Gallagher Re

Mortgage Market Report

Q2 2024 - Executive Summary

Contents

1 Introduction

Gallagher Re is pleased to provide the quarterly Mortgage Market Report for Q2 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.

Anders Klintoe,
Head of Mortgage

The latest quarterly economic indicators reveal a robust performance in key areas. Gross Domestic Product ("GDP") has shown continued strength, expanding by 0.8% in the quarter and 3.4% on an annual basis (see: *Gross Domestic Product*). The unemployment rate remains low at 3.8% (see: *Unemployment Rate*). Personal income per capita has steadily risen, reaching an all-time high of $69.4K 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 upside during the first quarter leading to expectations of a June rate cut to be diminished. The change in expectations for rates in 2024 resulted in a quick upward movement in mortgage rates from a 6.8% prior to the CPI reading to approximately 7.0% after (see: *Mortgage Rate Developments*).

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 into 2024 and are up 5.9% 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 all states are showing increasing prices with growth ranging from 0.5% (Louisiana) to 12.0% (New Jersey). The strongest areas of growth are the Midwest and East Coast in particular the Northeast (see *Annual State Level House Price Change*).

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

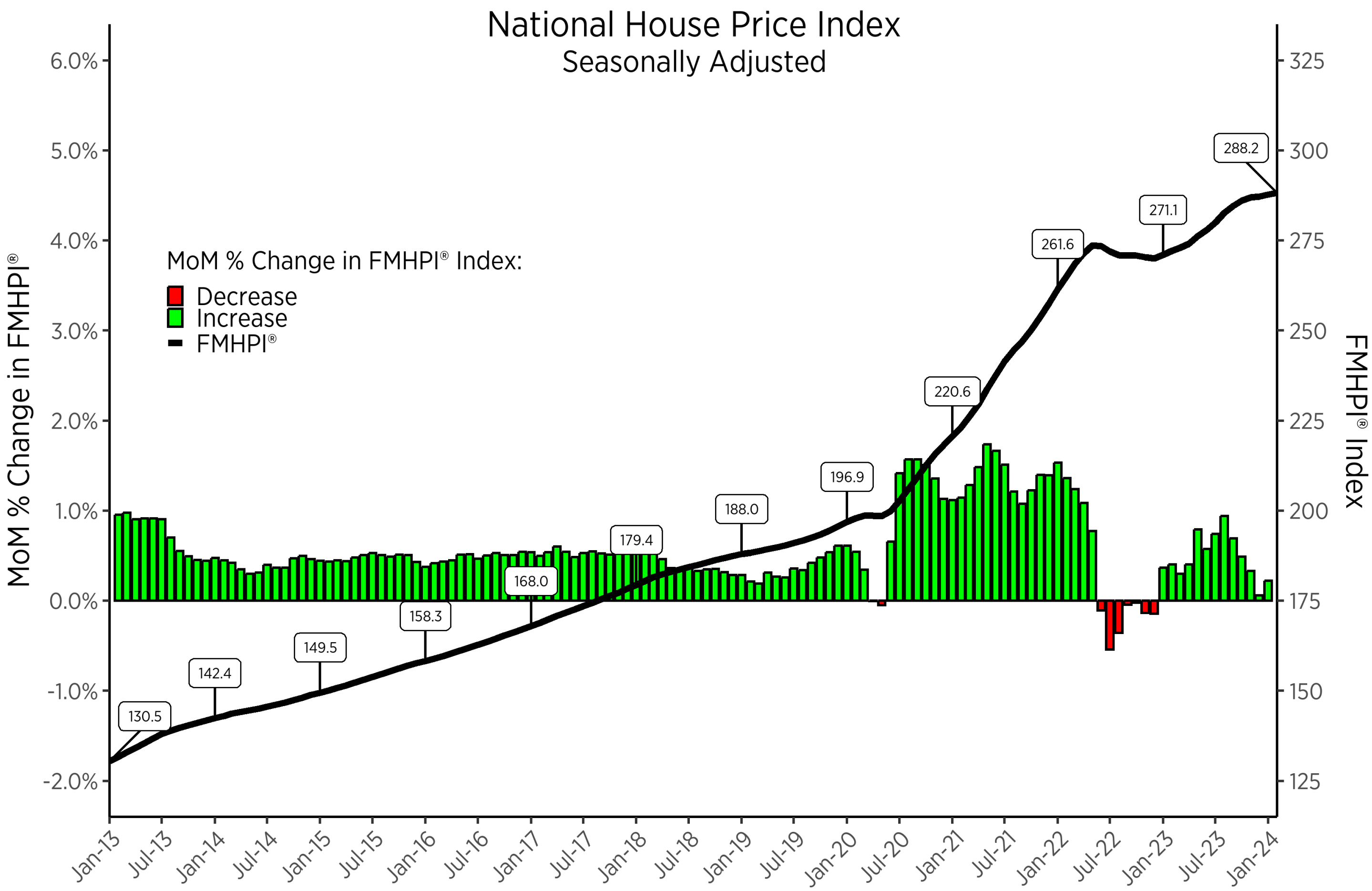
2 Mortgage Market & CRT Performance

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 5.9%.

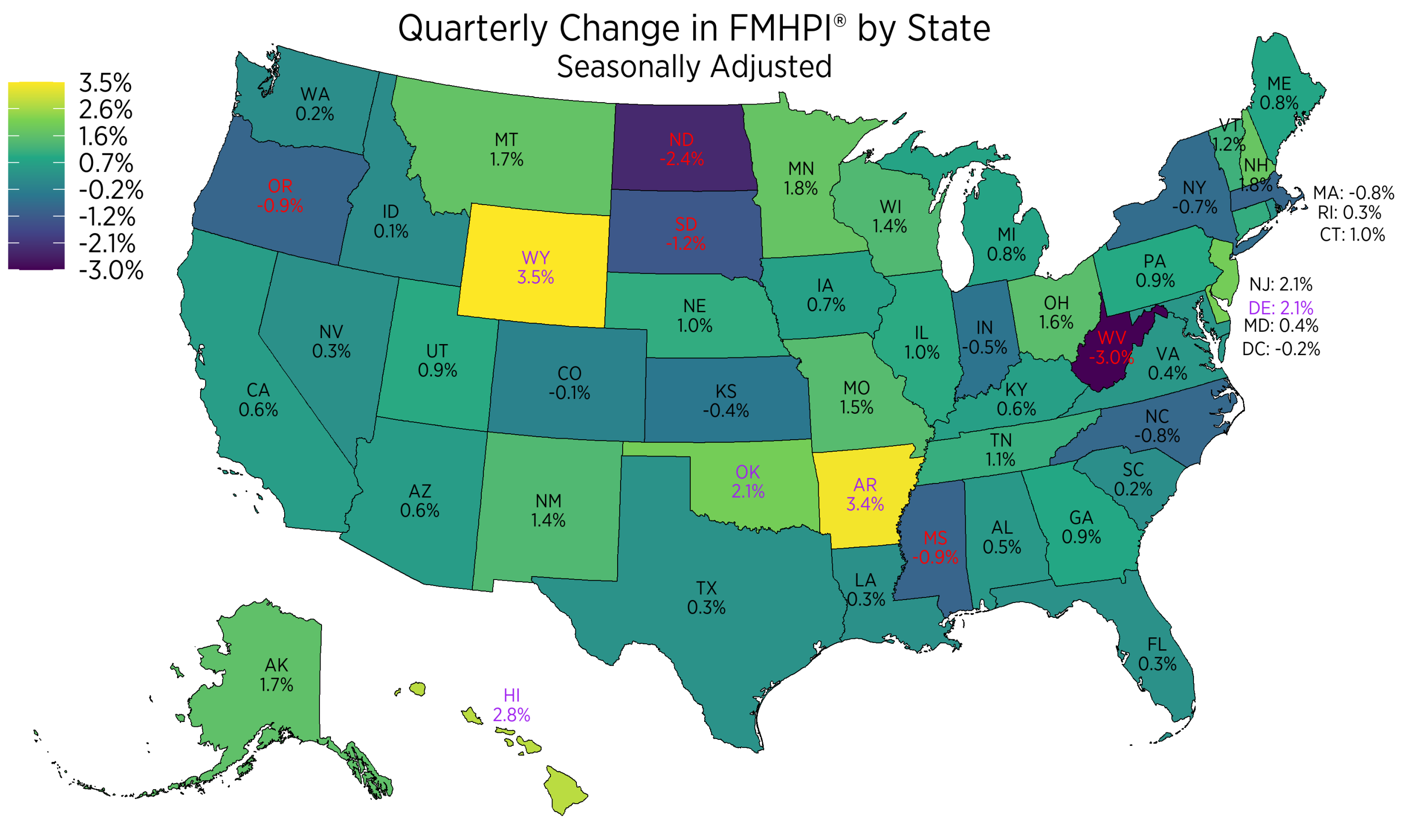


Source: Freddie Mac's FMHPI® as of Mar-24

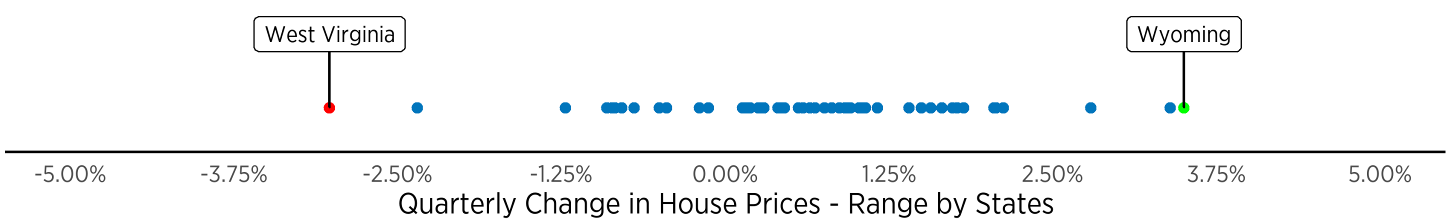
2.1.2 Quarterly State Level House Price Change

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 Mississippi, Oregon, South and North Dakota, and West Virginia. Notably, Wyoming and Arkansas 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.



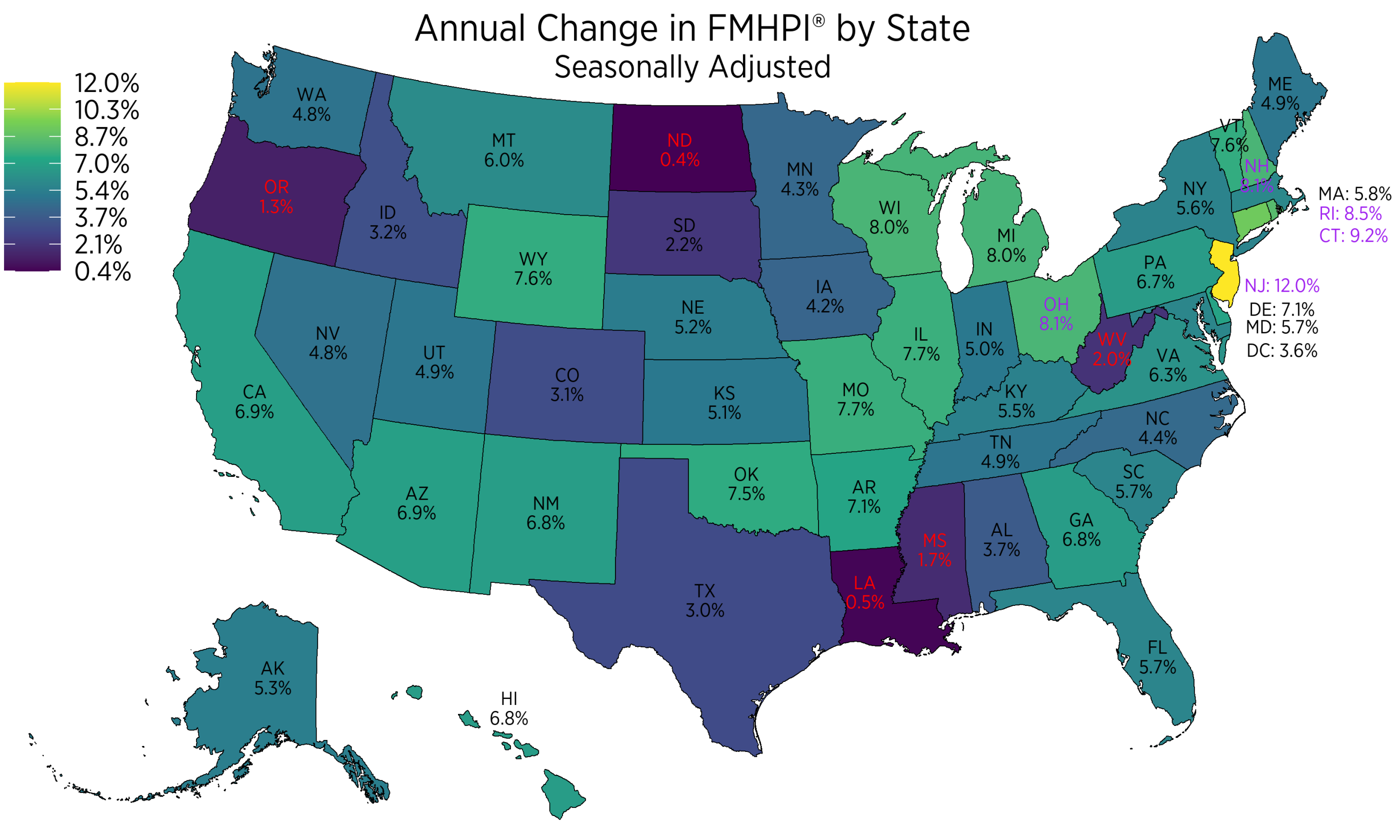
Source: Freddie Mac's FMHPI® as of Mar-24



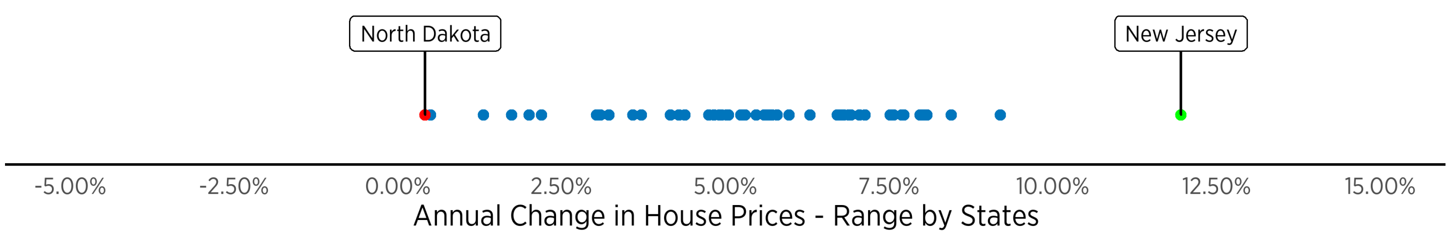
2.1.3 Annual State Level House Price Change

The graph presented below illustrates Freddie Mac's seasonally adjusted Home Price Index at a state level. On an annual basis, all 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.



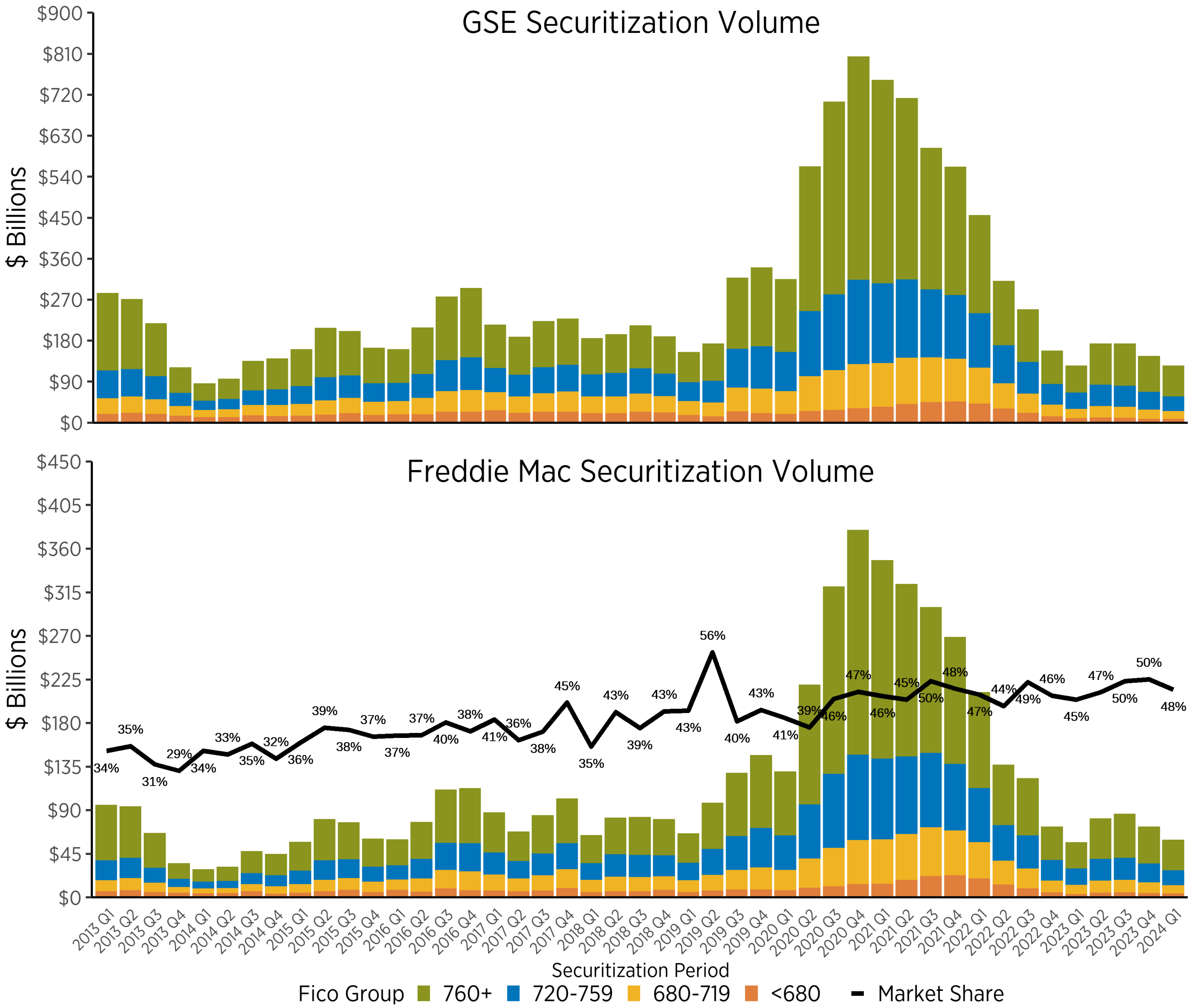
Source: Freddie Mac's FMHPI® as of Mar-24



Sections available in the full report

2.4 Origination Volume

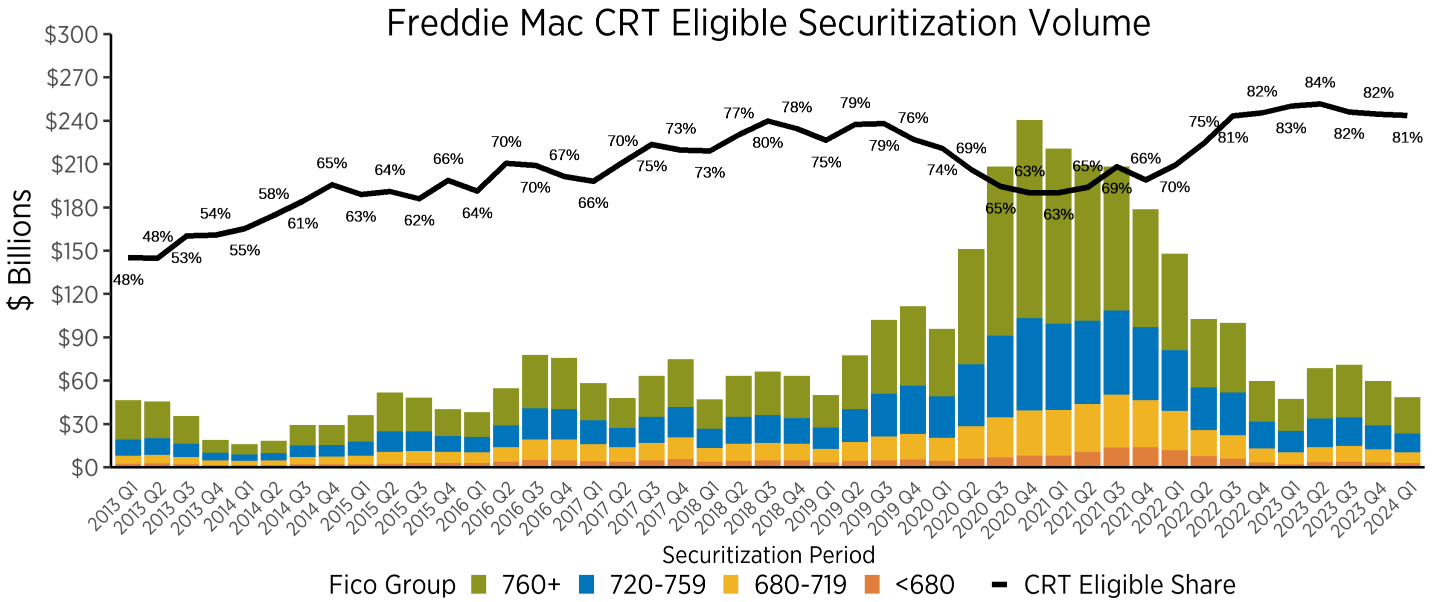
The chart below shows the overall GSE securitization volume by quarter. The current level of securitizations is near a 10-year low due to the very low level of refinances. Freddie Mac's market share has steadily increased from around 35% to approximately 50% in recent quarters.

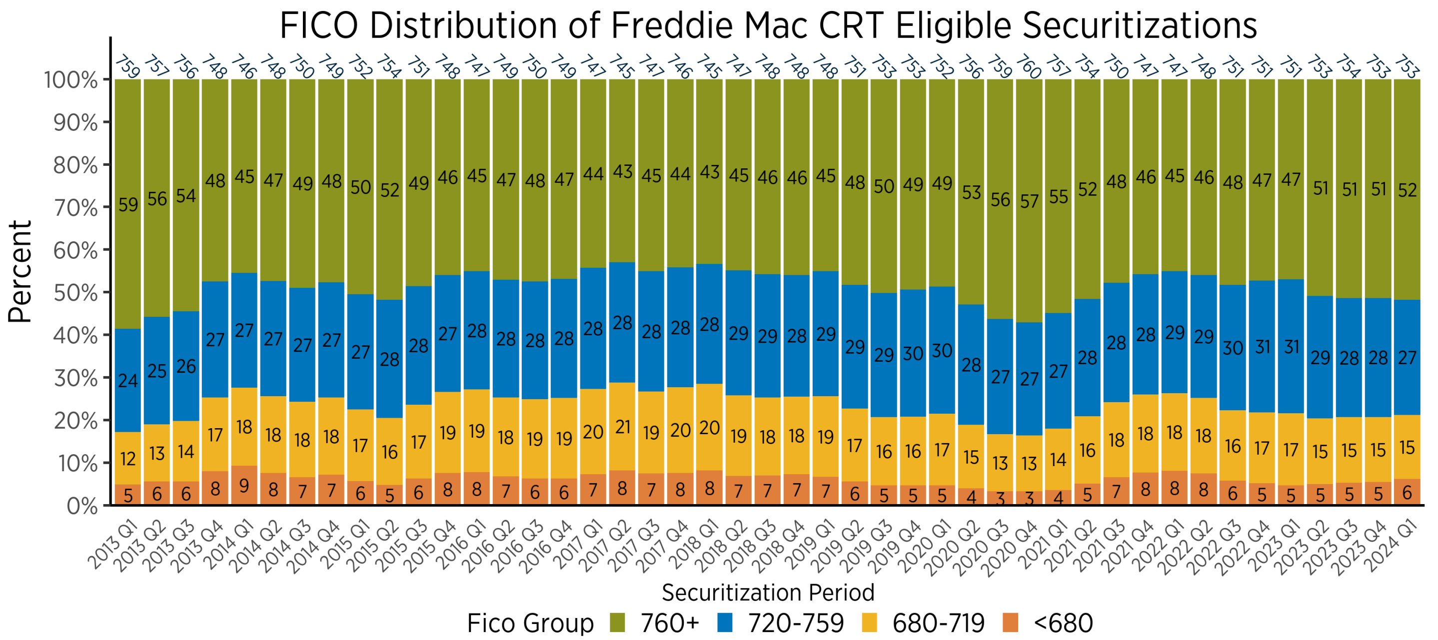


Source: Milliman MPIRe as of Mar-24

Note: GSE volume and market share excludes Ginnie Mae.

The share of CRT eligible volume increased consistently from 2013-2020 as Home Affordable Refinance Program ("HARP") volume decreased. These loans generally had LTV above 97%. From 2020 through 2021 we observe a sharp decrease in the CRT eligible volume driven by a large increase in refinance loans with LTV less than 60%. As rates increase 2022 the eligible share started increasing again as the less than 60% LTV refinance volume dried up. The share of low-fico loans has remained consistently below 10%.





Source: Milliman MPIRe as of Mar-24
Note: The average credit score of the quarter is shown above the bar graphs

CRT Eligibility is defined as:

- FICO > 600
- LTV > 60% & LTV <= 97%
- Fixed Rate & Full documentation
- Term > 20-years

2.5 Origination Credit Quality Index

2.6 Loan Purpose

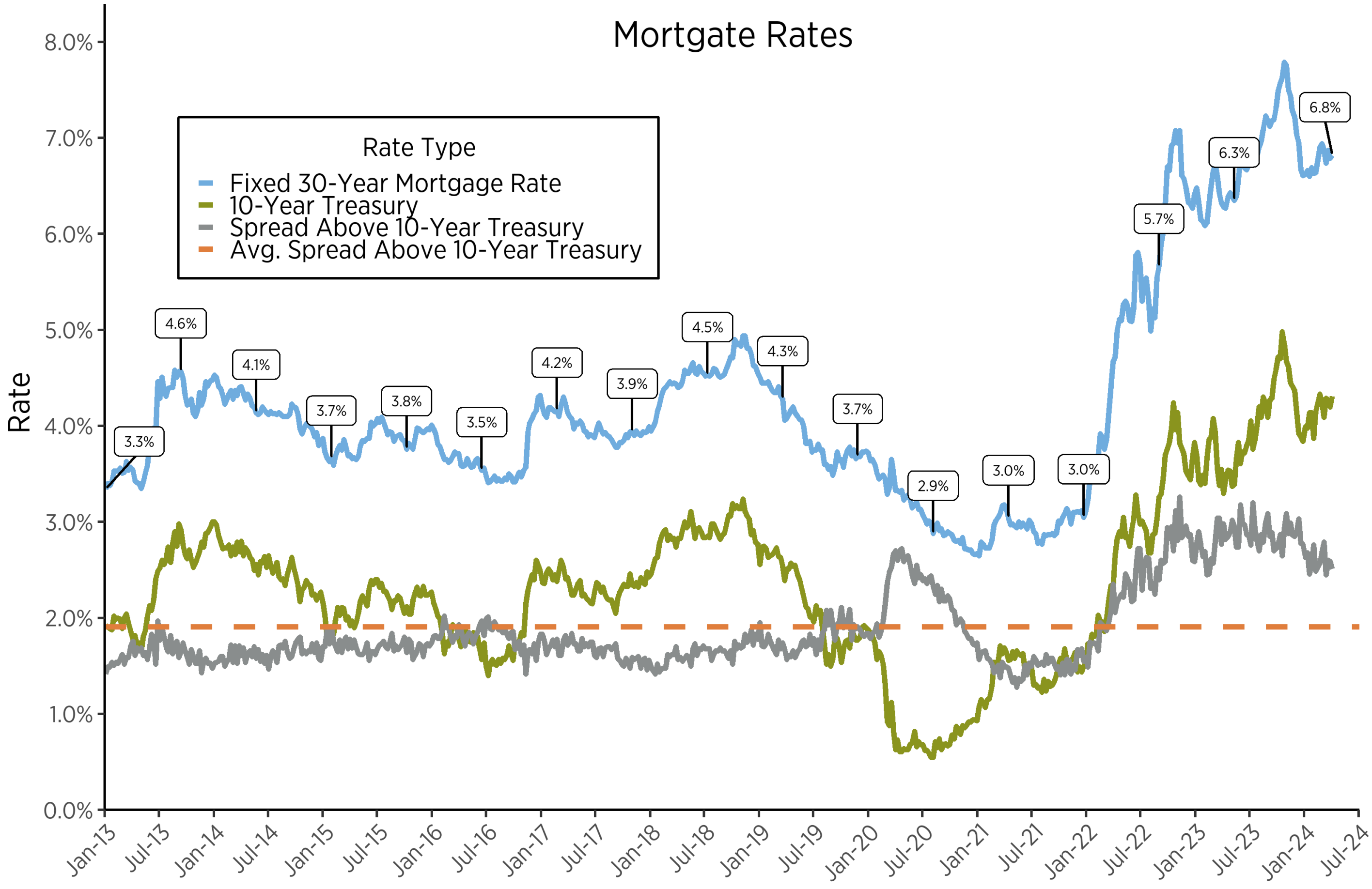
Sections available in the full report

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%. However, this trend has been reversed in 2024 as rates have ticked back towards 7%. The spread between the 10-year treasury and the fixed 30-year mortgage rate is currently 2.5% which is well above the historical average of 1.9%. A compression of this spread could provide an opportunity for mortgage rates to decline.



Sources:
- Freddie Mac's Primary Mortgage Market Survey® as of 04/04/2024
- Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/DGS10

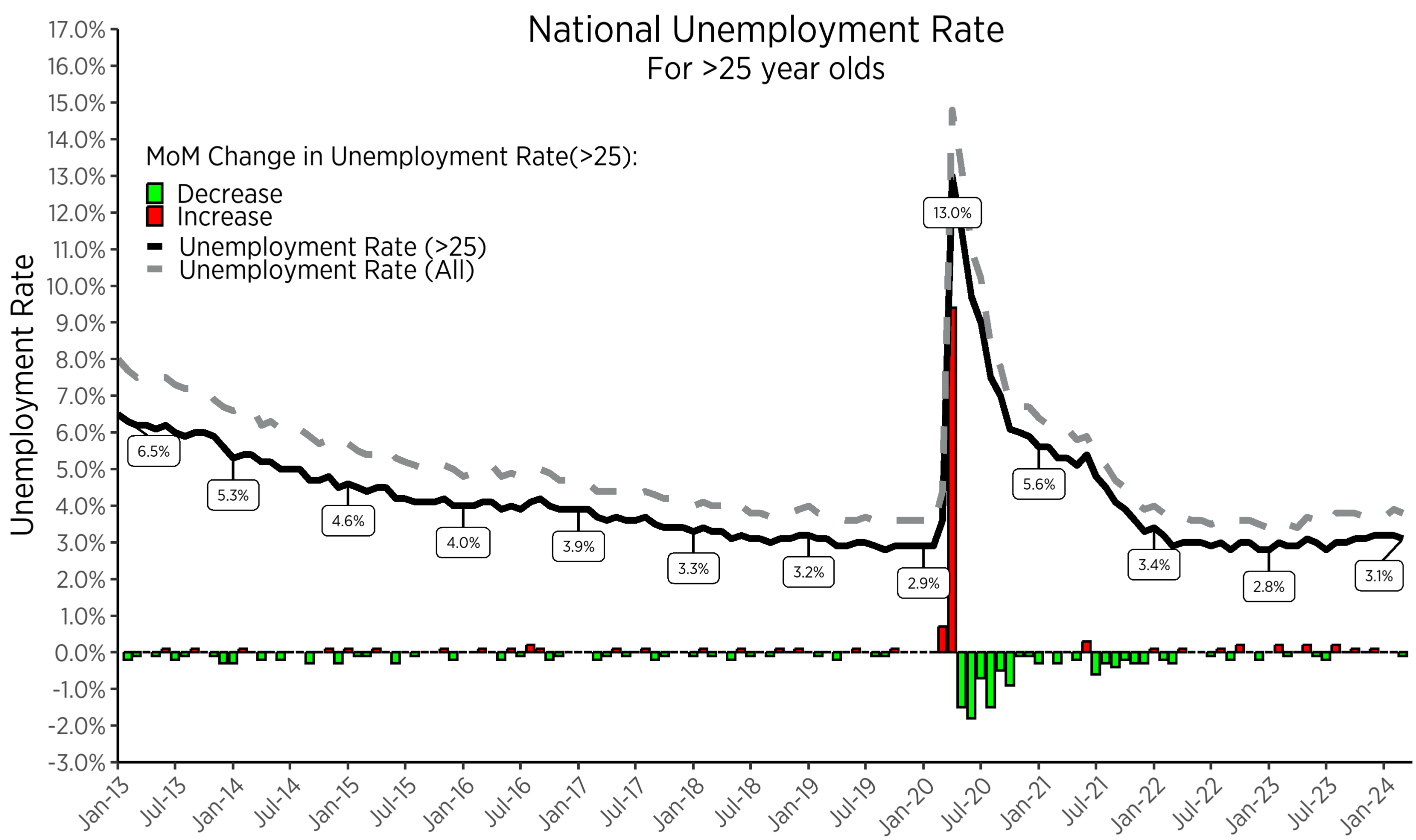
Sections available in the full report

3 National Level Macroeconomic Indicators

The following section highlights national macroeconomic indicators.

3.1 Unemployment Rate

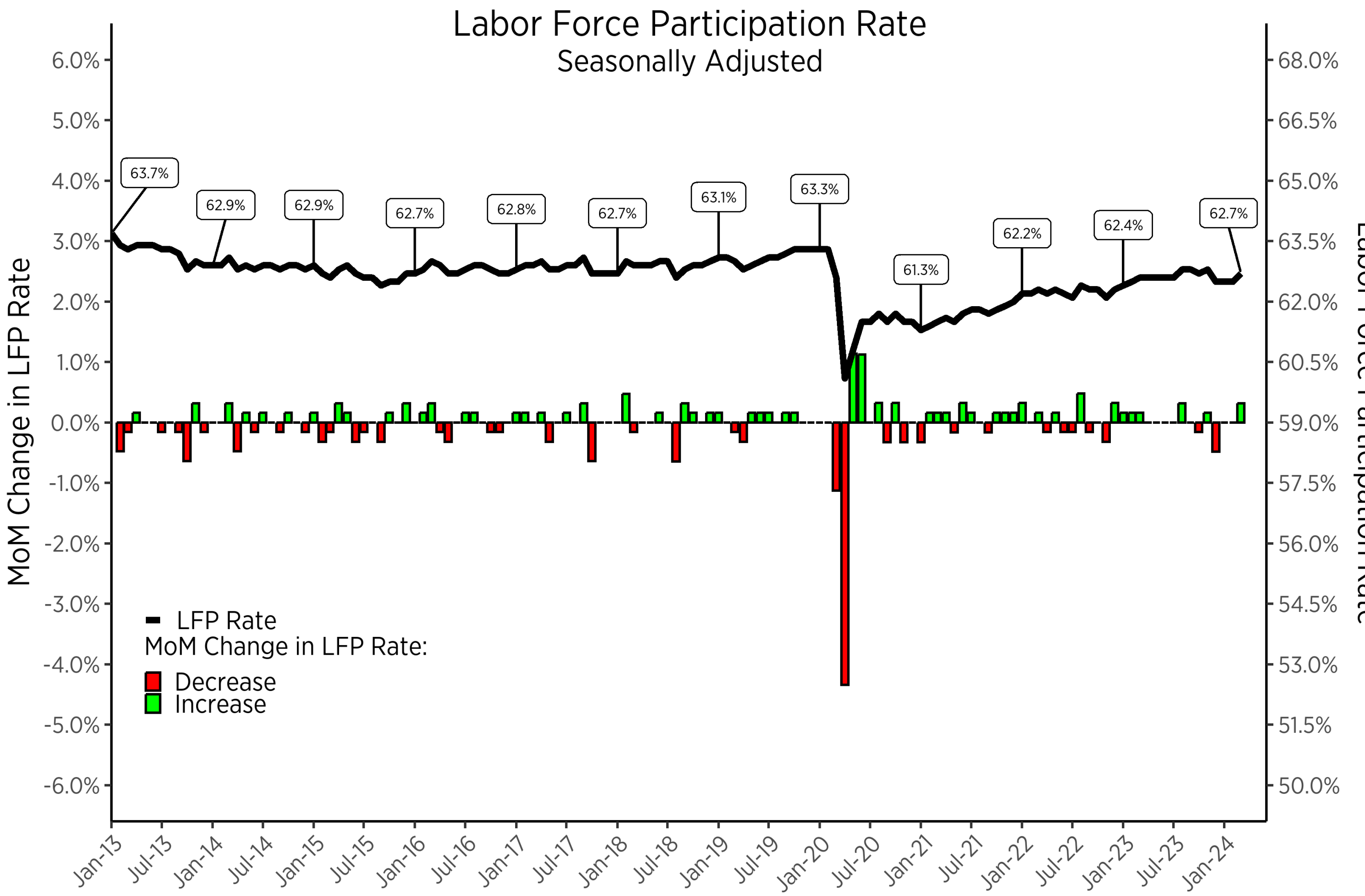
The graph below represents the *seasonally adjusted unemployment rate for individuals aged 25 years and older*, as calculated by the Bureau of Labor Statistics. We specifically utilize this unemployment index since the homeownership rate tends to be higher among this particular age group compared to 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 Mar-24

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.

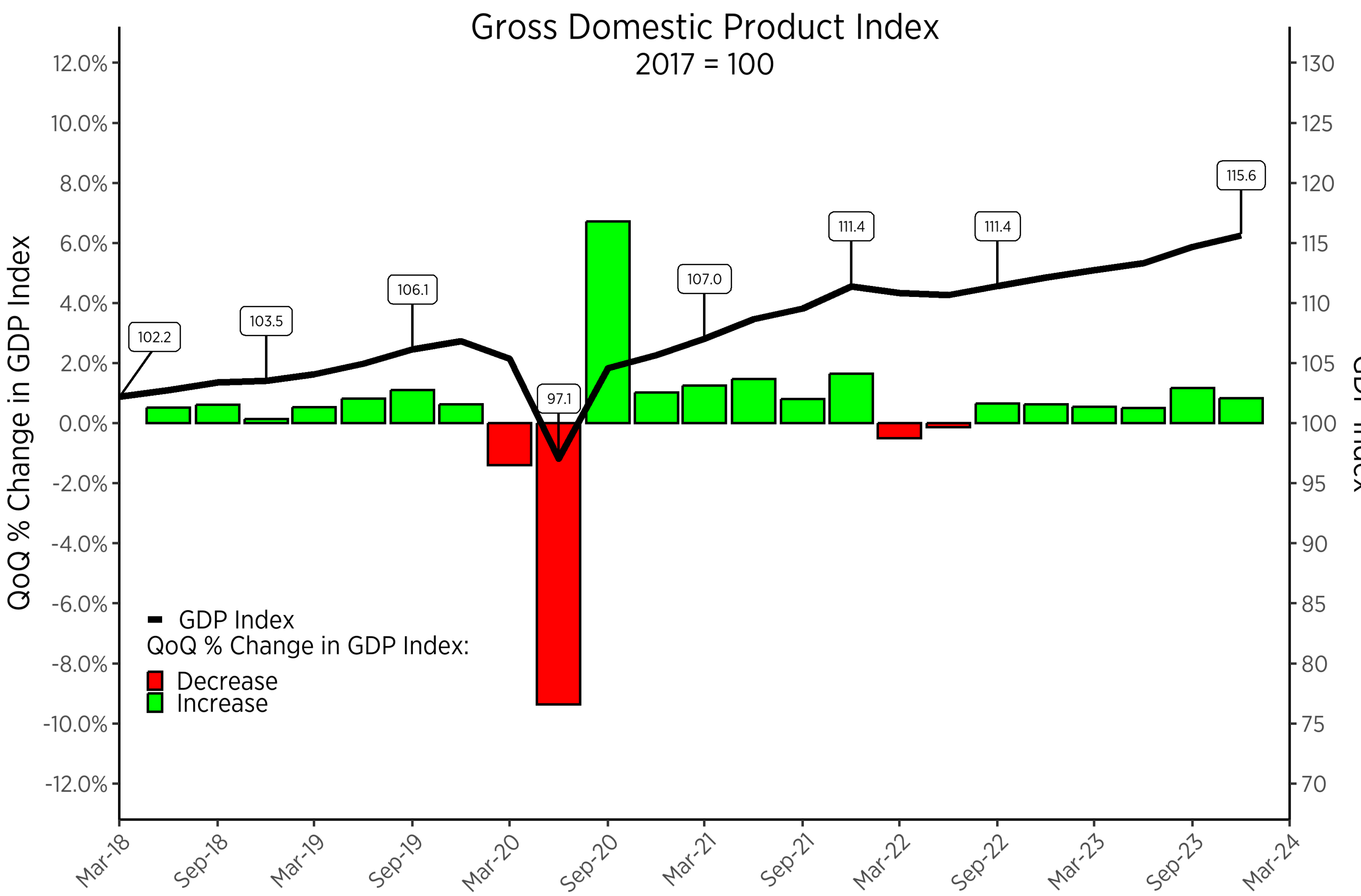


Source: Bureau of Labor Statistics as of Mar-24

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 and into 2024. As of now, the index sits at an all-time high.

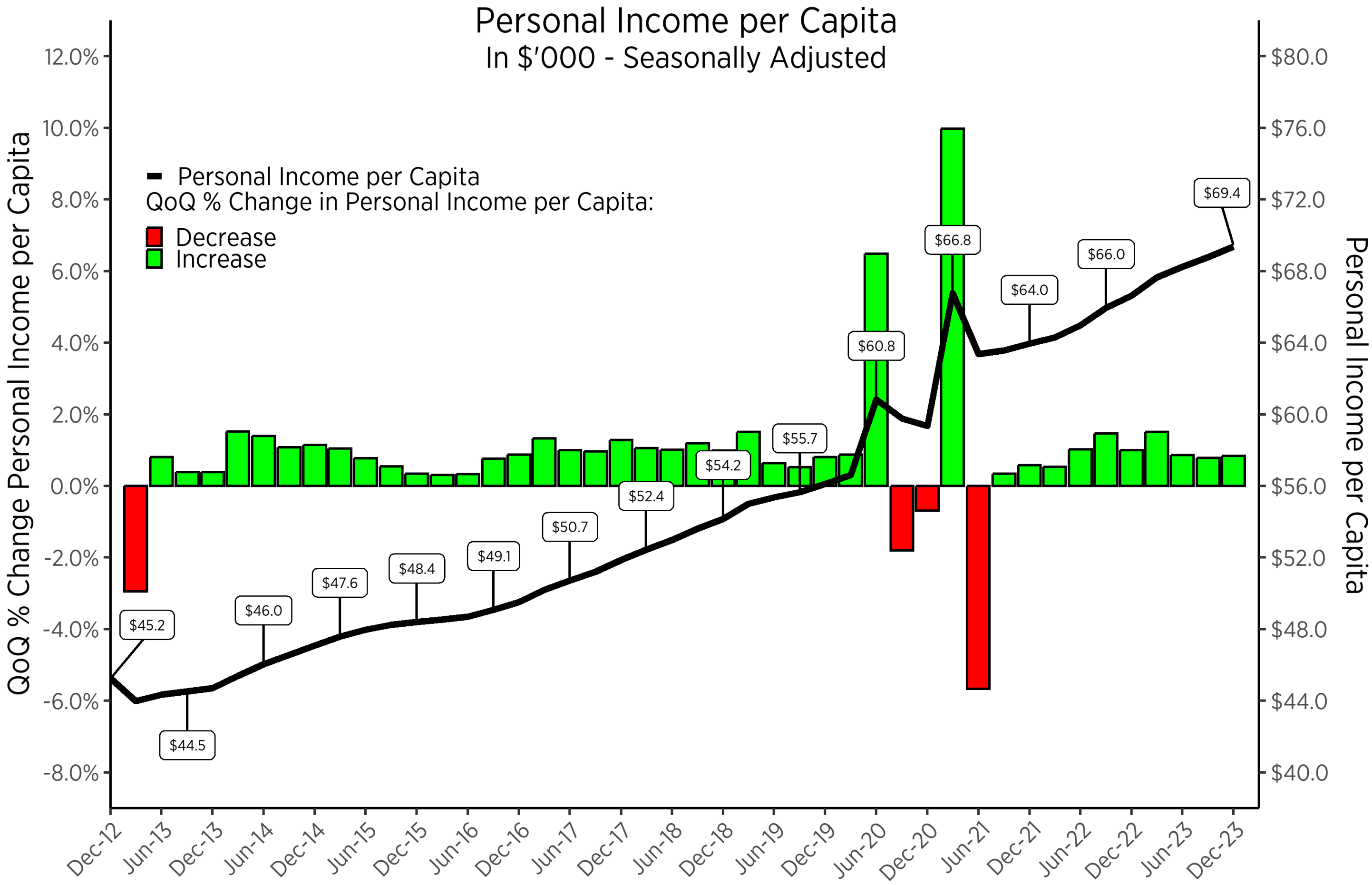
Special note: Once the Bureau of Economic Analysis completes their 2023 Comprehensive Update of the National Economic Accounts the graph will be expanded to include years going back to 2013.



Source: Bureau of Economic Analysis as of Q4 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 $69.4K (+$0.6K 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 Q4 2023

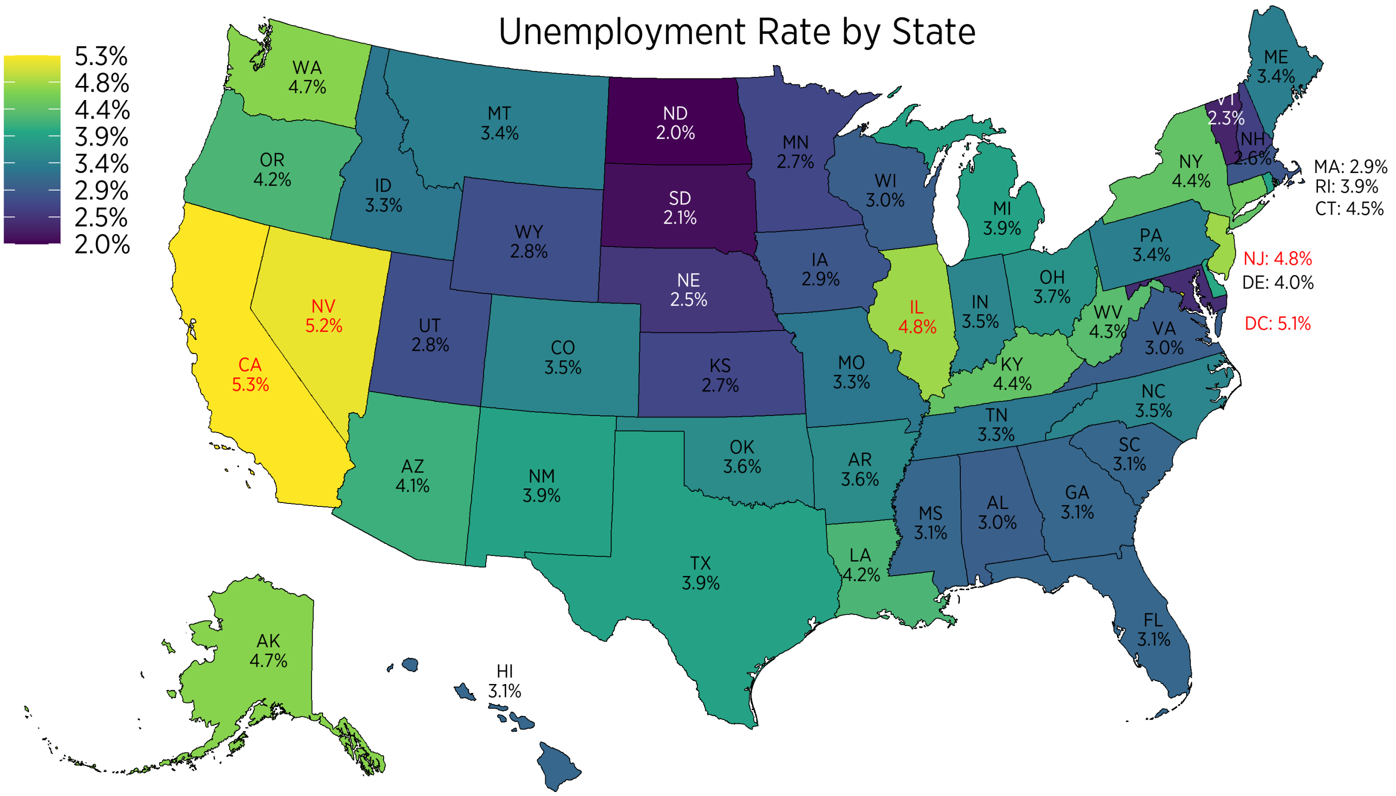
4 State-Level Macroeconomic Indicators

The following section highlights state-level macroeconomic indicators.

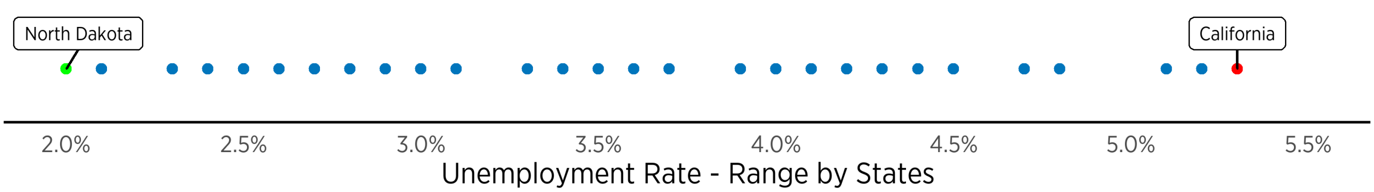
4.1 Unemployment Rate

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.



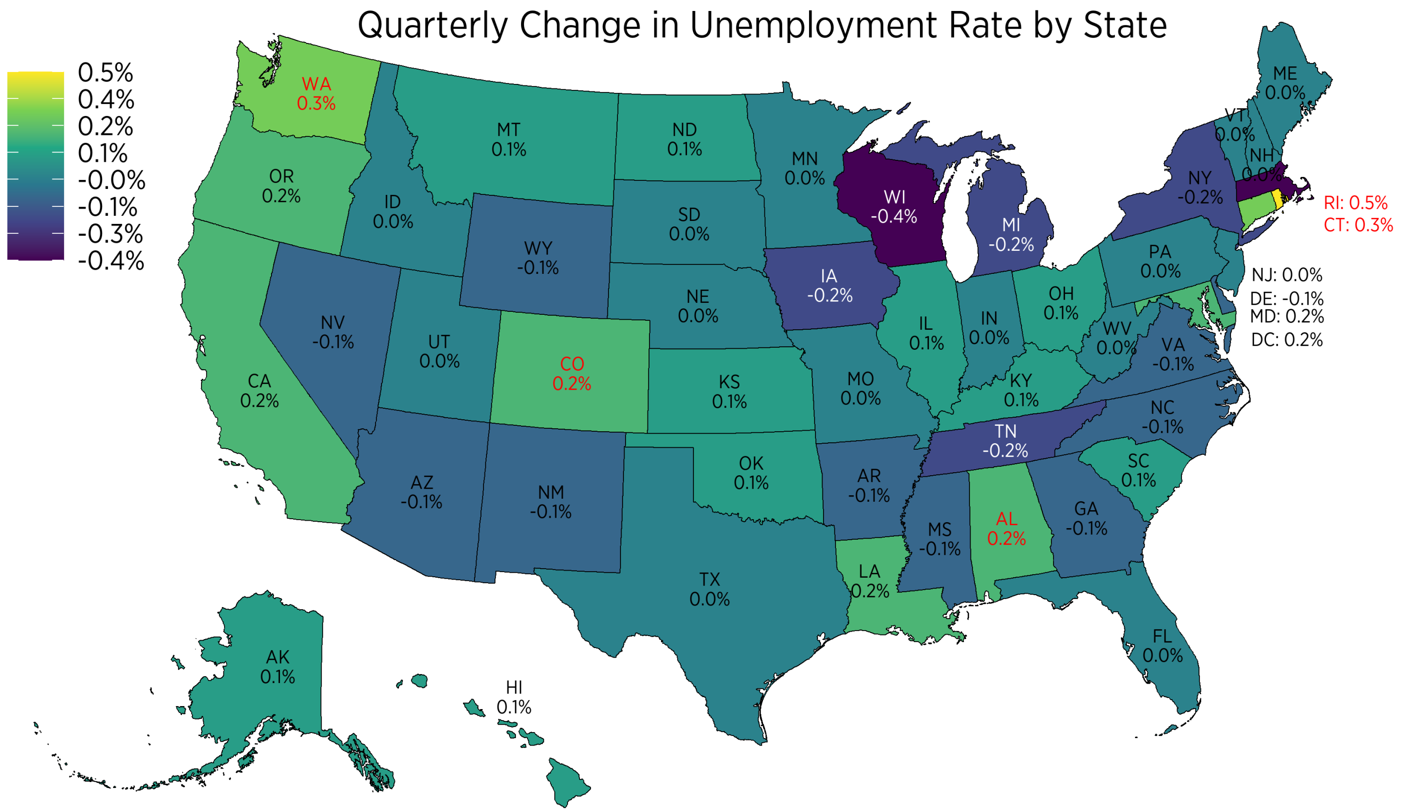
Source: Bureau of Labor Statistics as of Mar-24



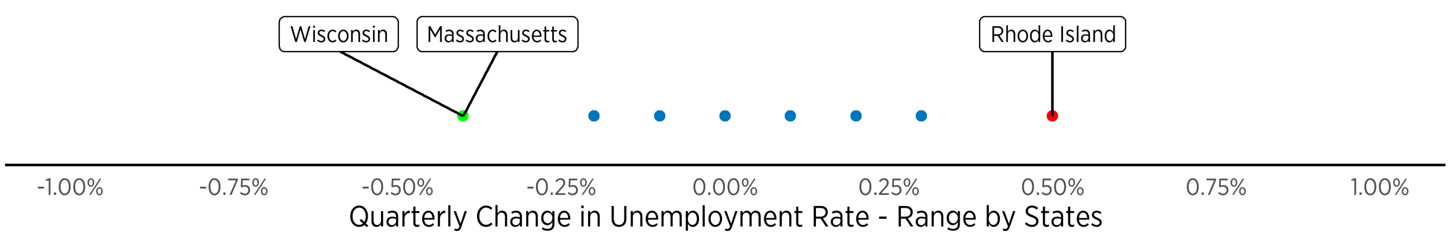
4.1.1 Quarterly Unemployment Rate Change

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 Rhode Island, Connecticut, and Washington all with a 0.3% rise.

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.



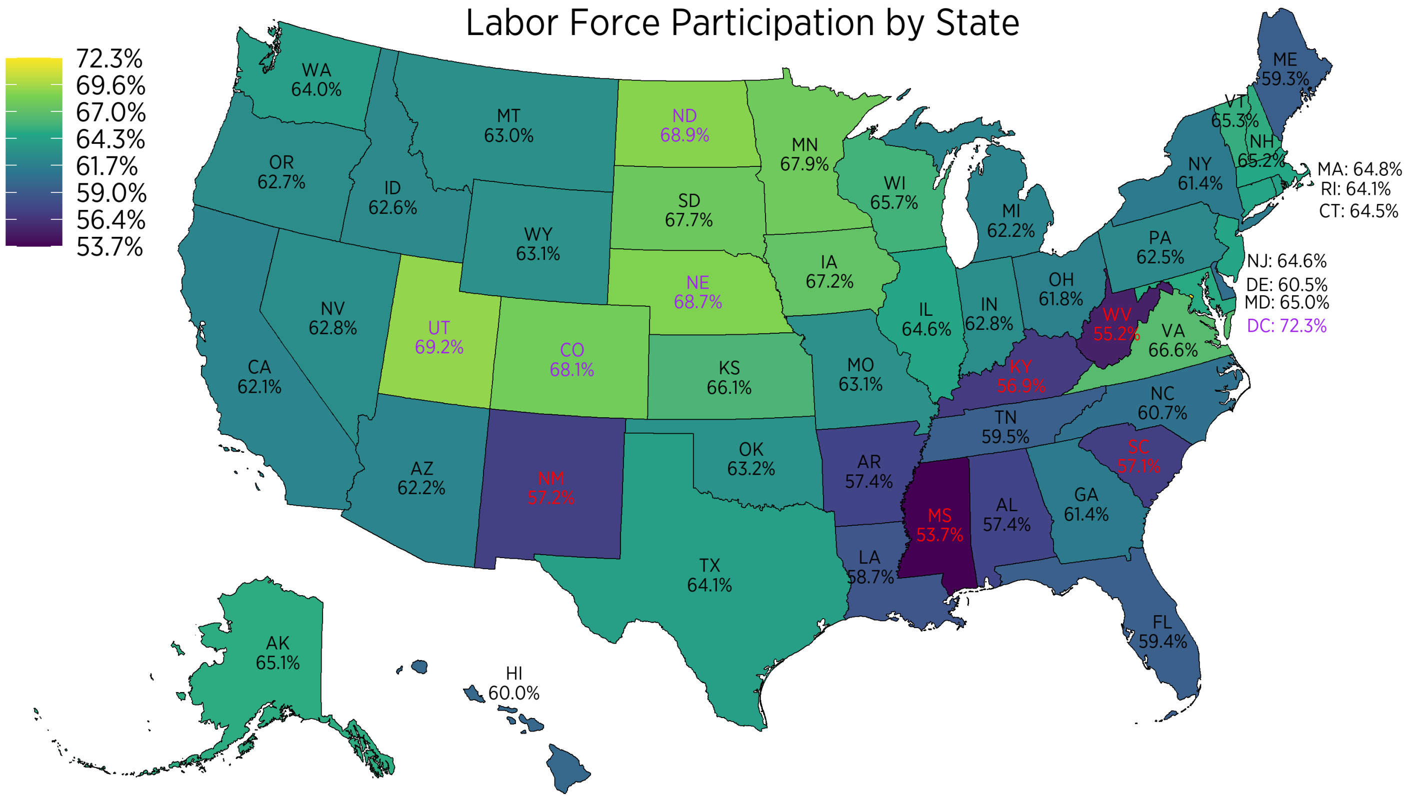
Source: Bureau of Labor Statistics as of Mar-24



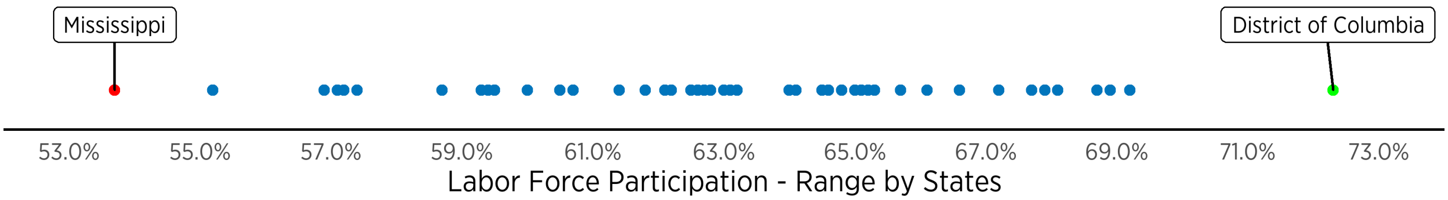
4.2 Labor Force Participation Rate

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.



Source: Bureau of Labor Statistics as of Mar-24

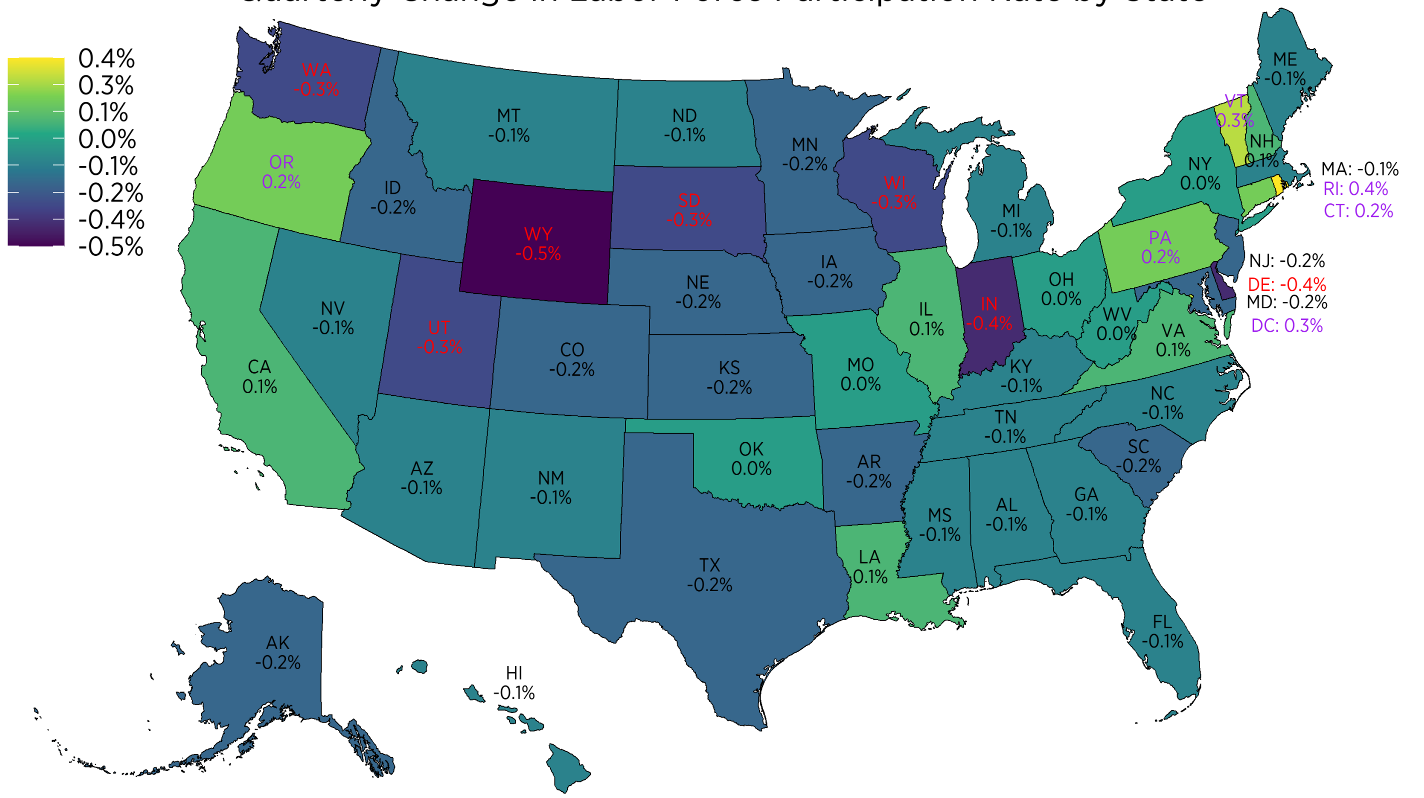


4.2.1 Quarterly Labor Force Participation Rate Change

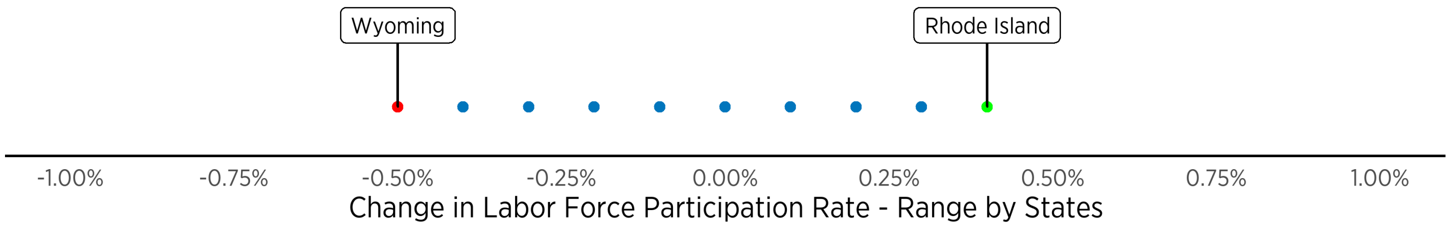
The graph below illustrates the quarterly change in the seasonally adjusted Labor Force Participation (LFP) rate, as calculated by the Bureau of Labor Statistics. Overall, there was a slight increase in the LFP rate across the country during the last quarter. Notably, Wyoming, Indiana, and Delaware experienced a significant drop of 0.4% - 0.5% in their LFP rate. Rhode Island and Connecticut were both among the states with the largest increase in LFP rates, which partly explains the increased unemployment rate for these states.

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 Mar-24

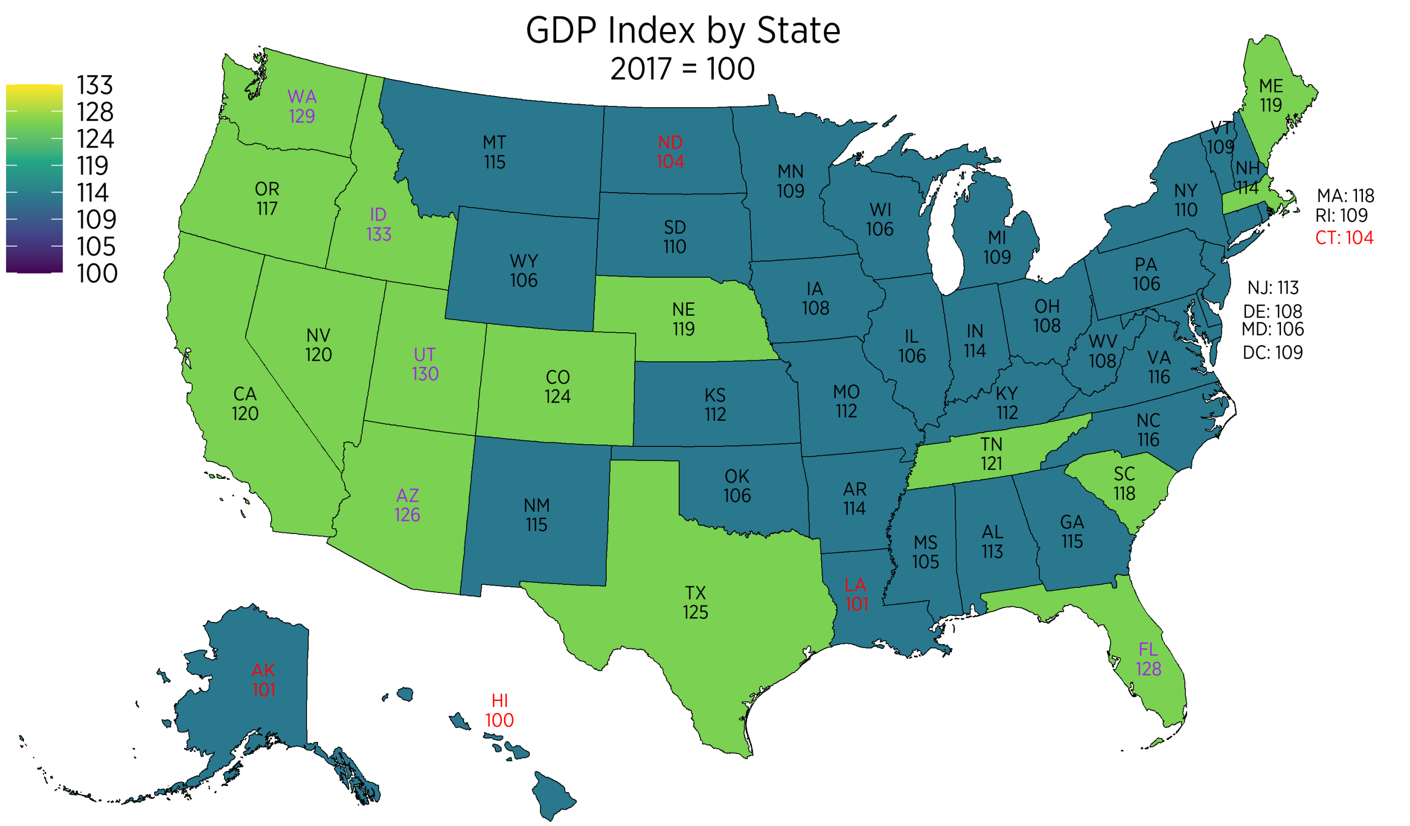


4.3 Gross Domestic Product

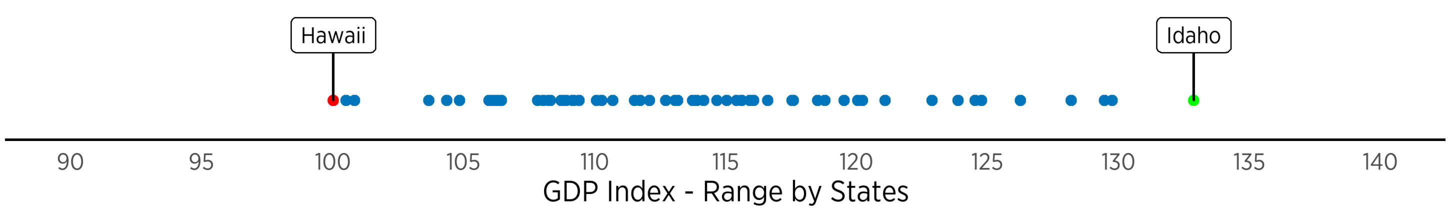
The graph below displays the current Gross Domestic Product (GDP) index, as calculated by the Bureau of Economic Analysis. Since 2017, the regions experiencing the strongest growth have been the West Coast, Mountain West, along with Florida and Texas.

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 Q4 2023



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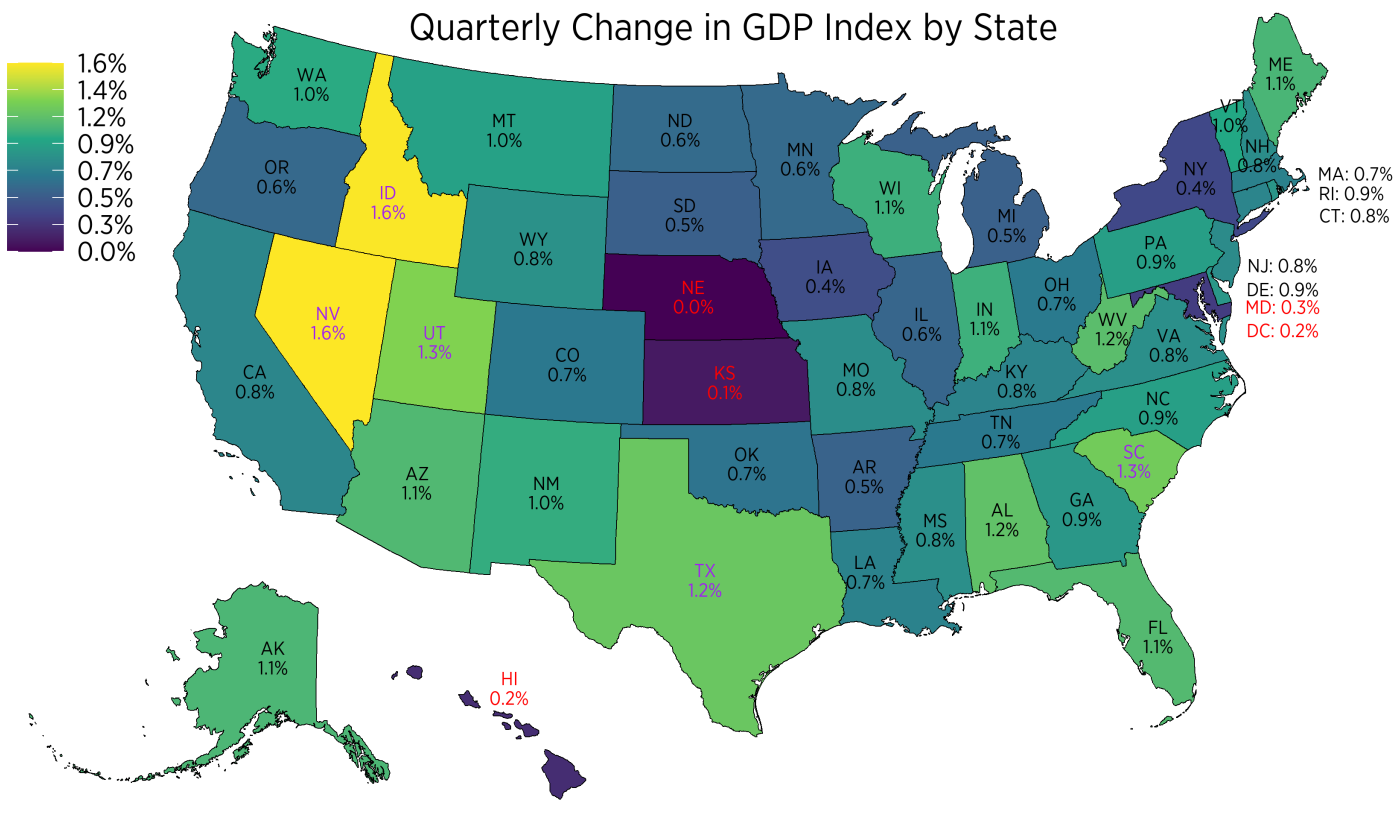
4.3.1 Quarterly GDP Change

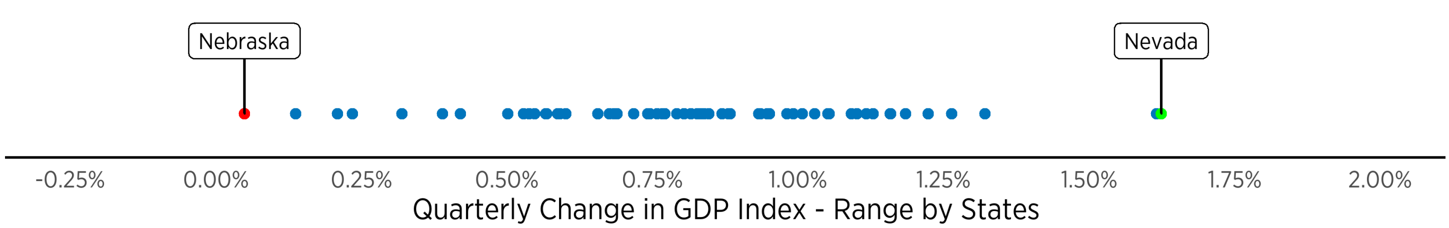
The graph below represents the change in real GDP during the last quarter, as calculated by the Bureau of Economic Analysis. Across most states, positive growth was observed during this period. Particularly noteworthy is the robust growth in the heartland of the Midwest.

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.



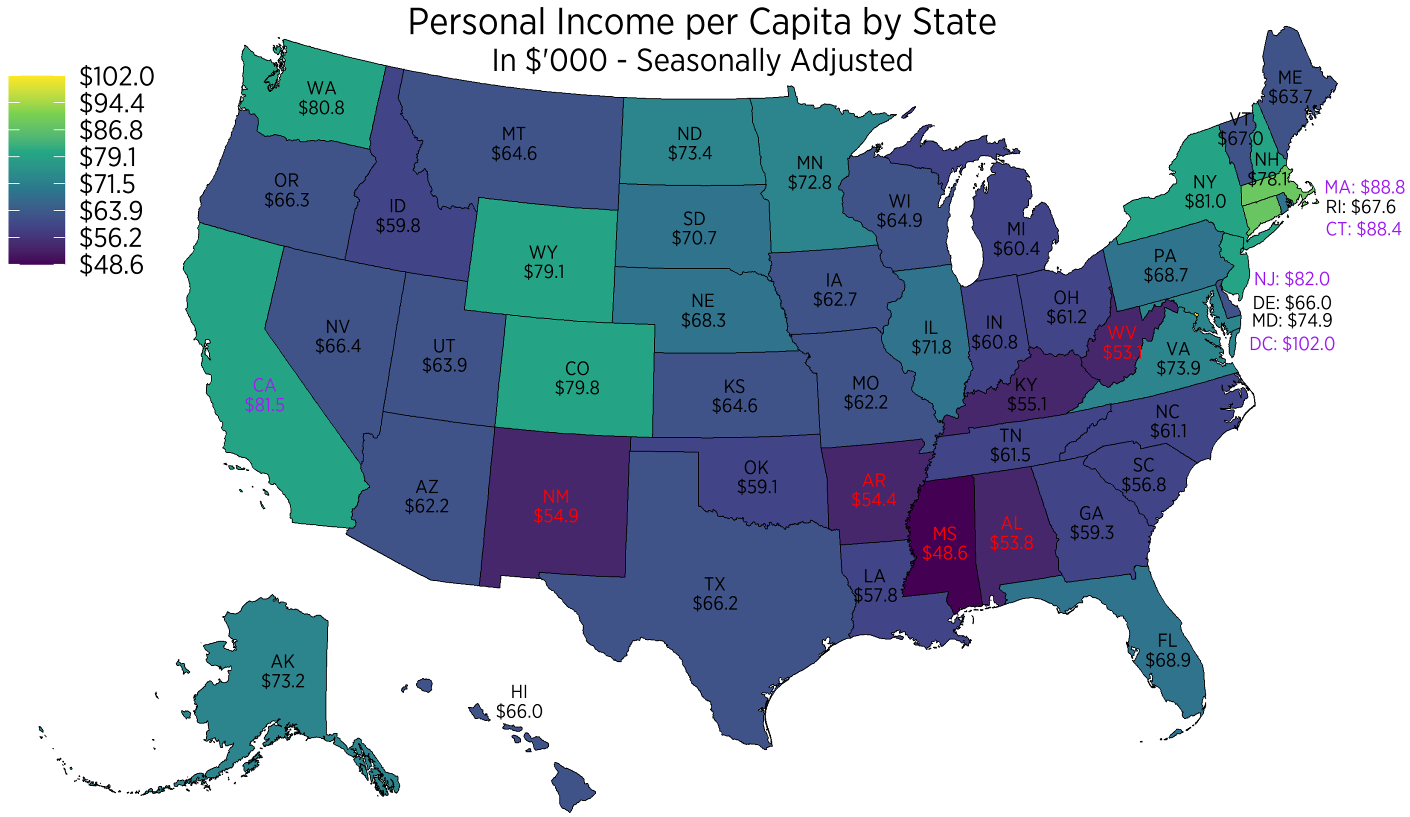
Source: Bureau of Economic Analysis as of Q4 2023



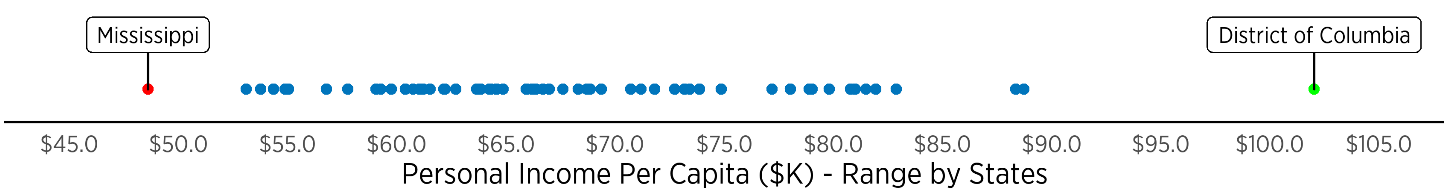
4.4 Personal Income per Capita

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.



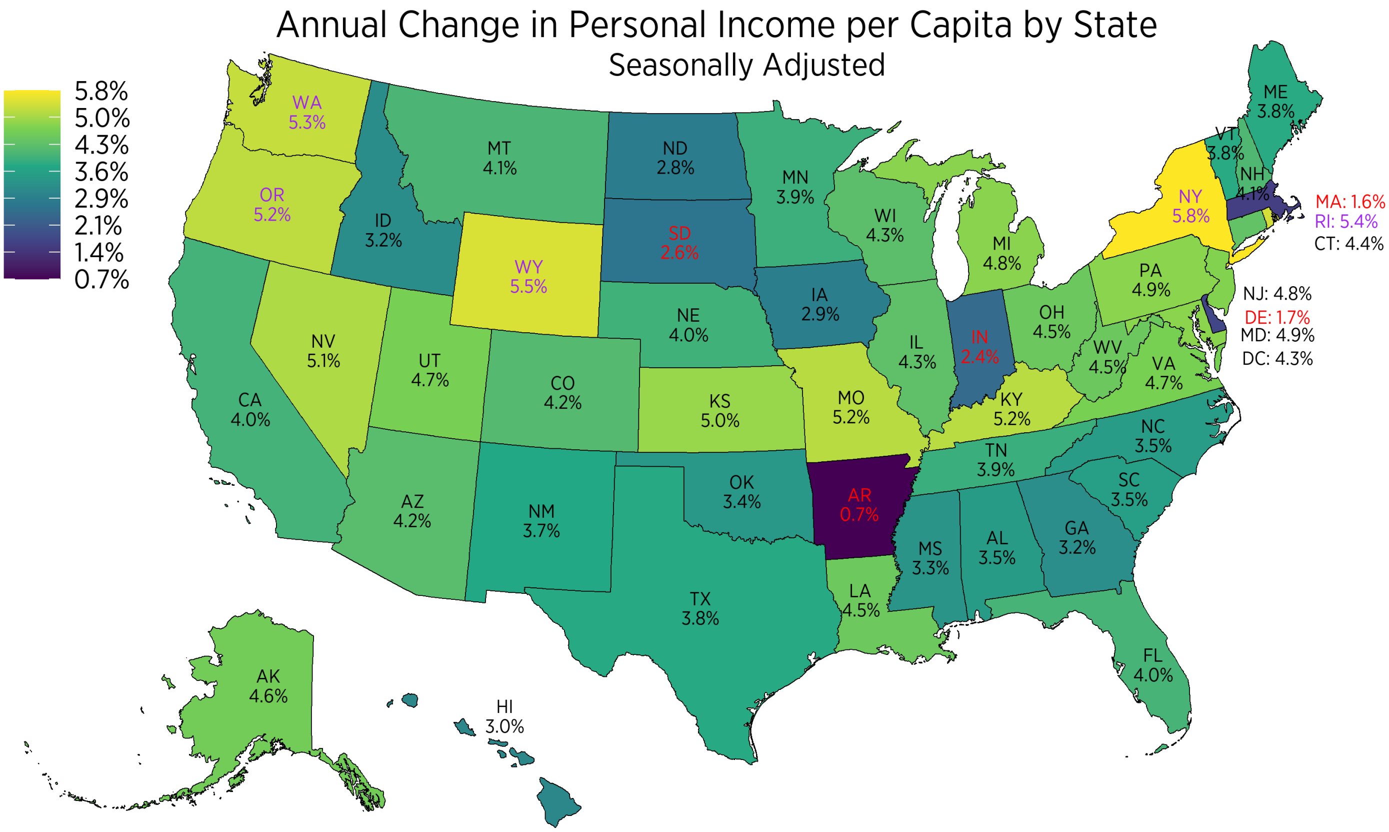
Source: Bureau of Economic Analysis as of Q4 2023



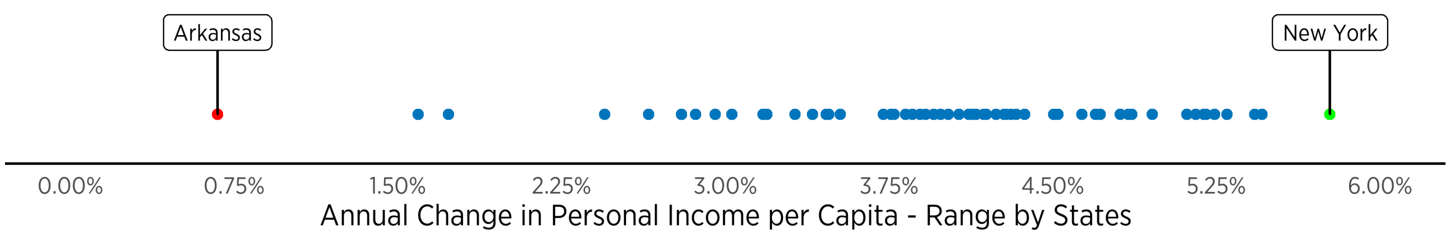
4.4.1 Annual Personal Income per Capita Change

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, Northwest, 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.



Source: Bureau of Economic Analysis as of Q4 2023



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Global and Local Reinsurance

Drawing on our network of reinsurance and market specialists worldwide, and as part of the wider Gallagher company, Gallagher Re offers the benefits of a top-tier reinsurance broker, one that has comprehensive analytics and transactional capabilities, with on-the-ground presence and local understanding. Whether your operations are global, national or local, Gallagher Re can help you make better reinsurance and capital decisions, access worldwide markets, negotiate optimum terms and boost your business performance.

It's the *way* we do it.

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