

GENWORTH'S FIRST-TIME HOMEBUYER MARKET REPORT

DECEMBER 2017

Genworth Mortgage Insurance released its third edition of the First-Time Homebuyer Market Report, the only economic series measuring the number of home sales and mortgages to first-time homebuyers covering the entire housing market. This report provides quarterly estimates of the first-time homebuyer market between the first quarter of 1994 and the third quarter of 2017—spanning two housing cycles and 24 years. It provides a historical perspective necessary to understand today's first-time homebuyer market. By capturing the entire market over a long period, and providing the latest market snapshot, this report will make the first-time homebuyer market more visible to housing industry participants and policymakers.

KEY FACTS AND FINDINGS:

FTHBM¹ Size

- Historical² Avg: 1.8 million
- Peak: 2.3 million (1999)
- Trough: 1.2 million (2011)
- 2016: 1.9 million
- Q3 2017: 601,000, +6% y/y
- YTD 2017: 1.6 million, +8% y/y

Single-Family Housing Market

- Historical Avg: 5.2 million
- Peak: 7.5 million (2005)
- Trough: 4.0 million (2010)
- 2016: 5.4 million
- Q3 2017: 1.5 million, -1% y/y
- YTD 2017: 4.2 million, +2% y/y

FTHB³ Mix: Housing Market

- Historical Avg: 35%
- Peak: 46% (1996)
- Trough: 26% (2004)
- 2016: 36%
- Q3 2017: 40%
- YTD 2017: 37%

FTHB Mix: Mortgage Market

- Higher than the Housing Market because no cash-buyers are in the Mortgage Market
- Historical Avg: 45%
- Peak: 60% (2009)
- Trough: 33% (2003)
- 2016: 54%
- Q3 2017: 56%
- YTD 2017: 56%

Historical Perspective

- Different cycle, different growth pattern
- Cycle 1 (1994-2006):
 - Stagnant FTHBM
 - Strong Growth in RHBM⁴
 - Declining FTHB mix
- Cycle 2 (2007-today):
 - Strong Growth in FTHBM
 - Stagnant RHBM
 - Rising FTHB mix
 - 3 million FTHBs missing due to the Housing Crisis

¹First-Time Homebuyer Market

²1994-2016

³First-Time Homebuyer

⁴Repeat-Homebuyer Market

LDP⁵ Mortgage Market

- Historical Avg: 73% of FTHBs using LDP Mortgage vs. 27% using HDP⁶
 - Q3 2017: 78% LDP vs. 22% HDP
- FTHB Mix Moves Inversely with Down Payment Size: 61% LDP vs. 27% HDP
 - Q3 2017: 67% LDP vs. 36% HDP

Government Role in FTHBM

- Active Role Through FHA, VA, USDA
- Historical Avg: 73% FTHB Mix
- FTHB Market Share: 58% (post-2008) vs. 32% (pre-2008)
- Government Lending to FTHB Market: Q3 2017 is 3x Q3 2007
- Government Share of FTHB Market: 46% (Q3 2017) vs. 20% (Q3 2007)

Implications for Economy and Housing

- **Fed Policy:** Increased mortgage debt outstanding will complicate the Fed's plan to unwind its MBS holdings.
- **Consumer Finance:** Household debt composition will shift mortgage debt away from student debt.
- **Inventory:** Tighter housing supply will likely continue, further depleting inventory.
- **Home Value:** Home price growth unlikely to slow down in the near term, especially at the lower-end.
- **Are we in another housing bubble?** No. Demand is driven by FTHBs in the current market, not investors.
- **Homebuilders:** Starter-home volume remains flat, unlikely to ease supply pressure. Repeat homebuyer market further under pressure.
- **Real Estate Agents:** Market imbalance greatest in entry-level homes. Expect FTHBs to crowd out investors, repeat buyers and cash buyers.
- **Lenders:** FTHB demand will become a bigger source of growth for the purchase mortgage market as home sales slow. Mortgage lending shifting to LDP Market, driven by FTHB demand—not the other way around. Expect conventional mortgages to gain further ground against the FHA as lenders embrace 97 LTV programs.
- **Homeownership:** Beginning to increase, but remains well below historical average, enabling further recovery in homeownership in coming years. Institutional investment in single-family rental (Invitation Homes) not competitive against potential FTHBs in the current market. International homebuyers not in the same market as FTHBs.
- **Government:** Three times the footprint as pre-2008.

⁵Low Down Payment - Below 20% Down Payment

⁶High Down Payment - 20% and Above in Down Payment