

GENWORTH'S FIRST-TIME HOMEBUYER MARKET REPORT

FEBRUARY
2018

Genworth Mortgage Insurance released its fourth 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 fourth 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. Below are the summarized facts from the report.

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
- Q4 2017: 505,000, +4% y/y
- 2017: 2.1 million, +7% 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
- Q4 2017: 1.3 million, +2% y/y
- 2017: 5.5 million, +2% y/y

FTHB³ Mix: Housing Market

- Historical Avg: 35%
- Peak: 46% (1996)
- Trough: 26% (2004)
- 2016: 36%
- Q4 2017: 39%
- 2017: 38%

FTHB Mix: Mortgage Market

- Higher than the Housing Market because no cash buyers are in the Mortgage Market
- Historical Avg: 46%
- Peak: 60% (2009)
- Trough: 33% (2003)
- 2016: 54%
- Q4 2017: 55%
- 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
 - 2.7 million FTHBs missing due to the Housing Crisis

¹First-Time Homebuyer Market

²1994-2017

³First-Time Homebuyer

⁴Repeat-Homebuyer Market

LDP⁵ Mortgage Market

- Historical Avg: 74% of FTHBs using LDP Mortgage vs. 26% using HDP⁶
 - Q4 2017: 79% LDP vs. 21% HDP
- FTHB Mix Moves Inversely with Down Payment Size: 61% LDP vs. 28% HDP
 - Q4 2017: 66% LDP vs. 35% HDP

Government Role in FTHBM

- Active Role Through FHA, VA, USDA
- Historical Avg: 73% FTHB Mix
- FTHB Market Share: 57% (post-2008) vs. 32% (pre-2008)
- Government Lending to FTHB Market: Q4 2017 is 2.5x Q4 2007
- Government Share of FTHB Market: 46% (Q4 2017) vs. 21% (Q4 2007)

Implications for Economy and Housing

- **Consumer Finance:** Household debt composition will shift mortgage debt away from student debt.
- **Fed Policy:** Increased mortgage debt outstanding will complicate the Fed's plan to unwind its MBS holdings.
- **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 is shifting to the 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) is not competitive against potential FTHBs in the current market. International homebuyers are not in the same market as FTHBs
- **Government:** Three times the footprint as pre-2008, but beginning to shrink.

⁵Low Down Payment - Below 20% Down Payment

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