



First American

Not Too Pandemic-Hot, Not Too Monetary-Tightening Cold, but Not Yet Quite Right

January 2024



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The background of the slide features a dark blue gradient with faint, semi-transparent financial charts. At the top, there is a candlestick chart with green and red bars. Below it, a line chart with a jagged, fluctuating path is visible. The text is centered within a white rectangular frame.

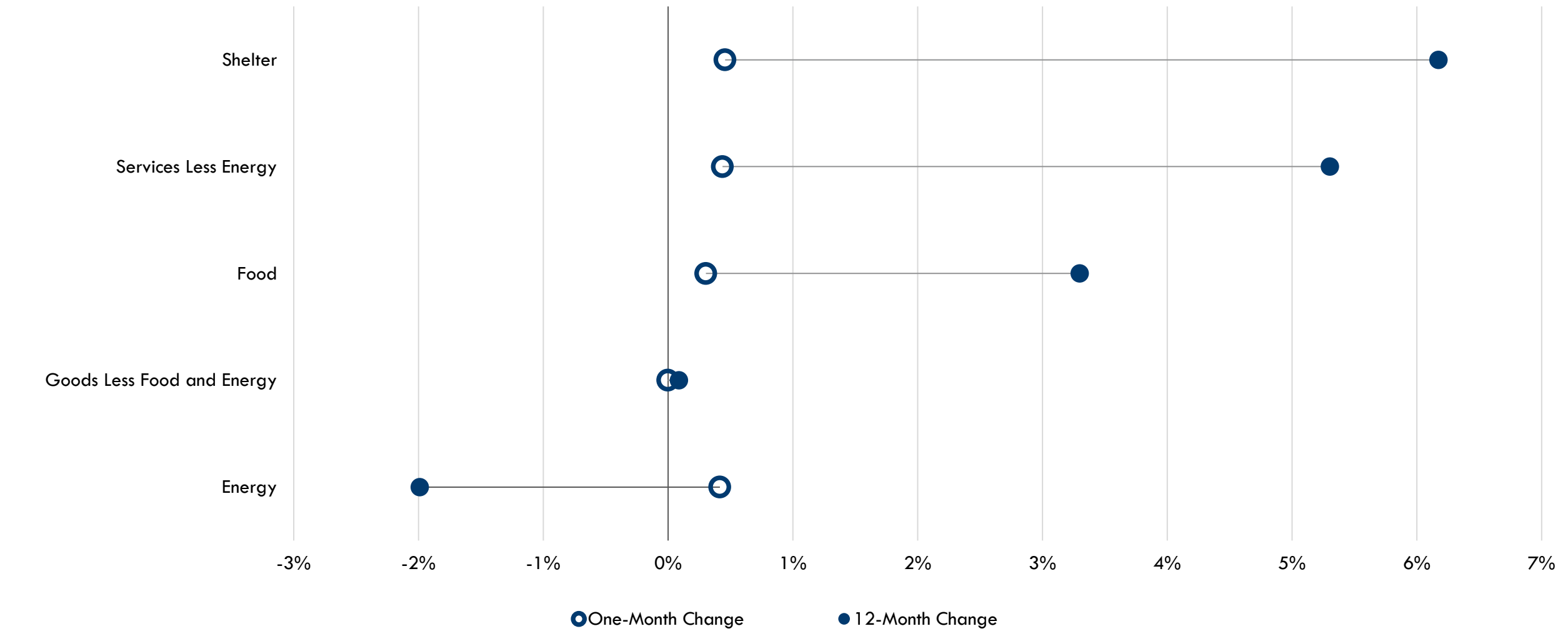
Patience is an Inflation-Fighting Virtue




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Consumer Price Index Components

Month-over-Month and Year-over-Year % Change in Consumer Price Index Components (SA)

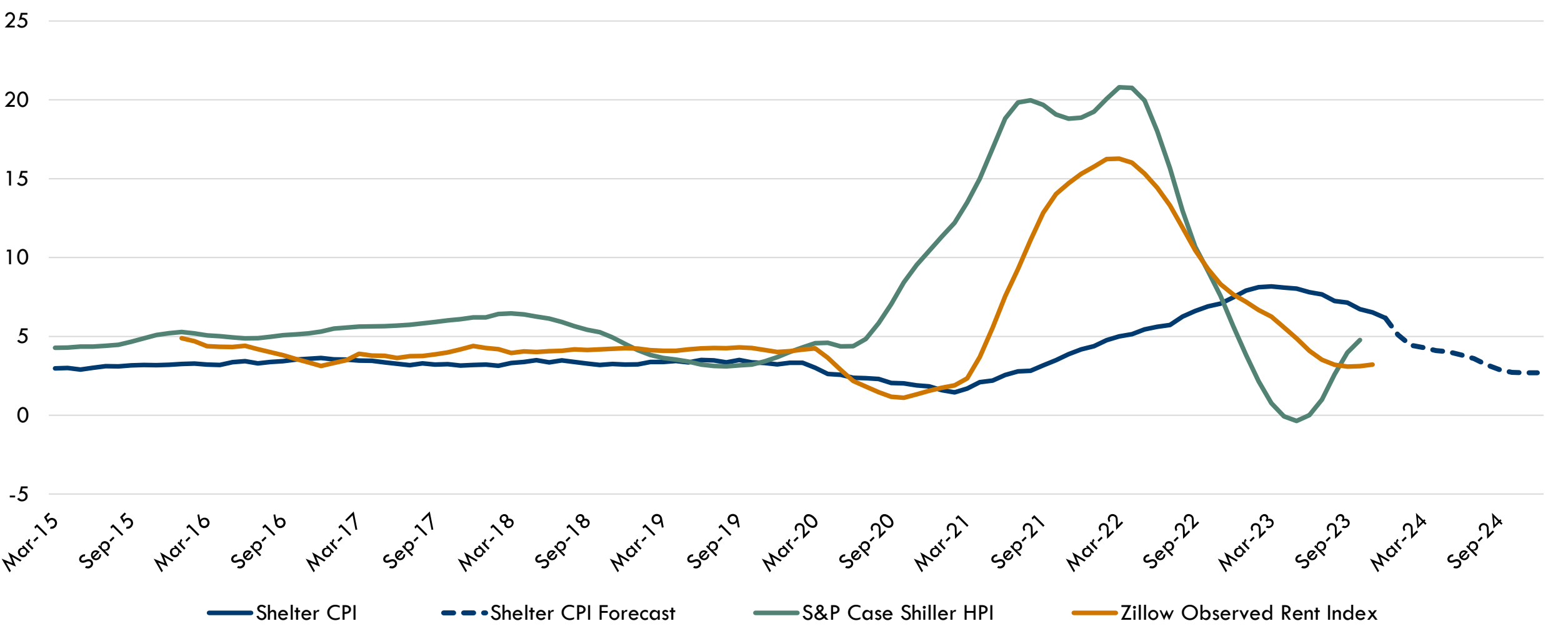


Source: Bureau of Labor Statistics, FRED, Dec. 2023

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The Shelter Component of the CPI Lags Observed Rental and House Price Changes

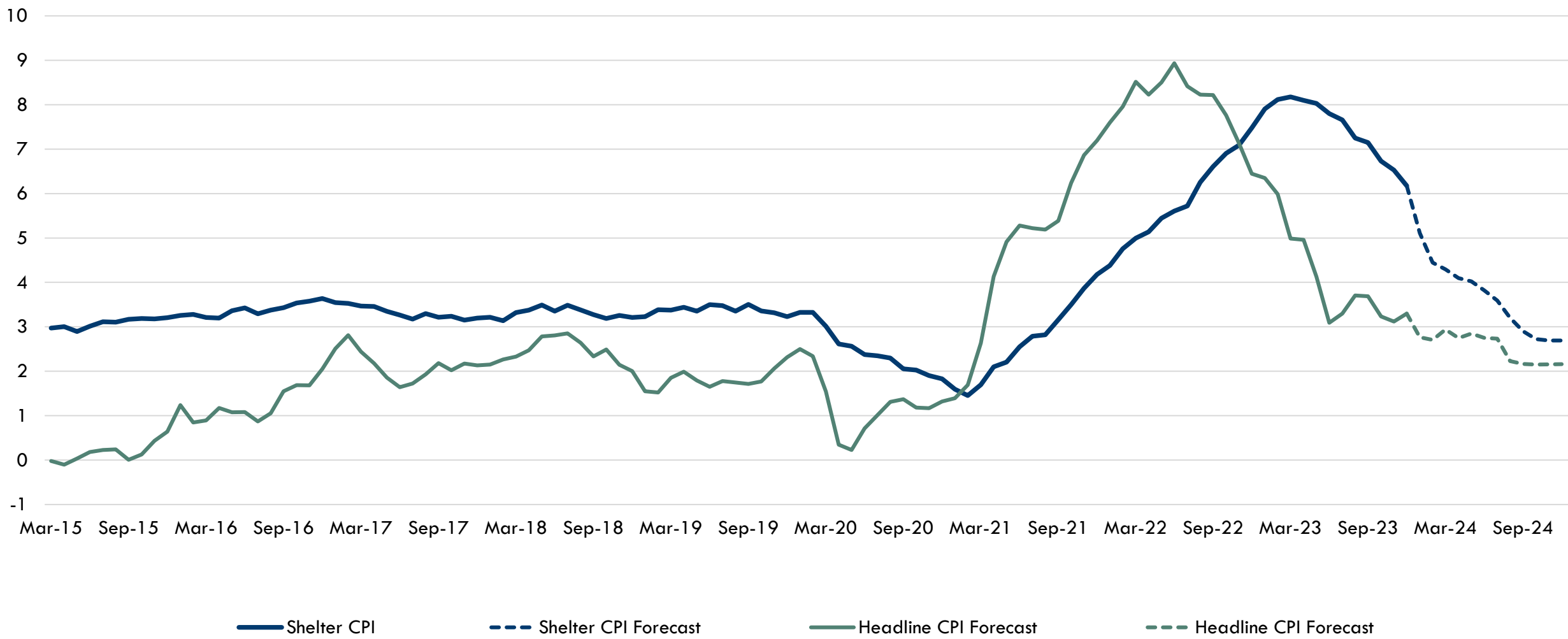
CPI: Shelter, S&P/Case-Shiller HPI, ZORI, Yearly Growth, %




Source: First American Calculations, U.S. Bureau of Labor Statistics, S&P Dow Jones Indices LLC, Zillow, Dec. 2023

Shelter Inflation Poised to Bring Down Headline CPI

All Items CPI and Shelter CPI (Yearly Growth, %)



Source: First American Calculations, U.S. Bureau of Labor Statistics, Dec. 2023

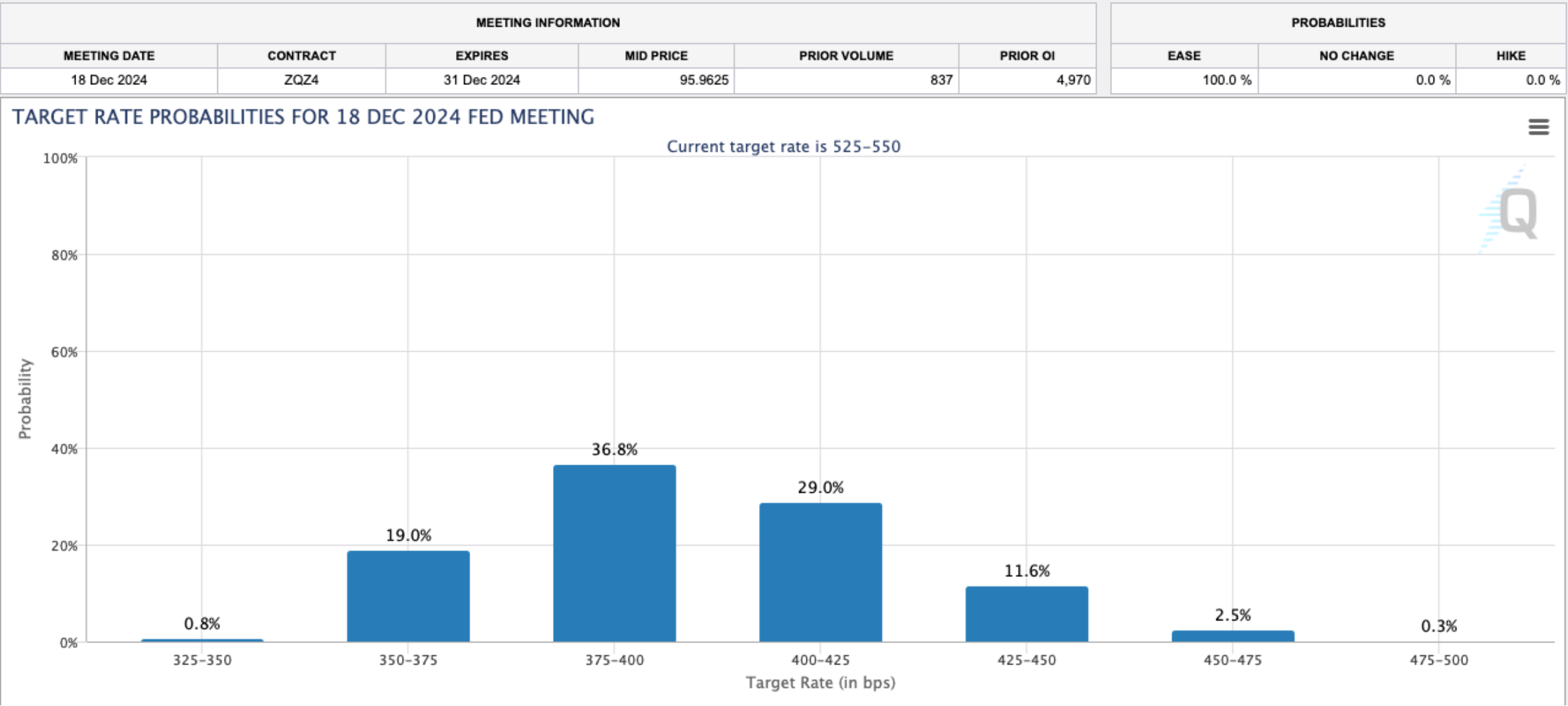
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Powell's Pivot- The End of the Monetary Tightening Cycle and a Soft Landing

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents

Variable	Median ¹					Central Tendency ²					2023
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	
Change in real GDP	2.6	1.4	1.8	1.9	1.8	2.5–2.7	1.2–1.7	1.5–2.0	1.8–2.0	1.7–2.0	2.5–2.7
September projection	2.1	1.5	1.8	1.8	1.8	1.9–2.2	1.2–1.8	1.6–2.0	1.7–2.0	1.7–2.0	1.8–2.6
Unemployment rate	3.8	4.1	4.1	4.1	4.1	3.8	4.0–4.2	4.0–4.2	3.9–4.3	3.8–4.3	3.7–4.0
September projection	3.8	4.1	4.1	4.0	4.0	3.7–3.9	3.9–4.4	3.9–4.3	3.8–4.3	3.8–4.3	3.7–4.0
PCE inflation	2.8	2.4	2.1	2.0	2.0	2.7–2.9	2.2–2.5	2.0–2.2	2.0	2.0	2.7–3.2
September projection	3.3	2.5	2.2	2.0	2.0	3.2–3.4	2.3–2.7	2.0–2.3	2.0–2.2	2.0	3.1–3.8
Core PCE inflation ⁴	3.2	2.4	2.2	2.0		3.2–3.3	2.4–2.7	2.0–2.2	2.0–2.1		3.2–3.7
September projection	3.7	2.6	2.3	2.0		3.6–3.9	2.5–2.8	2.0–2.4	2.0–2.3		3.5–4.2
Memo: Projected appropriate policy path											
Federal funds rate	5.4	4.6	3.6	2.9	2.5	5.4	4.4–4.9	3.1–3.9	2.5–3.1	2.5–3.0	5.4
September projection	5.6	5.1	3.9	2.9	2.5	5.4–5.6	4.6–5.4	3.4–4.9	2.5–4.1	2.5–3.3	5.4–5.6

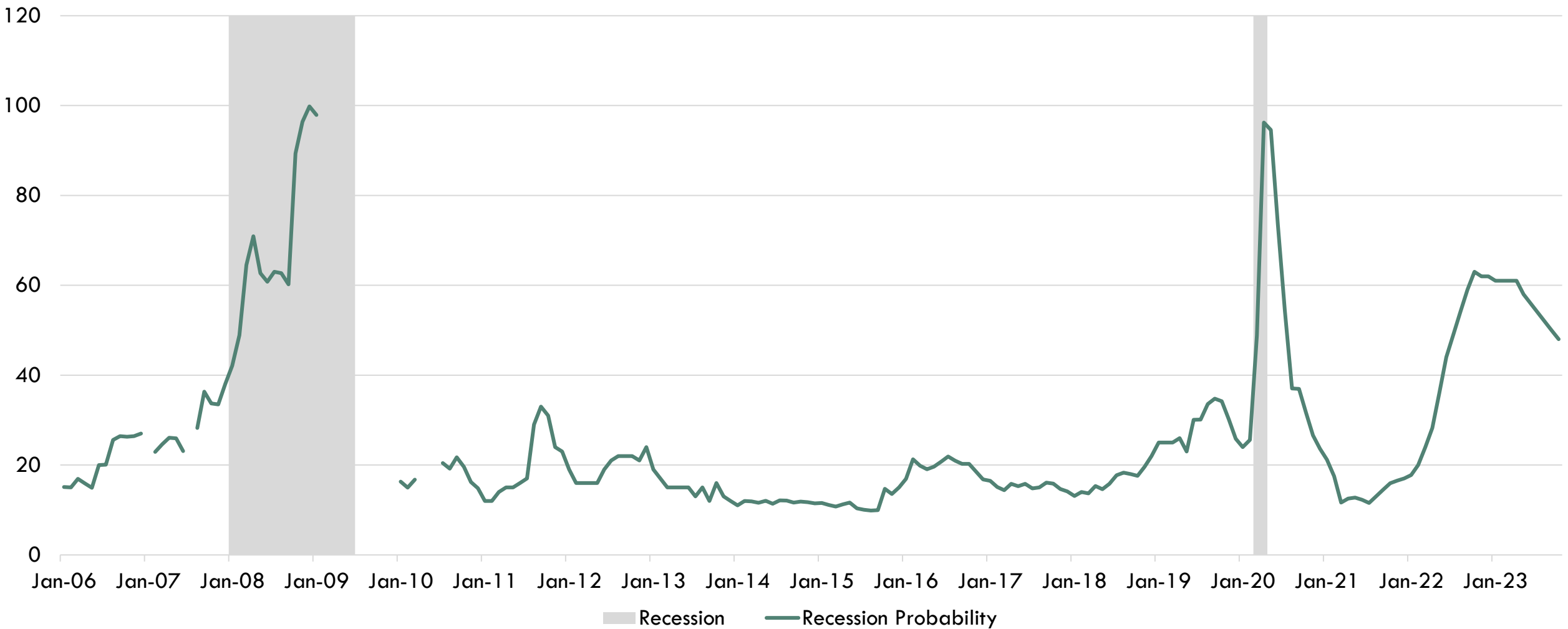
Market Forecast for End-of-Year Fed Funds Rate- More Optimistic Than the Fed



Source: CME Group. January 9th 2024
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Wisdom of the Economic-Crowd

Risk of Recession in the next 12 months, Wall Street Journal Survey of Economists



Source: Wall Street Journal Survey of Economists, Oct. 2023

Note: Gaps indicate questions not asked or data not available.

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The background of the slide features a dark blue overlay with faint, semi-transparent financial charts. At the top, there is a candlestick chart showing price movements. Below it, a line chart with multiple data series is visible. The text 'Why The Soft Landing?' is centered in a white box over the middle of these charts.

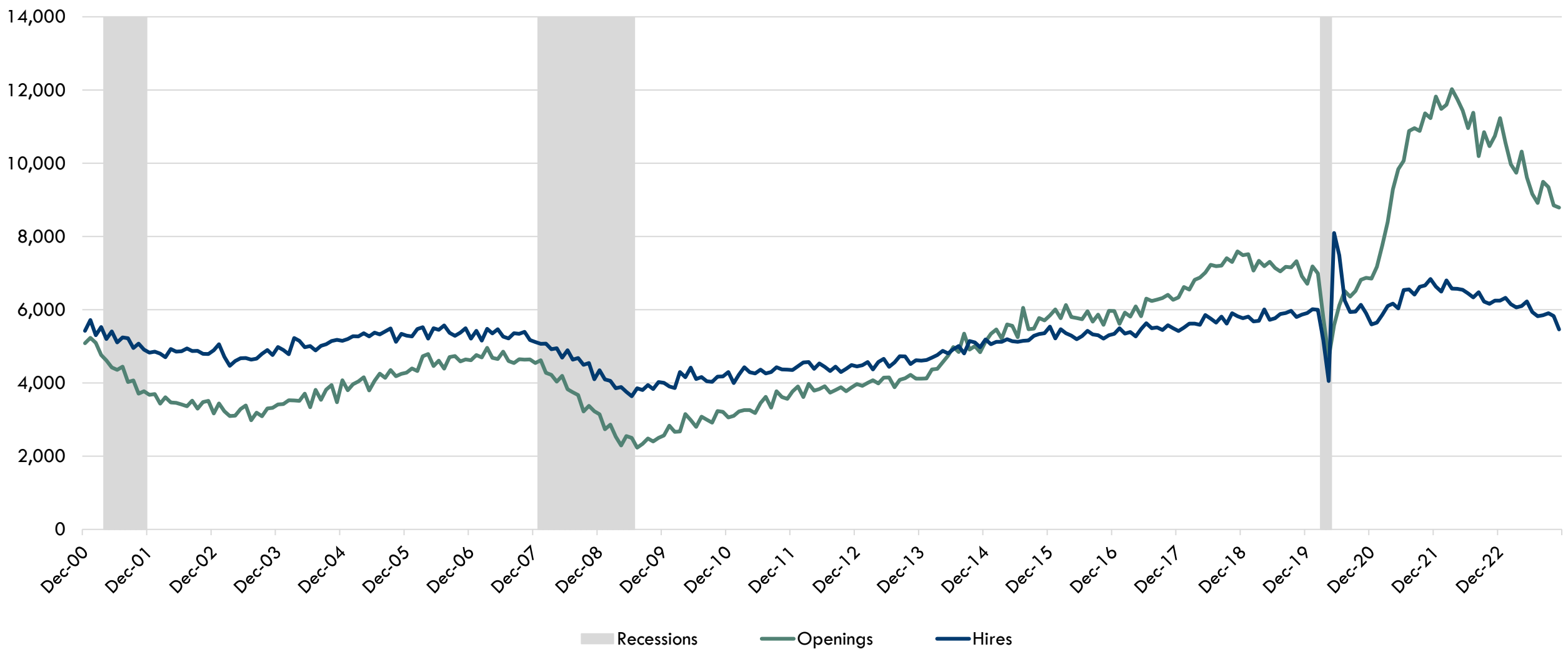
Why The Soft Landing?




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The Labor Market Mismatch Narrows

Job Openings and Hires: Total Nonfarm, Level in Thousands, Seasonally Adjusted

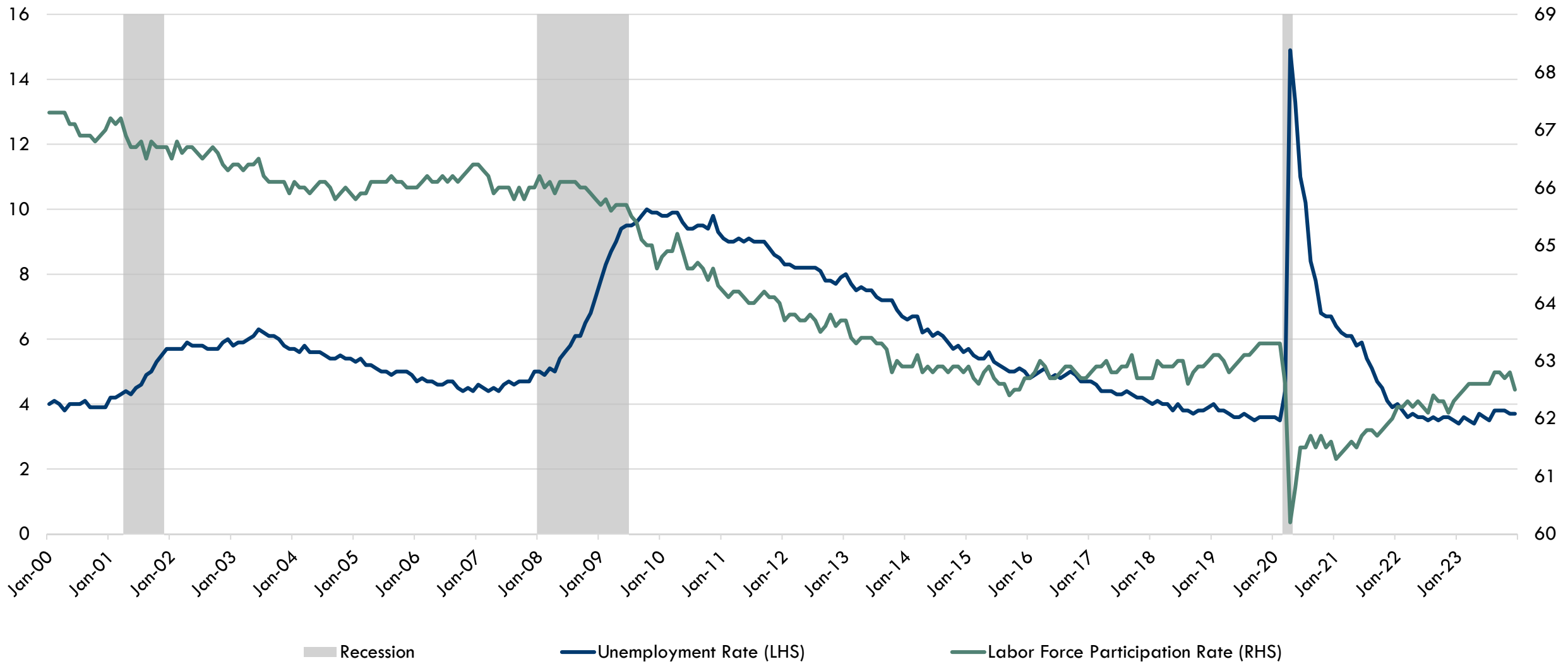


Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, Nov. 2023

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Unemployment Low, Participation Rate High

Unemployment Rate and Labor Force Participation Rate (% , SA)



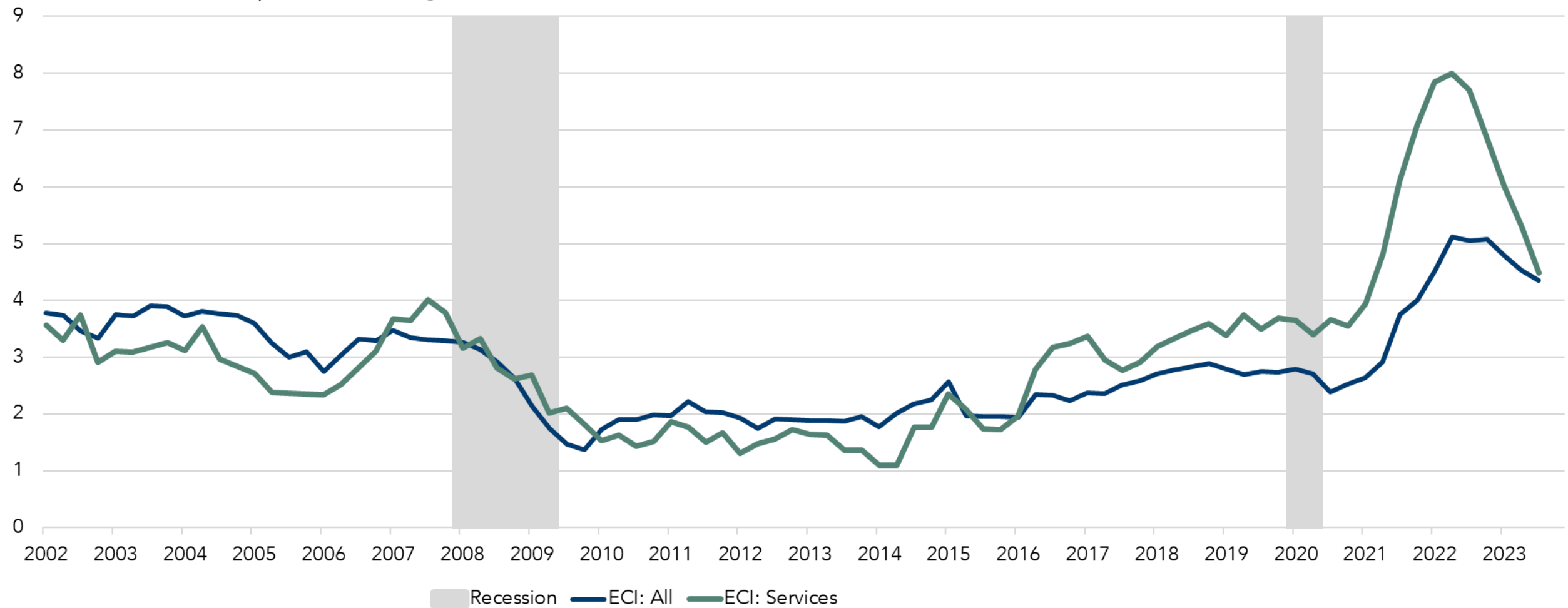
Source: U.S. Bureau of Labor Statistics, Dec. 2023

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Service Sector Wage Growth Shows Deceleration

Employment-Cost Index (ECI): Total Compensation for All Civilian Workers, Total Compensation for Private Industry

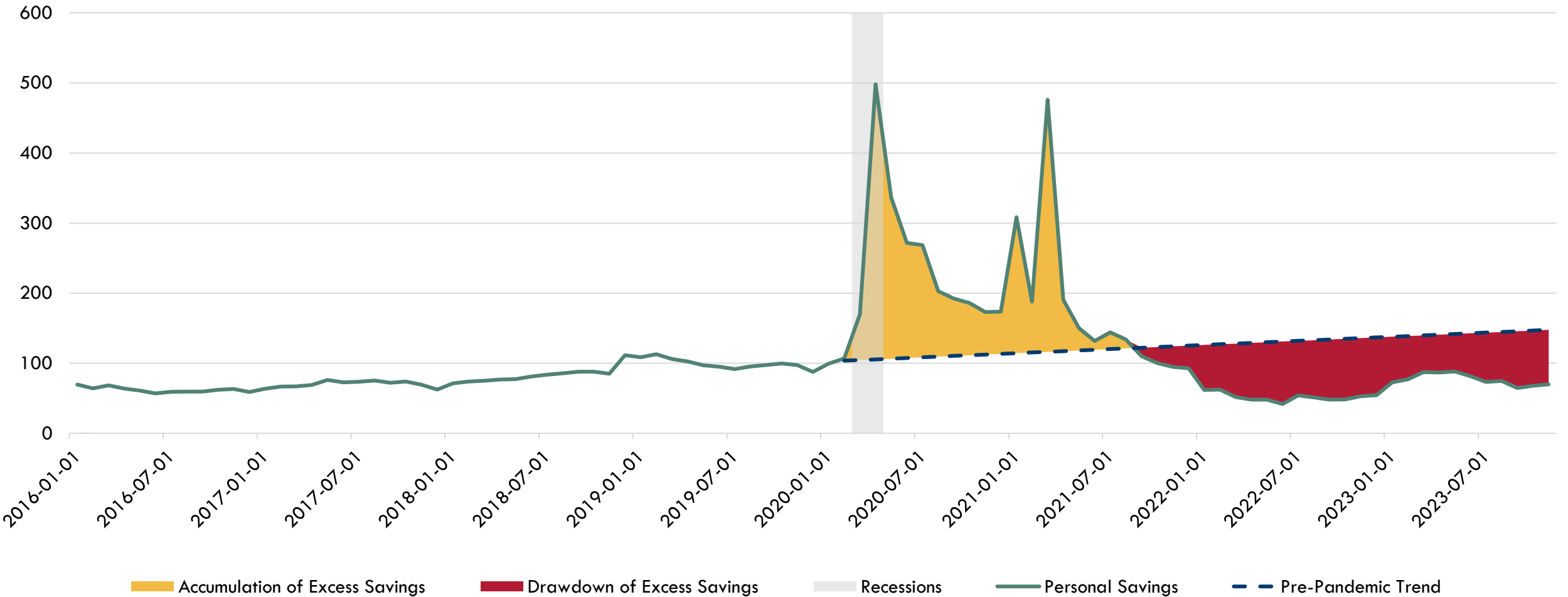
Workers in Service Occupations (% Change Year-over-Year)



Source: Bureau of Labor Statistics, FRED, Q3 2023

Aggregate Excess Savings Likely to Be Depleted by the End of the Q1 2024

Aggregate Personal Savings Versus Pre-Pandemic Trend (\$, Billions)



Source: BEA, First American Calculations, FRBSF, Nov. 2023



You Can't Buy What's Not For Sale



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Mind the Gap

30-Year Fixed Rate Mortgage Average, Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, NSA, %



Source: First American Calculations, Freddie Mac, Board of Governors of the Federal Reserve System, FRED, Dec. 2023

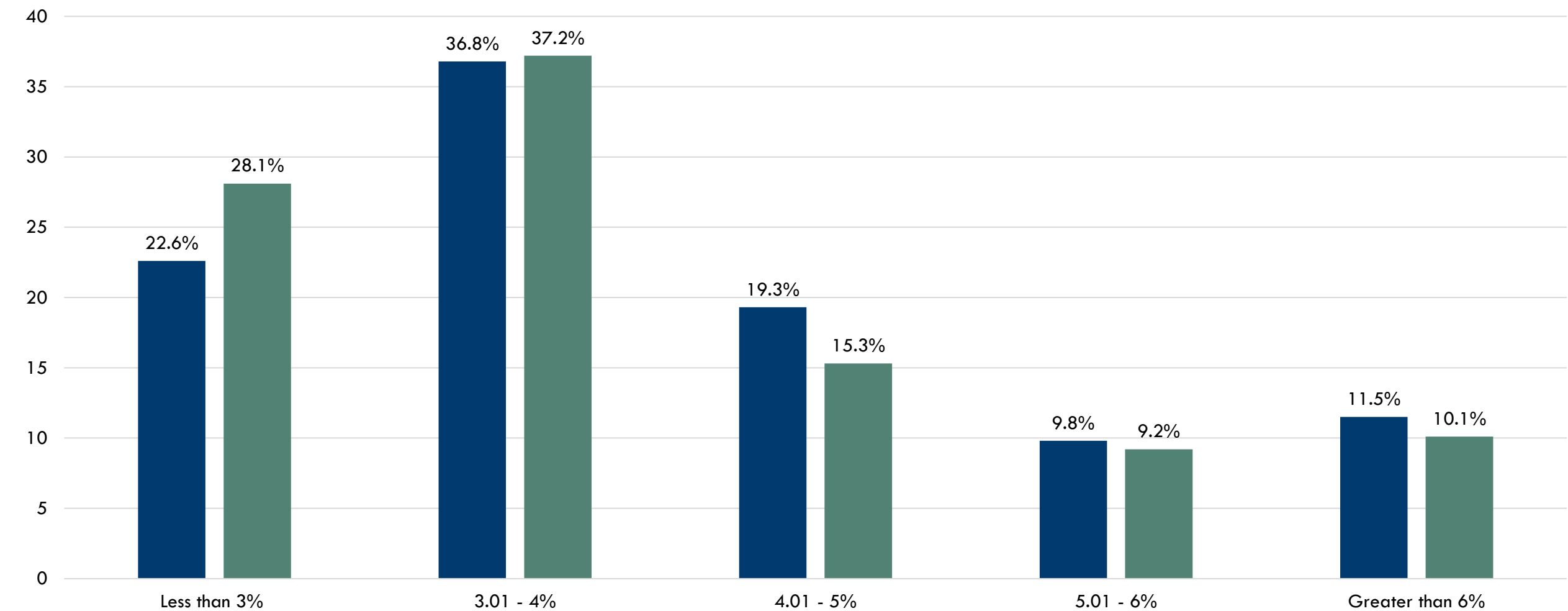
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90 Percent of Mortgaged Homes Have a Rate Below 6 Percent

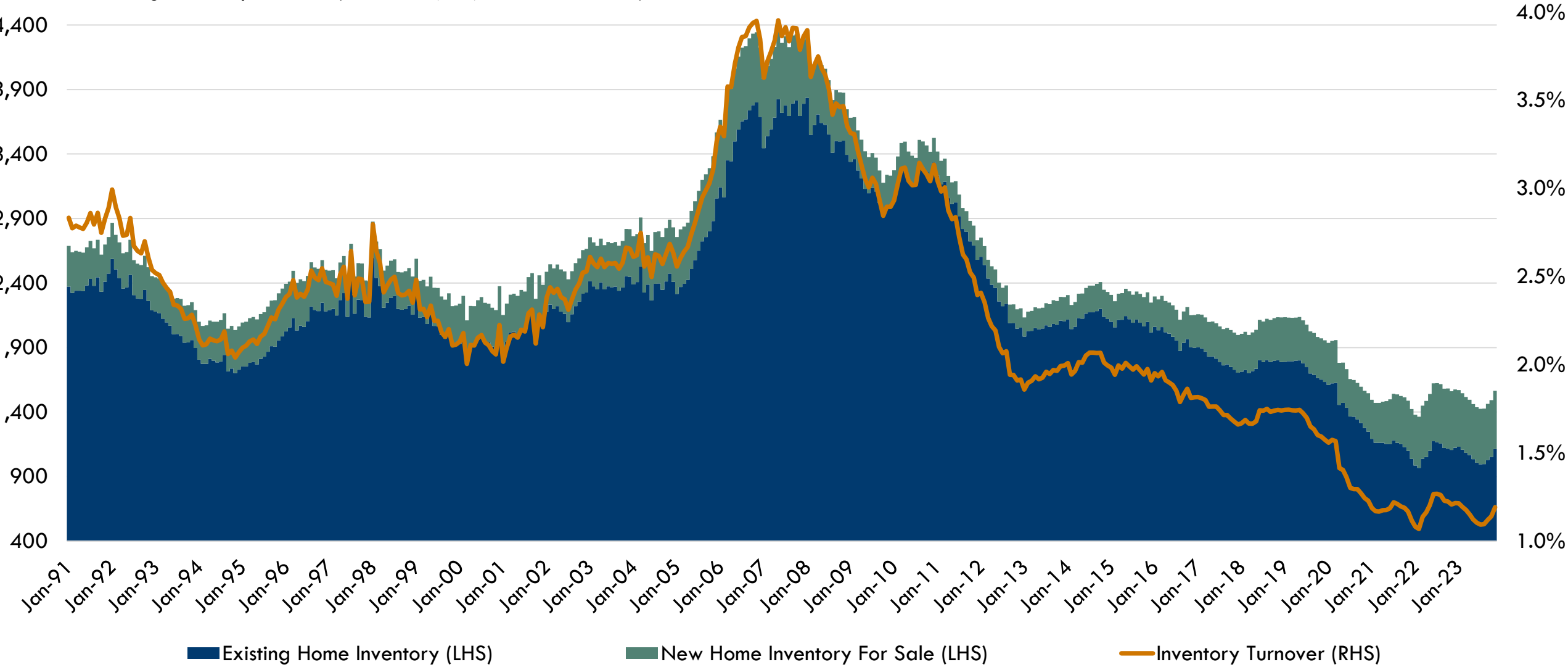
Percent Share of Outstanding Residential Mortgages by Interest Rate at Origination



Source: First American Calculations, National Mortgage Database (NMDb), Q3 2023

119 in Every 10,000 Homes Are For Sale

New and Existing Inventory for Sale (Thousands, SA, % of Households)



Source: NAR, Census, FRB St. Louis, First American Calculations, Nov. 2023



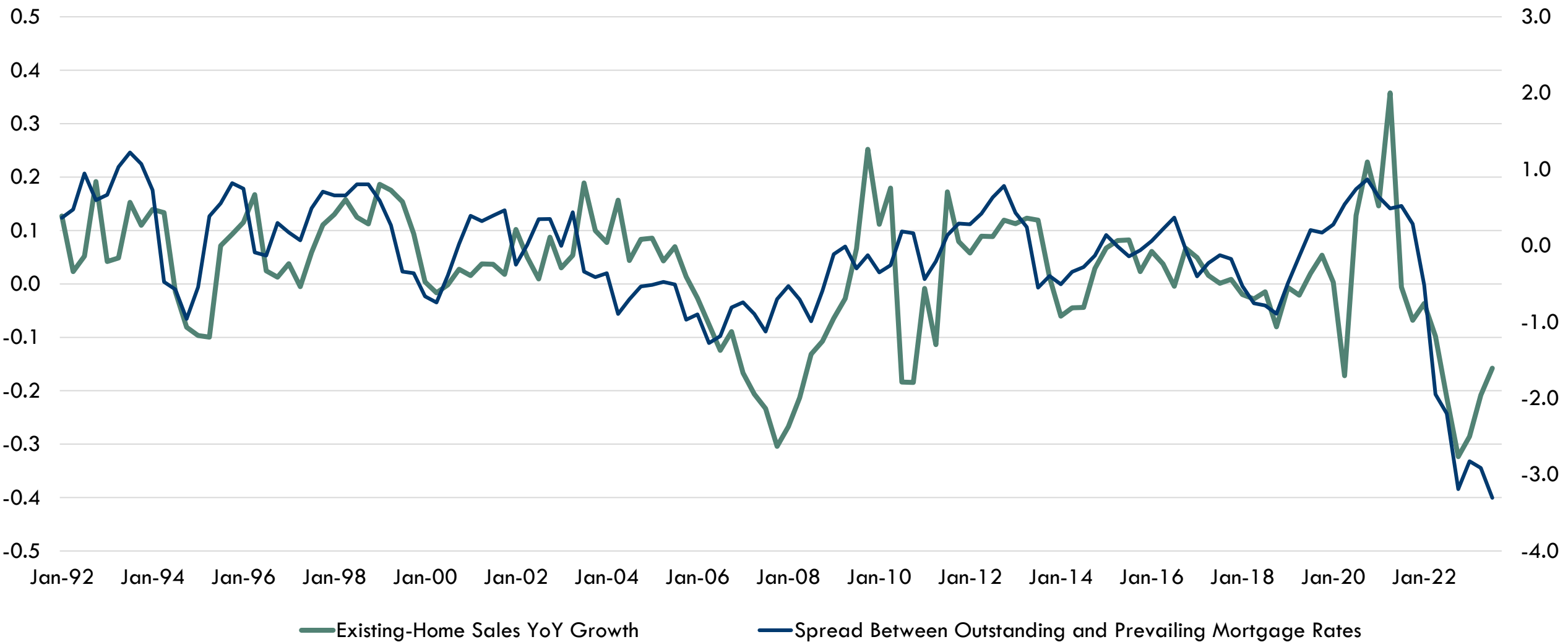
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The Sellers Strike- The Rate Lock-In Effect Drives Home Sales

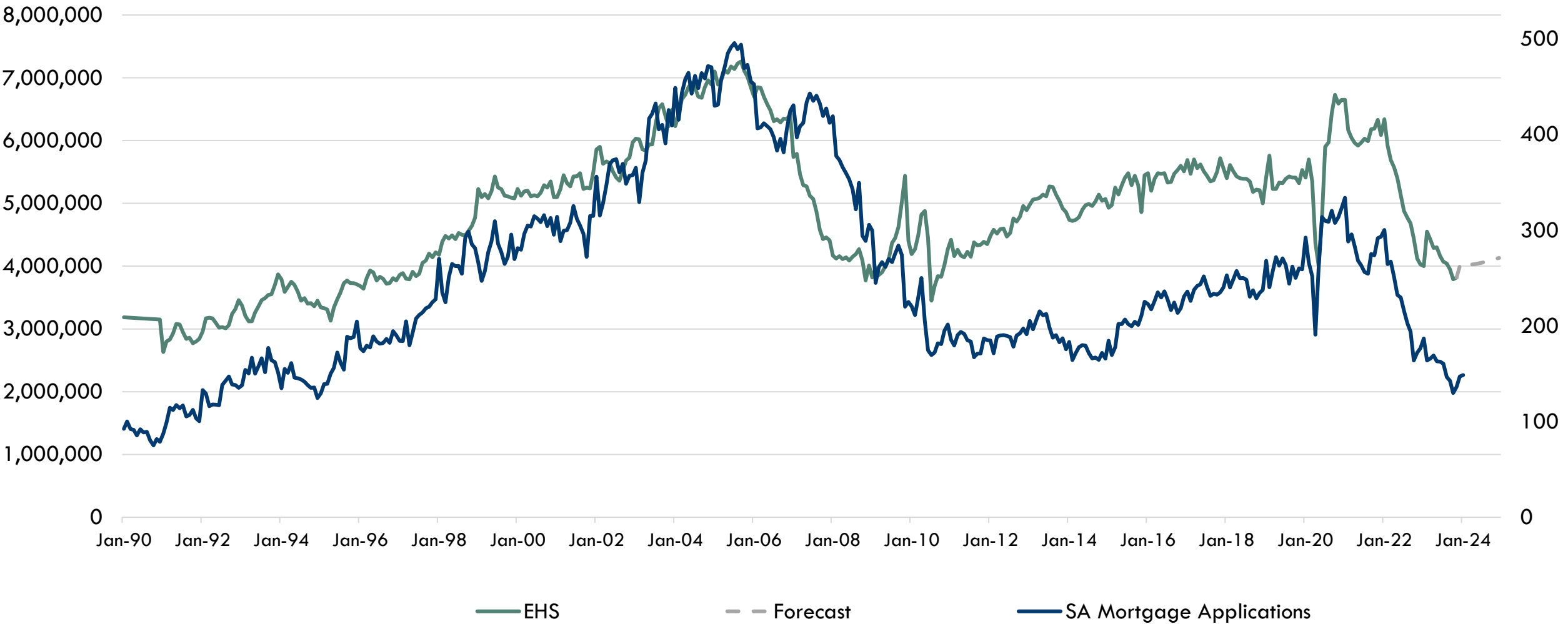
Existing-Home Sales (Yearly Growth, %, LHS), Spread Between Avg Outstanding and Prevailing Mortgage Rates (% , RHS)



Source: Bureau of Economic Analysis, NAR, Freddie Mac, First American Calculations, Q3 2023

2023 Was the Worst Purchase Market Since 1995

MBA Purchase Index* (SA, Mar-16-90=100, RHS), Existing-Home Sales* (SAAR, LHS)



Source: MBA, First American Calculations, NAR, Dec. 2023

*MBA Data from January 2024 is partial

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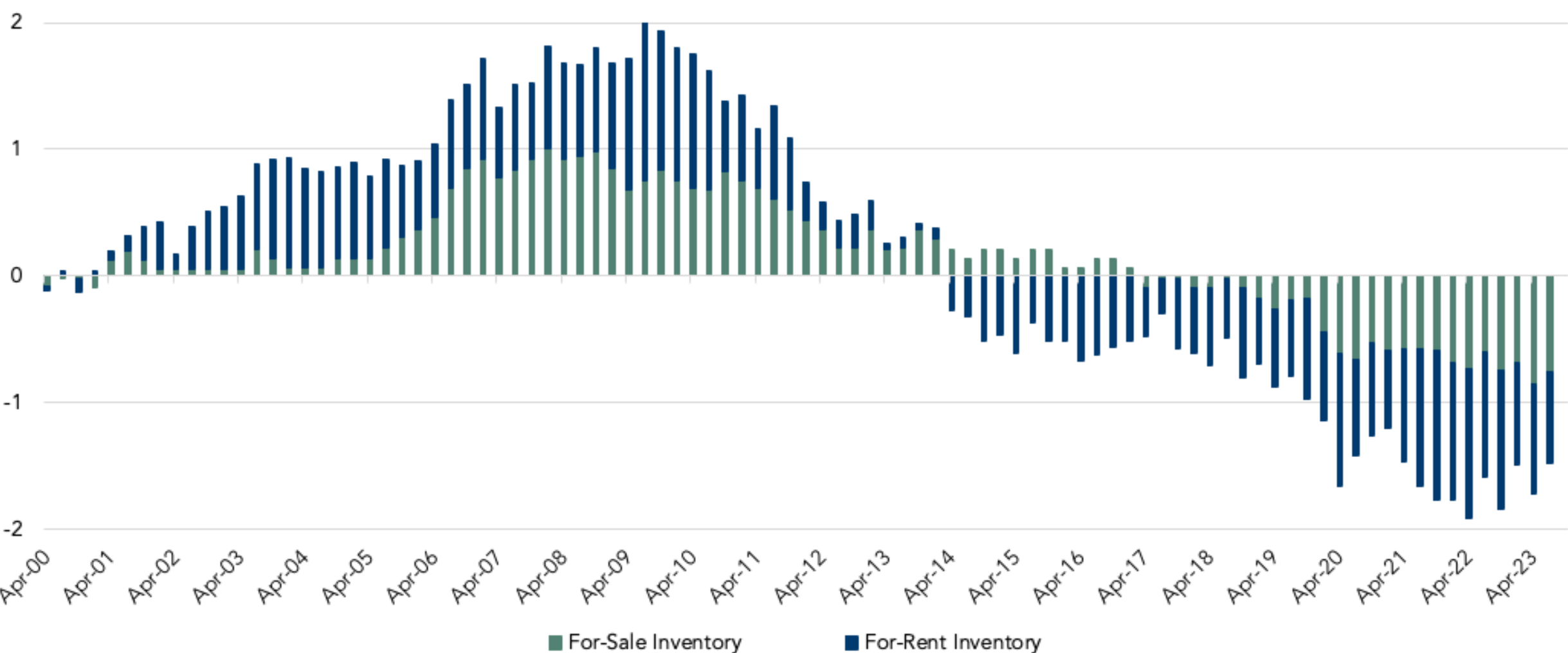
Affordability



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The Housing Market is Still Undersupplied

U.S. Vacant Housing Over/Undersupply (NSA, Millions)



Source: First American Calculations, Census Bureau, Q3 2023



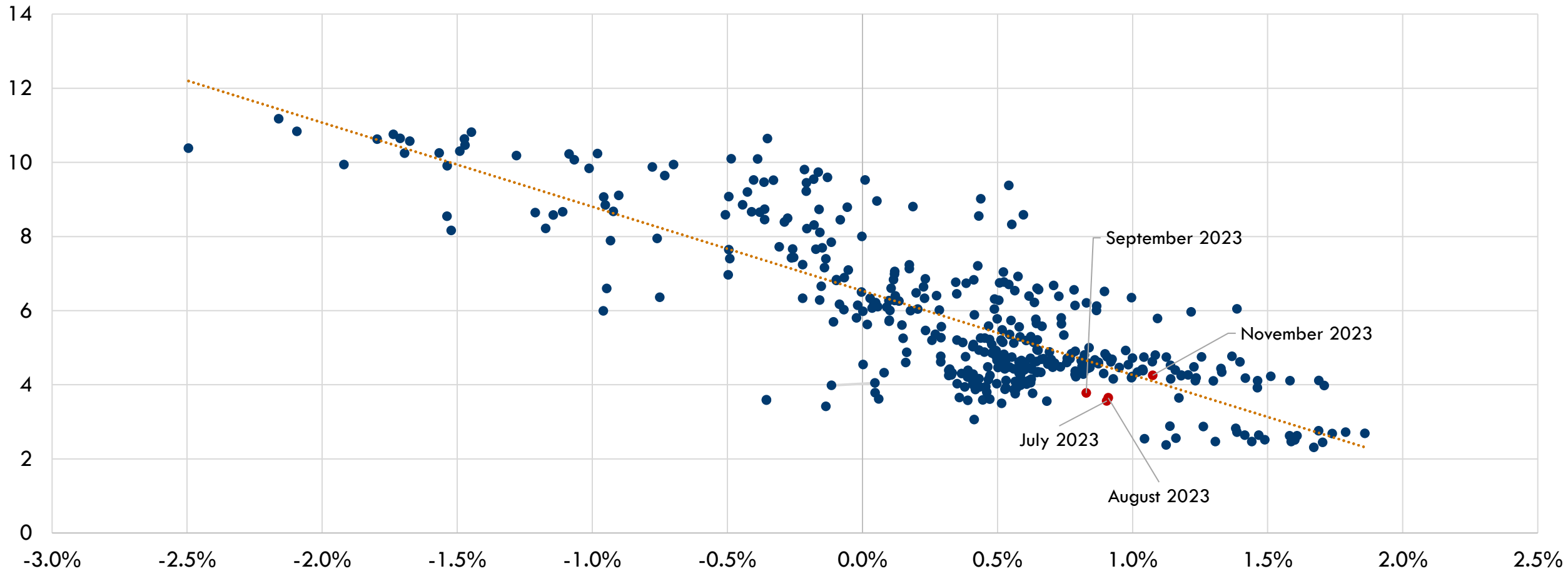
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Total Months' Supply vs. Monthly Growth in House Prices

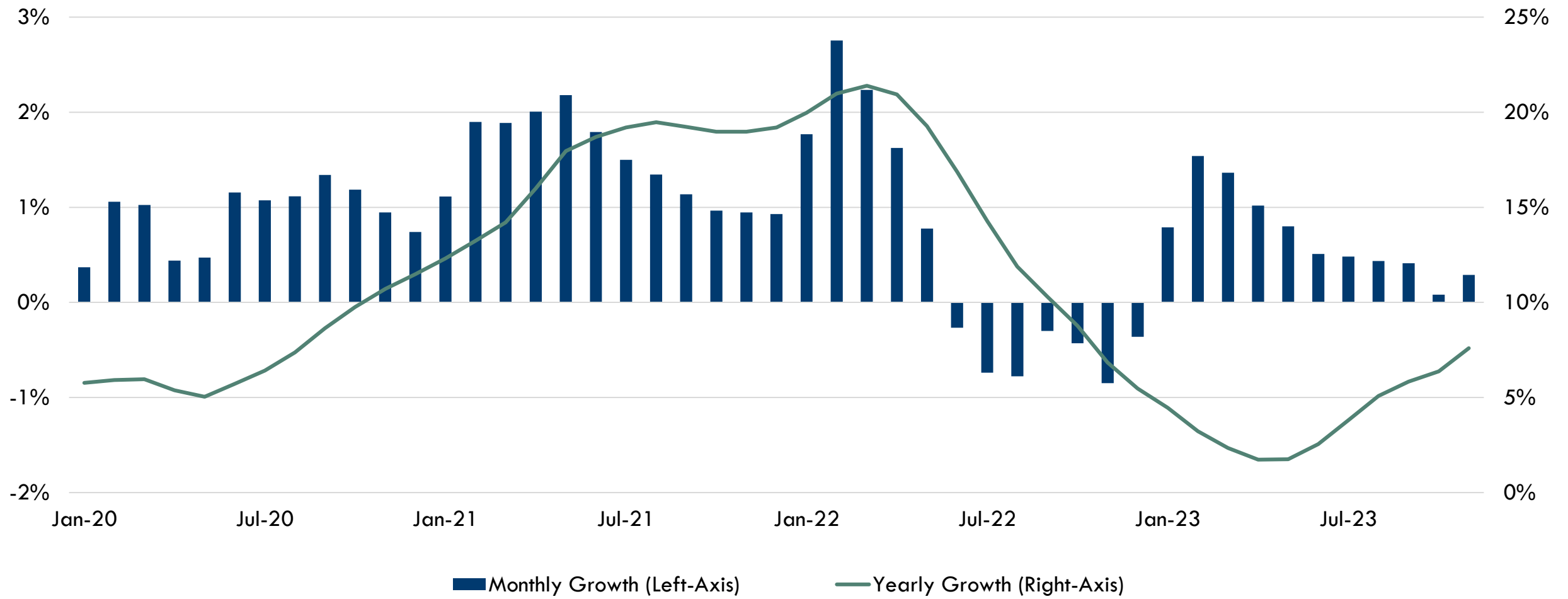
Months' Supply (Y-Axis) and Monthly Growth in Nominal House Prices (X-Axis), Seasonally Adjusted



Source: Source: NAR, Census, First American Data & Analytics, First American Calculations, NAR, U.S. Census Bureau, Nov. 2023

Resurgence in House Price Growth Continues

First American Data & Analytics HPI (NSA, Yearly and Monthly Growth)



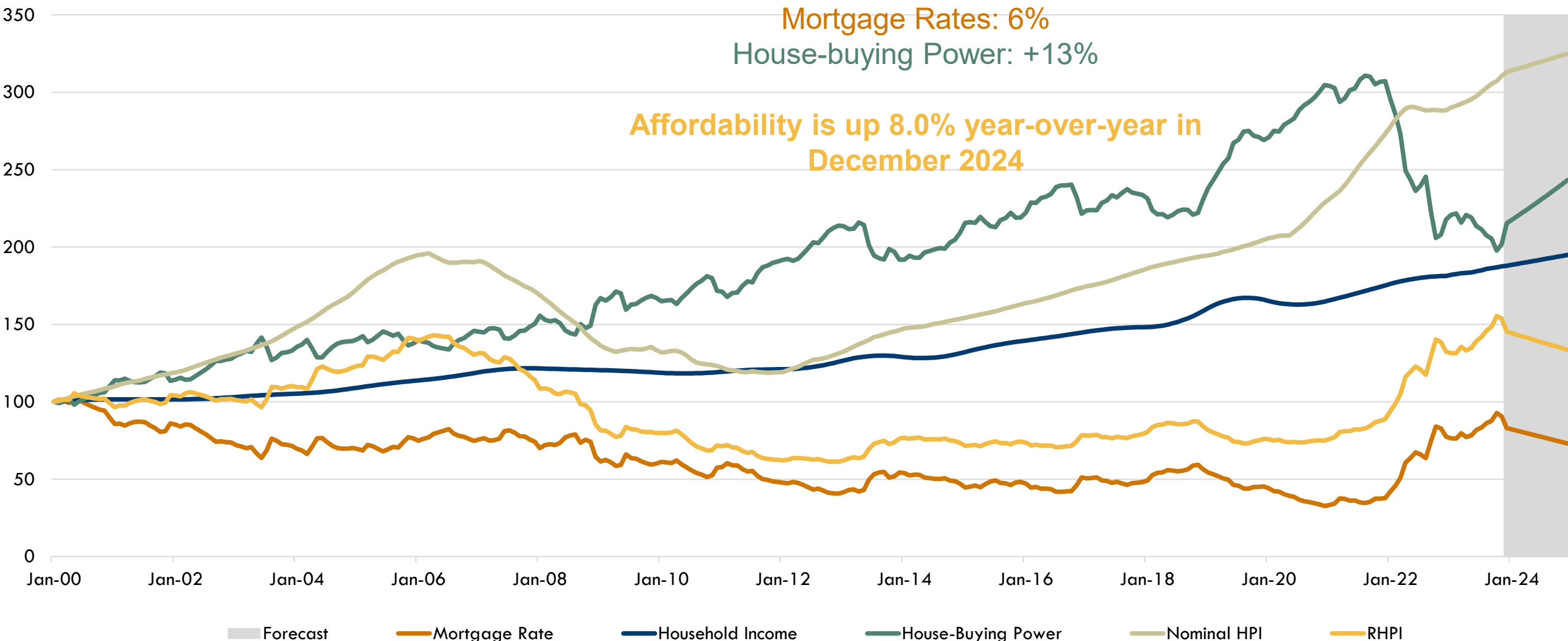
Source: First American Data & Analytics, Nov. 2023

Decomposing the Drivers of Affordability

Index= 100, Jan. 2000

Nominal HPI: +3.8%
Income: +3.7%
Mortgage Rates: 6%
House-buying Power: +13%

Affordability is up 8.0% year-over-year in
December 2024



Source: First American Calculations, First American Data & Analytics, BLS, U.S. Census Bureau, Freddie Mac, Nov. 2023

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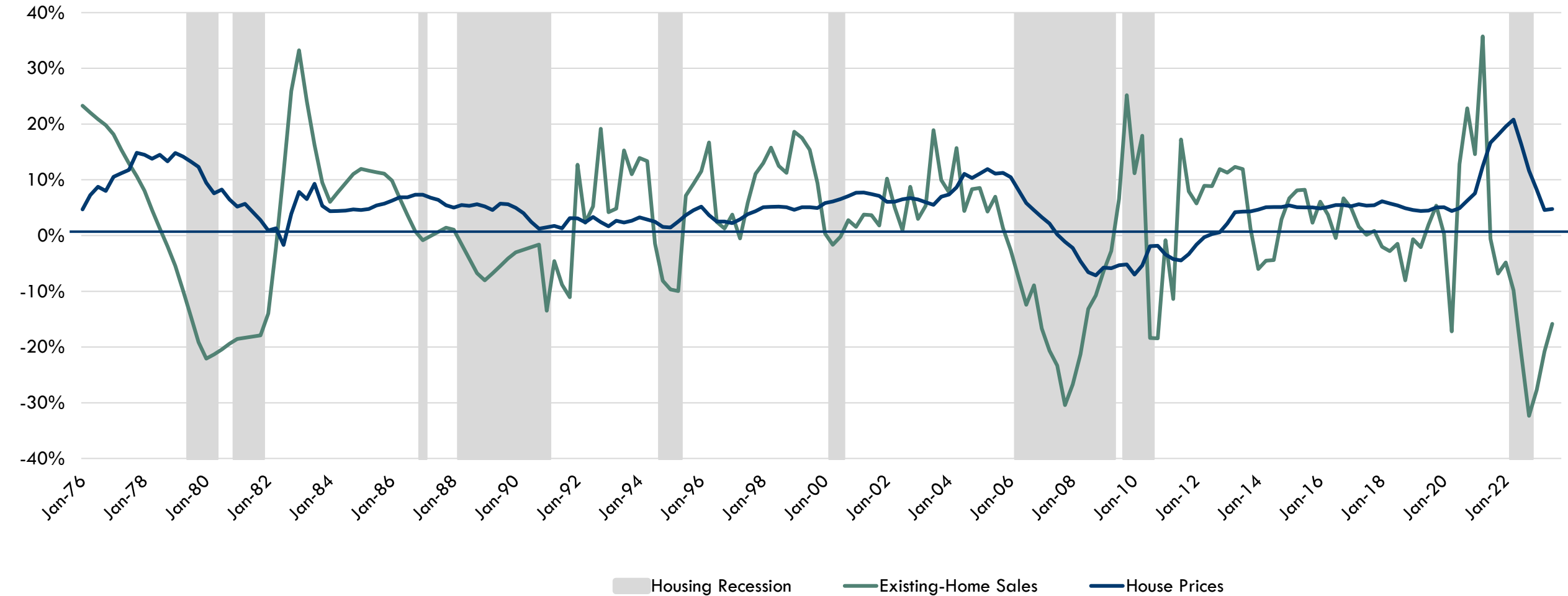
Housing Risks



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Today's Housing Market Rhymes with the 1980s

Existing-Home Sales (Yearly Growth) and All-Transactions House Price Index (NSA, Yearly Growth)



Source: NAR, FHFA, First American Calculations, First American Data & Analytics, US Census Bureau, Bureau of Economic Analysis, Freddie Mac, Q3 2023

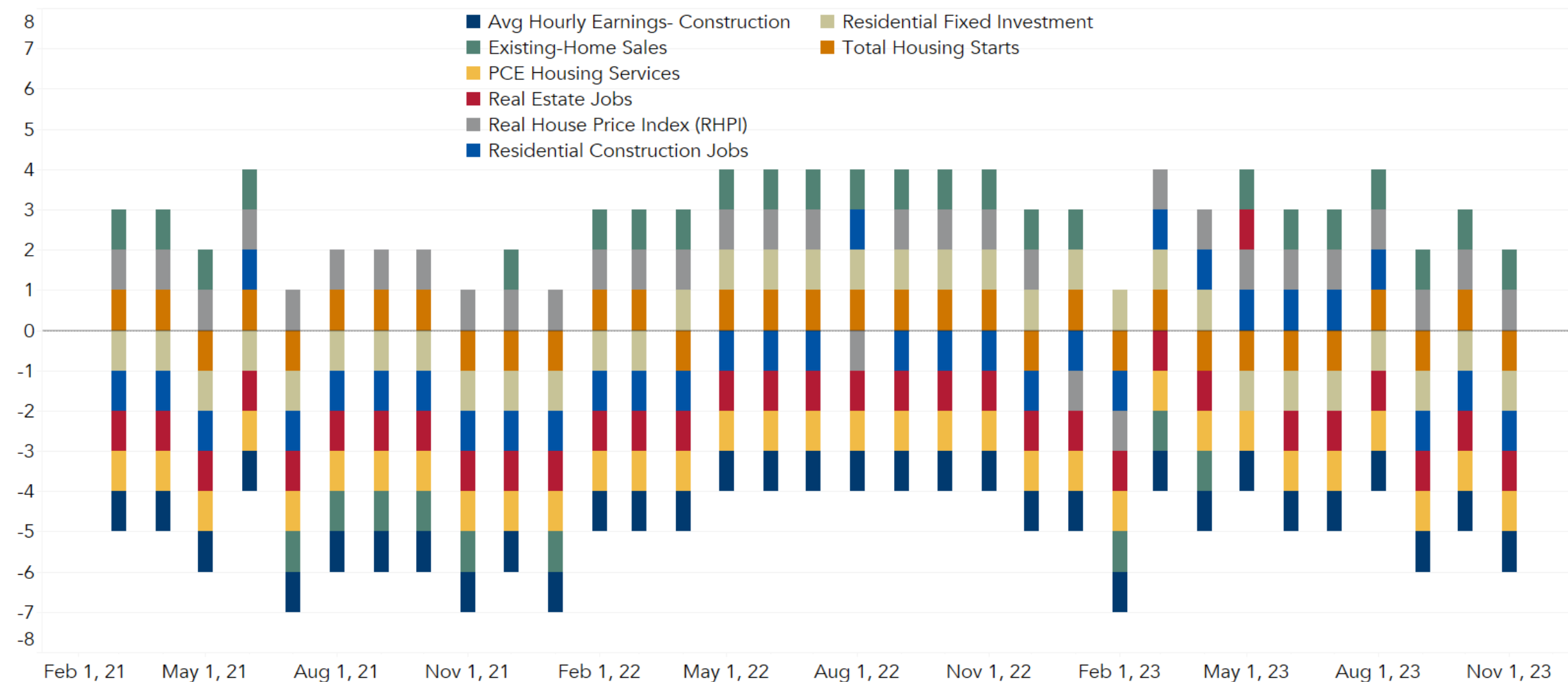
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What Makes a Housing Recession?

Housing Recession Indicators and Components



Source: First American Calculations, First American Data & Analytics, US Census Bureau, Bureau of Economic Analysis, Freddie Mac, NAR, Nov. 2023

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The Value of Property Rights



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Not Your Typical Insurance



The Public “Bad” Past
is Title Risk Prologue

Demand Volatility- Policy demand is driven by the housing and mortgage market cycles which are very mortgage rate sensitive.

Duration Risk- Unlike annually renewed insurance, premium is collected once at policy issuance (and cannot be repriced) so the insurer bears duration risk- mortgage market volatility influences title insurance policy duration.

Past is Prologue- Risk can be insured or, because title uniquely insures against past events, cured to achieve marketable title. Losses are a-priori reduced but the addition curative costs increases operating expenses.

Public “Bad”- The public records are disaggregated, non-standard and not inherently authoritative or accurate

A Deed is Not Evidence of Title (Ownership)

Optimal

Clear Title

- The Owner of real property owns it free of any liens (voluntary or involuntary) or claims from creditors or other parties that would dispute the current owner(s) legal ownership right(s).

Requires Curative Work

Marketable Title

- The owner of real property owns it free of any liens or claims that a reasonable buyer would find objectionable.
- Marketable title may have encumbrances that can be cured prior to closing, examples of such encumbrances would be a mortgage, mechanics liens, municipality or tax lien, etc.

Requires Less or No Curative

Insurable Title

- There may be liens or claims that would otherwise make it unmarketable, but a reputable title insurer is aware and agrees to offer title insurance that covers the buyer or does not except the defect.
- Common defects found in insurable titles include unreleased prior mortgages, questionable access easements or unresolved judgment liens against prior owners.

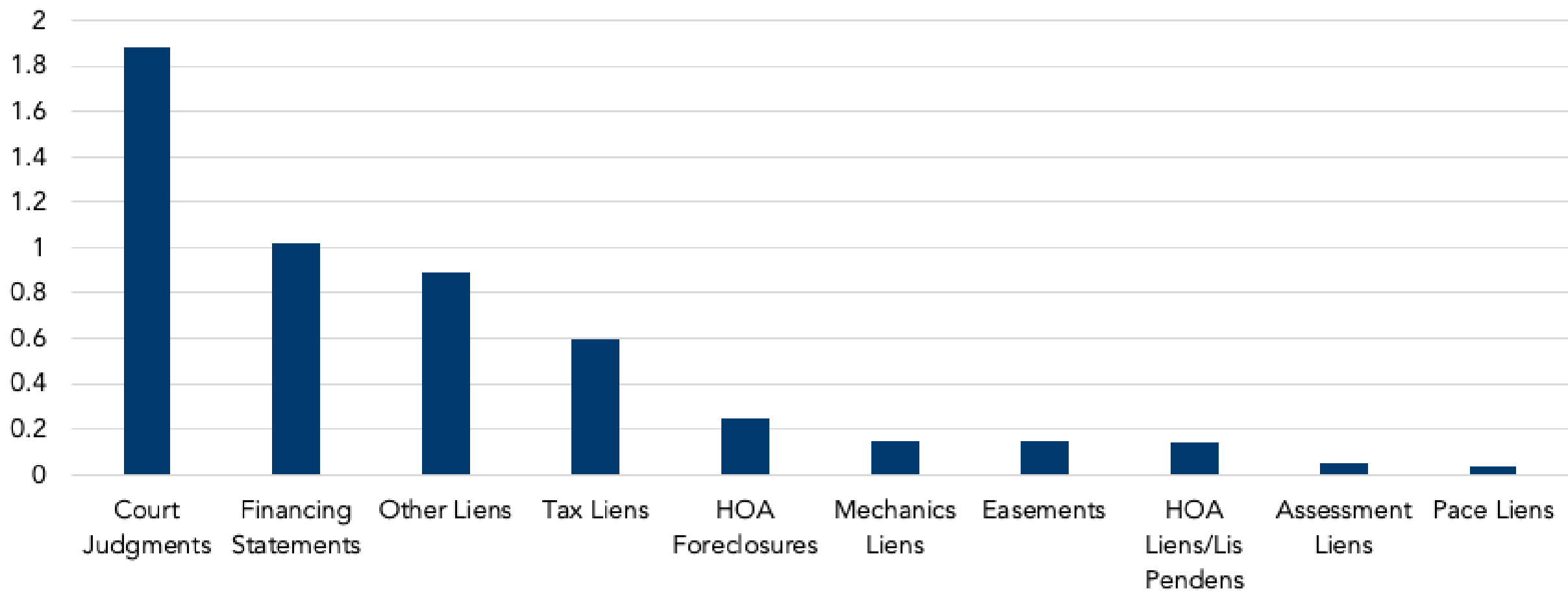
* GSE mortgage eligibility requires marketable title



* FNMA Sellers Guide B7-2: Title Insurance, ALTA 2021 Loan Policy

Past is Prologue- Public Recordings Encumbering Clear Title

Non-Mortgage Liens and Other Recording Activity by Type (Millions)



Source: First American, October 2022- October 2023

The Risk of Free Riders Use of a Public Good



Curated and corrected public records are necessary to clearly convey property rights

A Public Good- Real property records are non-excludable (anyone can freely use them) and non-rivalrous (use by one does not reduce availability to any other)

Non- Authoritative- Private property is traded by private contract based on local and state law, and adjudicated in court

The cost of maintaining the public good for the societal benefit of clear property rights is born by the title industry in the form of curative work.

Free Riders- public records can be used without maintaining them, benefiting from the curated public good based on the curative efforts of some organizations, without incurring the cost and without risk of being “excluded”.

Public Loss- As the number of free riders increases those who incur the cost of curation for the public good lose the incentive and the public good no longer gets produced

The Value of Property Rights



“Prosperity and property rights are inextricably linked” – Driscoll & Hoskins (2003)

The establishment of well-defined property rights is crucial for fostering sustainable economic growth, democracy, and the prosperity of the capitalist system

Globally, real estate is the largest asset class at almost \$300 trillion dollars in 2020 and residential real estate constitutes the majority of that value at \$258 trillion.

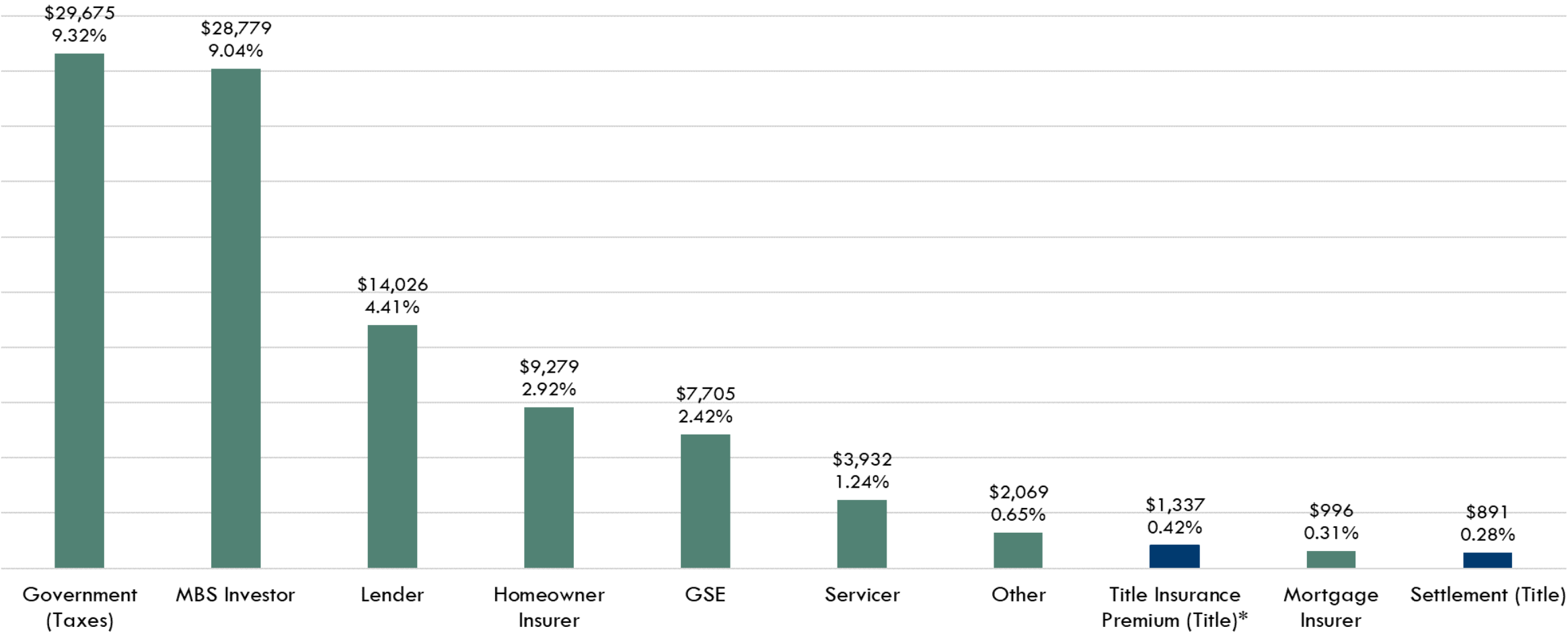
The U.S. residential real estate market is worth more than \$50 trillion as of late last year and the “American Homeownership Dream” is the largest source of wealth creation for most American Families

The economic activity associated with U.S. residential real estate (building, remodeling, transferring ownership, and the value of the shelter service that residential real estate provides) accounted for 16 percent of U.S. GDP in Q3 2023

Borrower Ownership Costs and Fees Over the Life of A Loan

Losing the Forest for the Fees- Borrower Life of Loan Charges By Recipient

Total Present Value of Borrower Charges (\$, % of Average Purchase Price- \$318K), over 7 Year Life



Source: Mota et al. (2021), Fannie Mae; Begley et al. (2022), Fannie Mae; First American Calculations



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Borrower Ownership Costs Footnotes

1

Sources

- Mota, Nuno, Palim, Mark (2021), Barriers to Entry: Closing Costs for First-Time and Low-Income Homebuyers, Fannie Mae
- Begley, Jaclene, Palim, Mark (2022), Mortgage Costs as a Share of Housing Costs- Place the Cost of Credit in Broader Context, Fannie Mae Working Paper

2

Data

- Closing Cost Details: 1.1 million owner-occupied single-family conventional purchase mortgages acquired by Fannie Mae in 2020.
- Present Value of Housing Costs: Fannie Mae 2020 acquisitions matched to Fannie Mae closing cost data for 2020.

3

Category Descriptions

- Government Taxes: Taxes and recording fees at closing plus present value of annual property taxes.
- MBS Investor: Present value of annual interest payments made to the investor(s) that purchased the MBS bond containing the mortgage.
- Lender: Lender origination charges minus lender credits at closing plus present value of gain on sale.
- Homeowner insurer: Present value of annual homeowner's insurance premiums.
- GSE: Loan Level Pricing adjustment plus present value of annual GSE guarantee fee (see note below). **Incorporates present value of the 10bp fee contribution to the payroll tax cut as part of the Temporary Payroll Tax Cut Continuation Act of 2011 (TCCA) and the additional FHFA August 2012 mandated 10bp.**
- Servicer: Present value of annual mortgage servicer charges.
- Other: Other non-specific closing costs as described in source papers plus prepaids, initial escrows and seller credits.
- Mortgage Insurer: Present value of the annual cost (\$518/year) of mortgage insurance for the average origination LTV of 83% and assuming 3.75% annual house price appreciation until the mark-to-market LTV reaches 78% . **Present value of the annual cost will be higher for lower down-payment loans.**
- * Title and Settlement costs are not separately reported in the Fannie Mae Studies so First American's historical split of the title premium cost versus the settlement cost was used to prorate the overall Fannie Mae reported title and settlement costs.
 - Title Insurance Premium- 60% of Fannie Mae reported title and settlement costs.
 - Settlement- 40% of Fannie Mae reported title and settlement costs.

4

Mortgage Note Rate Decomposition

The mortgage note rate charged to the borrower includes multiple components including the required return from the MBS investor rate (MBS Rate), the servicing fee, the GSE guarantee fee (G-Fee), the GSE loan level pricing adjustment and the lenders revenue or gain-on-sale (any remaining interest stream once all other items (MBS rate, servicing fee, g-fees) have been paid. Fannie Mae's analysis provides the details of the estimated decomposition.

Mortgage Note Rate = MBS Rate + Servicing Fee + GSE G-Fees + Annualized LLPA+ Lender Gain-On-Sale.



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