iEMERGENT

2017 Mortgage Market Outlook: Executive Overview Report

January 2017

Source	2016 Estimate			2017 Forecast			2017
	Purchase ($B)	Refinance ($B)	Total ($B)	Purchase ($B)	Refinance ($B)	Total ($B)	Purch/Refi Ratio
iEmergent	$947	$903	$1,850	$1,025	$532	$1,557	66%/34%
Fannie Mae	$1,013	$890	$1,903	$1,053	$520	$1,573	67%/33%
MBA	$990	$901	$1,891	$1,092	$479	$1,571	70%/30%
Freddie Mac	$1,060	$940	$2,000	$1,084	$421	$1,505	72%/28%

Note: All forecasts are as of December 2016

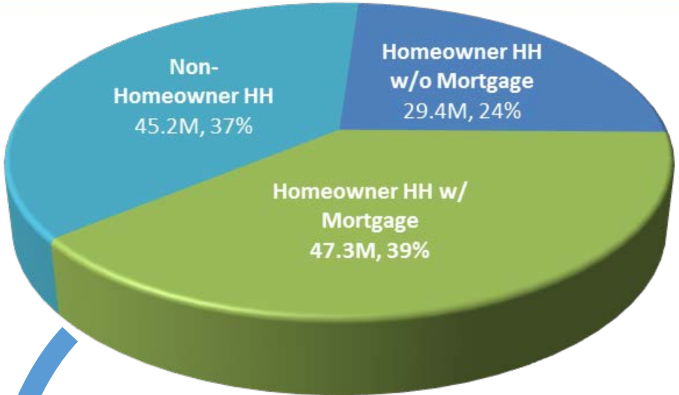
For the 2017 housing market, the outlook is generally positive. The long recovery from the elevated delinquency and foreclosure rates of the Housing Bust is nearly complete, and home values nationally have returned to their pre-Boom peak. For the 2017 mortgage industry, a sharply shifting change is in order as refinance volumes fall significantly and purchase becomes a much bigger part of the market.

Forecasters, including Fannie Mae, Freddie Mac, iEmergent and the MBA, anticipate that total mortgage opportunity in 2017 will decrease from 2016, because of a drop in refinance activity, but the purchase market will again see healthy growth.

Comparing the outlooks from these forecasts, we note that they are about as closely aligned as they have been for years. This is largely due to the fact the disruptive forces in the mortgage market for the last decade – elevated delinquency & foreclosure rates, number of households underwater on loans, volume of homes at distressed prices – are dissipating. But there are fundamental differences in forecast methodology here. Most mortgage forecasts are generated at the national level. At iEmergent, we work from the bottom up. Our methodology for forecasting purchase opportunity begins at the census tract level with quantifying the homebuyer pool – or *the number of households that are ready, willing and able to buy a home*. The size of that pool is determined by demographic shifts (i.e. household growth) and by the relationship between the financial health of US households (demand) and housing-market issues (supply).
In addition, driving both the demand and supply-sides of the equation are macroeconomic trends, regulatory and legislative actions in lending, and – as always – the individual behaviors of households across the nation.

This market-based approach gives our clients the critical information necessary to make successful tactical and strategic decisions in managing their businesses.

Purchase Demand: 2017 Homebuyer Pool

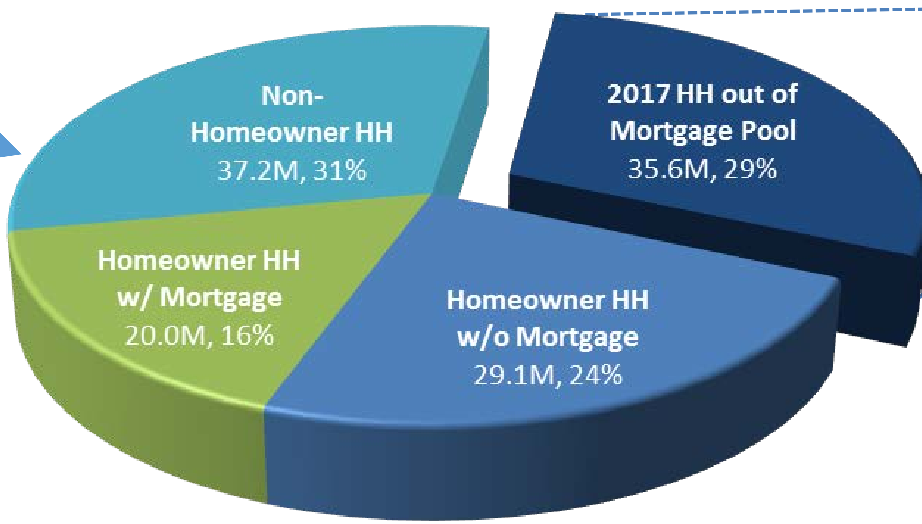


Houses can't buy themselves. Low interest rates can't shop for homes to buy. Available credit won't spontaneously buy homes. Low housing prices don't buy homes. Households buy homes. **Demand for mortgages will always be impacted by the size and constitution of the homebuyer pool.**

Homeowner HH w/ Mortgage	47.3M, 39%
Homeowner HH w/o Mortgage	29.4M, 24%
Non-Homeowner HH	45.2M, 37%
Total 2017 Households	121.9M, 100%
-Minus-	
HH out of Homebuyer Pool	(35.6 M), 29%
Total 2017 Homebuyer Pool	**86.3 M, 61%**

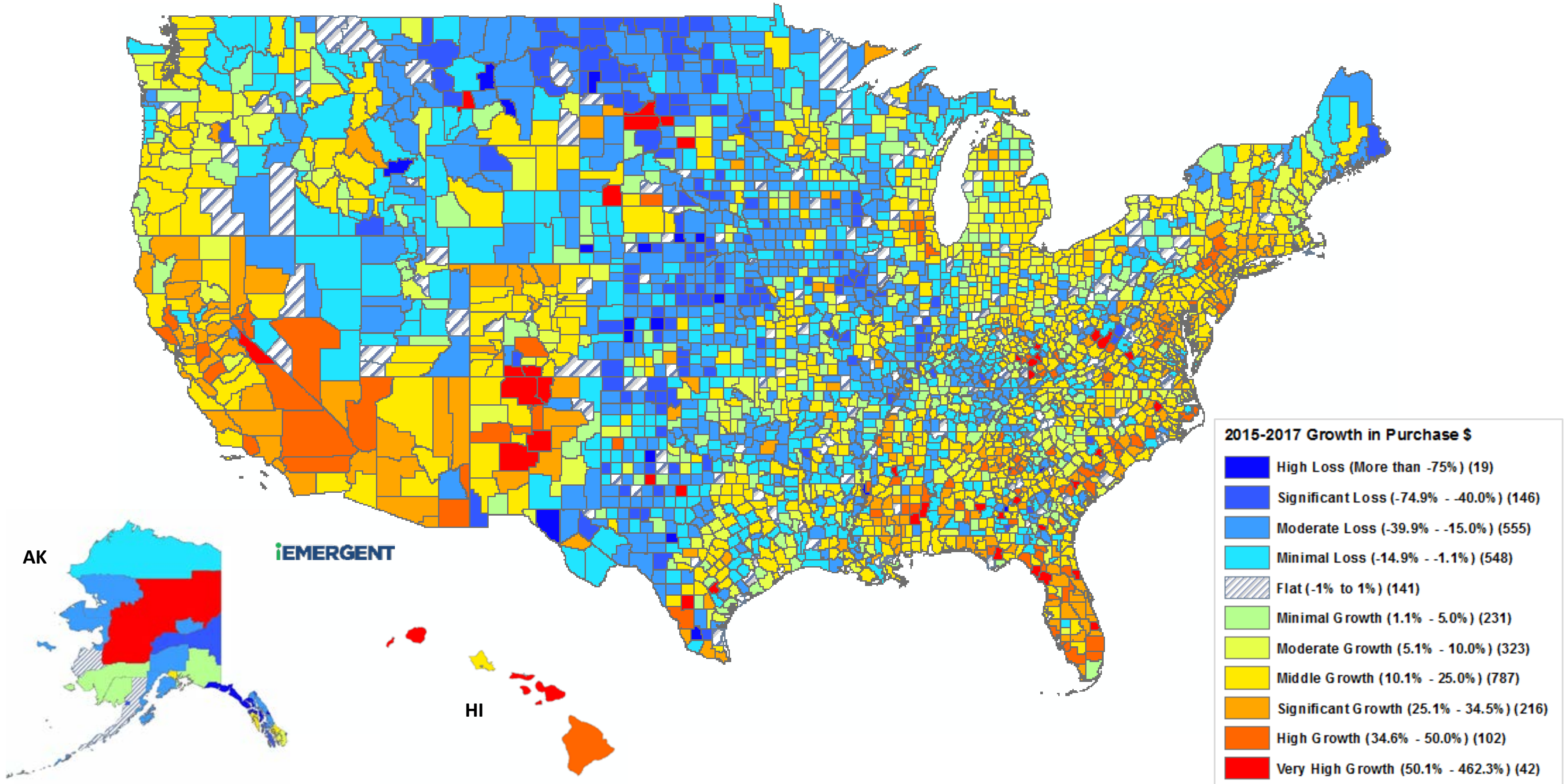
We define the "homebuyer" pool as the number of households who are ready, willing and able to finance a home. Although the Census estimates that total households in the US to be nearly 122 million, the portion of those households who are likely to get a mortgage in 2017 is constrained by limiting events from 2012-2016. For the last few years, the primary reason the iEmergent purchase forecast has been smaller than other industry forecasts – and more accurate – is that we account for those limiting constraints.

Why are 35.6 M households out of the homebuyer pool?	
Foreclosure Starts (2013-2016):	2.0M
Home Purchases (2013-2016):	7.0M
Home Refinances (2014-2016):	9.6M
Loan Mods & Workouts (2013-2016):	3.1M
Default/Delinquencies (2013-2016):	0.7M
Households Underwater (2017):	3.2M
Credit Issues (2017):	7.0M
Unemployment (2017):	3.0M
Total	**35.6M**



Below the surface of the national mortgage market are 3,142 counties whose behavior is unique – even between counties who are similar in household counts, and total mortgage opportunity. Of the 100 largest counties, we are forecasting that 8 of the 10 fastest growing counties are in FL and CA, all with a growth rate over 36.4% from 2015-2017. Interestingly, however, there is much disparity between growth speeds within one metro market. For example, in the Atlanta market, there are multiple counties that hit double-digit growth, while others stayed nearly flat. Such a wide range of growth patterns demonstrates why it is important to consider individual market behavior when quantifying market recovery.

2015-2017 Change in Purchase Mortgage Originations ($) by County



With rising interest rates, Refinance volume will dip considerably in 2017.

With good economic conditions, Purchase volume will continue to grow, but increased uncertainty and inventory-induced sales constraints may limit the up-side potential.

In total, the 2017 mortgage originations market will decline by 13 to 19%.

The ARM share of originations will rise as interest rates rise.

Credit availability has arguably been too tight and should further loosen in 2017.

Existing homeowners will continue to reap the benefits of home price gains and will tap into their growing home equity through increased home equity borrowing. However, this home equity lending opportunity is concentrated mostly in the largest mortgage markets

Economic Conditions Overview

Current economic situation is good & outlook generally positive. Recent employment, income & consumer spending trends have been pretty good lately. Equity markets have reached all-time highs.

- GDP – Latest estimate for Q3/16 was +3.5%, but consumer spending portion slowed.
- Employment – Best readings yet in a long, but slow expansion period.
- Consumer Income – Troublesome real income trend.
- Inflation – Very stable.
- Interest rates – The era of low rates might be over.

Trump's new administration promises sweeping political changes, raising uncertainty in financial markets. Uncertainty is rarely good for the economy: although government spending will likely increase, businesses and consumers will become more cautious. Hiring and investment growth are likely to slow. Consumer spending, particularly for big-ticket items like housing, is also likely to slow.

2017 areas of concern:

- Interest rates are rising – long-term rates spiked after the election with the anticipation of higher deficits due to tax cuts and higher government spending.
- Inflation expectations are rising – expansionary fiscal policy with the economy is near full employment will lead to income gains as businesses compete in a tighter labor market, but will also increase inflationary pressure.

With the continuing improvement of homeowner **delinquency and foreclosure** levels, one of the biggest impediments to housing market health is fading away.

Building – Housing construction crashed during the Great Recession and was extremely weak early in the current expansion. **Multi-family building** led the way out of the recession and for the past seven years has been very strong, recently surpassing previous peak levels. Now, however, it is starting to moderate. In contrast, the **single-family construction** recovery started slow but is showing increasing momentum recently, although it is still far below pre-recession levels. Expect robust single-family construction growth in 2017, which will significantly exceed multi-family growth.

Home Sales – **New** home sales growth has been slowly accelerating as new construction has grown. But the lion's share of home sales is **Existing** Home Sales (now 90% of sales), and it has been flattening, largely due to tightening inventory of available homes. Moreover, that inventory pressure is generally tightest for *less* expensive homes. Nevertheless, expect solid home sales growth in 2017, especially for new homes, but perhaps with periodic setbacks due to inventory constraints.

Prices – Nationally, the latest Case-Shiller HPI (for October) is increasing at 5.6% year-over-year and just regained its pre-Bust peak. Regionally, four of the five hottest markets for price appreciation are west of the Mississippi (Seattle, Portland, Denver & Dallas). However, most of the 20 major markets still have yet to match their pre-Bust peak. Expect continued strong gains in most home prices as sales inventories remain tight.

Affordability – Despite significant home price appreciation in the last 3-4 years, mortgage-financed housing remains more affordable now than at any time from the late 90s through 2009. This is because mortgage interest rates have declined for most of this period. Unfortunately, with rises expected for both home prices and interest rates in 2017, affordability will worsen.

2017 Total Mortgage Lending Opportunity by State

State	2017 Purchase Loans (#)	2017 Purchase Dollars ($B)	2017 Total Loans: Low Est. (#)	2017 Total Loans: High Est. (#)	2017 Total Dollars: Low Est. ($)	2017 Total Dollars: High Est. ($)
AK	8,600	$2.7	11,800	12,500	$3.4	$3.6
AL	53,500	$10.1	73,000	77,200	$13.3	$14.
AR	32,700	$5.5	44,100	46,500	$7.2	$7.5
AZ	129,200	$28.6	172,000	181,500	$37.7	$39.7
CA	496,100	$199.6	673,600	712,300	$260.1	$273.7
CO	121,100	$32.6	164,400	174,100	$42.6	$44.9
CT	44,400	$13.8	62,200	66,100	$18.4	$19.5
DC	9,400	$5.	12,900	13,700	$6.5	$6.8
DE	14,200	$3.7	19,800	21,100	$5.	$5.3
FL	342,300	$77.6	459,200	485,000	$101.7	$107.1
GA	143,000	$28.7	195,100	206,600	$38.3	$40.4
HI	15,200	$7.7	21,300	22,600	$10.2	$10.7
IA	38,000	$5.8	51,800	54,800	$7.8	$8.2
ID	28,200	$5.5	38,500	40,800	$7.3	$7.7
IL	169,800	$36.6	238,600	253,800	$50.8	$54.
IN	87,100	$13.5	119,400	126,400	$17.9	$18.9
KS	35,900	$6.6	48,700	51,500	$8.5	$9.
KY	46,700	$7.9	64,300	68,100	$10.5	$11.1
LA	46,500	$9.8	62,900	66,300	$12.5	$13.1
MA	85,800	$27.9	119,900	127,400	$37.3	$39.4
MD	89,000	$30.4	125,500	133,600	$40.5	$42.8
ME	14,000	$3.	19,800	21,000	$4.	$4.3
MI	125,100	$17.7	171,500	181,600	$24.4	$25.9
MN	88,200	$18.	121,800	129,200	$24.4	$25.8
MO	80,200	$13.6	110,800	117,500	$18.5	$19.6
MS	25,200	$4.3	34,400	36,400	$5.6	$5.9

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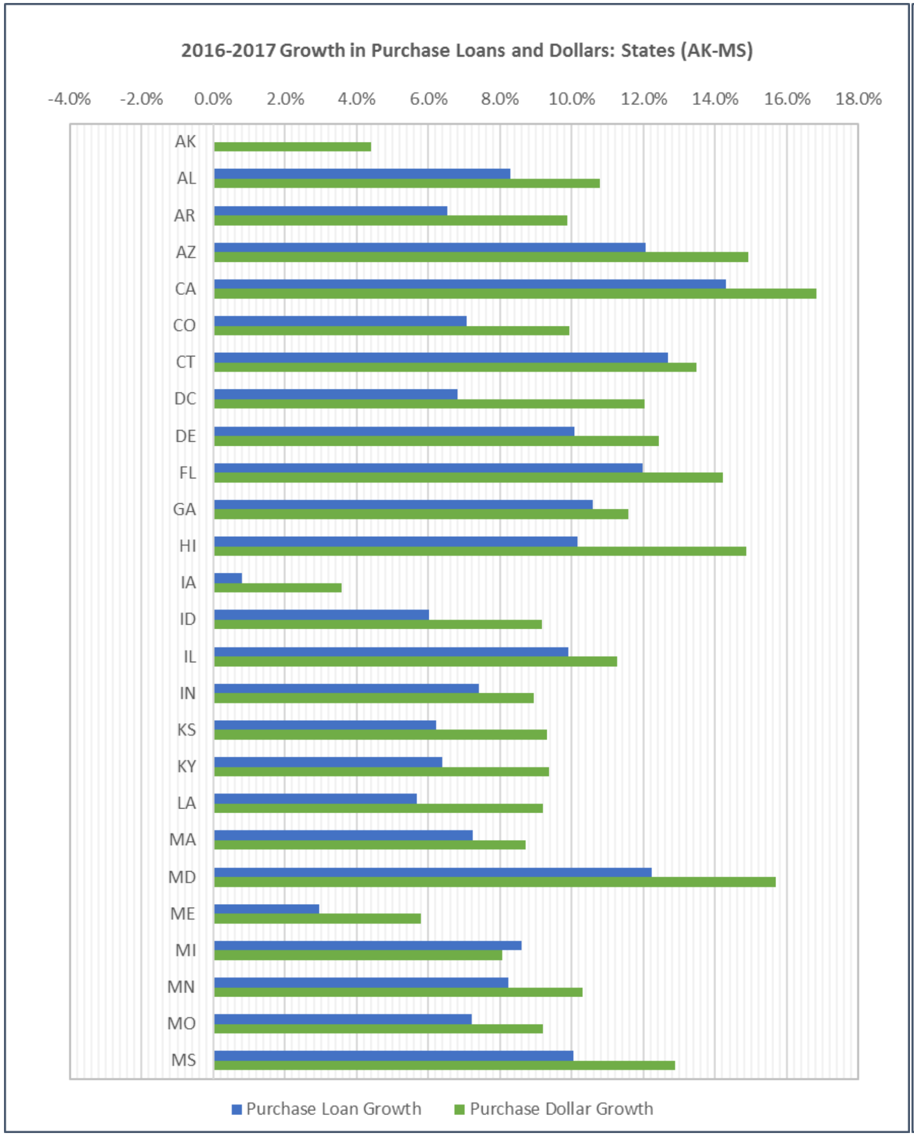
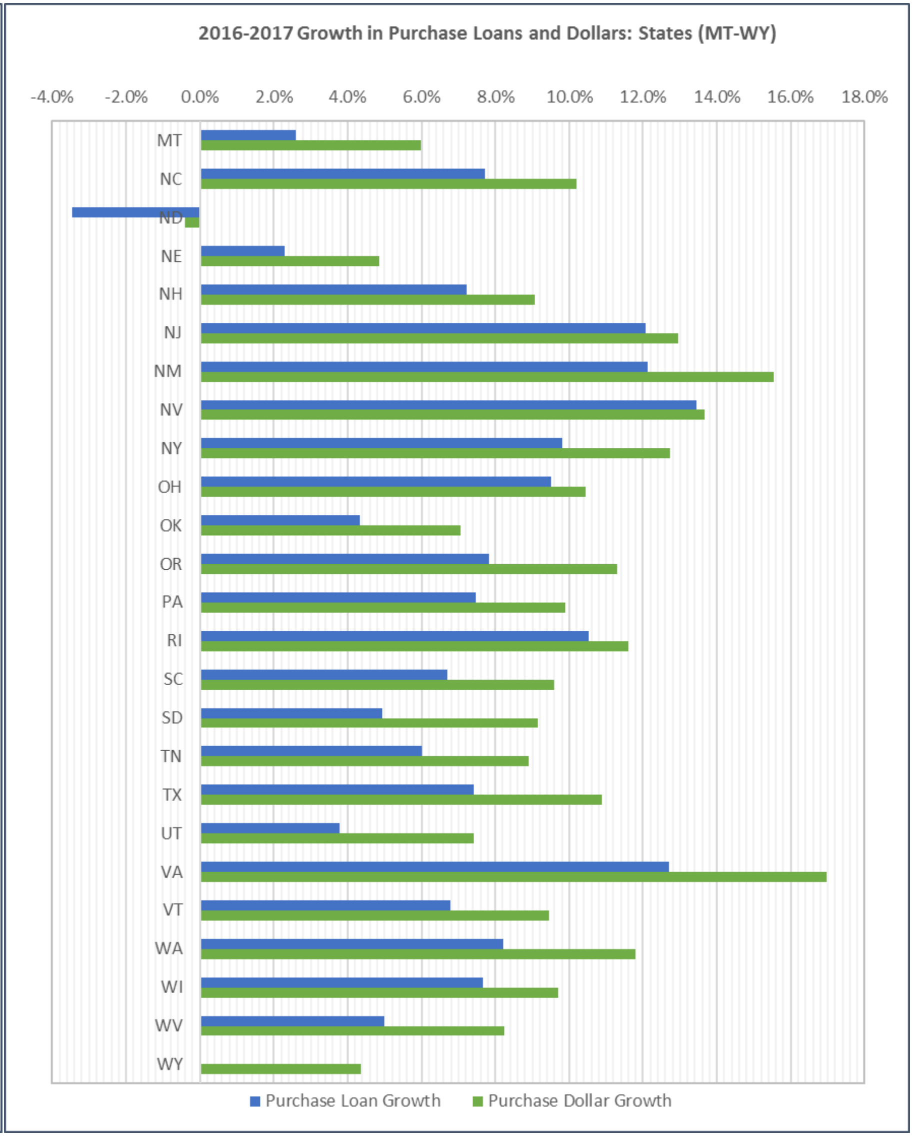
MT	11,900	$2.9	16,400	17,400	$3.8	$4.
NC	138,300	$30.5	189,800	201,000	$40.1	$42.2
ND	8,400	$1.7	11,100	11,700	$2.1	$2.2
NE	22,400	$3.7	30,600	32,400	$4.8	$5.1
NH	17,800	$4.2	25,000	26,600	$5.7	$6.1
NJ	102,100	$31.8	144,500	153,700	$43.3	$45.9
NM	23,100	$5.	31,900	33,800	$6.7	$7.1
NV	56,500	$11.2	72,800	76,400	$14.8	$15.6
NY	148,800	$52.4	198,300	208,600	$65.7	$68.7
OH	146,400	$22.8	201,000	212,900	$30.6	$32.3
OK	45,700	$8.	60,400	63,500	$10.	$10.5
OR	62,000	$16.8	86,700	92,200	$22.2	$23.5
PA	135,100	$27.2	187,600	198,900	$35.9	$37.8
RI	12,600	$3.	17,800	18,900	$4.1	$4.4
SC	68,600	$15.	92,900	98,200	$19.7	$20.8
SD	10,600	$2.	14,500	15,300	$2.6	$2.8
TN	86,400	$17.3	116,800	123,500	$22.4	$23.5
TX	381,200	$84.8	490,300	514,100	$103.7	$107.9
UT	52,100	$12.7	71,500	75,800	$16.7	$17.6
VA	134,900	$45.	186,900	198,400	$59.	$62.2
VT	6,300	$1.5	8,900	9,500	$2.	$2.1
WA	118,400	$36.8	165,700	176,300	$48.8	$51.4
WI	74,500	$13.3	105,800	112,700	$18.3	$19.4
WV	14,700	$2.6	20,000	21,200	$3.3	$3.5
WY	7,700	$1.9	10,400	11,000	$2.5	$2.6
TOTAL	**4,255,900**	**$1,070.03**	**5,794,900**	**6,131,600**	**$1,403.18**	**$1,477.97**

2016-2017 Growth in Purchase Opportunity by State

The two graphs below illustrate how the purchase market will grow from 2016-2017 across the U.S. Only in ND is the loan and dollar opportunity projected to fall, which is a testament to the increasing strength of the purchase market. The states projected to grow the most in purchase dollars are VA, CA and MD, while CA, NM and CT and VA (tied) have the strongest growth in purchase loans.





Our Company

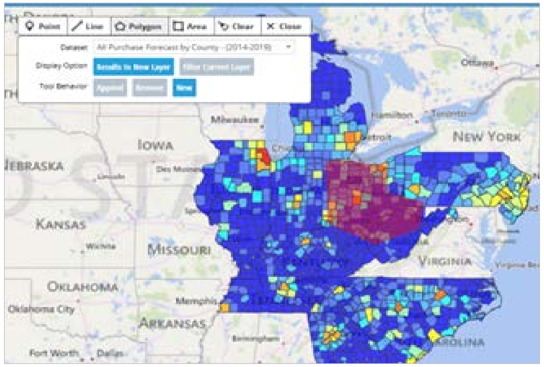
iEmergent is a forecasting and advisory firm for the lending industry. Since 2000, we have been focused on delivering a forward-looking approach to helping organizations navigate the industry's changing landscape. After nearly 20 years as an executive at two national lenders, our founder leveraged his background in mathematics and predictive modeling to develop a groundbreaking method for forecasting mortgage opportunity. In addition to our forecasts, we provide strategic advisory services to lenders of all sizes and types, as well as mortgage insurance, title, and investment companies. Viewed as industry leaders, we have been featured in Mortgage Banking magazine, HousingWire, National Mortgage News, Origination News, Inman News, and the Credit Union Journal.

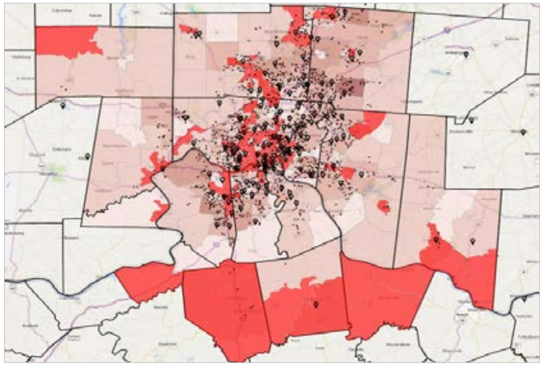
Our Products

iEmergent provides accurate, forward-looking data that quantifies what's next in mortgage markets across the nation. As housing and lending sputter and stutter toward recovery, our forecasts drill down into states, metro areas, counties, and neighborhoods to quantify where and how mortgage opportunity will grow, slow, or stay the same.

Most clients access our data through Mortgage MarketSmart, a web application with dynamic maps. This powerful visualization tool brings HMDA and detailed forecast data to life, helping organizations easily make decisions about high-level strategic opportunities and tactical, market-level challenges:

- Expand and grow responsibly
- Improve sales strategies at all levels
- Optimize resources, brand, and locations
- Recruit, hire, train, and retain sales resources
- Minimize distribution risk and meet CRA/Fair Lending regulations





Forecast Segments

Market Geography
- State
- MSA
- County
- Census Tract

Market Segments
- Occupancy Types
- Custom Loan Sizes
- Conventional Loan Type
- FHA,VA, FSA Loan Types
- Jumbo, Conforming
- Borrower Income Levels
- Borrower Race/Ethnicity
- First Time Homebuyer
- CRA Eligible
- New Construction Sales
- Custom Loan Sizes
- Refinance Ranges

For more information about Mortgage MarketSmart, our forecasts, or advisory services, call Fenn Meents at 515-327-0070 (x101).