Gallagher Re

Mortgage Market Report

Q1 2024 - Executive Summary

Contents

1 Introduction

Gallagher Re is pleased to provide the quarterly Mortgage Market Report for Q1 2024.

The report seeks to highlight the major economic mortgage drivers along with CRT Performance and an origination quality index both derived from Freddie Mac's ACIS® & STACR® Programs.

The latest quarterly economic indicators reveal a robust performance in key areas. Gross Domestic Product ("GDP") has shown continued strength, expanding by 1.2% in the quarter and 4.9% on an annual basis (see: *Gross Domestic Product*). The unemployment rate remains low at 3.7% (see: *Unemployment Rate*). Personal income per capita has steadily risen, reaching an all-time high of $68.7K per household (see: *Personal Income per Capita*). The labor force participation continues to slowly expand and is now in line with the participation rate observed during 2015-2018 (see: *Labor Force Participation Rate*). The Consumer Price Index ("CPI") surprised on the downside during the fourth quarter leading to expectations of rate cuts in 2024. The change in expectations for rates in 2024 resulted in a rapid decline in mortgage rates from a peak of 7.8% in October to 6.6% by the end of December (see: *Mortgage Rate Developments*). The Federal Housing Finance Agency ("FHFA") announced that the conforming loan limit for 2024 will be $766,550 up $40,350 from 2023.

Anders Klintoe,
Head of Mortgage

The increase in rates since early-2022 has resulted in a significant decrease in mortgage originations, as sellers are less incentivized to list their properties due to the "lock-in" effect caused by high rates, and existing homeowners are disincentivized from refinancing, as their current rates are significantly below the current market rates. This has resulted in a much smaller market along with decreased prepayment speeds (see: *Origination Volume*).

Despite low levels of originations and high mortgage rates, home prices continued increasing throughout 2023 and are up 6.3% year-over-year. The home price index continues to set new highs and has surpassed its 2022 highs (see: *National House Price Change*). On a year-over-year basis only Louisiana is showing declining home prices (-0.8%). All other states are showing growth ranging from 1.2% to 12.8%. The strongest areas of growth are the Midwest and the East Coast in particular the Northeast (see *Annual State Level House Price Change*).

The Bureau of Economic Analysis has partially completed its 2023 Comprehensive Update of the National Economic Accounts. Quarterly data for the most recent quarter and going back to 2018 is now available and has been in the report. As part of the update the base year is now 2017 compared to 2012 under the prior methodology. When additional historical data becomes available, we will include it in the report.

To request a version of the full report, please reach out to a member of the mortgage team.

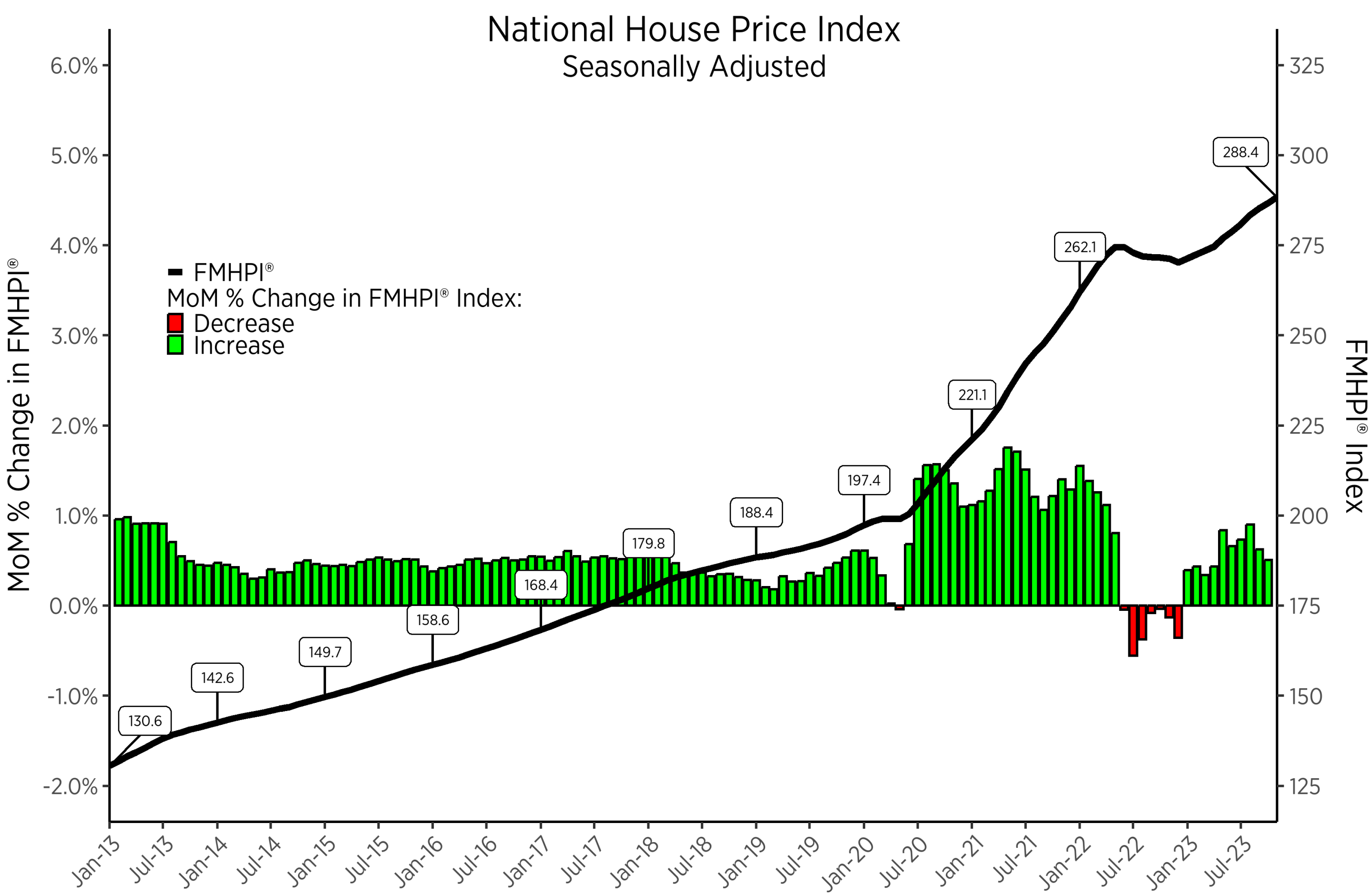
2 Mortgage Market & CRT Performance

The following sections highlight key mortgage market indicators along with CRT Performance.

2.1 House Prices

2.1.1 National House Price Change

The graph displayed below presents Freddie Mac's seasonally adjusted Home Price Index at a national level. It illustrates a consistent rise in house prices from 2014 to 2020, followed by a notable acceleration during the Covid-19 period. 2023 has fully reversed the decline observed in the latter half of 2022, bringing national house prices above the previous high in June 2022. Year-over-year (YoY), prices have increased by approximately 6.3%.



Source: Freddie Mac's FMHPI® as of Dec-23

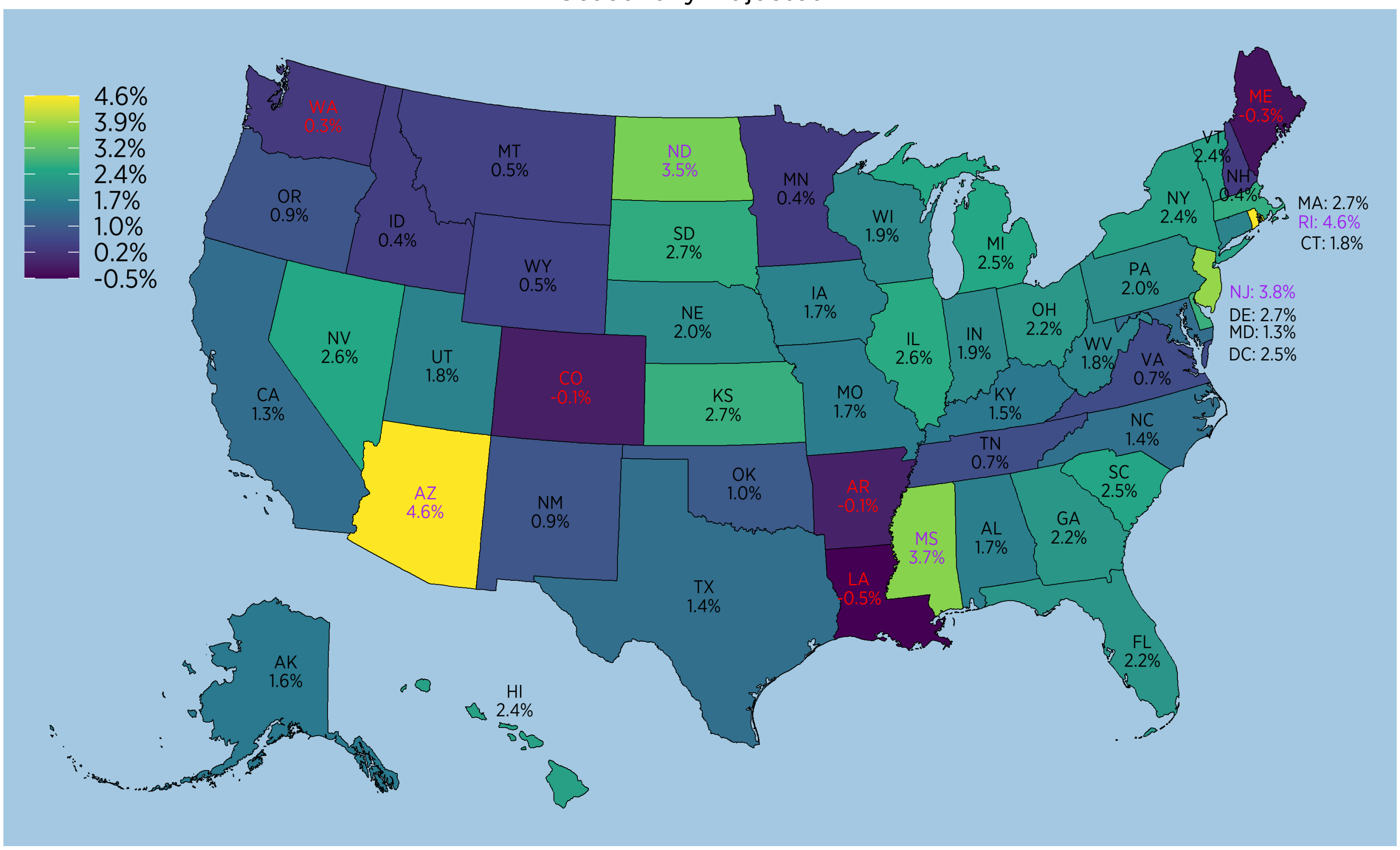
2.1.2 Quarterly State Level House Price Change

The graph below showcases Freddie Mac's seasonally adjusted Home Price Index at the state level. In the most recent quarter, we witnessed broad increases in home prices across the country, with the only exceptions being Louisiana, Arkansas, Colorado, and Maine. Notably, Arizona and Rhode Island experienced the largest increase during this period.

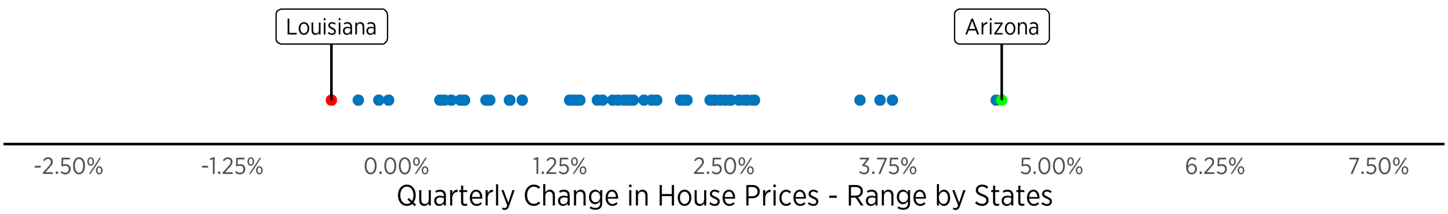
States with a purple label are among the 5 states with the strongest growth/lowest decline, while states with a red label are among the 5 lowest growth/largest decline.

Quarterly Change in FMHPI® by State

Seasonally Adjusted



Source: Freddie Mac's FMHPI® as of Dec-23

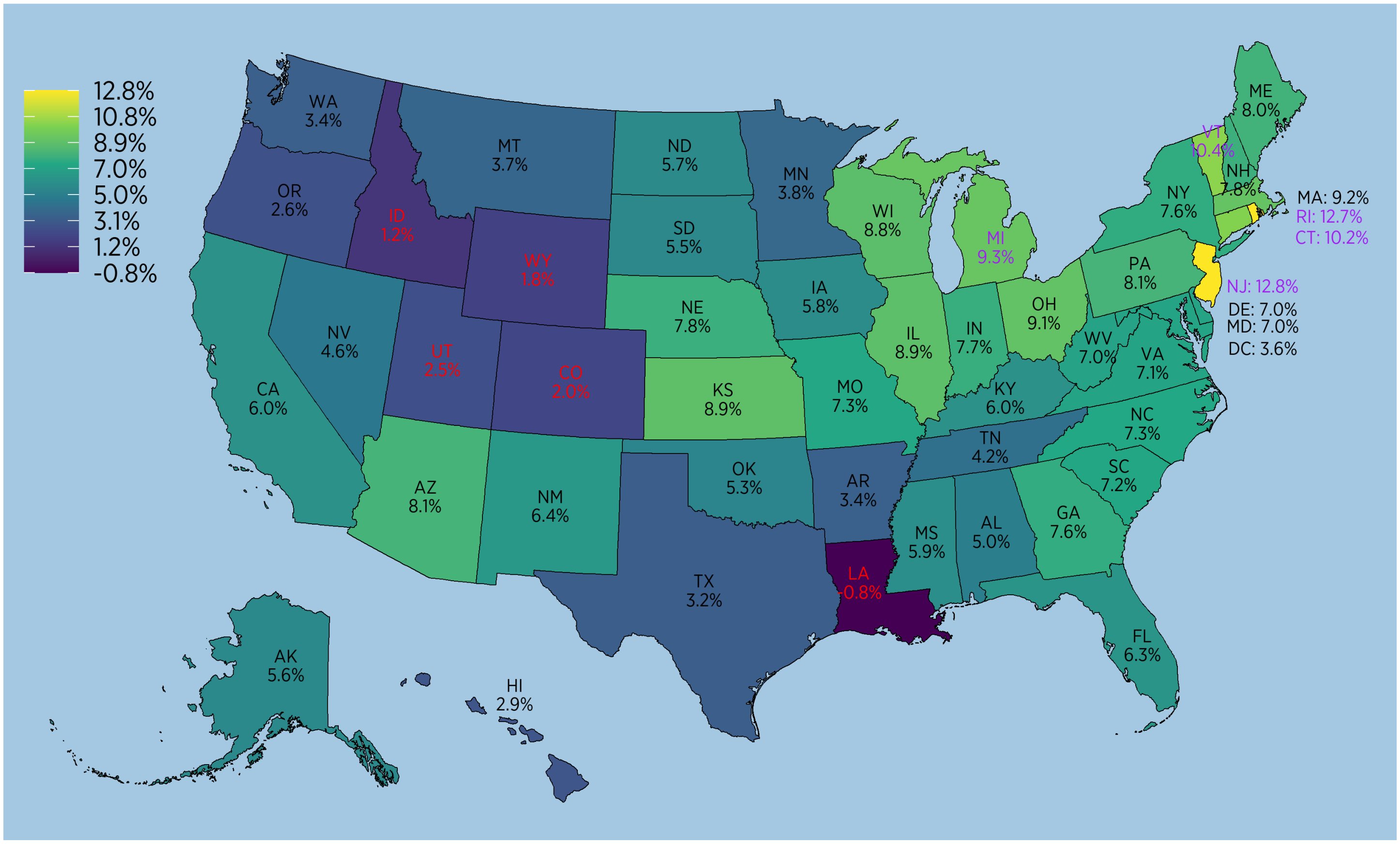


2.1.3 Annual State Level House Price Change

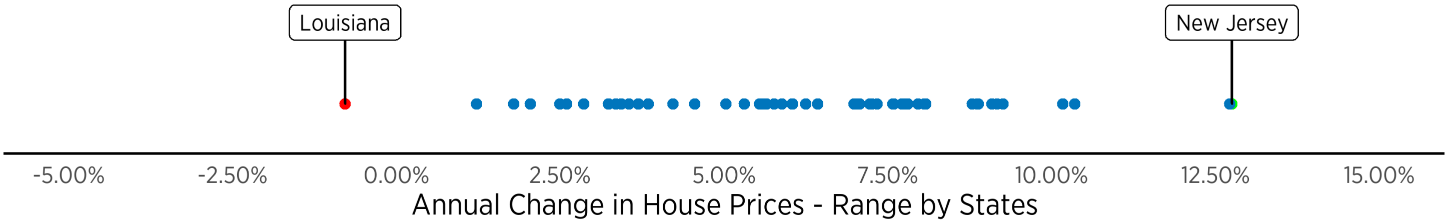
The graph presented below illustrates Freddie Mac's seasonally adjusted Home Price Index at a state level. On an annual basis, 49 of the 50 states experienced growth in house prices with the Midwest and East Coast showing particular strength. The West Coast continues rebounding from the decline observed in the latter part of 2022 and early part of 2023.

States with a purple label are among the 5 states with the strongest growth/lowest decline, while states with a red label are among the 5 lowest growth/largest decline.

Annual Change in FMHPI® by State
Seasonally Adjusted



Source: Freddie Mac's FMHPI® as of Dec-23



2.2 Mark-To-Market LTV

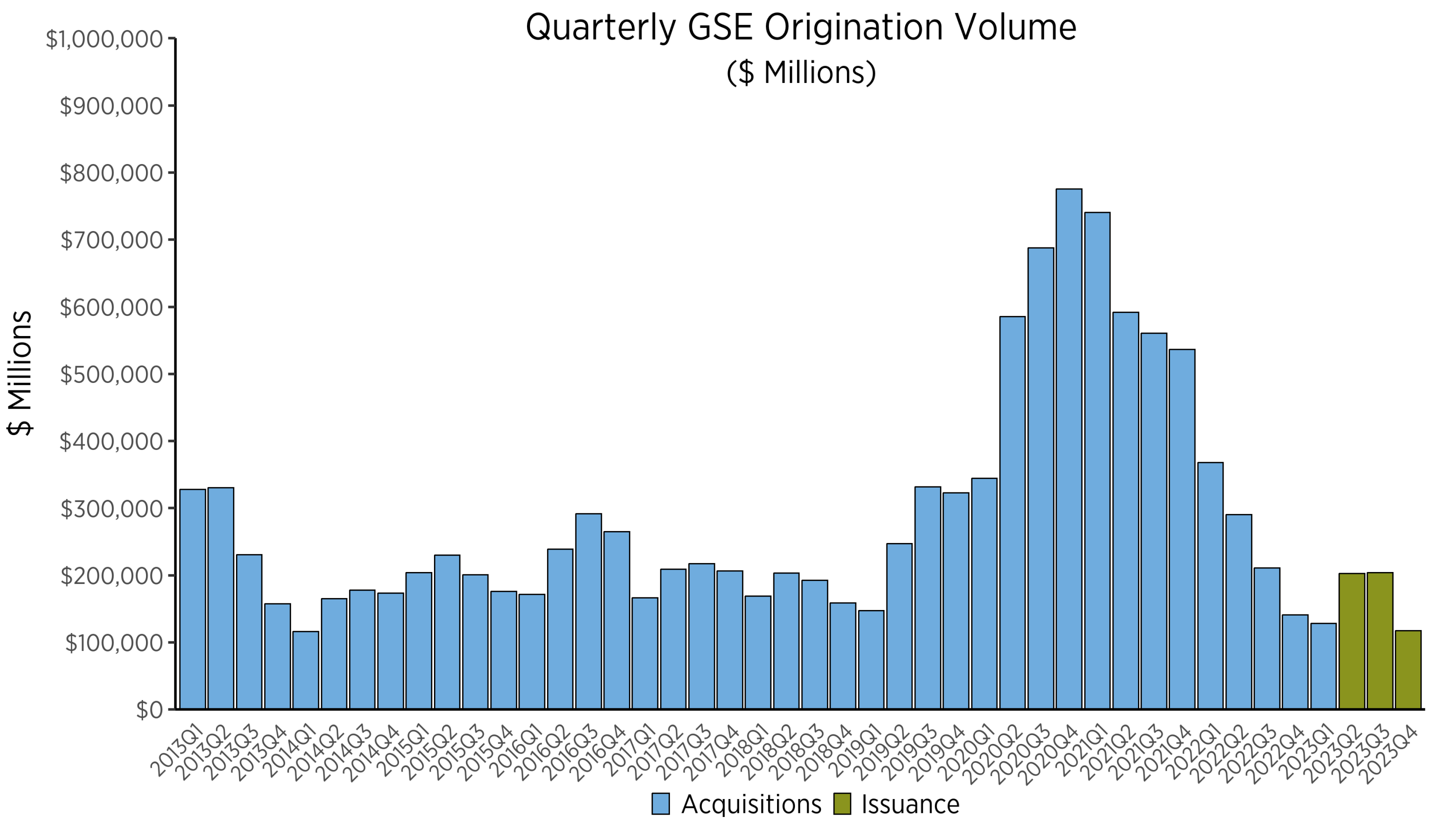
2.3 Cost to Own vs. Rent

Sections available in the full report

2.4 Origination Volume

The chart below shows the overall GSE volume by quarter. 2013-2022 volume is based on the National Mortgage Database ("NMBD") information for GSE Acquisitions (Labelled "Acquisitions"). This dataset is published quarterly with a 3 quarter delay. For 2023 data we utilize the monthly volume reports issues by the GSE's to estimate the Acquisitions (Labelled "Issuance"). Please note there could be a slight timing mismatch along with a different data definition as the volume reports show the value of issued securities and not the balance of the underlying mortgages.

There has been a significant decline in overall volume in 2022 and 2023 due to the rise in interest rates and the volume is the lowest observed since the inception of the CRT Programs.



Sources: Freddie Mac & Fannie Mae Monthly Volume Summaries as of Nov-23
FHFA's National Mortgage Database
Note: Q3 2023 data only includes 2 months

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2.5 Origination Credit Quality Index

2.6 Loan Purpose

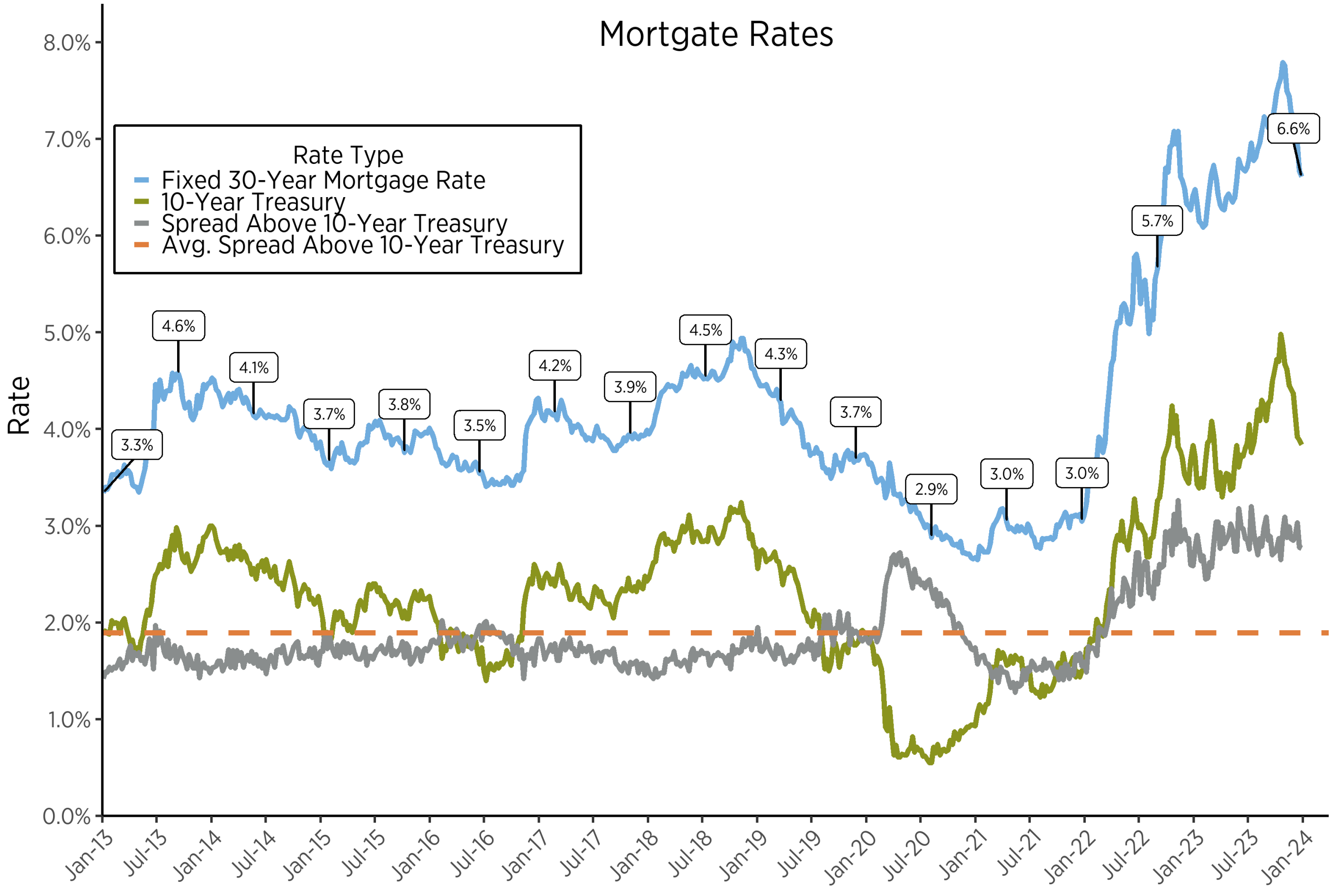
Sections available in the full report

2.7 Mortgage Rates

The following pages highlight the movement in mortgage rates along with the potential for prepayments.

2.7.1 Mortgage Rate Developments

The graph below is based on data from Freddie Mac's Primary Mortgage Market Survey® and depicts a pronounced upward trend in mortgage rates since the start of 2022. From December 2021 to October 2023, the Fixed 30-year rate surged from 3.3% to 7.8%, reaching its highest level since 2006 (not shown on the graph). In the last two months of 2023 rates retreated back to 6.6%. The spread between the 10-year treasury and the fixed 30-year mortgage rate is currently 2.75% which is well above the historical average of 1.9%. A compression of this spread could provide an opportunity for mortgage rates to decline further.



Sources: Freddie Mac's Primary Mortgage Market Survey® as of 12/28/2023
Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/DGS10

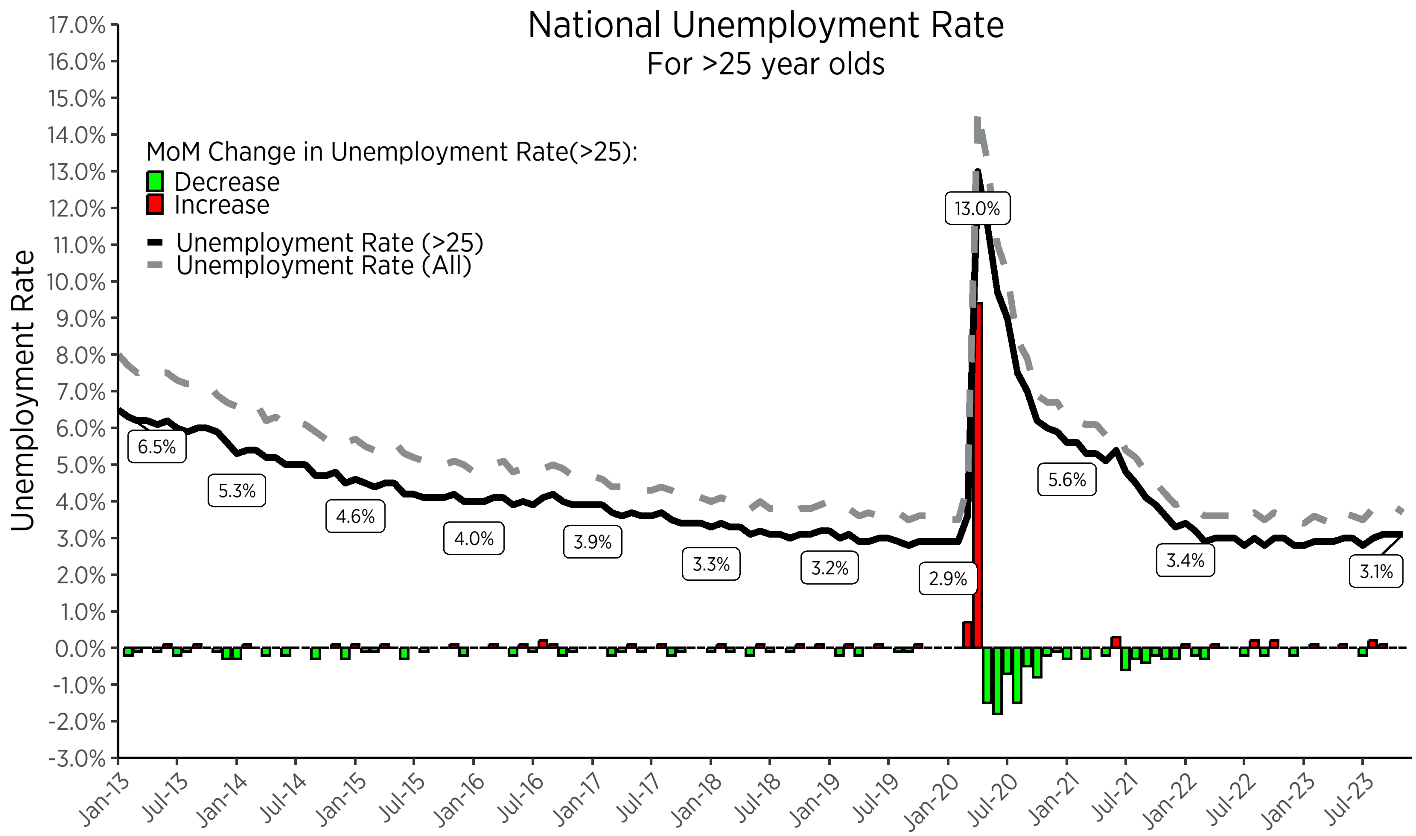
Sections available in the full report

3 National Level Macroeconomic Indicators

The following section highlights national macroeconomic indicators.

3.1 Unemployment Rate

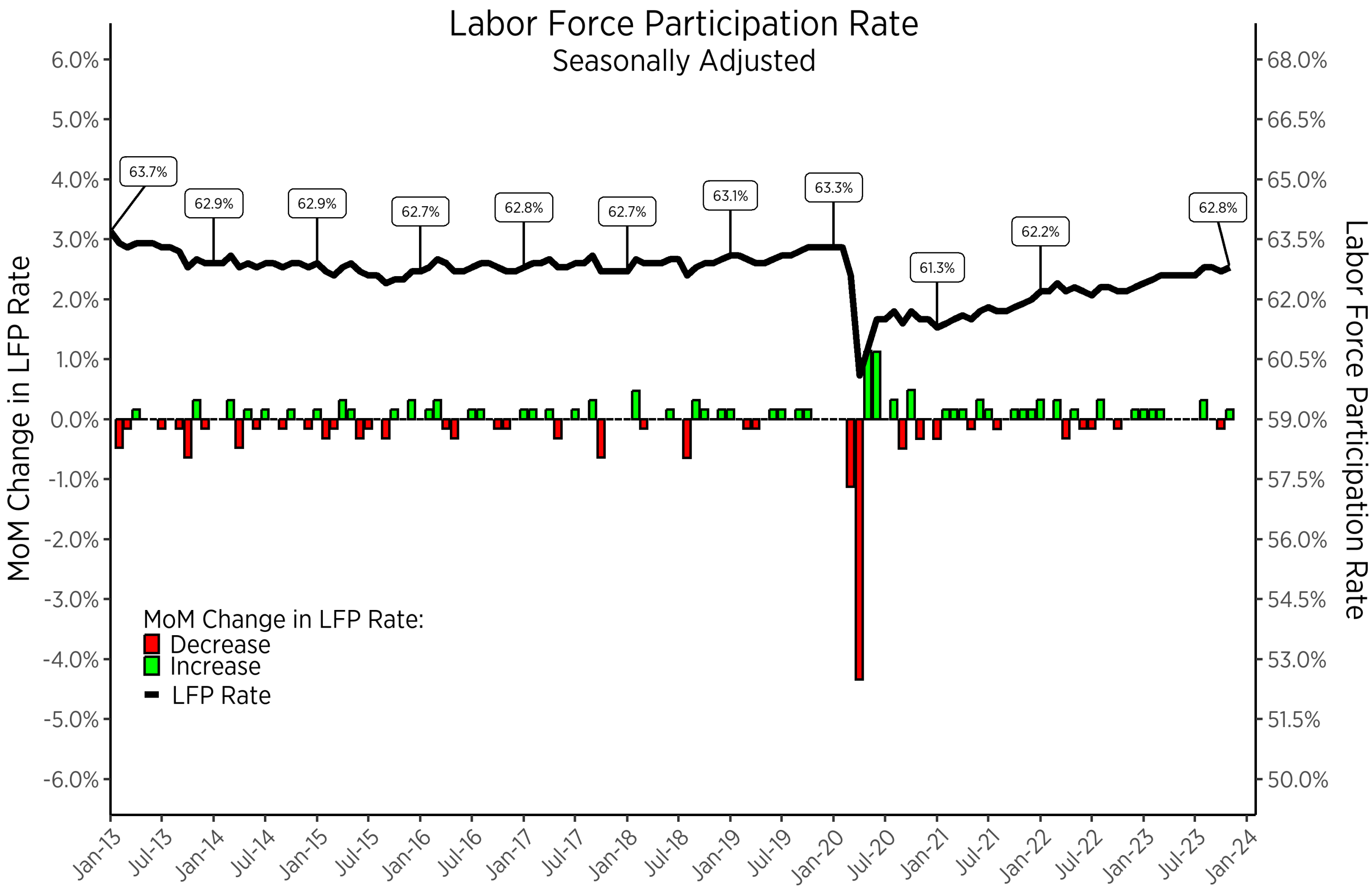
The graph below represents the *seasonally adjusted unemployment rate for individuals aged 25 years and older*, as calculated by the Bureau of Labor Statistics. We specifically utilize this unemployment index since the homeownership rate tends to be higher among this particular age group compared to the standard unemployment rate. To provide context for comparison, we also include the standard unemployment rate in the graph.
From 2013 to 2020, there was a consistent decline in the unemployment rate, which decreased from 6.5% to 2.9%. However, with the onset of the Covid-19 pandemic, the unemployment rate experienced a significant spike, reaching 13%. The rate quickly recovered and returned to pre-Covid levels. Over the past year, the unemployment rate has remained stable.



Source: Bureau of Labor Statistics as of Dec-23

3.2 Labor Force Participation Rate

The graph below represents the seasonally adjusted Labor Force Participation ("LFP") Rate, as calculated by the Bureau of Labor Statistics. From 2013 to 2019, the overall LFP rate remained relatively stable with minimal changes. However, with the emergence of the Covid-19 pandemic, the LFP rate experienced a notable decline. It has since slowly expanded and is now in line with the LFP rate observed during 2015-2018.

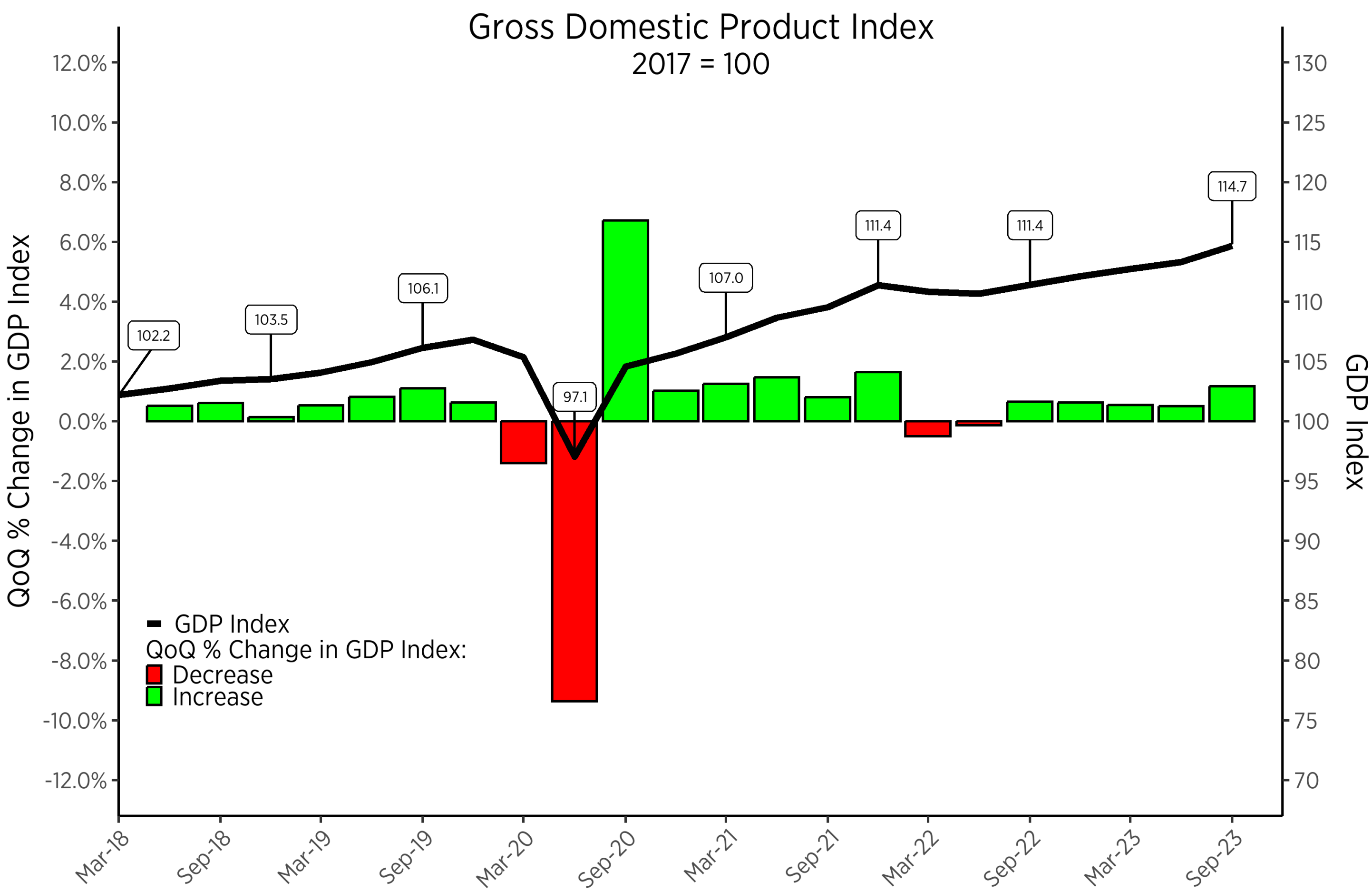


Source: Bureau of Labor Statistics as of Dec-23

3.3 Gross Domestic Product

The graph below depicts the Chain-type quantity Gross Domestic Product (GDP) index, as calculated by the Bureau of Economic Analysis. From 2018 until the outbreak of Covid-19, the index displayed a steady increase. However, as a result of the pandemic, a temporary decline occurred. The index swiftly rebounded and reached an all-time high in Q4 2021. Following two consecutive quarters of minor declines, the index reversed its course in the second half of 2022 and has continued to rise throughout 2023. As of now, the index sits at an all-time high.

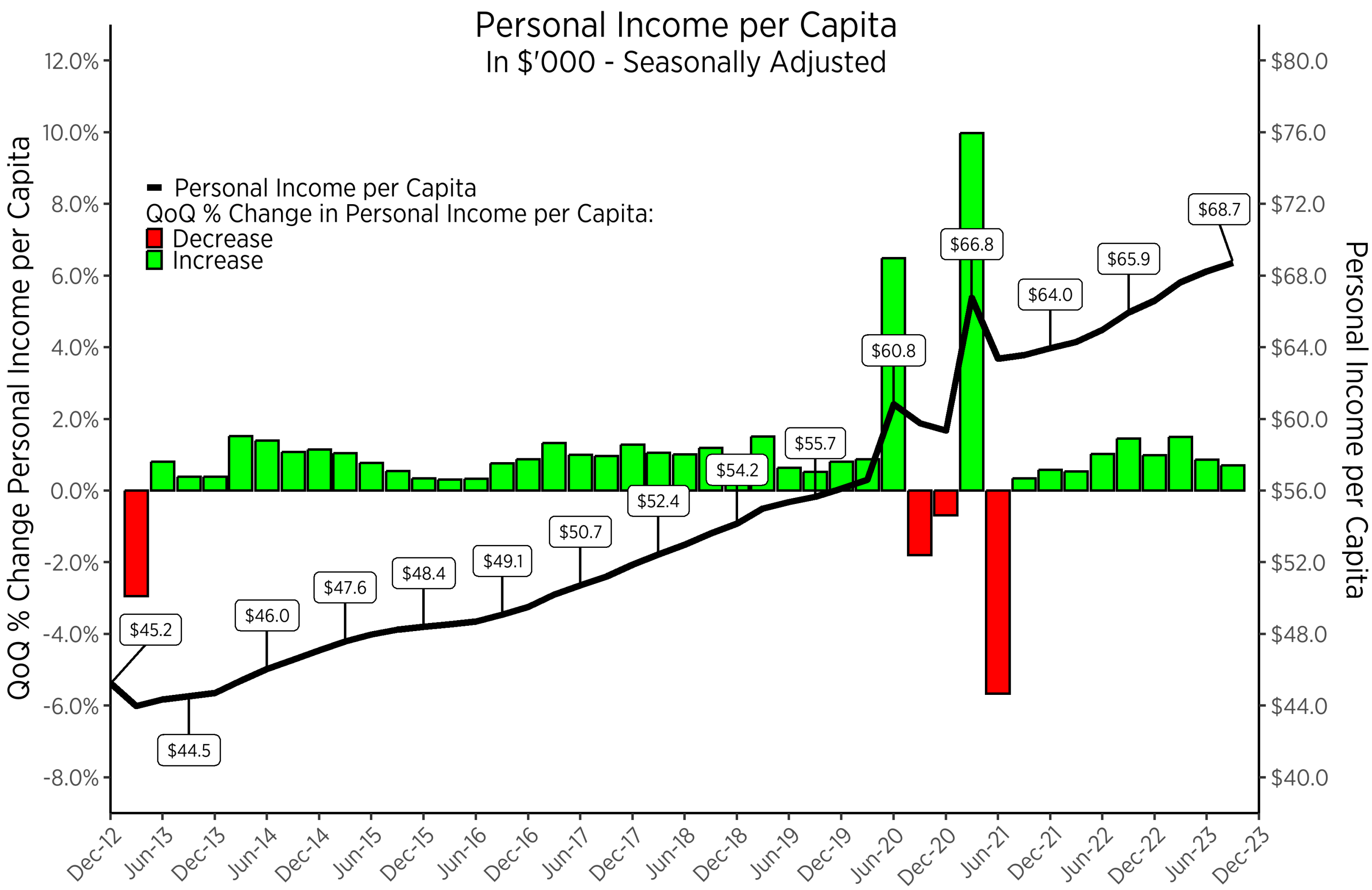
Special note: Once the Bureau of Economic Analysis completes their 2023 Comprehensive Update of the National Economic Accounts the graph will be expanded to include years going back to 2013.



Source: Bureau of Economic Analysis as of Q3 2023

3.4 Personal Income per Capita

The graph below represents the seasonally adjusted personal income per capita, as calculated by the Bureau of Economic Analysis. Over time, personal income has shown growth, increasing from $45.2K to $68.7K (+$0.5K during the last quarter). The pronounced volatility observed in 2020-2021 can be attributed to one-time boosts resulting from stimulus checks associated with Covid-19 relief measures.



Source: Bureau of Economic Analysis as of Q3 2023

4 State-Level Macroeconomic Indicators

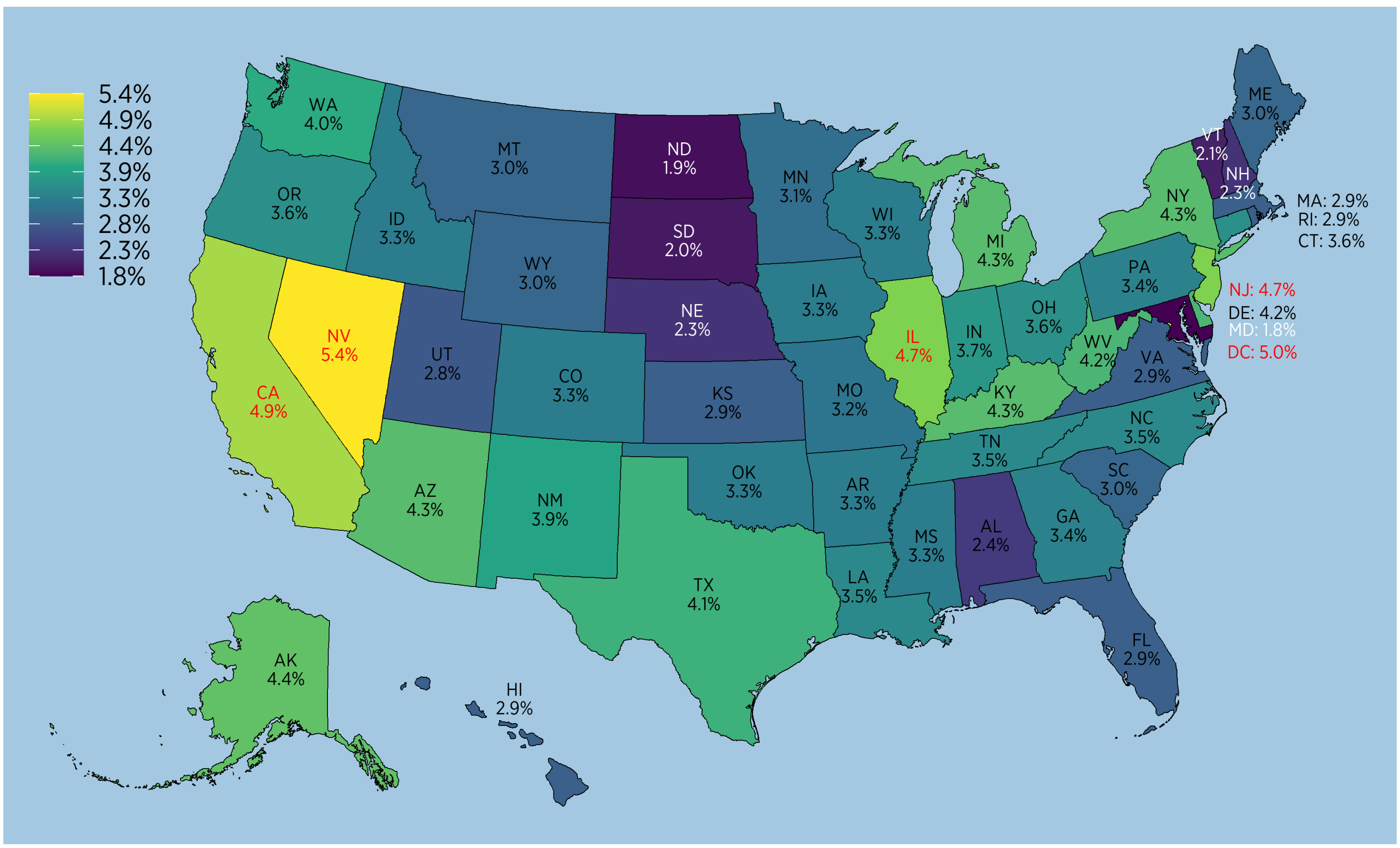
The following section highlights state-level macroeconomic indicators.

4.1 Unemployment Rate

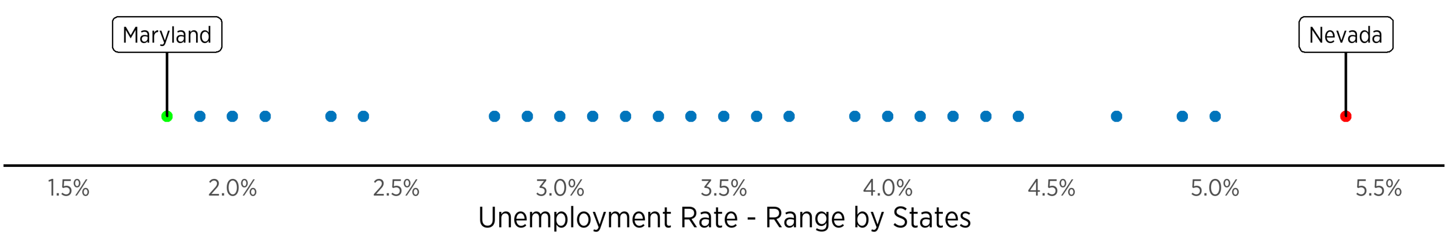
The graph below represents the overall seasonally adjusted unemployment rate, as calculated by the Bureau of Labor Statistics. This unemployment index is utilized as the ">25 year old" index is not available on a state level. The overall unemployment rate has remained consistently low; however, some areas of weakness are observed specifically on the West Coast and in Nevada.

States with a white label are among the 5 states with the lowest unemployment rate, while states with a red label are among the 5 highest.

Unemployment Rate by State



Source: Bureau of Labor Statistics as of Dec-23

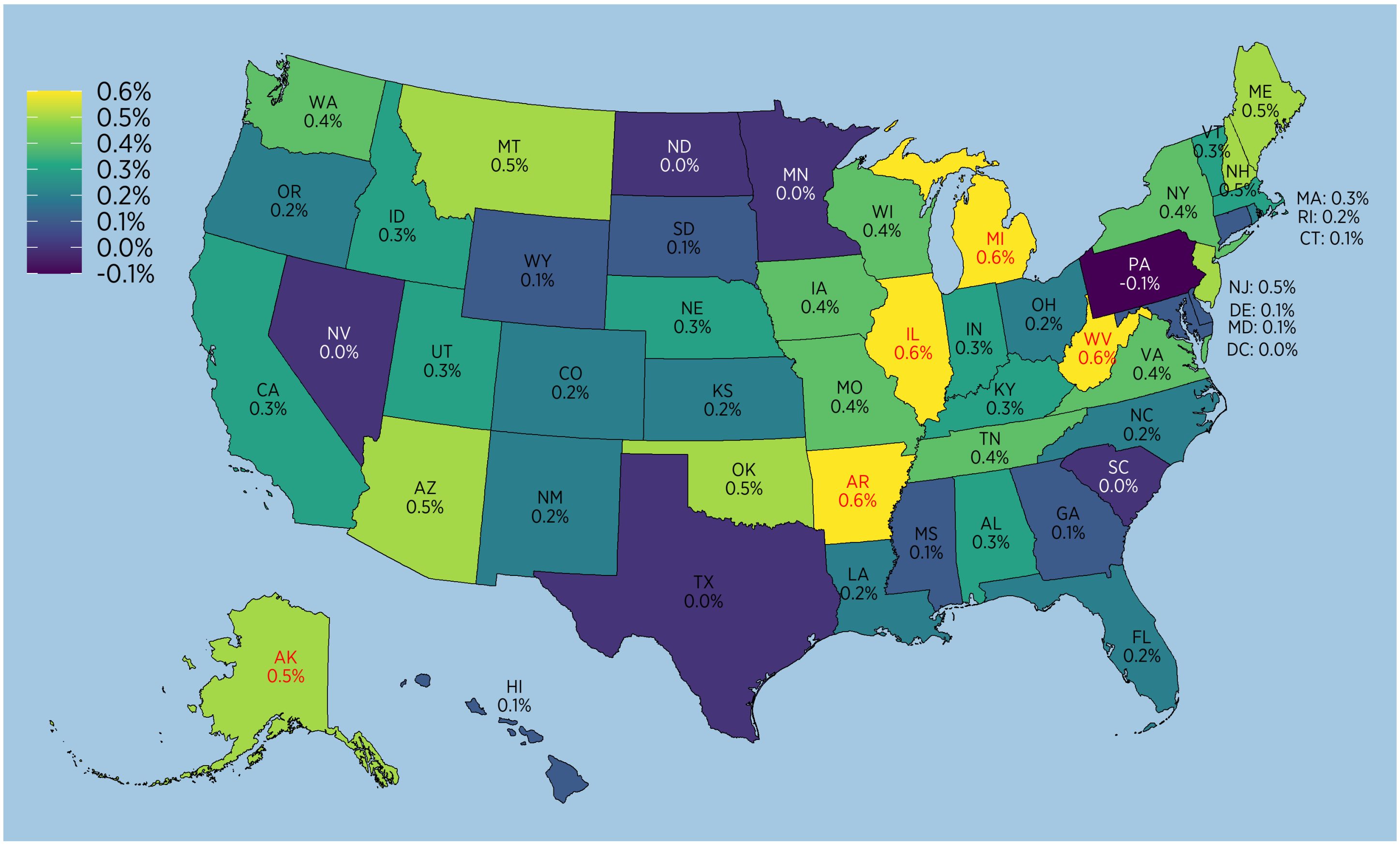


4.1.1 Quarterly Unemployment Rate Change

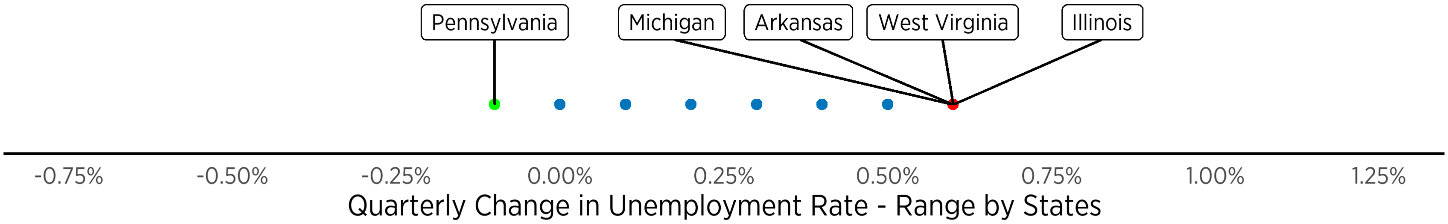
The graph below illustrates the quarterly change in the seasonally adjusted unemployment rate, as calculated by the Bureau of Labor Statistics. During the last quarter, there was minimal overall change in the unemployment rate. The largest increase occurred in Arkansas, Illinois, Michigan, and West Virginia, all with a 0.6% rise. Pennsylvania was the sole state experiencing a decrease in the current quarter, with a decline of -0.1%.

States with a white label are among the 5 states with the biggest decrease/smallest increase in unemployment rate, while states with a red label are among the 5 smallest decrease/largest increase.

Quarterly Change in Unemployment Rate by State



Source: Bureau of Labor Statistics as of Dec-23

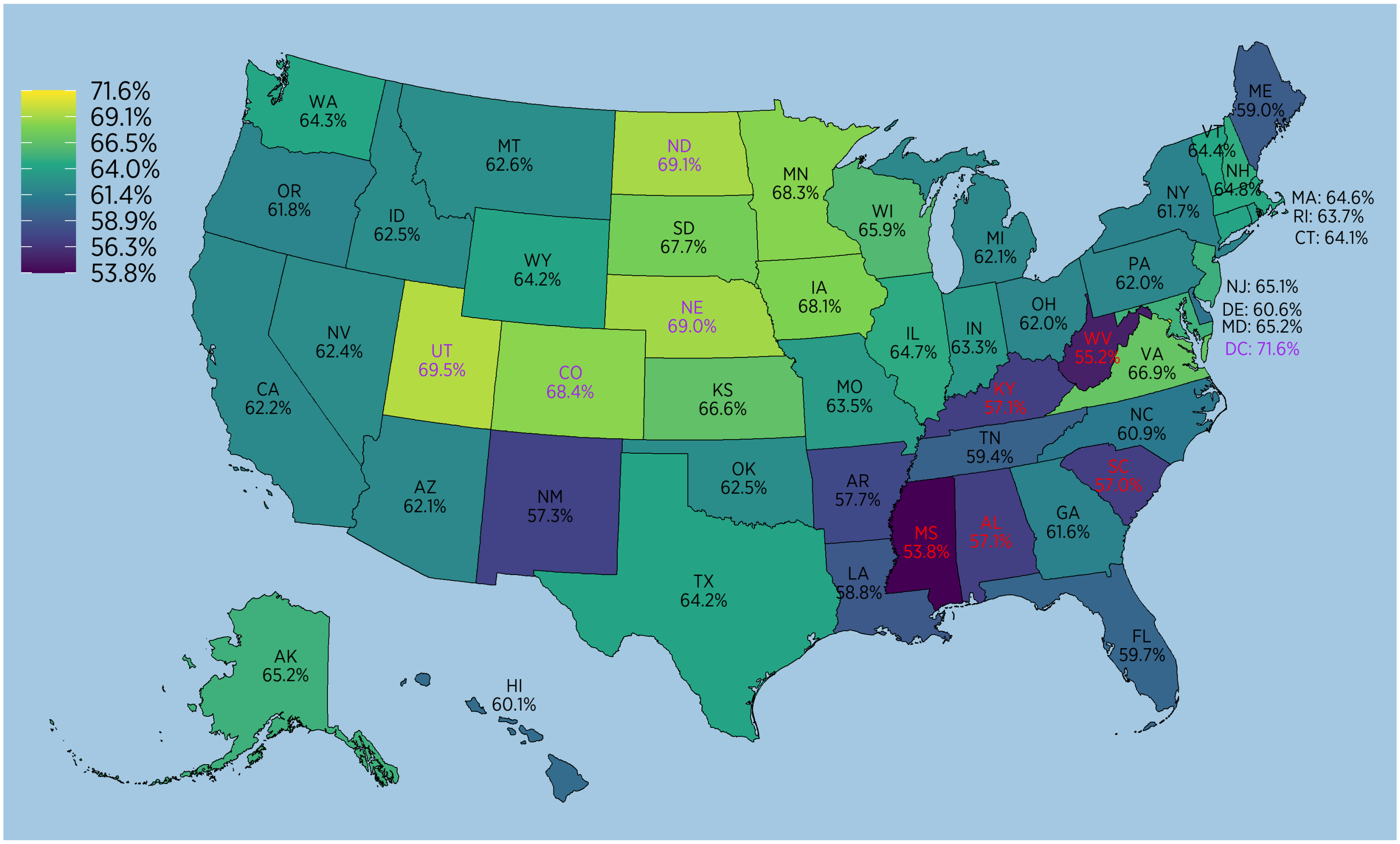


4.2 Labor Force Participation Rate

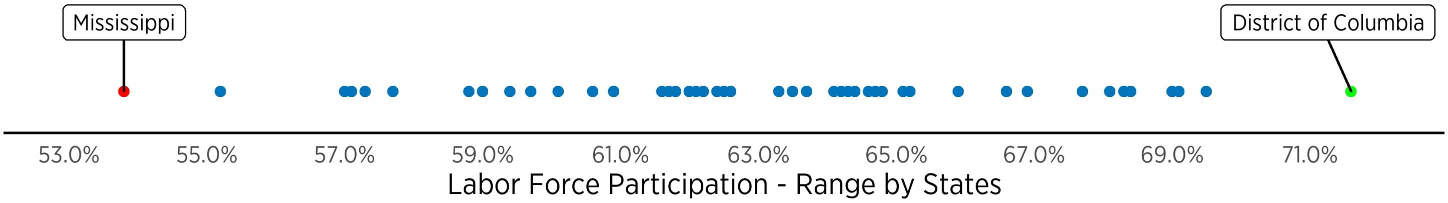
The graph below presents the seasonally adjusted Labor Force Participation (LFP) rate, as calculated by the Bureau of Labor Statistics. The Midwest and parts of the Mountain West region have the highest LFP rate, while the Southeastern states have the lowest.

States with a purple label are among the 5 states with the highest LFP rate, while states with a red label are among the 5 lowest.

Labor Force Participation by State



Source: Bureau of Labor Statistics as of Dec-23

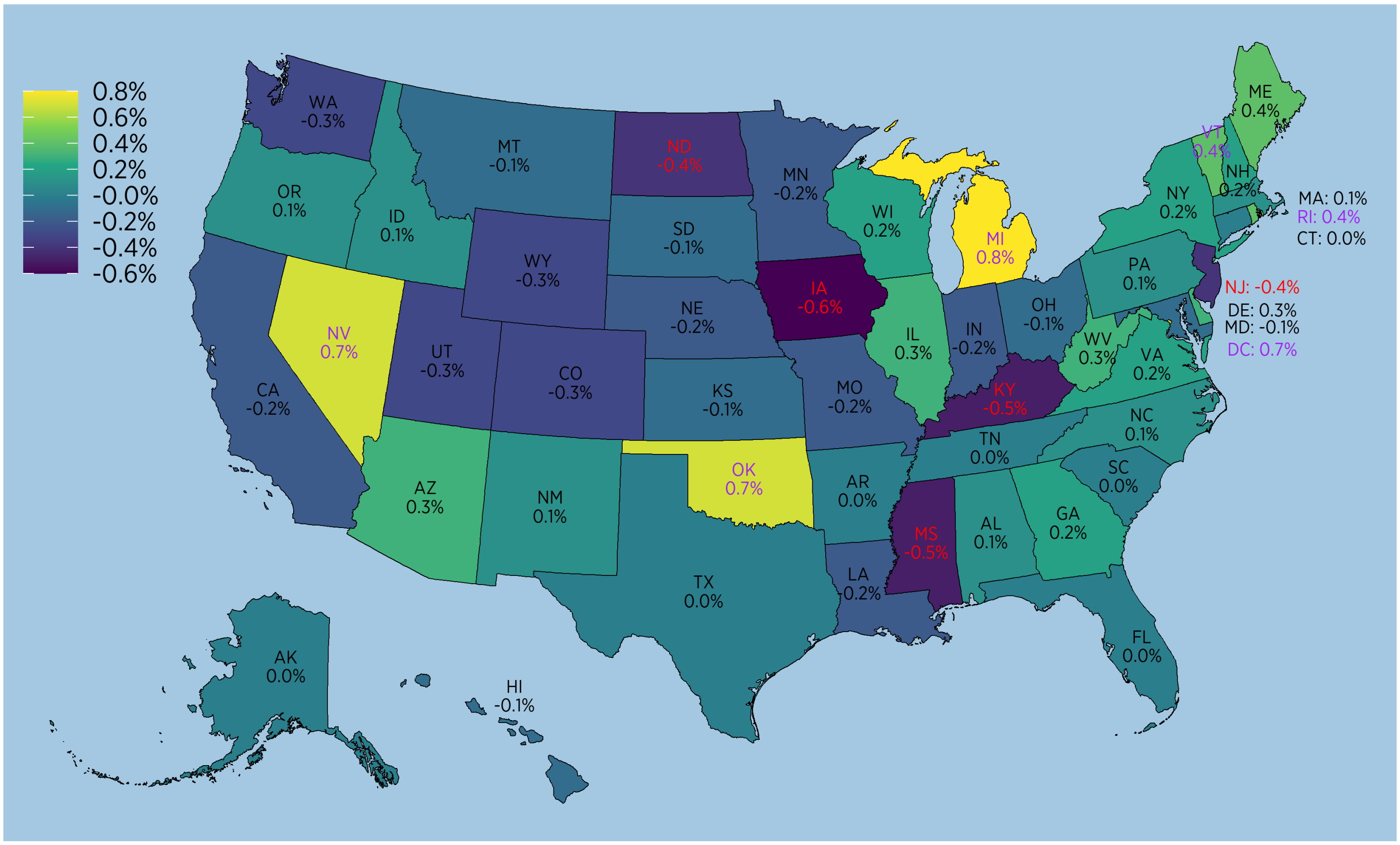


4.2.1 Quarterly Labor Force Participation Rate Change

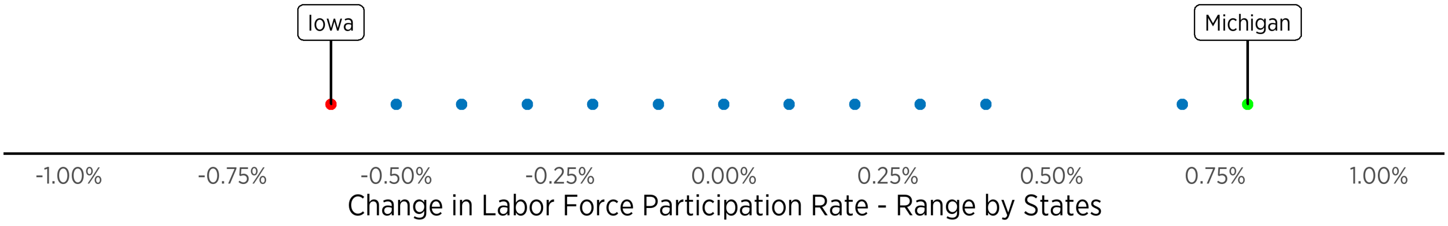
The graph below illustrates the quarterly change in the seasonally adjusted Labor Force Participation (LFP) rate, as calculated by the Bureau of Labor Statistics. Overall, there was a slight increase in the LFP rate across the country during the last quarter. Notably, Iowa, Mississippi and Kentucky experienced a significant drop of 0.5% - 0.6% in their LFP rate. Michigan observed the strongest growth in the LFP Rate at 0.8%.

States with a red label have seen the biggest decrease in the LFP rate during the last quarter, while states with a purple label have seen the largest increase during the latest quarter.

Quarterly Change in Labor Force Participation Rate by State



Source: Bureau of Labor Statistics as of Dec-23



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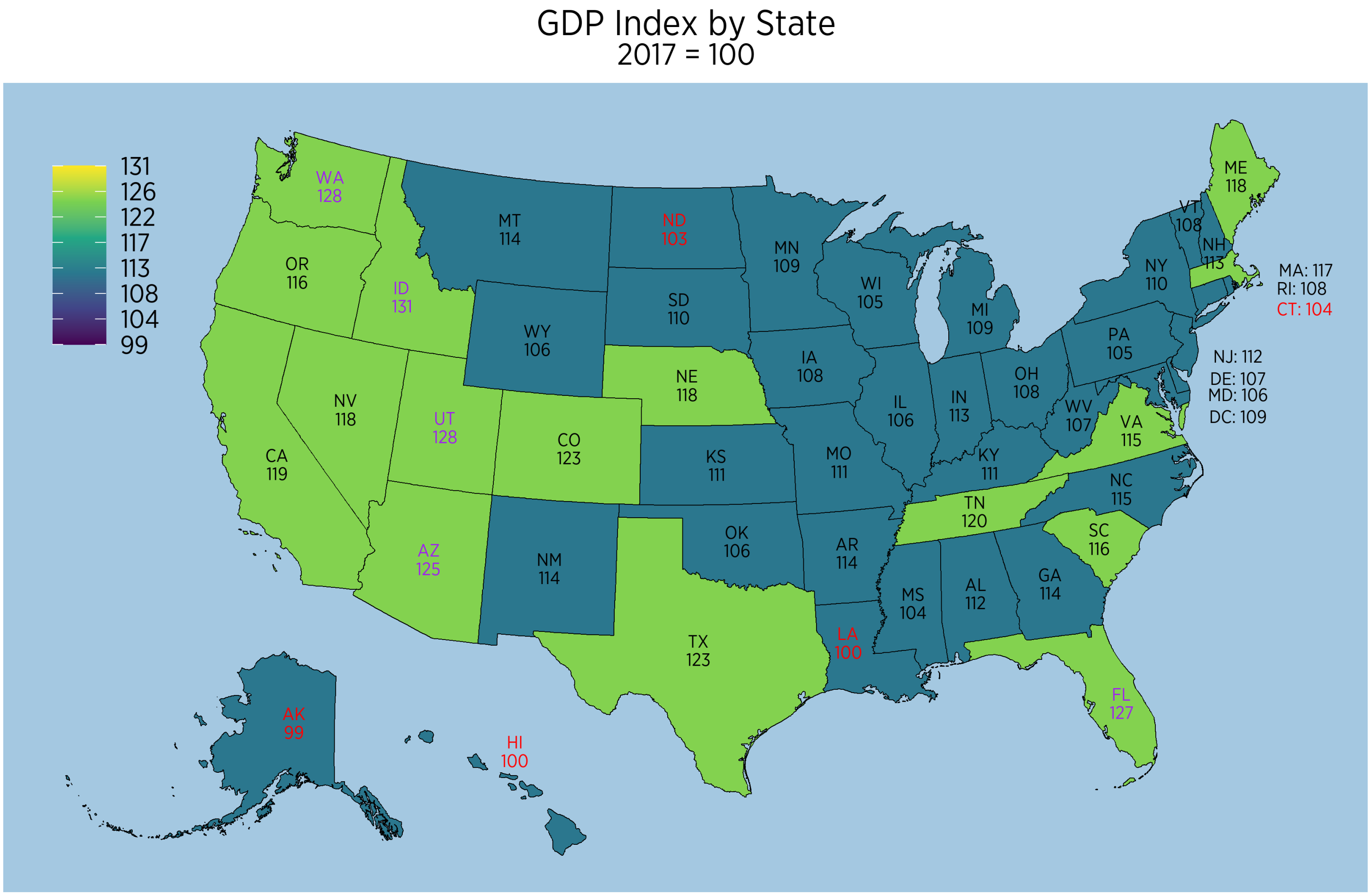
4.3 Gross Domestic Product

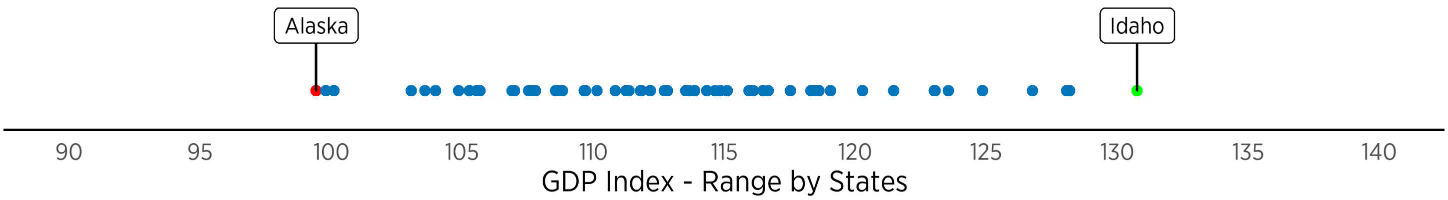
The graph below displays the current Gross Domestic Product (GDP) index, as calculated by the Bureau of Economic Analysis. Since 2017, the regions experiencing the strongest growth have been the West Coast, Mountain West, along with Florida and Texas.

States with a purple label are among the 5 states with the highest GDP Index, while states with a red label are among the 5 lowest.

Special note: The graph below is unchanged from last quarter due to delayed release of data following the 2023 Comprehensive Update of the National Economic Accounts.



Source: Bureau of Economic Analysis as of Q3 2023



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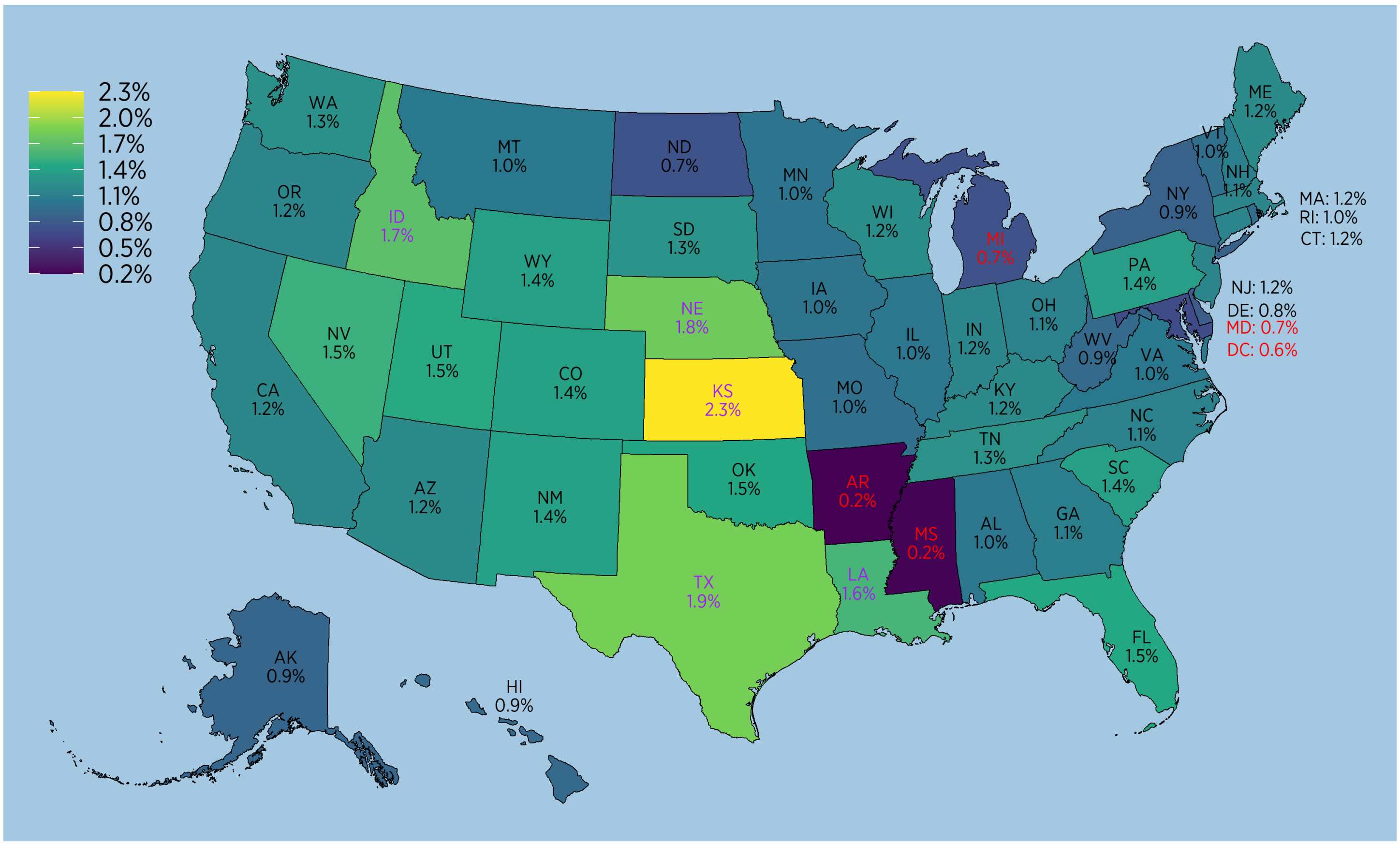
4.3.1 Quarterly GDP Change

The graph below represents the change in real GDP during the last quarter, as calculated by the Bureau of Economic Analysis. Across most states, positive growth was observed during this period. Particularly noteworthy is the robust growth in the heartland of the Midwest.

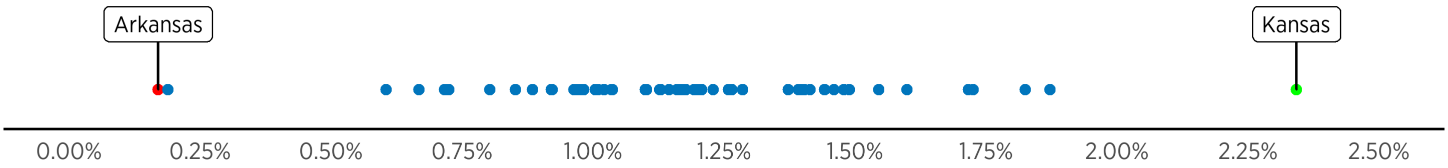
States with a purple label are among the 5 states with the strongest growth/lowest decline, while states with a red label are among the 5 lowest growth/largest decline.

Special note: Once the Bureau of Economic Analysis completes their 2023 Comprehensive Update of the National Economic Accounts the graph will be expanded to include years going back to 2013.

Quarterly Change in GDP Index by State



Source: Bureau of Economic Analysis as of Q3 2023



Quarterly Change in GDP Index - Range by States

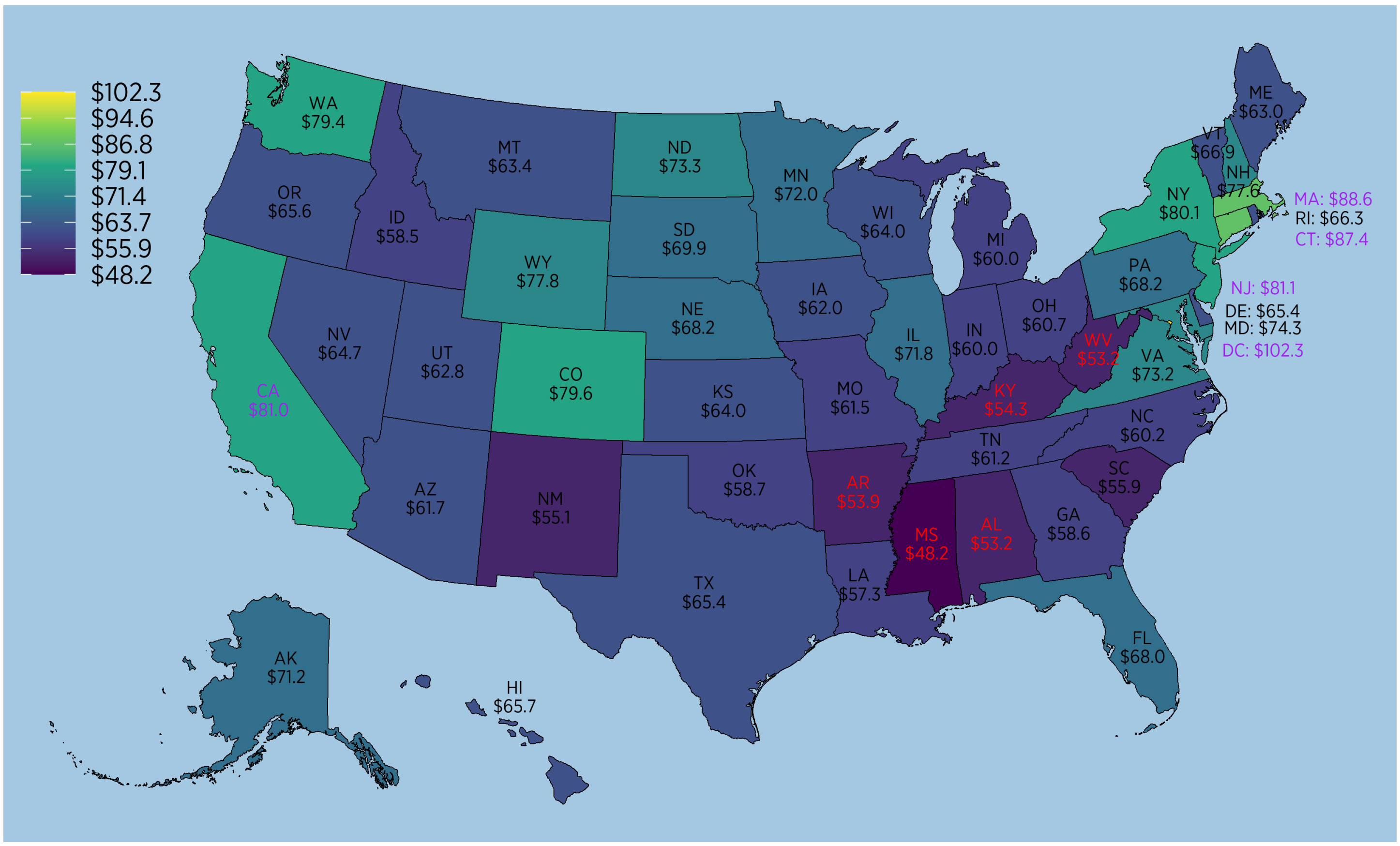
4.4 Personal Income per Capita

The graph below depicts the current seasonally adjusted Personal Income per Capita, as calculated by the Bureau of Economic Analysis. Across regions, the Northeast generally exhibits the highest Income per Capita. Notably, Washington D.C. stands out as an outlier, with a significantly higher Personal Income per Capita compared to any other state, with a difference of nearly $13K.

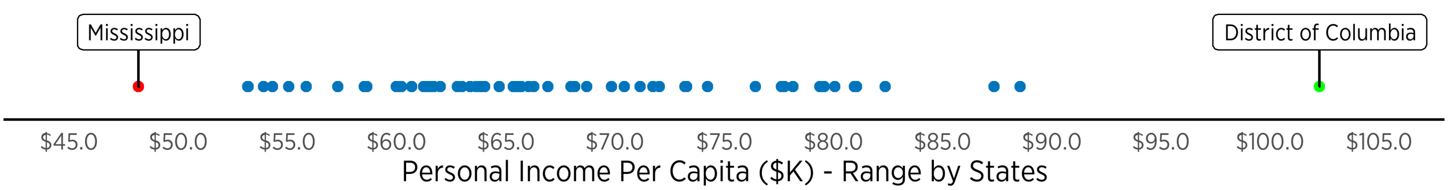
States with a purple label are among the 5 states with the strongest Income, while states with a red label are among the 5 lowest.

Personal Income per Capita by State

In $'000 - Seasonally Adjusted



Source: Bureau of Economic Analysis as of Q3 2023



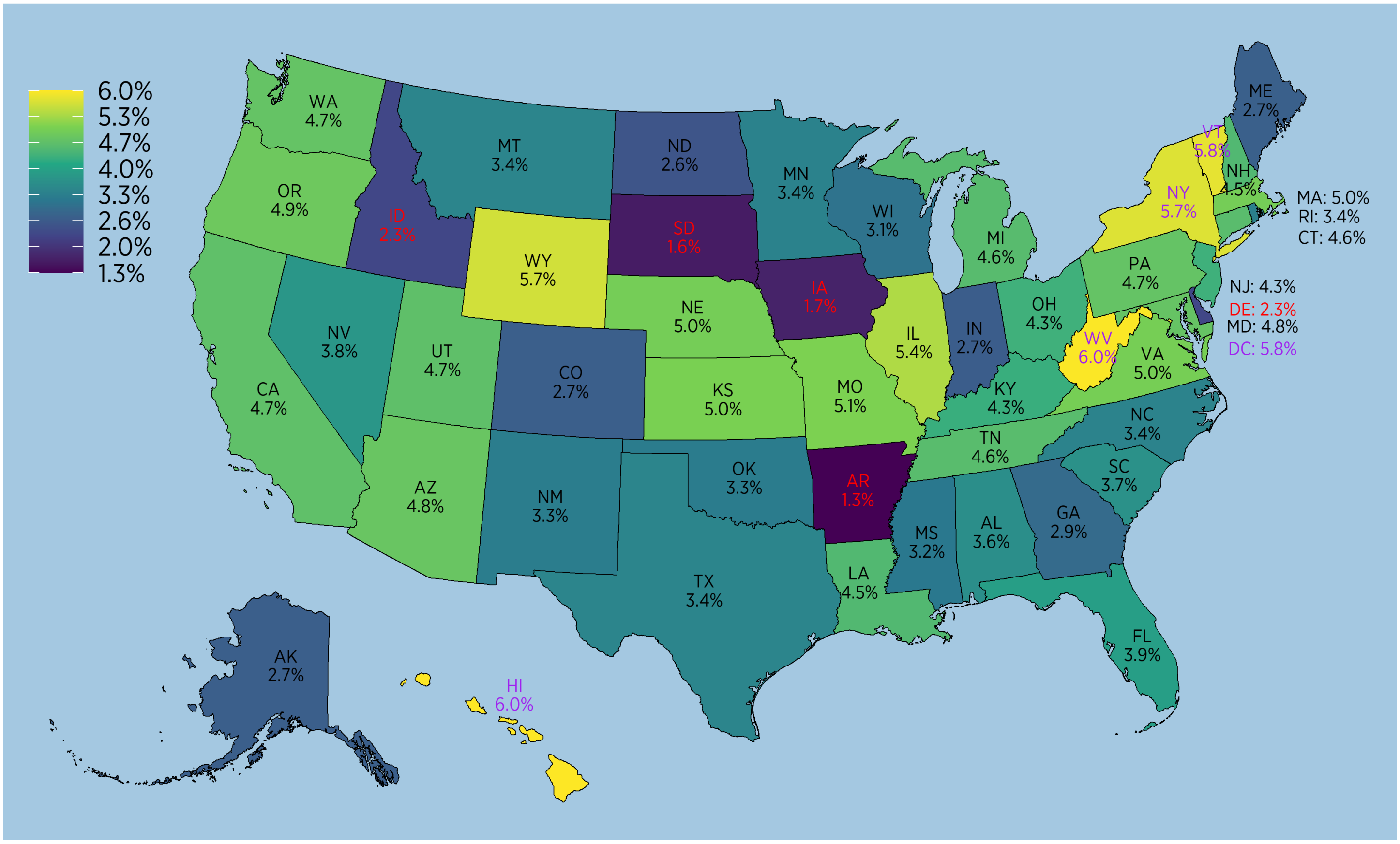
4.4.1 Annual Personal Income per Capita Change

The graph below displays the Annual Growth in seasonally adjusted Personal Income per Capita, as calculated by the Bureau of Economic Analysis. Over the past year, the Midwest region, along with Hawaii and the Northeast region, experienced the strongest growth in Personal Income. Notably, no states witnessed a decline in Personal Income per Capita during this period.

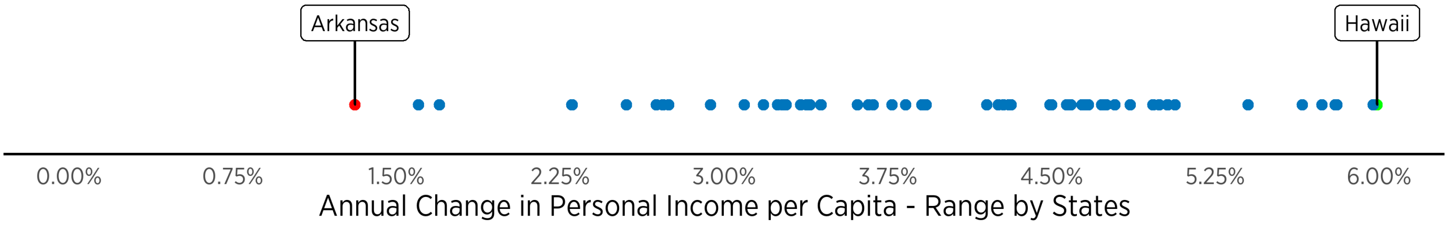
States with a purple label are among the 5 states with the strongest growth/lowest decline, while states with a red label are among the 5 lowest growth/largest decline.

Annual Change in Personal Income per Capita by State

Seasonally Adjusted



Source: Bureau of Economic Analysis as of Q3 2023



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Global and Local Reinsurance

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