

Housing and Credit Markets Outlook

FTA Revenue Estimating Conference
Springfield, IL



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Government Shutdown and Debt Ceiling

- As of October 1st the government shut down for the first time since 1995
 - 800K Federal Employees deemed “non-essential” furloughed
 - The 1995-96 shutdown cost an estimated \$2.5B
 - There are other unintended consequences (home buying, hiring, economic forecasting)
- The longer the shutdown drags on, the greater the negative impact to the economy
- The debt ceiling is the real danger
 - The “extraordinary measures” will have been used up by October 17, at which point the government will have to operate strictly on a cash flow basis
 - Last time we flirted with the debt ceiling S&P downgraded the US Debt triggering a 6.7% one-day stock sell off
 - The Fed does not have the means to offset another fiscal shock
- A default would have catastrophic consequences globally

How Bad is Default?

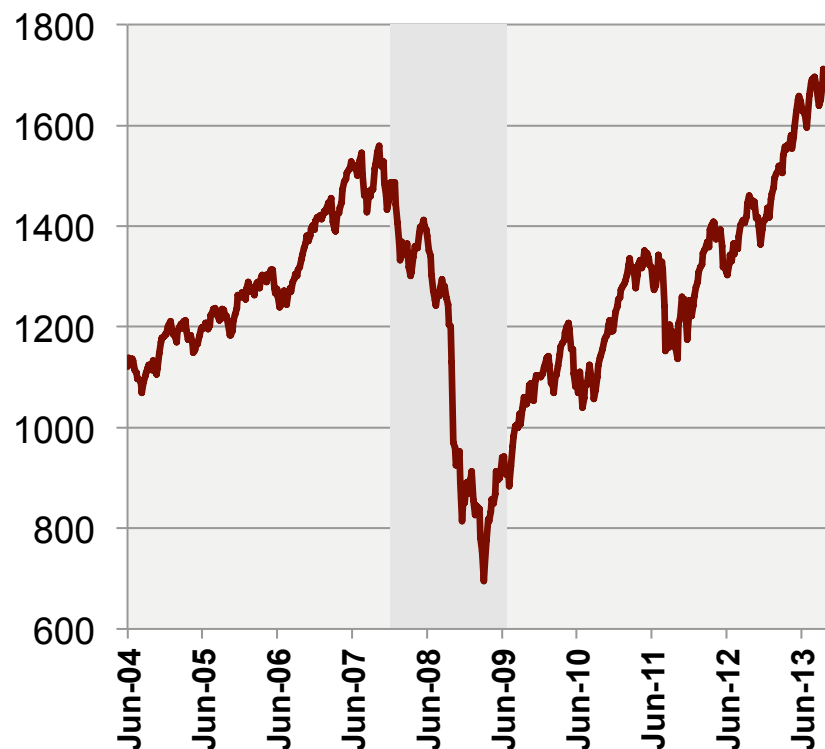
- The US has defaulted once before – Mostly UNINTENTIONALLY
- US posted late payments on T-Bills maturing on April 26, May 3 and May 10 in 1979
 - Full payment was made after a short delay
 - Originally did not pay interest on delayed payments, but eventually did due to severe pressure in financial markets
- Delay was due to unprecedented volume of participation by small investors, a failure of Congress to act on the debt ceiling and a failure of word processing software used to prep check schedules
- What was the effect?
- On 28-34 day (aka 1-month) Treasury Bills yields jumped 60 basis points and remained there for several months
- Effect of INTENTIONAL default is an unquantifiable risk – Russia's default nearly upended markets in 1997

Financial Market Performance Has Been Volatile

- Equity indexes are at all-time highs, bolstering consumer confidence
- Bond markets are wary of changes in Fed bond-purchase activity

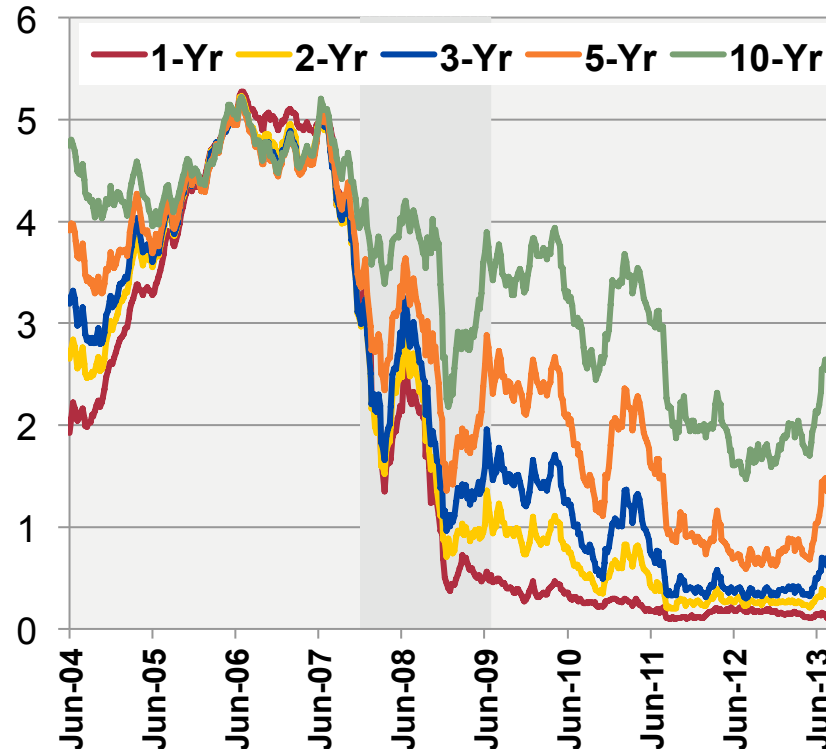
S&P 500 Equity Index

(weekly average, NSA)



U.S. Treasury CM Bond Rates

(%, weekly average, NSA)

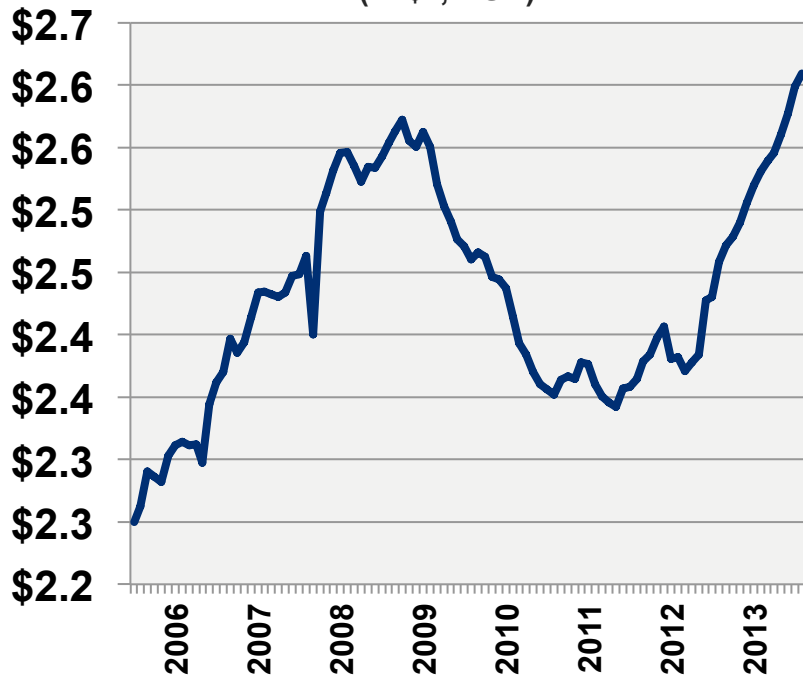


Source: St. Louis Federal Reserve Bank, Yahoo! Finance, NBER, Equifax; through October 3, 2013

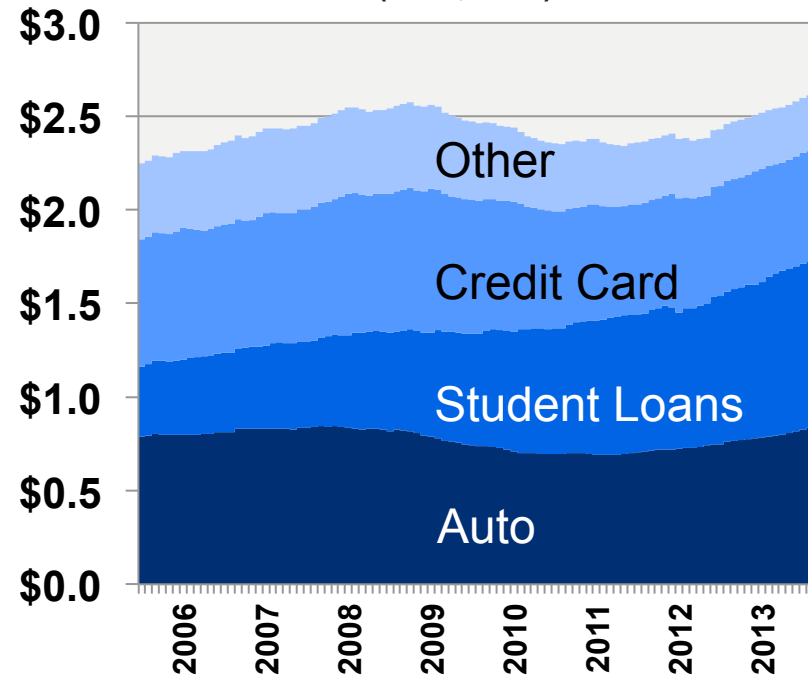
Student Loans & Auto Dominate N-M Consumer Debt

- Total student loan debt has grown steadily throughout Great Recession and recovery
- Auto growing strong, now back to January 2008 level & \$9B shy of peak

Non-Mortgage Consumer Debt
(in \$T, NSA)



Non-Mortgage Consumer Debt
(in \$T, NSA)



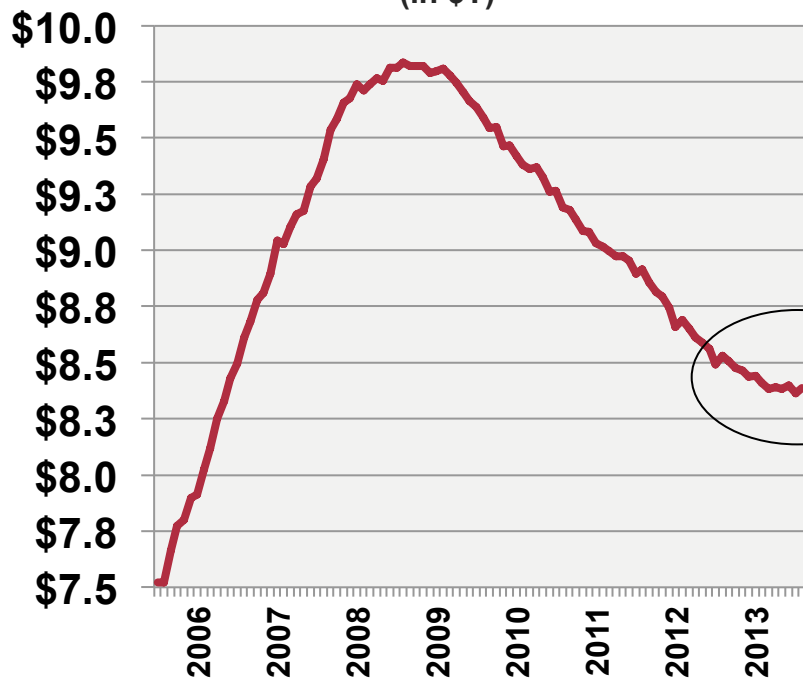
Source: Equifax (Credit Trends 4.0; data through August 2013)

Vertical Axis Scales Not Aligned

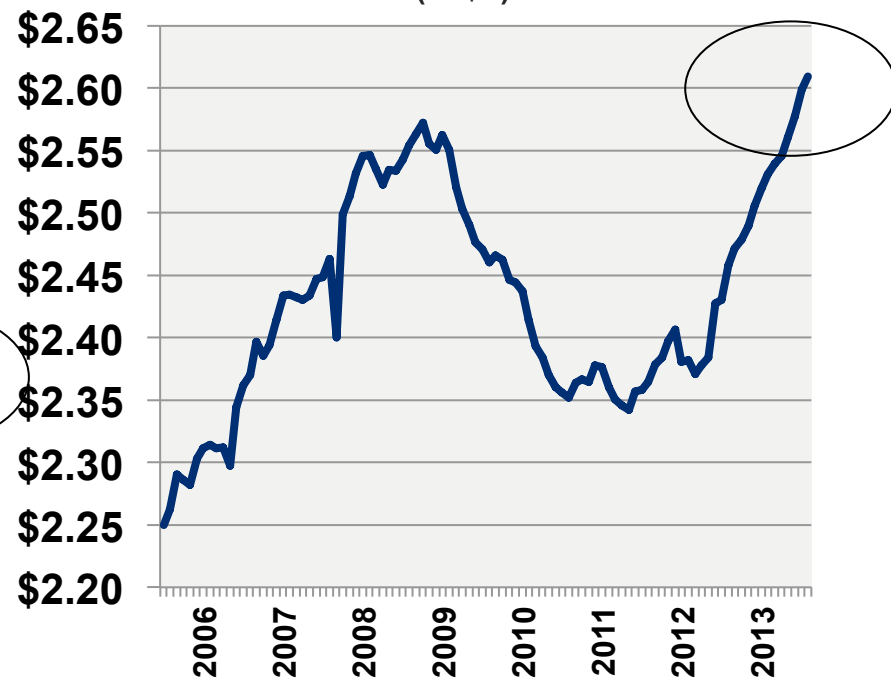
U.S. Consumer Deleveraging: Diverging Trends

- Home mortgage outstanding balances, including 1st liens and home equity lines and loans, have declined \$1.47T, or 15%.
- Non-mortgage consumer debt fell \$230B or 12%; Hit new high in July 2013

Home Mortgage Debt
(in \$T)



Non-Mortgage Consumer Debt
(in \$T)



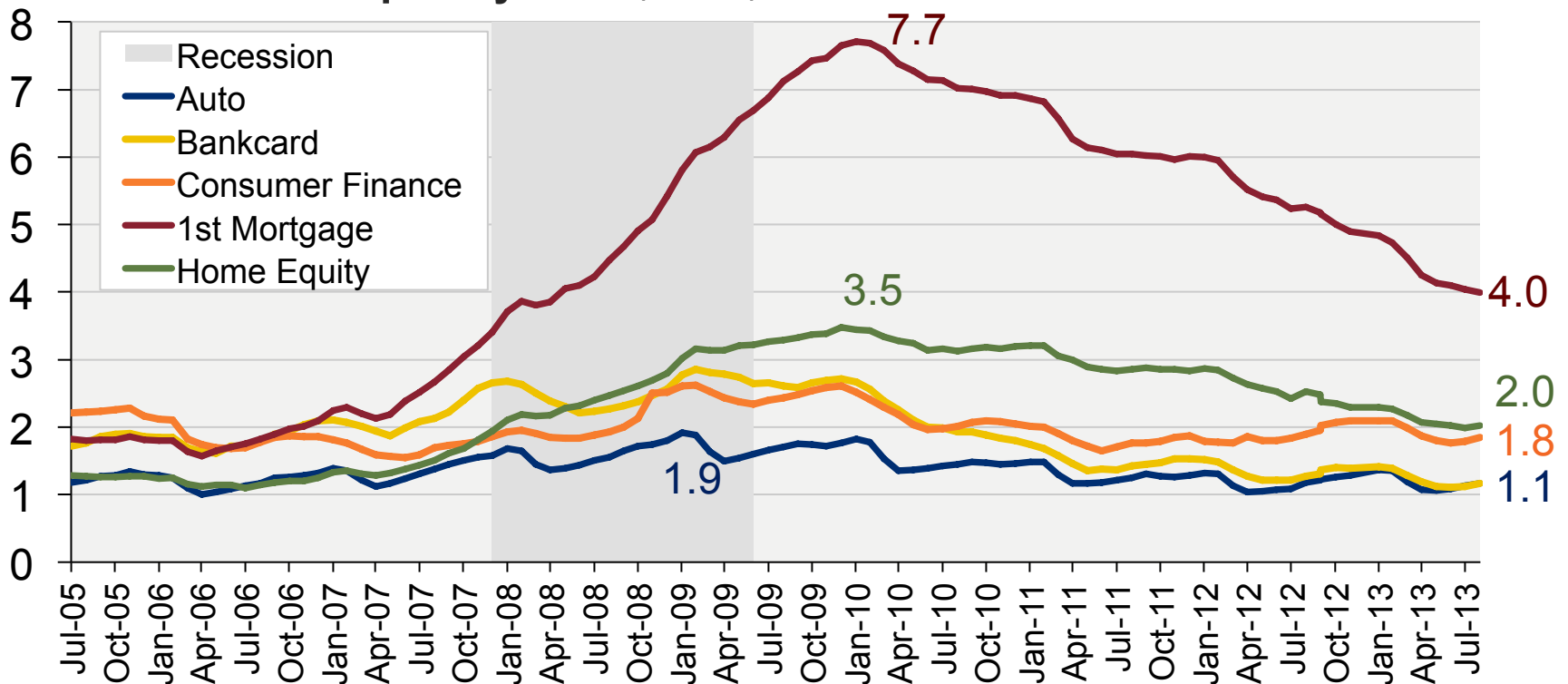
Source: Equifax (Credit Trends 4.0; data through August 2013)

Vertical Axis Scales Not Aligned

Credit Delinquencies Are Recovering

- Auto, bankcard delinquency rates are back to pre-recession levels
- Mortgage delinquencies remain problematic

60 DPD+ Delinquency Rate (% , NSA)

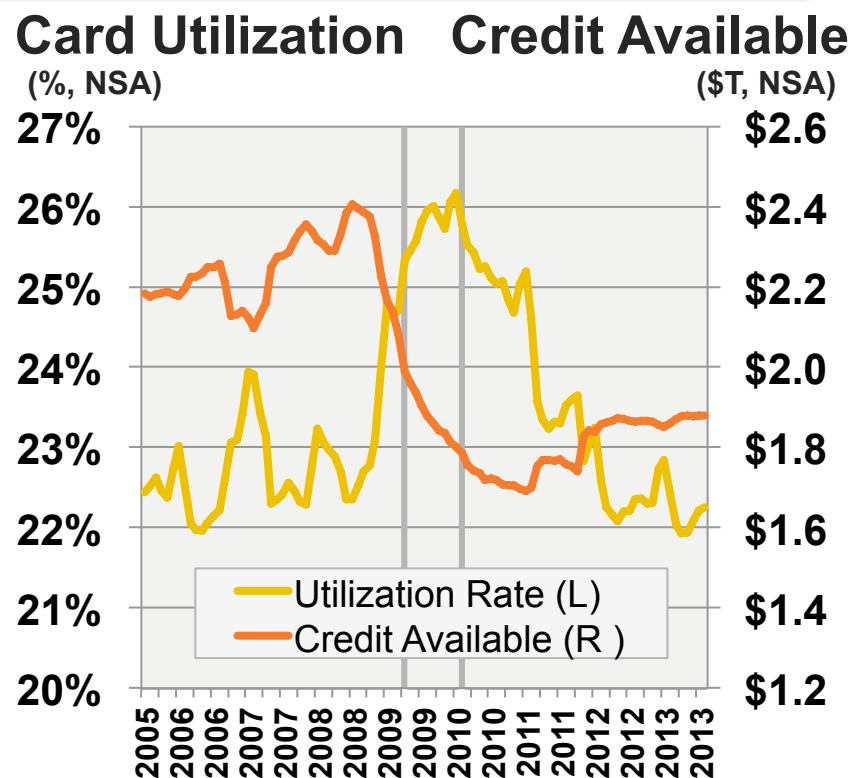
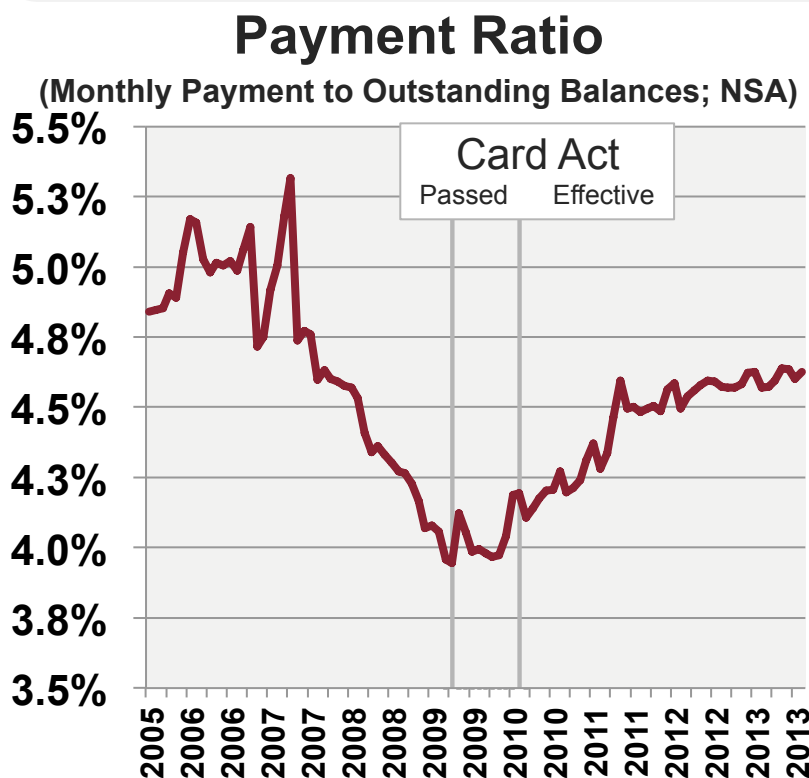


Source: Equifax (Credit Trends 4.0), Data through August 2013

Notes: Excludes write-offs and REO; Mortgage DLQ rates include loans in foreclosure

Bank Card Performance Is Improving

- Payment ratios, payment amounts divided by outstanding balances, are rising – Part of consumer deleveraging
- Utilization rates have been falling, first due to payoffs, charge-offs, etc. but now due to limit increases

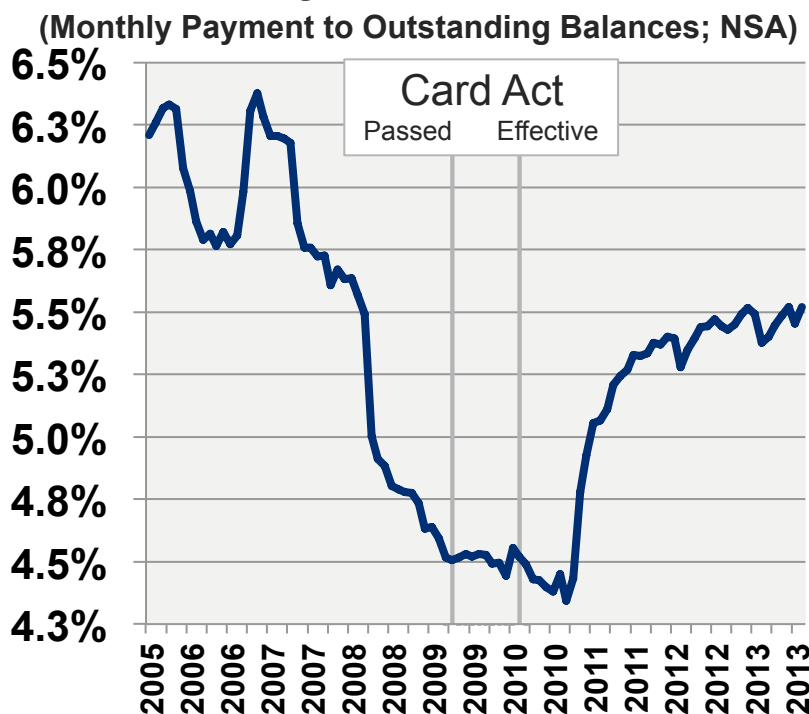


Source: Equifax (Credit Trends 4.0); data through August 2013

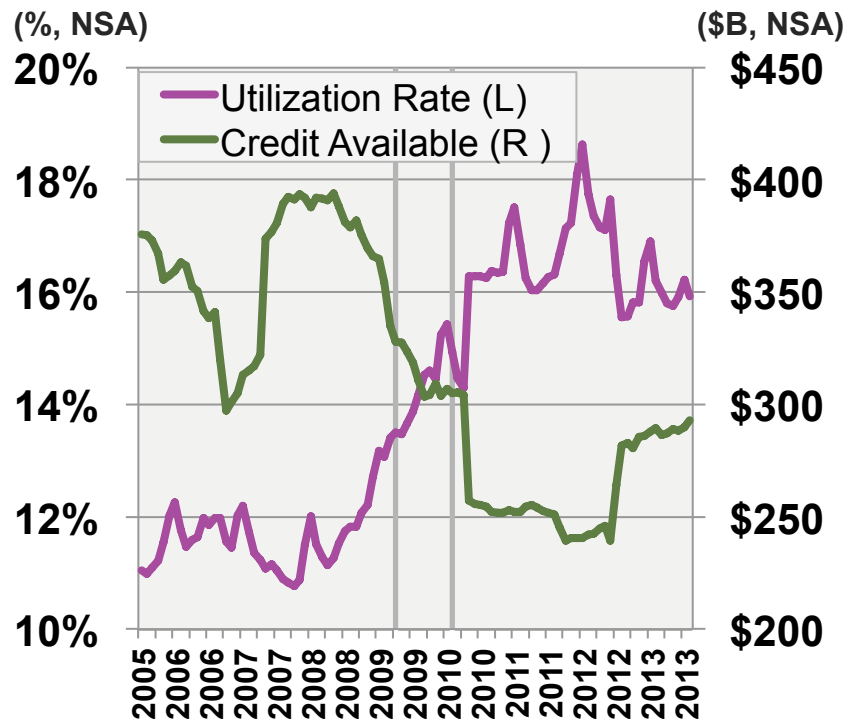
Retail Cards Differ from Bank Cards

- Payment ratios on retail cards started rising in 2011
- Utilization rates have remained elevated on retail cards, due in part to limited credit availability – but recent increases in availability have been met with increased usage

Payment Ratio



Card Utilization Credit Available

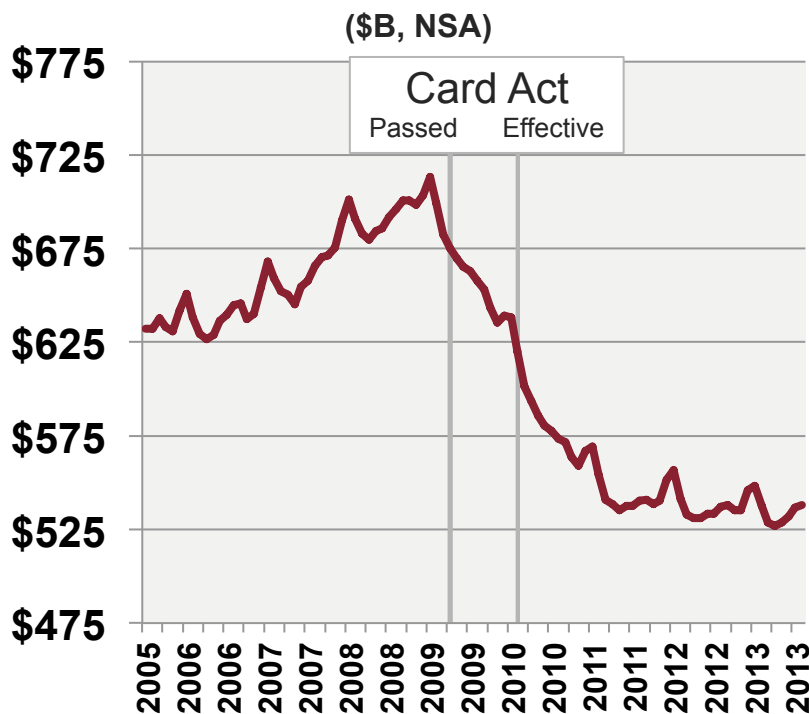


Source: Equifax (Credit Trends 4.0); data through August 2013

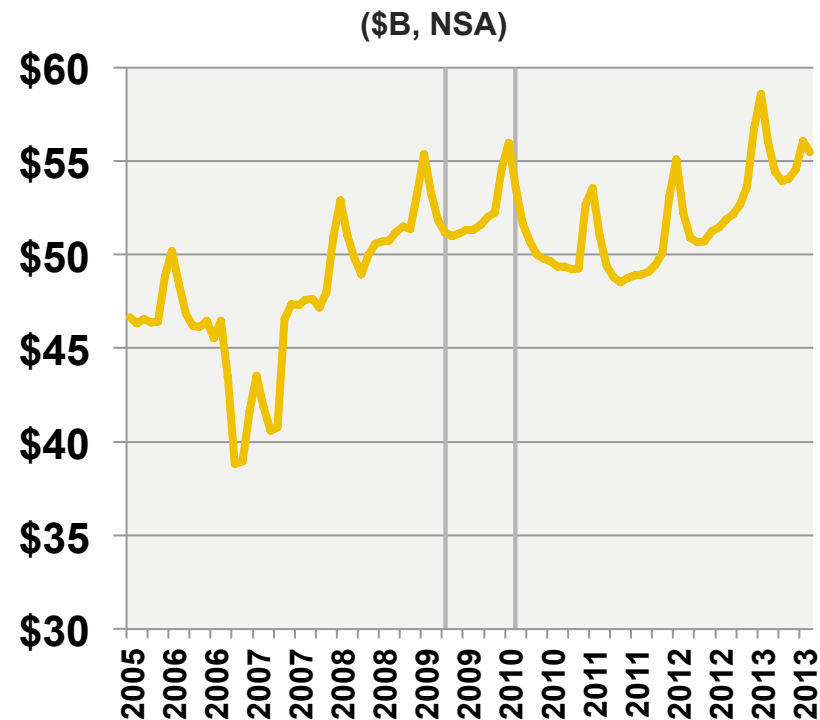
Card Deleveraging

- Bank card balances have decreased by 21% (\$150 billion) since their recession peak
- Retail card balances are at all-time highs, up nearly 10% (\$5 billion) from pre-recession levels

Bank Card Balances



Retail Card Balances

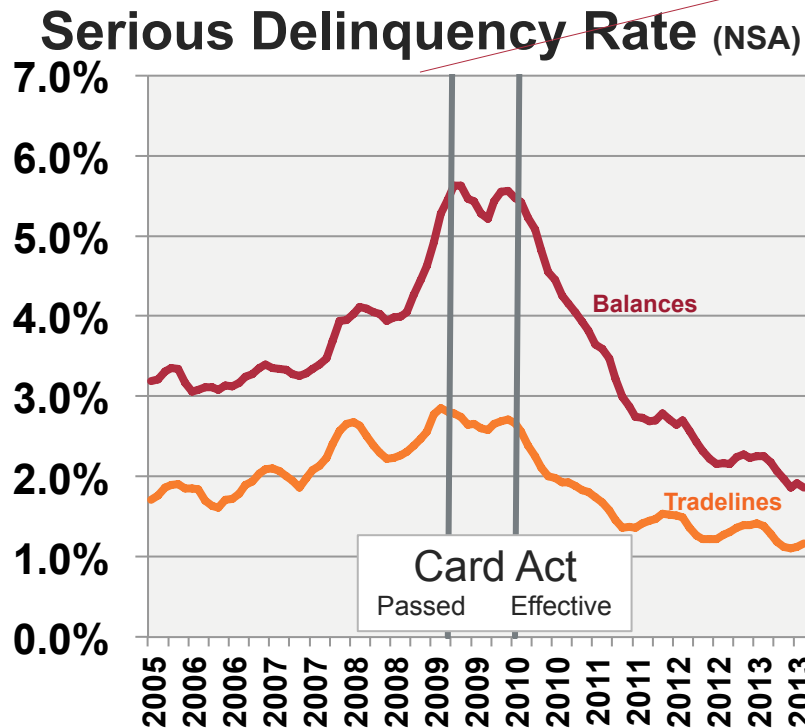


Source: Equifax (Credit Trends 4.0); data through August 2013

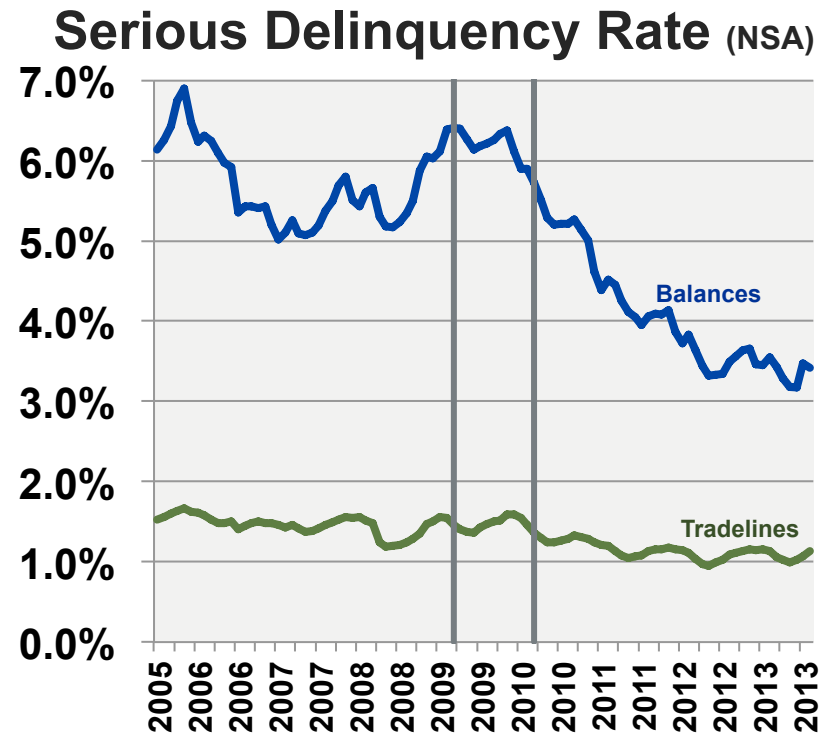
Card Performance

- Bank card serious delinquency rates are higher than retail card rates
- Retail rates saw little degradation in performance during the recession
- Both rates are at lowest levels since start of series

Bank Card



Retail Card

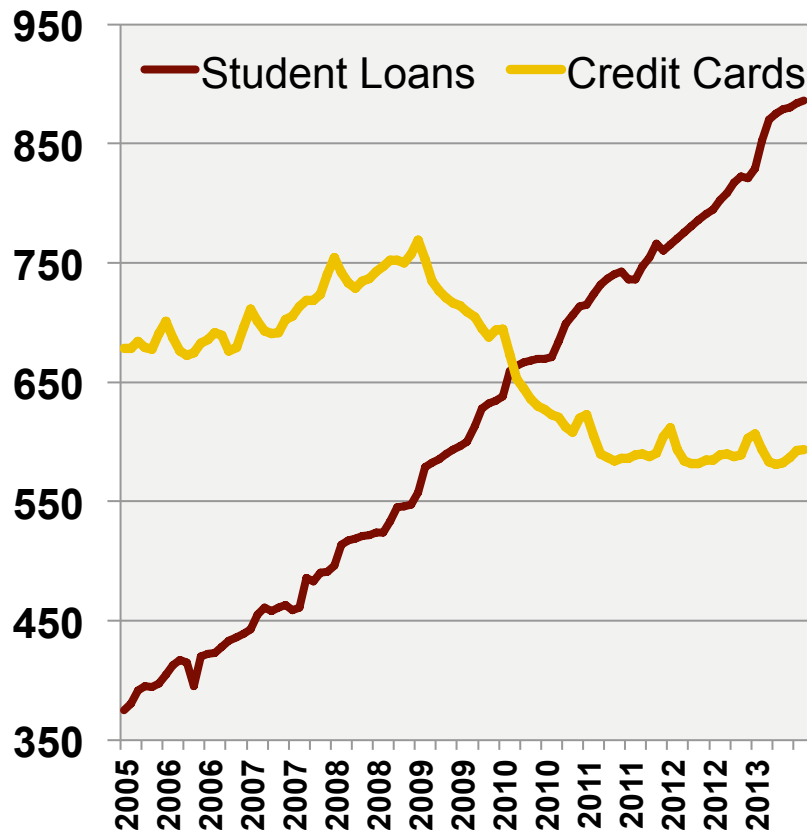


Source: Equifax (Credit Trends 4.0); data through August 2013;

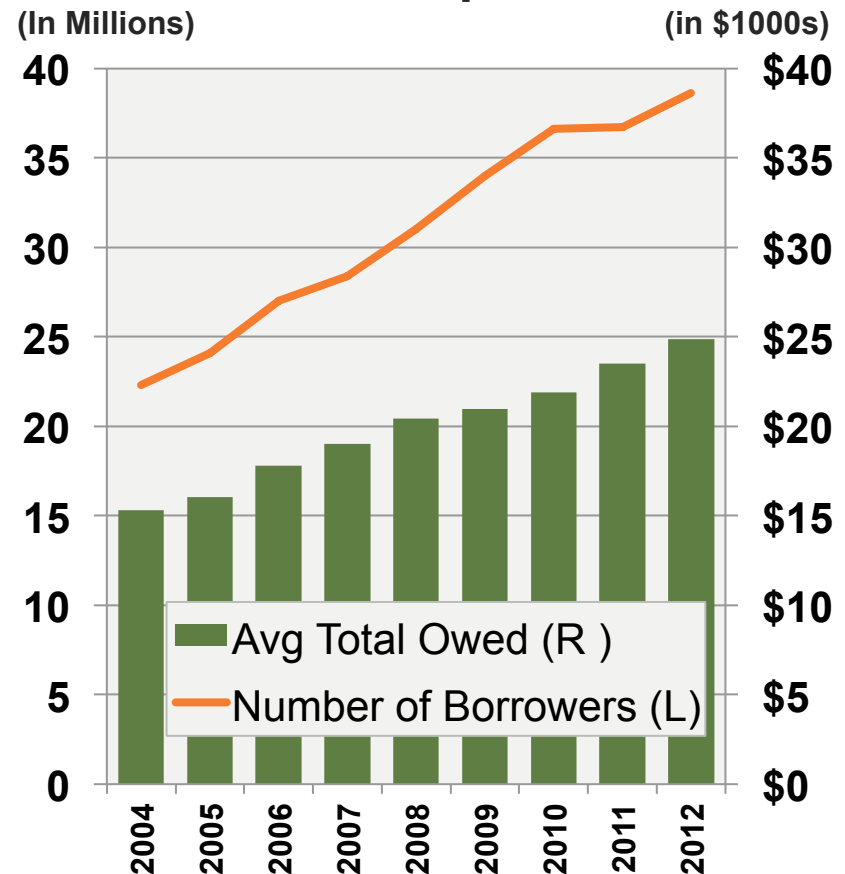
Serious Delinquency = 60+DPD or in bankruptcy

Student Loans – the Next Big Problem

Student Loan & Credit Card Balances (\$B, NSA)



Student Loan Borrowers and Amount Owed per Borrower

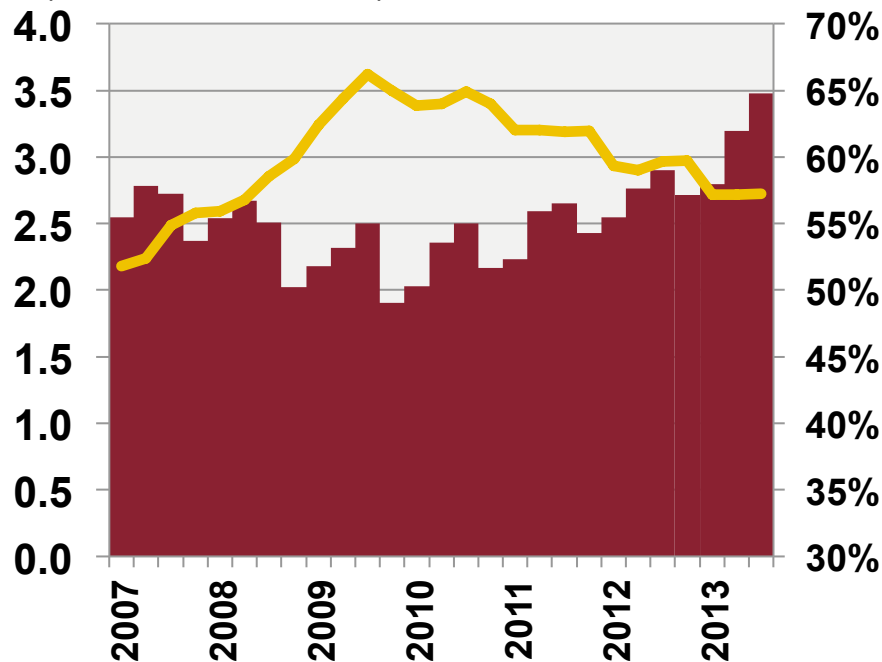


Source: Equifax (Credit Trends 4.0); data through August 2013; credit card data include bank and retail cards.

Auto Loan Originations Are Rising

Auto Bank Originations & Share High Prime by Vintage

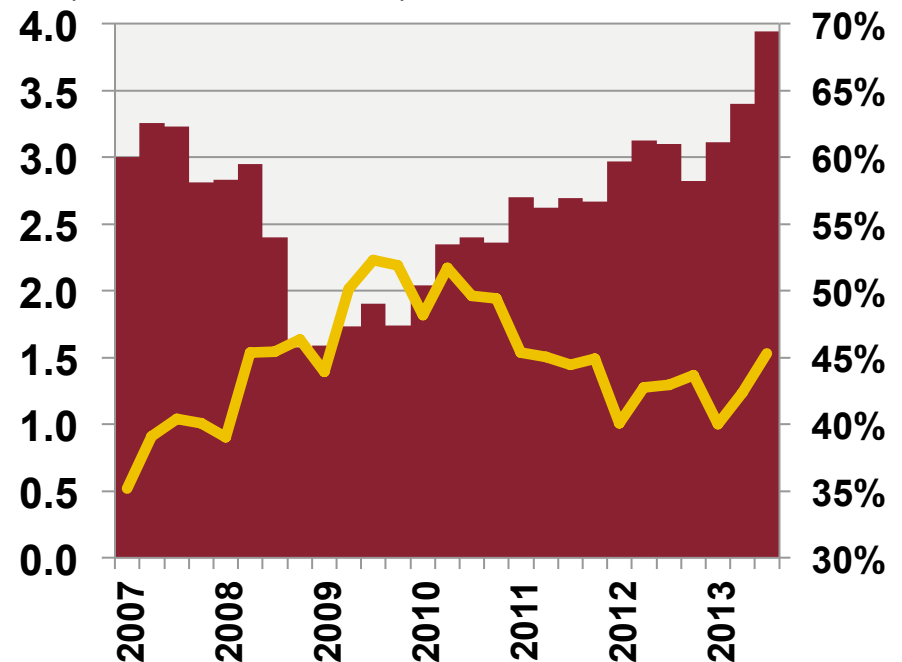
(# millions & % NSA)



■ Total Originations (left)

Auto Finance Originations & Share High Prime by Vintage

(# millions & % NSA)



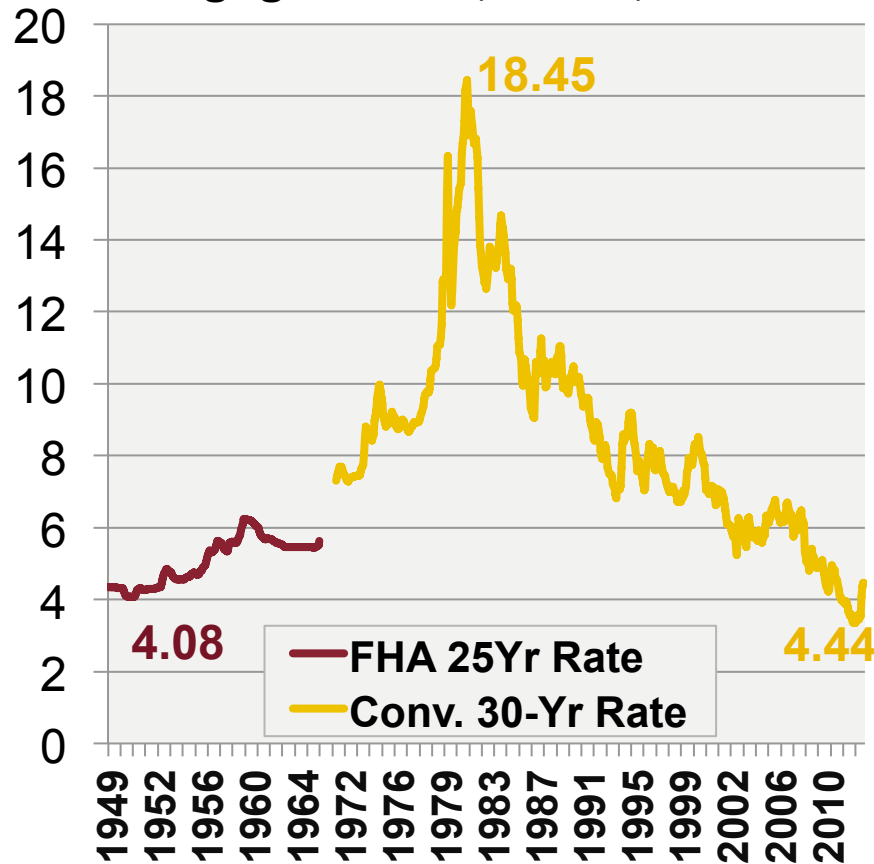
— % ERS 700+ (right)

- The Share of high-prime borrowers among new originations is falling across both banks and auto finance companies

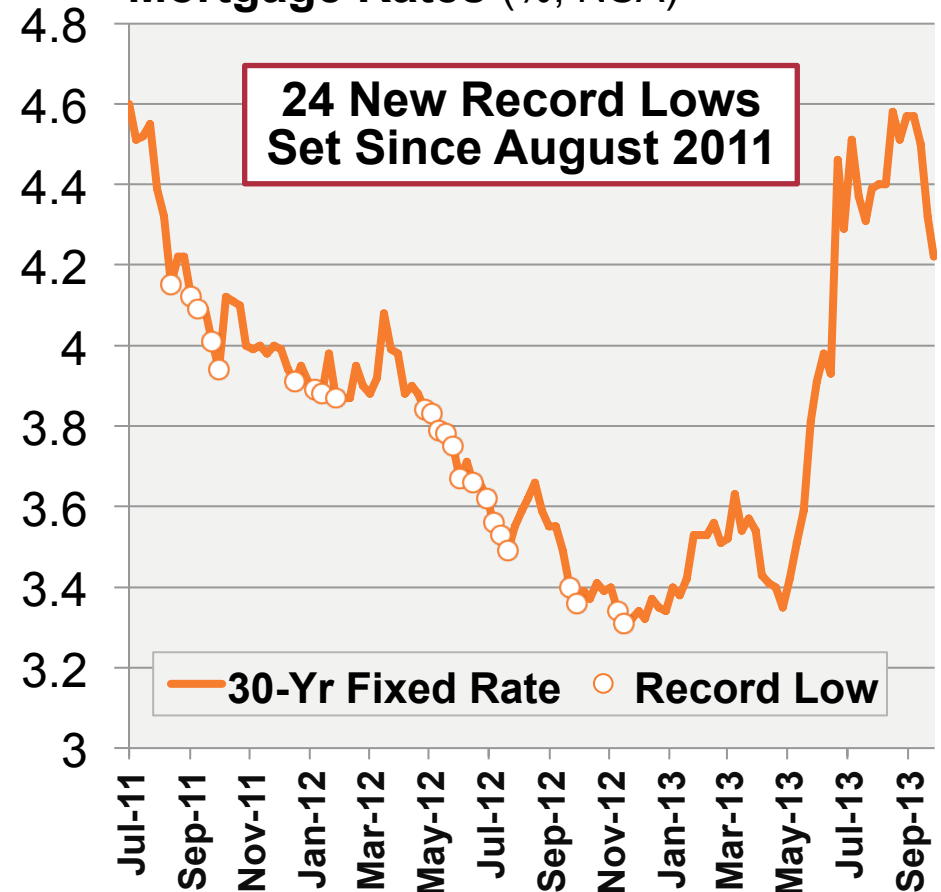
Source: Equifax (Credit Trends 4.0); data as of August 2013; ERS = Equifax Risk Score)

Mortgage Rates in Context – Defining “Historically Low”

Monthly Average 30-Year Fixed Mortgage Rates (% , NSA)



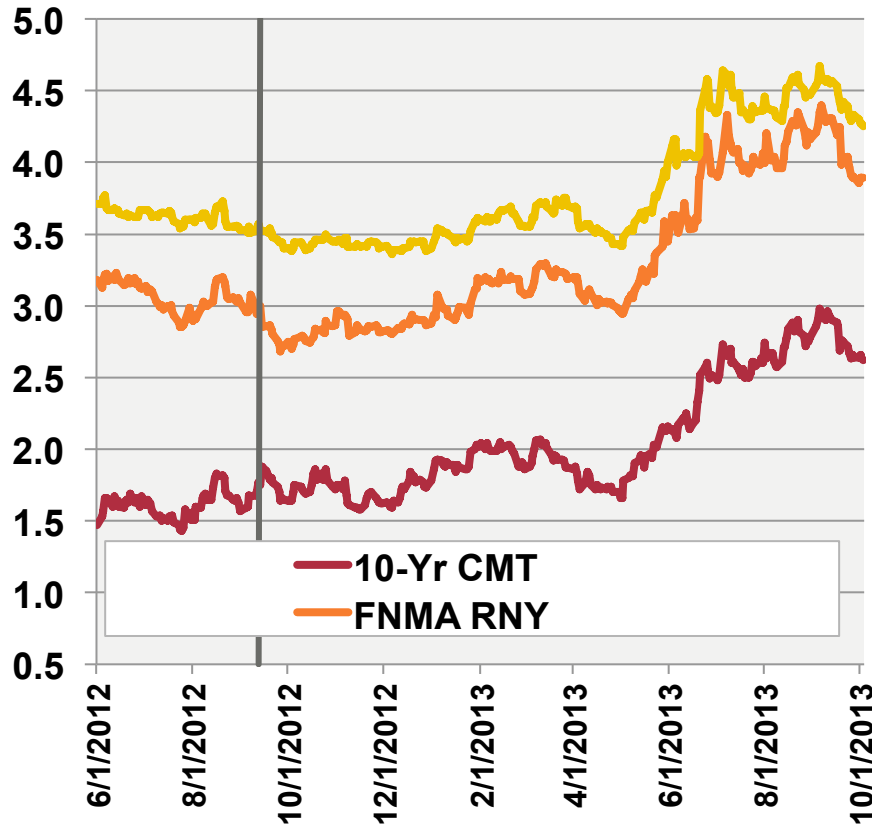
Weekly Average 30-Year Fixed Mortgage Rates (% , NSA)



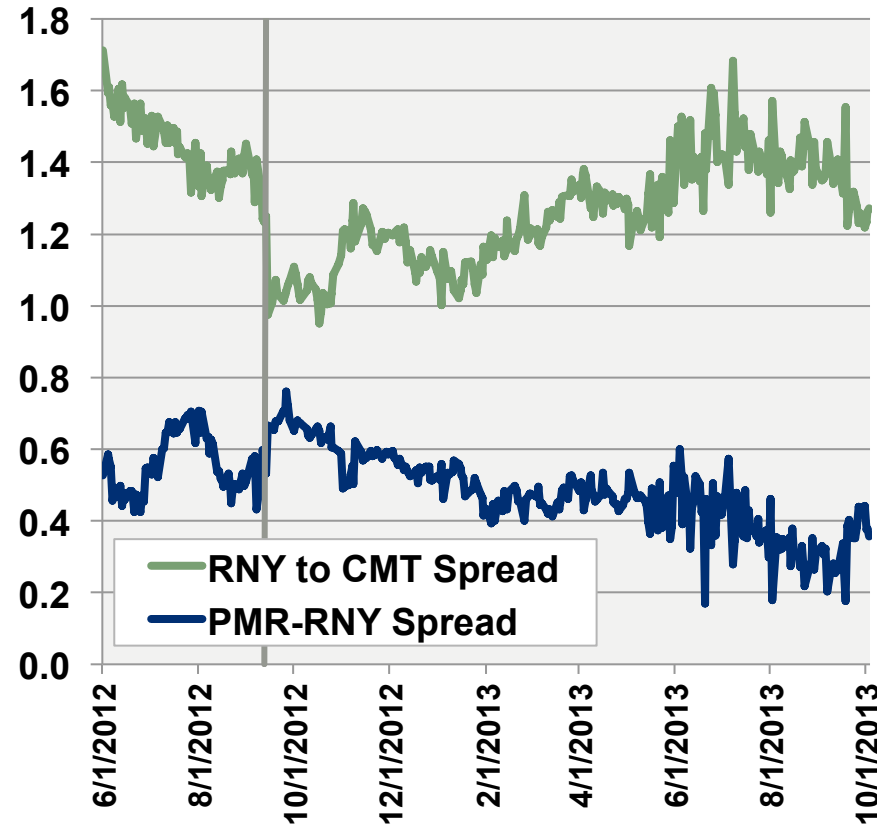
Notes: Through 1961, rates are based on 25-year mortgages. FHA was created in 1934 and the original term of FHA insured fixed-rate loans was 20 years. Gradually terms extended to 30-years.

Decomposing 30-Yr Fixed Mortgage Rates

Interest Rate Levels (% , NSA)



Interest Rate Spreads (% , NSA)

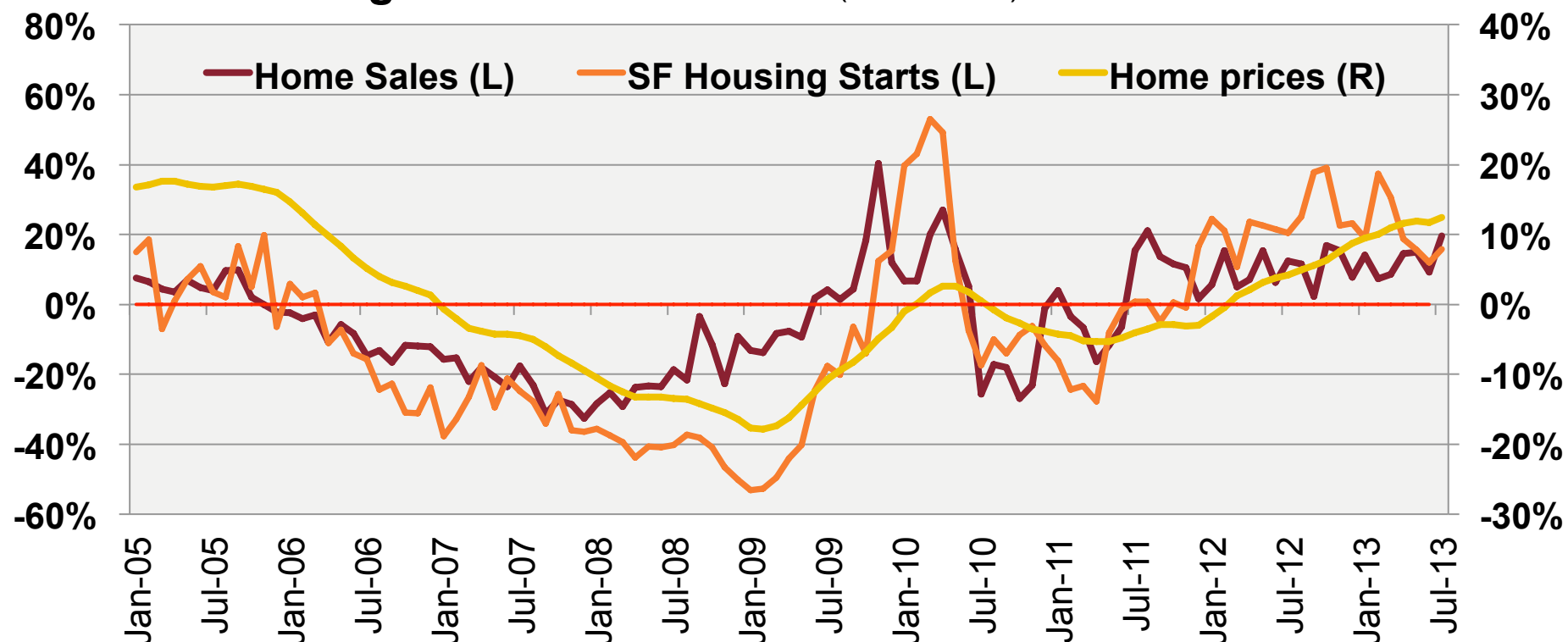


- The Required Net Yield is the secondary market's (Fannie Mae's) yield after servicing fees have been removed from the mortgage rate. The difference between the RNY and the Primary Market Rate is bank yield (originator & servicer).

Source: Equifax, BankRate, Fannie Mae, St. Louis Federal Reserve Bank; 10/03/2013

The Housing Market Appears To Have Finally Hit Bottom

12-Month Percent Change in Total Home Sales, Housing Starts and CoreLogic Home Price Index (NSA Series)

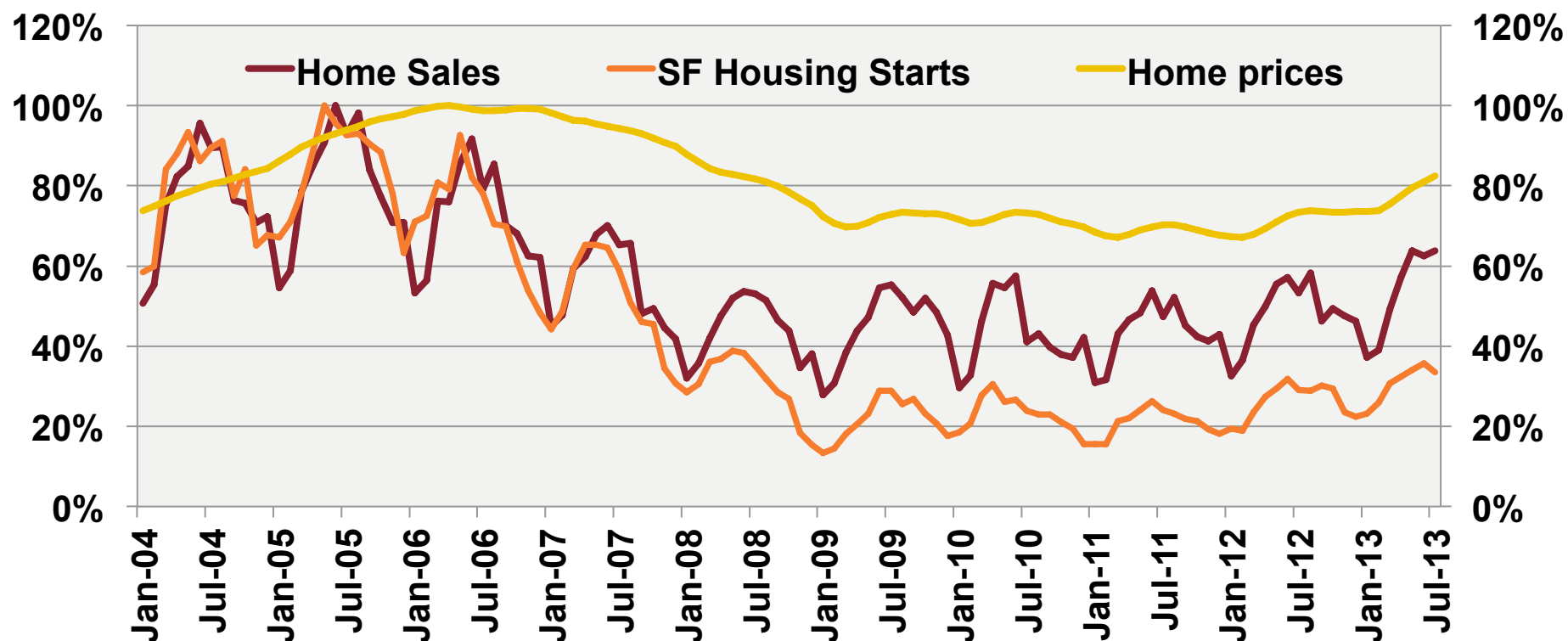


- Home sales, starts and prices are moving in lock-step. Starts are leading prices, but prices can create a feedback effect for future demand.

Source: Equifax, U.S. Census Bureau, National Association of Realtors, CoreLogic (data as of September 6, 2013)

Despite Some Reports, Housing Market Is Far From Bubbly

Home Sales, Home prices and Housing Starts Levels Relative to Pre-Recession Peaks (NSA Series; 100% = Pre-recession peak)

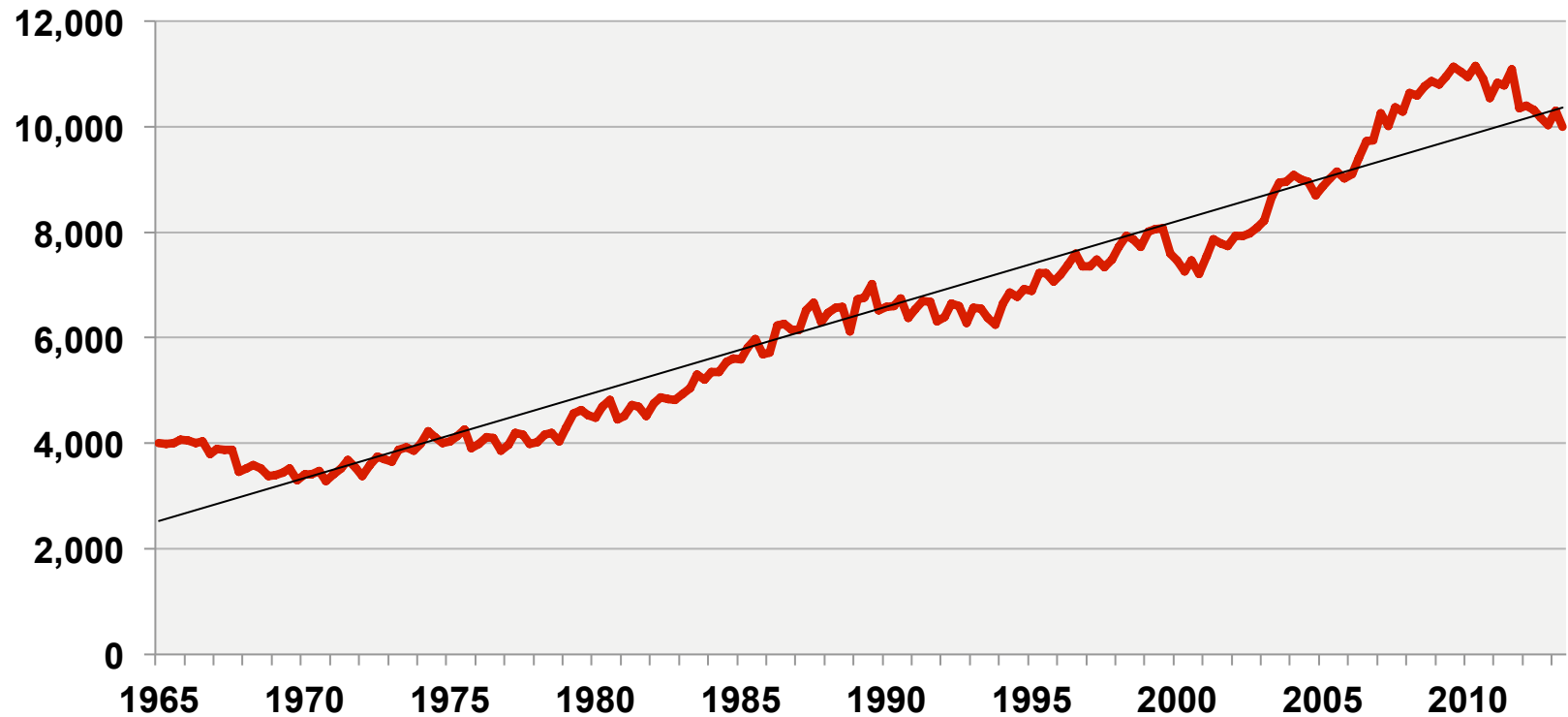


- Even with large percentage gains in housing measures, all major indices of housing market vitality point to a long recovery yet to come

Source: Equifax, U.S. Census Bureau, National Association of Realtors, CoreLogic (data as of September 6, 2013)

Excess Housing Inventory is Now Below Trend

Total Vacant Housing Units (in Thousands; NSA)

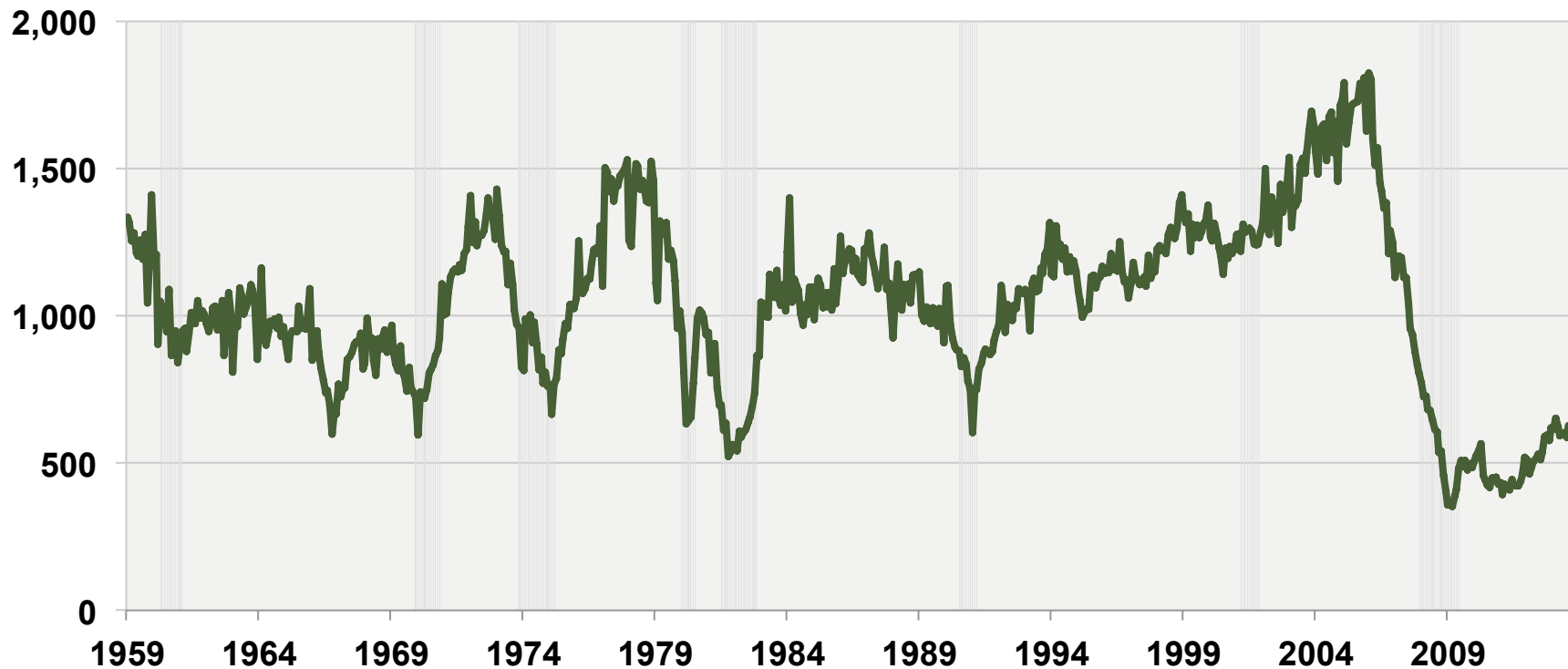


- Excess Vacant inventory should start to mitigate pressure on home prices and rent

Source: U.S. Census Bureau, (Through 2nd Quarter 2013)

Housing Starts Are Rising – to Previous Low Point!

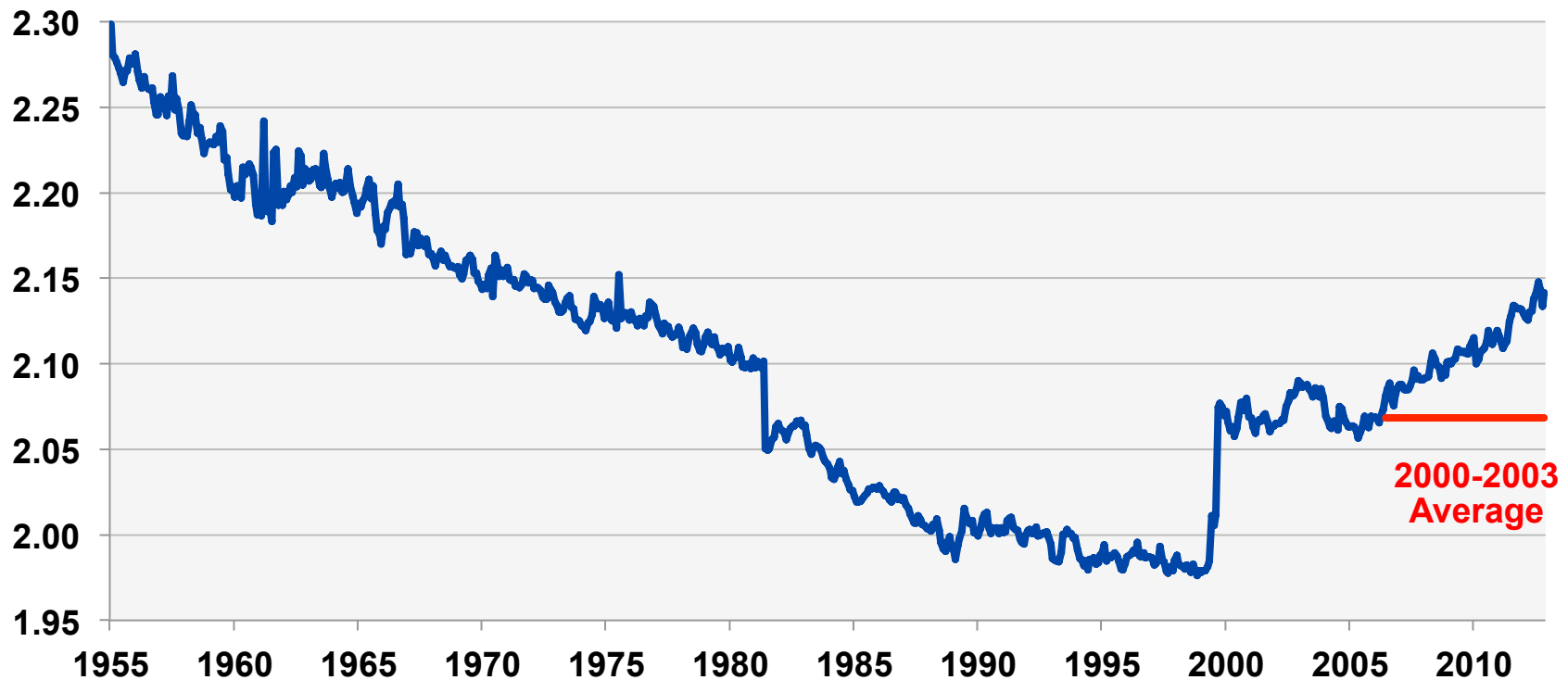
Single Family Housing Starts (1000s, SAAR)



- While the recovery of single family starts is in progress, the rate of growth is below expectations, particularly given the historical standard.

Household Size Is Still Increasing

Number of people 16 years or older per household (NSA Series)

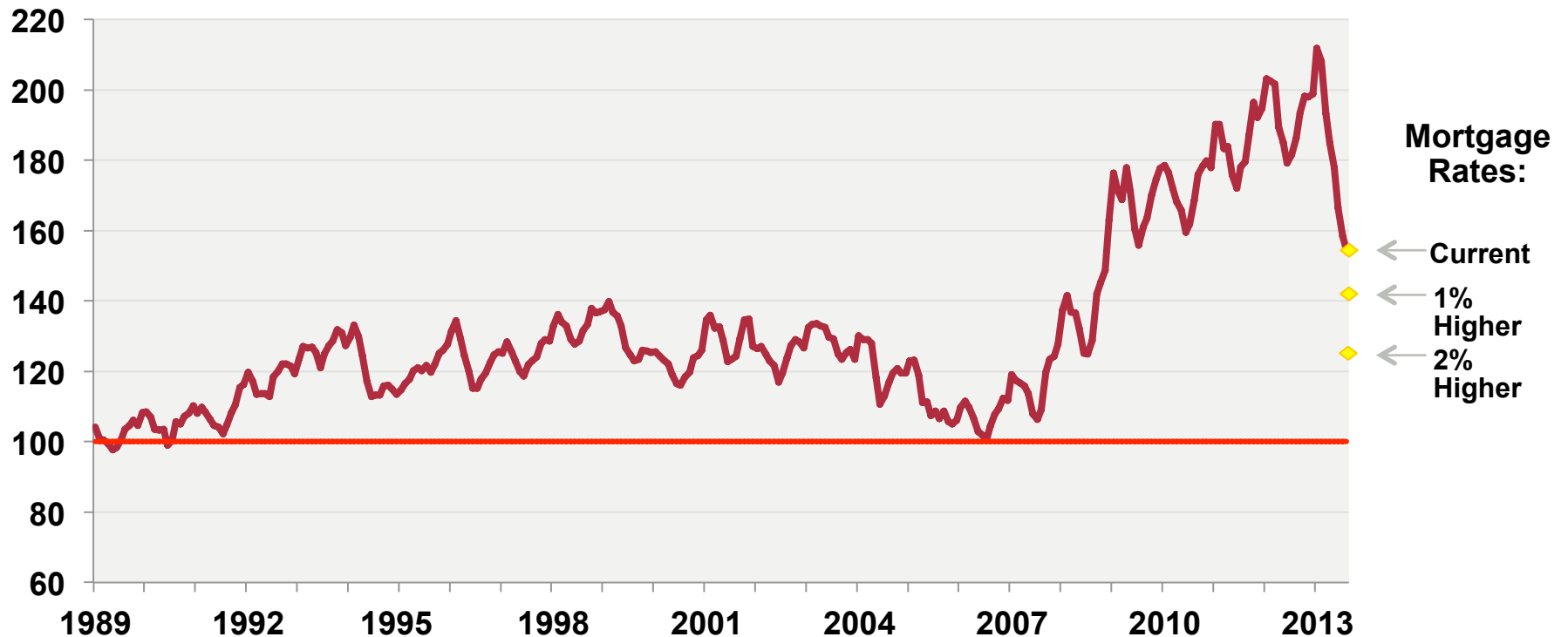


- There is significant pent-up demand for household formation. Based on the averages from the early 2000's we have a deficit of nearly 3 million households.

Source: U.S. Census Bureau; Bureau of Labor Statistics; Equifax

Home-Buying Is At All-time High For Affordability

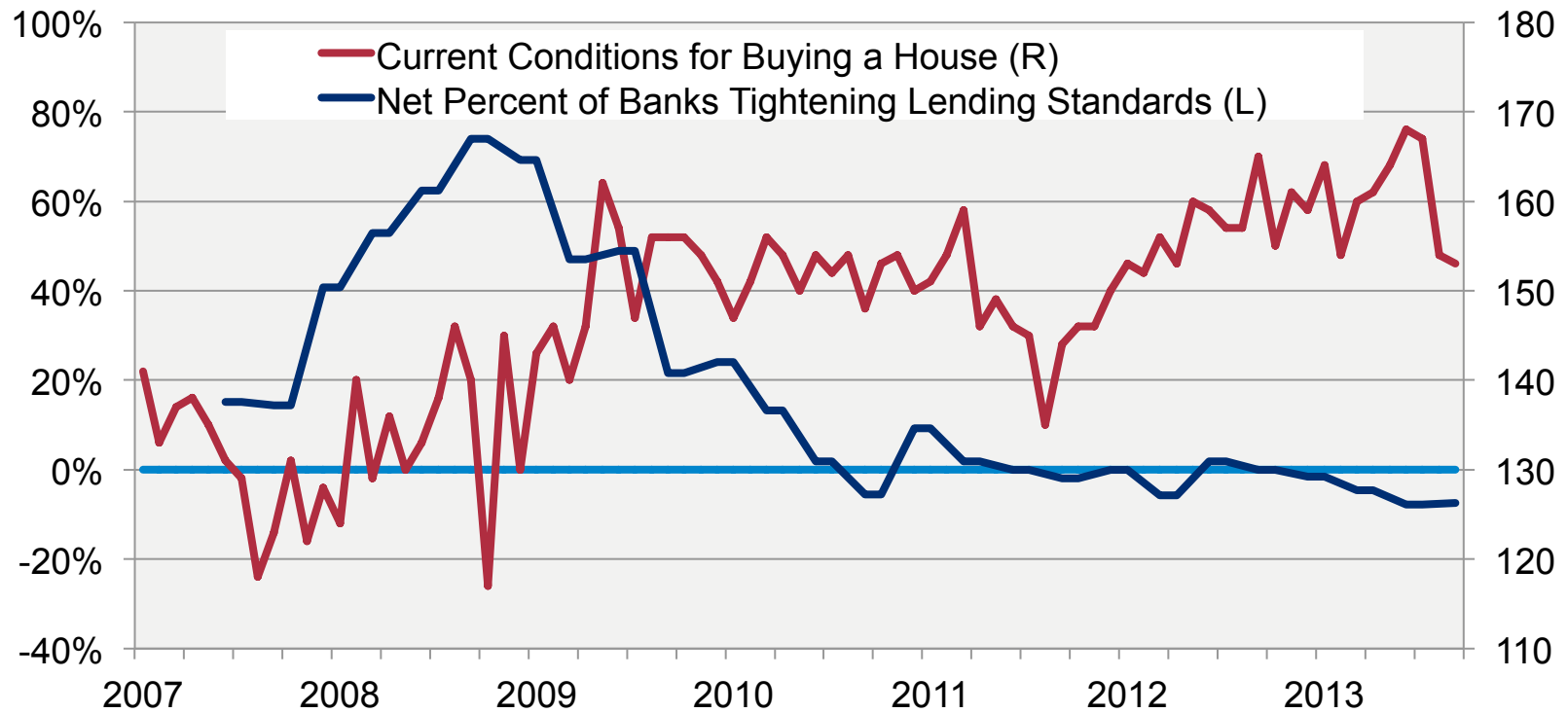
Housing Affordability Index – Measures whether a typical family can afford a typical house. (NSA Series)



- An index of 100 means a family with the median income has exactly enough income to qualify for a mortgage on a median priced home. The larger the index the more affordable housing is.

Lending Standards Remain Tight

% of Banks Tightening Lending Standards (NSA Series)
Index of Current Conditions for Buying a House (NSA Series)

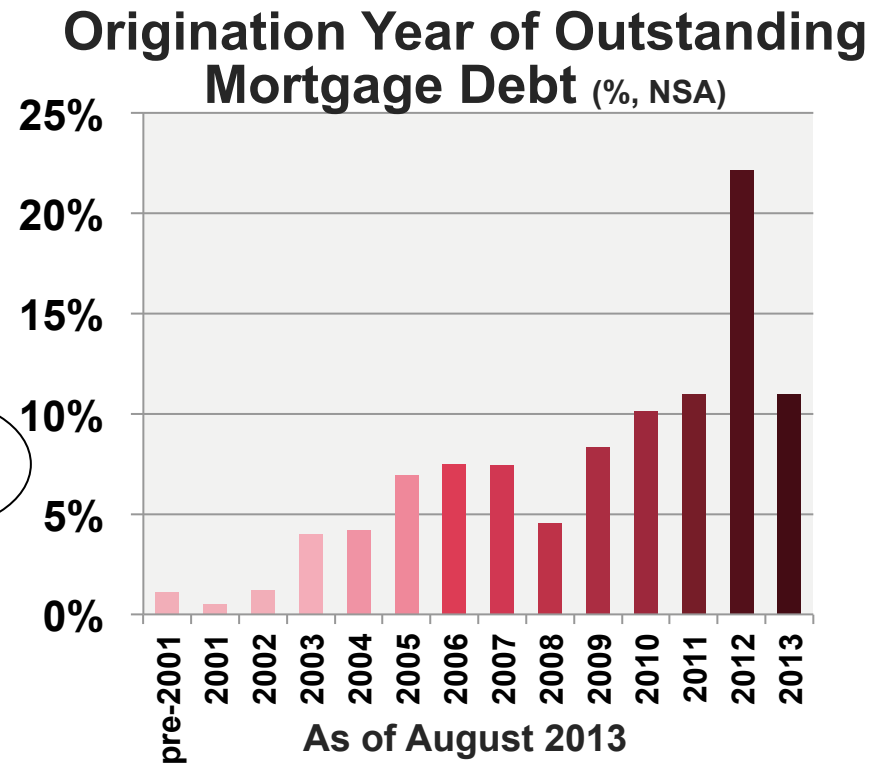
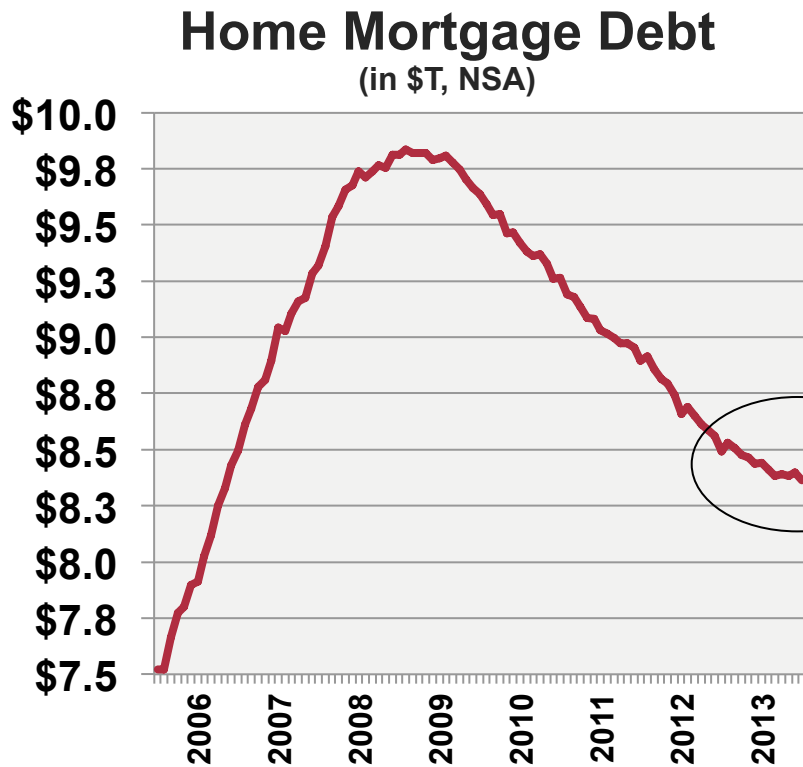


- Although lending standards remain tight, consumer sentiment remains positive.

Source: Federal Reserve Board; University of Michigan; Equifax

U.S. Consumer Deleveraging: Mortgage

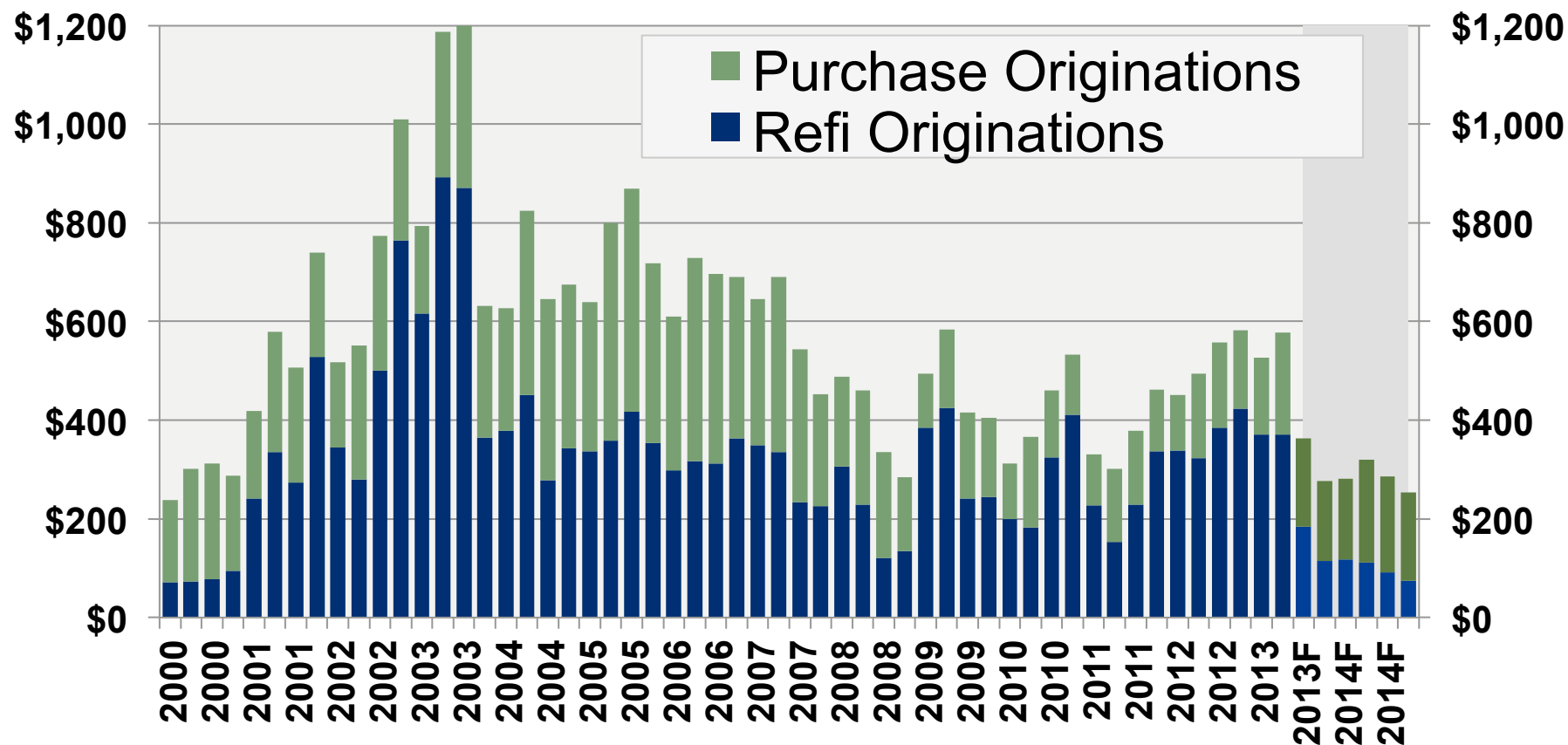
- Home mortgage outstanding balances, including 1st liens and home equity lines and loans, have declined \$1.47T, or 15 %.
- 27% of July 2013 Balances were originated in 2005-2008



Source: Equifax (Credit Trends 4.0; data through August 2013)

Mortgage Originations Refi Boom Is Over

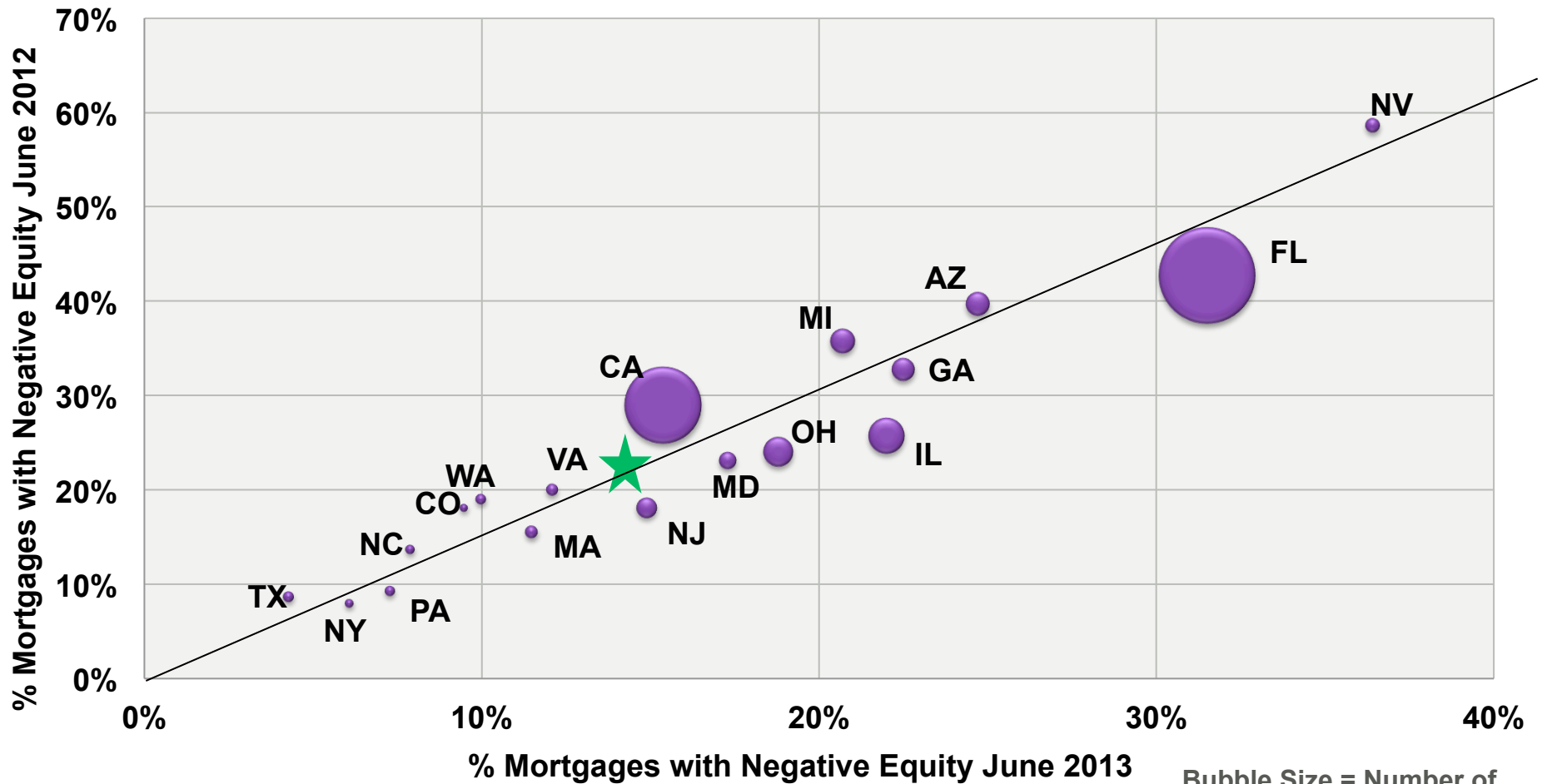
Total Single Family Mortgage Originations (\$Bil)



Source: Equifax, Mortgage Banker's Association (2000-2005), Federal Financial Institutions Examinations Council; updated 10/01/2013. Forecast average from Mortgage Bankers Association, Moody's Analytics, Freddie Mac, and Fannie Mae.

Change in Negative Equity

% Mortgages with Negative Equity 2012 vs. 2013 (NSA)



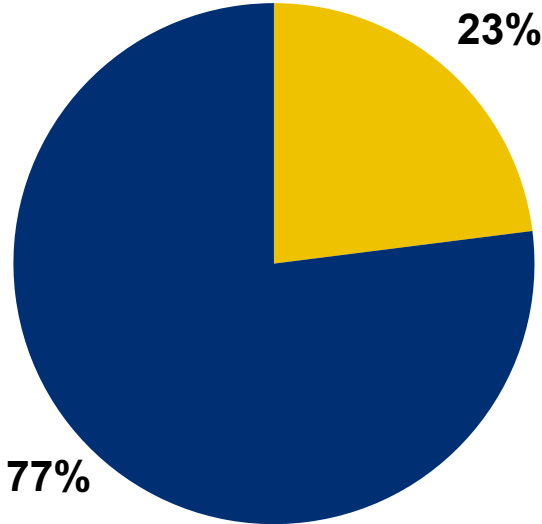
Source: CoreLogic Negative Equity Report; data through June 2013

Bubble Size = Number of Mortgage with Negative Equity

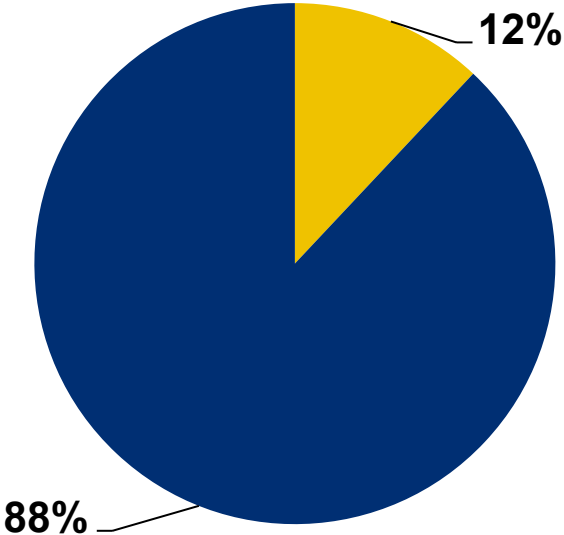
Distressed Home Sales Declining

U.S. Distressed Home Sales (% Total Sales; NSA)

August 2012



August 2013



Distressed Sales



Non-Distressed Sales

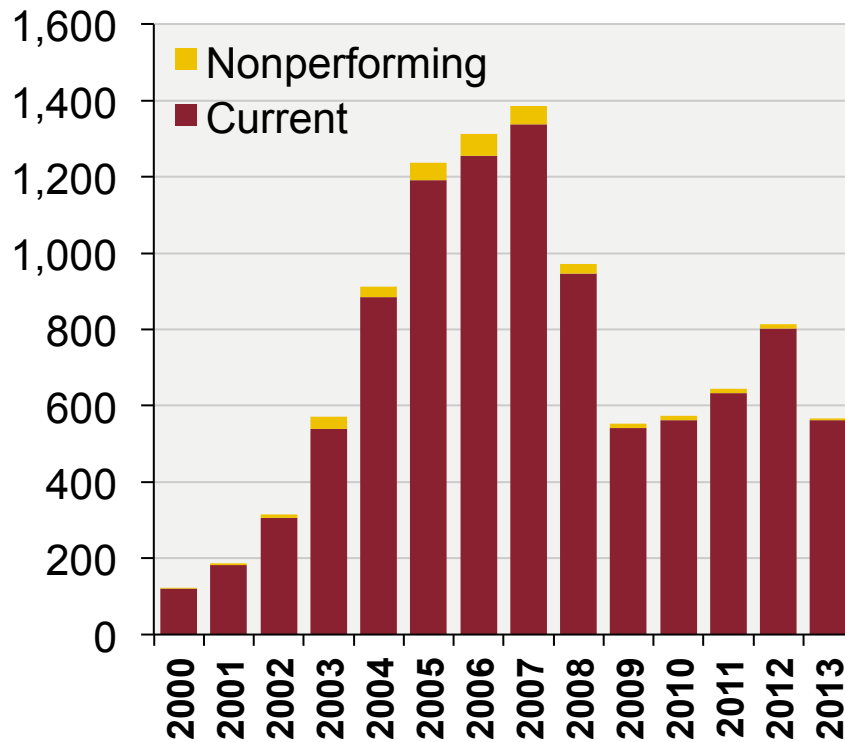
- Distressed sales have fallen to 12 percent of sales, the lowest since the recession began.

Source: National Association of Realtors; Equifax

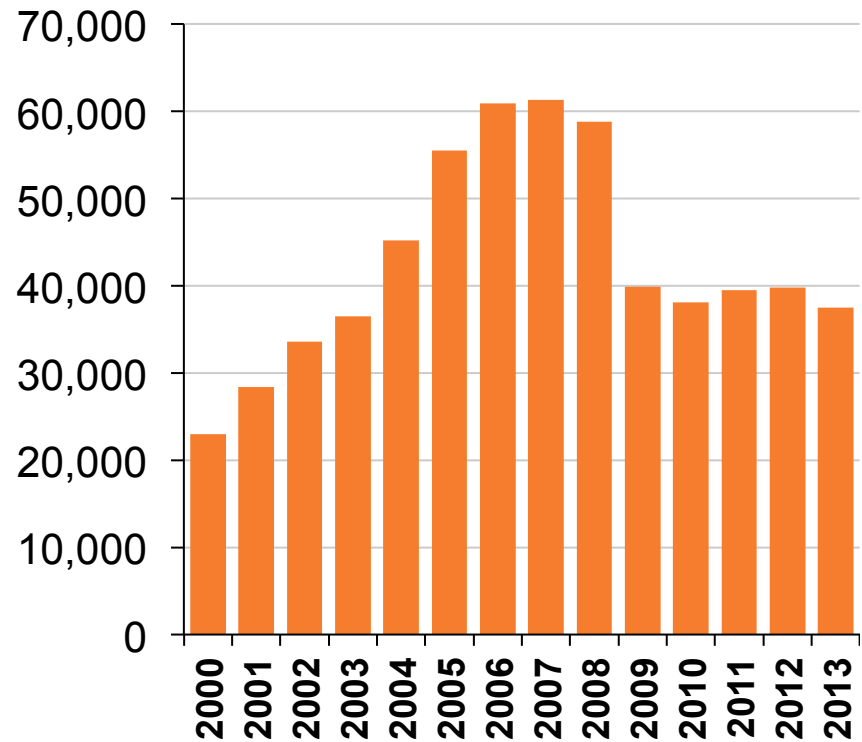
HELOC Resets Are on the Horizon

Outstanding HELOCs by Vintage Year

Number Outstanding (NSA, 1000s)



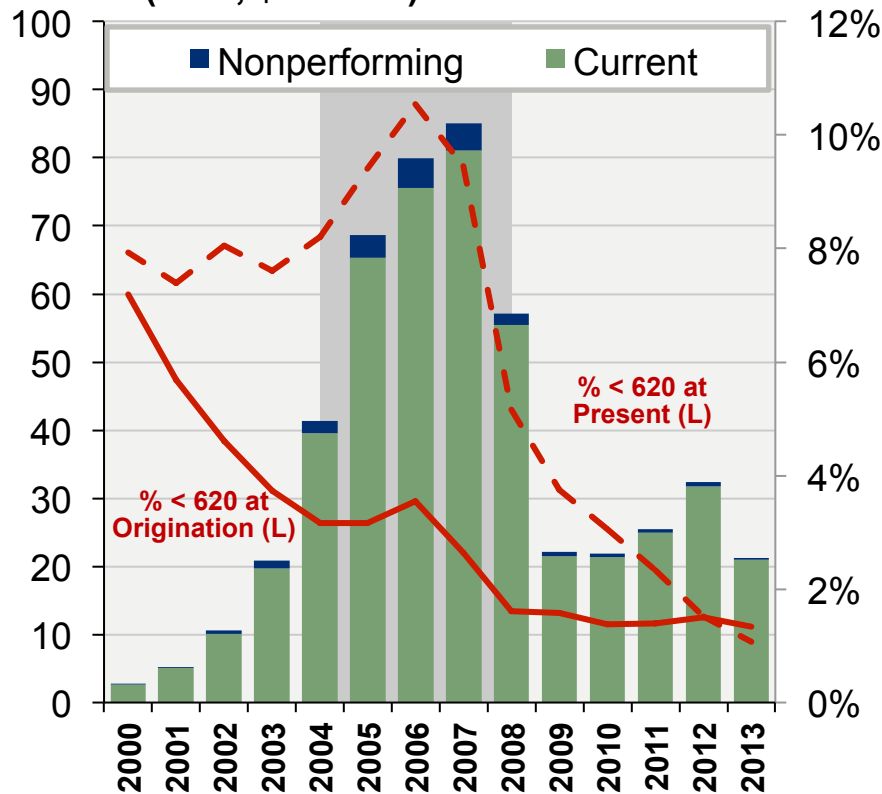
Average Balance (NSA, \$)



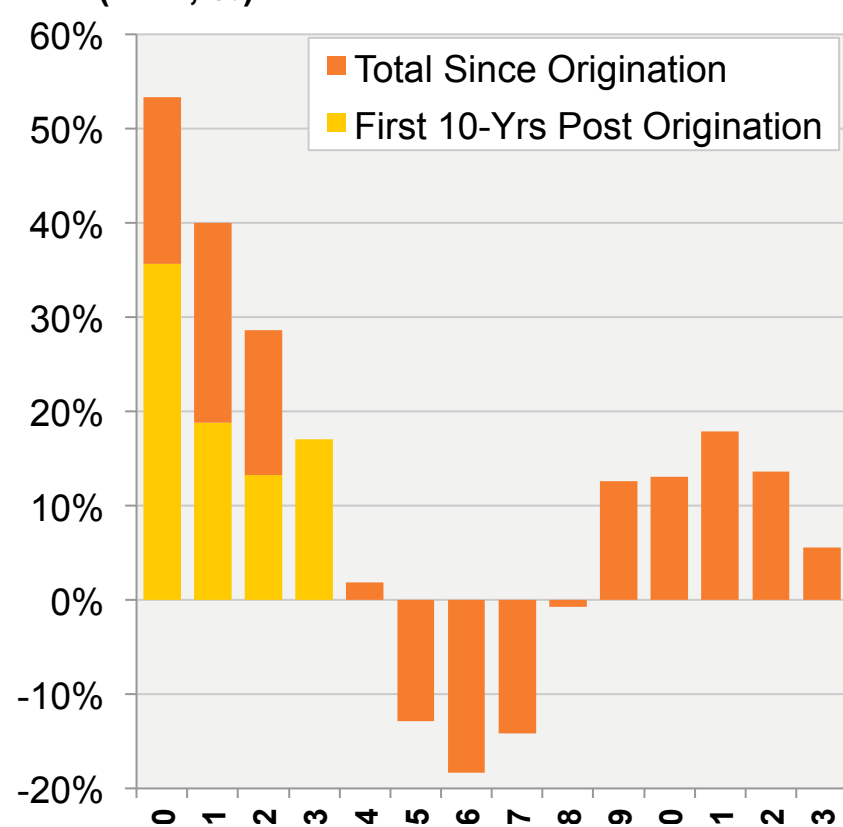
Source: Equifax; Data through August 2013

HELOC Resets Are on the Horizon

Outstanding Balances of HELOCs by Vintage (NSA, \$billions)



Cumulative National Home Price Change by Vintage (NSA, %)

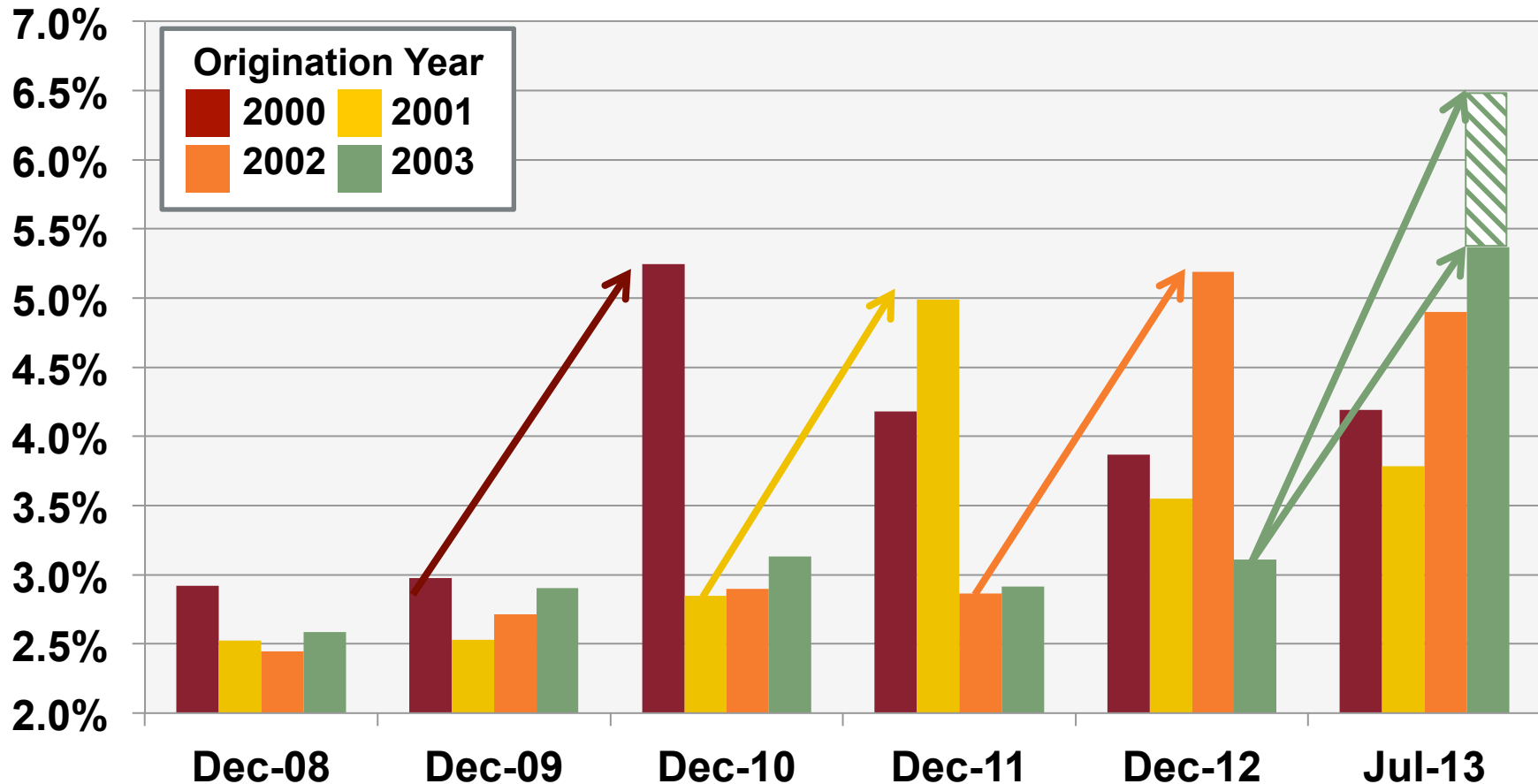


These Vintage years are at very high risk for bad performance at reset

Source: Equifax; Data through August 2013; Corelogic; Data through July 2013

At the 10-Year Mark, Delinquencies on HELOCs Almost Double

Share of Nonperforming Outstanding Balances of HELOCs by Vintage Year (NSA)



Source: Equifax; Data through August 2013



Questions?

For further information please contact:

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