By Tian Liu,
Chief Economist,
Genworth Mortgage Insurance
Genworth Mortgage Insurance has been helping first-time homebuyers become homeowners since 1981. The private mortgage insurance industry is the largest provider of private capital for first-time homebuyers, insuring 600,000 of these mortgages in 2017. We understand the first-time homebuyer segment, both the ones we serve and those served by others.

We started working on the First-Time Homebuyer Market Report in 2015. The question was both simple and important: how many homes are sold to first-time homebuyers in a given quarter? We then raised the bar higher still: by extending the quarterly series back to 1994, and reporting the latest data with a minimal lag. Our approach is different from others in that we rely on government reports and industry sources. We believe this is a breakthrough, one that will help the housing industry and policymakers gain insights into the first-time homebuyer market. This report is a testament to our commitment to the first-time homebuyer market.

-Tian Liu
Chief Economist at Genworth Mortgage Insurance
Overall home sales decreased in the second quarter compared to the same period a year ago. Sales to first-time homebuyers increased moderately during the quarter but were flat for the first half of the year. While macroeconomic conditions remained favorable and potential first-time homebuyers were still looking to buy, tight housing supply and higher costs limited the home sales both in the first-time homebuyer market and beyond. Lower housing inventory contributed to the decrease in home sales this quarter. While the decrease in housing inventory appears to be slowing down, it would still take a very large increase in inventory to bring demand and supply into balance. While the tight housing market and a large first-time homebuyer market created the demand for affordable homes, the supply of such homes remained flat. For potential homebuyers, the recent cost increase has been significant - the combination of higher home prices and higher interest rates means that buying the same house cost 13 percent more in the second quarter than it did one year ago. The mortgage payment index shows that three recent episodes of sharp increases in the cost of buying a home (mid-2013, late-2016, and late-2017) all happened with concurrent increases in interest rates and home prices, and they all resulted in slowing home sales.

The current housing cycle differs from the previous cycle in that it is driven by first-time homebuyers. What does the trend in the second quarter mean for the broader housing market and related industries? Here are a few conclusions:

- **First-time homebuyers should continue to play an important role in the housing market.** While the first-time homebuyer market has grown by close to 40 percent since 2014, there are still 2.7 million missing first-time homebuyers. They represent vast, largely untapped opportunities for the housing industry over the coming years. Despite the headwinds of rising interest rates and low inventory in the housing market, first-time homebuyers are entering the market at the fastest pace in the first six months of 2018 than any year since 2005.

- A historically large first-time homebuyer market since 2016 suggests that a large number of young families are becoming homeowners. This is beginning to show in the rising homeownership rate among younger households. Even without any growth, the current size of the first-time homebuyer market is already very large—relative to the total number of households—which is helping to raise homeownership rates among younger households.
- Supply and demand imbalance has been a feature of the current housing cycle since 2014, leaving home price growth above what is considered historically normal. At the same time, this imbalance has slowed growth in the housing market and related industries. Beginning in 2013, the economy also entered a rising interest rate environment for mortgages. What the housing market has shown is that homebuyers are sensitive to large cost increases over a short period from the combined effects of rising home prices and rising interest rates. This is especially relevant for the mortgage industry, since rising interest rates can bring down both purchase and refinance lending volume at the same time.

- In the mortgage market, the expansion of the first-time homebuyer market has restarted the growth in household mortgage debt, creating opportunities for mortgage lenders and investors.

- First-time homebuyers also offer unique opportunities to the low down payment mortgage market. Conventional loans with private mortgage insurance coverage became the single largest source of capital for first-time homebuyers this quarter and is in a good position to expand further.

- The growth of conventional loans with private mortgage insurance coverage is helping to shrink the footprint of government loans in the first-time homebuyer market, which expanded significantly during the Housing Crisis. The reduction in the footprint of government loans allows taxpayers to reduce their exposure to housing credit risk.

- The repeat homebuyer market has been flat for over three years, meaning that sales to move-up buyers have been stagnant. Rising home prices have allowed existing homeowners to accumulate home equity. For many households, home equity is the largest component of wealth, and the “wealth effect” from rising home prices can be very large. Historically, homeowners have tapped the increased equity to spend on home improvement and to move to better homes. This could mean a housing cycle that differs from previous ones, or it could mean a return of move-up buyers later in a prolonged housing cycle.

- Policymakers could encourage growth in the production of new homes at lower price points by removing current regulations and avoiding new regulations that restrict affordable housing (zoning), increasing access to low-cost building supplies (tariffs and quotas), and expanding the labor supply (less restrictive immigration and more job training).
KEY FINDINGS:

1. In the second quarter, first-time homebuyers purchased 572,000 single-family homes (fig. 7), up one percent from a year ago. As a group, **first-time homebuyers accounted for 36 percent of all single-family homes sold (fig. 8), and 55 percent of all purchase mortgages originated (fig. 9) during the quarter.** Home sales to first-time homebuyers were flat in the first six months of the year compared to a year ago.

2. **The first-time homebuyer market was strong in 2017 with 2.06 million first-time homebuyers purchasing either new or existing homes, the most first-time homebuyer activity since 2006.**

3. Historically, first-time homebuyers have purchased an average of 1.8 million single-family homes per year since 1994. Based on this measure, the first-time homebuyer market is no longer cyclically depressed in 2016 and 2017 but is still missing 2.7 million first-time homebuyers for the period 2007 to 2017.

4. **Between 2014 and 2017, single-family home sales to first-time homebuyers grew by 577,000, or 39 percent. First-time homebuyers have accounted for 80 percent of the increase in sales volume in the housing market during this period.**

5. The number of home sales to repeat buyers declined by three percent from a year ago in the second quarter, which resulted in a two percent decrease in total home sales. Total home sales were down one percent in the first six months of the year, while sales to repeat homebuyers were down two percent.

6. In 2017, 3.4 million single-family homes were sold to repeat buyers, unchanged from a year ago. The repeat homebuyer market has been largely flat between 2014 and 2017. A unique feature of the current cycle is that existing homeowners are staying in their homes longer, which is reducing liquidity in the housing market.

7. In the second quarter, the number of cash sales and purchase loans taken out by investors decreased by six percent from a year ago. Lower cash sales were responsible for a faster increase in purchase loan growth over home sales. The number of mortgages made to homebuyers increased by one percent in the second quarter compared to a year ago and was flat in the first six months of the year. Purchase originations have experienced faster growth rates over home sales since 2012.

8. First-time homebuyers represent the transition of housing demand from rental to owner-occupied housing. Strong first-time homebuyer demand continues to lift homeownership rates among households headed by younger adults. In the second quarter, homeownership rates reported broad increases for every household age group under 55. **In the past two years, the biggest increase in homeownership rate came from households headed by people under the age of 35, followed by the 35-44, and 45-54 age groups.**

9. The single-family housing market continues to experience an insufficient supply of homes for sale. The **inventory of existing homes for sale decreased by four percent from a year ago in the second quarter,** representing half of the decrease in total home sales. The rate of decrease slowed both during the quarter and compared to the previous quarter. The supply of existing homes for sale averaged 4.2 months, unchanged from a year ago.

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¹First-Time Homebuyer Market
²1994-2017

FTHBM¹ Size

Historical Average²: 1.8 million

Peak: 2.3 million (1999)

Trough: 1.2 million (2011)

2017: 2.1 million, +6% y/y

Q2 2018: 572,000, +1% y/y
10. The supply of affordable new homes for first-time homebuyers remains inadequate. Sales of new homes decreased at every price point between $150,000 and $300,000, meaning that the **availability of new homes most in demand for first-time homebuyers has not increased**. This has resulted in one of the slowest recovering housing expansions on record and continues to have an impact on housing affordability for first-time homebuyers.

11. The lack of housing supply has led to accelerated home prices. In the second quarter, home price appreciation, as measured by the Federal Housing Finance Agency (FHFA) home price index for purchase loans, rose an average of 6.5 percent.

12. **Rising home prices could lead to a higher conforming loan limit for 2019**, which is based on a similar home price index from FHFA. **Although an exact increase would not be known until November, the conforming loan limit could increase by $30,000 to around $483,100 in 2019.**

13. Compared to a year ago, the first-time homebuyer composite interest rate increased by 47 basis points to 4.77 percent in the second quarter, leading to a seven percent year-over-year increase in the cost of monthly payments. This is based on a composite interest rate for 30-year fixed rate mortgages, which covers 90 percent of loans to first-time homebuyers. For the second quarter, first-time homebuyers paid 23 basis points more than the Freddie Mac 30-year commitment rate.

14. **Increases in home prices and interest rates over the past 12 months imply that the monthly mortgage payment for buying the same home has increased by 13 percent.** Since the beginning of 2013, this index has increased by 67 percent.

15. Within the mortgage market, first-time homebuyers have historically relied on lower down payment mortgages, defined as those with a combined loan-to-value ratio (LTV) of 80 percent or higher. When buying a home, **79 percent of first-time homebuyers used a low down payment mortgage in the second quarter.**

16. A greater number of first-time homebuyers used low down payment mortgages to purchase a home in the second quarter, while those putting down at least 20 percent were down from a year ago. **Low down payment mortgages financed 454,000 home sales to first-time homebuyers, up three percent from a year ago.** High down payment mortgage products financed 117,000 home sales to first-time homebuyers, a decrease of six percent from a year ago.

17. Among low down payment mortgage products, **conventional mortgages with private mortgage insurance replaced the FHA as the most popular loan product in the second quarter.** The private mortgage insurance industry insured loans for 189,000 first-time homebuyers during the quarter, compared to 169,000 FHA loans to first-time homebuyers.

18. The private mortgage insurance industry reported its 28th consecutive quarter of growth in the first-time homebuyer market. In contrast, fewer first-time homebuyers took out mortgages backed by the FHA. **The other surprise this quarter was the large increase in the number of VA loans made to first-time homebuyers, which jumped by over thirty percent from a year ago.**
DEFINING AND ESTIMATING THE FIRST-TIME HOMEBUYER MARKET

In these reports, the definition of first-time homebuyers is based on the one provided by the Department of Housing and Urban Development (HUD), which is widely used within the housing and mortgage industry. Under this definition, a first-time homebuyer is an individual who has not been a homeowner in the previous three years\(^4\). Adopting this definition allows us to use data available from the mortgage industry and from government agencies\(^5\). Data used in this report includes publicly available reports from the FHA, the mortgage insurance industry, VA, and USDA, as well as proprietary data from Genworth Mortgage Insurance, which makes the coverage of the first-time homebuyer market more comprehensive than is possible with agency securitization data alone. Where data is not available, extended coverage is accomplished by making assumptions that are believed to be reasonable. Together, government and industry sources provided 22.7 million first-time homebuyer records between 1994 and 2018, accounting for 51 percent of the estimated total number of first-time homebuyers. Of the estimated 572,000 first-time homebuyers in the second quarter, over 405,000 or 71 percent came from actual data or reports.

One key feature of this report is that it provides the number of homes sold to first-time homebuyers in addition to the mix of first-time homebuyers in the housing and mortgage markets. This allows readers to tie the first-time homebuyer market with home sales and purchase loan originations, which is very important for understanding the impact of first-time homebuyers on the entire housing market. Another feature is that the length of this data series goes back to 1994, which allows users to place today’s market size in the context of the last two housing cycles. In addition, first-time homebuyers who use loans with private mortgage insurance are separately identified from the overall conventional market. By doing so, readers will be able to see how many used low down payment mortgages, which is an important source of credit for first-time homebuyers.

\(^4\)The full definition is archived here: \url{https://archives.hud.gov/offices/hsg/sfh/ref/sfhp3-02.cfm}. See our inaugural June report under the section “Who is a First-Time Homebuyer?” for a discussion of the difference between the HUD definition and the literal definition.

\(^5\)See “Estimating the First-Time Homebuyer Market” and “Appendix” sections in our June report for a detailed discussion on our methodology, data sources, and assumptions.
HOUSING MARKET MOVED SIDEWAYS DURING THE SECOND QUARTER

Macroeconomic conditions remained strong for potential first-time homebuyers. People in the peak household formation ages of 25 to 44 continued to experience very strong job growth and the lowest unemployment rates in 20 years (fig. 1-2). However, the housing market faced headwinds including higher interest rates, continued lack of inventory, and rising home prices, which prevented a faster pace of growth.

**Fig. 1** Employment Growth—by Age

![Employment Growth Graph](image)

Source: Bureau of Labor Statistics

**Fig. 2** Unemployment Rate—by Age

![Unemployment Rate Graph](image)

Source: Bureau of Labor Statistics

The number of 25 to 44 year olds employed increased by 2.4% during the second quarter, the fastest since at least 1994.

The average unemployment rate for 25 to 44 year olds was 3.5% during the second quarter, its lowest level since the first quarter of 2001.
INTEREST RATES ROSE IN Q2, BUT ARE STILL HISTORICALLY LOW

For borrowers who have become used to low interest rates following the Great Recession, the increase was significant. Since there is no data on mortgage rates paid by first-time homebuyers, we compiled a composite interest rate for thirty-year fixed rate mortgages for first-time homebuyers. This composite rate is based on interest rates from Fannie Mae and Freddie Mac (the government-sponsored enterprises or GSEs), FHA, VA, and USDA loans that covered 90 percent of the first-time homebuyer market. This is different from the Freddie Mac 30-year fixed rate because it includes both conventional loans with less than 20 percent down payment, and government loans, which are the mortgage products mostly used by first-time homebuyers. This data series shows that first-time homebuyers paid an average of 4.77 percent on thirty-year fixed rate mortgages during the second quarter, an increase of 47 basis points from a year ago, and an increase of about 120 basis points since September 2016. This suggests that new homebuyers are facing a seven percent increase in their mortgage payment due to higher interest rates, compared to a year ago.

HOUSING SUPPLY REMAINS VERY TIGHT

In the second quarter, the inventory of previously owned homes for sale averaged 1.87 million units, down four percent from a year ago. The decline in inventory accounted for half of the year-over-year decrease in existing home sales. However, the pace of the year-over-year decline has slowed compared to the previous quarter (which declined by eight percent), and inventory was unchanged from a year ago in June. Measured against actual home sales, inventory represented 4.2 months of supply for the second quarter. A balanced housing market should have a supply of six months, which implies an inventory level of 2.7 million units at the second quarter’s sales pace. Thus, there is currently a shortfall of 833,000 units. This means that the housing market remains a seller’s market and home prices are more likely to appreciate in a seller’s market based on historical experience.
LIMITED HOUSING SUPPLY CONTINUES TO PUSH PRICES HIGHER

The falling supply in the housing market over the past few years has resulted in an acceleration in home price growth. Using the FHFA’s home price index, which covers home purchase loans backed by Fannie Mae and Freddie Mac, growth rates have accelerated from 5.5 percent in 2015 to seven percent this year. In the second quarter, home prices increased by 6.5 percent.

Home prices in the second quarter are 6.5% higher compared to a year ago.

The housing market remains a seller’s market and home prices are more likely to appreciate in a seller’s market based on historical experience.
HIGHER HOME PRICES + HIGHER INTEREST RATES = LOWER AFFORDABILITY

Tracking the monthly mortgage payment provides a convenient way of deconstructing the impact of higher home prices and higher interest rates. Using the composite first-time homebuyer interest rate and FHFA’s purchase-only home price index, it becomes possible to track the impact of higher interest rates and higher home prices on a first-time homebuyers’ monthly mortgage payment, while holding the quality of homes constant.

This index shows that purchasing a house in June of 2018 would imply a 67 percent increase in a first-time homebuyers’ monthly payment compared to purchasing the same house in January 2013, which far exceeded consumer price inflation and wage growth. Consumer prices excluding the volatile food and energy items grew by 11 percent during this period, while the average hourly earnings for non-managerial positions increased by 13.5 percent. The rapid growth in mortgage payment came from higher home prices and higher interest rates. Higher home prices alone would have caused a 42 percent increase in monthly payment, while higher interest rates alone would have caused an 18 percent increase. In the second quarter, a first-time homebuyers’ mortgage payment increased by 12.6 percent from a year ago, with 6.5 percent coming from higher home prices alone and 5.7 percent coming from higher interest rates.

Of course, the median price that homebuyers actually pay has not increased by 42 percent. Rapid growth in home prices forced potential homebuyers to look for homes that are still within their budget. Based on conventional mortgages backed by Fannie Mae and Freddie Mac, the median price for first-time homebuyers has increased by 8 percent and the median price for all homebuyers has increased by 14 percent over the same timeframe. What has happened is that homebuyers and especially first-time homebuyers can no longer afford homes with the same features, size, access to amenities, and driving distance at the beginning of the housing cycle.

The first-time homebuyer mortgage payment index provides evidence that homebuyers, especially first-time homebuyers are sensitive to large increases in the cost of buying a home within a short period of time. The three most recent episodes during which mortgage payment showed significant increases are 2013-14 (up 17%), 2016-17 (up 13%), and 2017-18 (up 11%). The first two episodes resulted in double-digit declines in the growth rates of first-time homebuyers. In all three episodes, the large increases in mortgage payment have been the result of simultaneous increases in mortgage rates and home prices. This shows the risk of the current housing cycle where interest rates are rising and persistent imbalances in the housing market.
The three most recent episodes during which mortgage payment showed significant increases are 2013-14 (up 17%), 2016-17 (up 13%), and 2017-18 (up 11%).

HOME SALES TO FIRST-TIME HOMEBUYERS OUT-PERFORMED THE REST OF THE HOUSING MARKET IN THE QUARTER

The lack of inventory and higher interest rates have slowed activities in the housing market. Sales of single-family homes decreased by two percent in the second quarter to 1.57 million units. As discussed earlier, lower inventory accounted for about half of the decrease in home sales, while lower affordability also likely had a negative impact. Home sales to first-time homebuyers were up by one percent from a year ago to 572,000 units. First-time homebuyers accounted for a significant share of housing transactions in the second quarter. Thirty-six percent of single-family home sales and 55 percent of new purchase loans went to first-time homebuyers.

The purchase origination volume benefited from higher first-time homebuyer activity and a six percent decline in cash sales and investor loans. These helped to insulate the purchase mortgage market somewhat from lower transaction volumes in the housing market, with purchase mortgage originations rising one percent from a year ago. But the increase was disappointing given the strong economy and underlying housing demand. The weak growth in purchase originations and sharp decline in refinance volume resulted in over-capacity in the mortgage industry. Repeat homebuyer demand remained flat in the second quarter, purchasing just under one million units, which was a decrease of three percent from the prior year.
With 572,000 first-time homebuyers, 2018 had the most first-time homebuyers for a second quarter since 1999.

First-time homebuyers accounted for 36% of single-family home sales in Q2, the highest share for a second quarter since 2000.
FIRST-TIME HOMEBUYER MARKET HAS REMAINED RESILIENT IN THE FIRST HALF OF 2018 WHILE HOMEOWNERSHIP RATES RISE

First-time homebuyers purchased 985,000 single-family homes in the first half of 2018, reaching the highest level since 2005. This reaffirms the shift in housing choice back toward owner-occupation as the Millennial and Gen-X generations reach home-buying stages of their lifecycle. It also aligns with the latest Census data showing rising homeownership rates among younger households. In the second quarter, homeownership rates increased by 1.2 points for every household age group under 55. Homeownership rates reached a trough two years ago and has been on a steady recovery since then. That recovery has been led by younger households, with gains of 2.4 points for the under-35 age group and 1.5 points for the 45-54 age group. During 2017, the number of homeowner households increased by a net of two million. This suggests that the 2.1 million first-time homebuyers who became homeowners during the same year were the main driver for the increase in homeownership rate.
The shift in housing choice toward owner-occupation and tight supply conditions has created very favorable market conditions for homebuilding and new home sales. However, homebuilding’s pace of expansion continued to be moderate in the second quarter, with the number of single-family housing starts and new home sales both growing seven percent from a year ago. Data and surveys of homebuilders suggest that construction workers are in short supply. The number of job openings as a percentage of construction employment and job openings has doubled since 2013 and is higher today than during the last Housing Boom. Homebuilders have cited the cost and availability of construction workers as their top challenges. Restrictive zoning policies mean that developers cannot readily respond to housing demand with new housing projects. Finally, trade disputes are on the rise and could make certain materials, equipment, and parts more expensive. Limited capacity means that homebuilders have been producing for more affluent homebuyers. While there is increased awareness of growing first-time homebuyer demand in the homebuilding industry, sales growth in that segment has been moderate. This trend is clearly visible in the price distribution of new home sales over the past seven years. Growth in new home sales has been led by new homes priced above $300,000 during this period. There was growth in the under $150,000 price range (starting with a very low base) and $300,000 to $400,000 price range, but sales of new homes priced between $150,000 and $300,000 declined.

A strong FTHB market is beginning to lift homeownership rates among younger households.


### Growth in New Home Sales by Sales Price

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<th>Sales Price Range</th>
<th>2017 Growth Rate ('000 units)</th>
<th>Q2 2018 Growth Rate ('000 units)</th>
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<tr>
<td>$150-200K</td>
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<tr>
<td>Over $750K</td>
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Source: Census Bureau

### LOW DOWN PAYMENT MORTGAGE PRODUCTS ARE NECESSARY FOR ACCELERATING THE PATH TO HOMEOWNERSHIP

First-time homebuyers have always relied on mortgage products with lower down payments, defined as those with a combined LTV of 80 percent or higher. This reliance demonstrates that down payment affordability is a greater hurdle for first-time homebuyers than it is for repeat homebuyers. When policymakers, lenders, and housing advocates discuss ways of increasing homeownership, down payment affordability should be an important consideration. In the second quarter, 454,000 first-time homebuyers used low down payment mortgages, which accounted for 79 percent of all first-time homebuyer purchases. High down payment mortgages were used by 117,000 first-time homebuyers, which accounted for the remaining 21 percent of the market. The market share of low down payment mortgages among first-time homebuyers is largely unchanged in the past year but has increased by four percentage points over the past three years to 79 percent.
Low down payment mortgages attract a higher percentage of first-time homebuyers than high down payment mortgages. During the second quarter, 66 percent of low down payment mortgages went to first-time buyers, versus only 35 percent of high down payment purchase loans. The availability of low down payment mortgages is therefore an important factor in expanding the first-time homebuyer market. For example, rapid growth in low down payment mortgages between 2015 and 2017 was a factor in the expansion of the first-time homebuyer market. More recently, growth of low down payment mortgages has slowed. In the second quarter, low down payment mortgages financed three percent more first-time homebuyers compared to a year ago, while high down payment mortgages financed six percent fewer first-time homebuyers.
CONVENTIONAL LOANS WITH MORTGAGE INSURANCE BECOMES THE LARGEST SOURCE OF CREDIT

Within the low down payment mortgage market, conventional loans with private mortgage insurance coverage reported strong growth during the second quarter as lenders and borrowers increasingly turned toward 97 LTV products. The private mortgage insurance industry helped 189,000 first-time homebuyers during the quarter, which is an increase of 16 percent from a year ago. In 2017, the private mortgage insurance industry provided credit enhancement on 596,000 first-time homebuyer mortgages, up 18 percent from 2016. The growth experienced by the mortgage insurance industry is due in part to the higher first-time homebuyer mix in its purchase loans. Compared to other segments of the mortgage industry, conventional loans with private mortgage insurance coverage has seen the largest gain in its mix of first-time homebuyers. This expansion into the first-time homebuyer market has been accomplished through better pricing and broader acceptance of 97 LTV products. The expansion in the private mortgage insurance industry means that conventional mortgages with mortgage insurance coverage has replaced the FHA as the largest provider of loan guarantees for first-time homebuyers in the mortgage market. The FHA financed 169,000 first-time homebuyers in the second quarter, down 12 percent from a year ago. In 2017, the FHA provided credit guarantees on 705,000 first-time homebuyer mortgages, down four percent from a year ago. If this trend continues, conventional loans with private mortgage insurance coverage will become the largest source of credit for the first-time homebuyer market for the full year in 2018. Historically, the FHA’s market share has contracted during housing expansions, allowing private capital to play a bigger role in the mortgage market. This is beginning to happen.

In other parts of the low down payment mortgage market, the number of VA loans to first-time homebuyers was up 30 percent during the second quarter, while USDA loans to first-time homebuyers were down 11 percent.

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Source: Genworth Mortgage Insurance

*Low down payment mortgage
GOVERNMENT LENDING RETAINS A LARGE FOOTPRINT IN THE FIRST-TIME HOMEBUYER MARKET

The pullback in FHA and USDA loans this quarter resulted in fewer government loans to first-time homebuyers compared to a year ago. During the second quarter, government lending programs helped 252,000 first-time homebuyers, down five percent from a year ago. Government loans represented 44 percent of the first-time homebuyer market, its lowest level since the first quarter of 2008, when government lending began its response to the emerging Housing Crisis. By the fourth quarter of 2008, government lending commanded 69 percent of all loans made to first-time homebuyers. Government lending to first-time homebuyers decreased in 2017 for the first-time since the Housing Crisis. For the full year, government loans to first-time homebuyers were down by one percent. Despite this decline, the footprints of government lending programs in the purchase market and in the first-time homebuyer market segment today are almost three times the size they were 10 years ago. The share of government loans in the first-time homebuyer market has increased from 20 percent in 2007 to 48 percent in 2017. These programs played an important counter-cyclical role in supporting the first-time homebuyer market during the Housing Crisis. However, with the first-time homebuyer market no longer in need of this high level of support, the policy rationale for maintaining such a large presence has diminished. For many borrowers and mortgage lenders, government loans no longer represented the best option.

Source: Genworth Mortgage Insurance
MORE BORROWERS CHOSE CONVENTIONAL LOANS OVER GOVERNMENT LOANS FOR PURCHASES IN FIRST HALF 2018

Housing finance as a key input is critically important to the housing market. The approach used in this report builds a bridge between the housing market and the mortgage market. The chart on the next page (fig.14) shows the composition of the single-family housing market from a financing and homebuyer status perspective, illustrating the relationship between the housing and mortgage markets. Each block in the chart shows a group of first-time or repeat homebuyers using a particular method of financing. The size of each block is proportional to the number of homebuyers in that category.

The single-family housing market reported home sales of 2.68 million units in the first half of 2018, with an estimated 1.76 million units to homeowners with mortgage financing, and 690,000 units to cash or international homebuyers, and another 250,000 units to buyers who did not intend to live at the property. Among the 1.76 million units purchased by homebuyers who intend to use the property as a primary residence, 980,000 were first-time homebuyers, and 770,000 were repeat homebuyers. The 1.76 million purchase origination market can also be segmented by the different mortgage products used: private mortgage insurance (523,000), FHA loans (368,000), below-80 percent LTV GSE loans (382,000), other conventional markets (190,000), VA loans (208,000), and USDA loans (55,000).

Compared to the first half of 2017, the conventional mortgage market reported a four percent increase in the number of purchase loans, while government loans were down five percent. Within the housing market, VA loans reported the fastest growth in the mortgage market with a 15 percent increase in purchase loan growth. Conventional loans with private mortgage insurance remain the leading purchase mortgage product.
1.74 million units of single-family homes were purchased with financing in the first half of 2018; 985,000 went to FTHBs.
CONCLUSION

In conclusion, home sales were down in the second quarter, driven by low inventory in the existing homes market, lack of new homes most in demand to first-time homebuyers, as well as rising interest rates and home prices. Despite these challenges, it is remarkable that the first-time homebuyer market has remained so resilient so far this year, reaching its highest level since 2005. It shows the tremendous potential from this market segment. One mortgage product that has been successful in capturing this opportunity is the private mortgage insurance industry. Conventional mortgages with private mortgage insurance coverage became for the first time the largest source of credit to first-time homebuyers.

-Tian Liu
Chief Economist at Genworth Mortgage Insurance

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ABOUT TIAN LIU

Tian Liu has served as Chief Economist for Genworth Mortgage Insurance Corporation since 2014. He is responsible for tracking and analysis of U.S. and regional economic conditions. He authors the company’s Weekly Economic Report and provides regular updates on housing and mortgage markets. Mr. Liu began covering the U.S. housing market in 2007. His commentary on the housing market has appeared in the Wall Street Journal, New York Times, CNBC, Washington Post, and other notable publications.

Mr. Liu has a Masters in Economics from the University of Chicago and an undergraduate degree in Economics from the Australian National University. He resides in Raleigh, North Carolina, with his wife and two children.

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