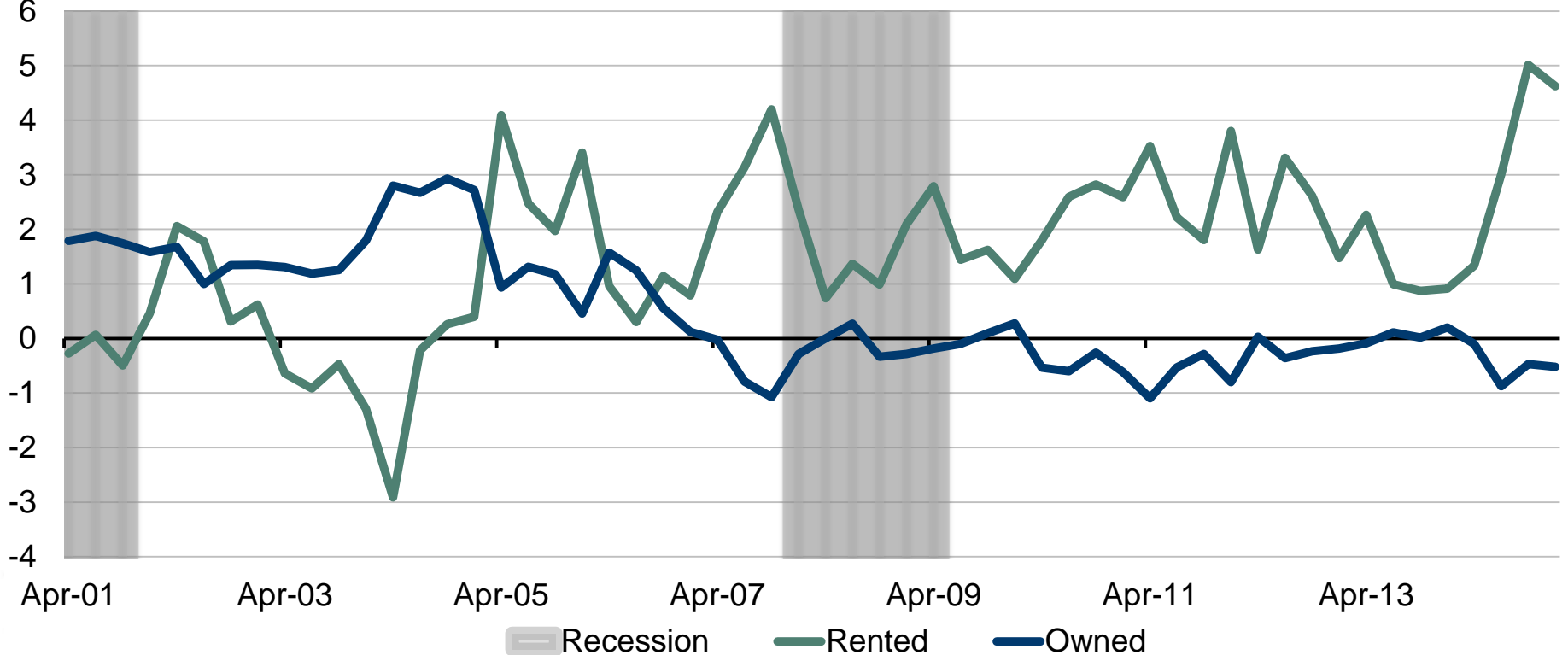
Source: Freddie Mac, BLS, FHFA, April 2015

# Where's the Millennial Homebuyer

## Rebuilding the American Dream

# The Return of the Renter Household

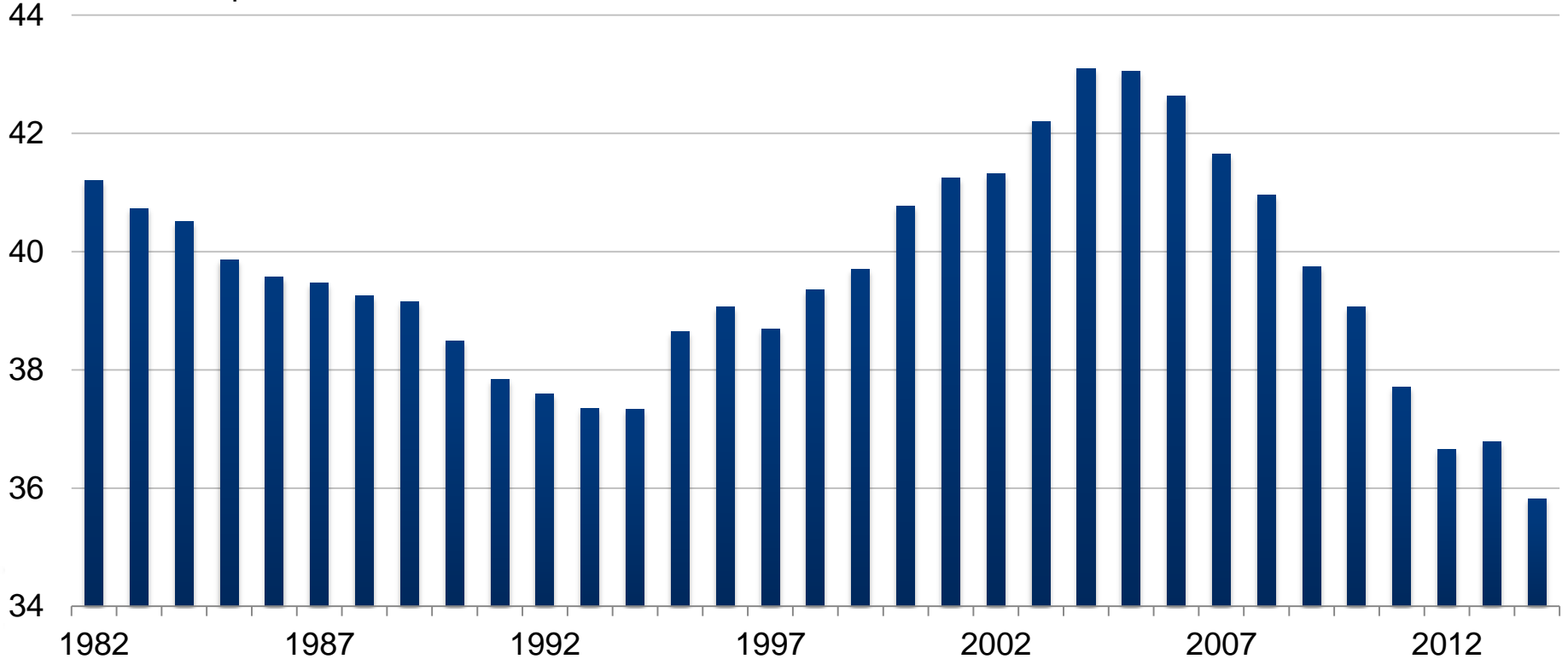
Household Formation by Occupancy Type (Year-Over-Year Inventory Growth,%)



Source: Census Bureau, Q1 2015

# Renting Millennials

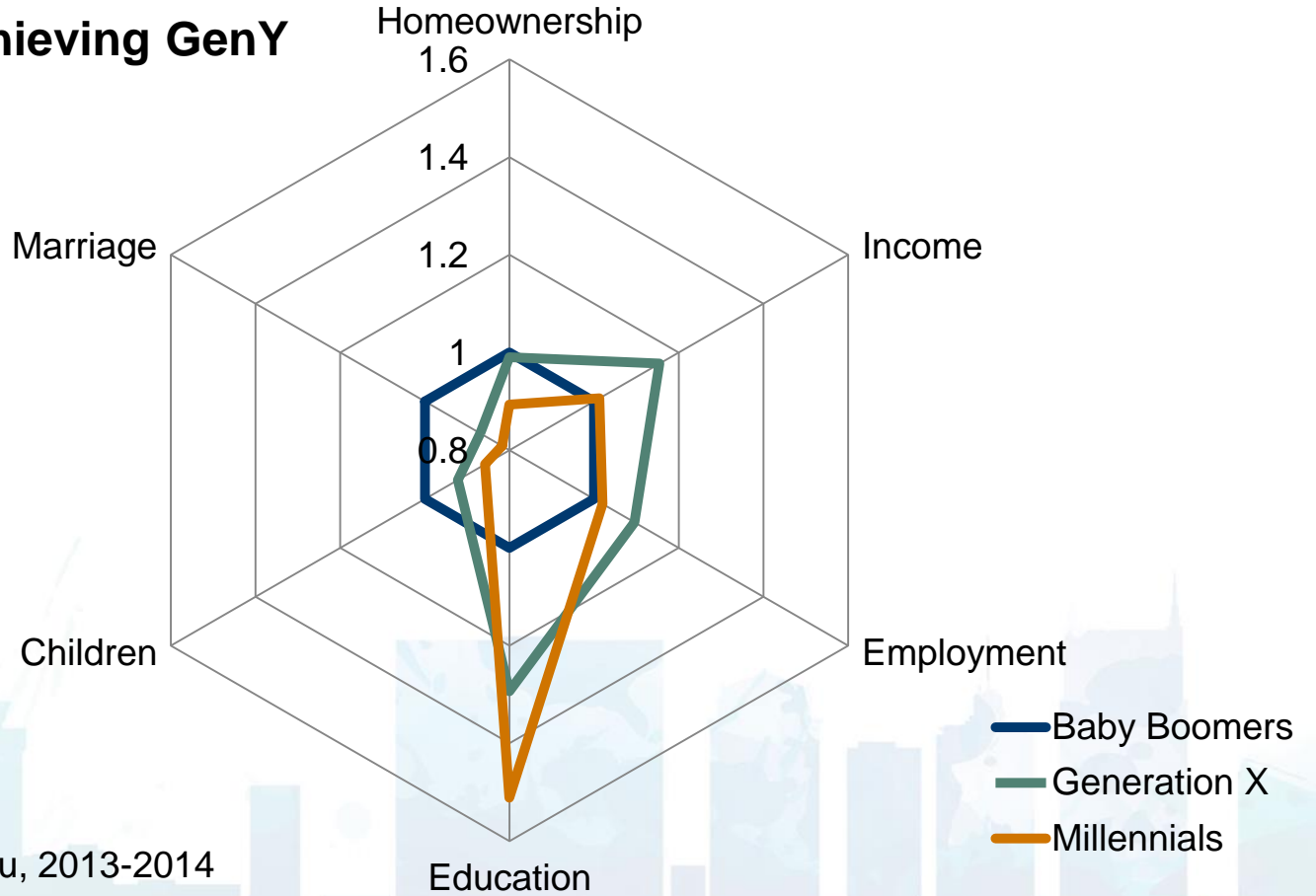
## Homeownership Rate for Households Under 35



Source: Census Bureau CPS/HVS, 2014



# Over or Under Achieving GenY



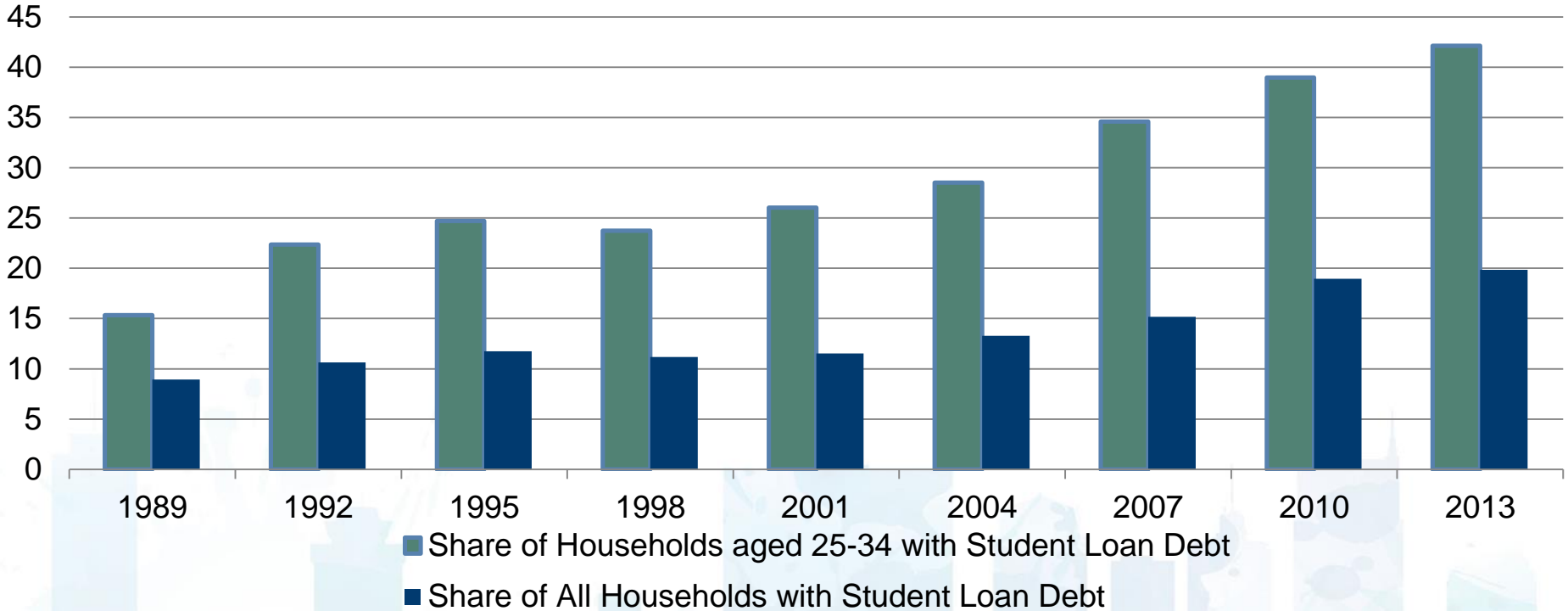
Source: Census Bureau, 2013-2014

# Echo Boomers In Debt

## Rebuilding the American Dream

# An Explosion of Indebtedness?

Households with Student Loan Debt, Percent

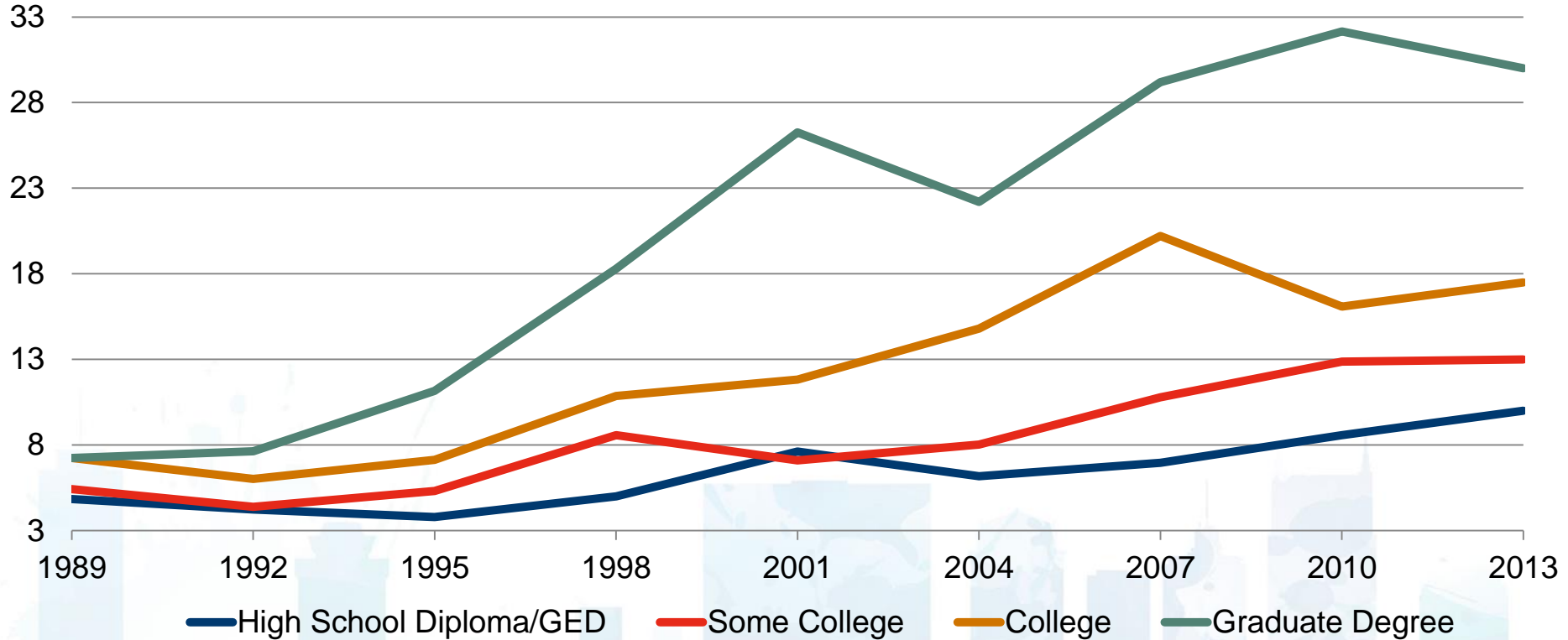


Source: Federal Reserve Board of Governors SCF, 2013

# The Cost of Higher Education

Median Education Debt by Attainment, 2013 Dollars (thousands)

12

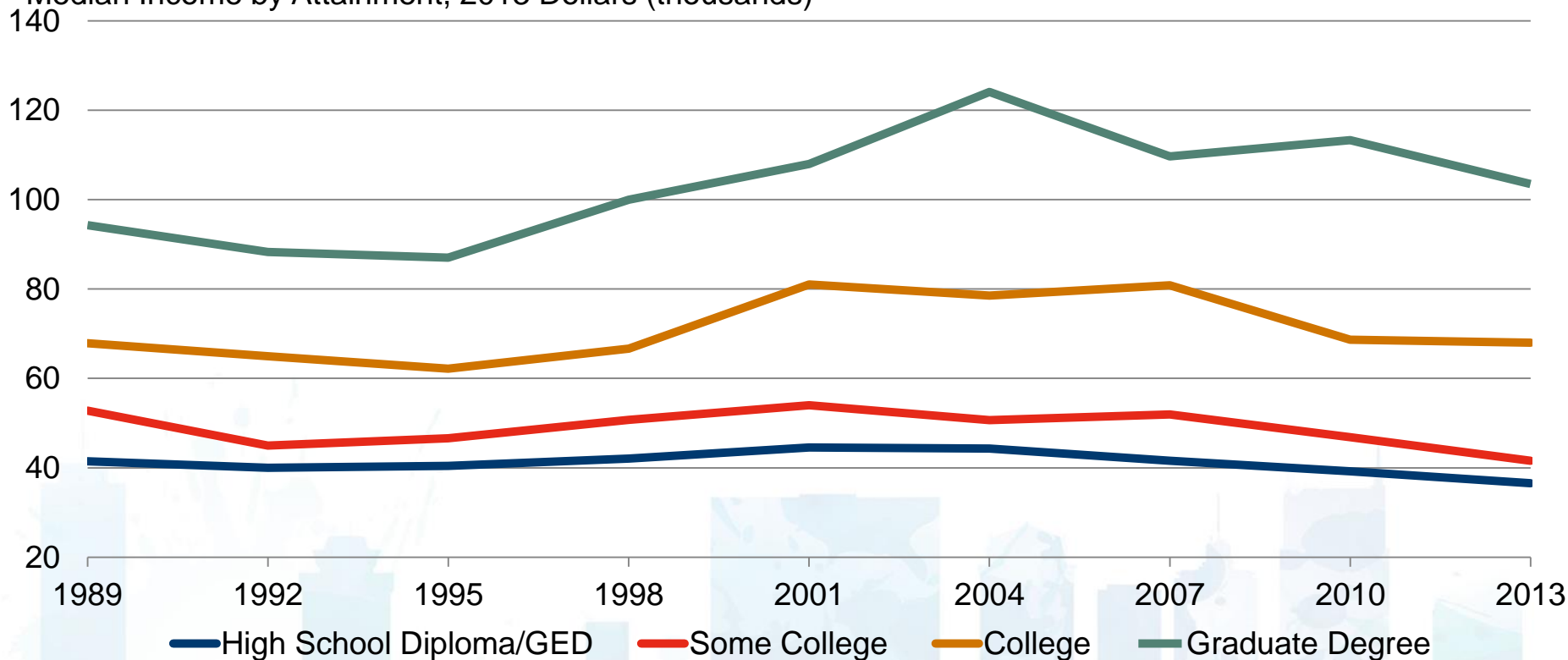


Source: Federal Reserve Board of Governors SCF, 2013

# The Benefit of Education

Median Income by Attainment, 2013 Dollars (thousands)

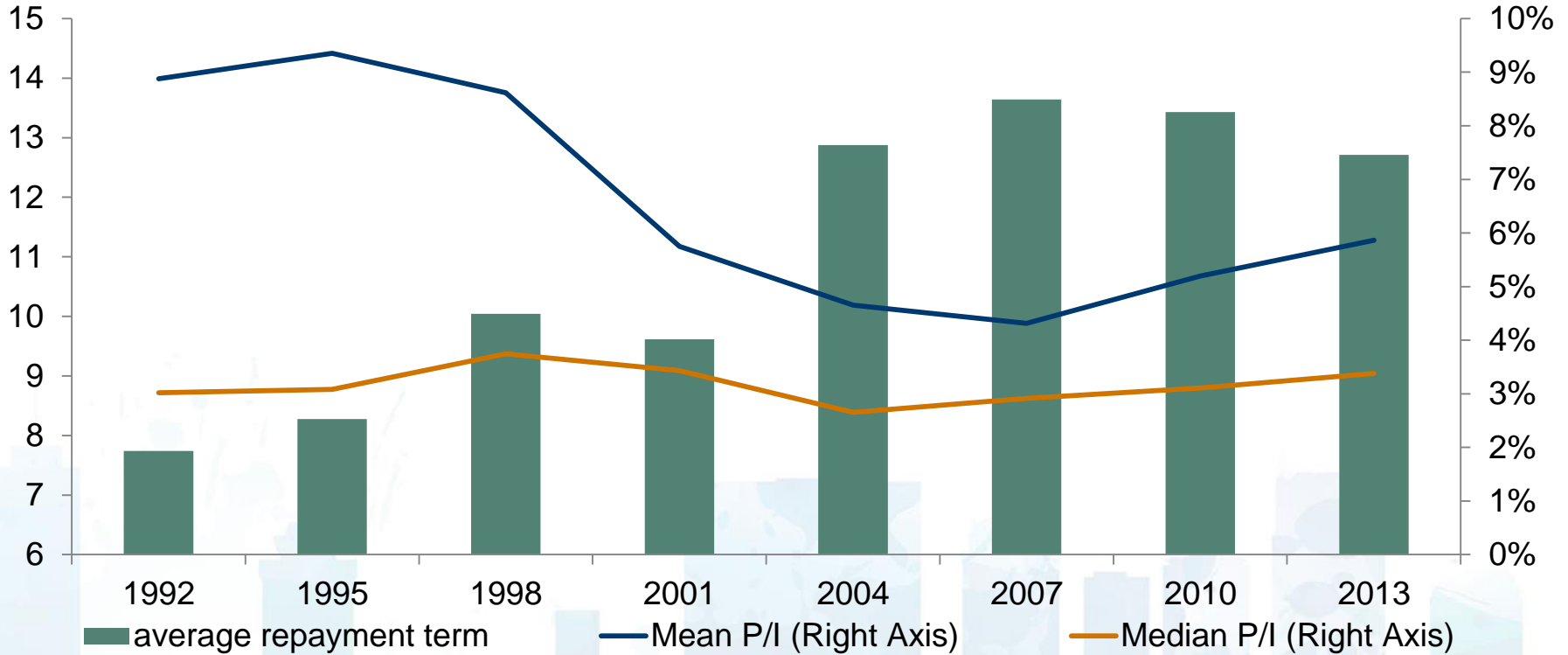
13



Source: Federal Reserve Board of Governors SCF, 2013

# Borrow More and Pay More?

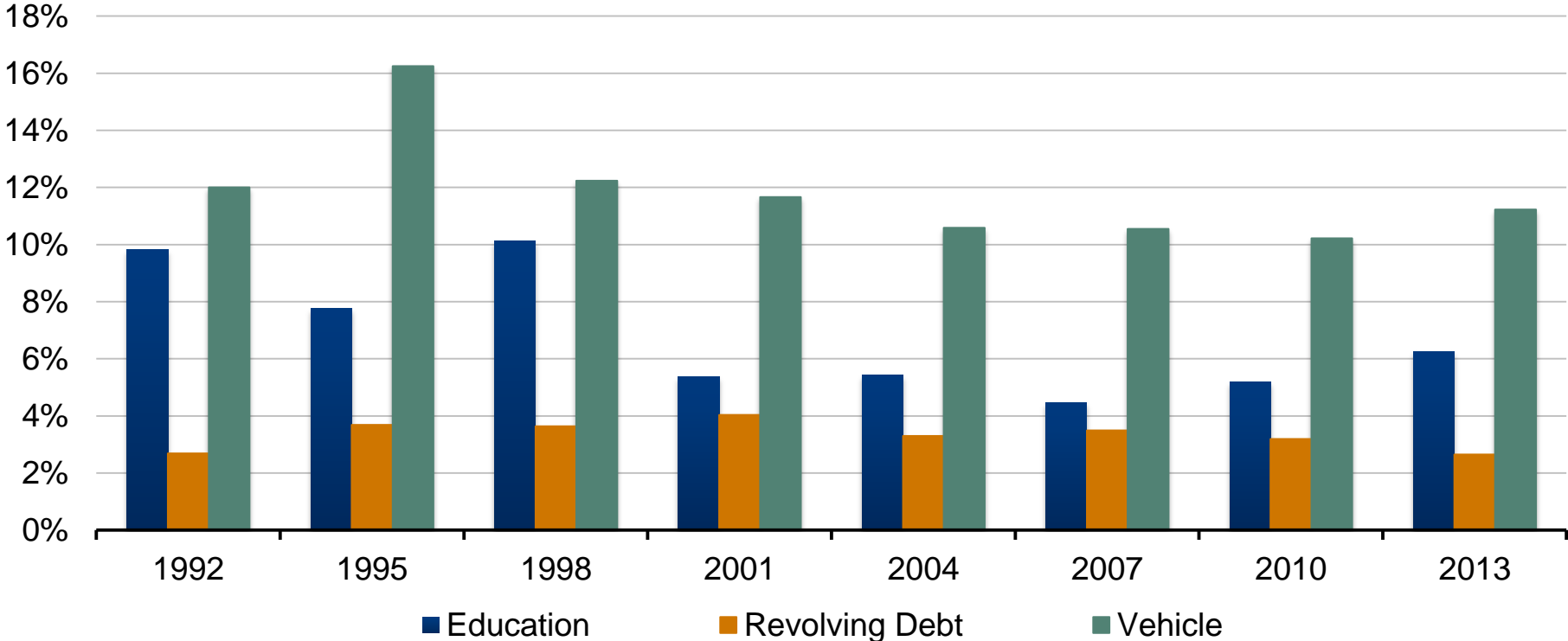
Average Loan Term (Years) and Payment-to-Income Ratio



Source: Federal Reserve Board of Governors SCF, 2013

# Pick Your Debt Poison

Average Monthly Payment to Income Ratios for 25-34 year old



Source: Federal Reserve Board of Governors SCF, 2013

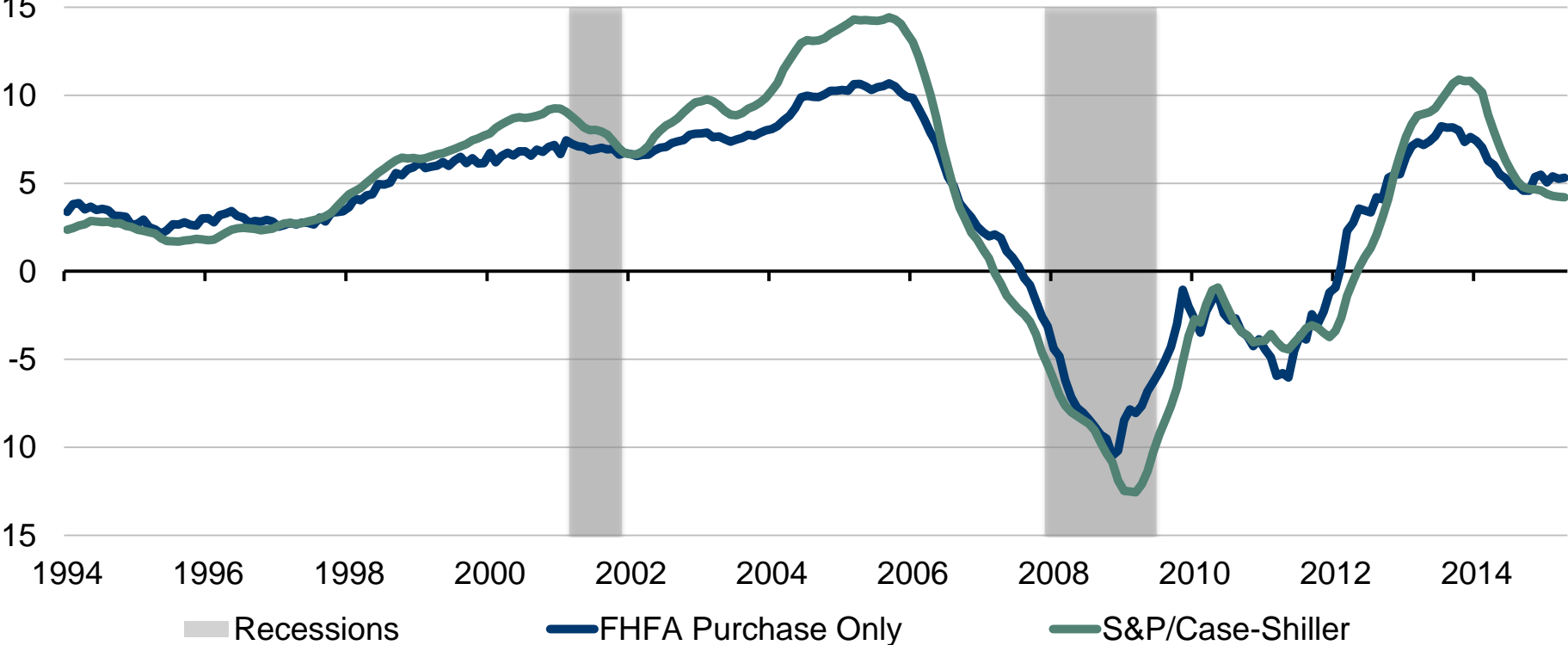
# The Constraint of Equity

## Rebuilding the American Dream



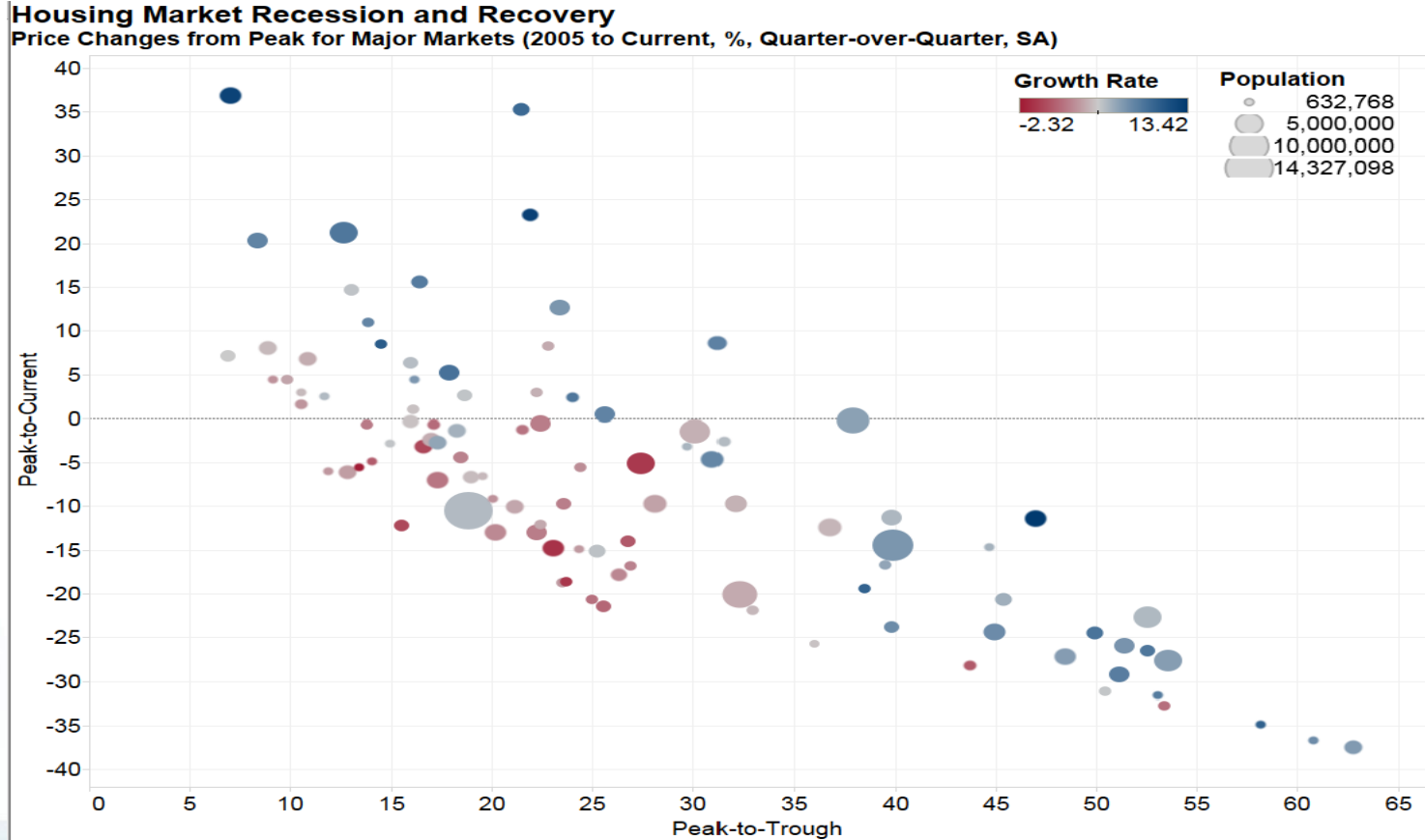
# Housing Appreciation Necessarily Cooling

HPI, Year-Over-Year Change (% , SA)



Source: FHFA, S&P, April 2015

# Equity Constraint Depends on Where You Live



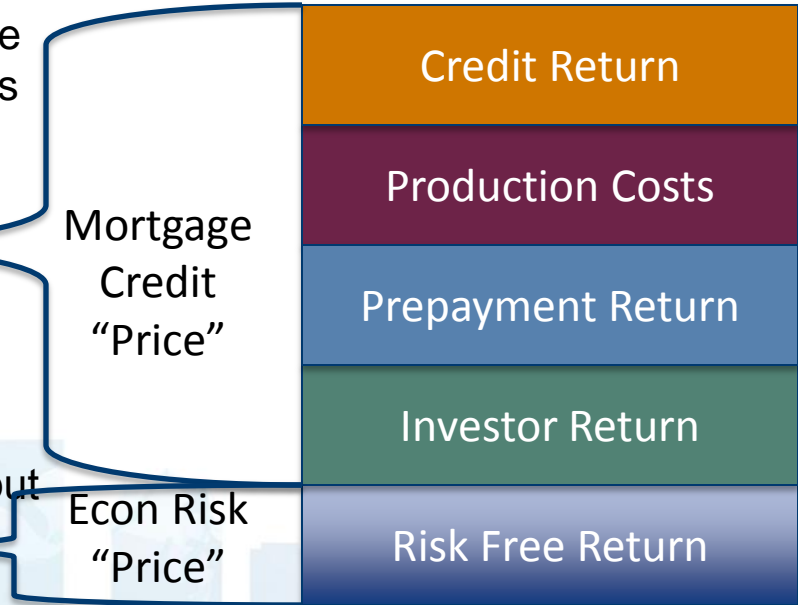
# Credit Availability-Too Loose, Too Tight or Just Right?

## Rebuilding Confidence in the Market

# Credit Availability and the Required Return

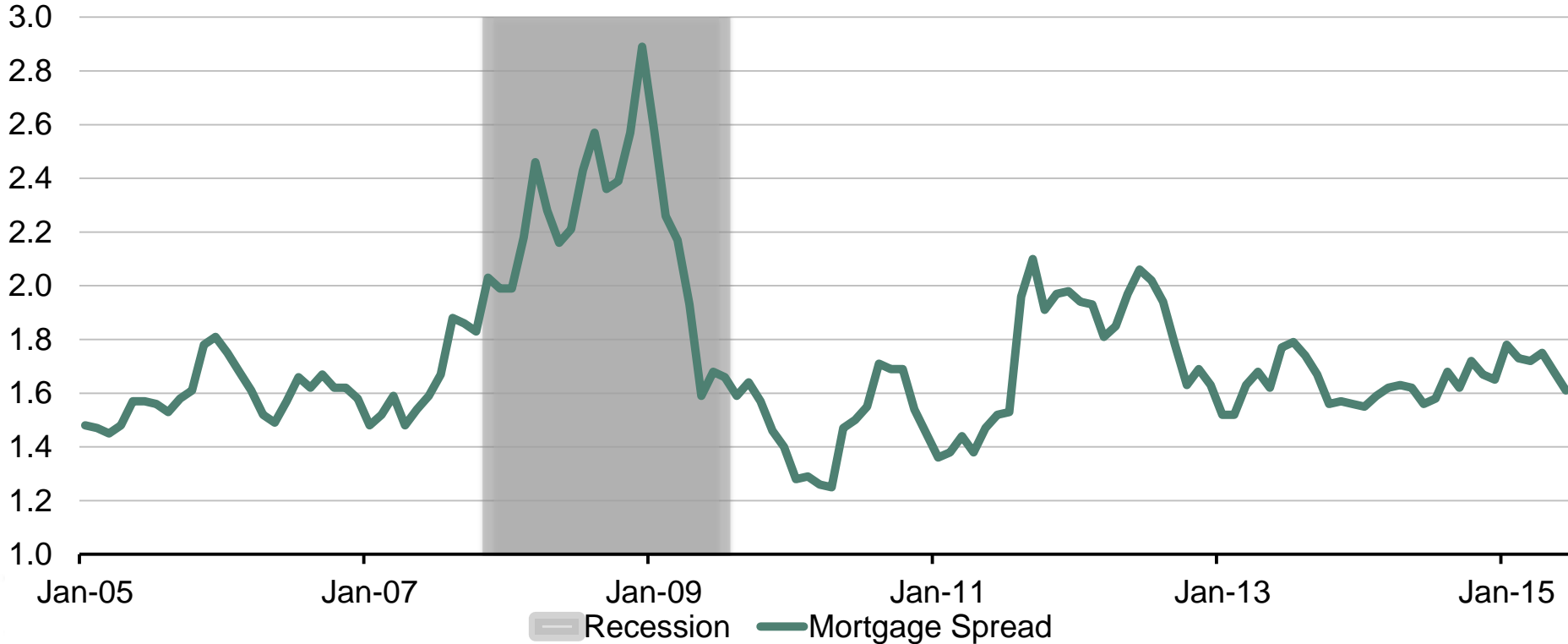
## The “Price of Mortgage Credit”

- Risk Free Return- reflection of the economic risk.
- Investor Return- the return investors demand for the risk (not including prepayment and credit) as well as investor (market) confidence
- Prepayment return- required to cover mortgage “call option”. On GSE MBS- combination of investor return and prepayment risk
- Production Costs- Origination, servicing and compliance costs
- Credit Return- return required to cover mortgage “put option” and lender confidence
  - Aggregate average or loan specific
  - GSE “g-fee” plus lender overlays



# Mortgage Credit Price Less Economic Risk Price

Conventional 30Yr Fixed Rate Note Rate Less 10Yr Treasury Yield (Monthly,%)



Source: Freddie Mac, Federal Reserve, June 2015

# First American Office of Economic Research

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