



First American

Anything But Normal *is* Normal

August, 2015



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First American Economics

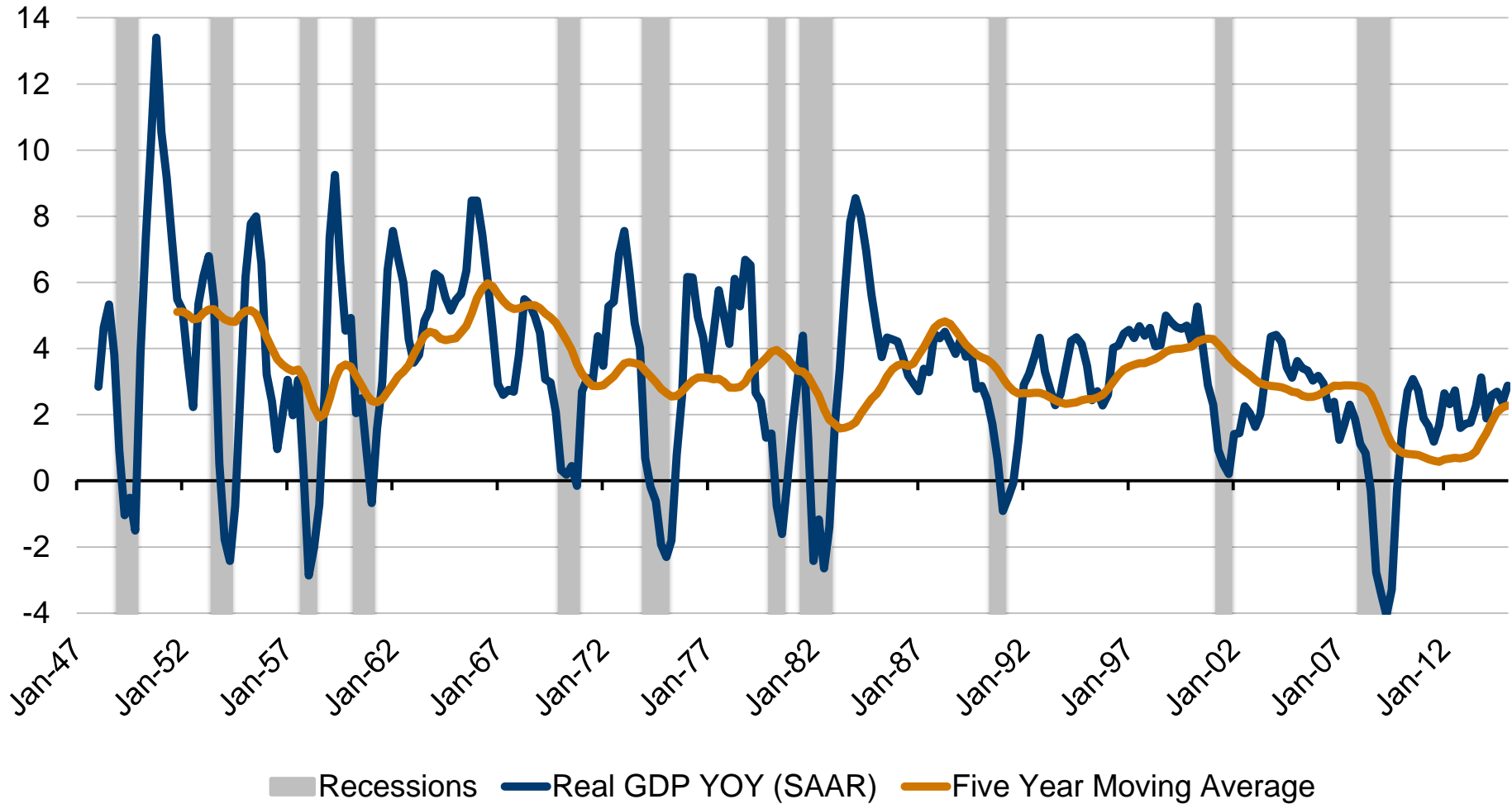
Is Anything But Normal The New Normal?



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Less Boom and More Bust

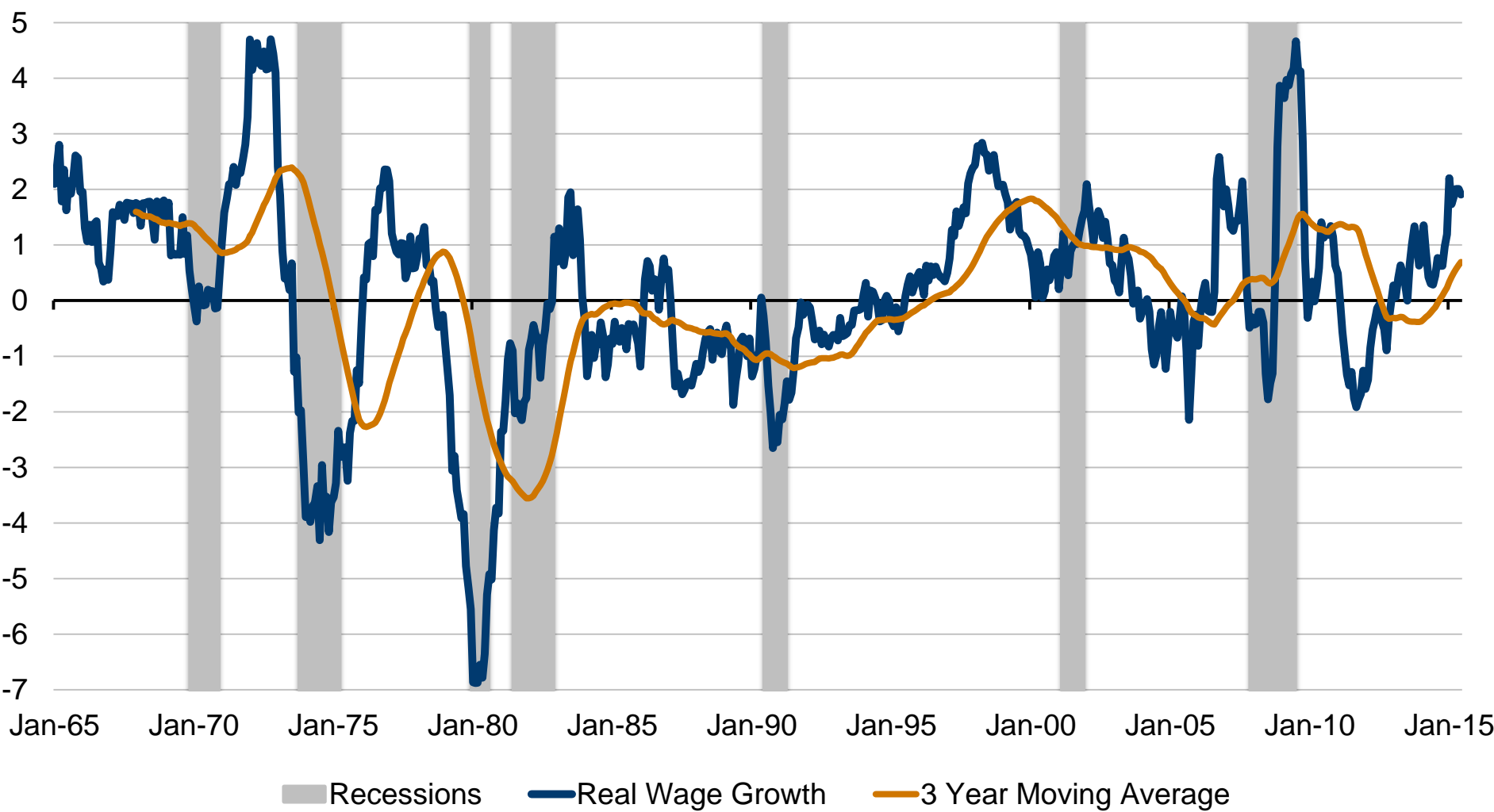
Real GDP Year-Over-Year Growth (SAAR, Chained 2009 \$)



Source: US. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Q1 2015

Income Gains Remain Modest

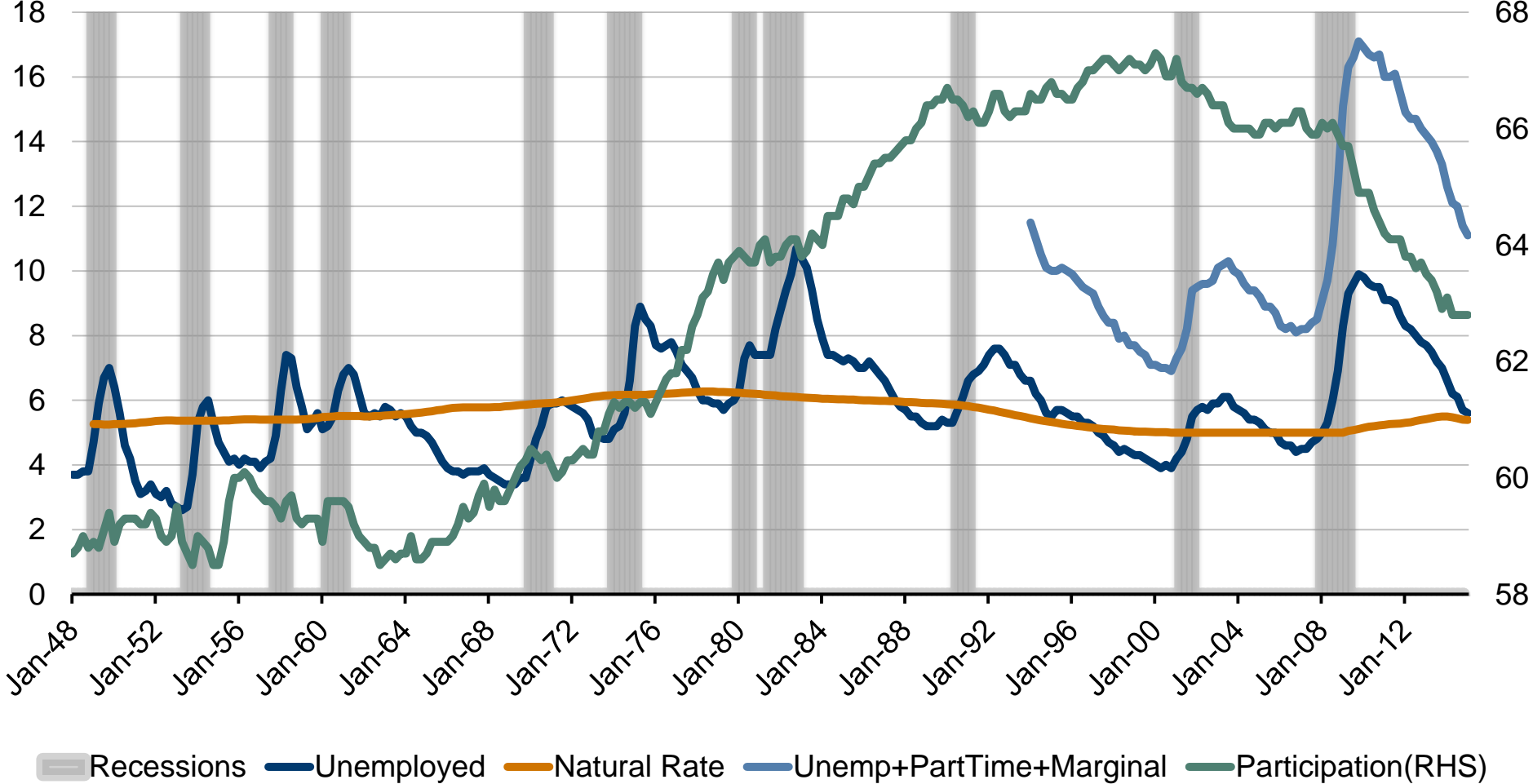
Real Growth in Production and Nonsupervisory Average Hourly Earnings



Source: BEA, BLS, Federal Reserve Bank of St. Louis, June 2015

Labor Market By Different Measures

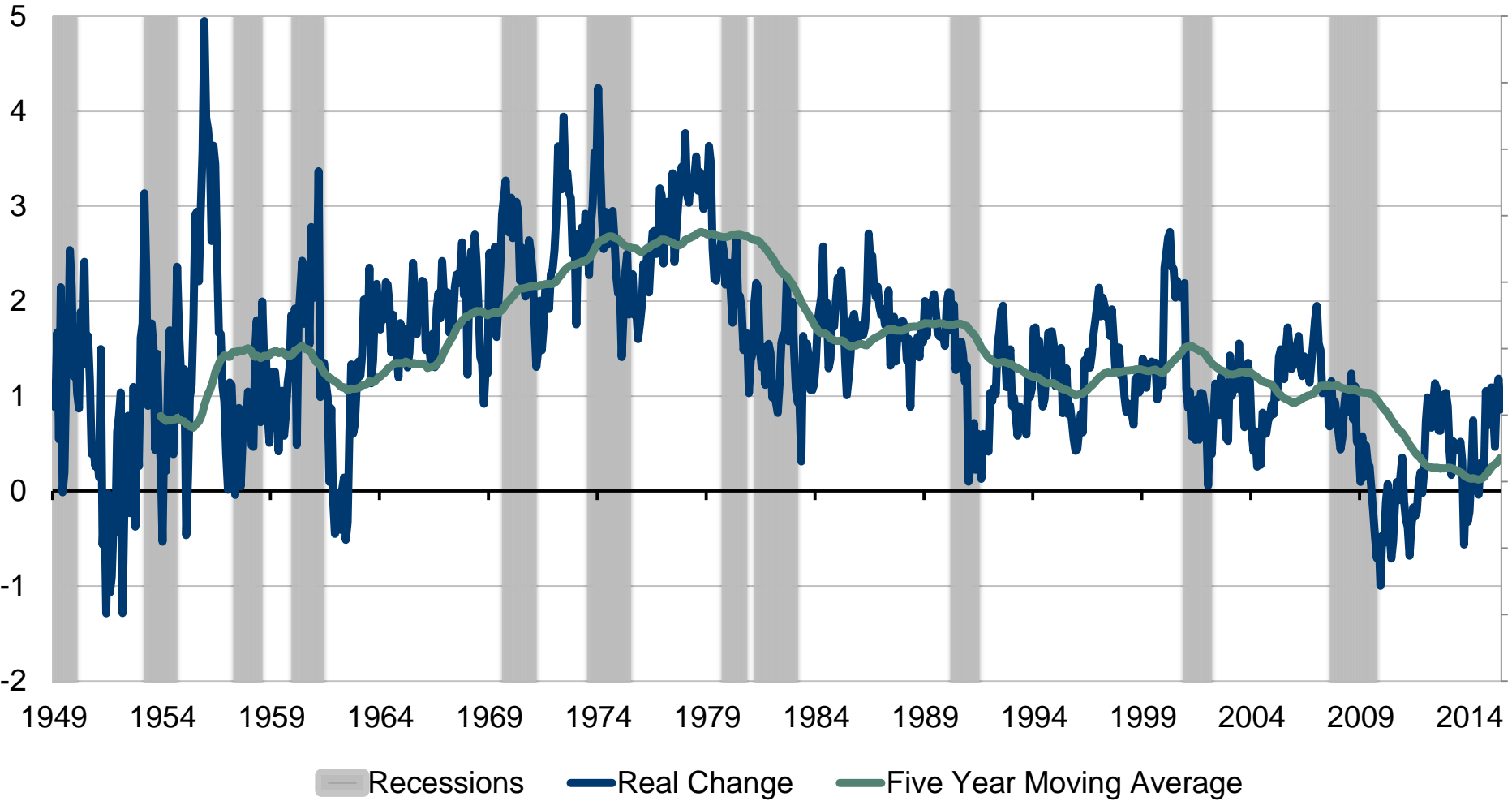
Unemployment Rates and Labor Force Participation(% ,SA)



Source: BLS, CBO, Federal Reserve Bank of St. Louis, Q1 2015

Labor Force Growth Trending Lower

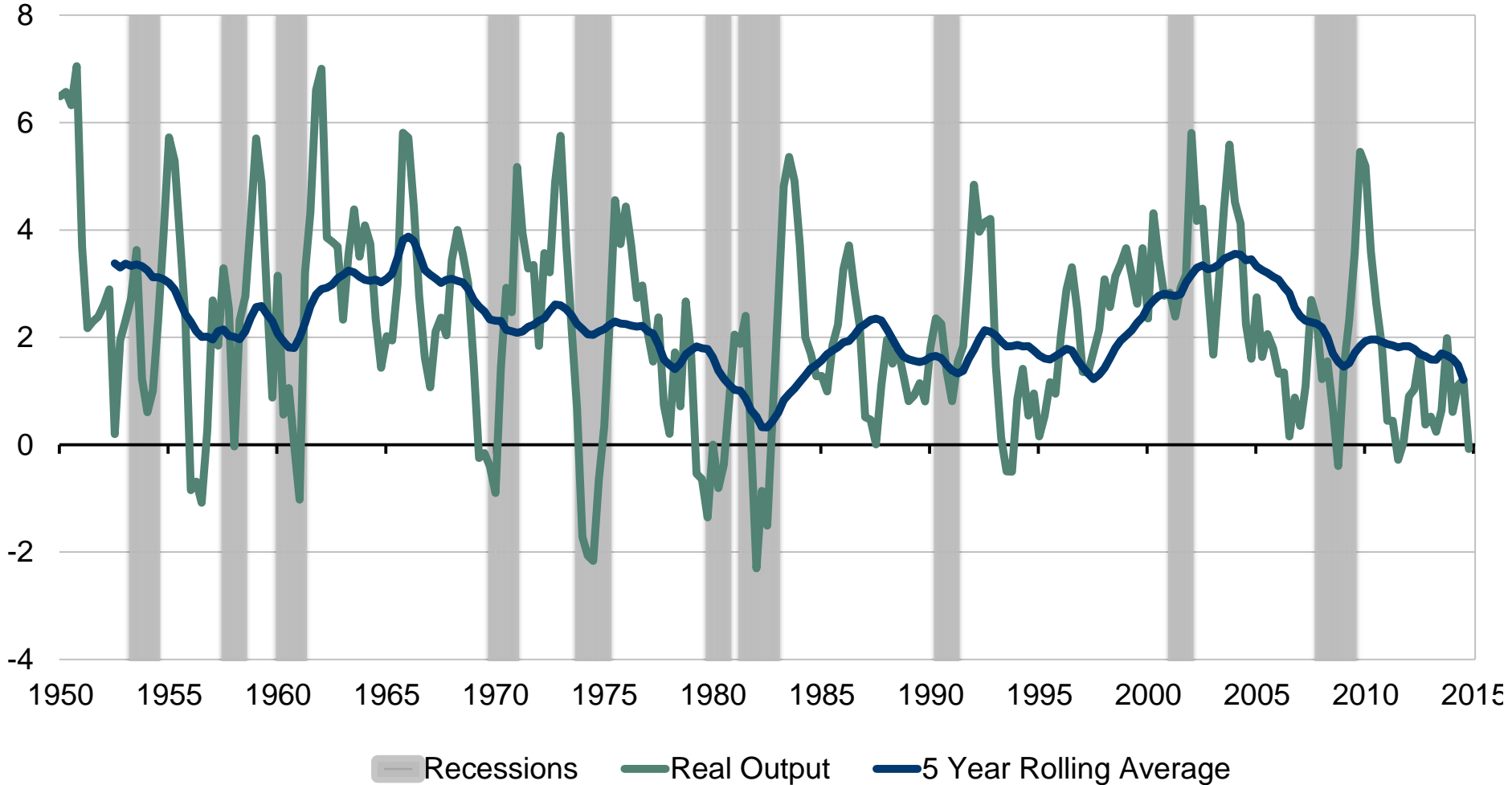
Percent Change from a Year Ago (SA)



Source: US. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Q1 2015

Productivity Trending Lower

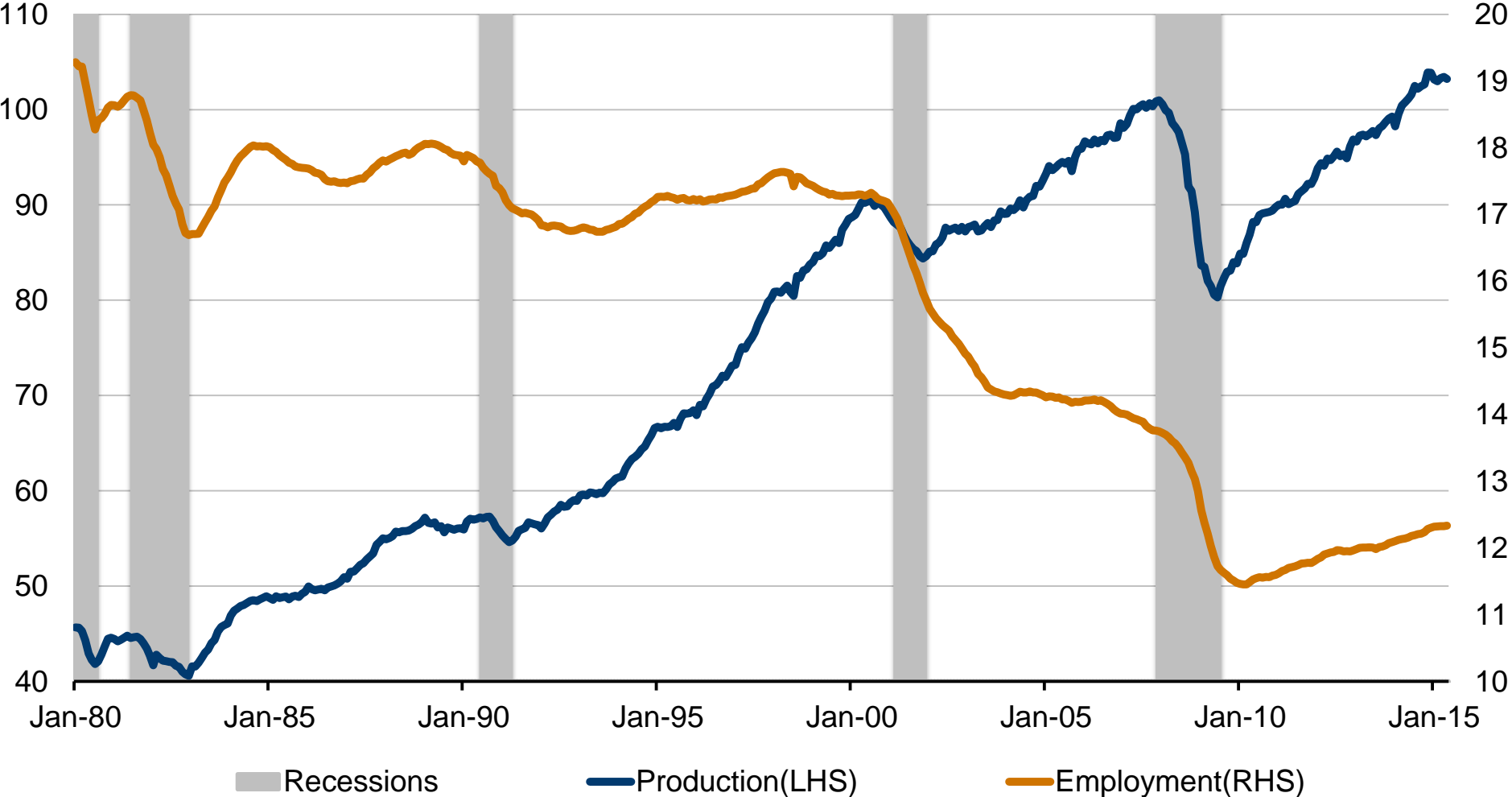
Non-Farm Real Output of All Persons (% Change Year-over-Year)



Source: US. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Q1 2015

The Plight of Labor

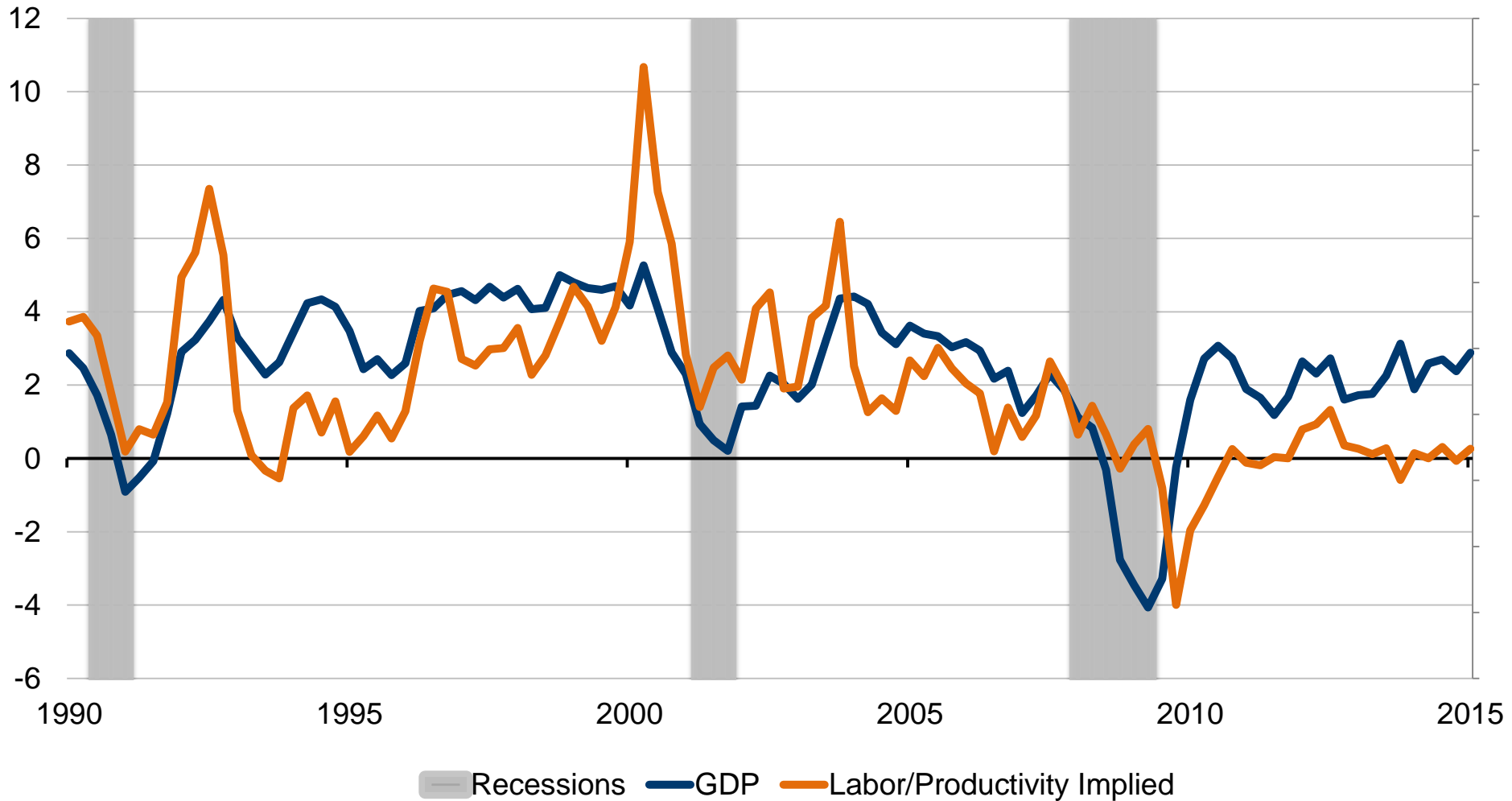
Ind. Manuf. Prod. (Index 2007=100, Monthly, SA) and Employment (MM of Persons)



Source: BEA, Federal Reserve Board of Governors, May 2015

Total Output and Effective Labor Output

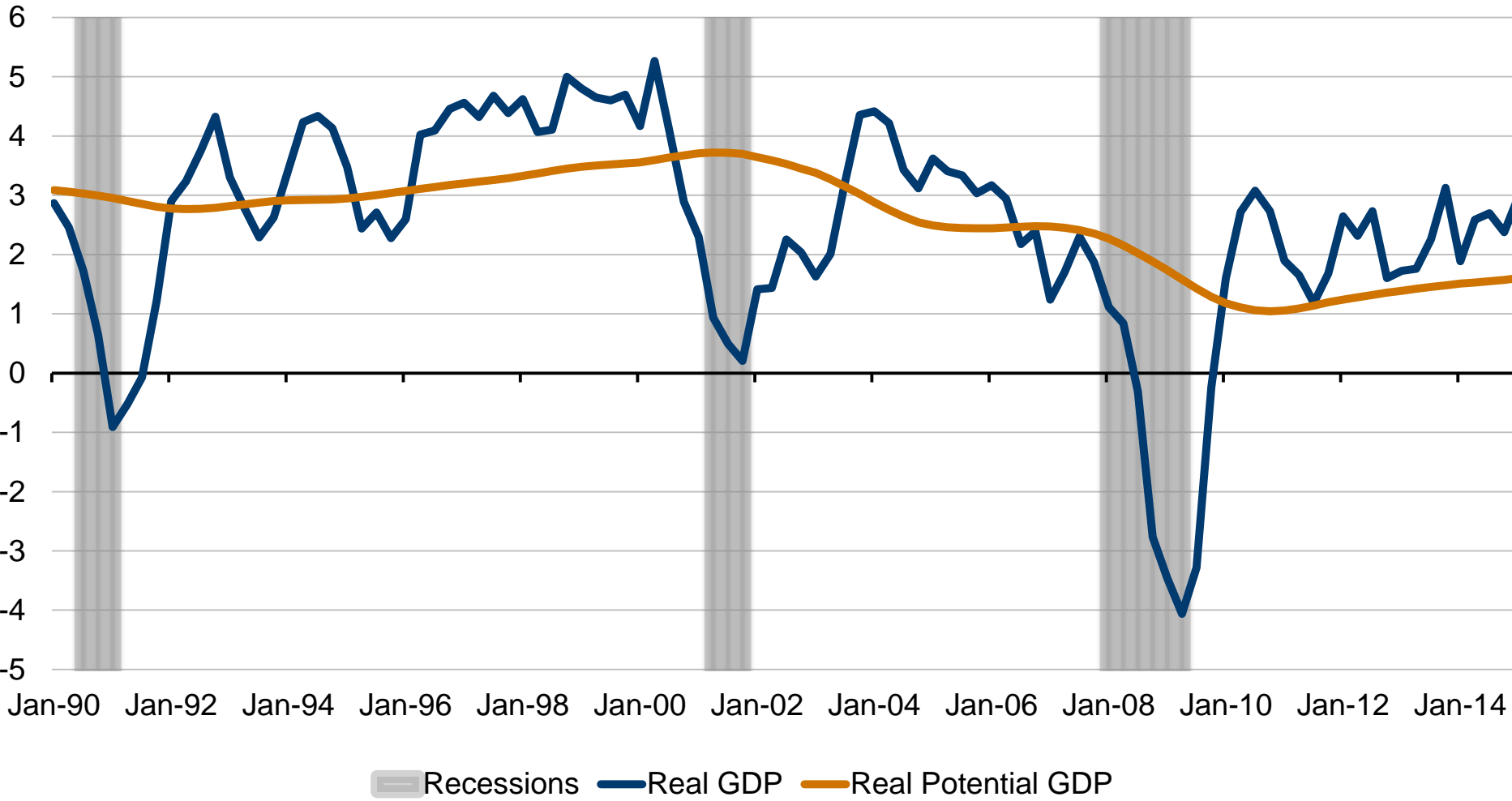
Percent Change Year-Over-Year



Source: US. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Q1 2015

Exceeding Our Potential

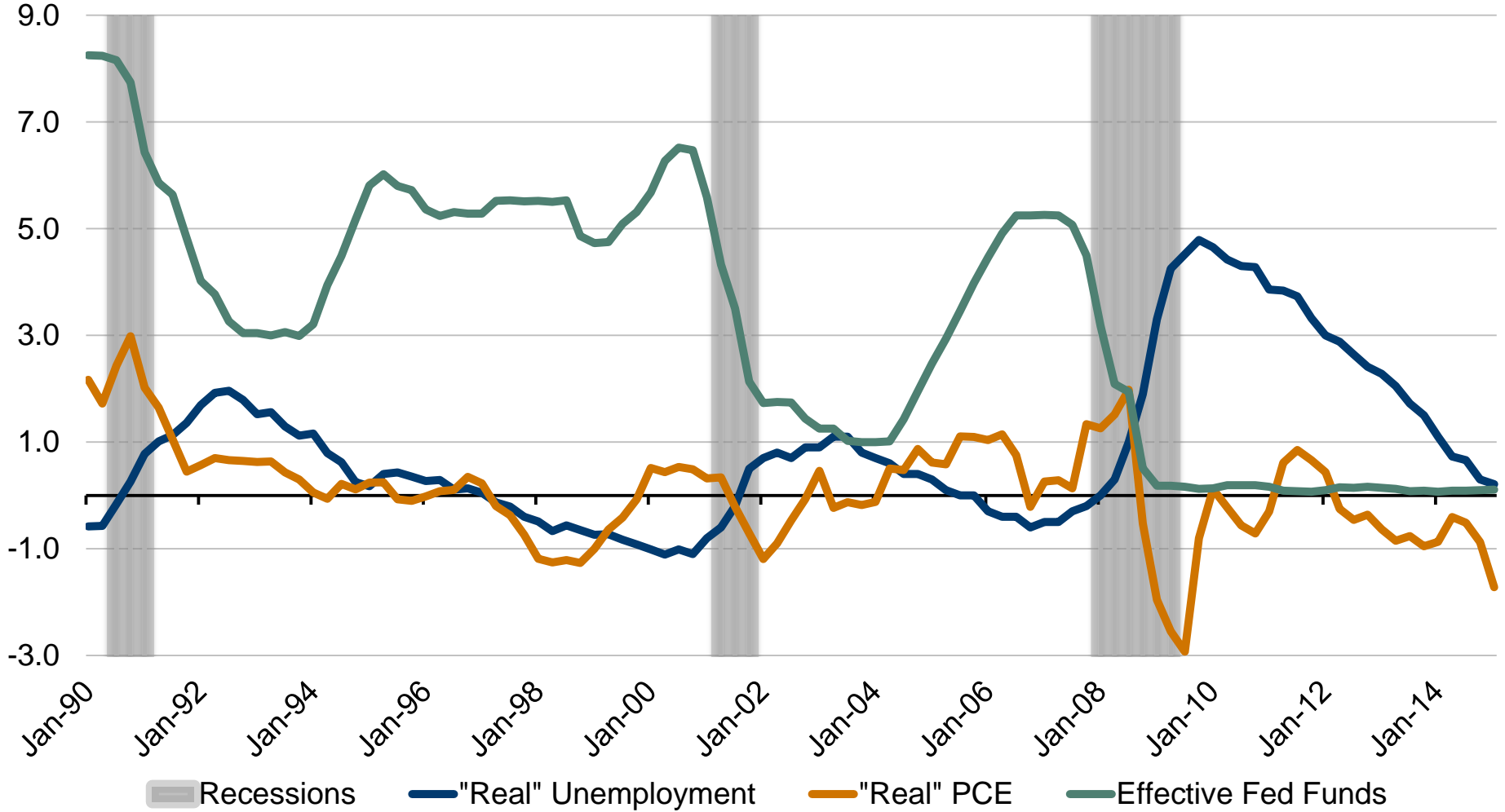
Real GDP & Potential GDP Year-Over-Year (SAAR, Chained 2009 \$)



Source: U.S. BEA, CBO, Federal Reserve Bank of St. Louis, Q1 2015

Running on "Zero"

Unemployment & Inflation Benchmarked to Fed "Targets"



Source: BLS, CBO, BEA, Federal Reserve Board of Governors, Q1 2015

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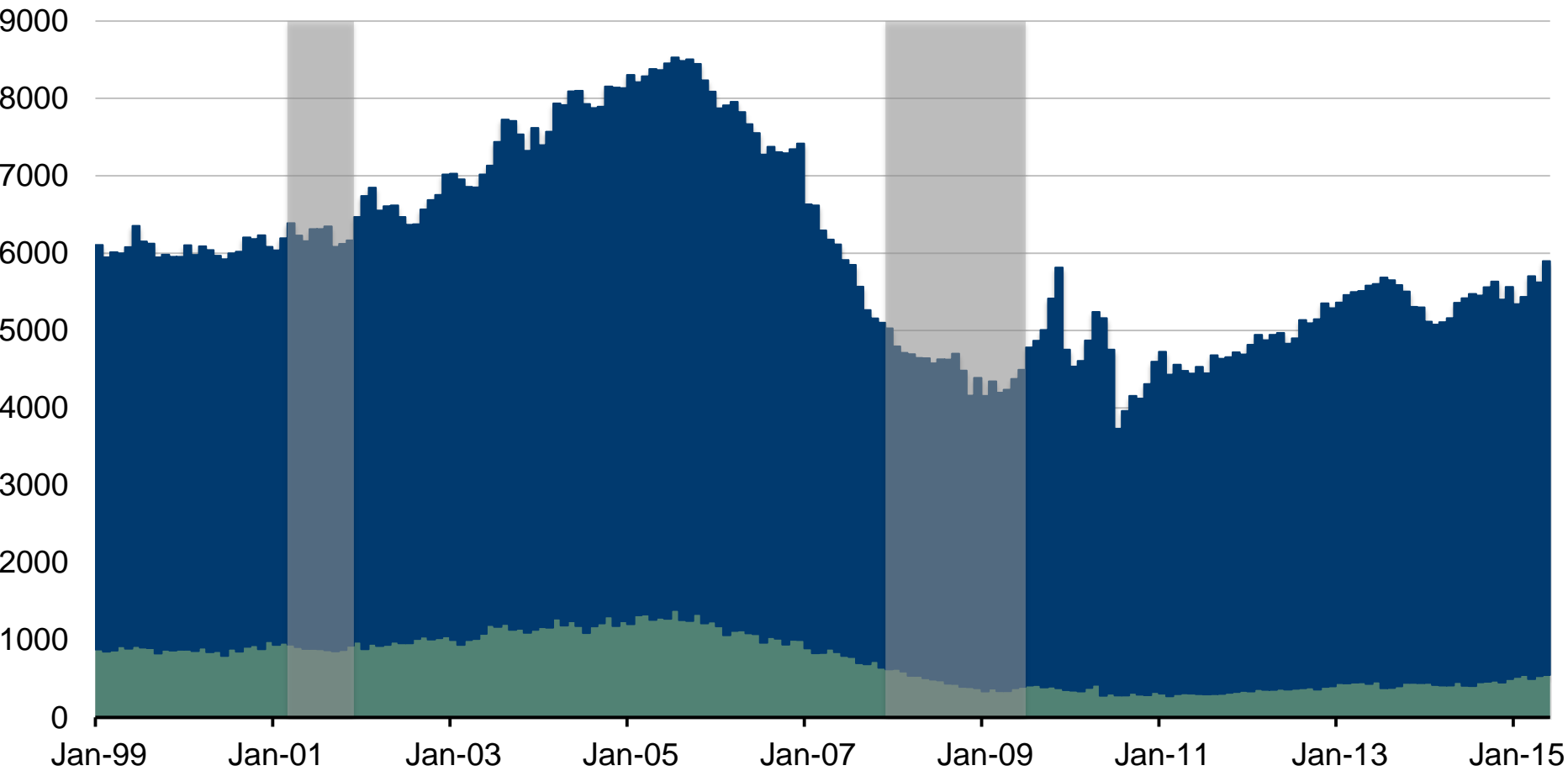
Normal Depends On Your Perspective



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Sale Volumes Approaching Normal?

New and Existing Sales(SA)



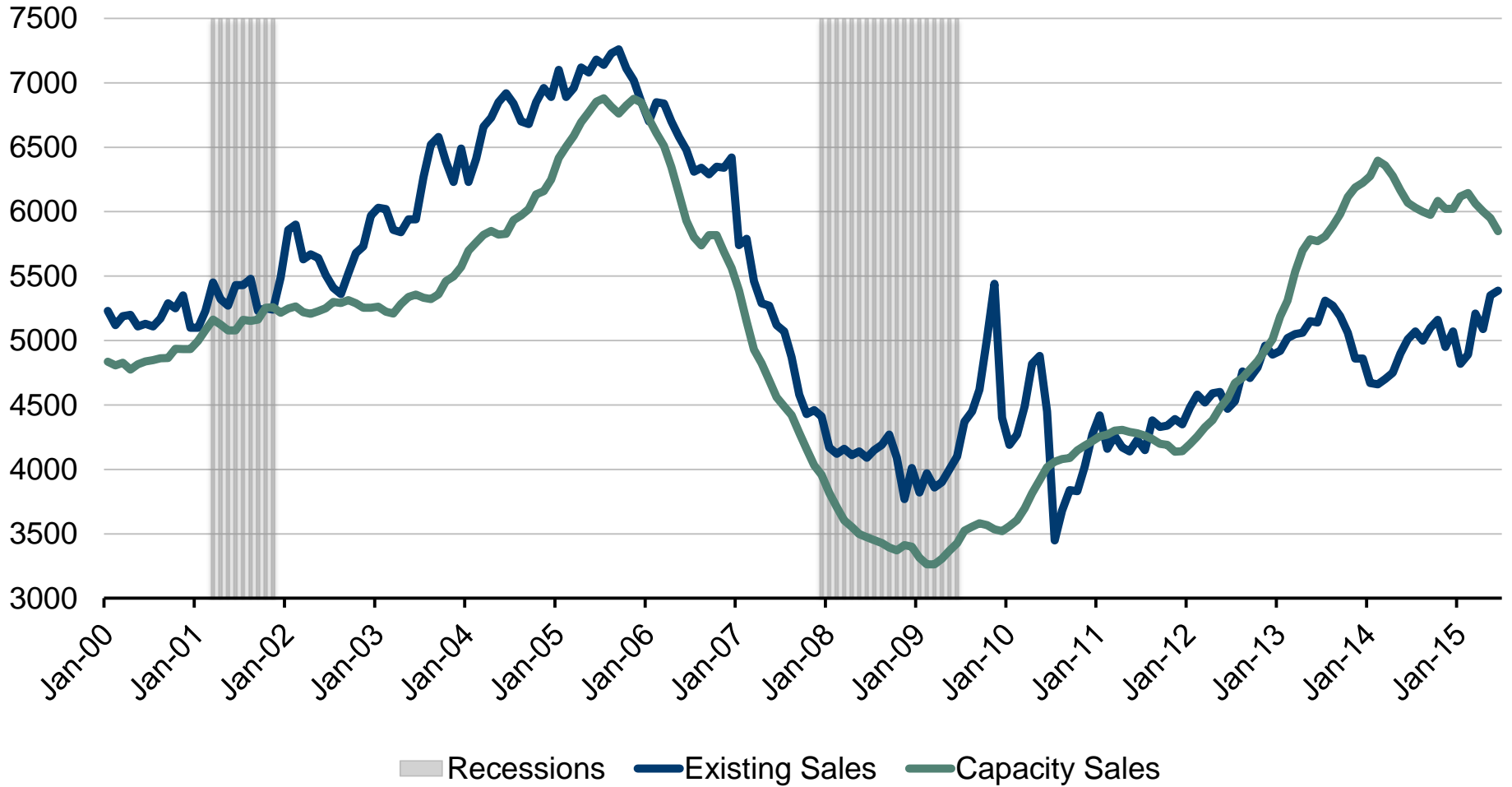
■ New Home Sales ■ Existing Home Sales ■ Recessions

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



Sales Activity Is Below Capacity

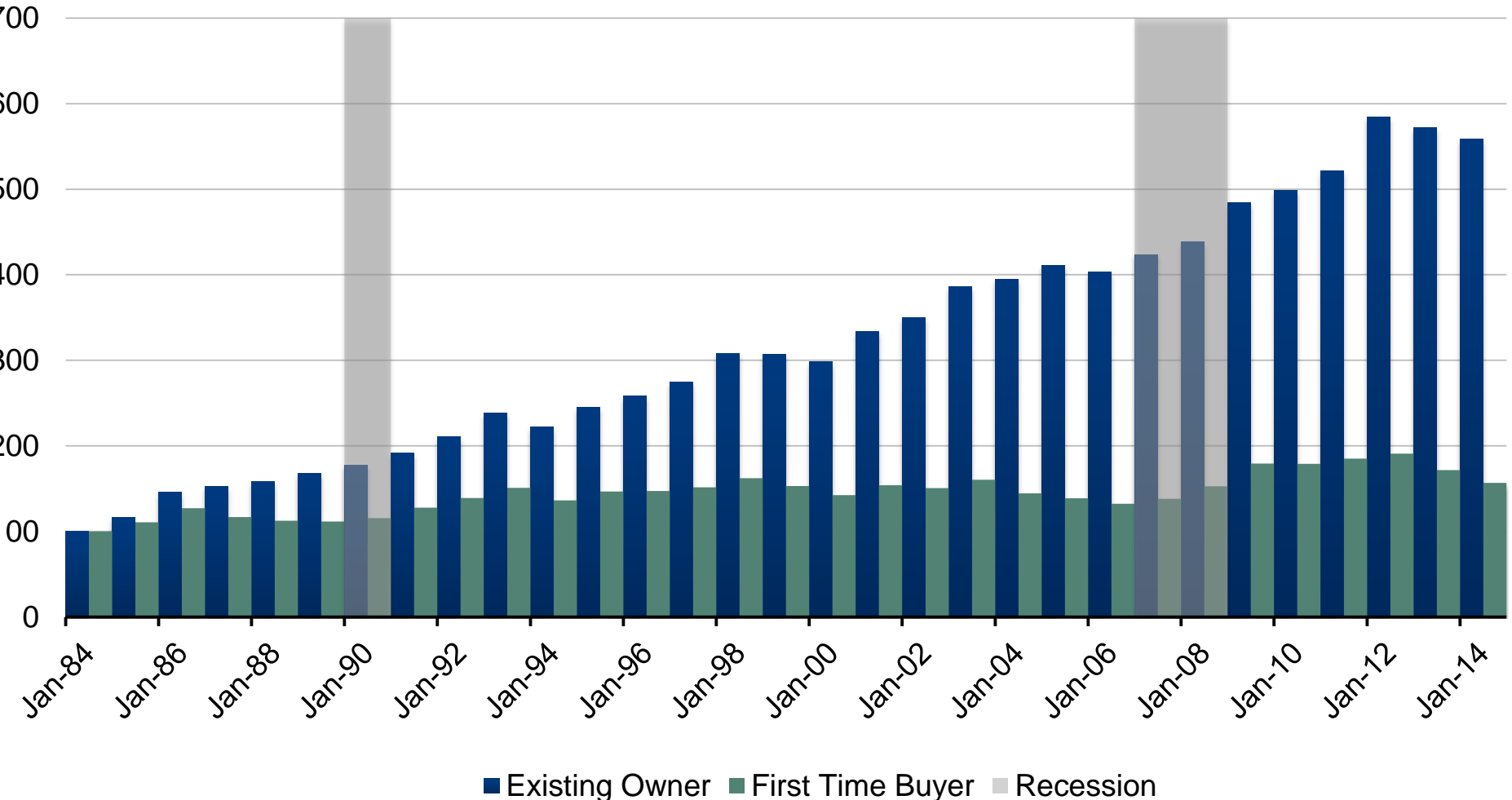
Existing and Capacity Home Sales ('000s, SAAR)



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

The Value of Homeownership

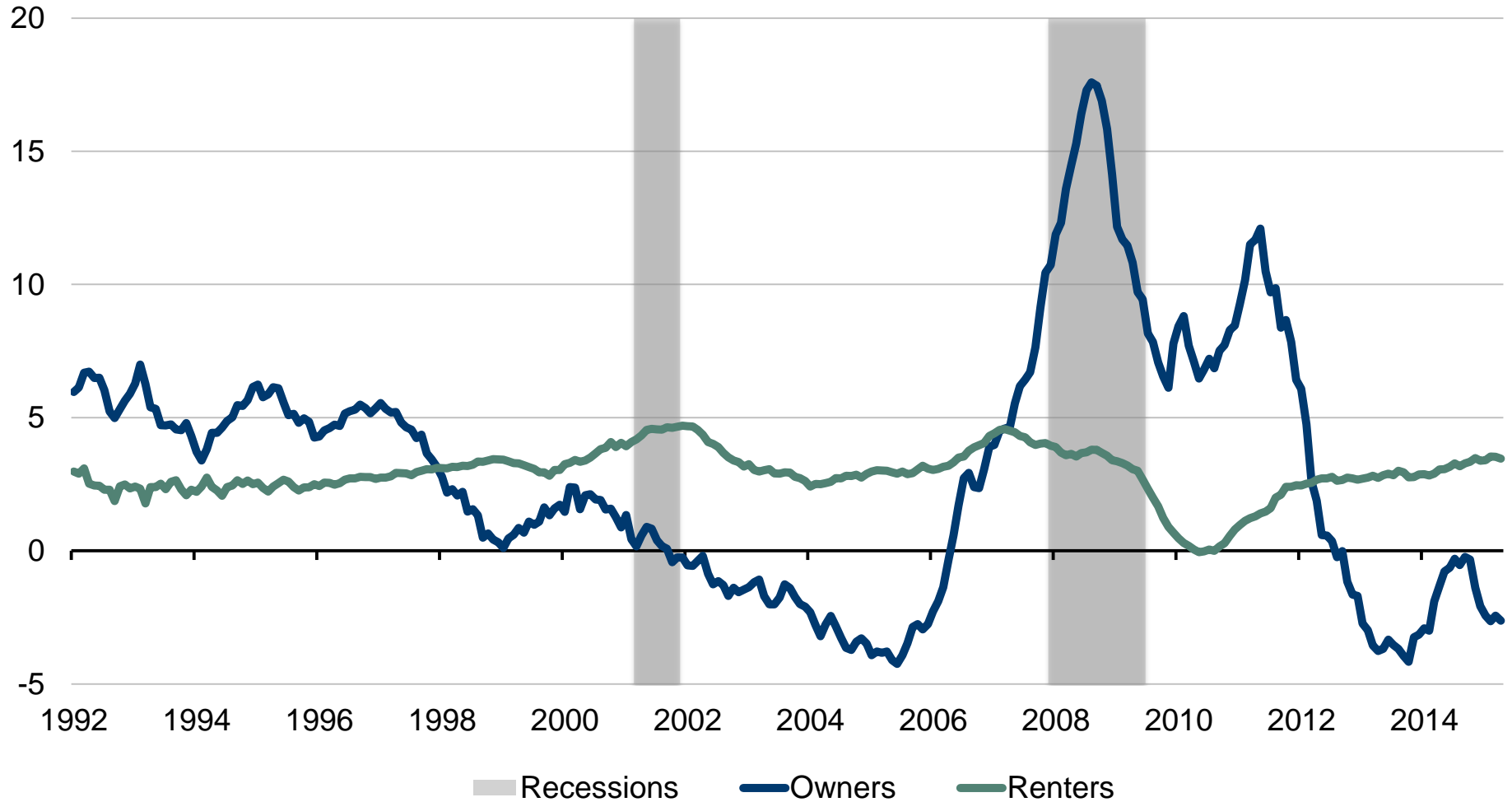
Homeowner Affordability by Tenure Choice, (1984=100)



Source: Freddie Mac, Census Bureau, 2014

The Annualized Cost of Housing

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



Source: Freddie Mac, BLS, FHFA, April 2015

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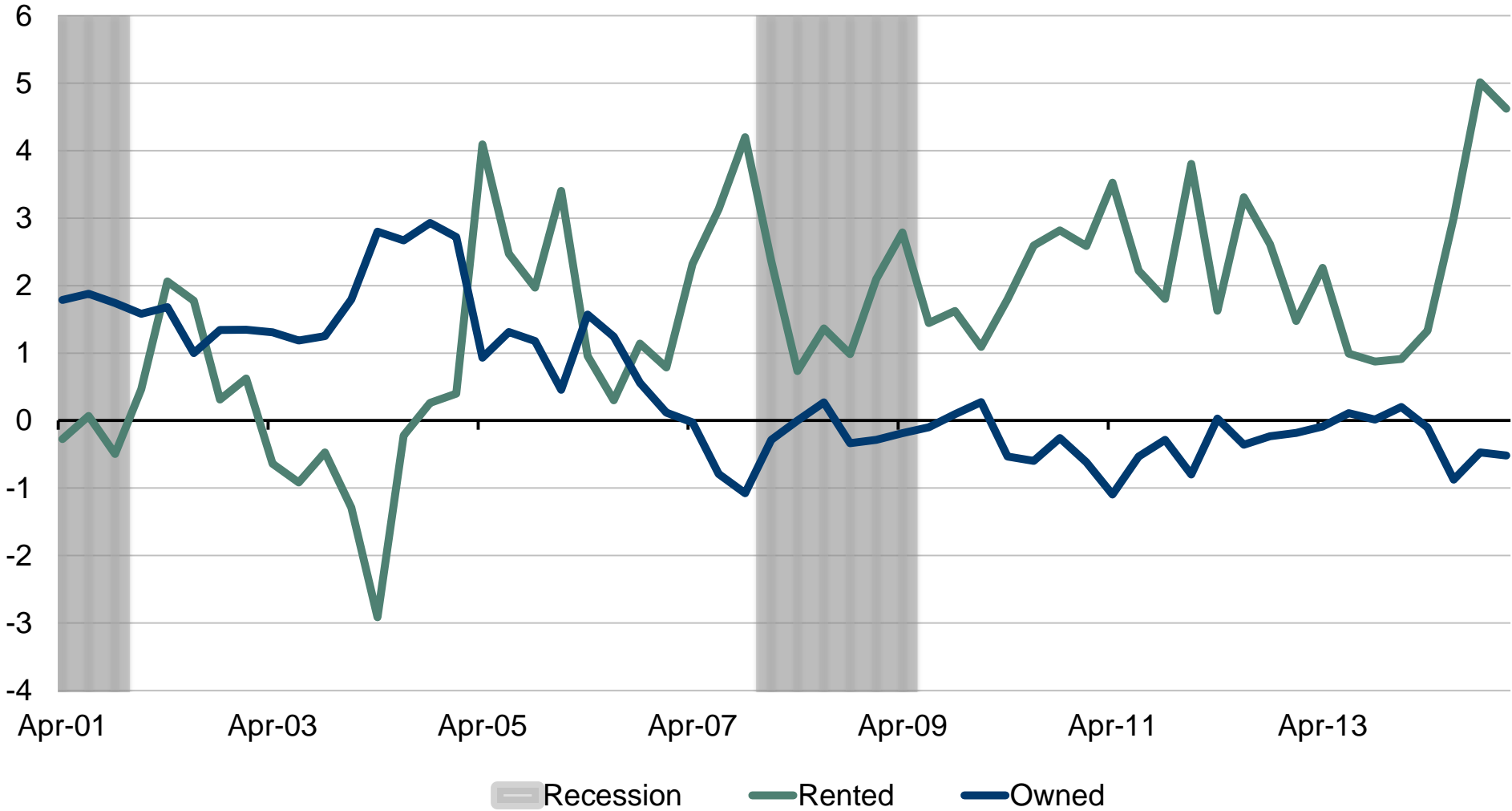
Perennial Millennial Renters



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The Return of the Renter Household

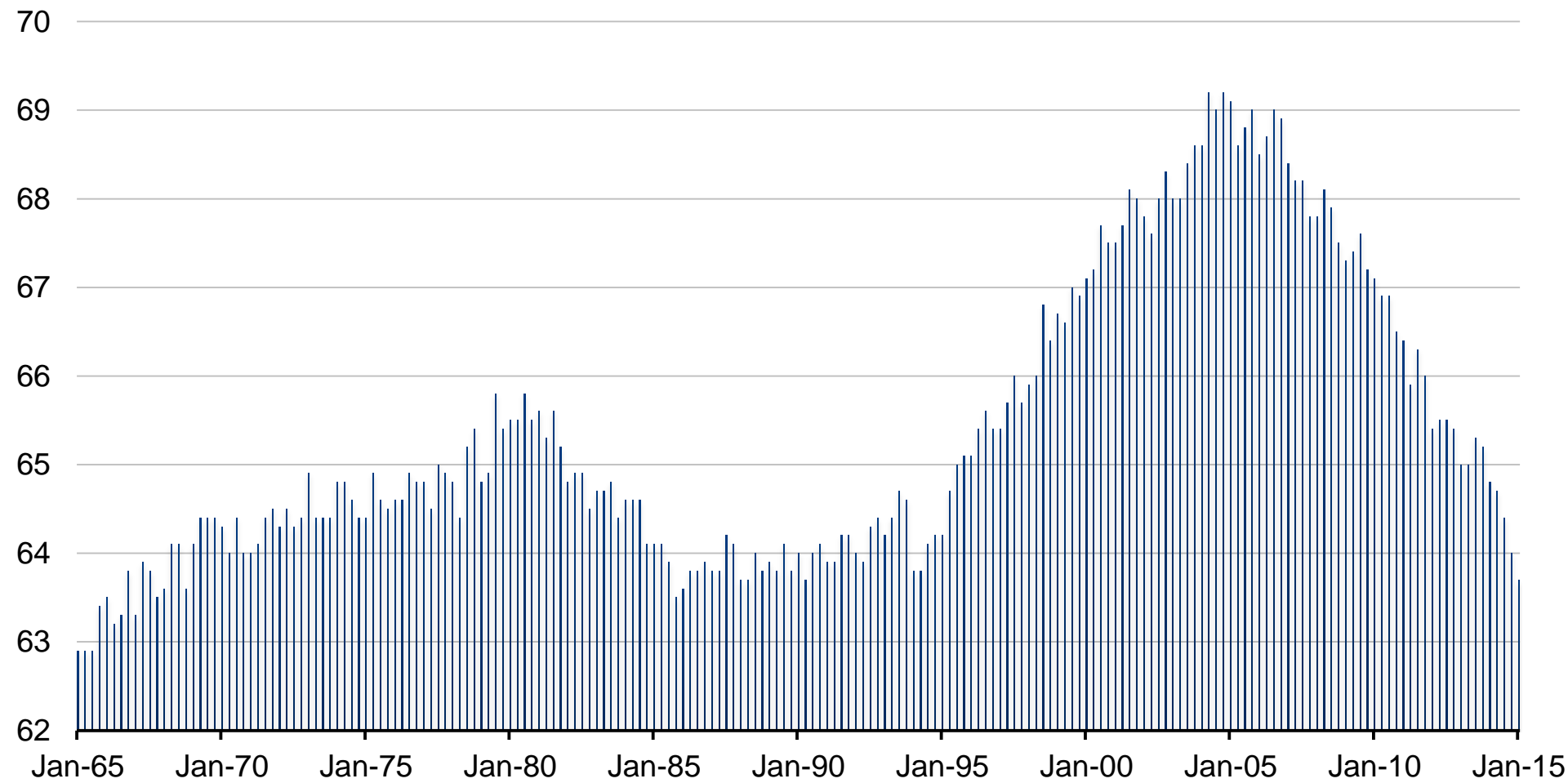
Household Formation by Occupancy Type (Year-Over-Year Inventory Growth,%)



Source: Census Bureau, Q1 2015

The American Dream Lives On?

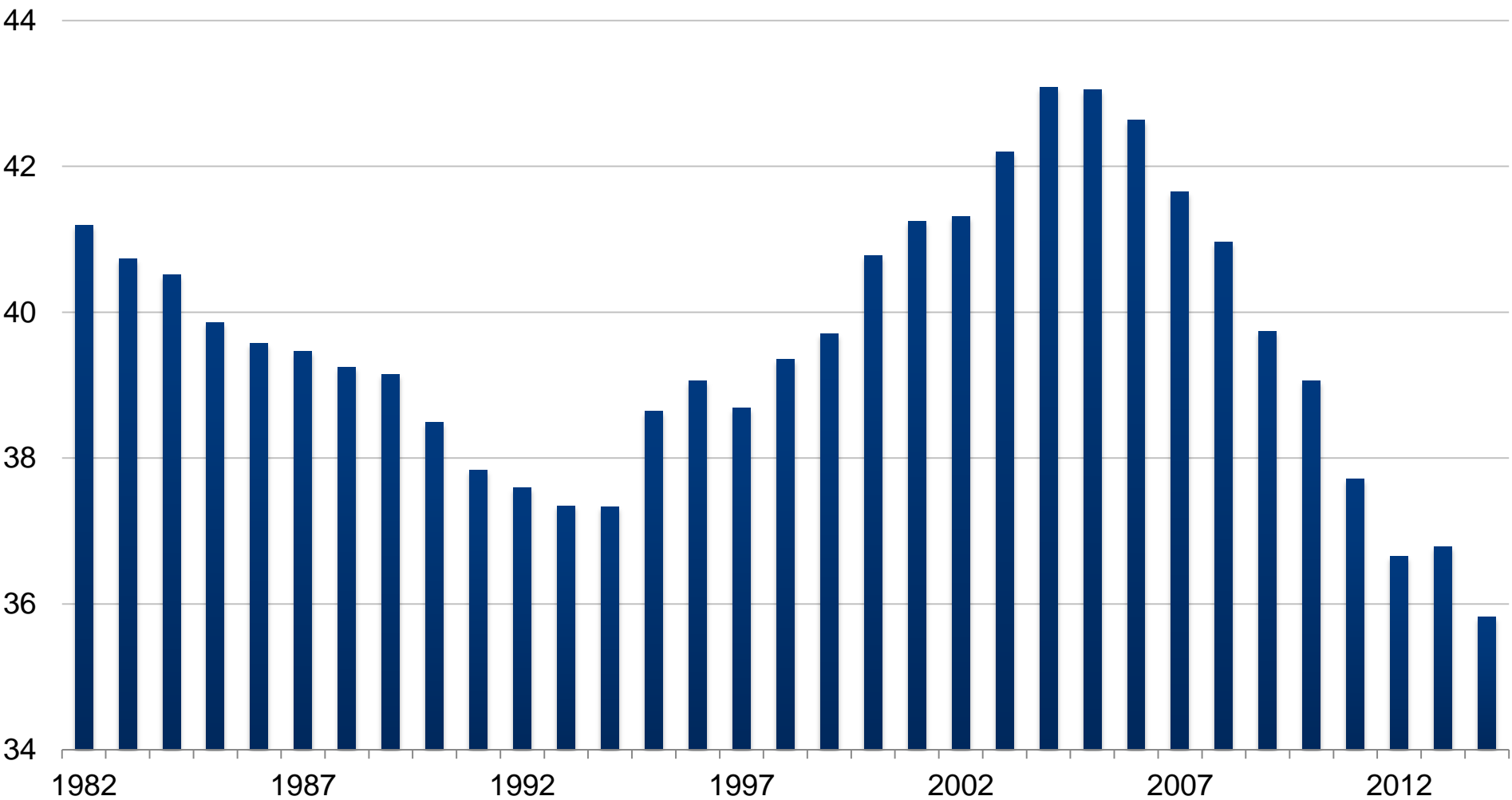
Homeownership Rate (%)



Source: US Census Bureau, Q1 2015

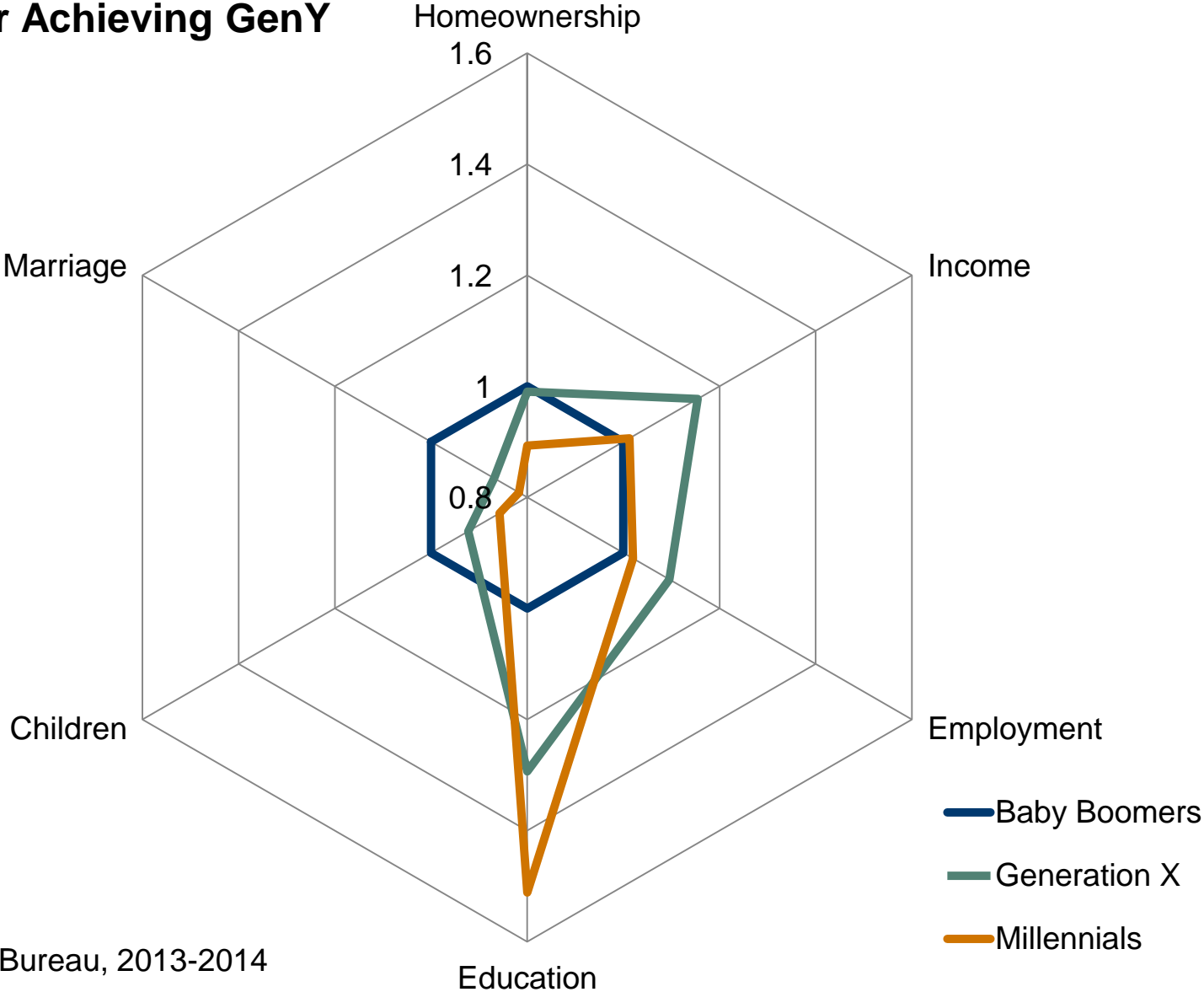
Renting Millennials

Homeownership Rate for Households Under 35



Source: Census Bureau CPS/HVS, 2014

Over or Under Achieving GenY



Source: Census Bureau, 2013-2014

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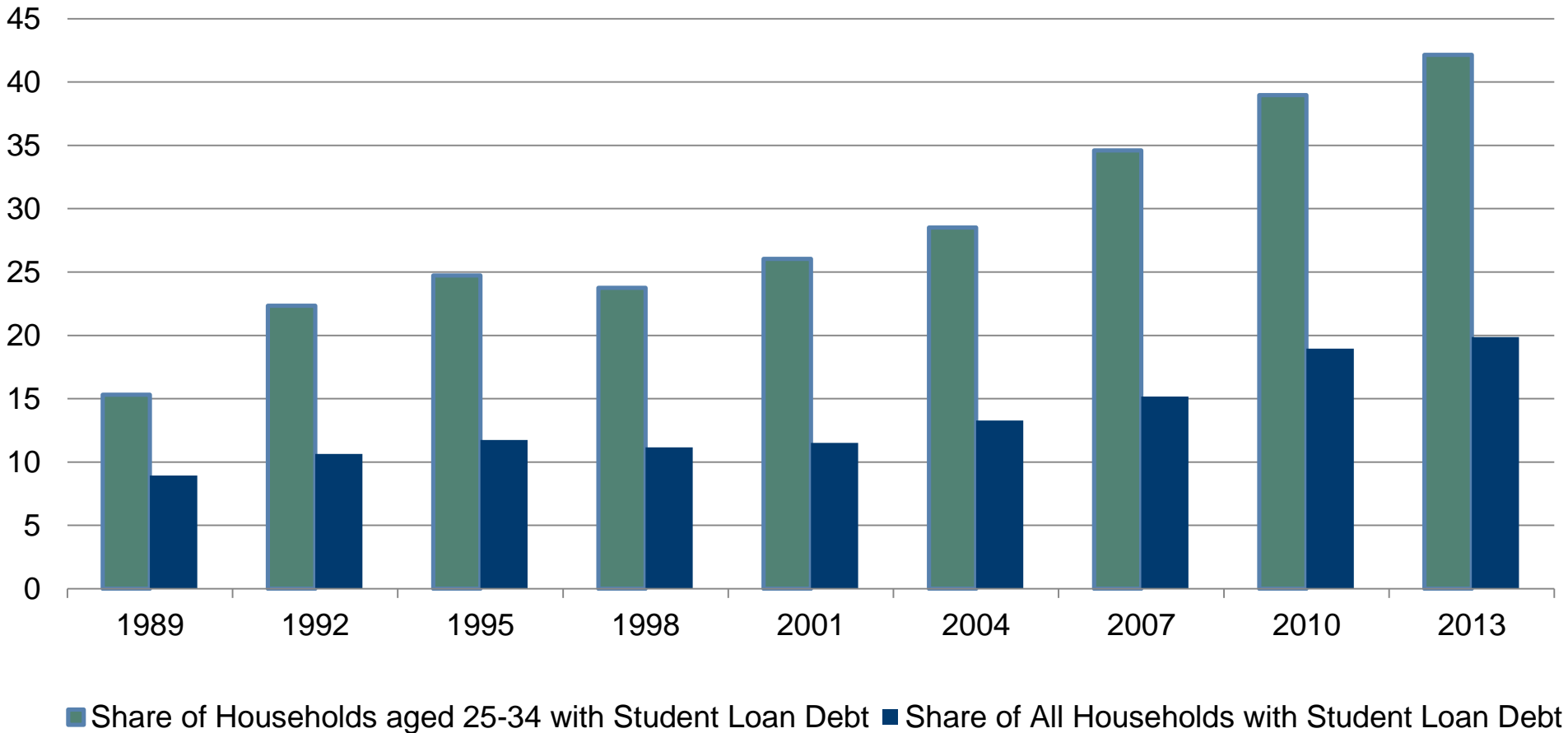
The Burden of Enlightenment



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An Explosion of Indebtedness?

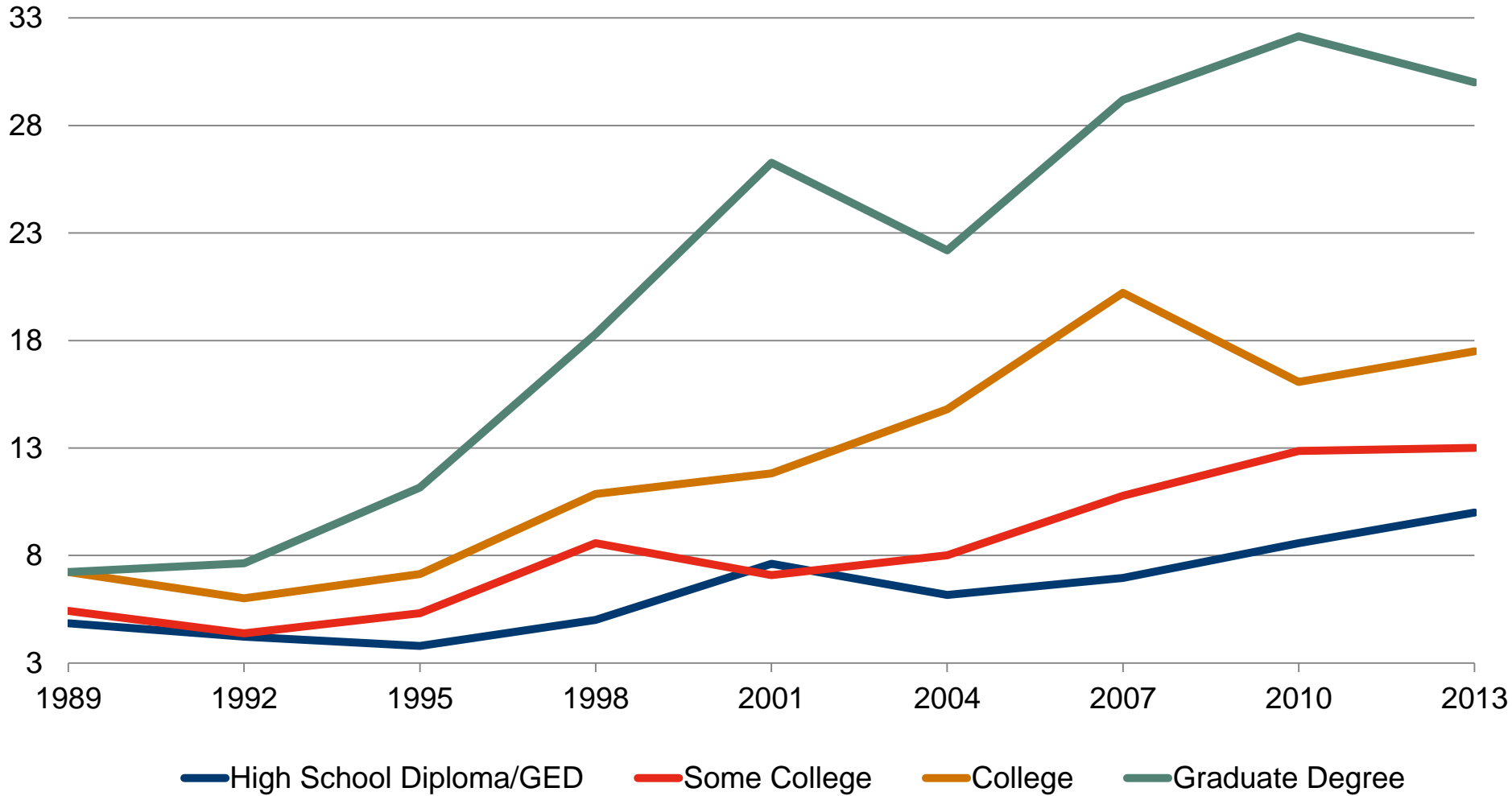
Households with Student Loan Debt, Percent



Source: Federal Reserve Board of Governors SCF, 2013

The Cost of Higher Education

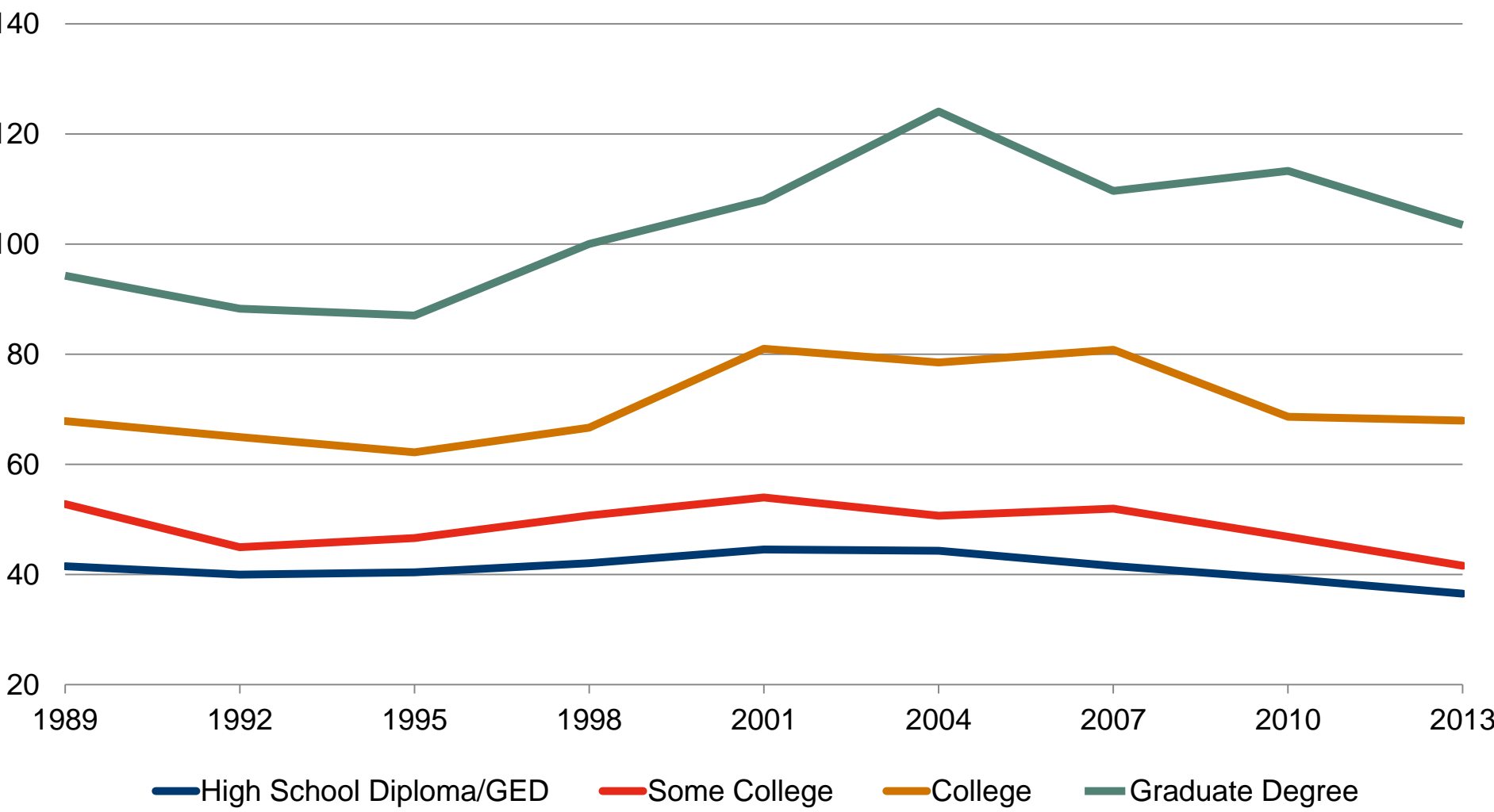
Median Education Debt by Attainment, 2013 Dollars (thousands)



Source: Federal Reserve Board of Governors SCF, 2013

The Benefit of Education

Median Income by Attainment, 2013 Dollars (thousands)

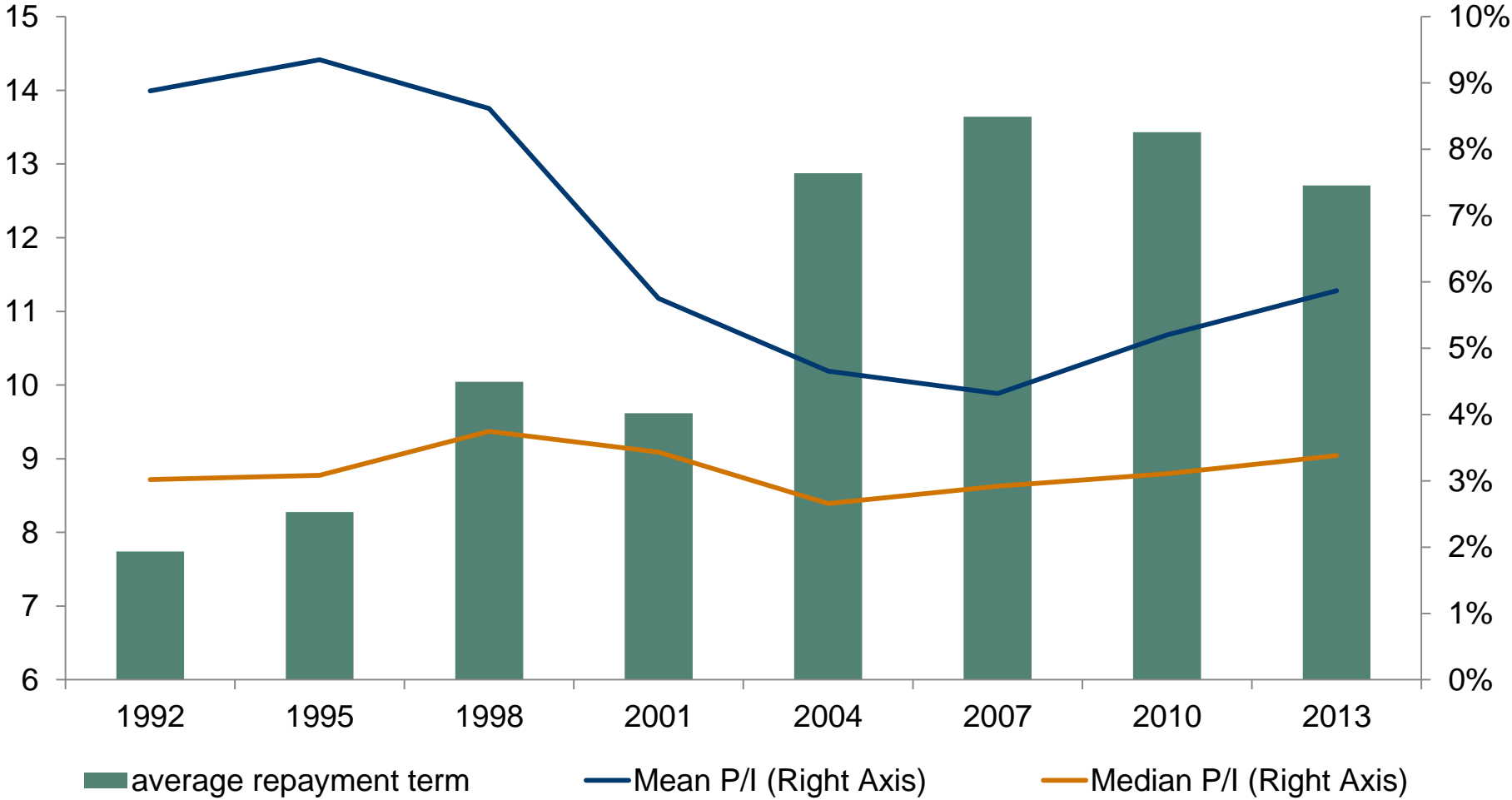


Source: Federal Reserve Board of Governors SCF, 2013



Borrow More and Pay More?

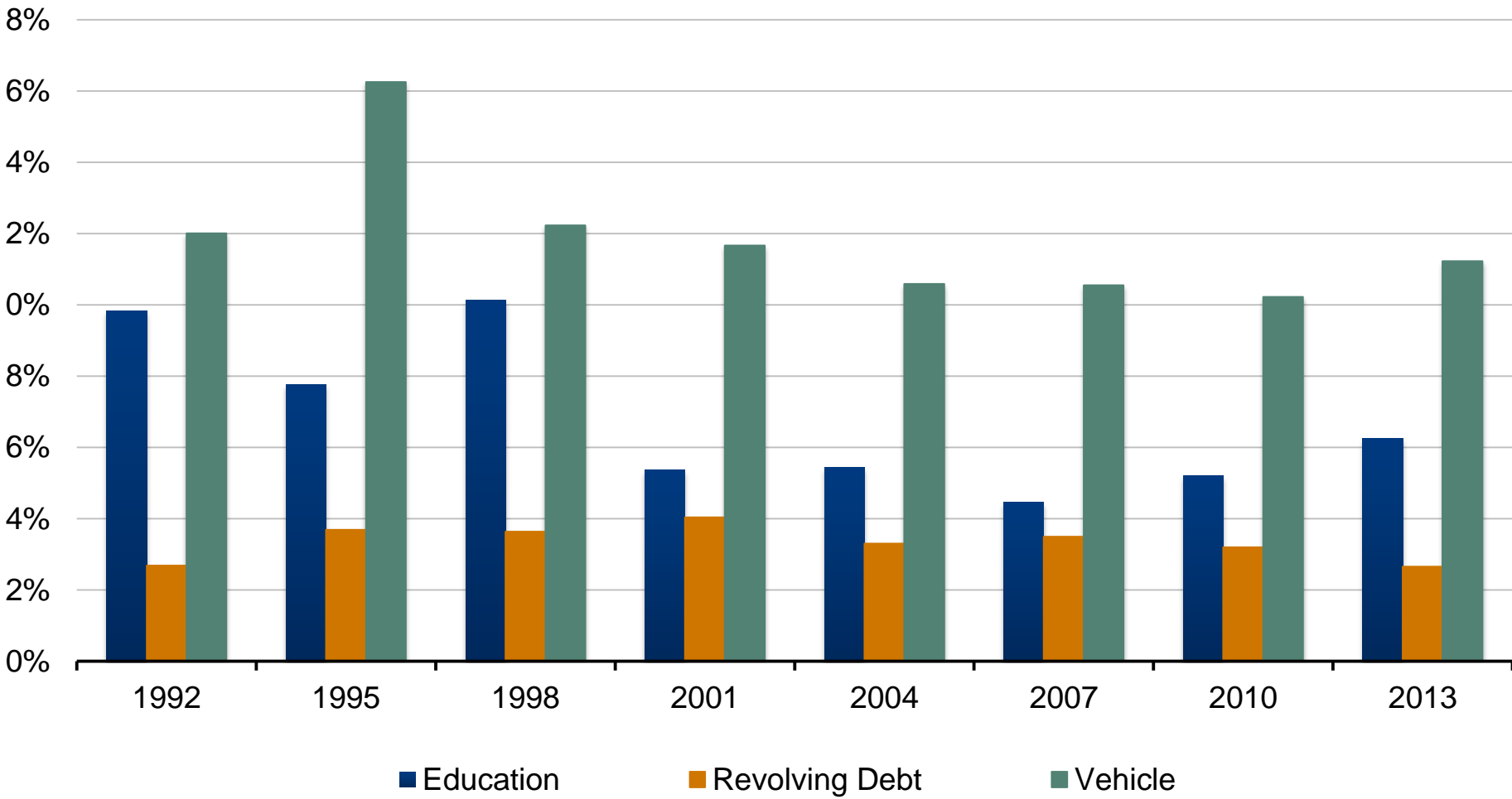
Average Loan Term (Years) and Payment-to-Income Ratio



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

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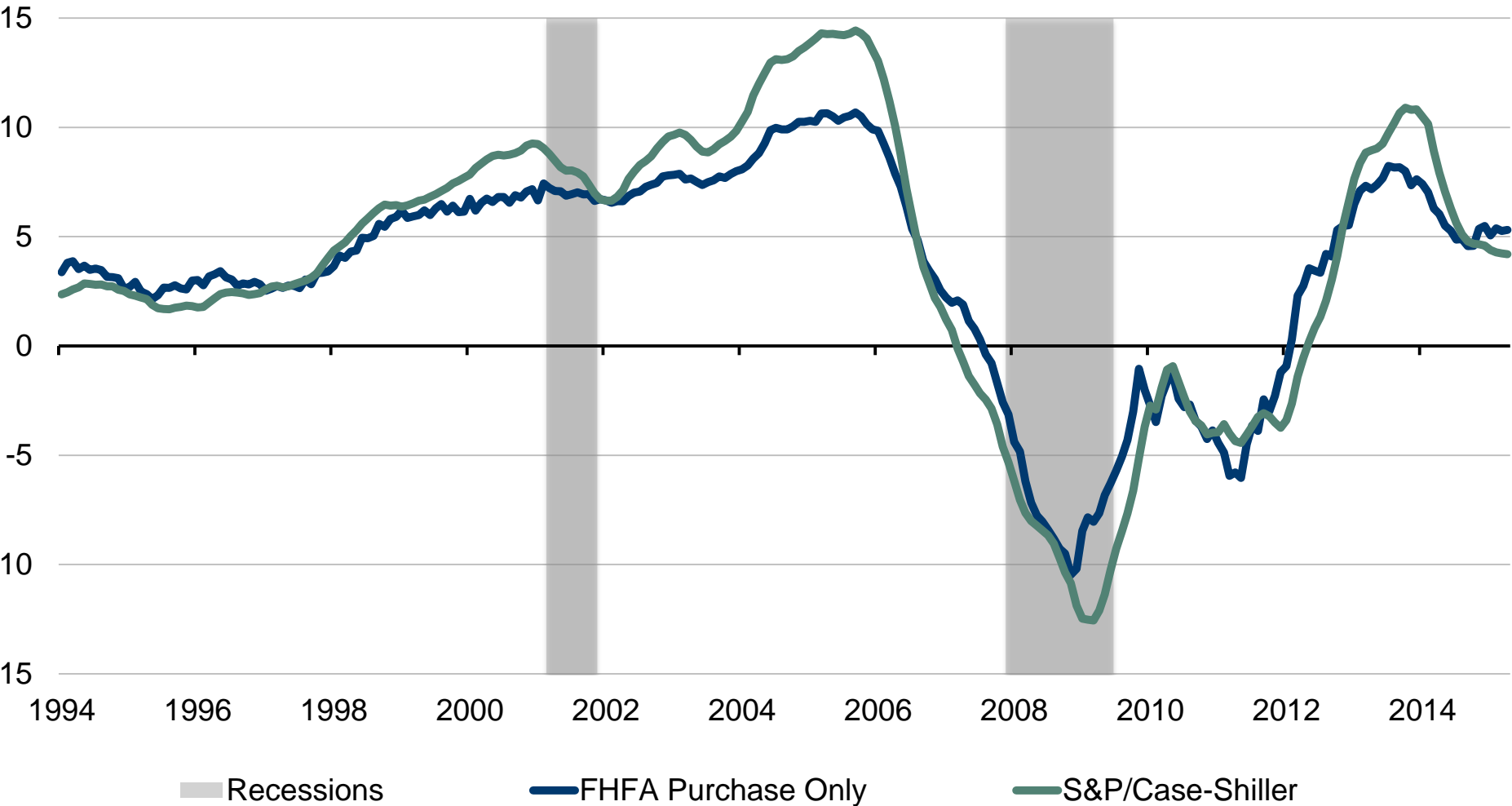
The Restraints of Equity



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Housing Appreciation Necessarily Cooling

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

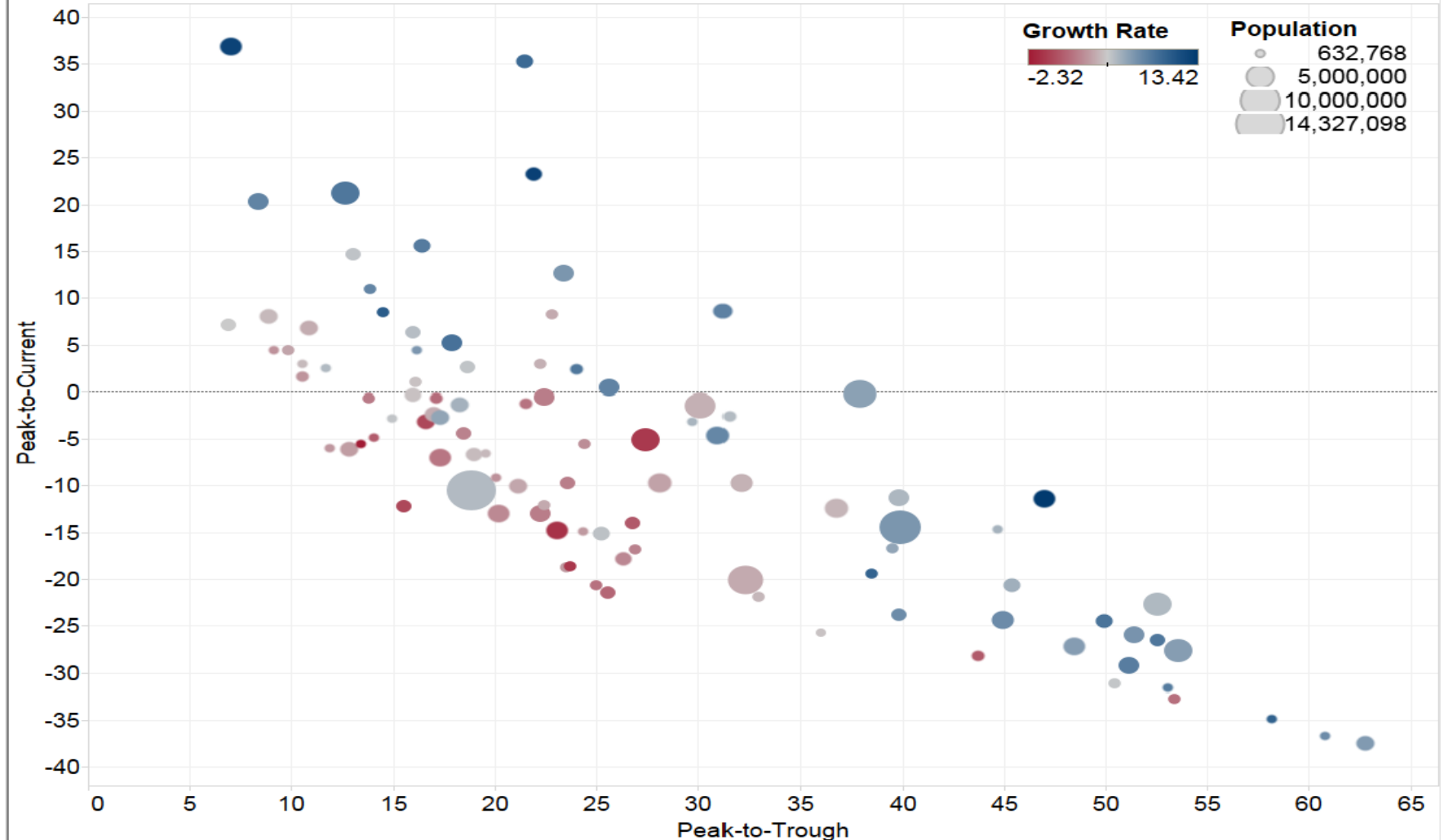


Source: FHFA, S&P, April 2015

Equity Restraint Depends on Where You Live

Housing Market Recession and Recovery

Price Changes from Peak for Major Markets (2005 to Current, %, Quarter-over-Quarter, SA)



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Mortgage Credit “Price”

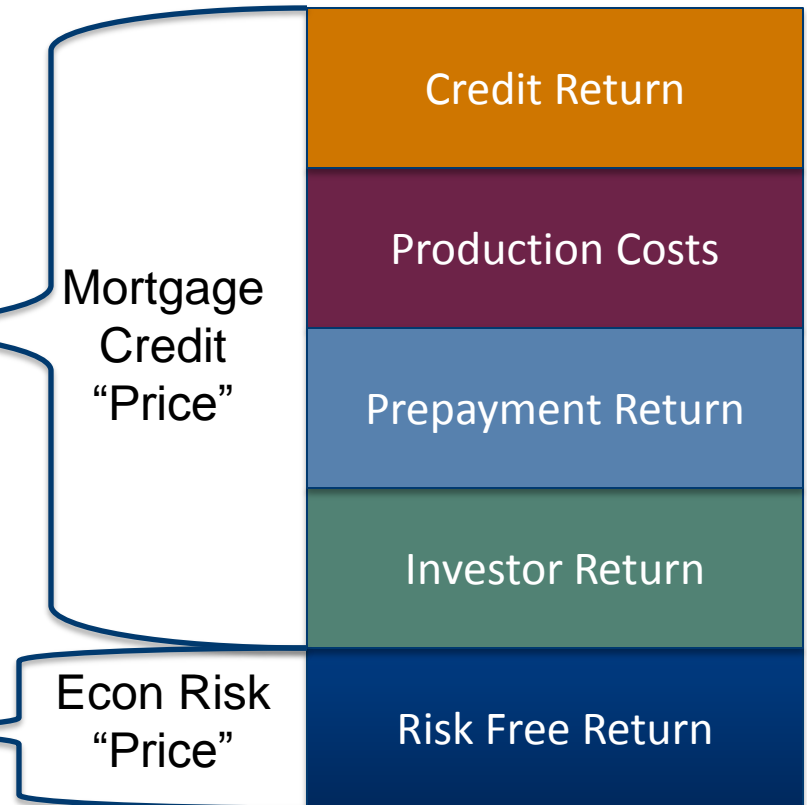


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Credit Availability and the Required Return

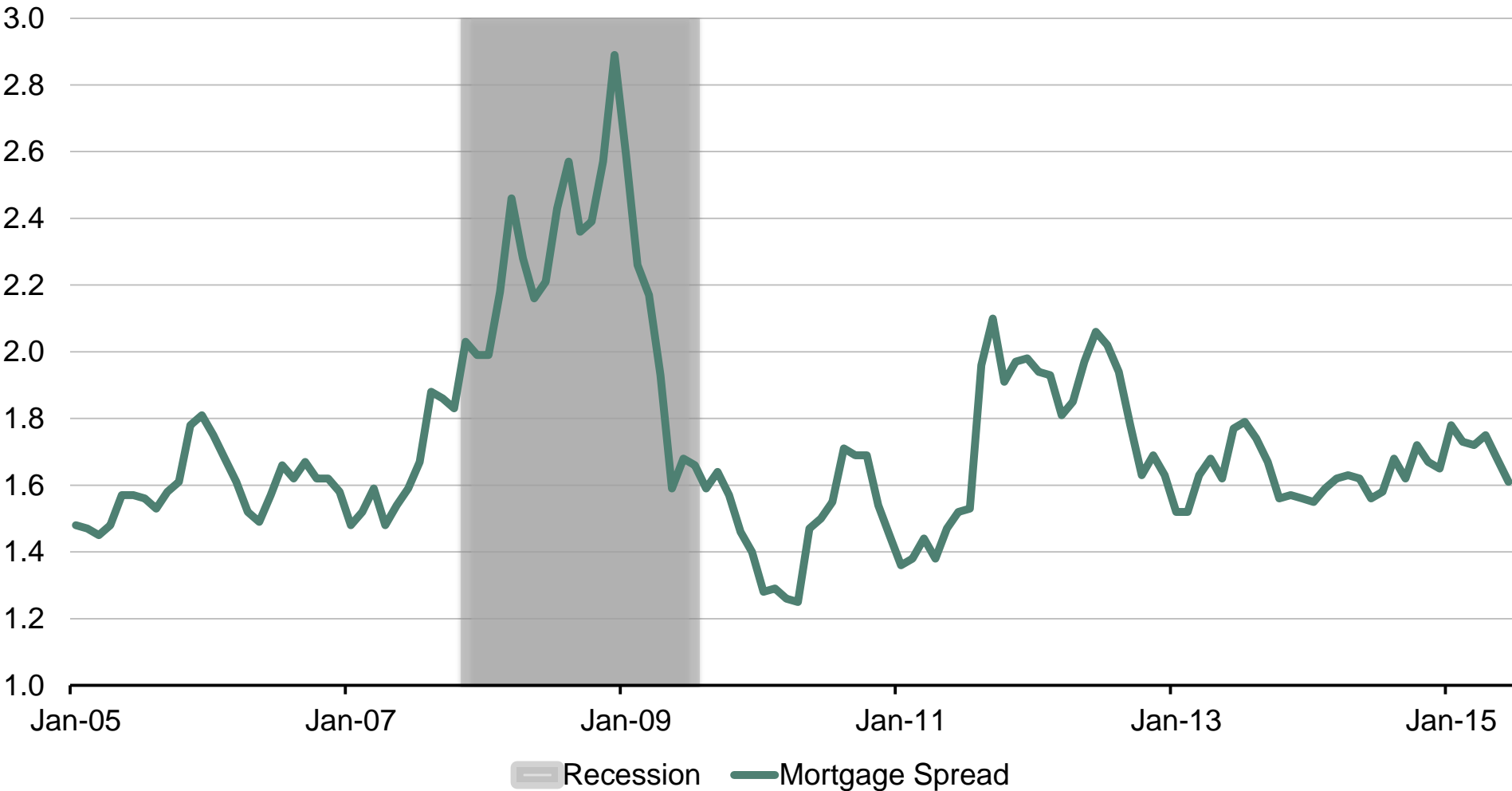
The “Price of Mortgage Credit”

- 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

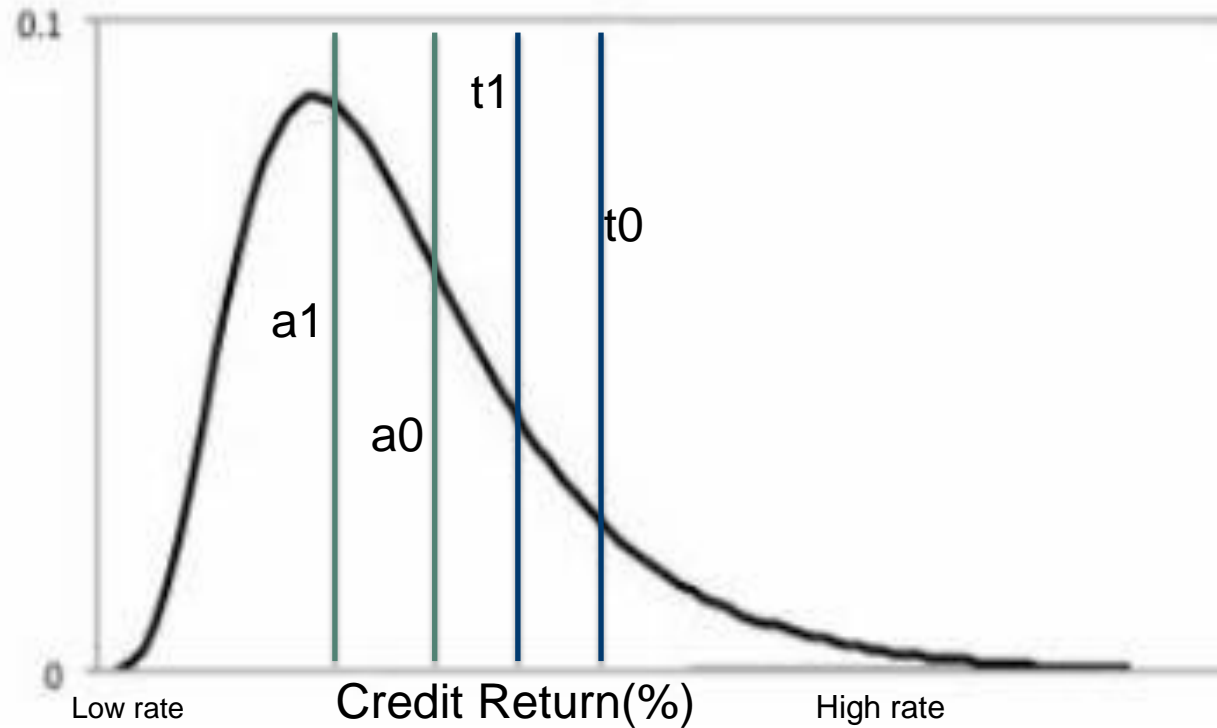
Conventional 30Yr Fixed Rate Note Rate Less 10Yr Treasury Yield (Monthly,%)



Source: Freddie Mac, Federal Reserve, June 2015

Expanding “Credit Box” Increases Credit Return Required

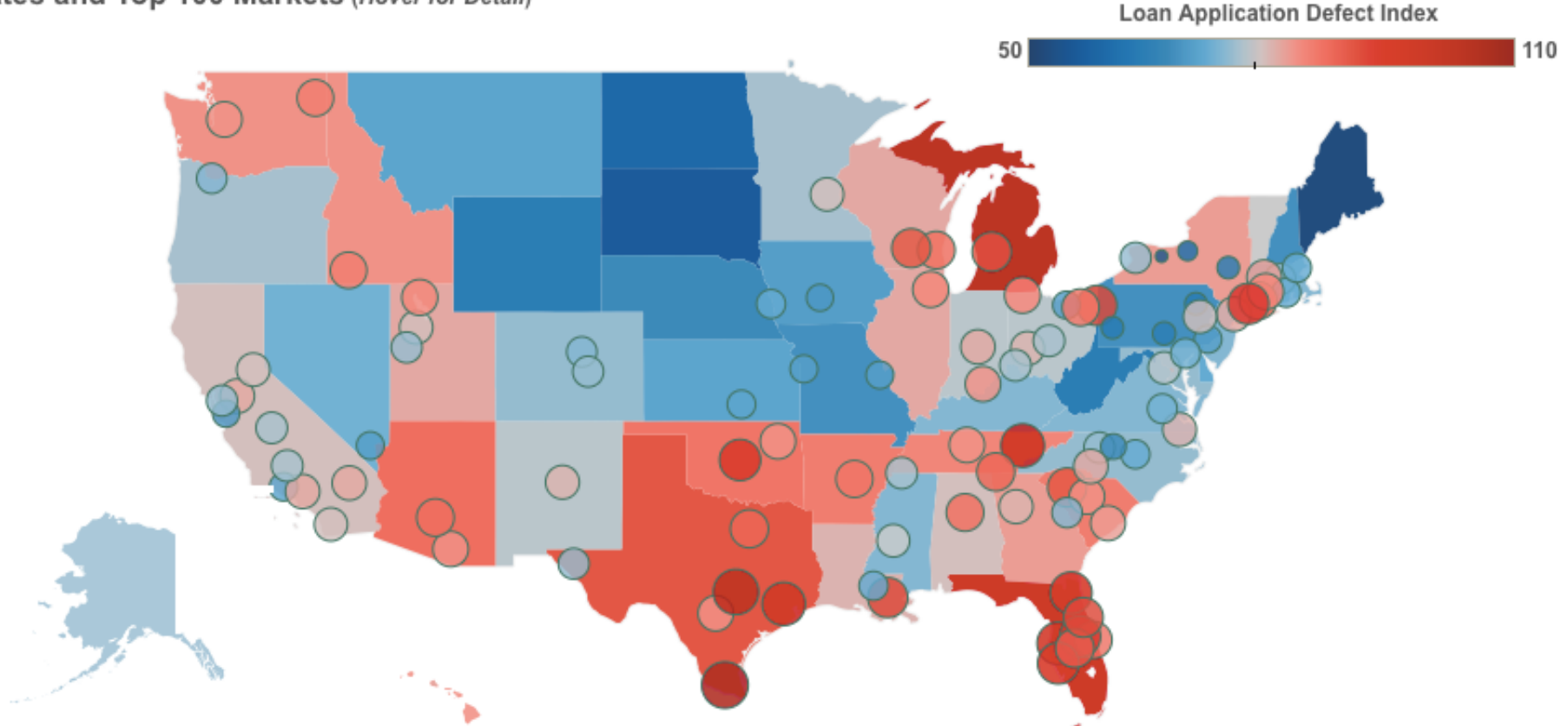
- All else equal, expanding credit moves the credit boundary to the right and increases the observed average.
- Therefore the average observed note rate, all else equal, increases with expanded credit.



Lender Confidence- Misrepresentation and Repurchase Risk

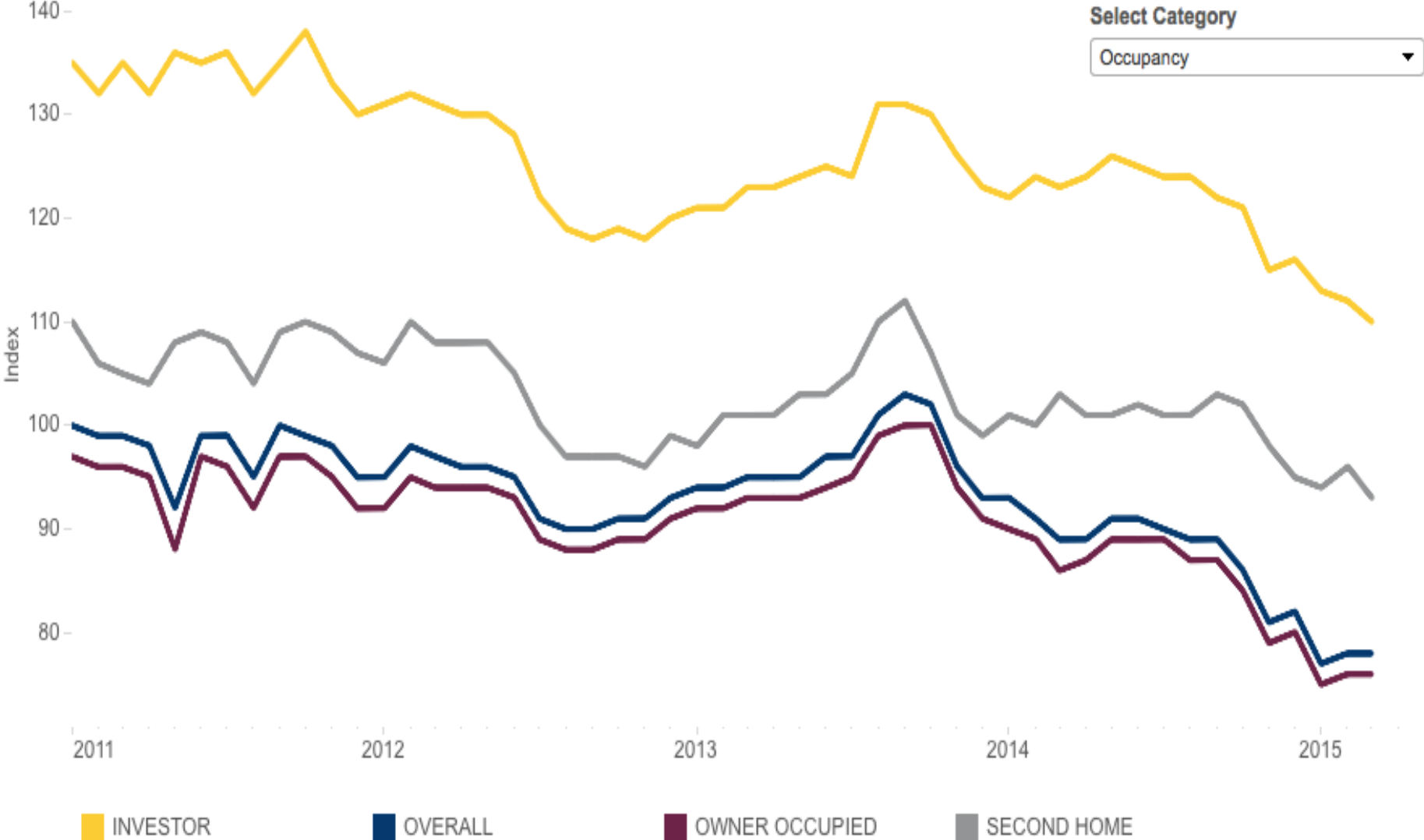
	This Month	Monthly Change	3 Mo. Change	Yearly Change
National - June 2015	81	-5.8%	3.8%	-11.0%

States and Top 100 Markets (Hover for Detail)



35
 Source: First American Loan Application Defect Index, July 2015

Lender Confidence- Misrepresentation and Repurchase Risk by Occupancy



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Source: First American Loan Application Defect Index, July 2015

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Housing Affordability



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The Value of Homeownership

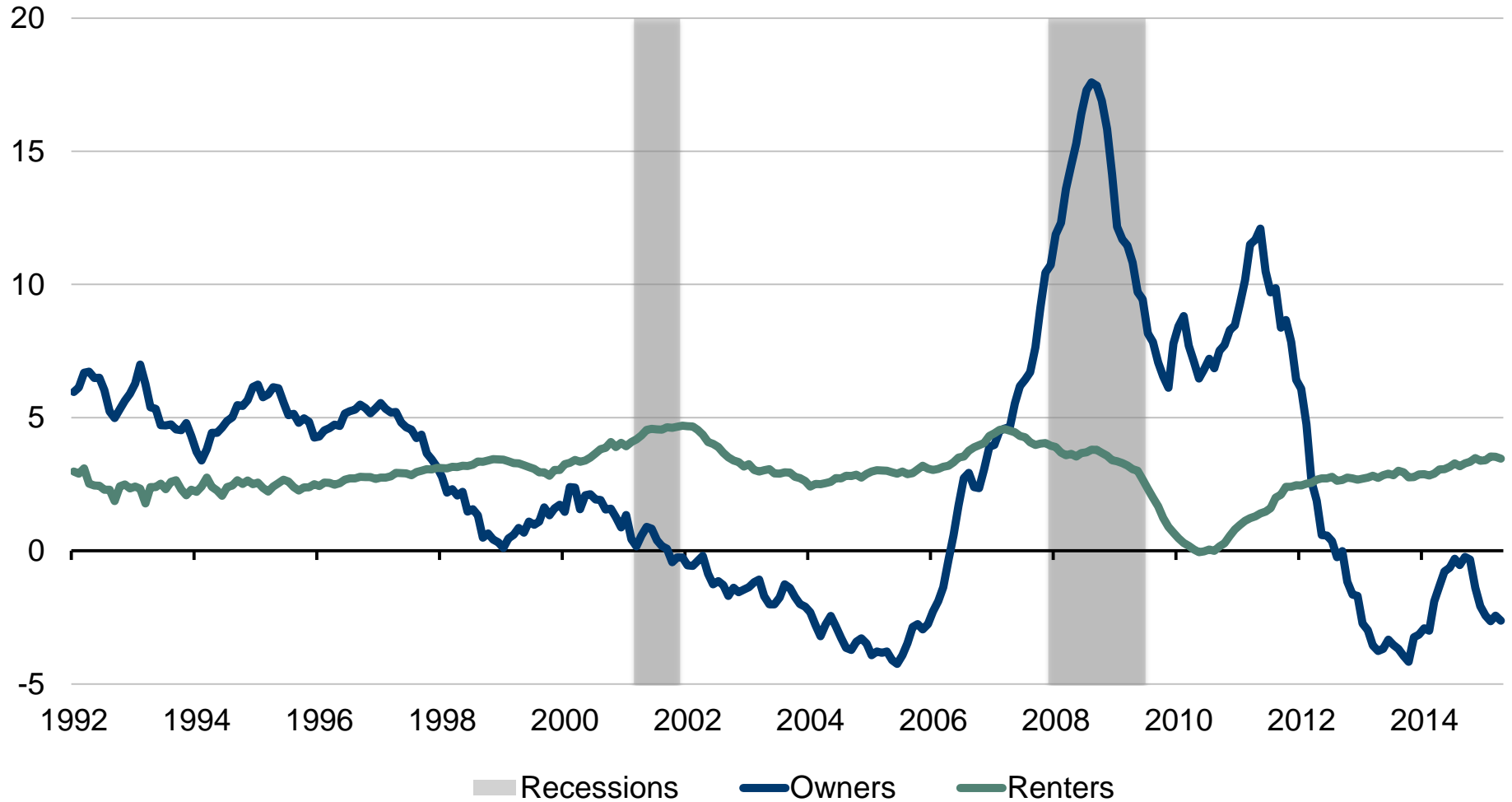
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Source: Freddie Mac, Census Bureau, 2014

The Annualized Cost of Housing

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



Source: Freddie Mac, BLS, FHFA, April 2015

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