



Economic and Mortgage Update

May 2024

If you have any questions or
comments, please contact:

Steven Rick, Chief Economist

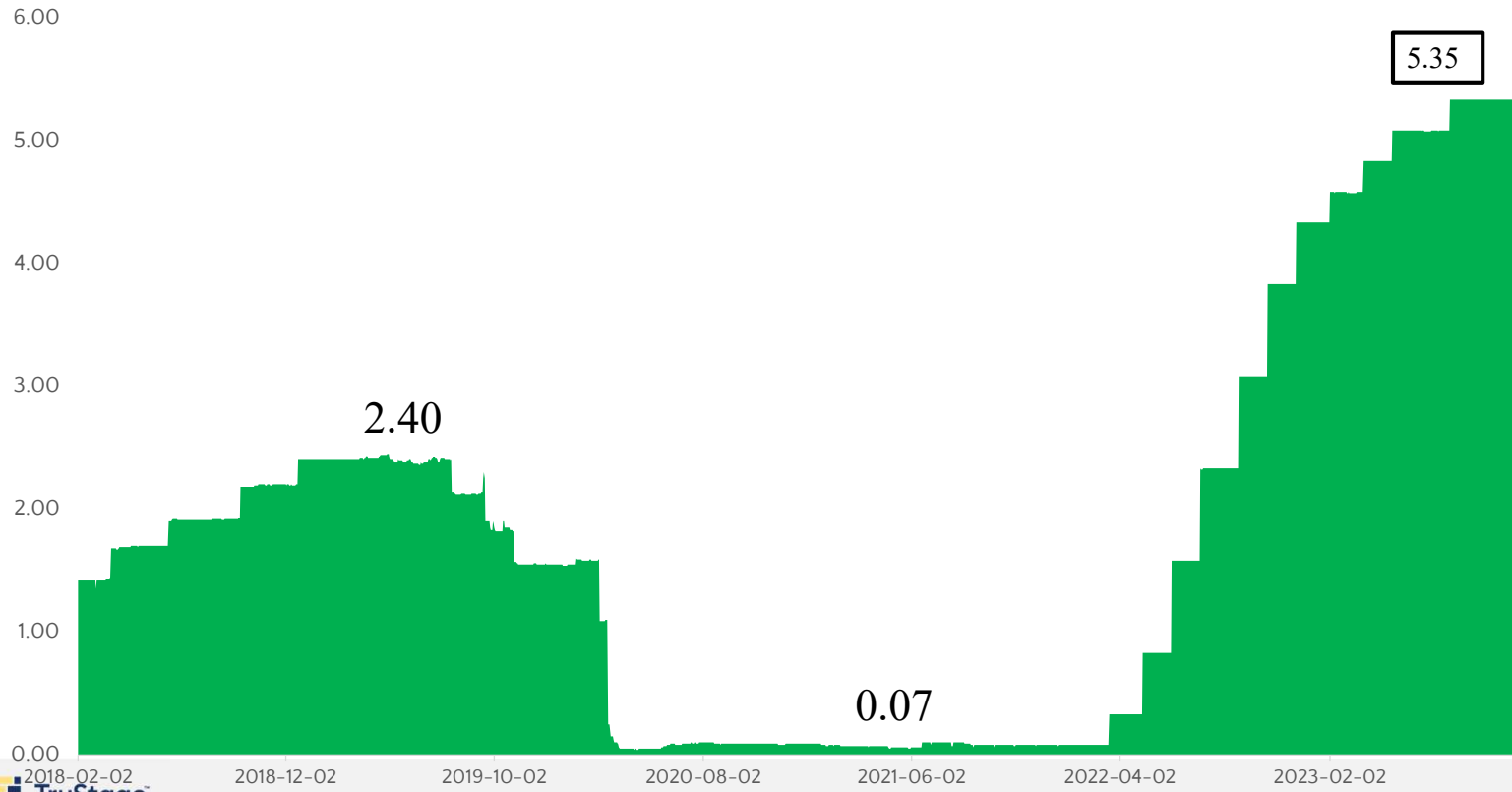
Trustage - Economics

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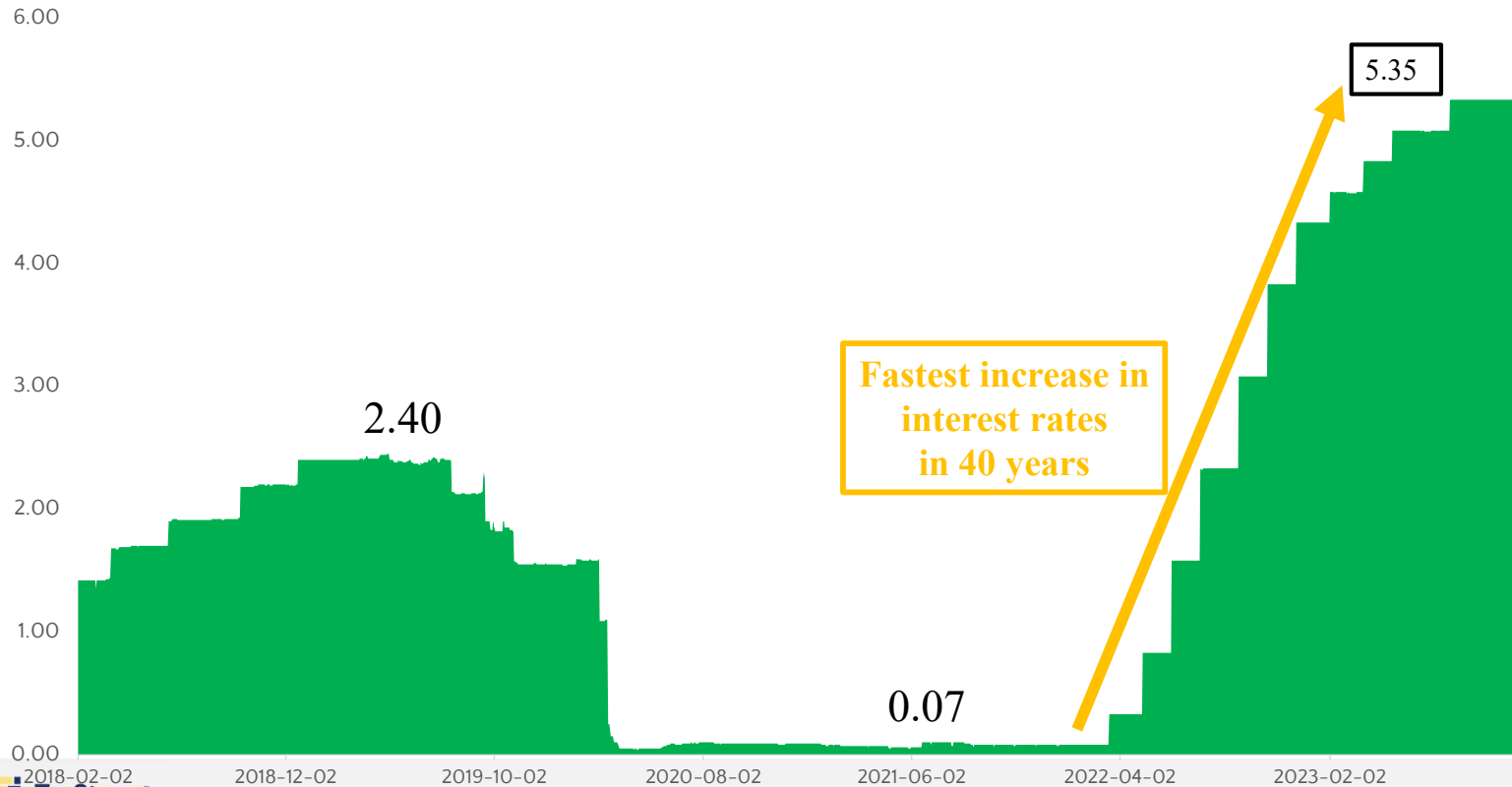
Steve.rick@TruStage.com

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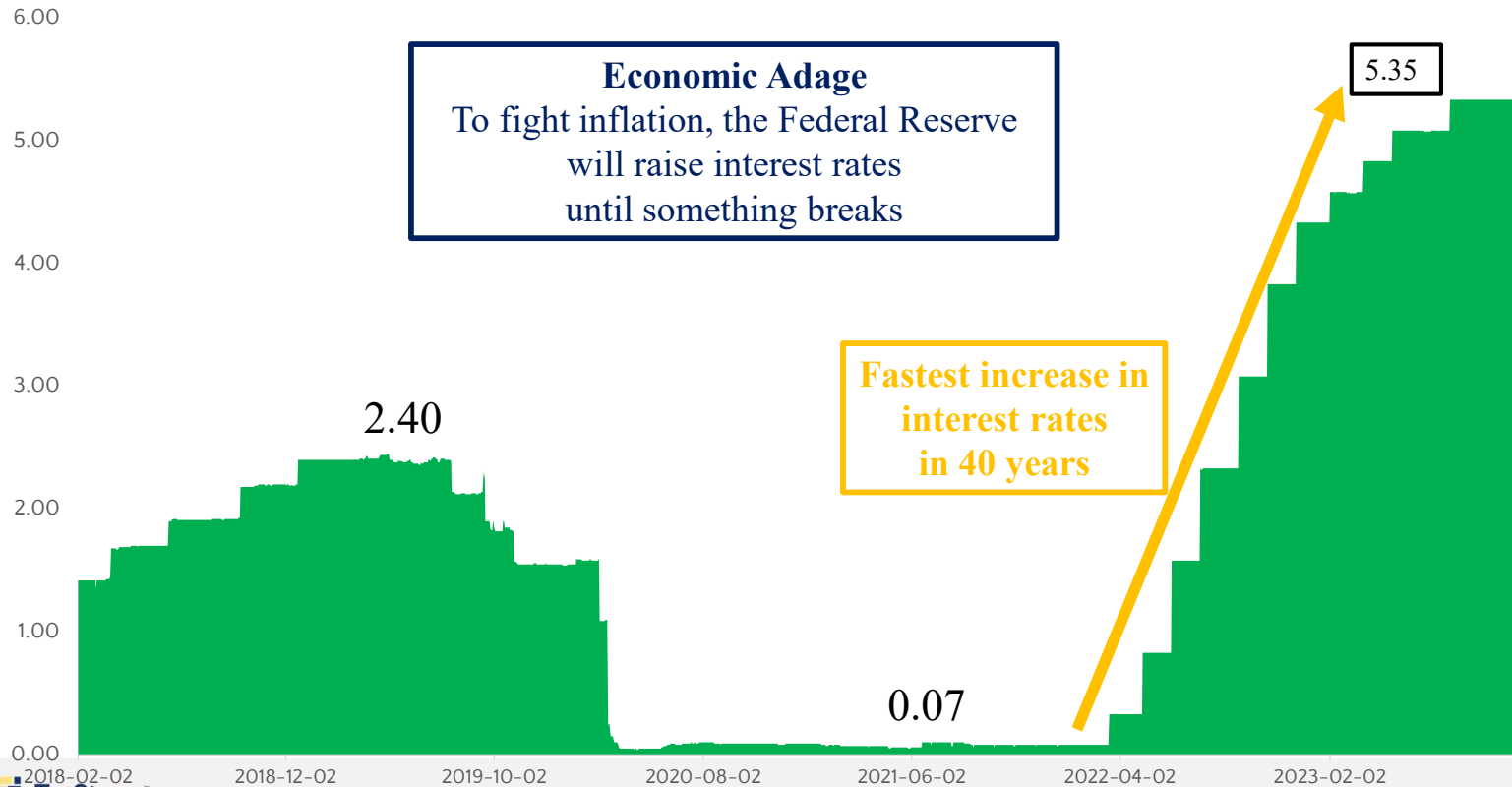
Federal Funds Rate, 2018 - 2023



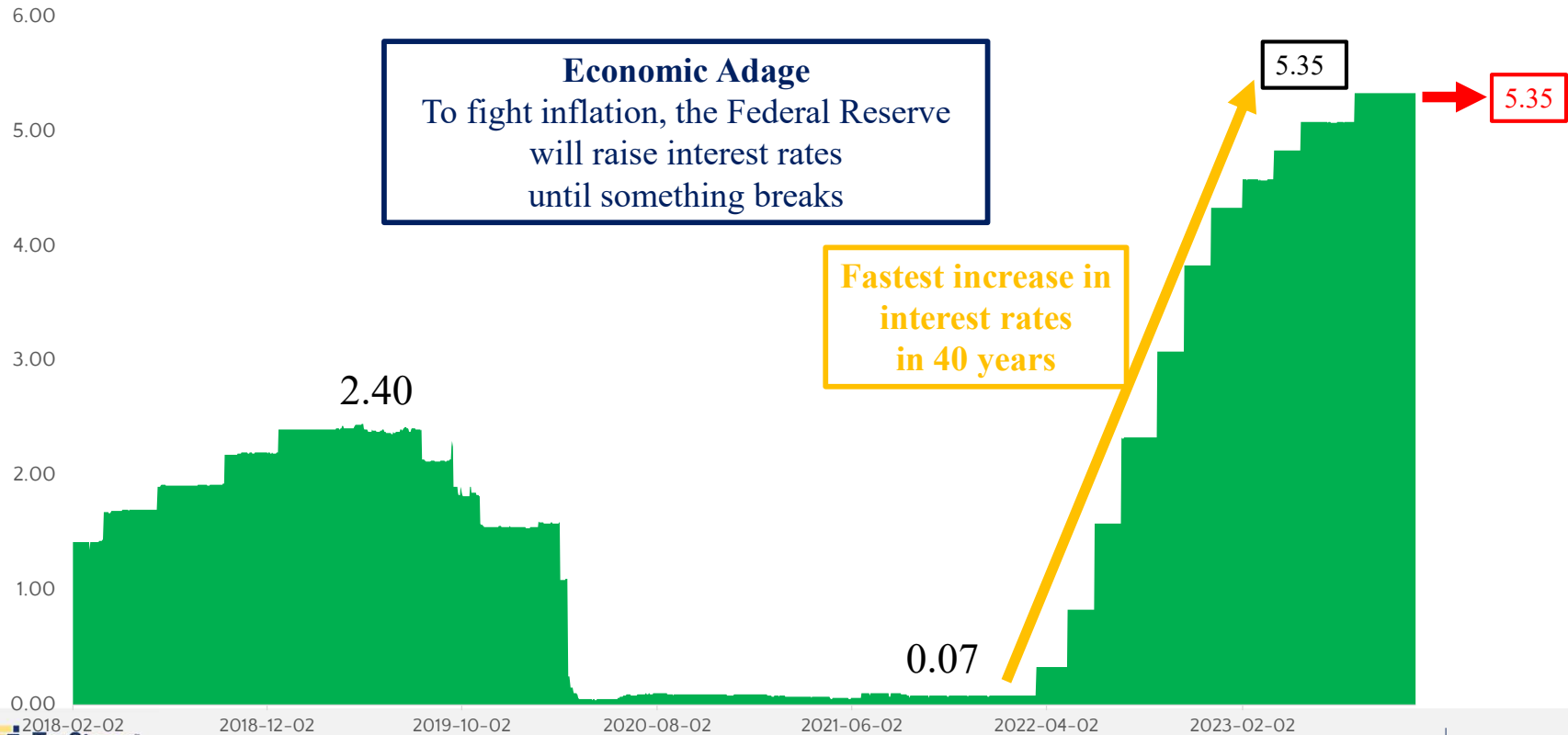
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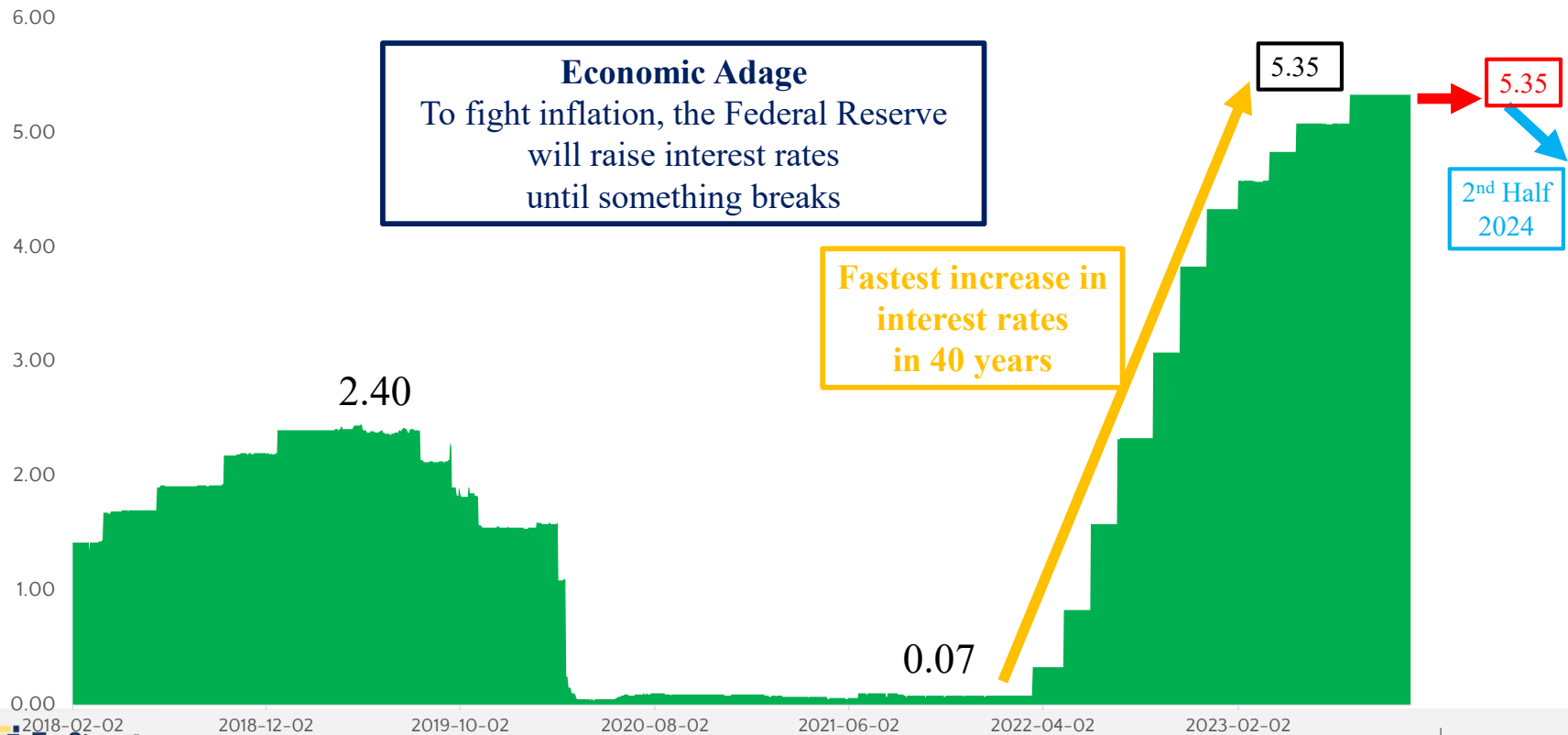
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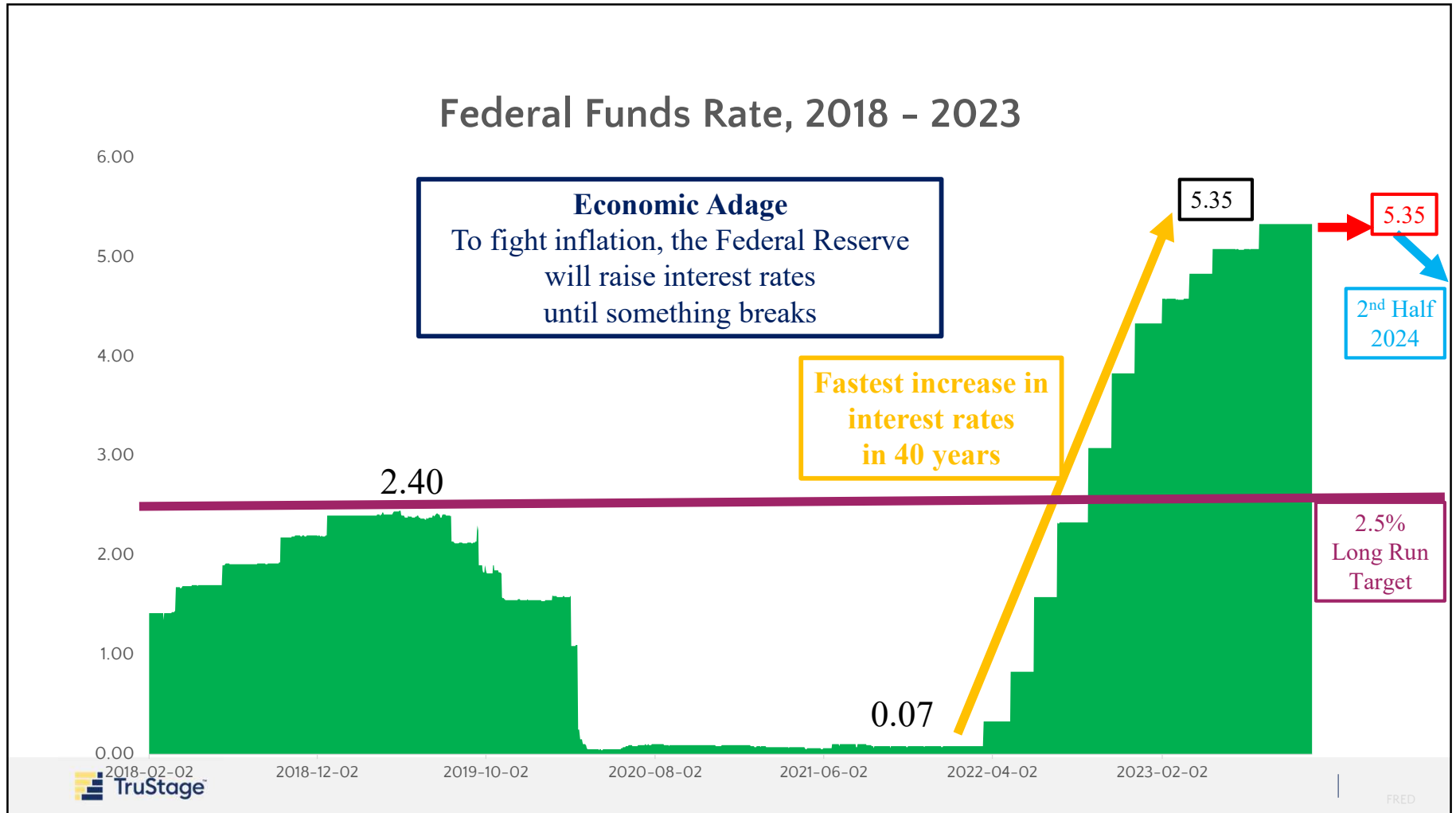
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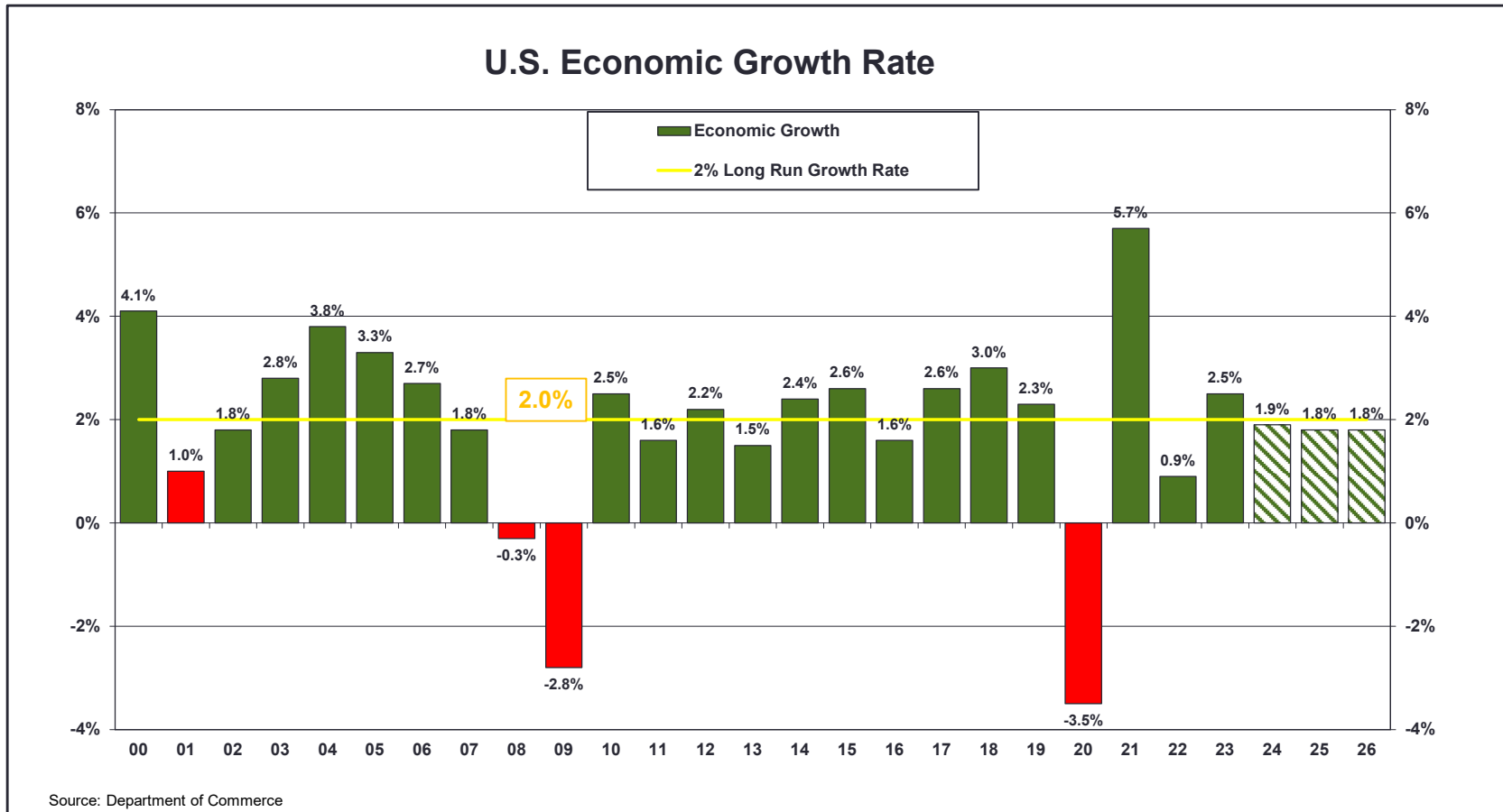
Economic Adage
To fight inflation, the Federal Reserve will raise interest rates until something breaks

Fastest increase in interest rates in 40 years

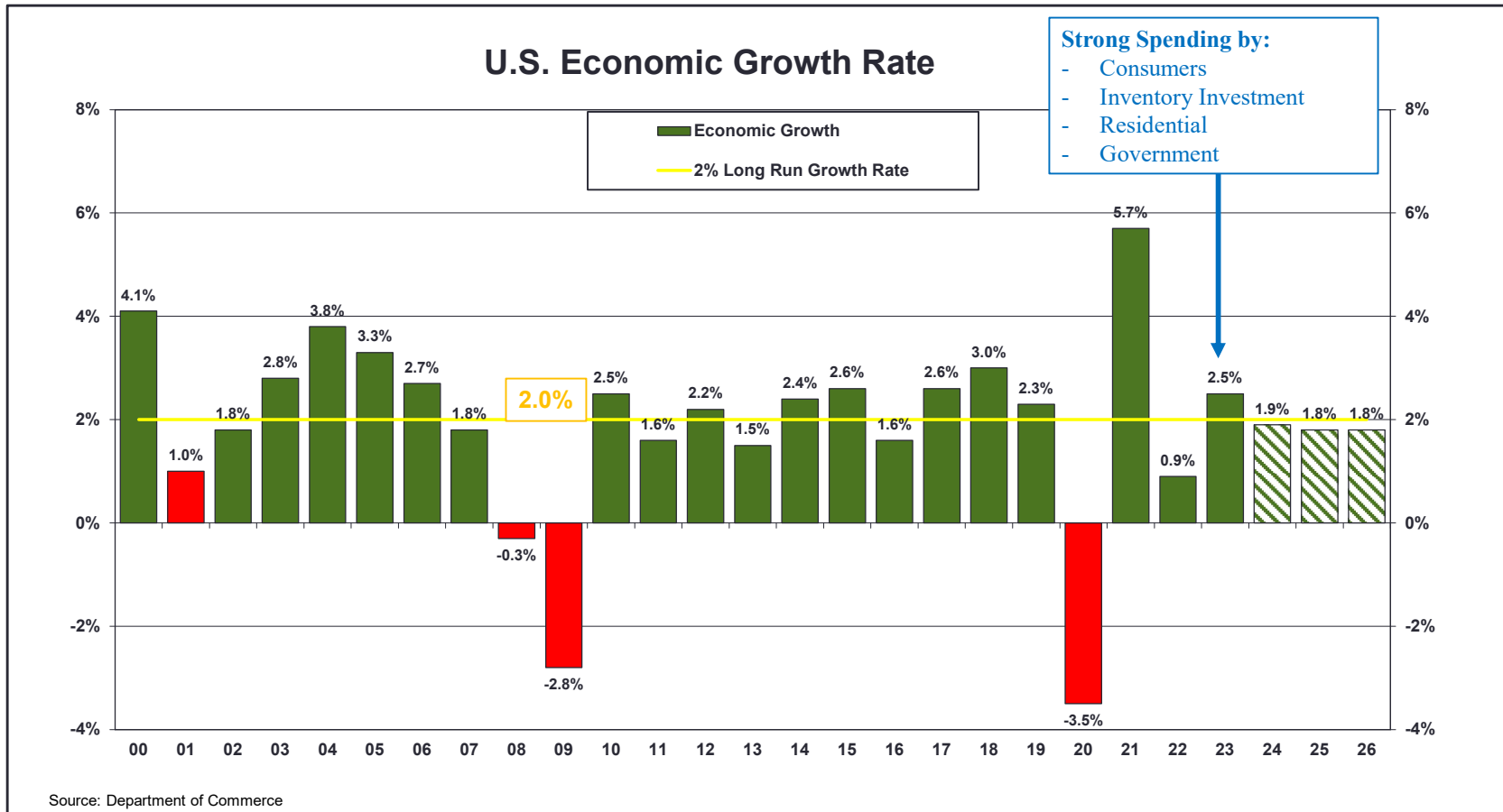
2nd Half 2024



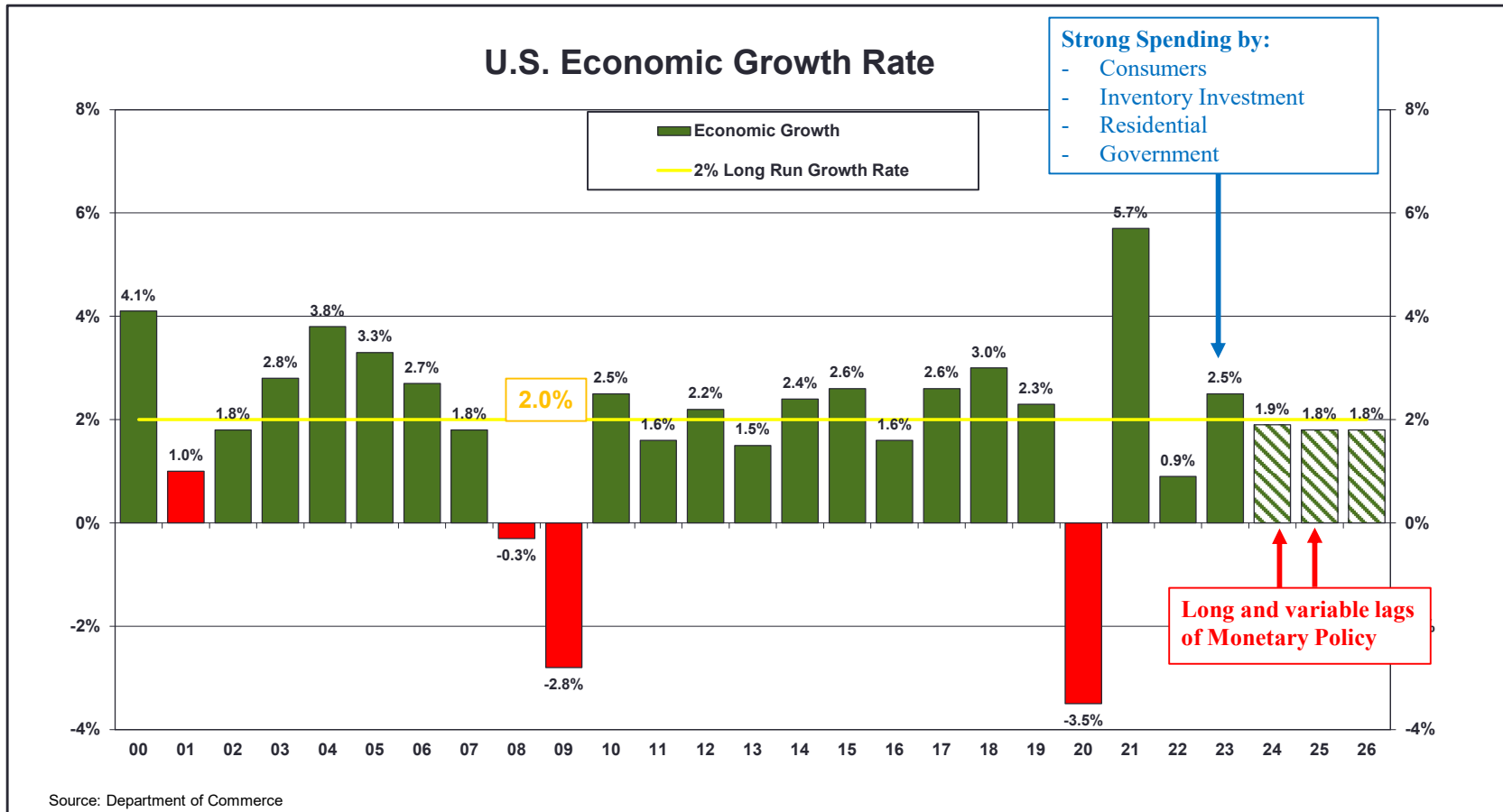
Slower Economic Growth for Next 2 Years



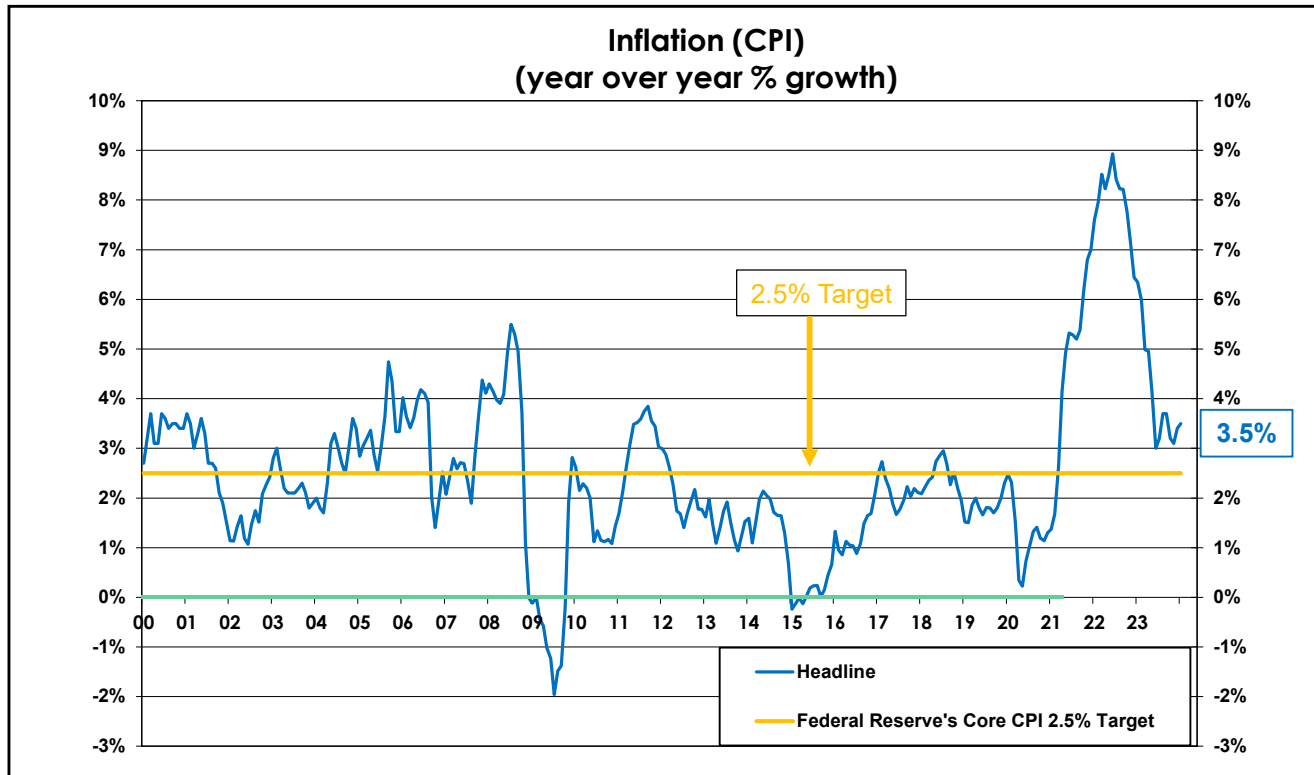
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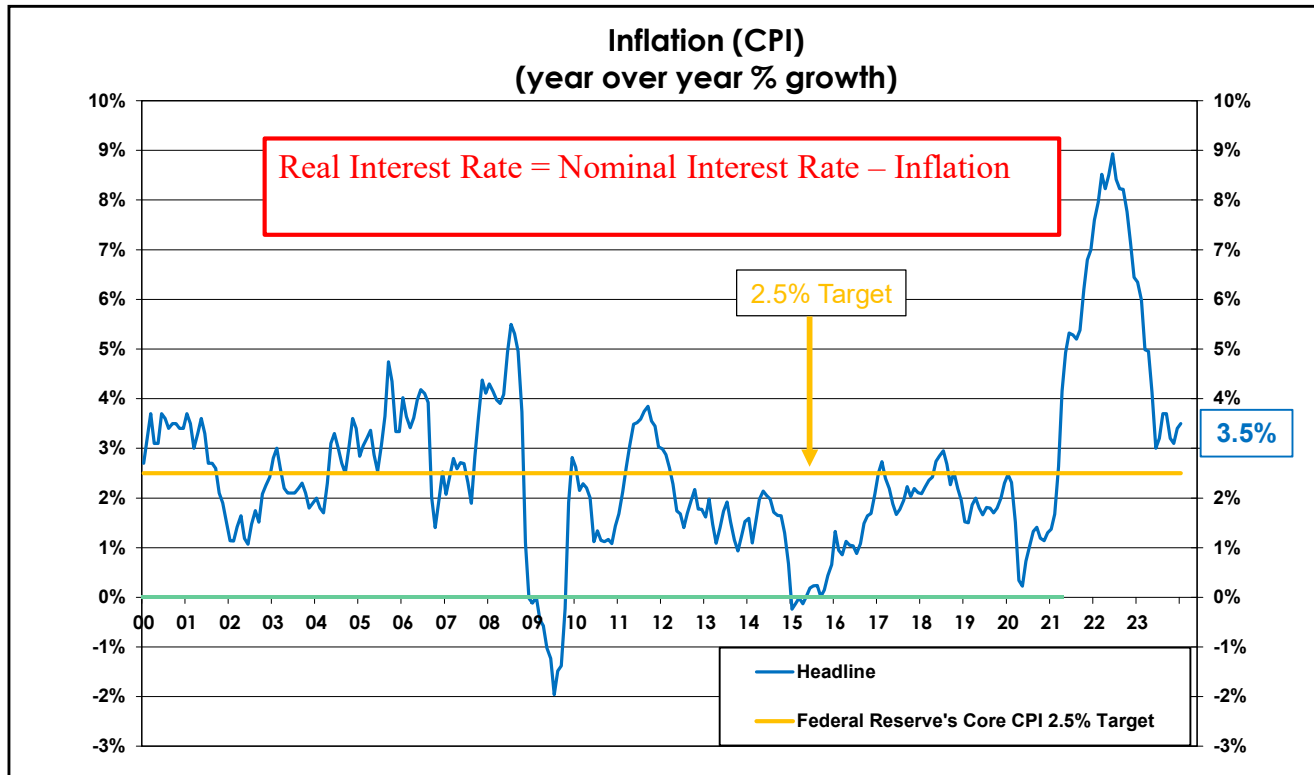
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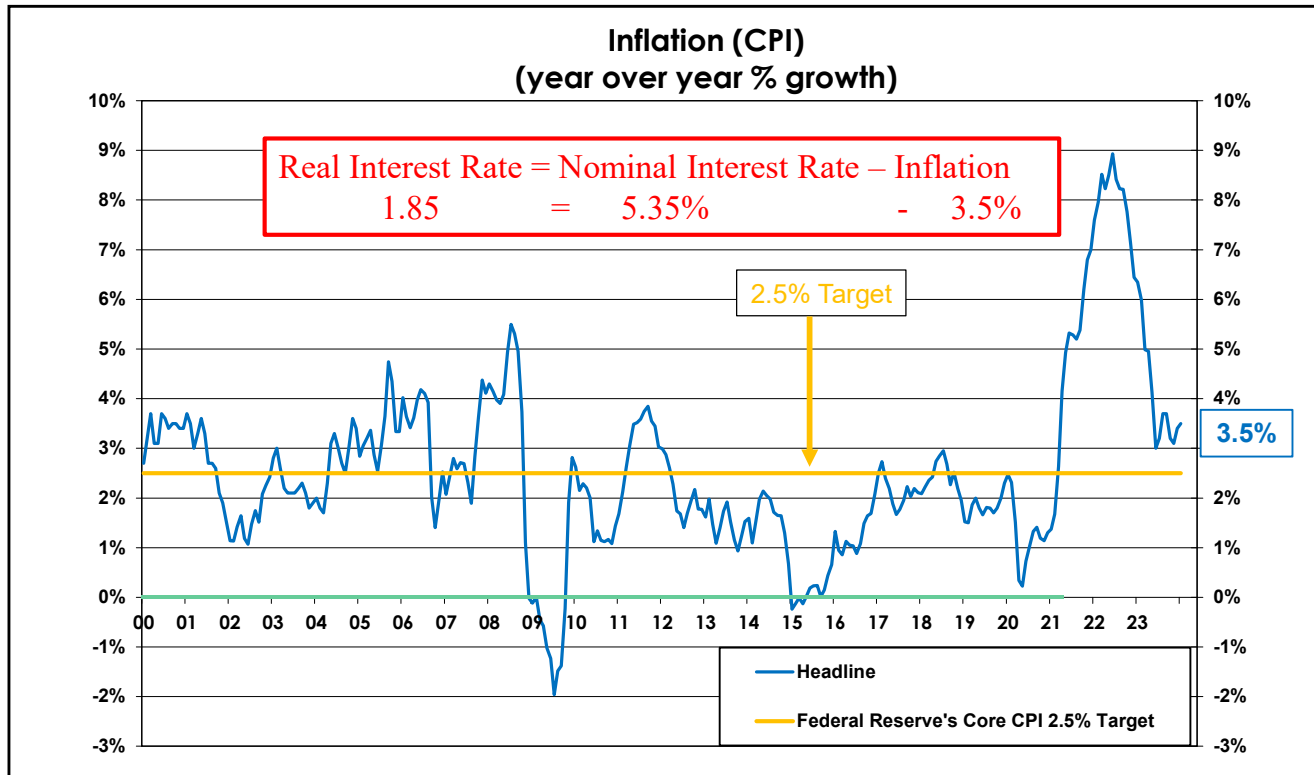
High Inflation for the Next Year



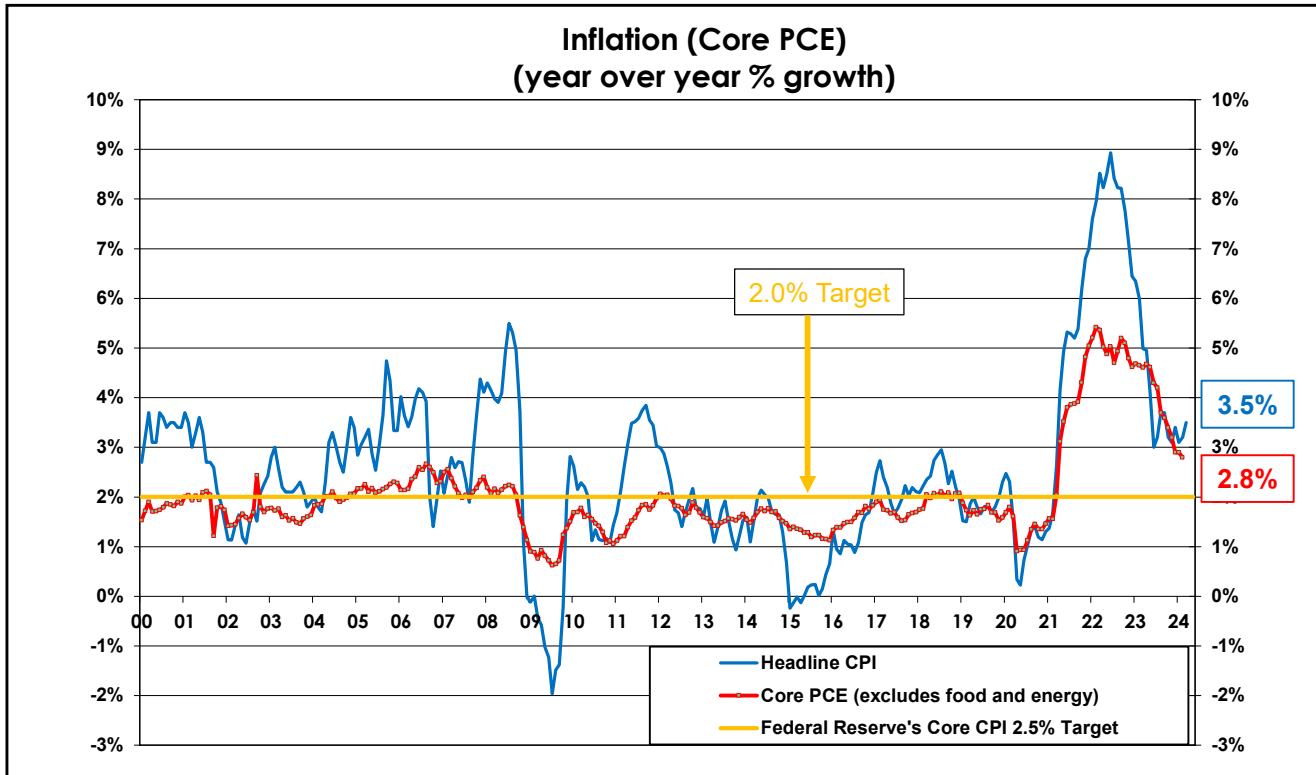
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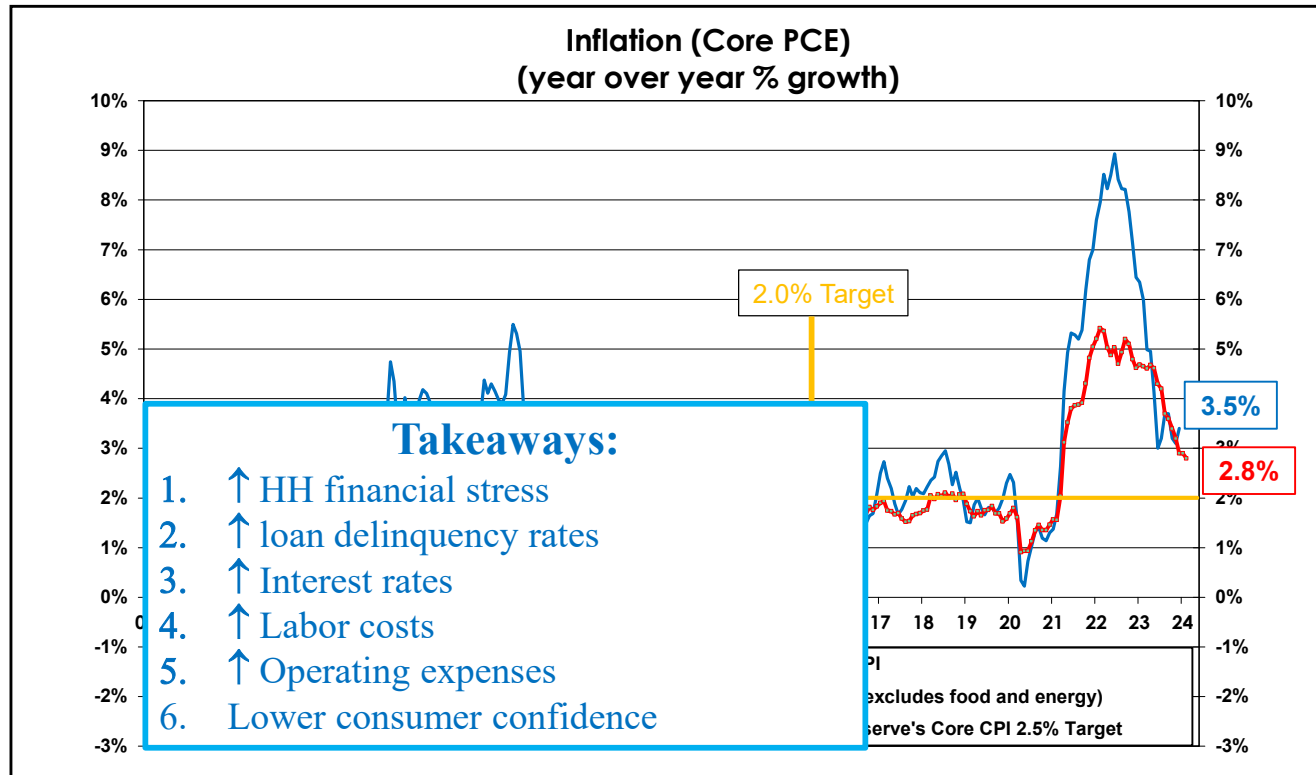
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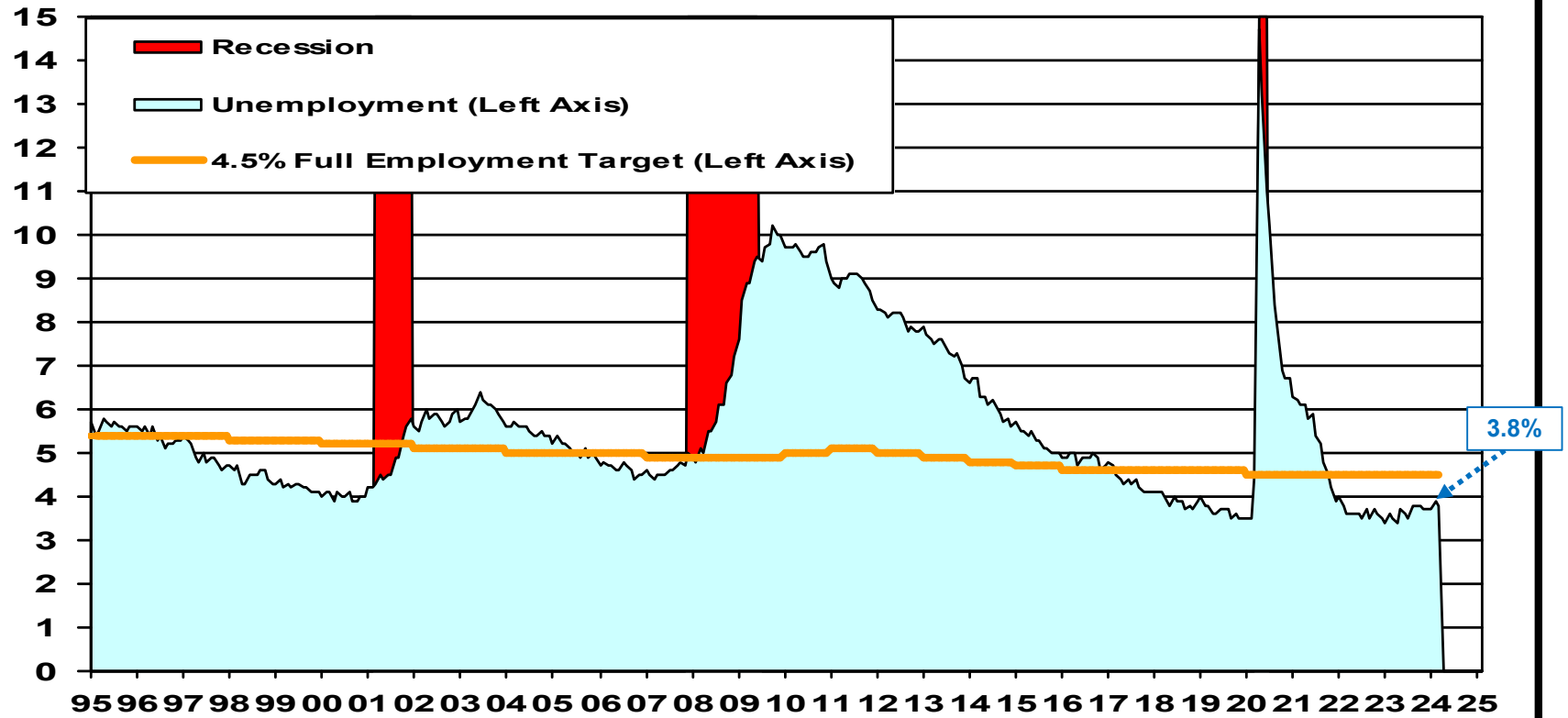
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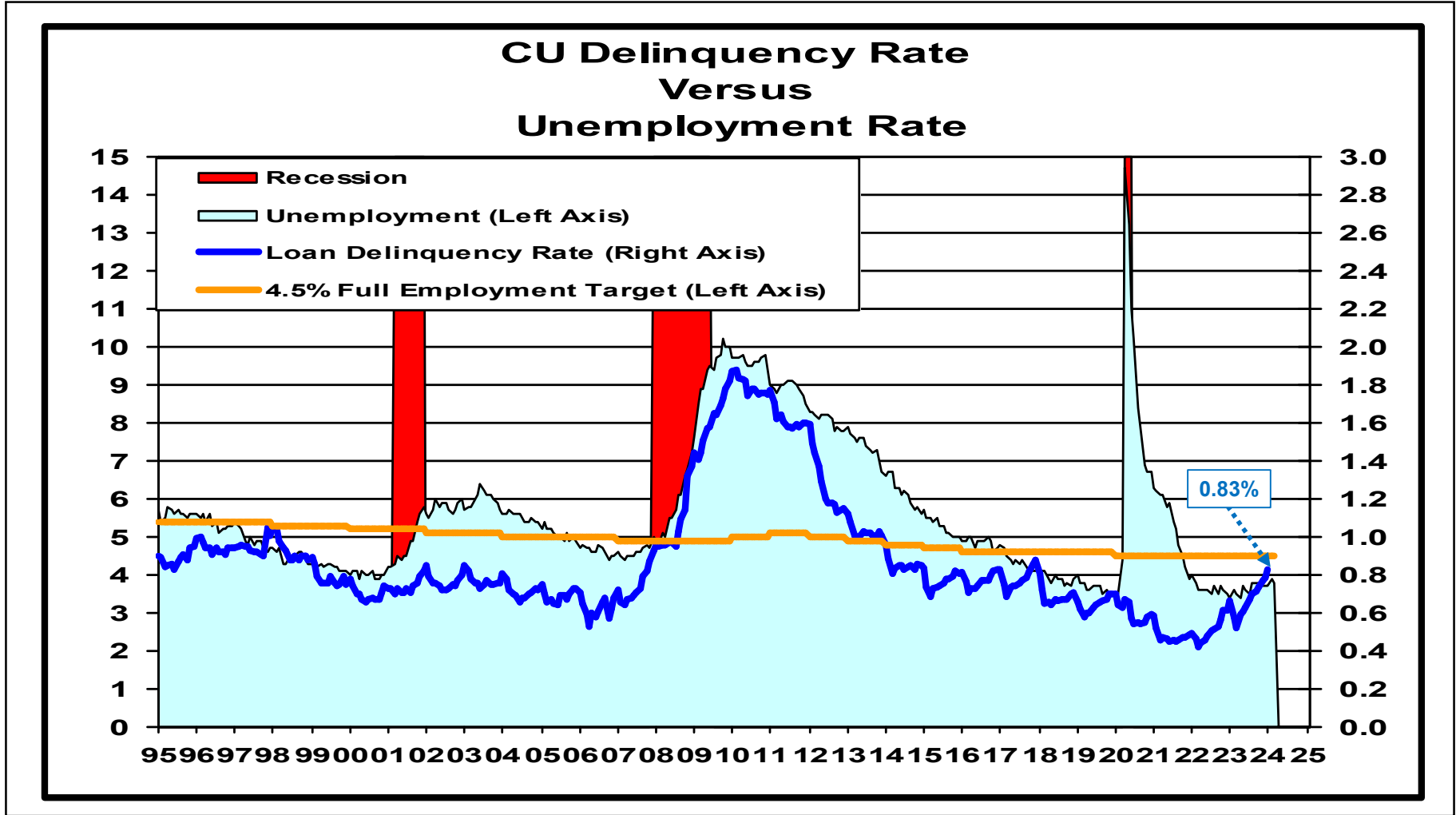


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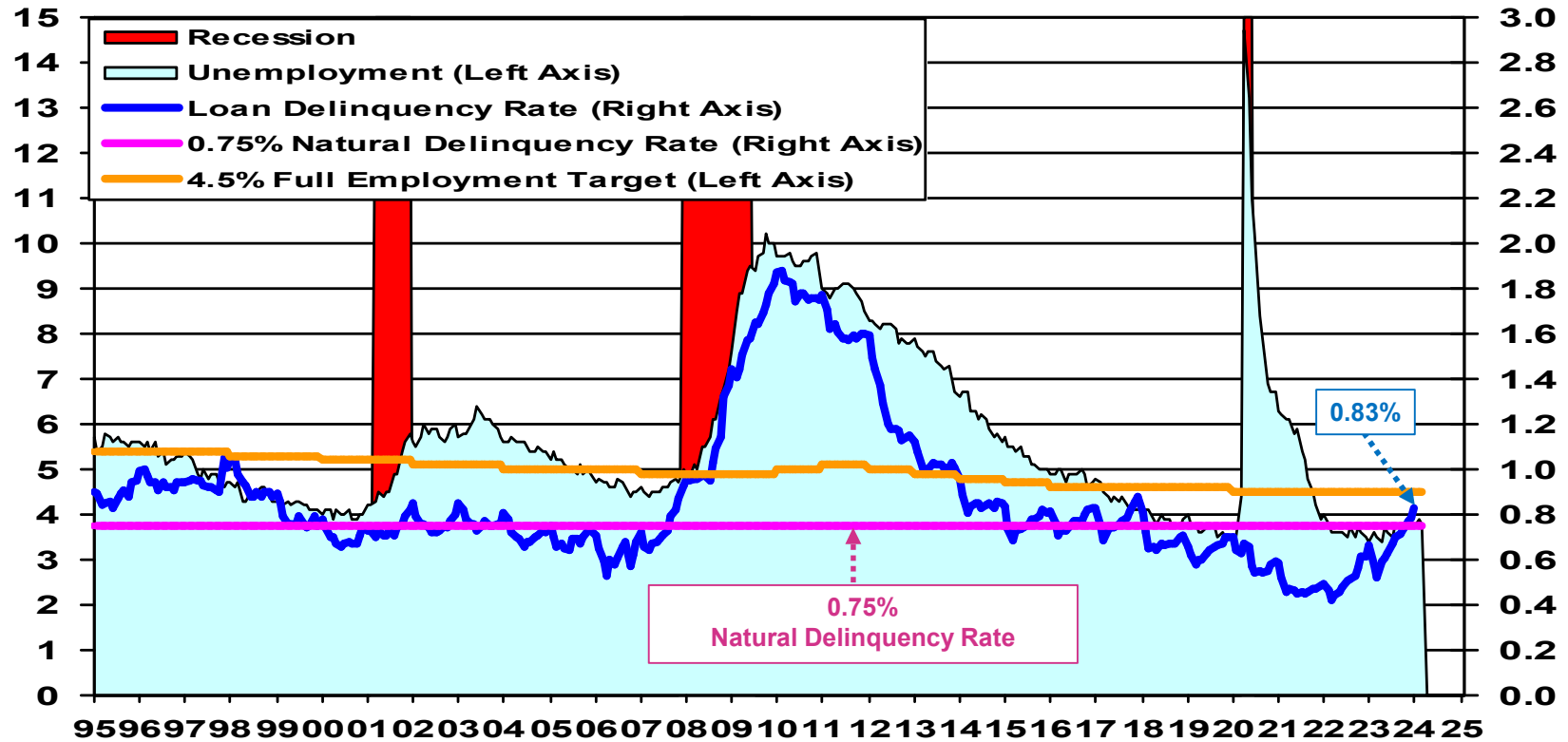


CU Delinquency Rate Versus Unemployment Rate

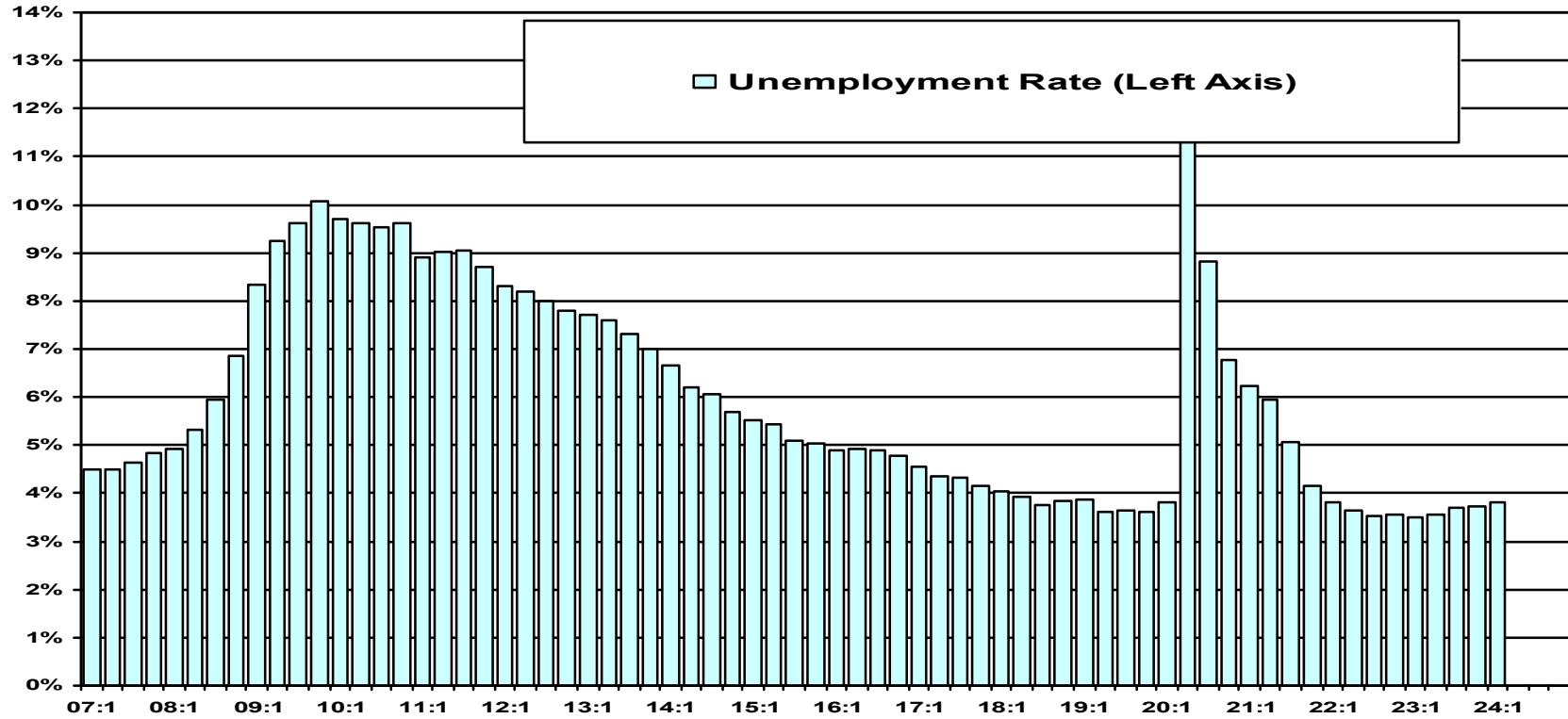




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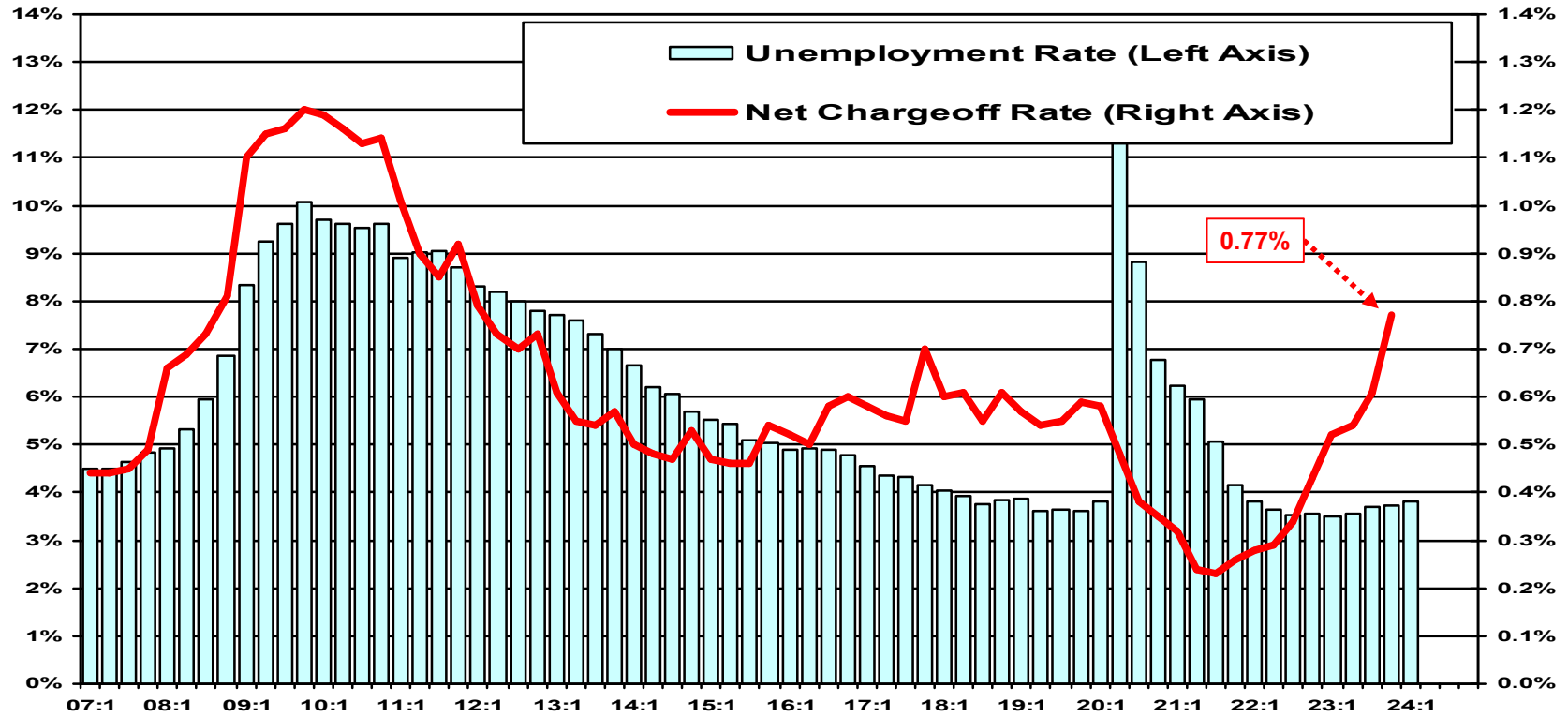


CU Net Chargeoff Rate Versus Unemployment Rate



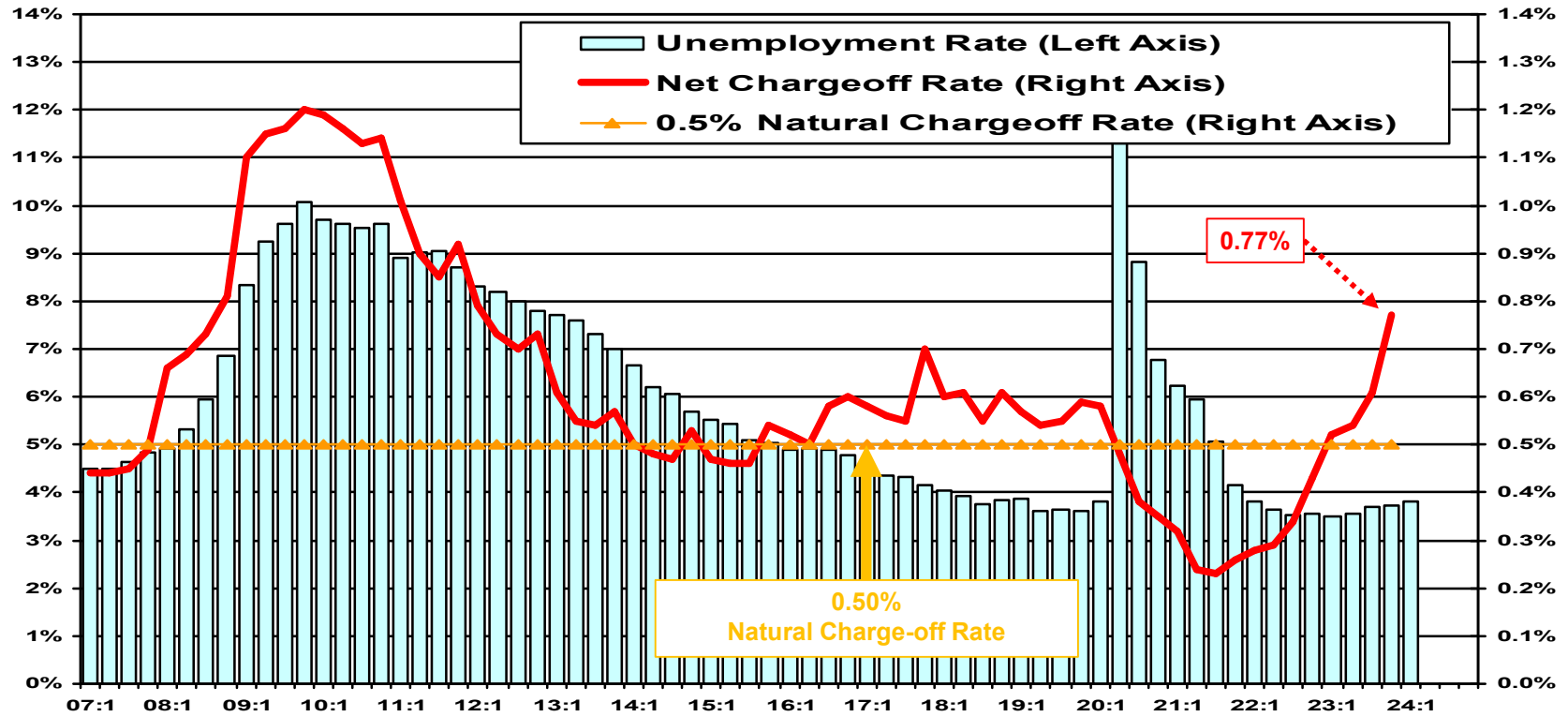
Source: Department of Labor, NCUA, CUNA

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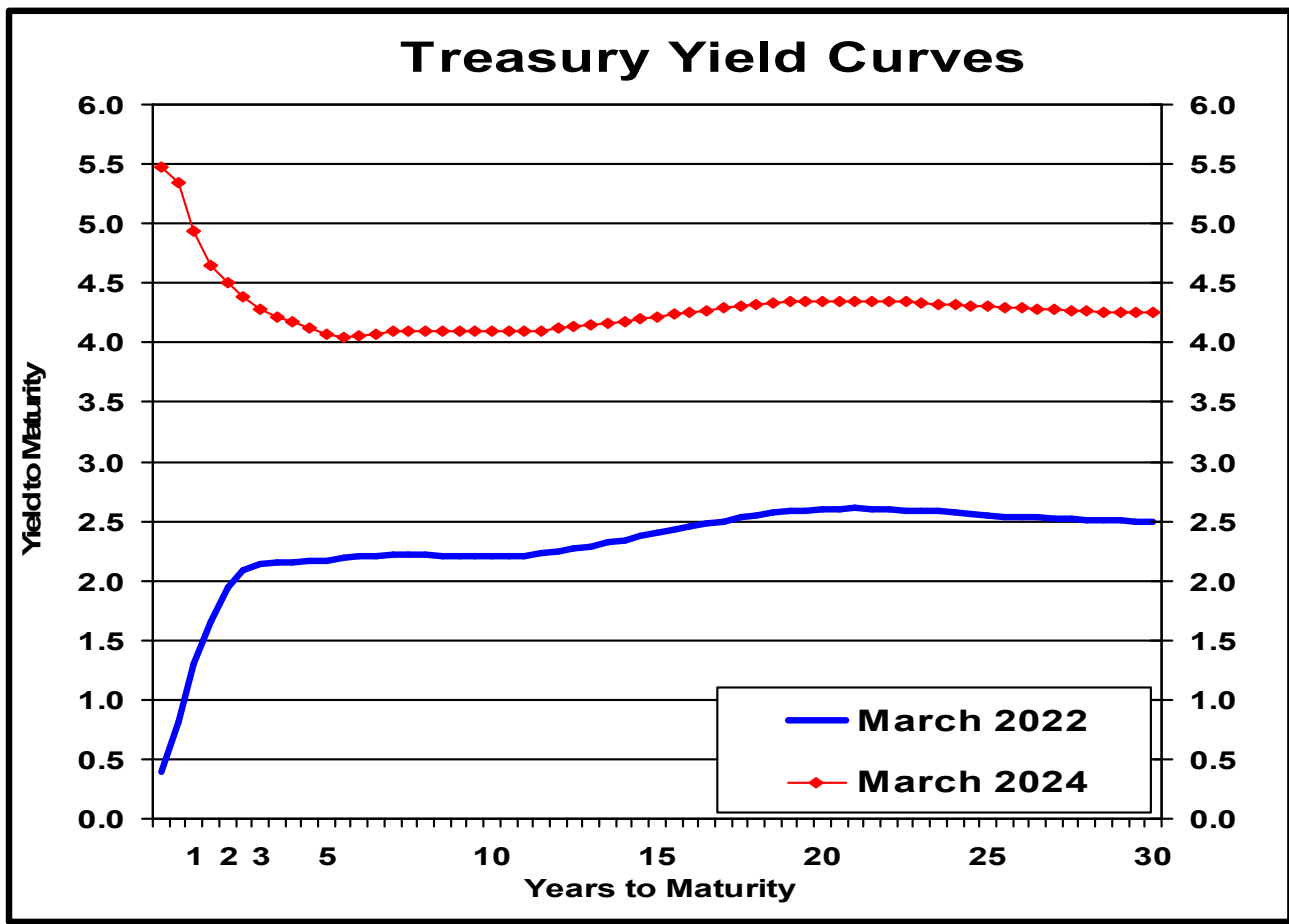


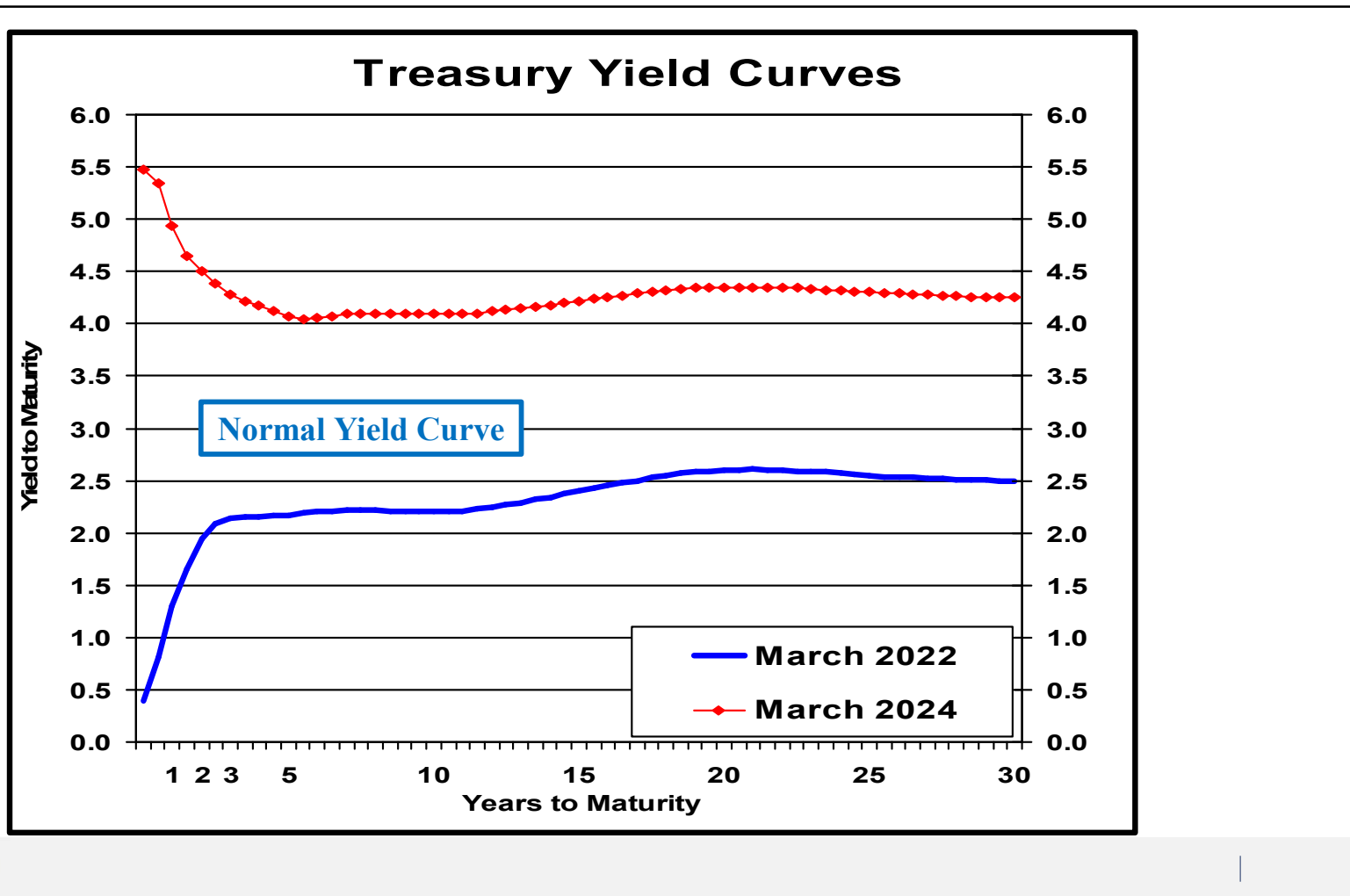
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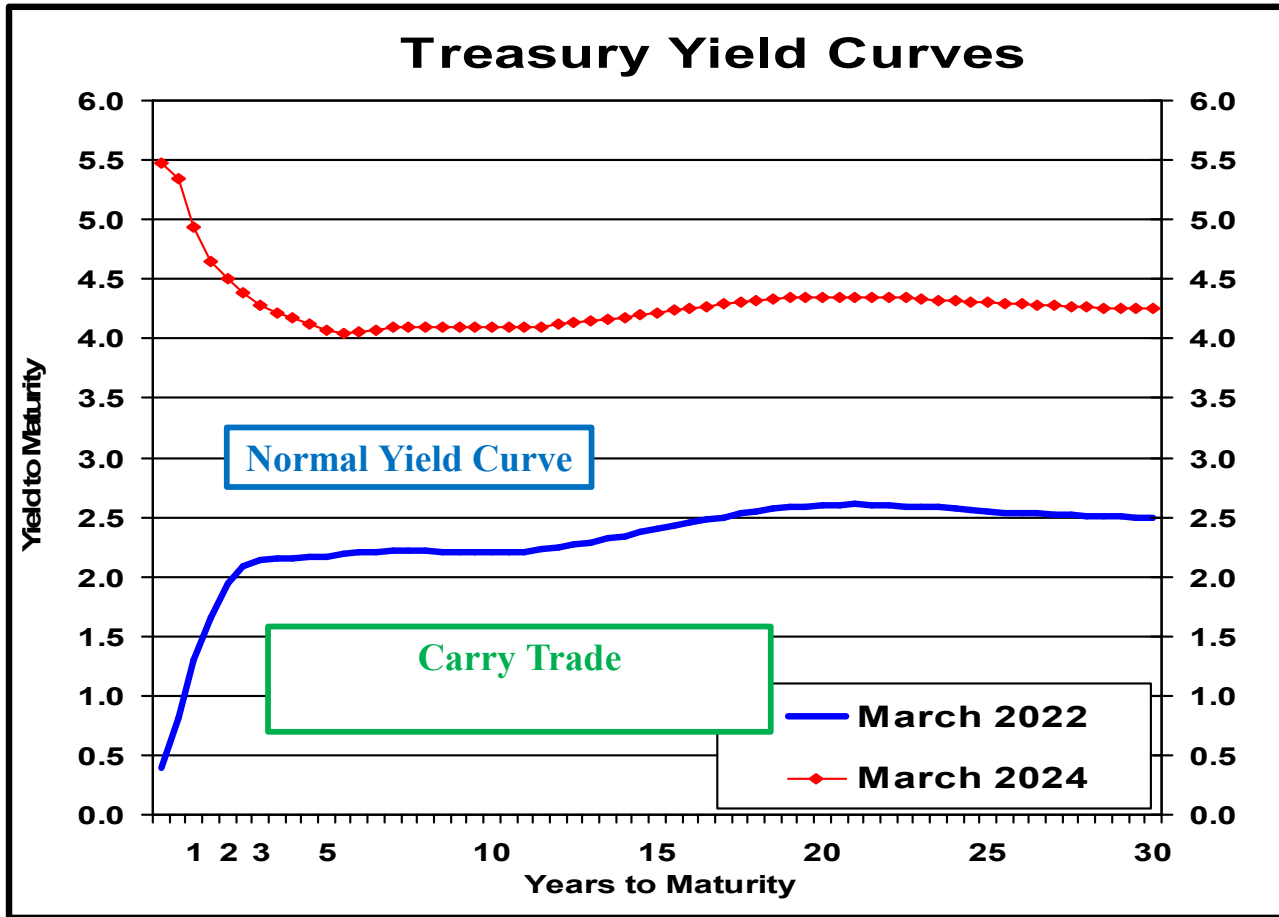
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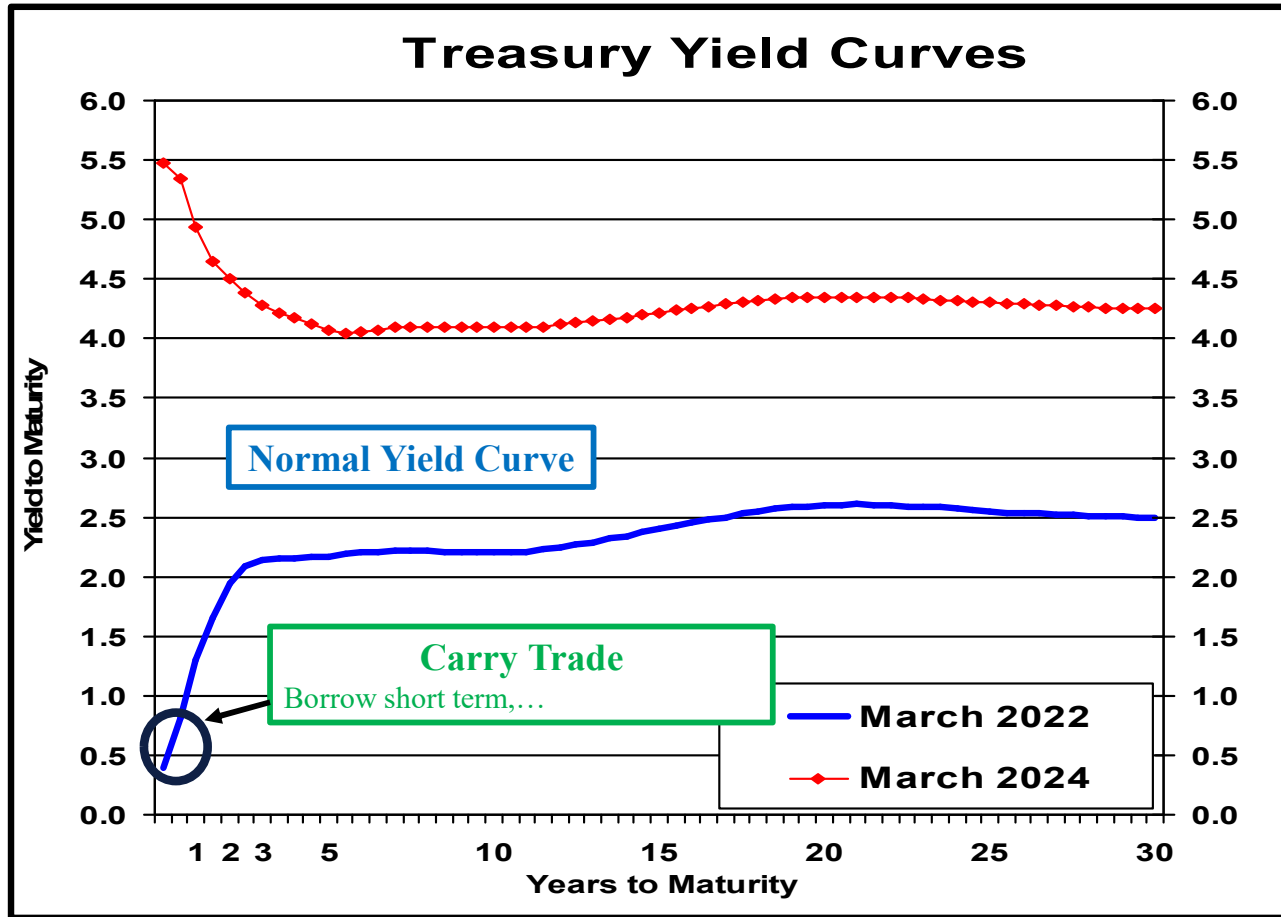


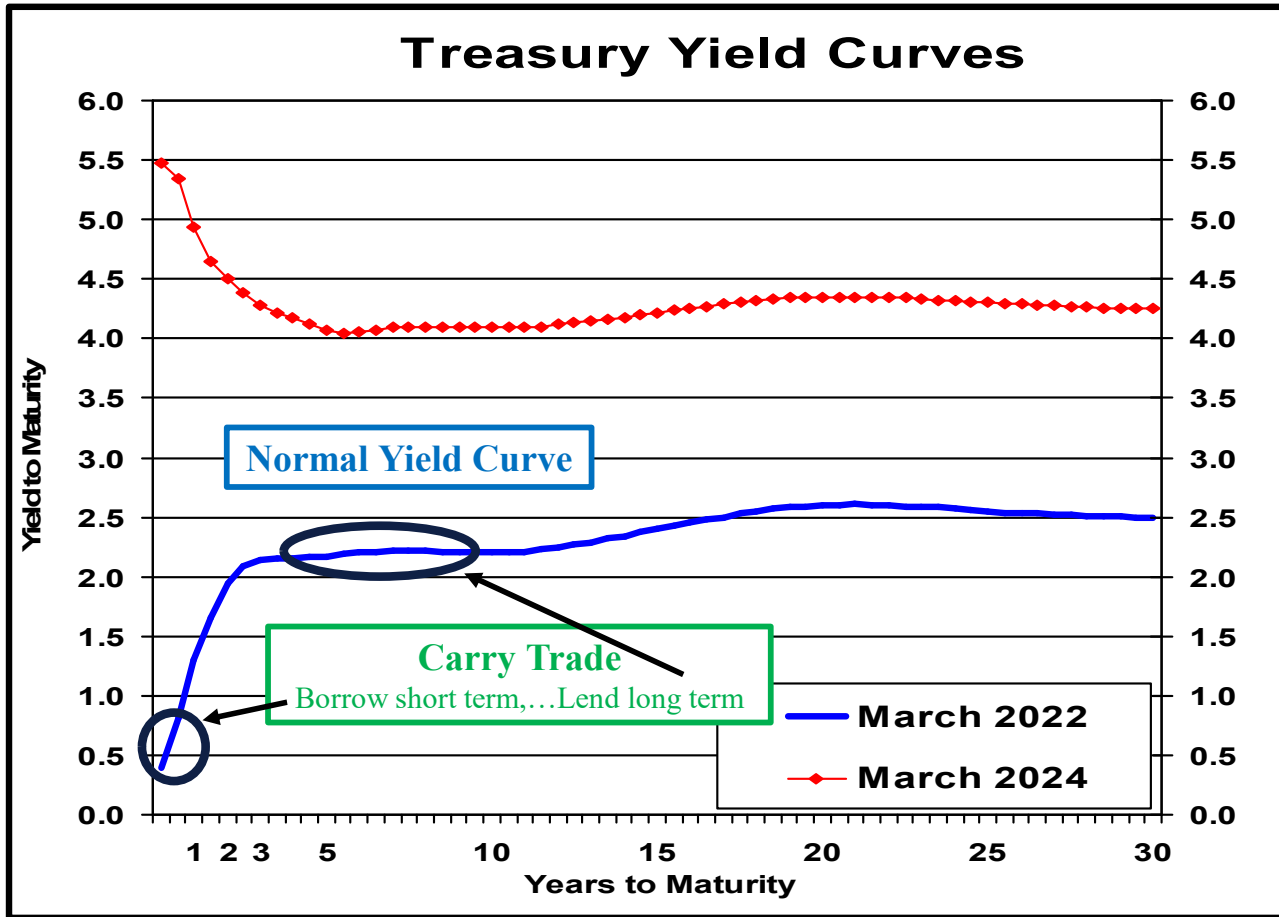
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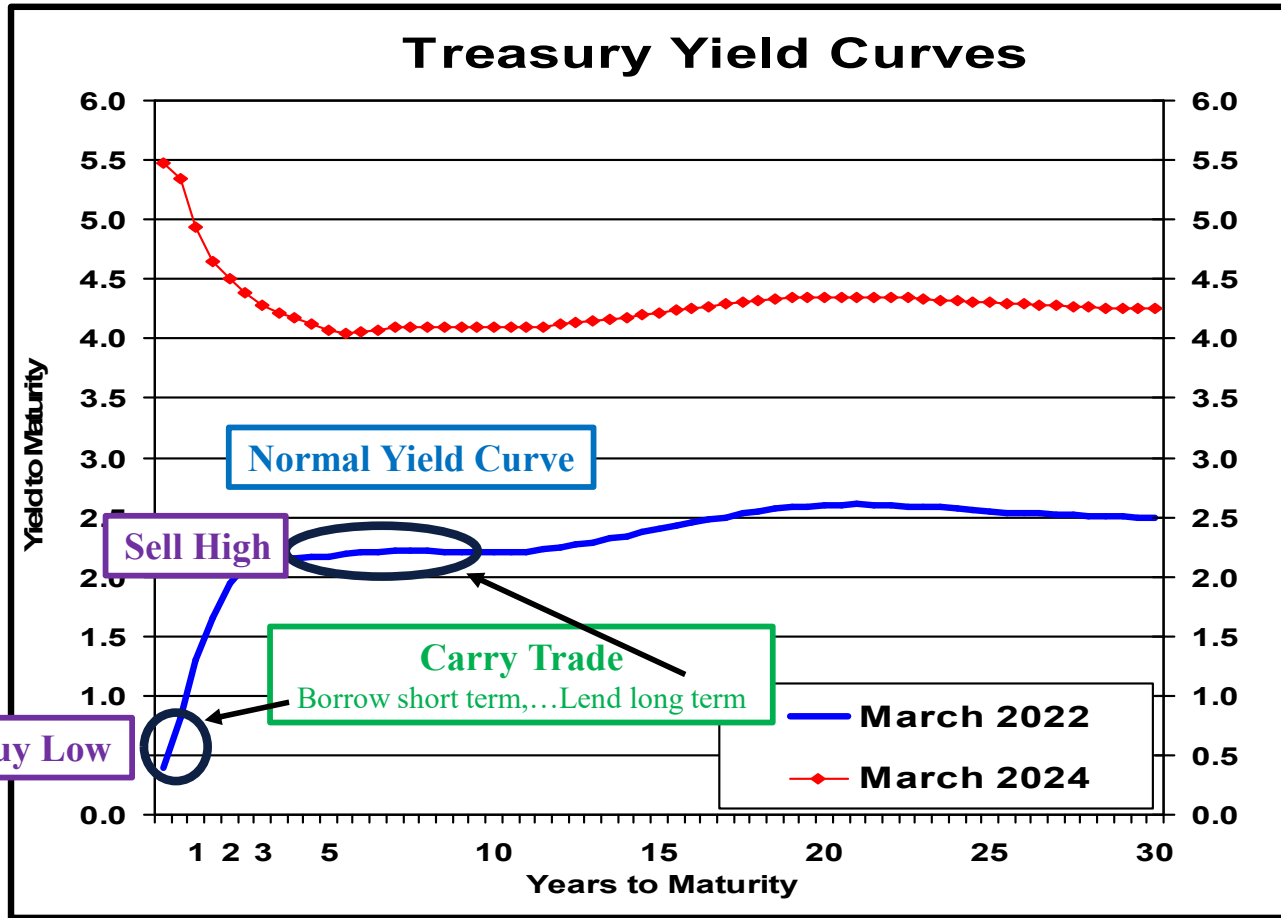


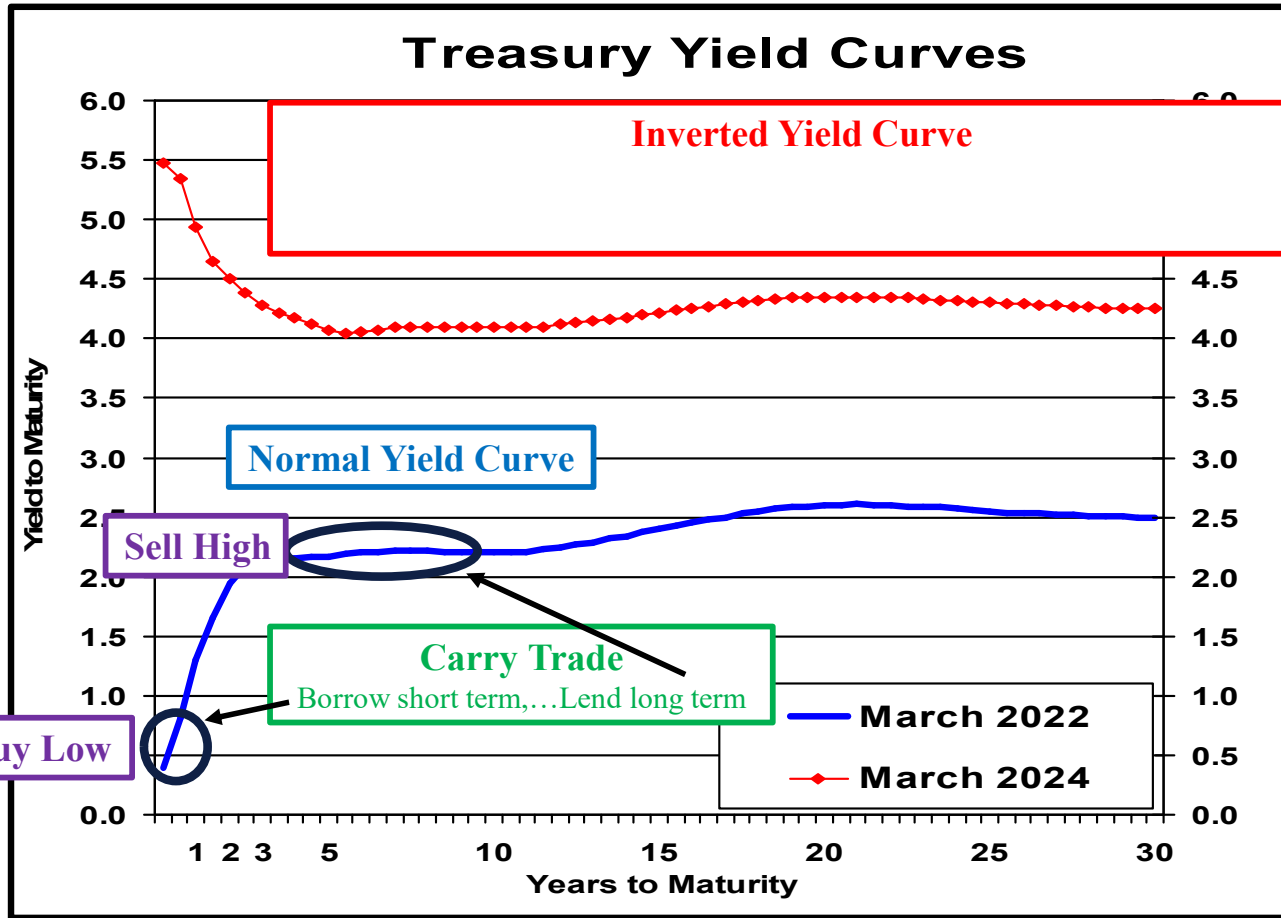


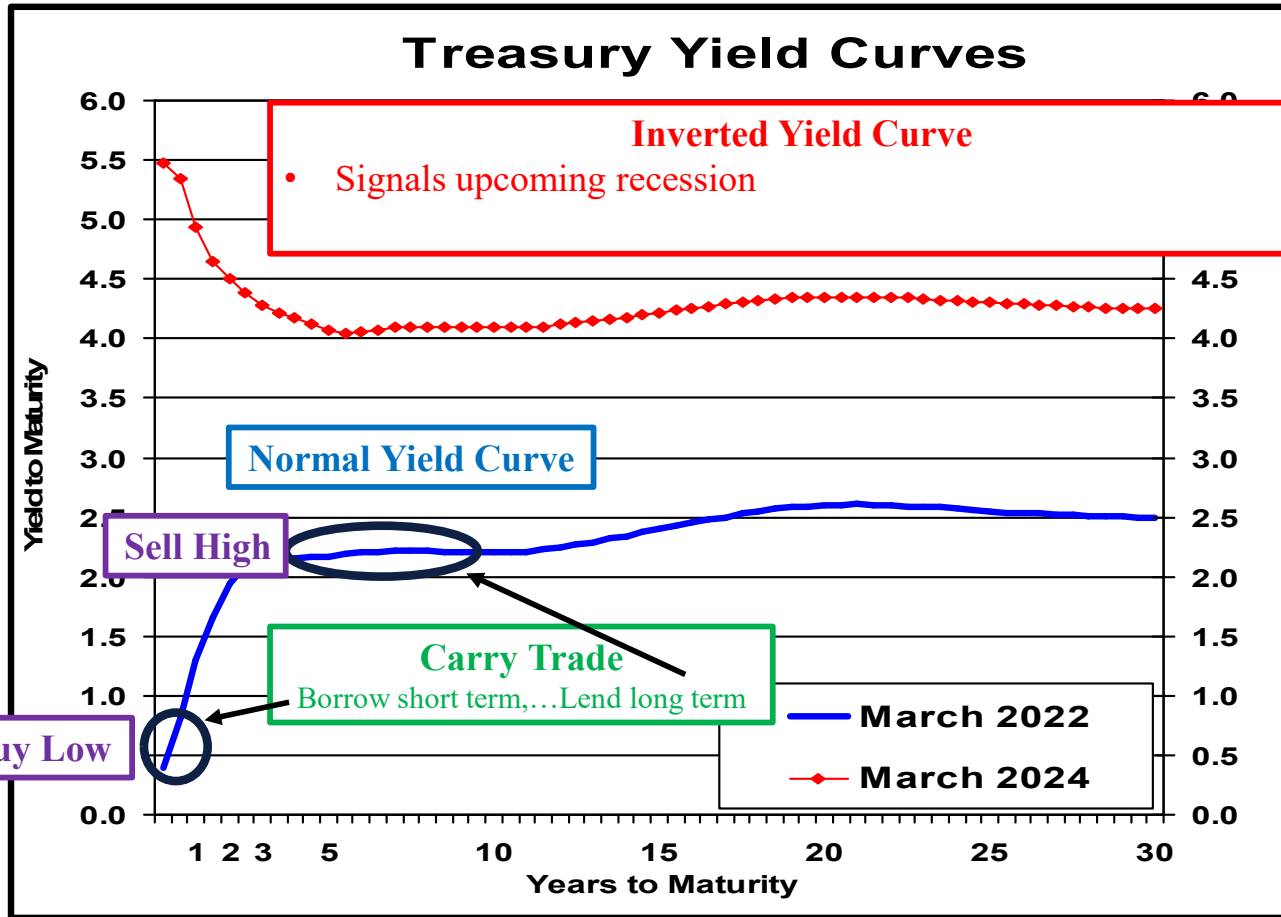


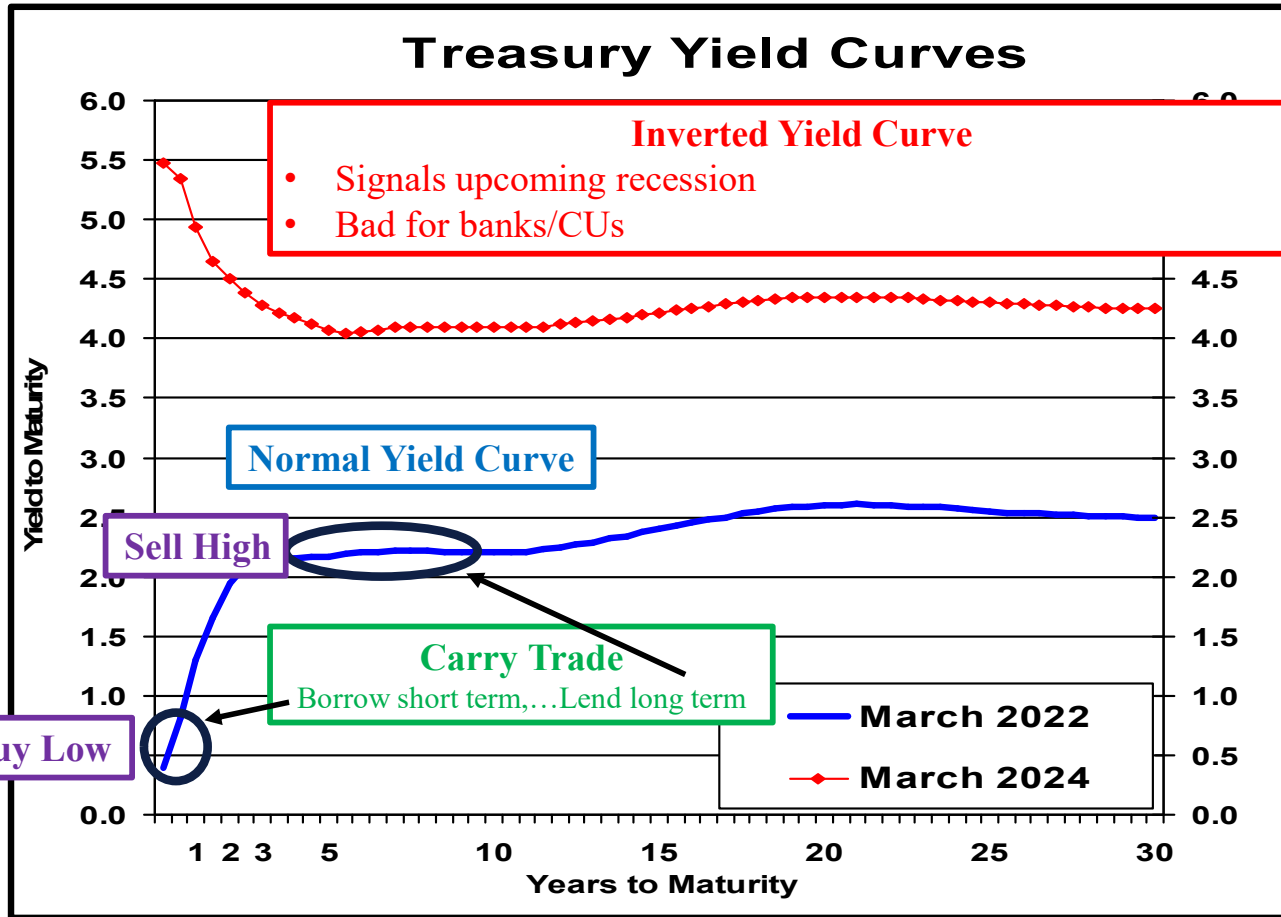


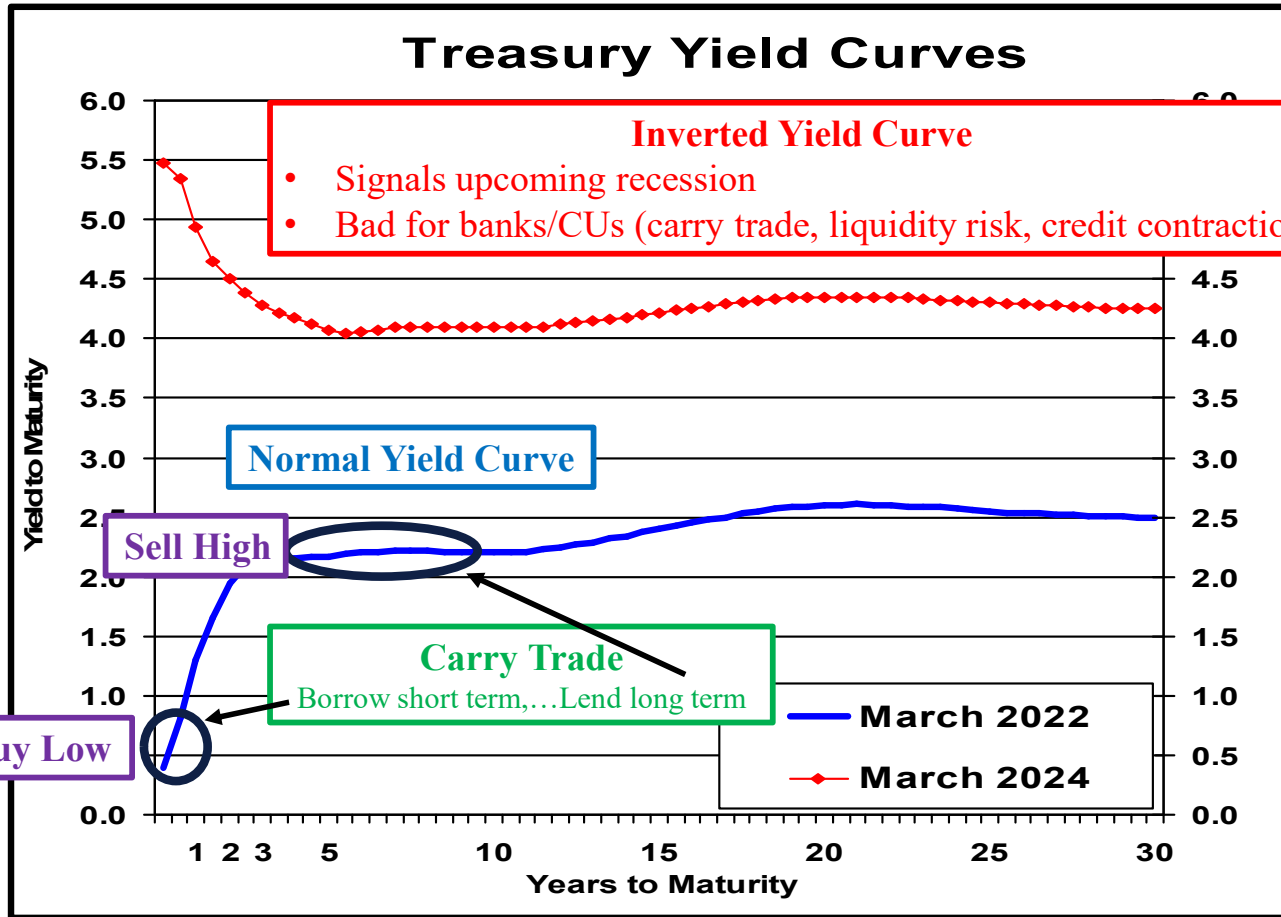


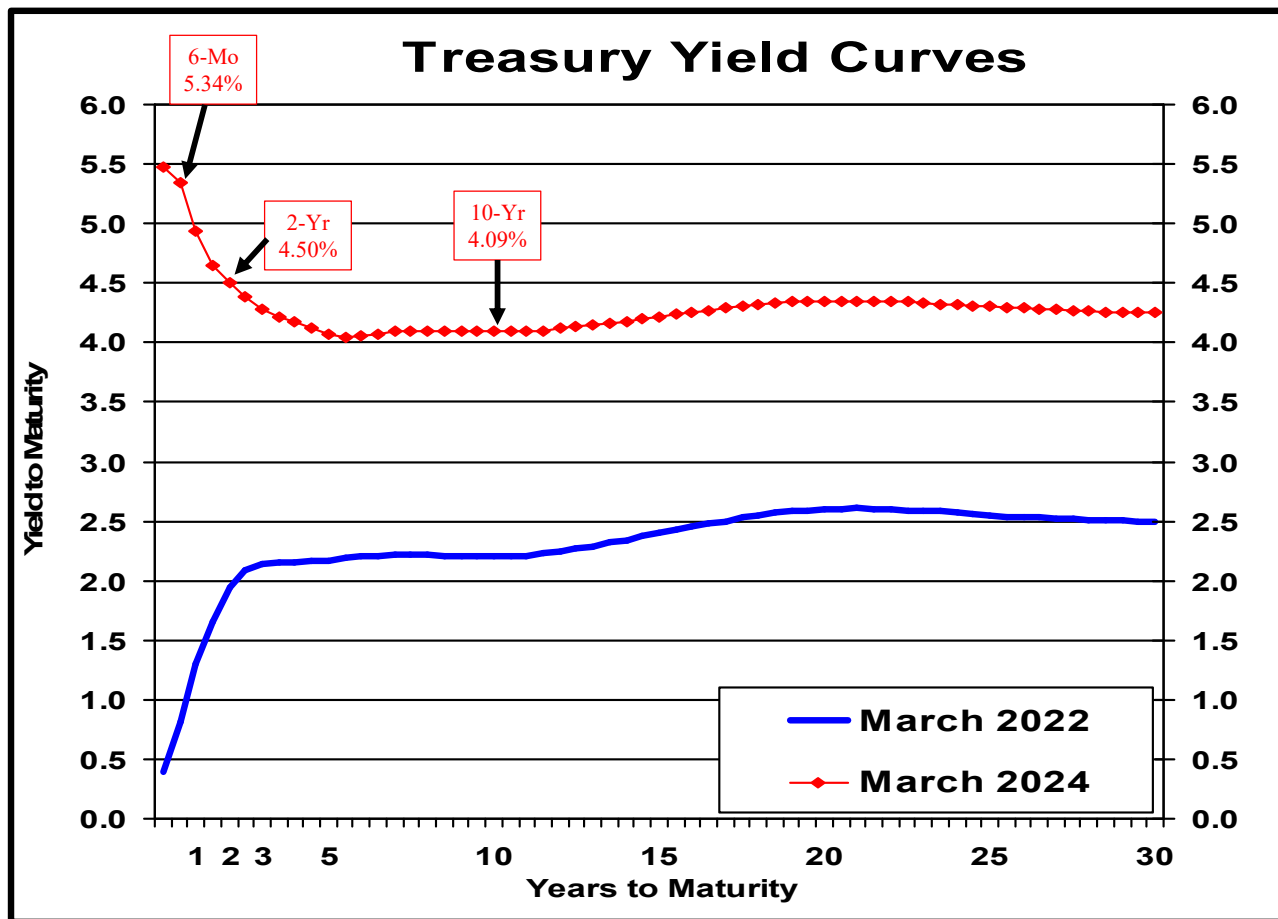


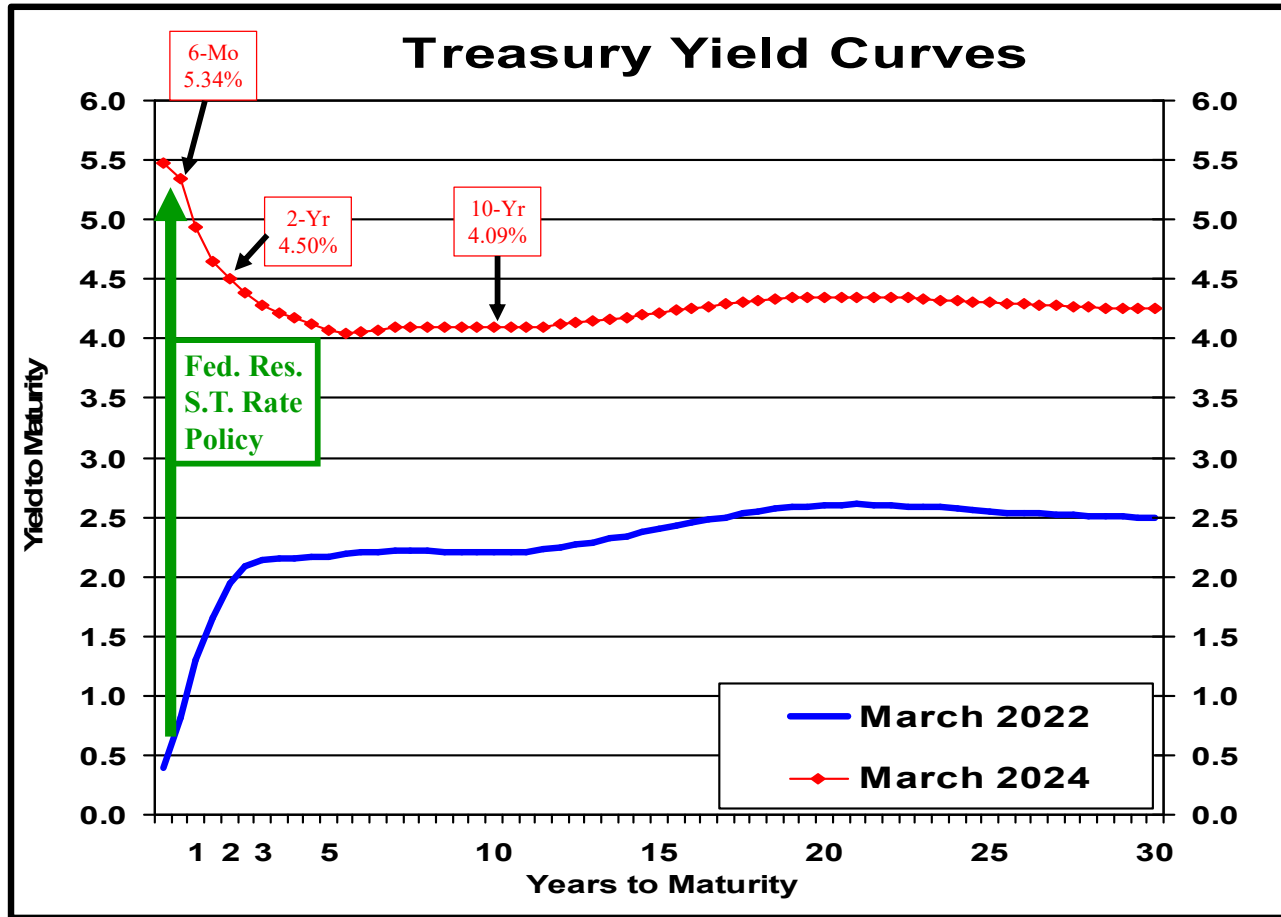


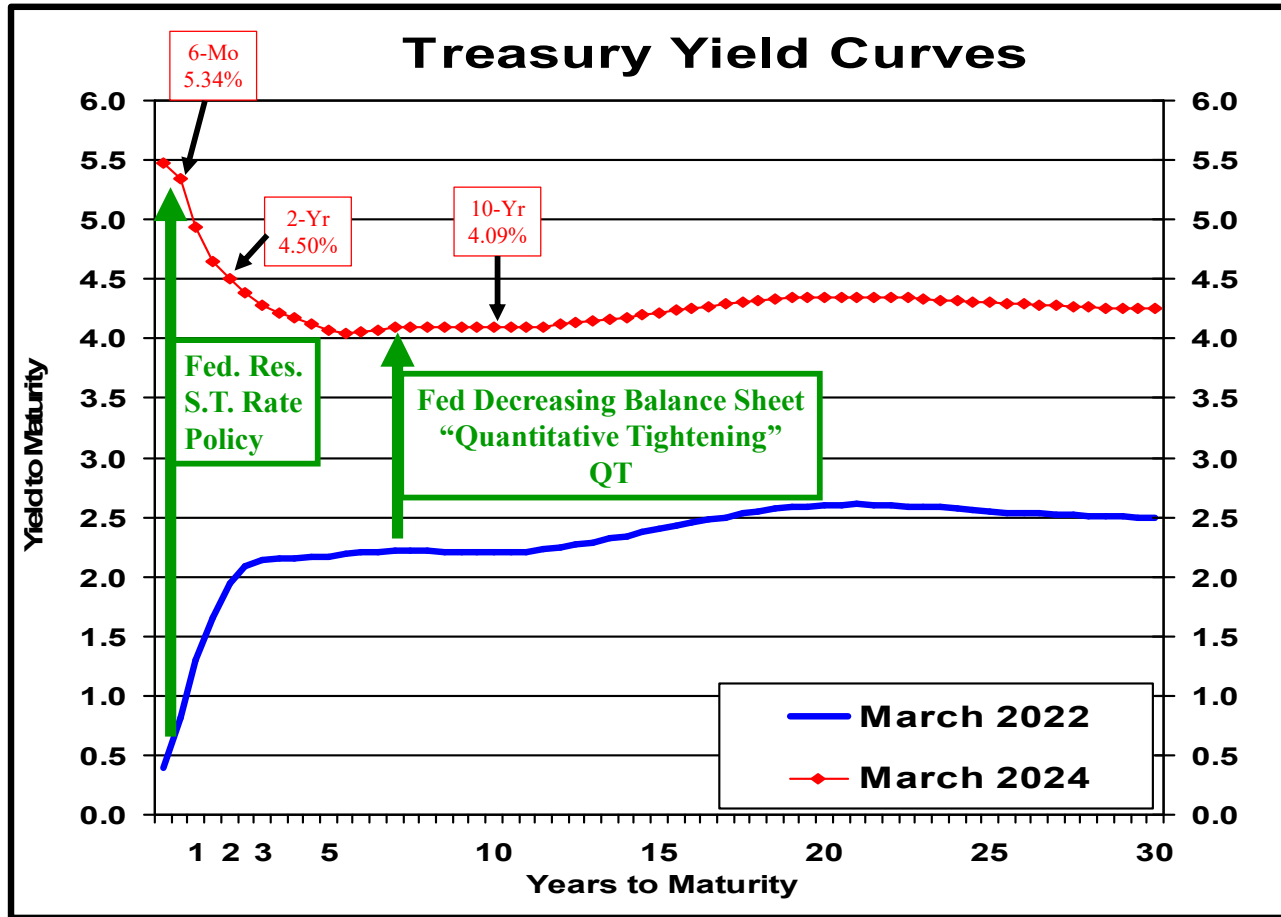




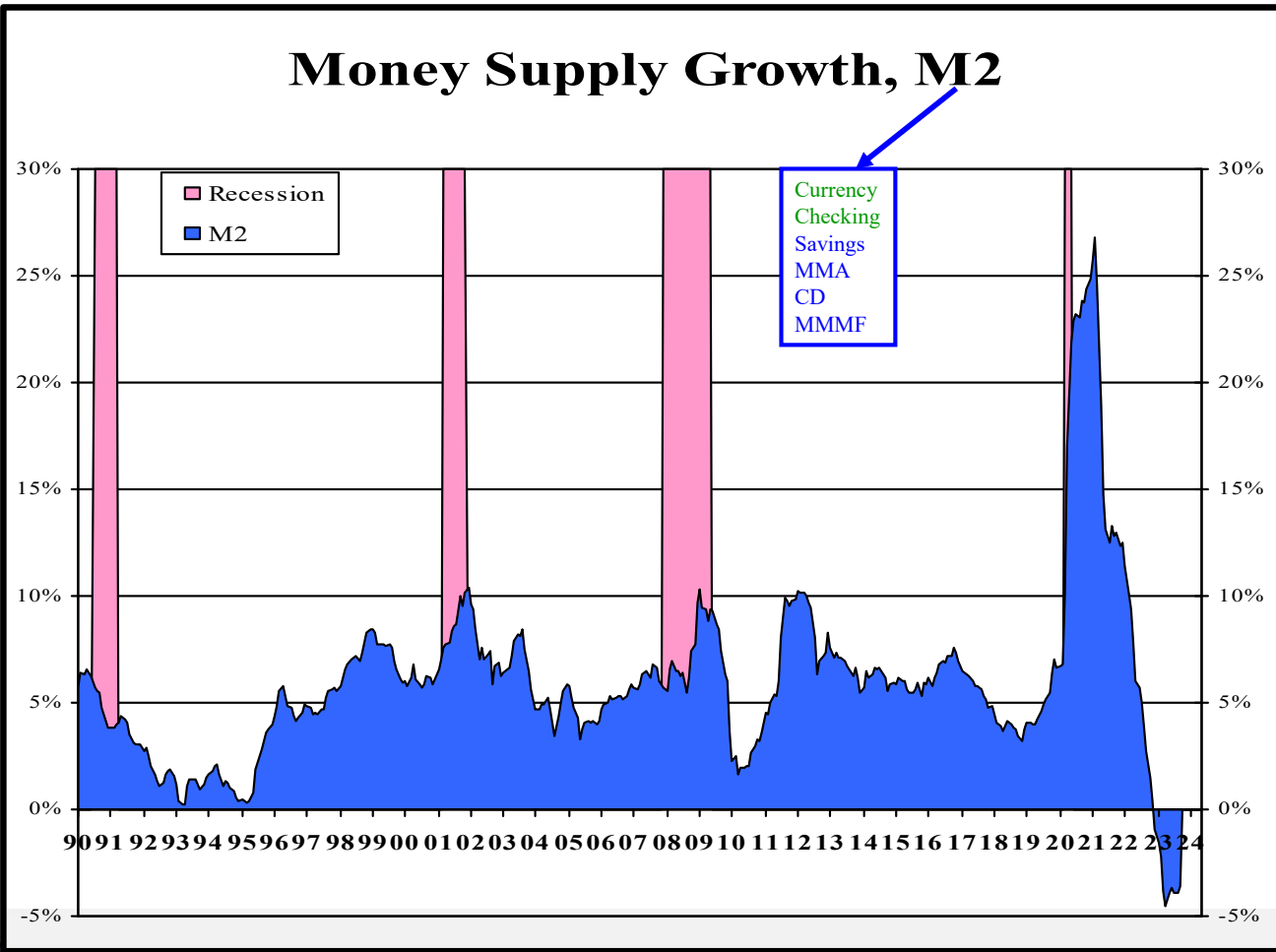




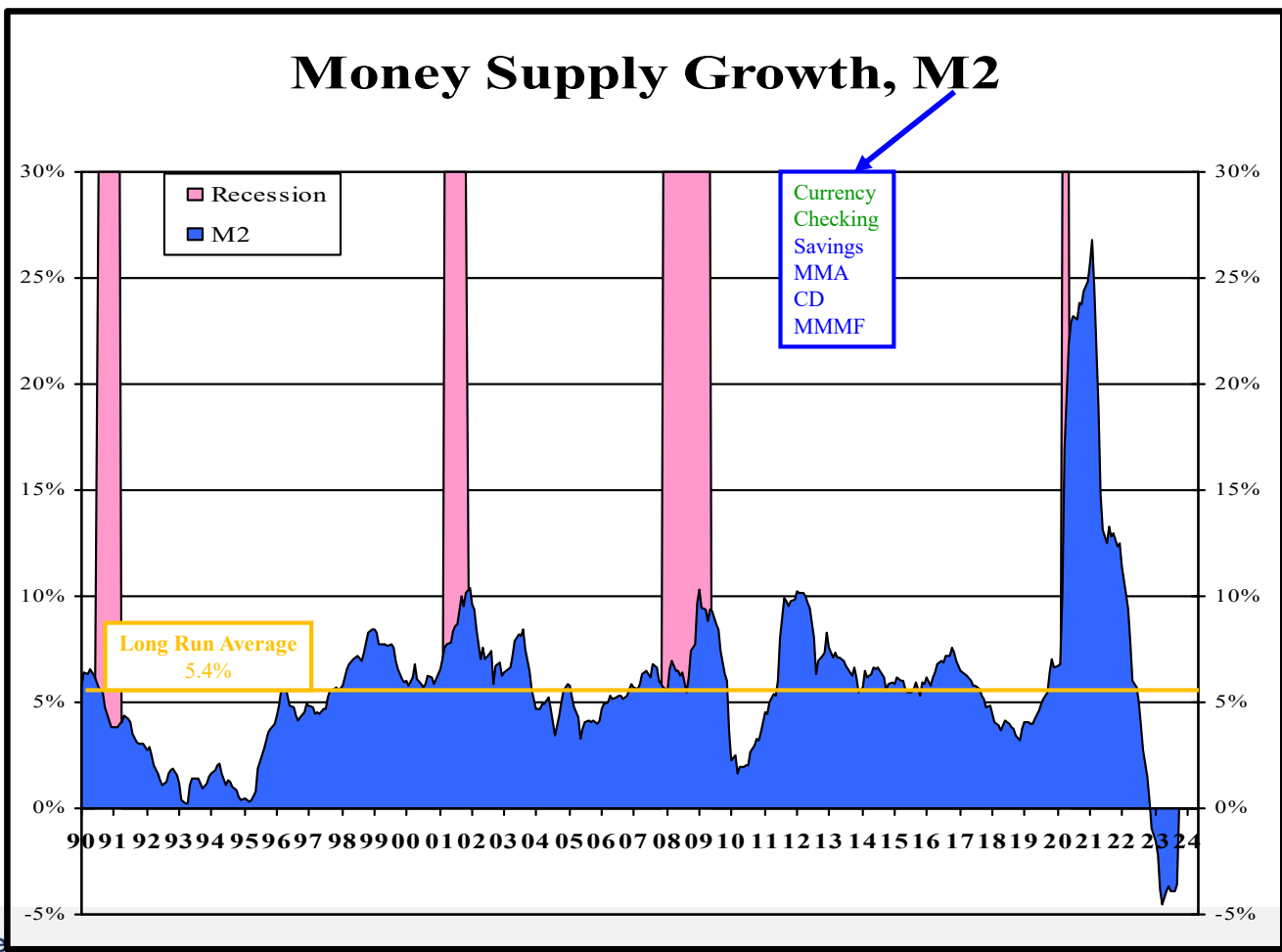




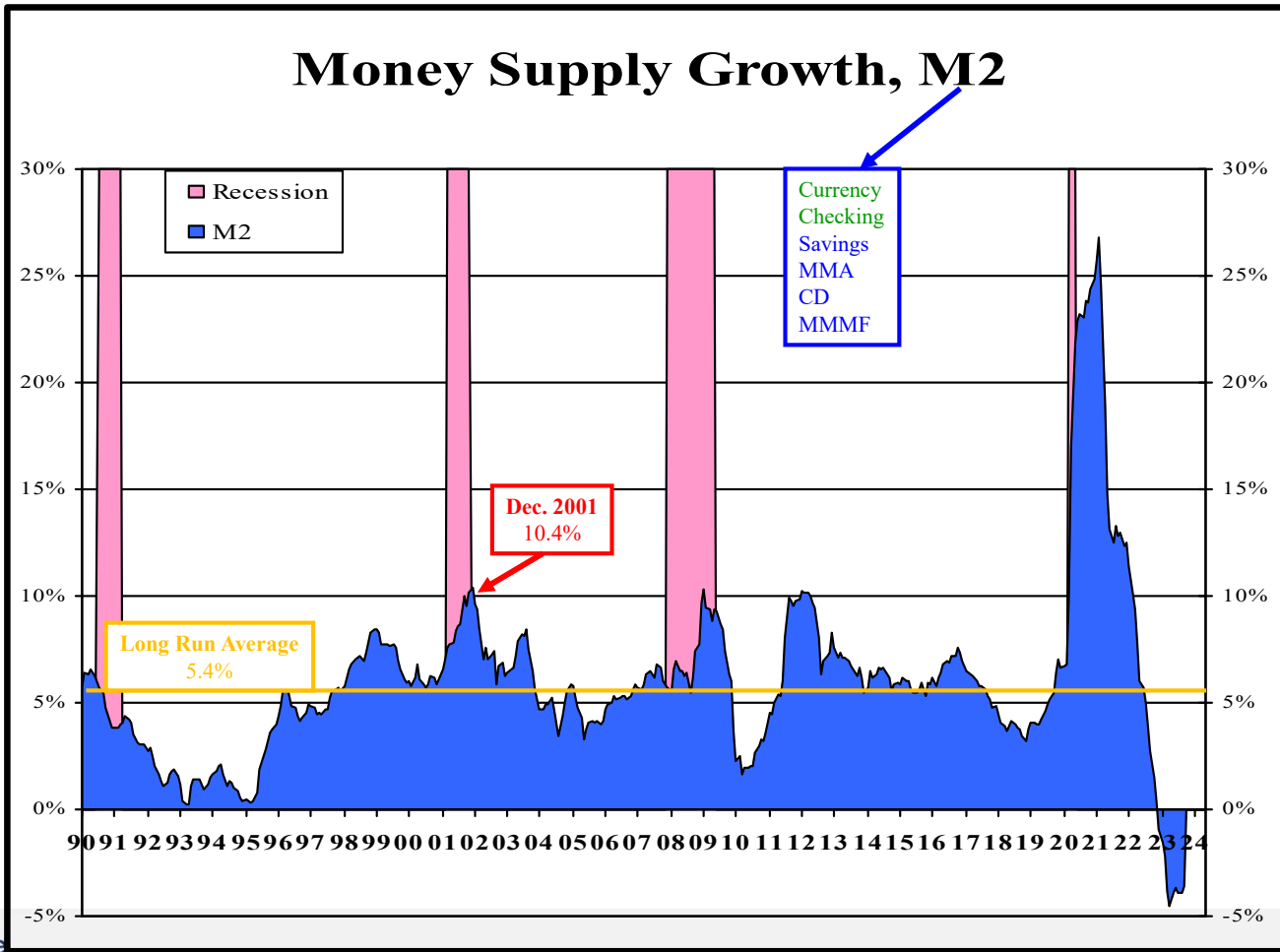
Money Supply Growth, M2



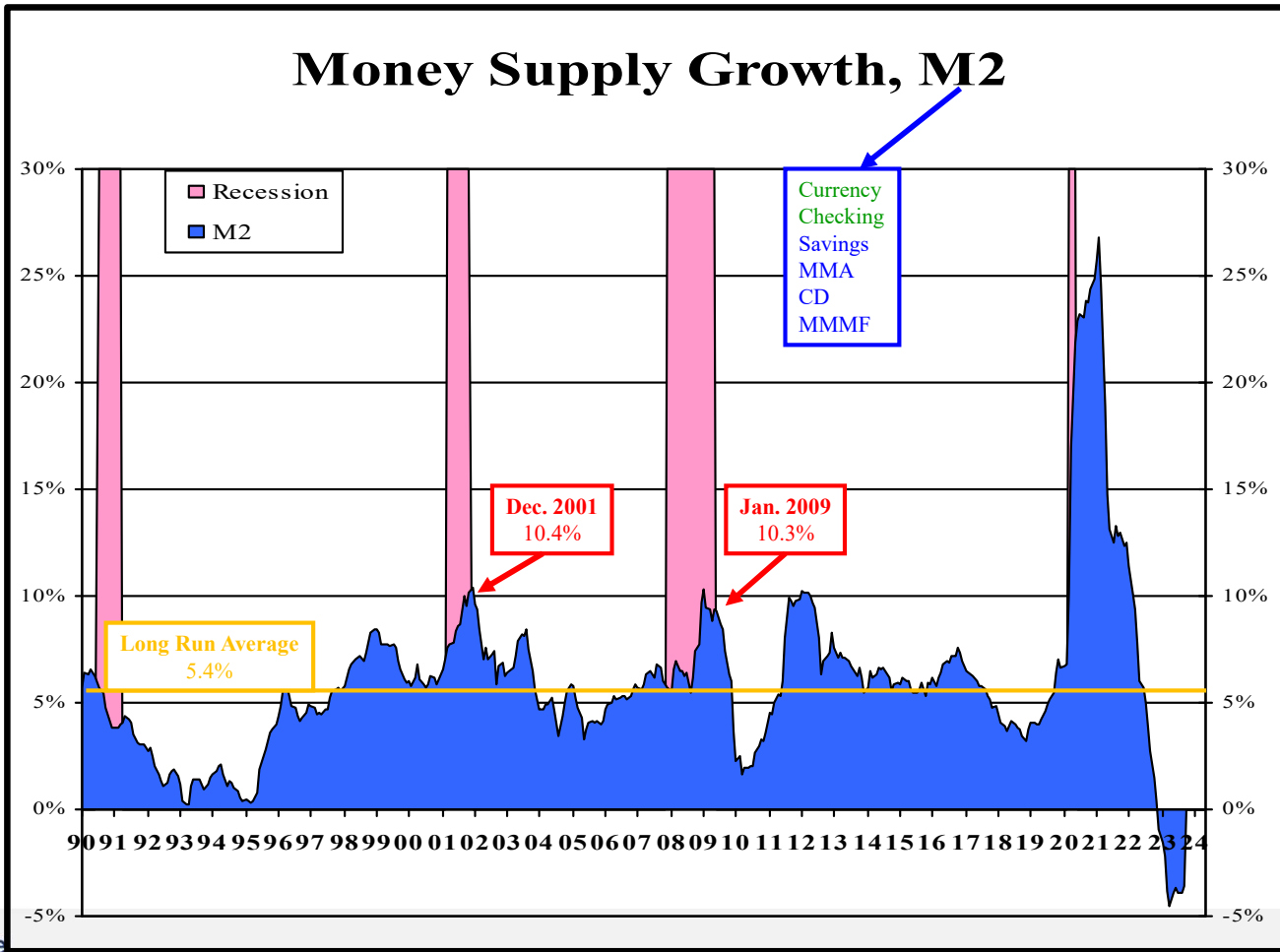
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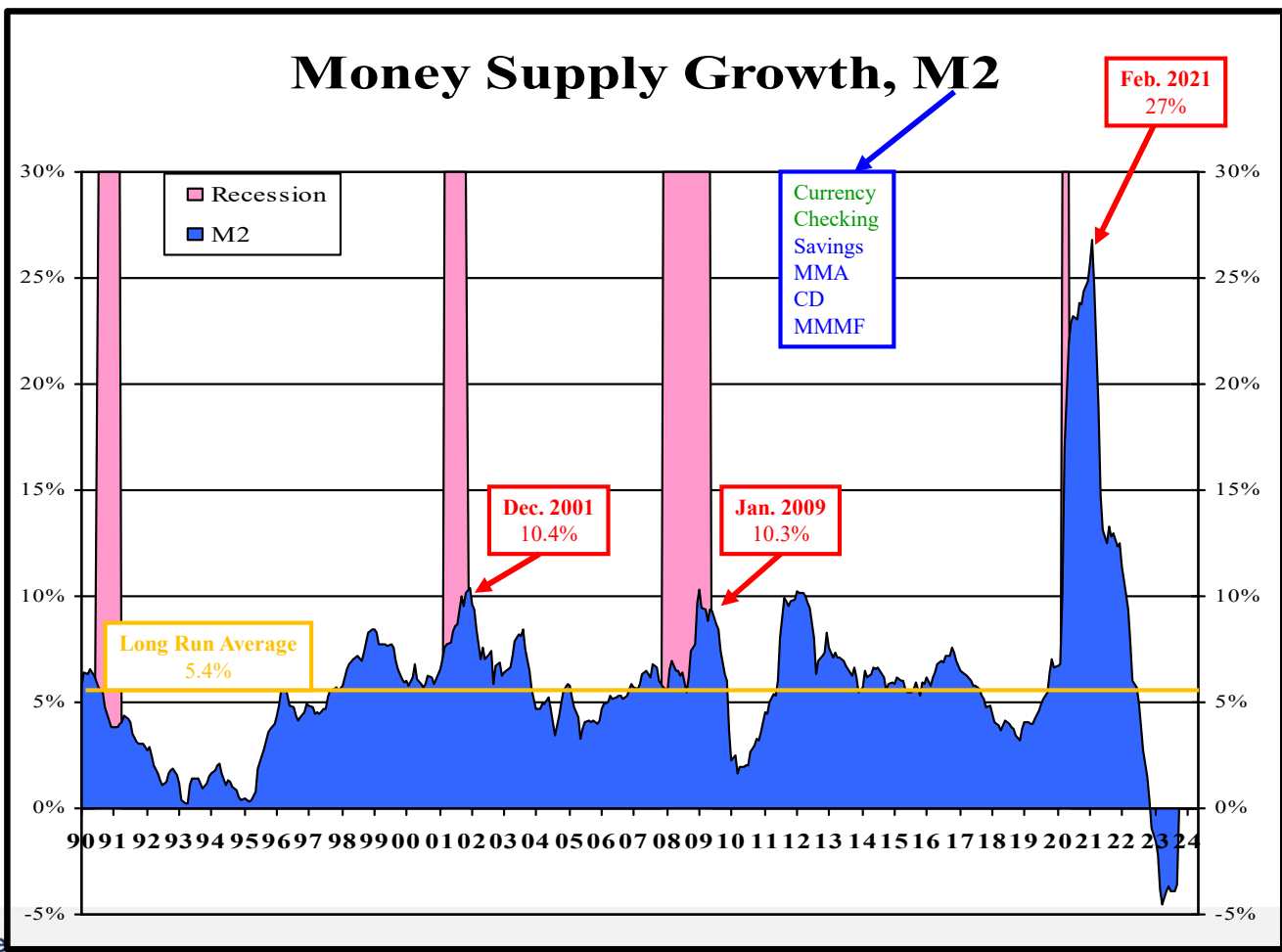
Money Supply Growth, M2



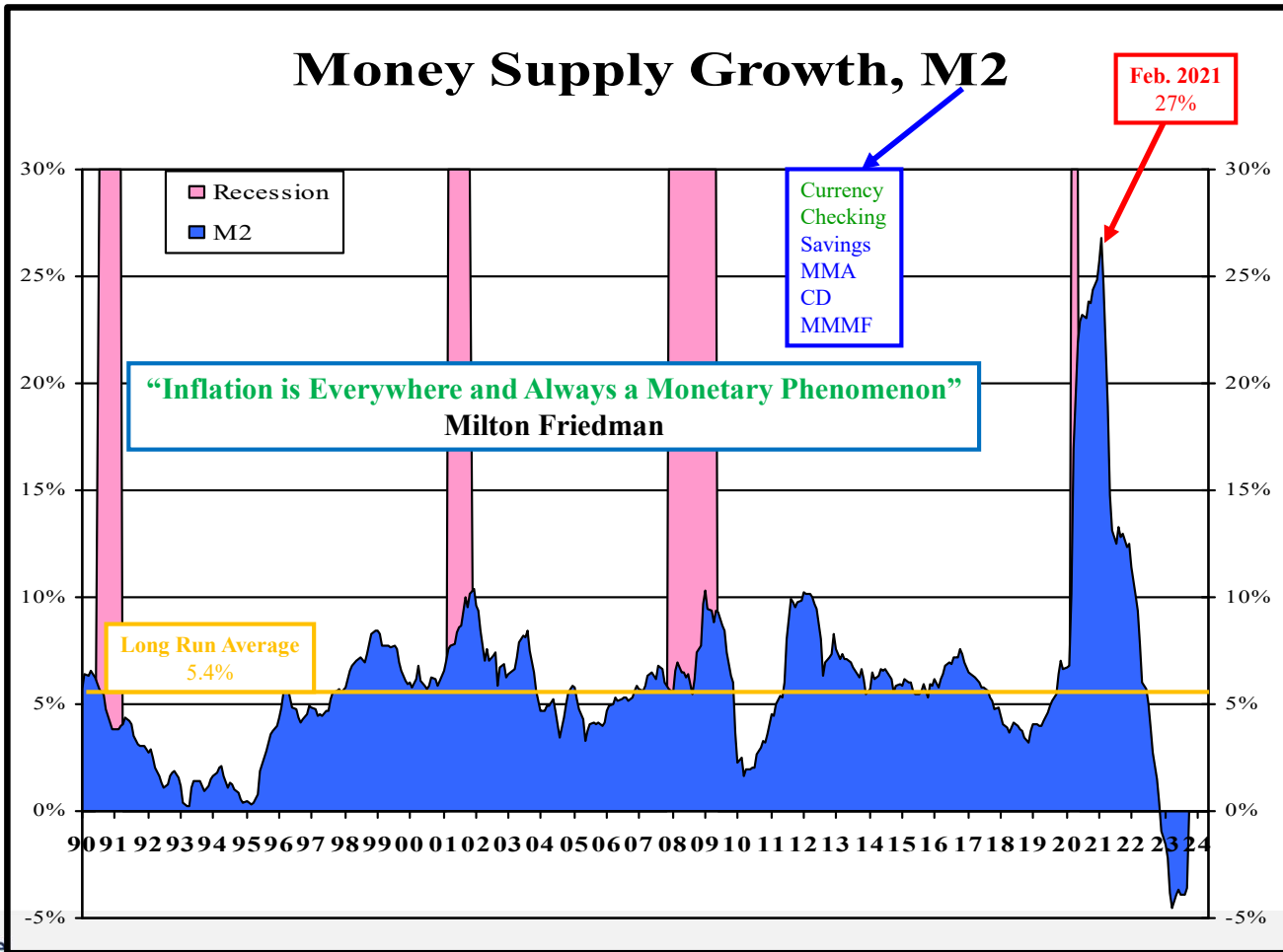
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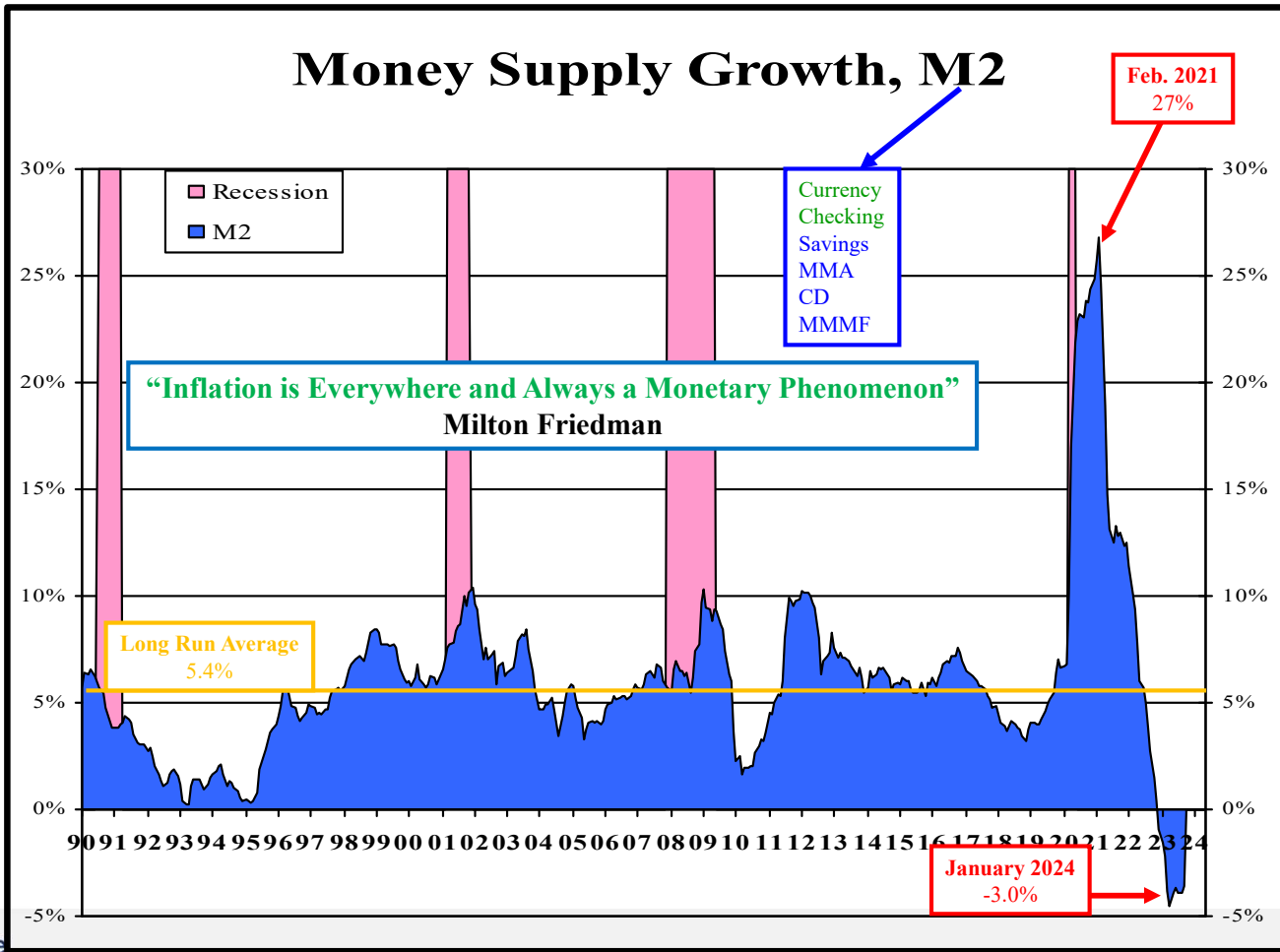
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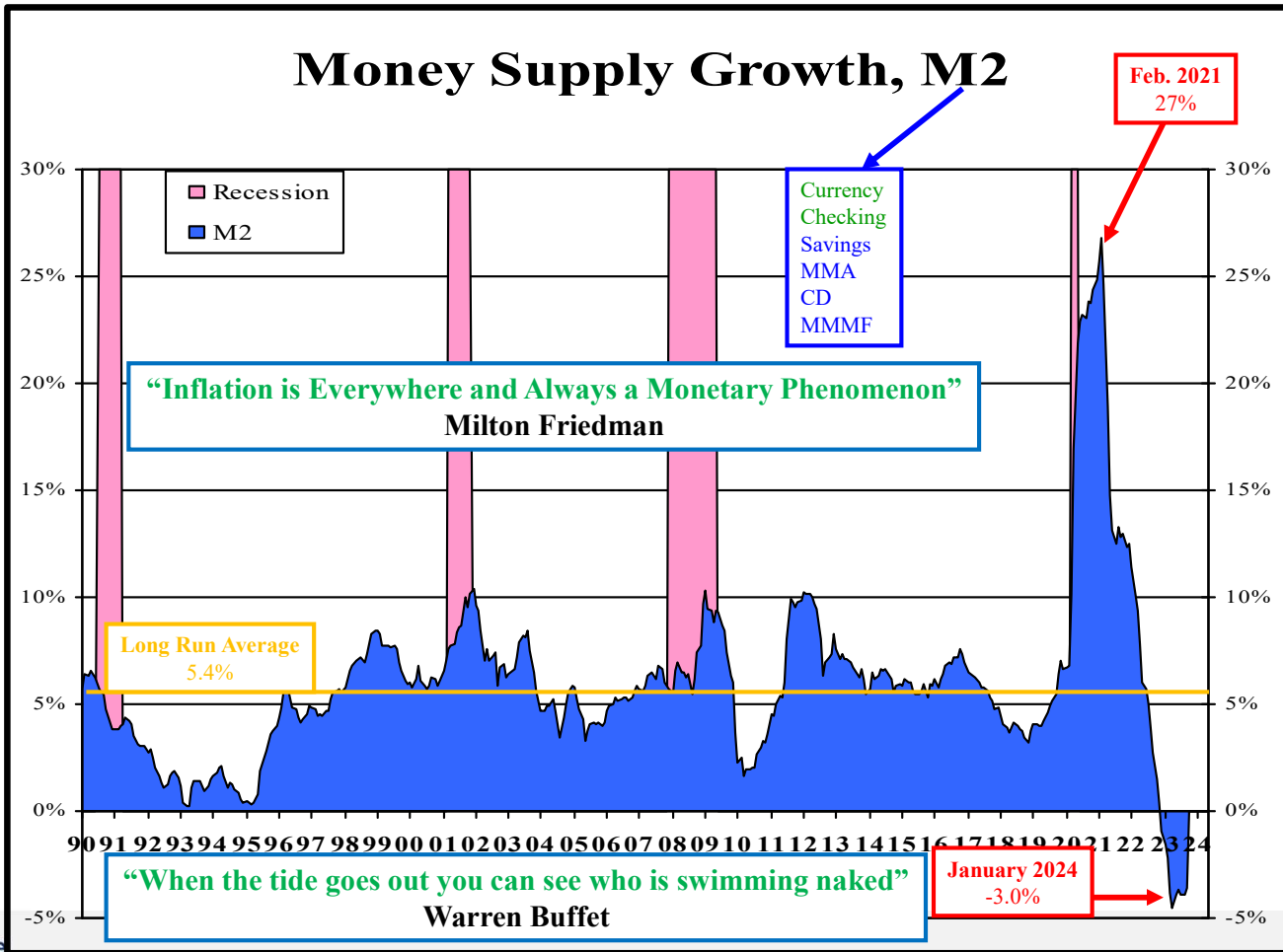
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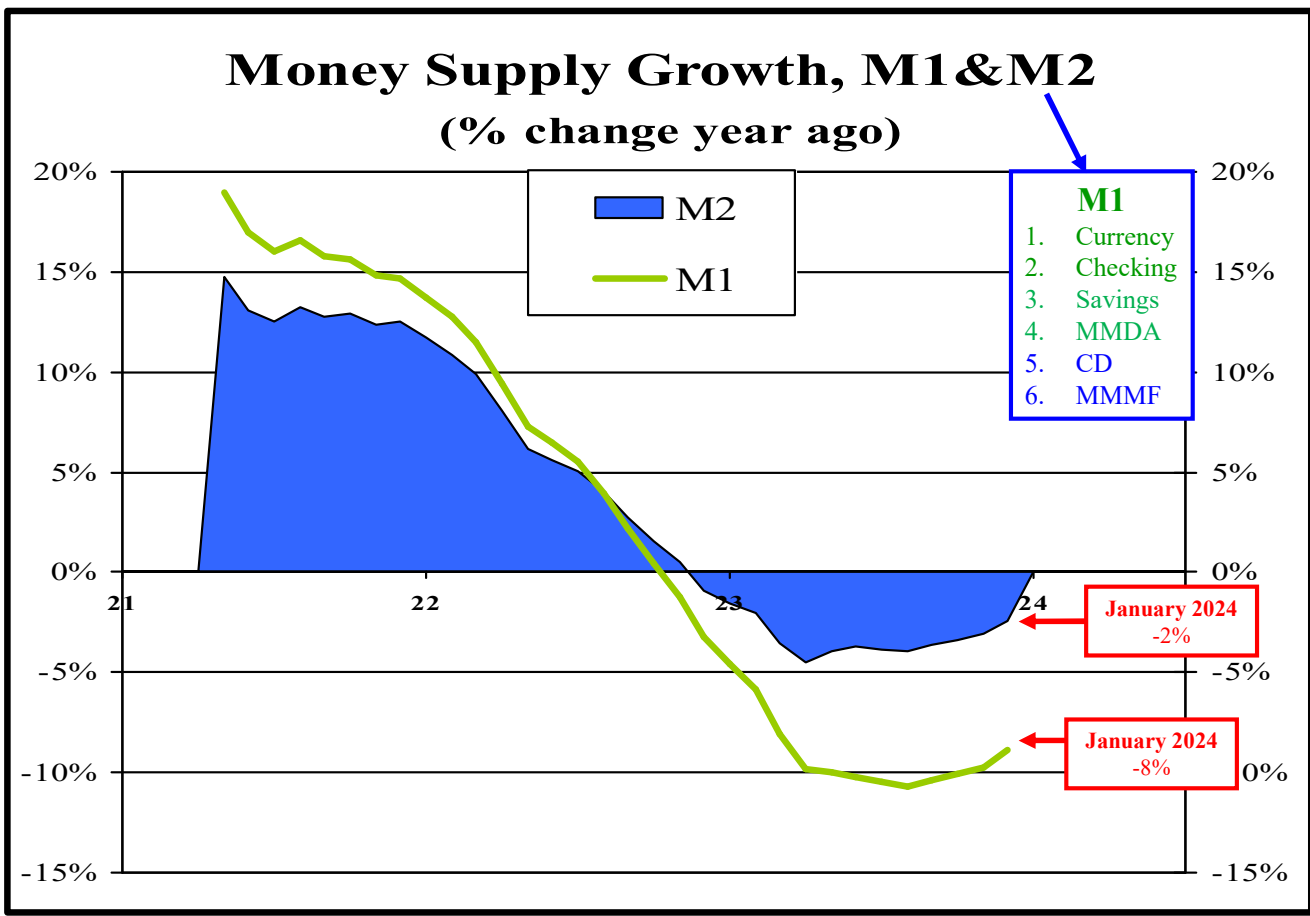
Money Supply Growth, M2



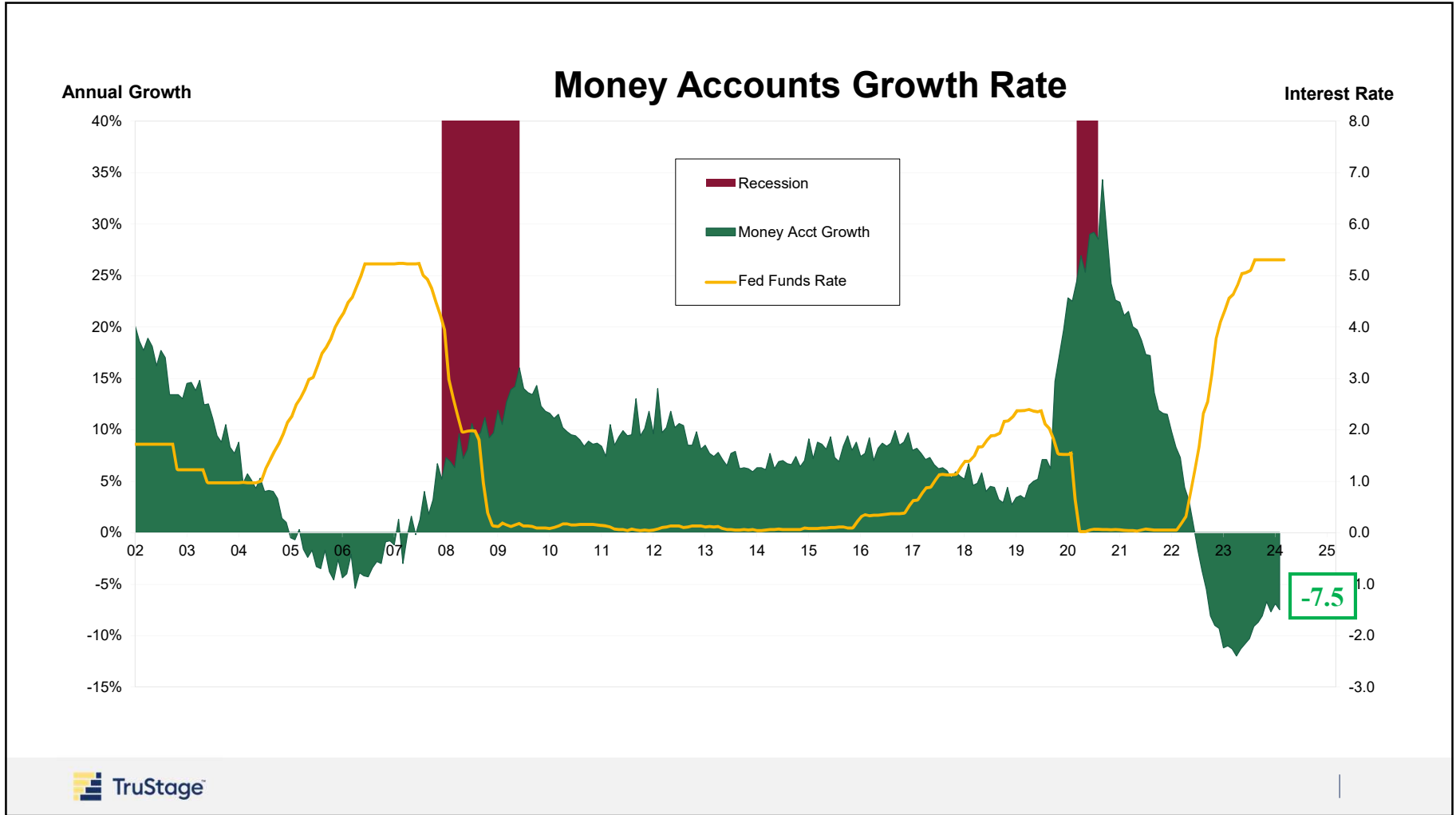
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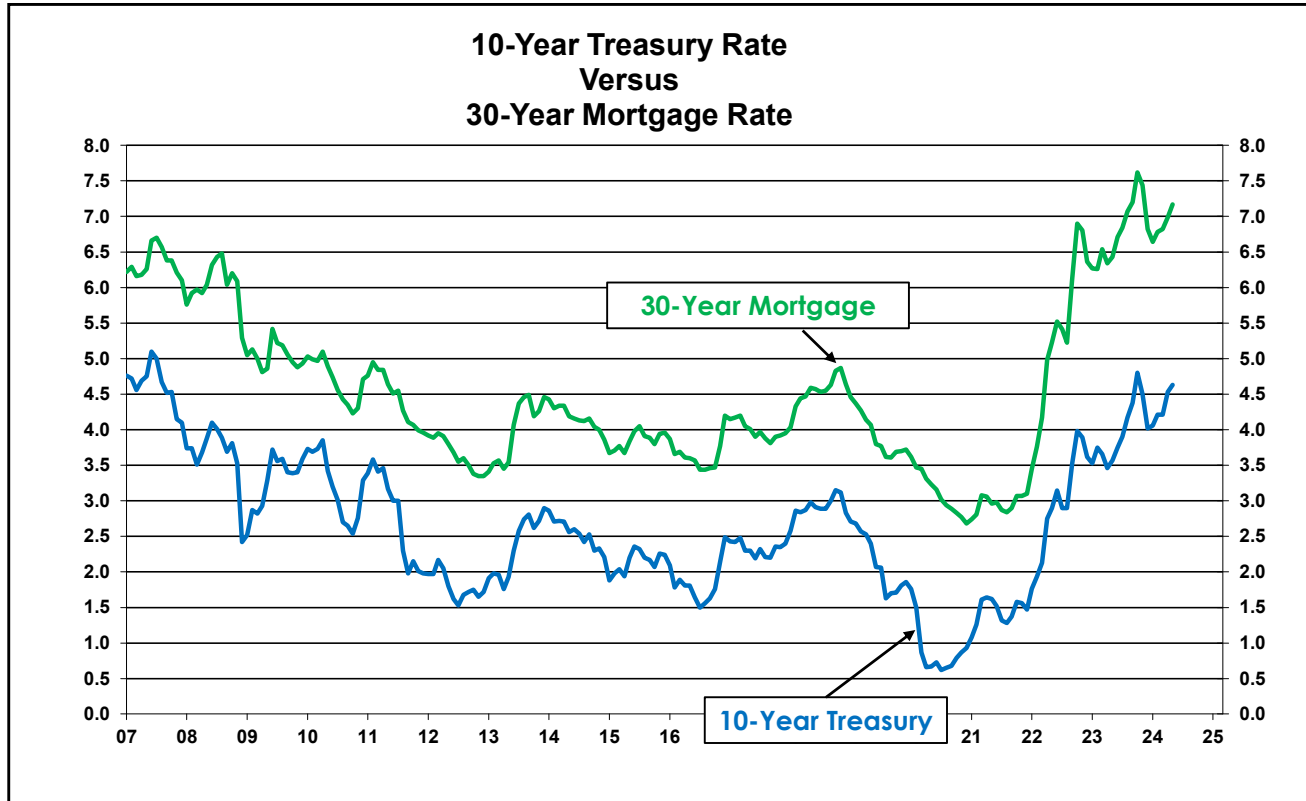
Money Supply Growth, M1&M2 (% change year ago)



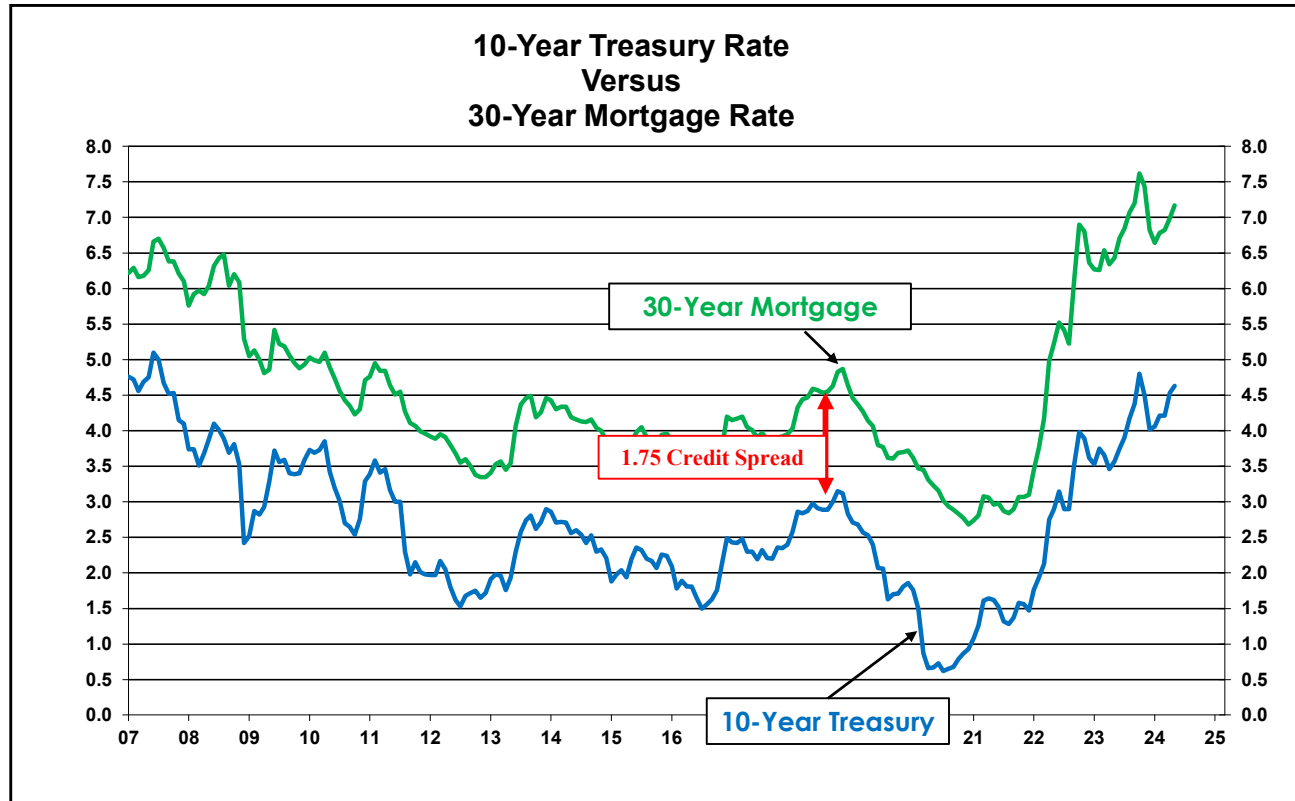
- M1**
1. Currency
 2. Checking
 3. Savings
 4. MMDA
 5. CD
 6. MMMF



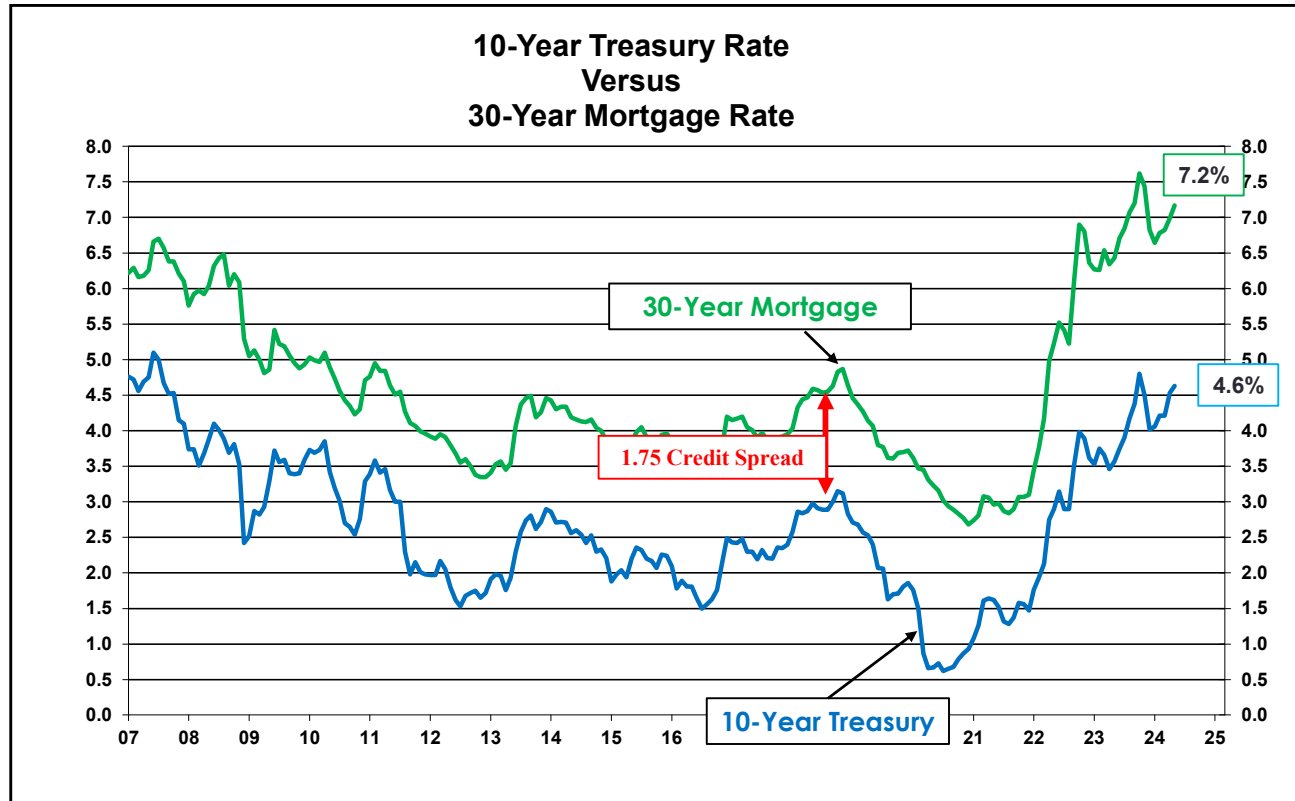
Rising Real Interest Rates, a Strong Economy and Falling Foreign Bond Demand is Pushing Up Nominal Interest Rates



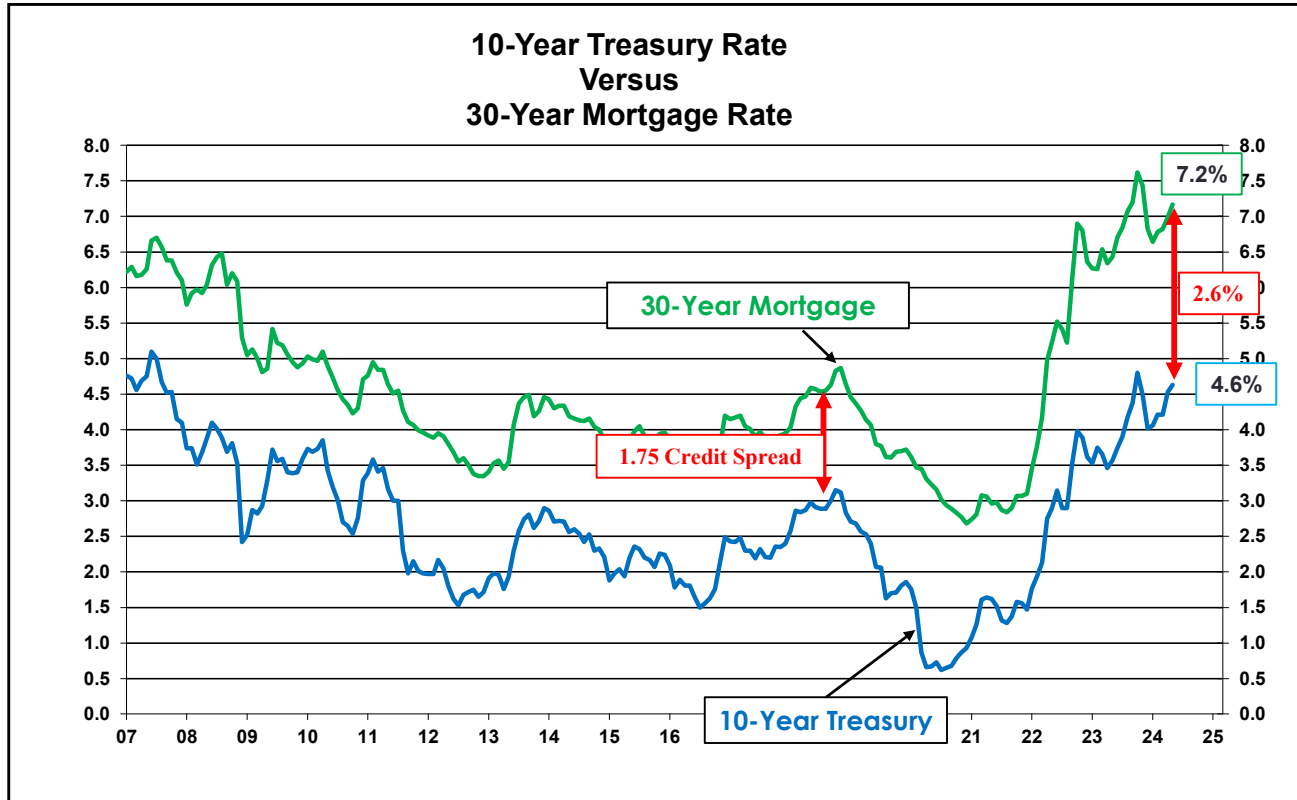
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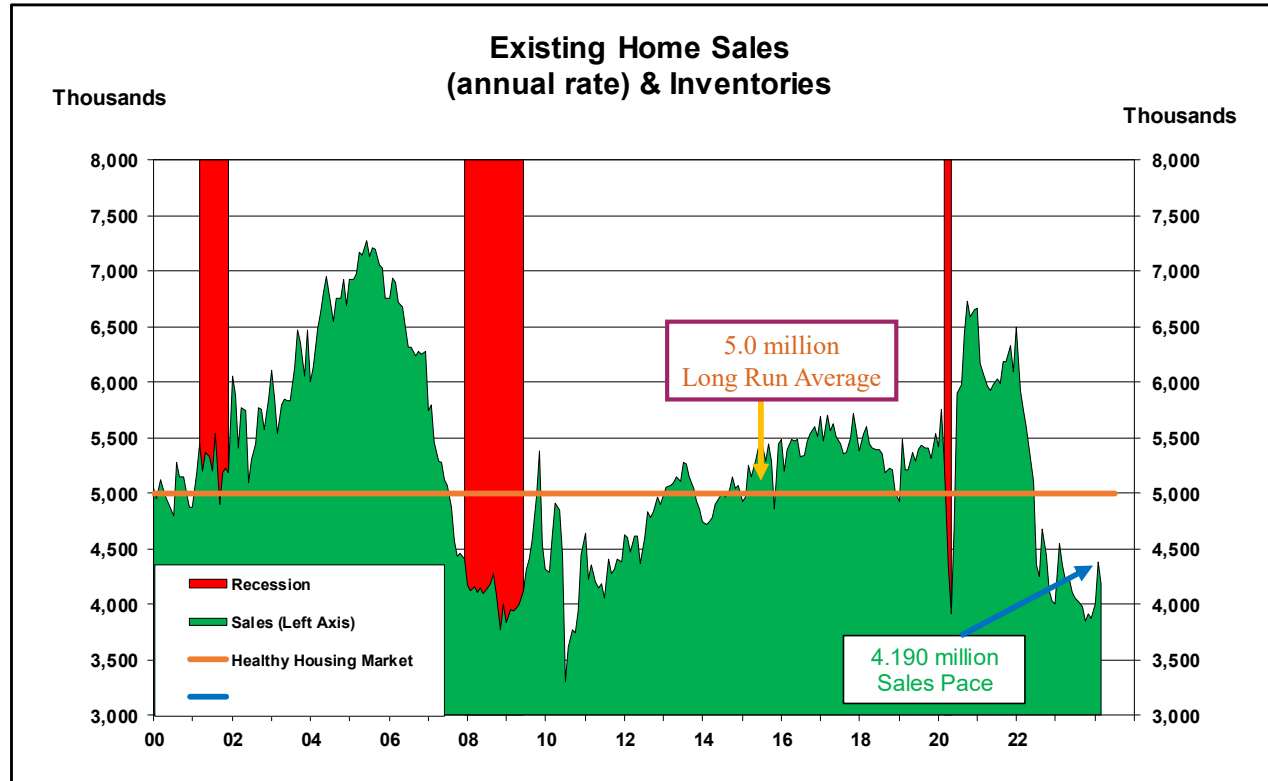
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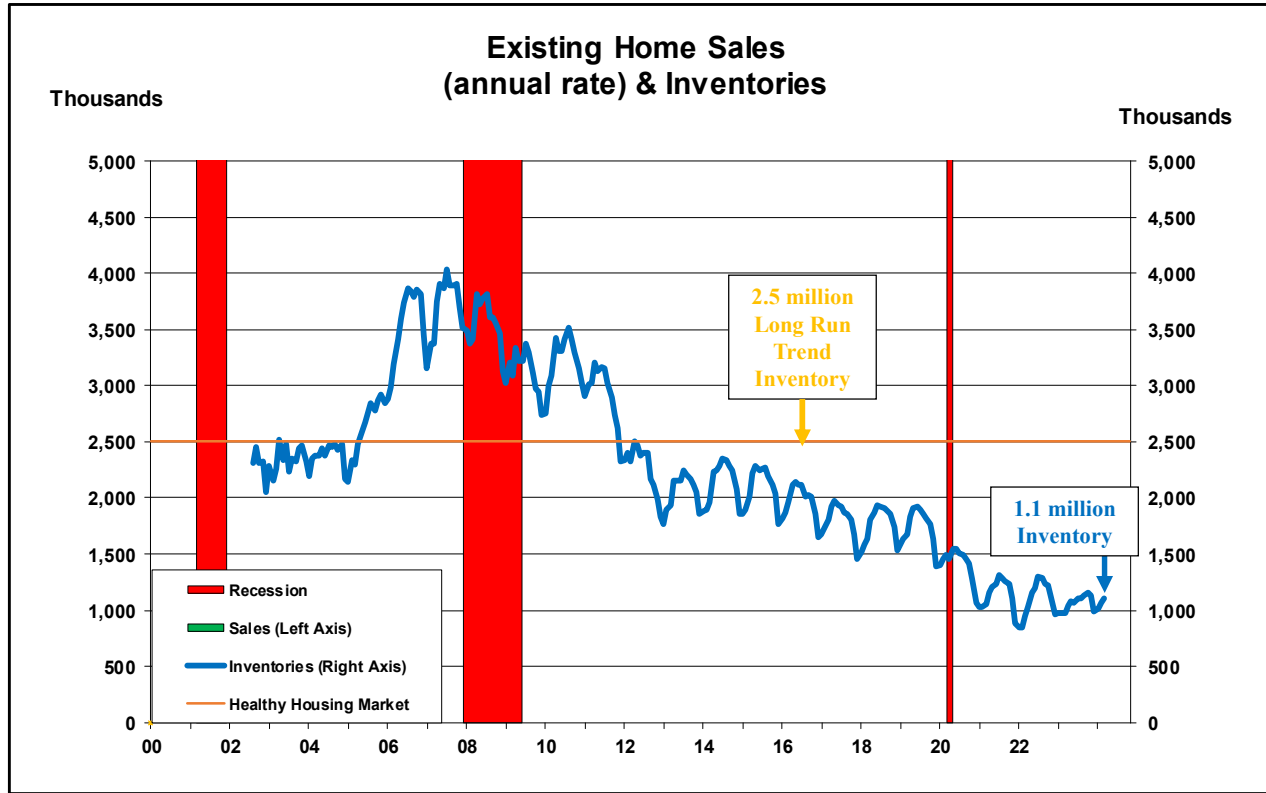
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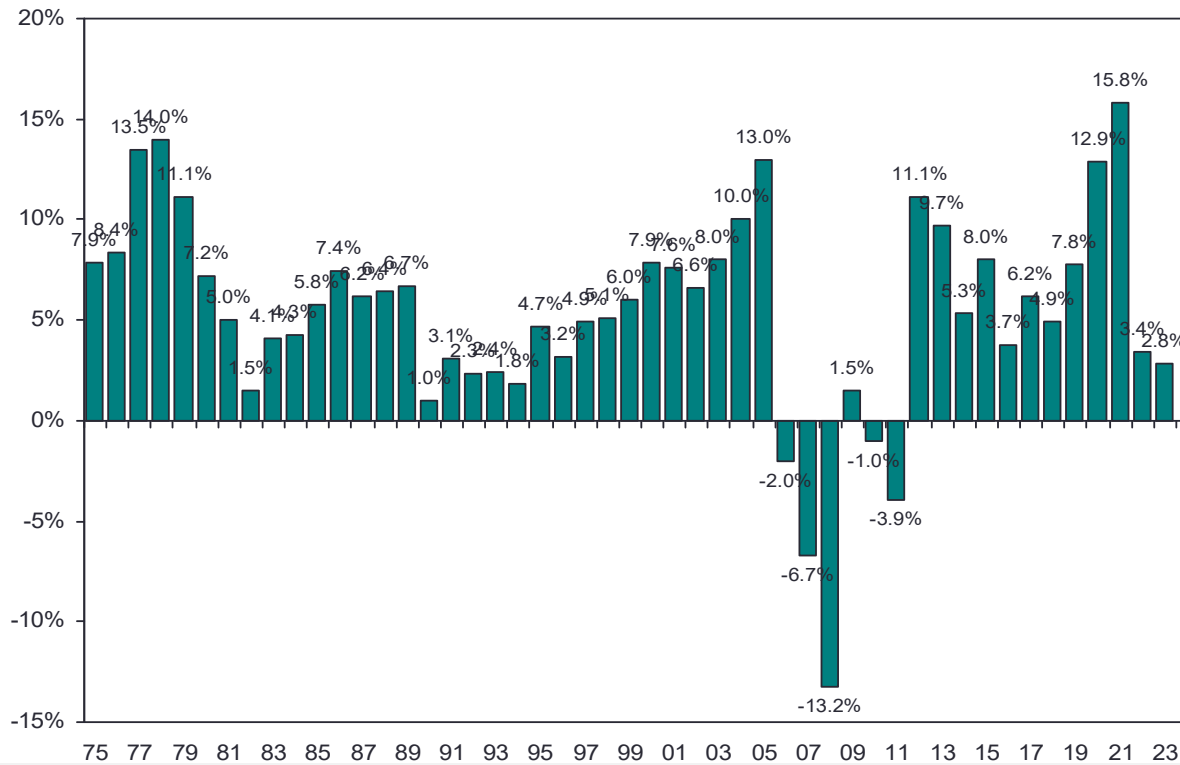
Home Sales are Weak, and Inventories are Low



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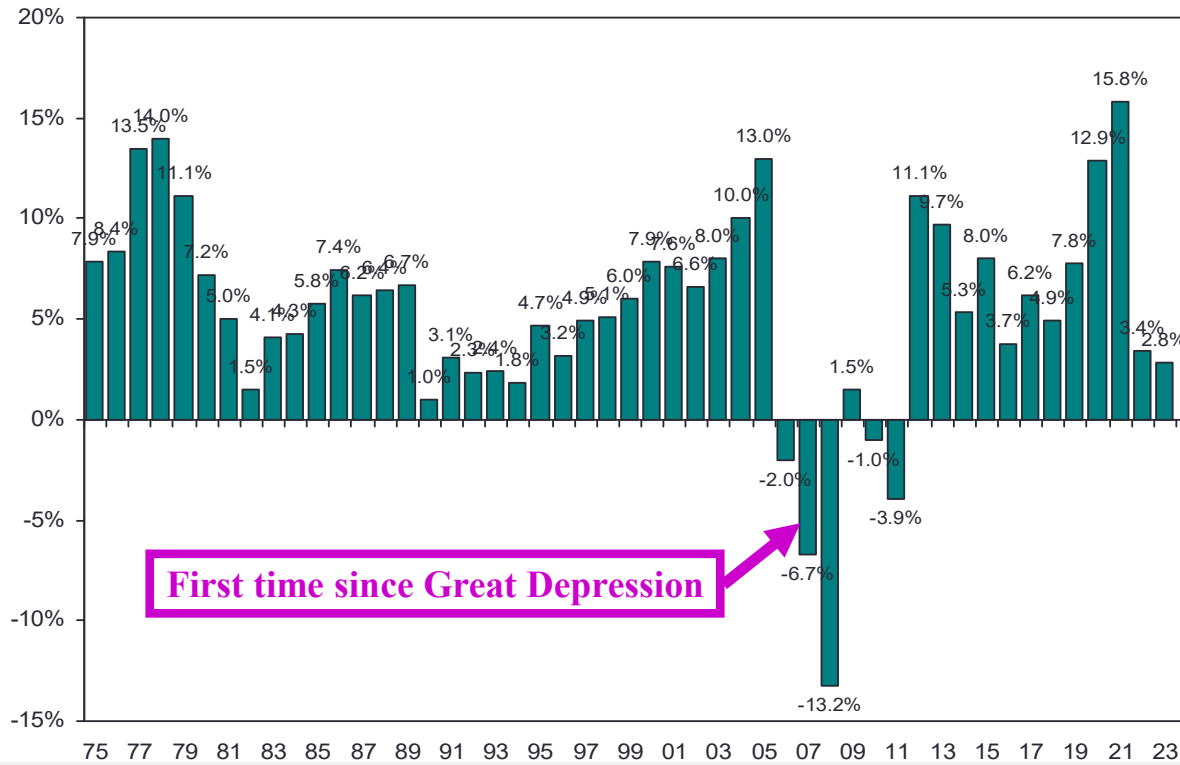
Median Existing Home Prices (Nominal Annual Home Price Increases)



Source: National Association of Realtors.



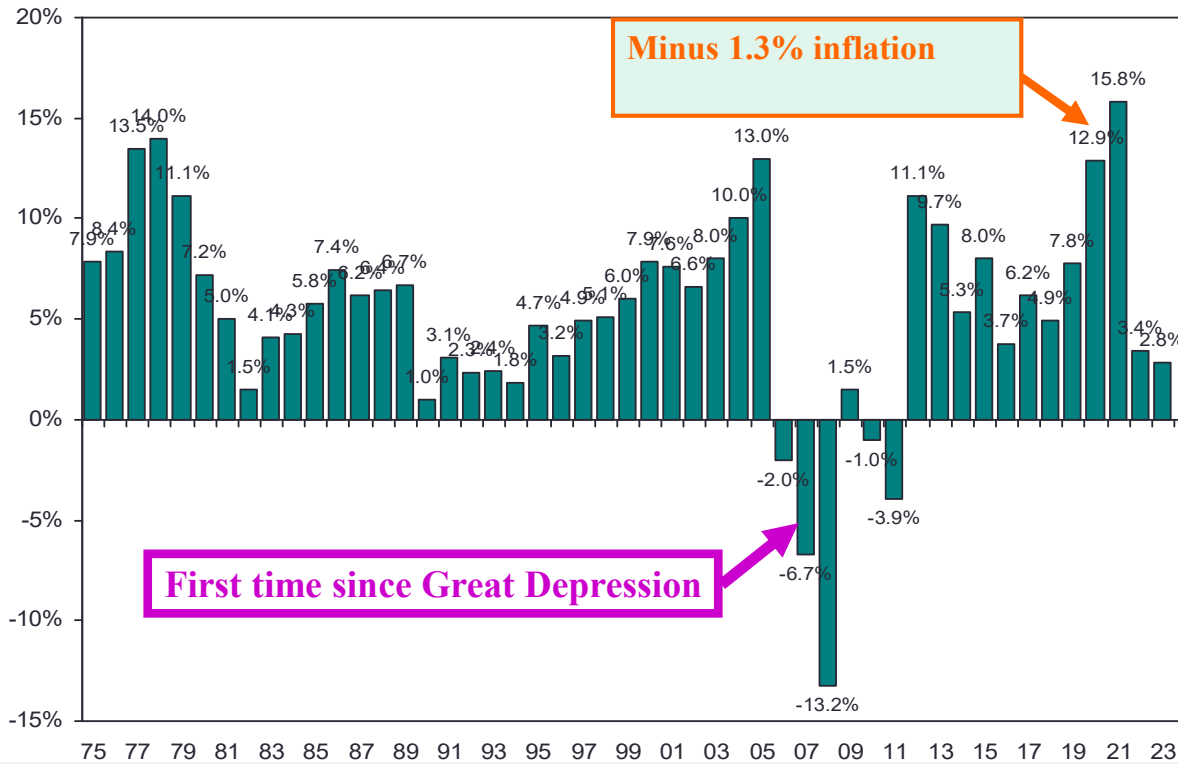
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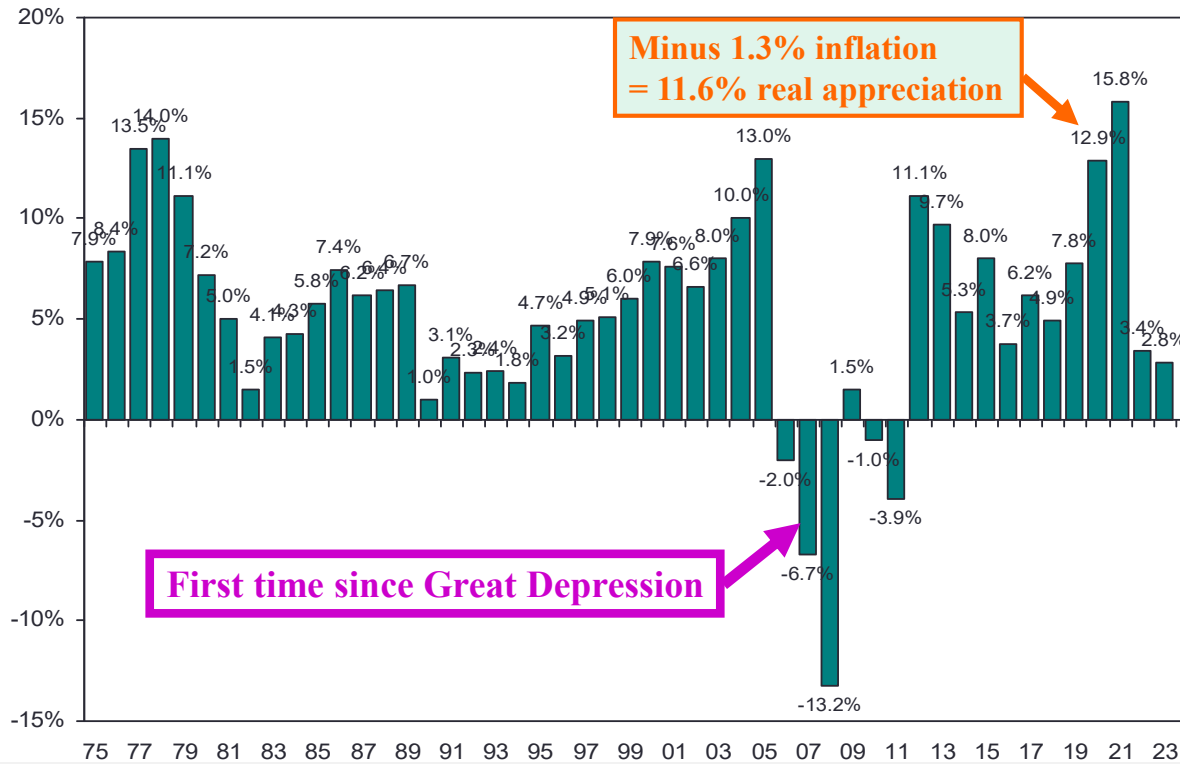
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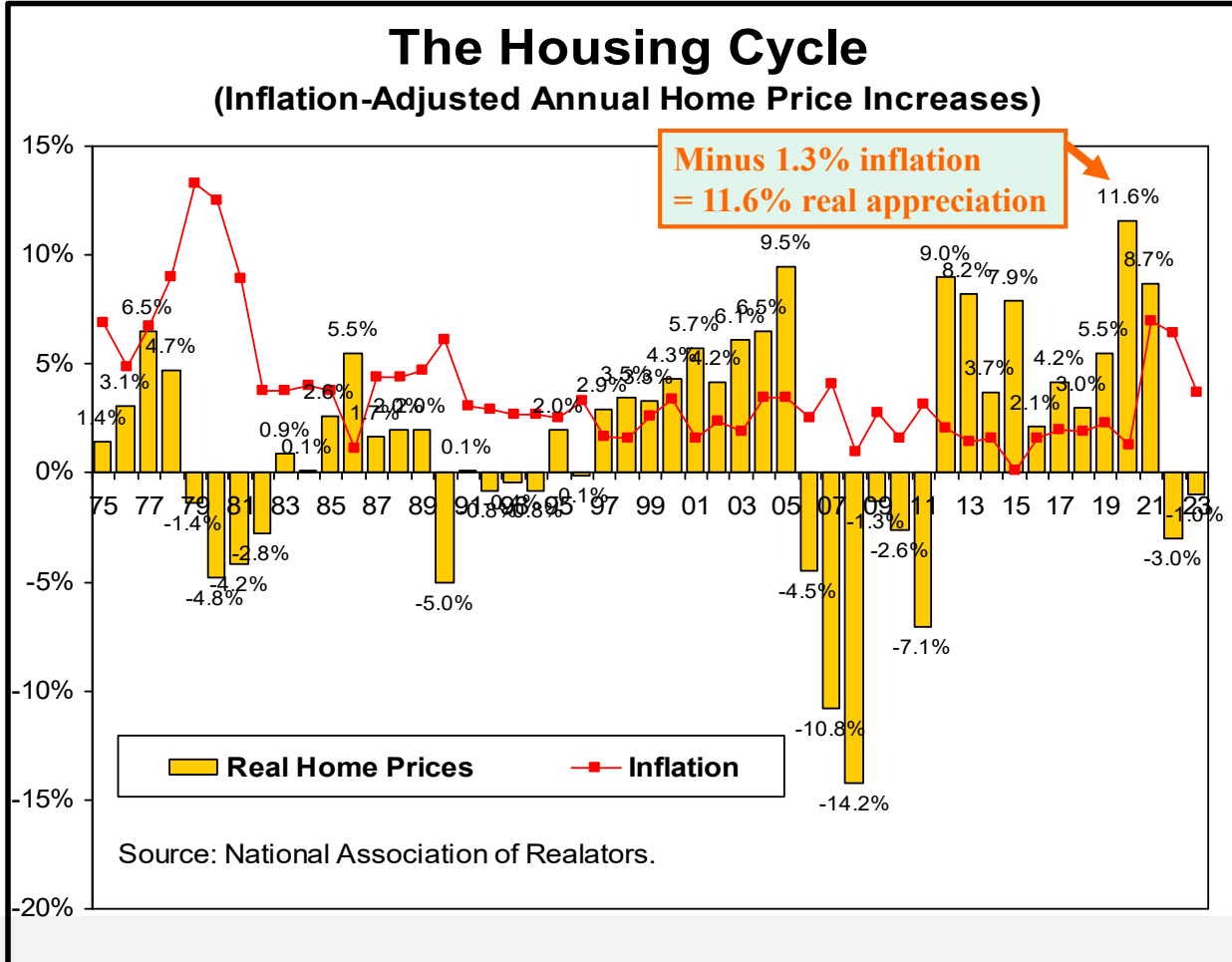


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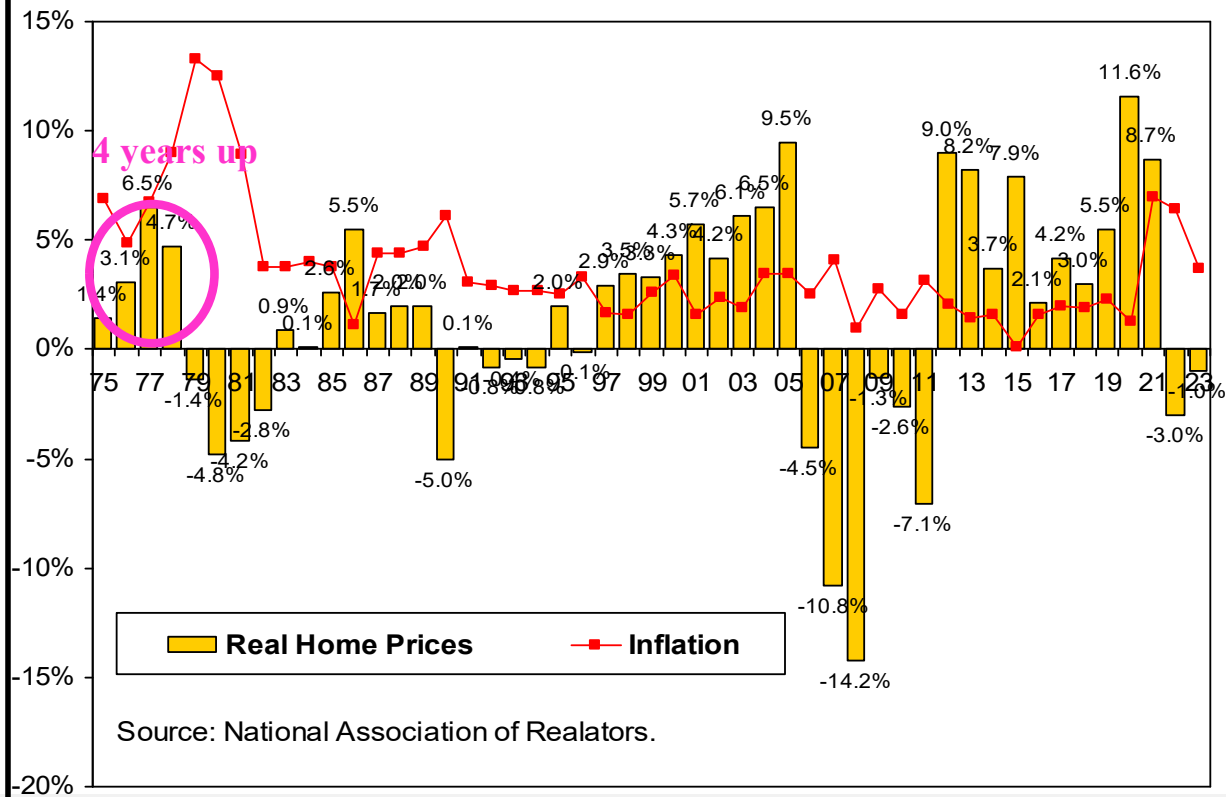


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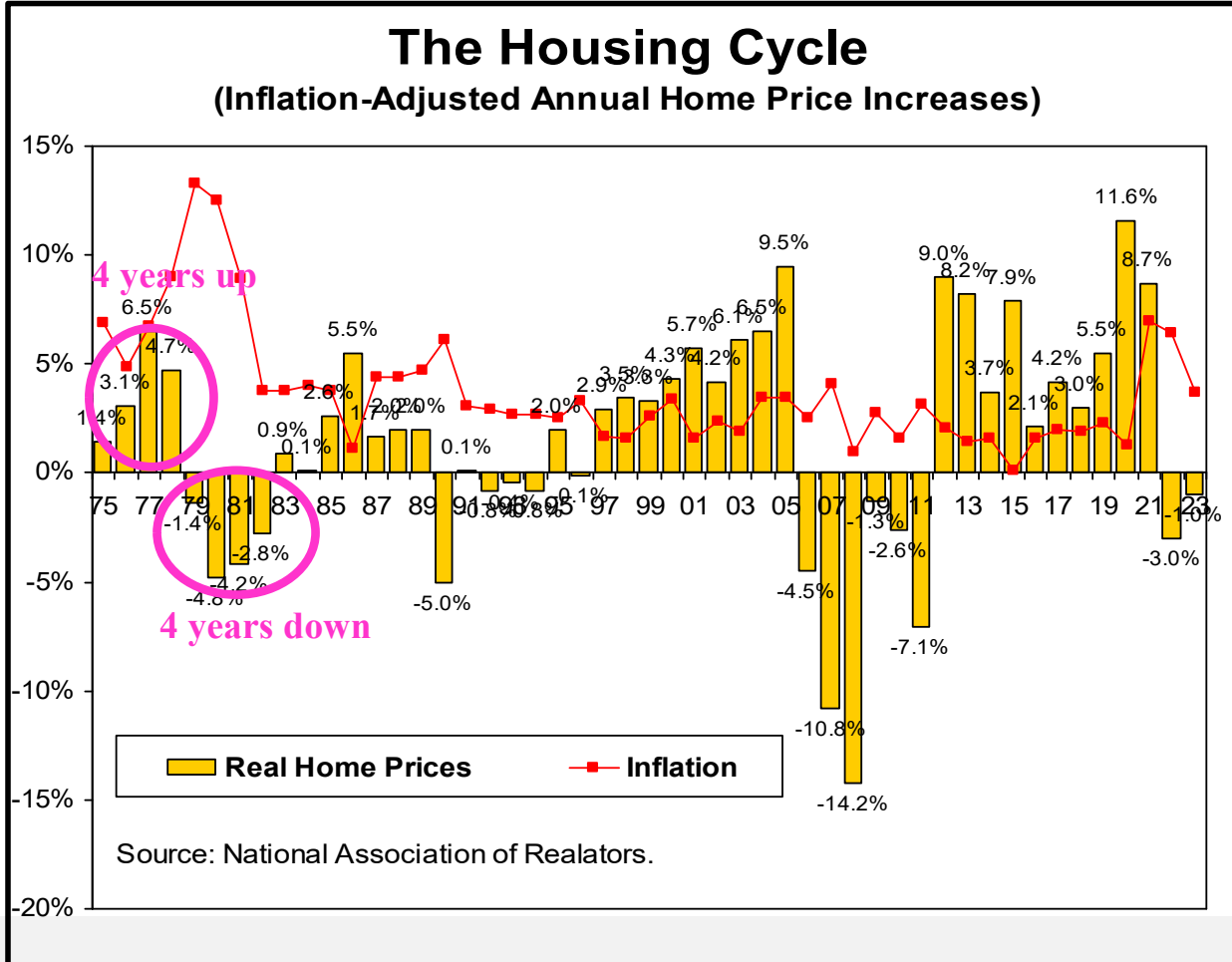


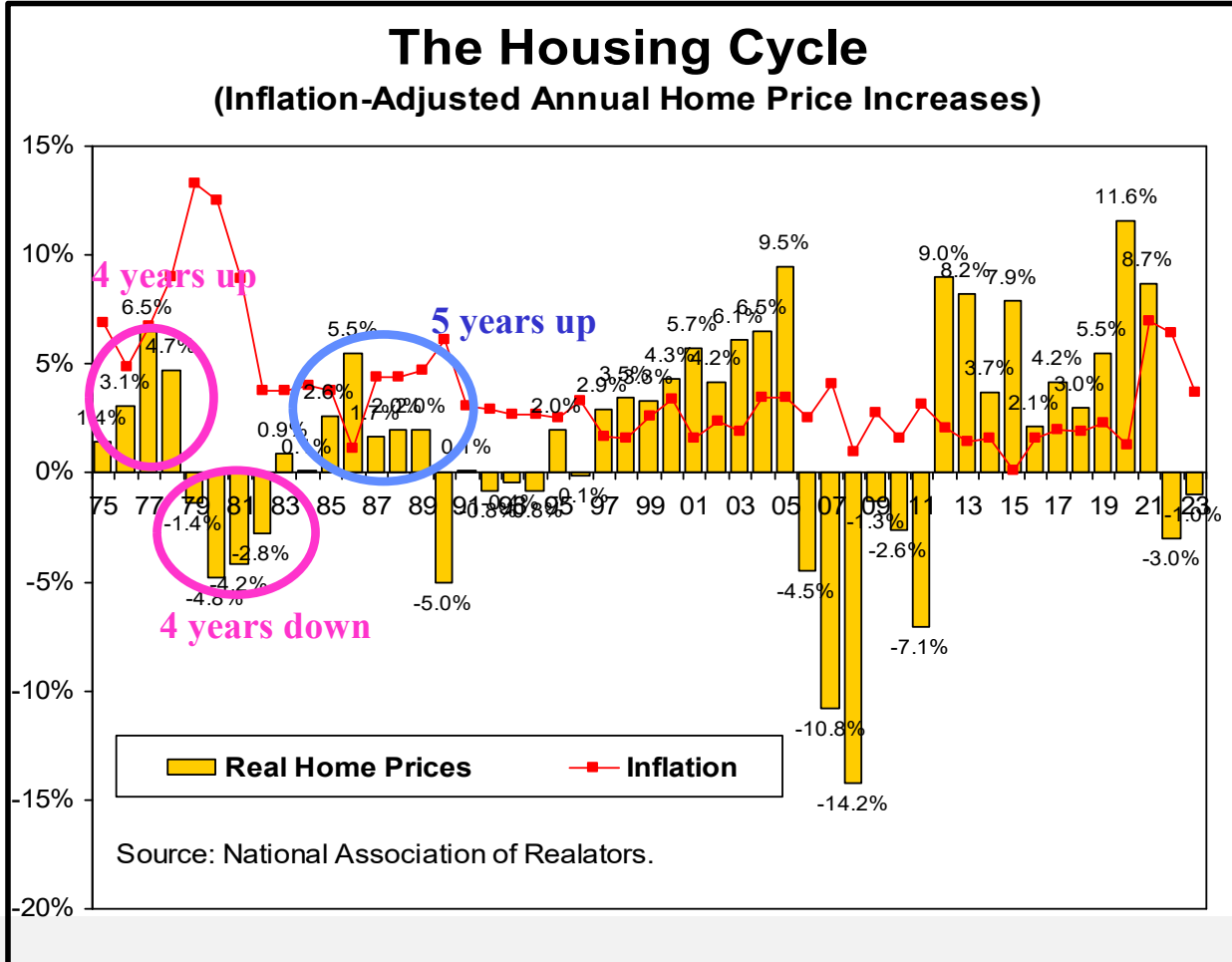


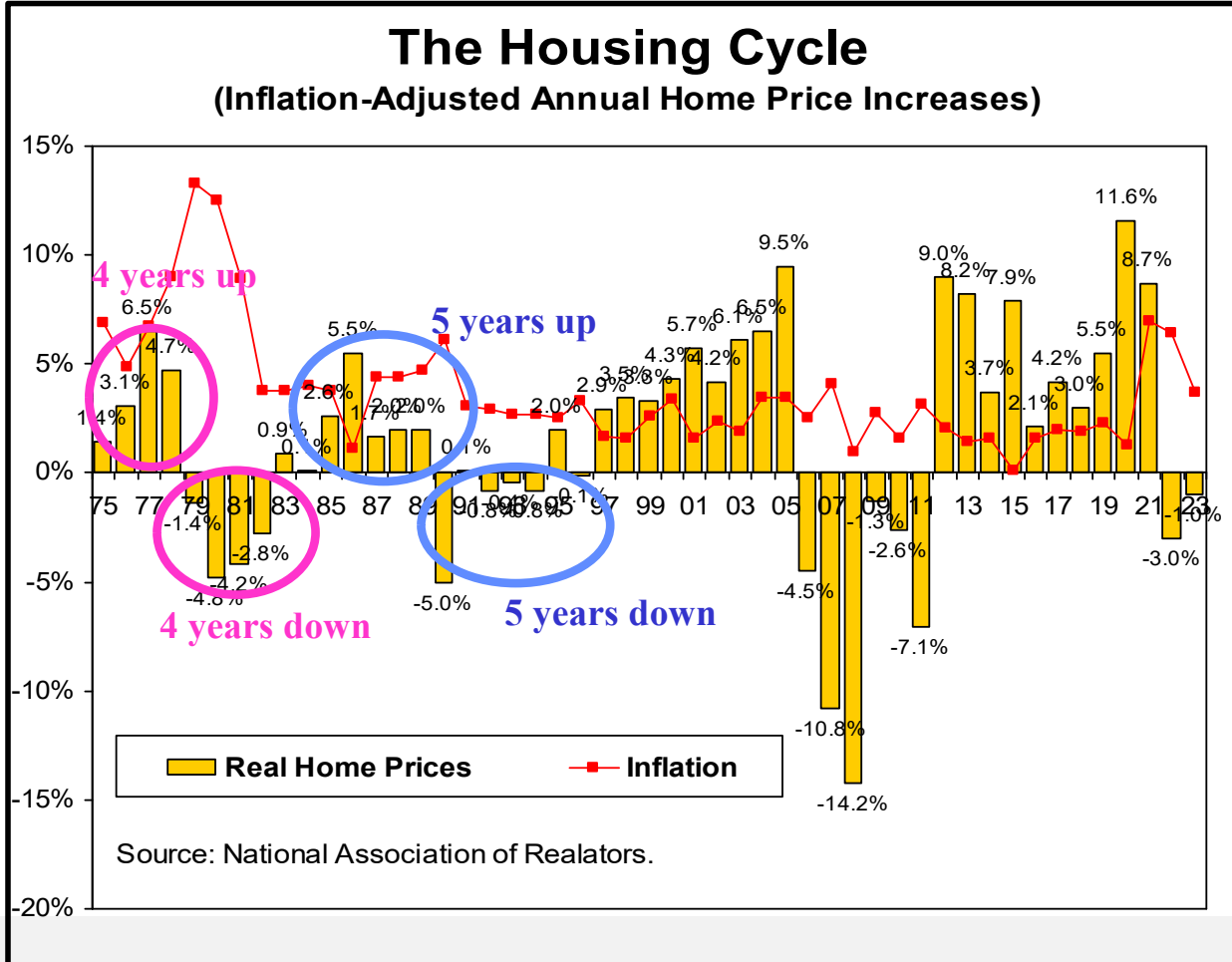
The Housing Cycle (Inflation-Adjusted Annual Home Price Increases)

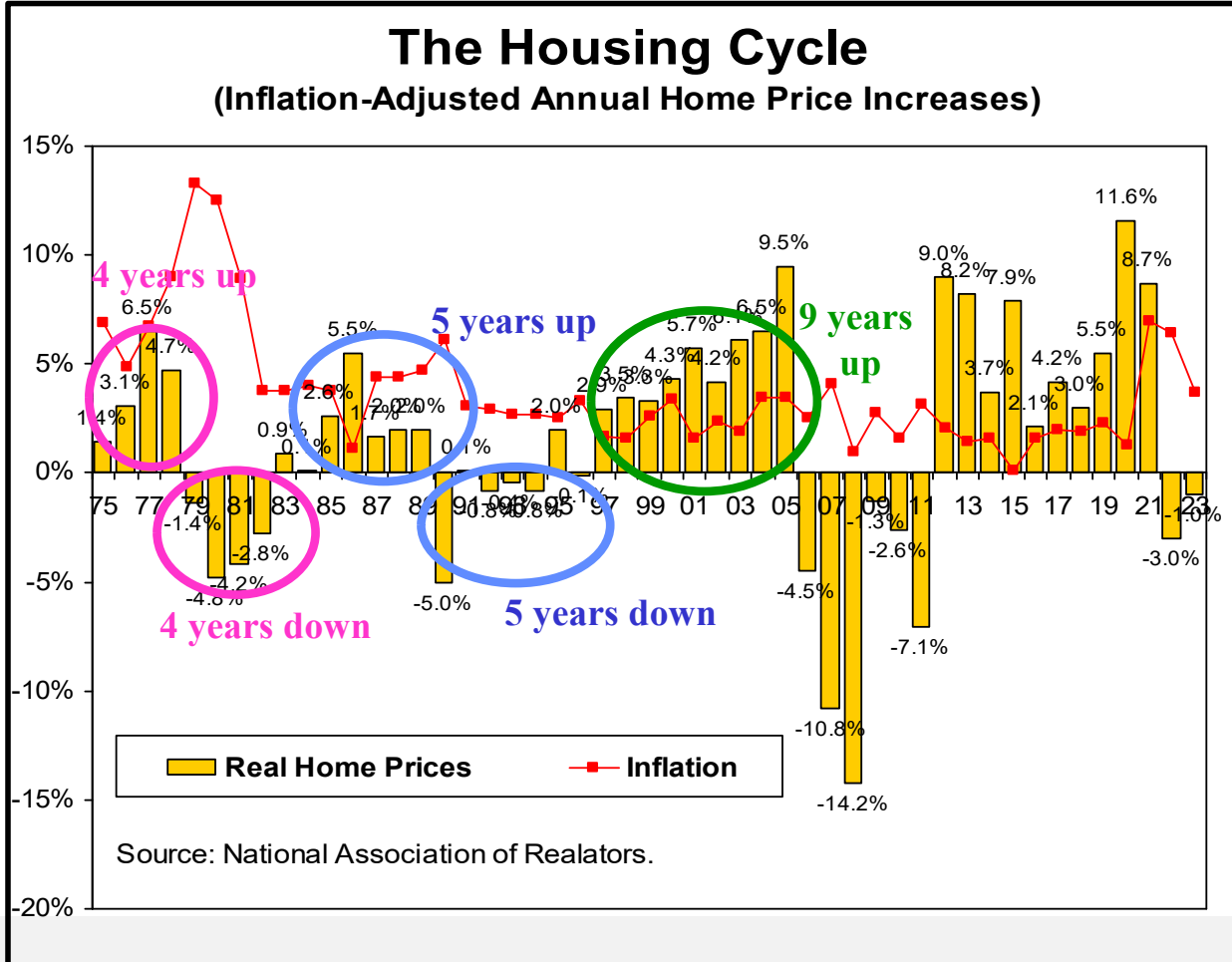


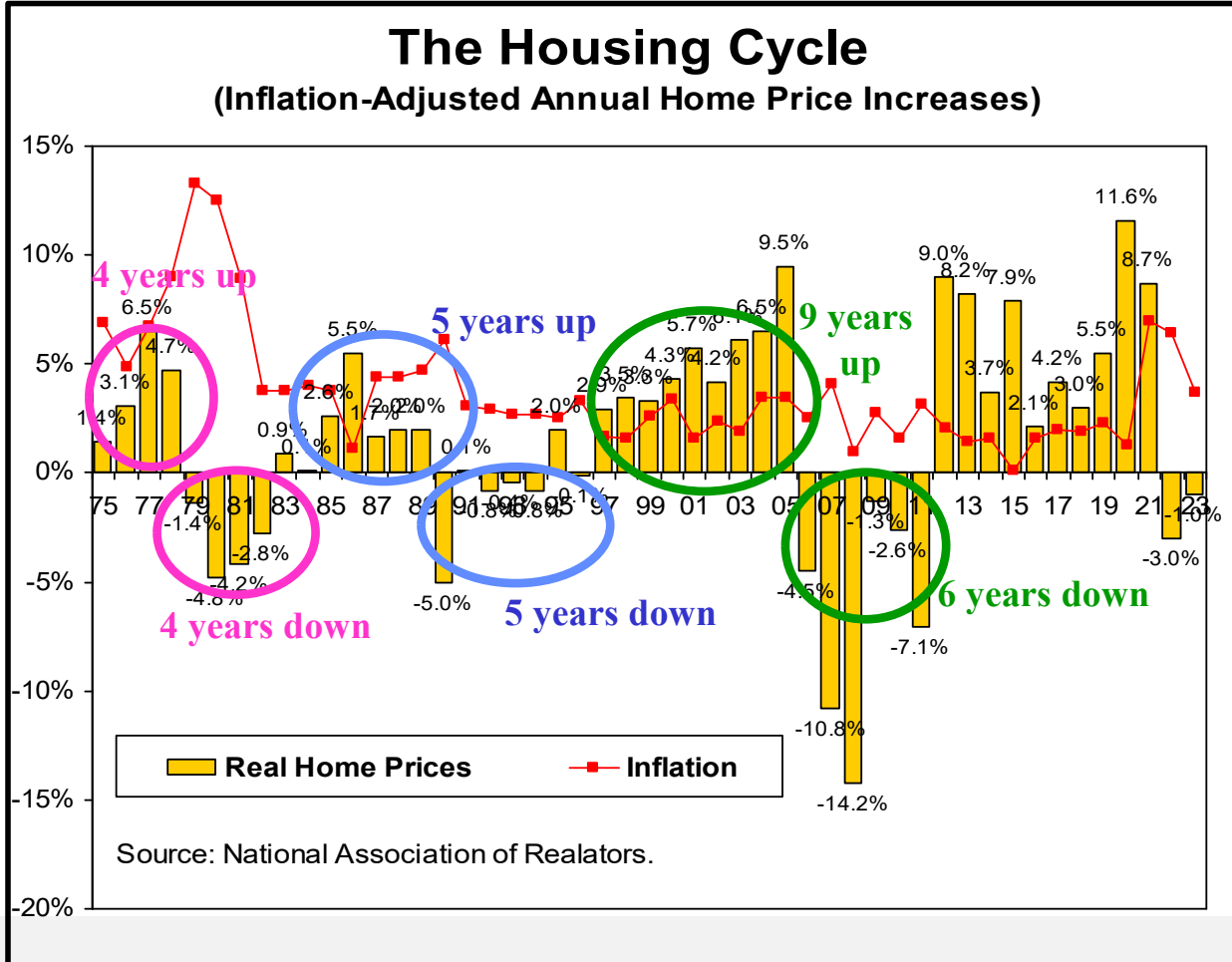
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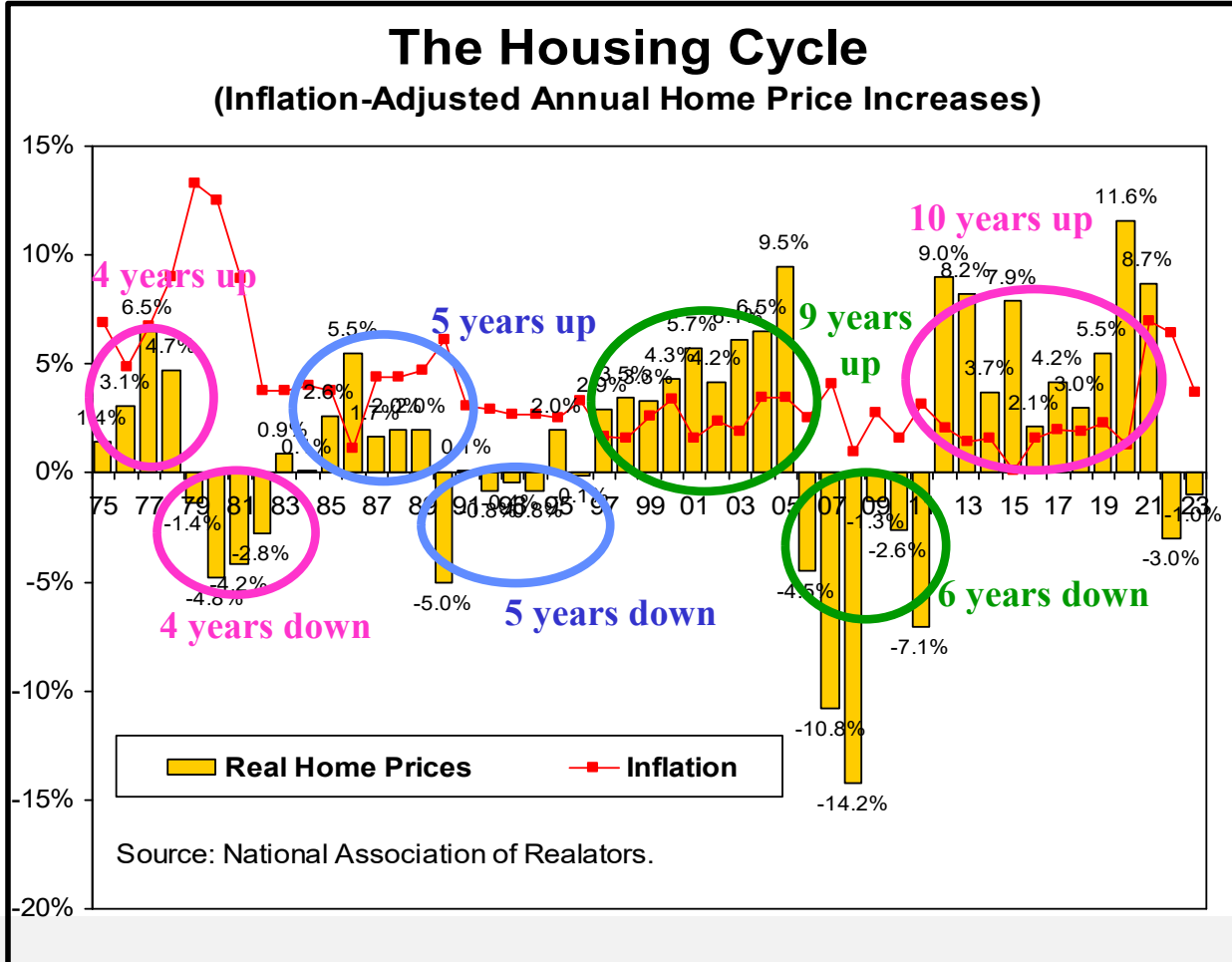




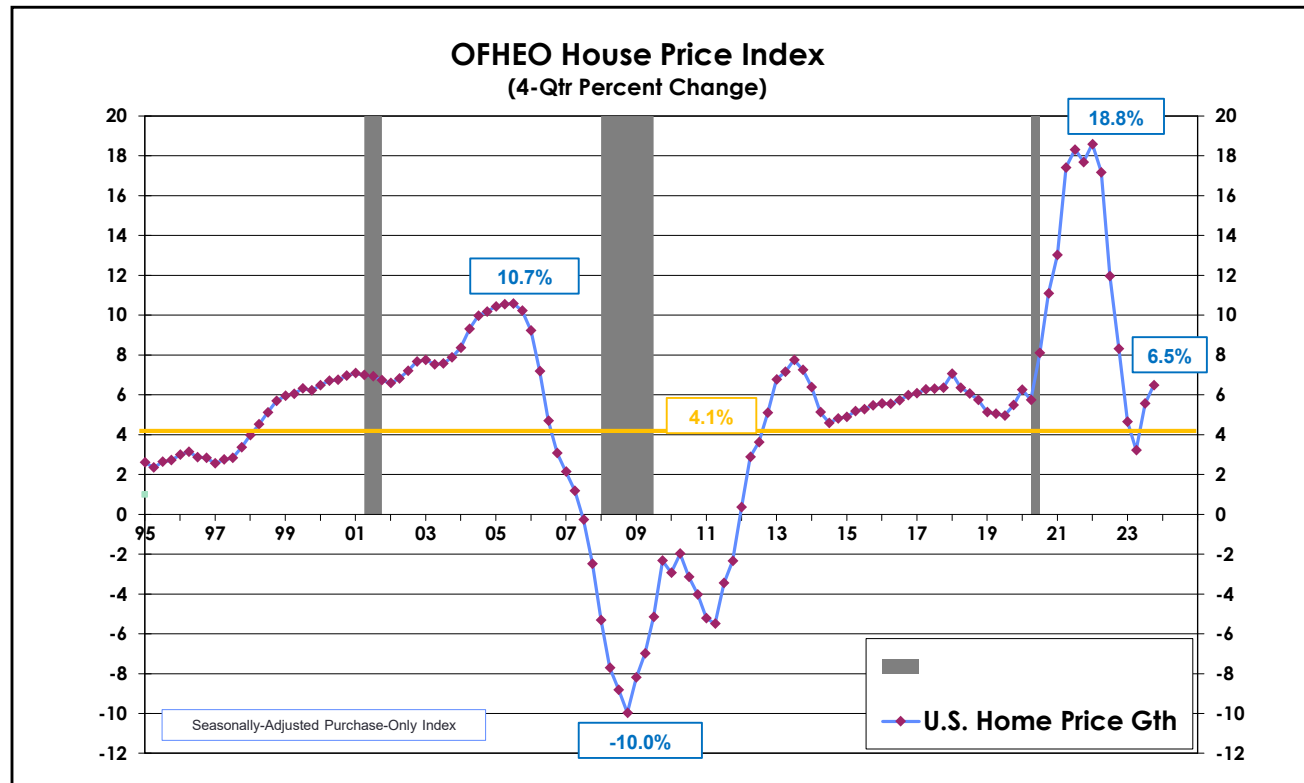




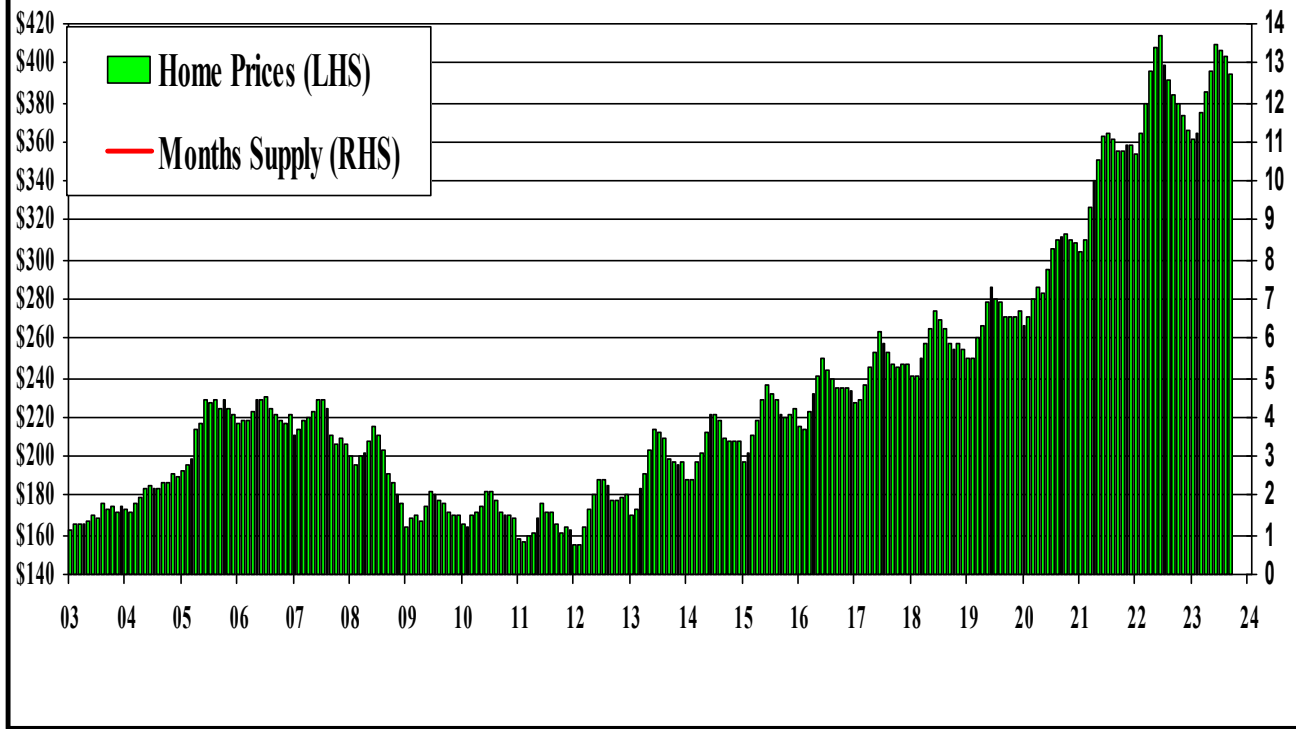




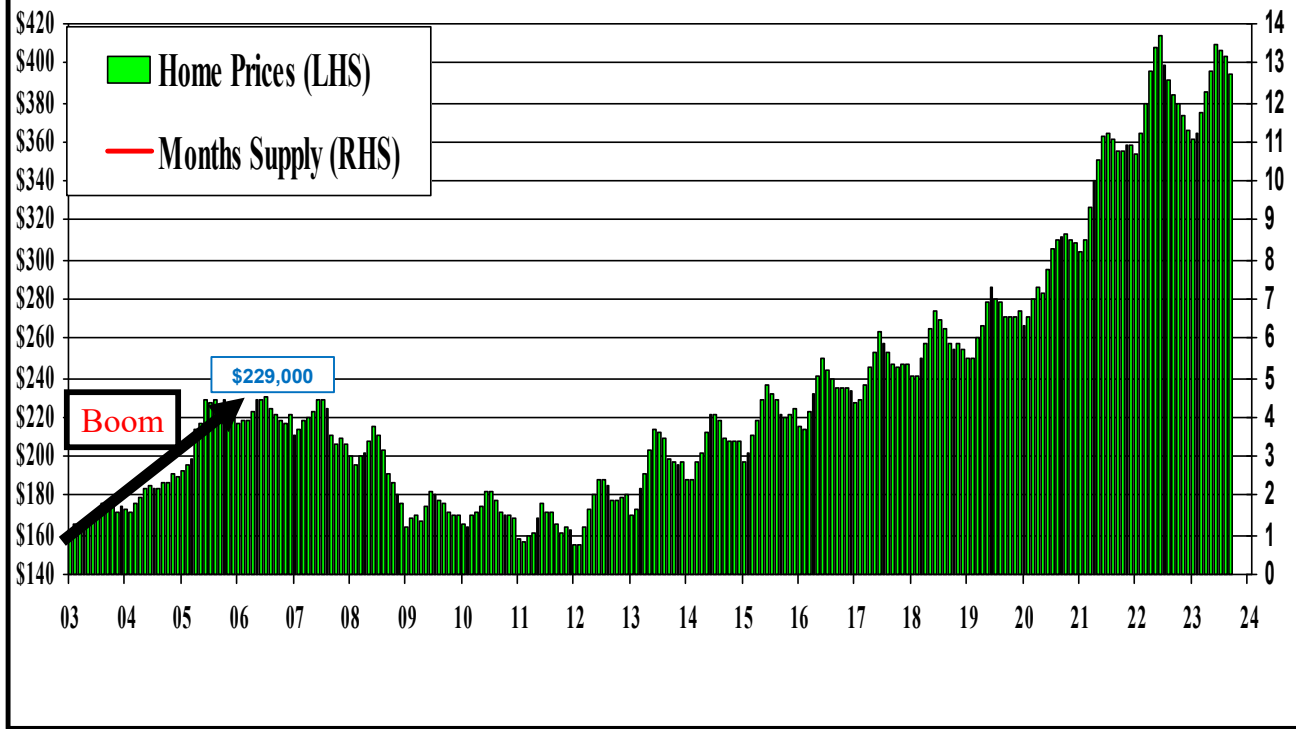
Home Price Appreciation are above Long Run Levels



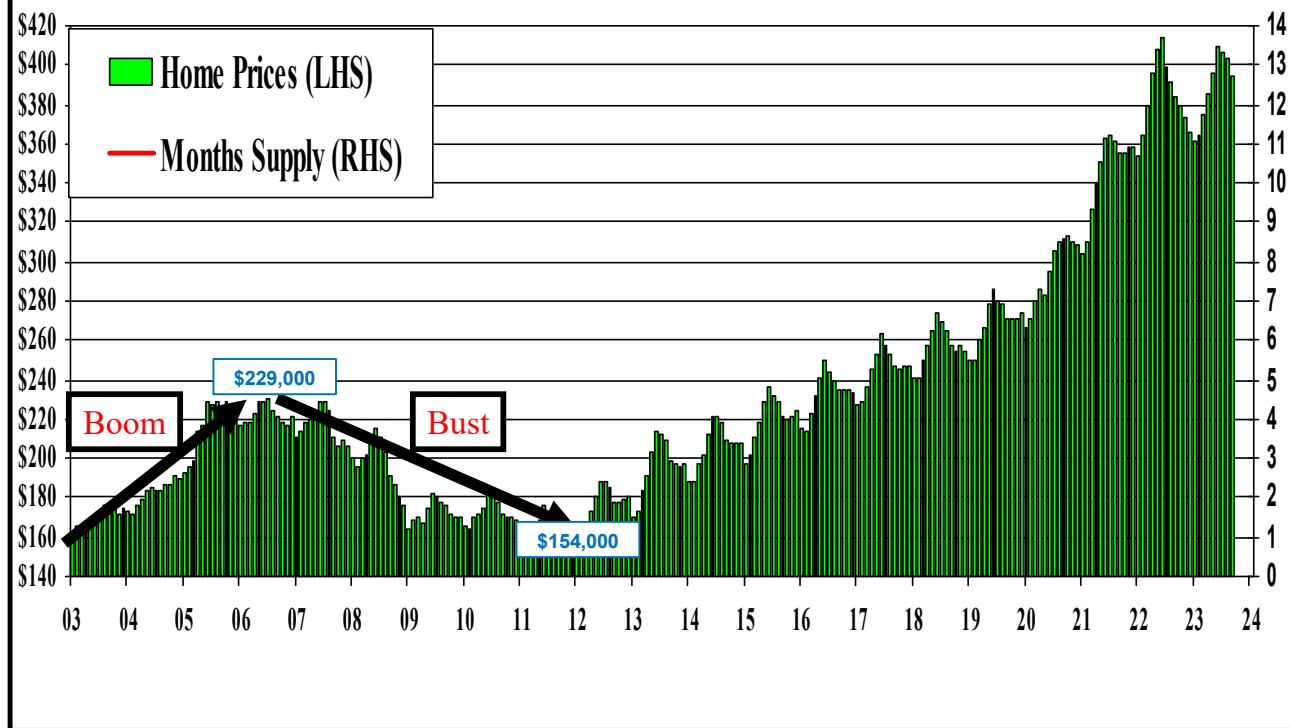
Median Existing Home Price & Months Supply at Current Sales Rate



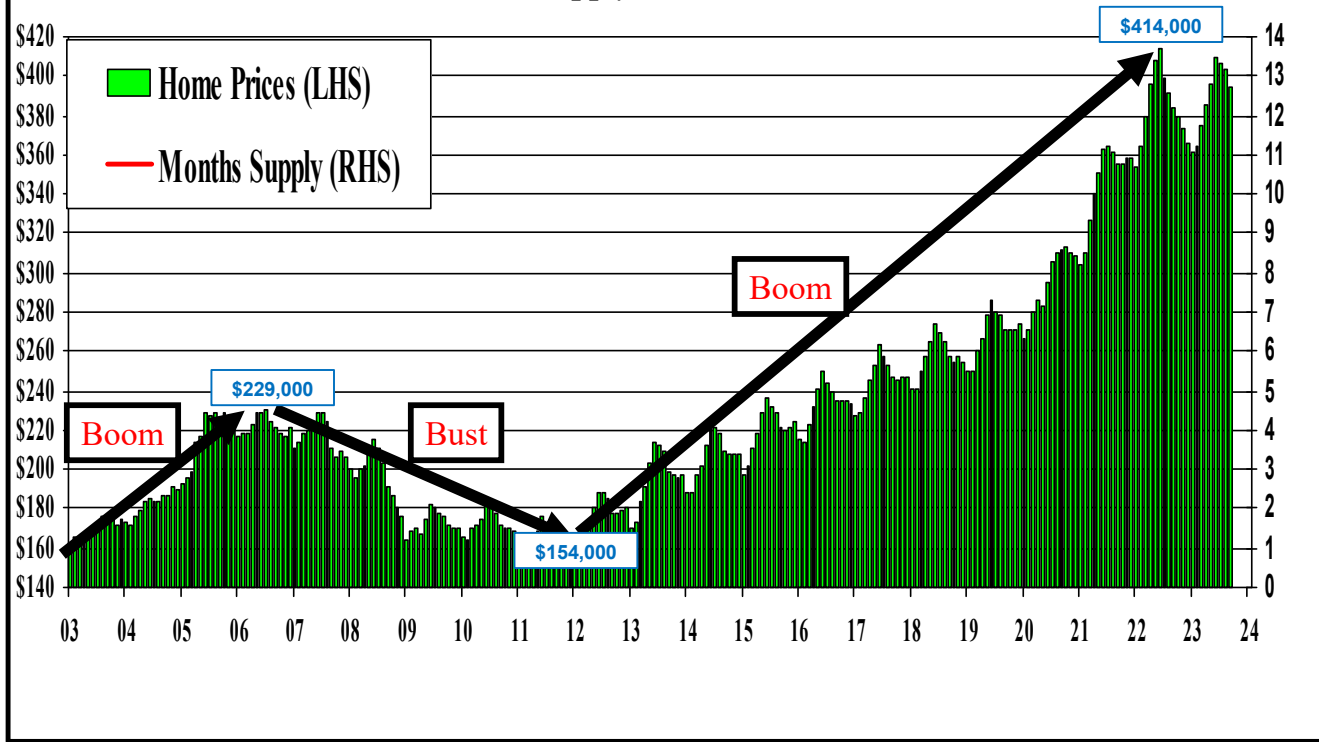
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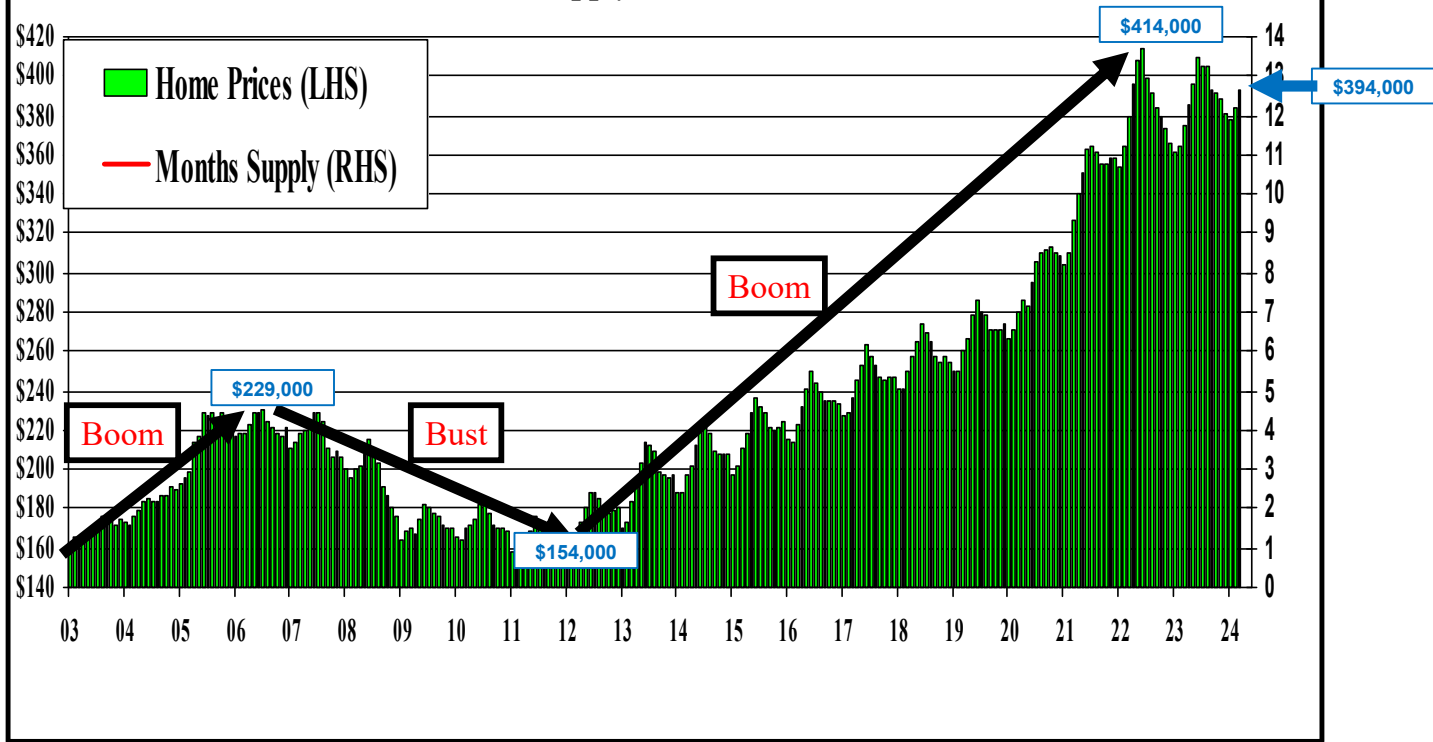
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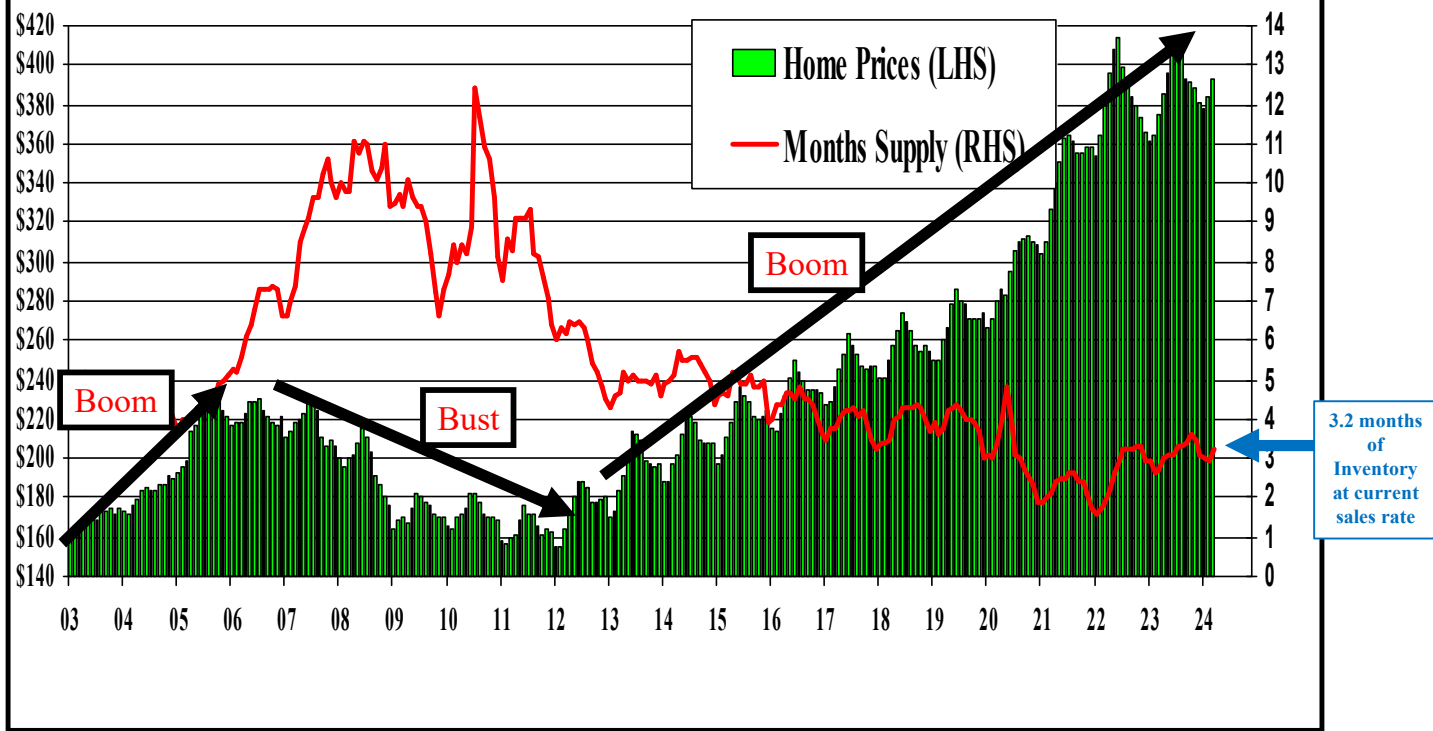
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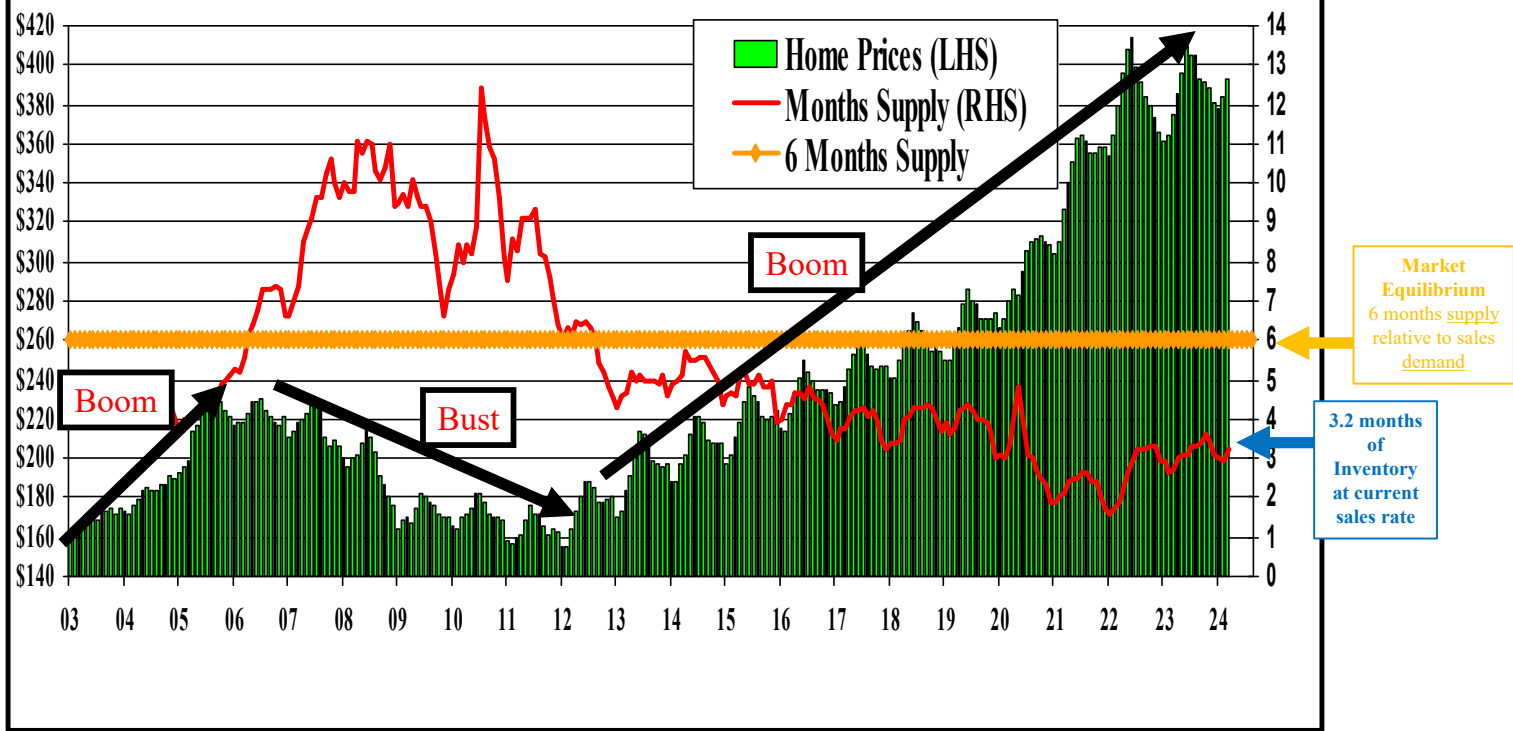
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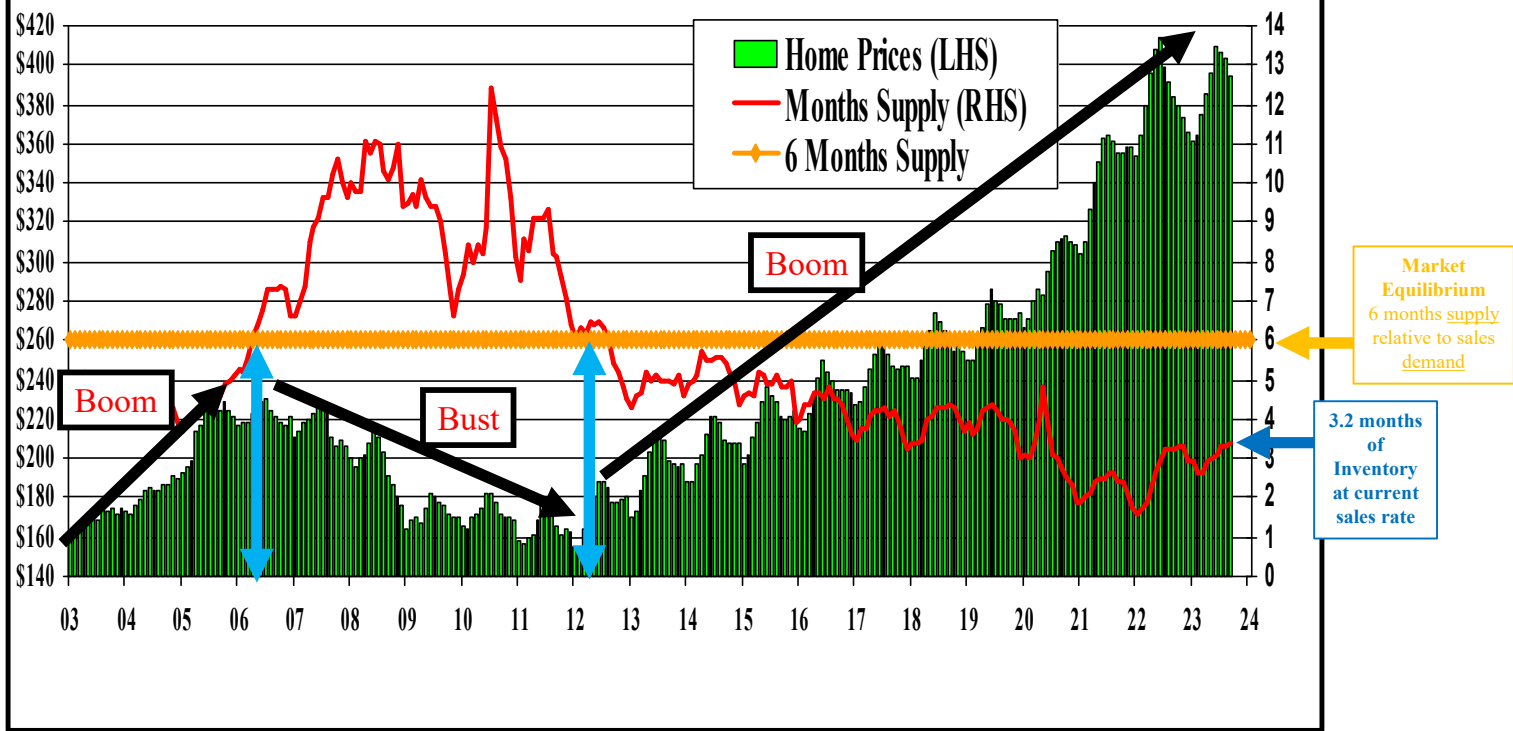
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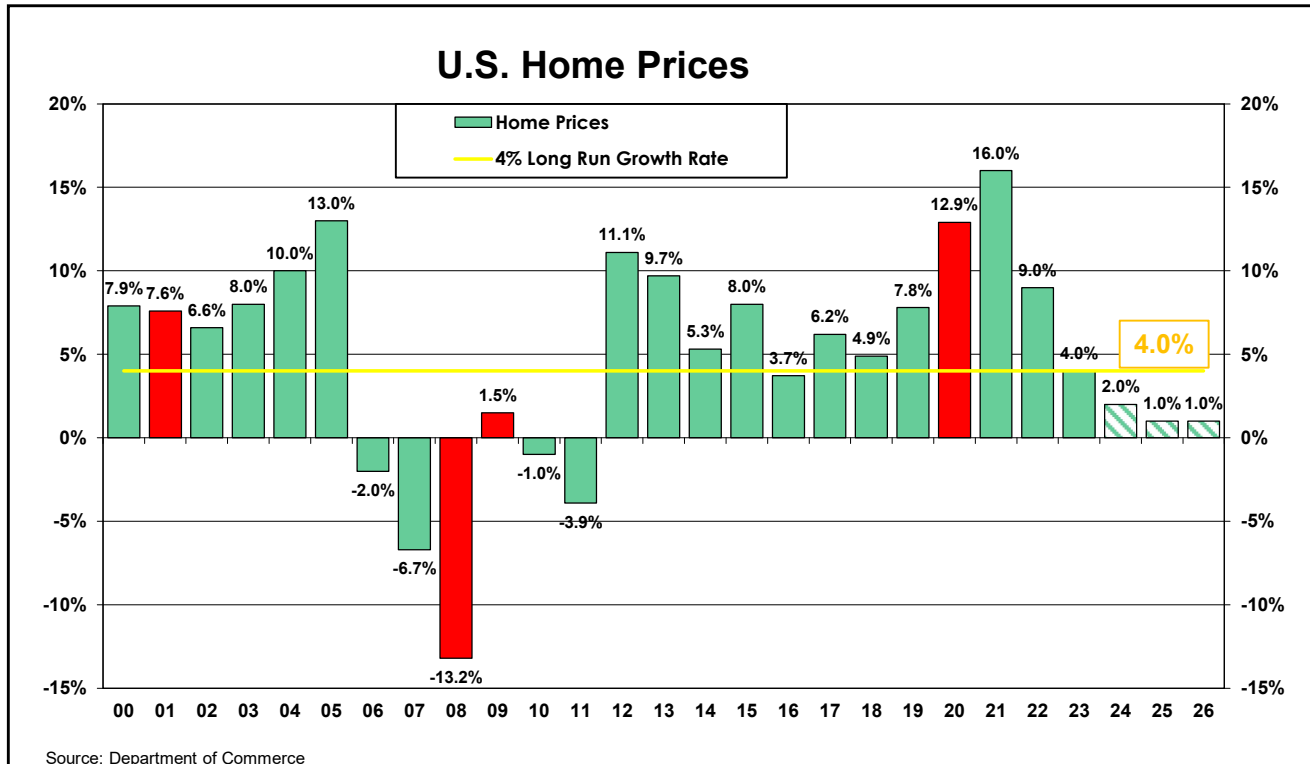
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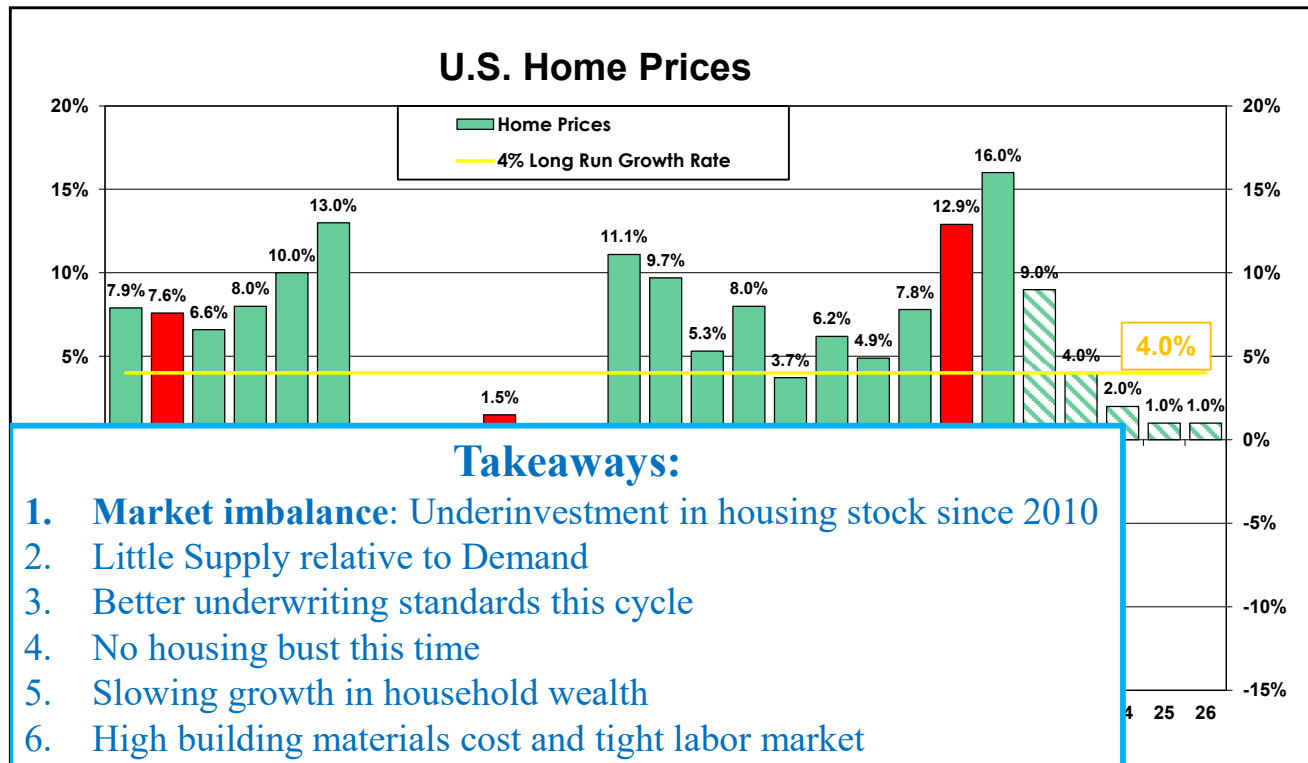
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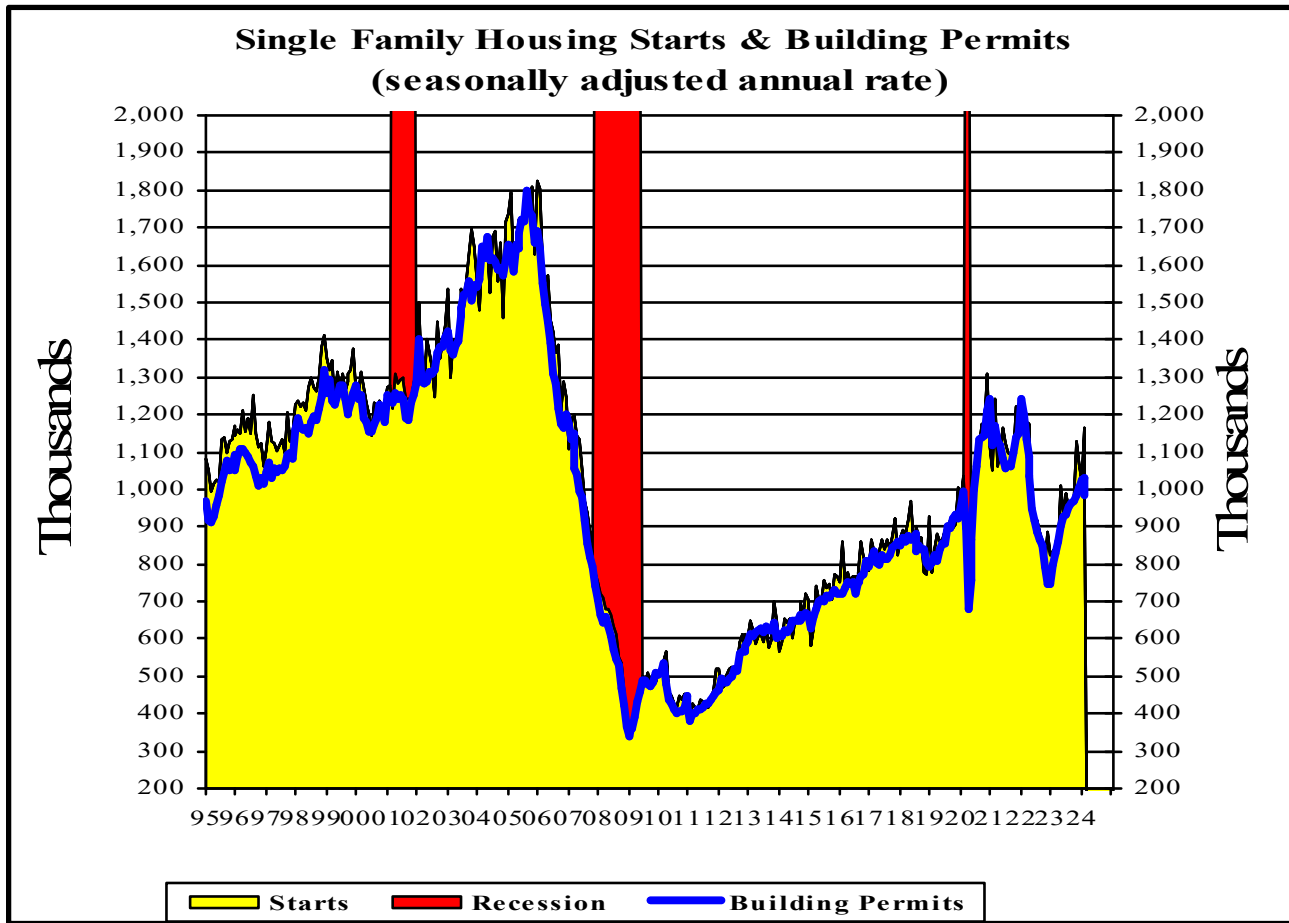


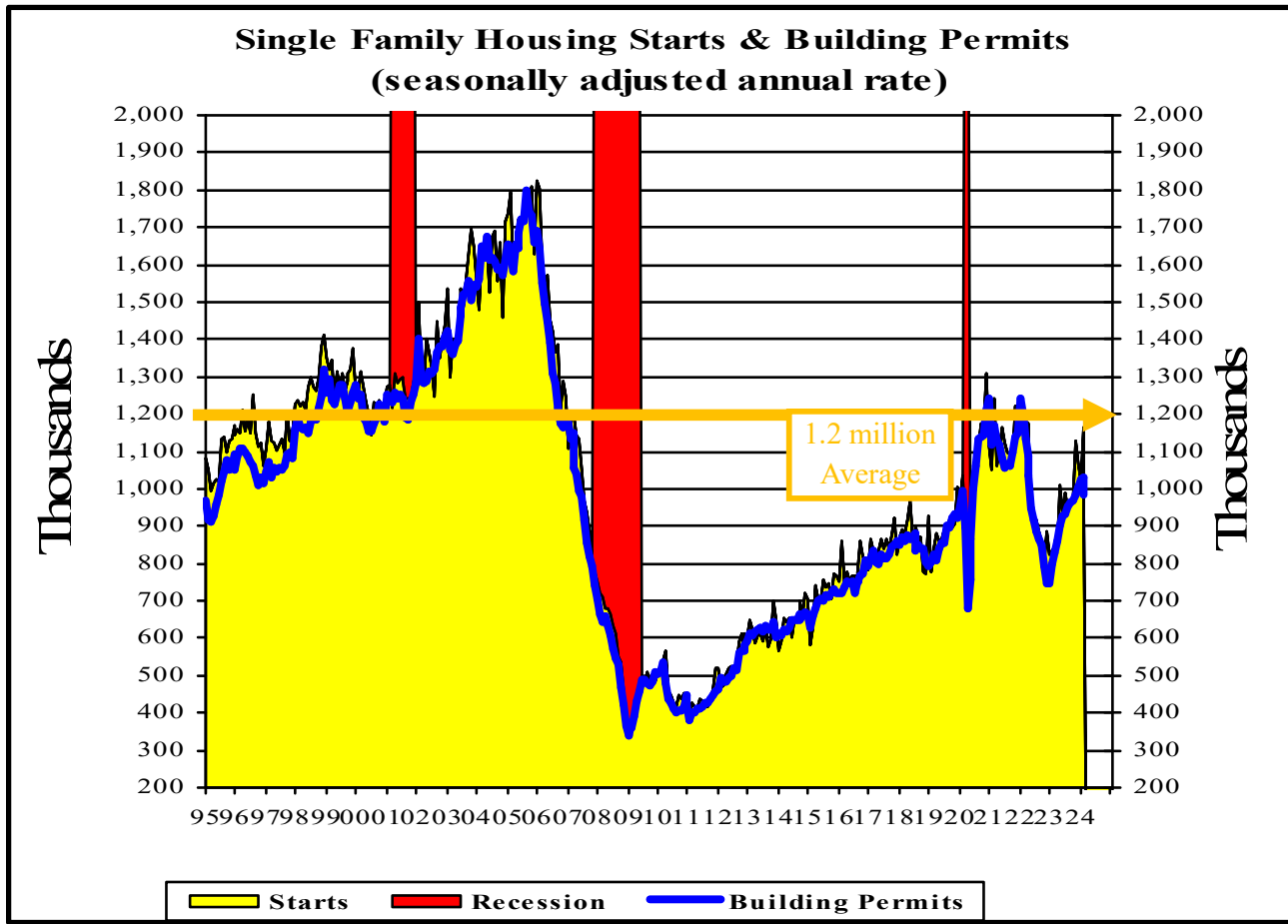
Home Price Growth Rate Slowing

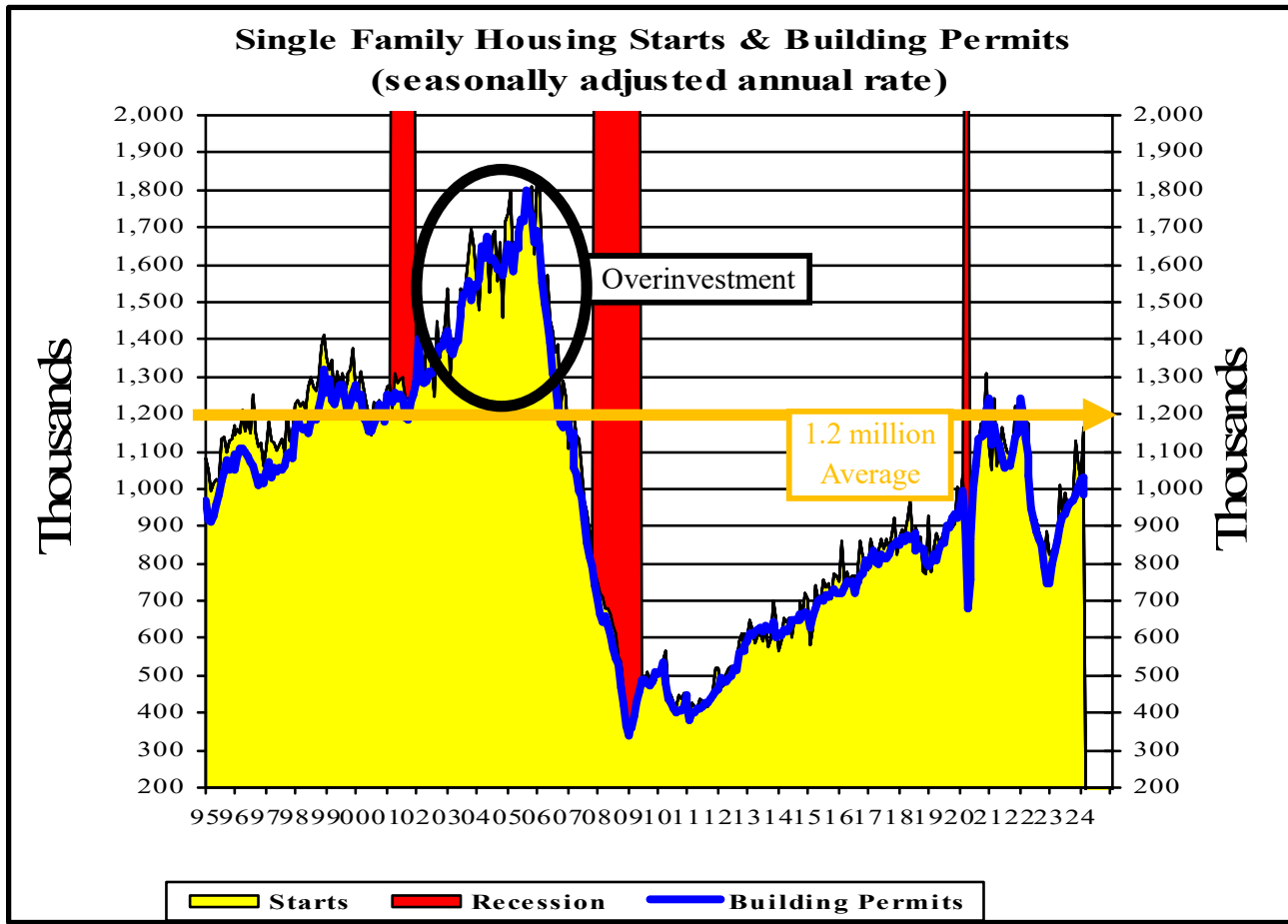


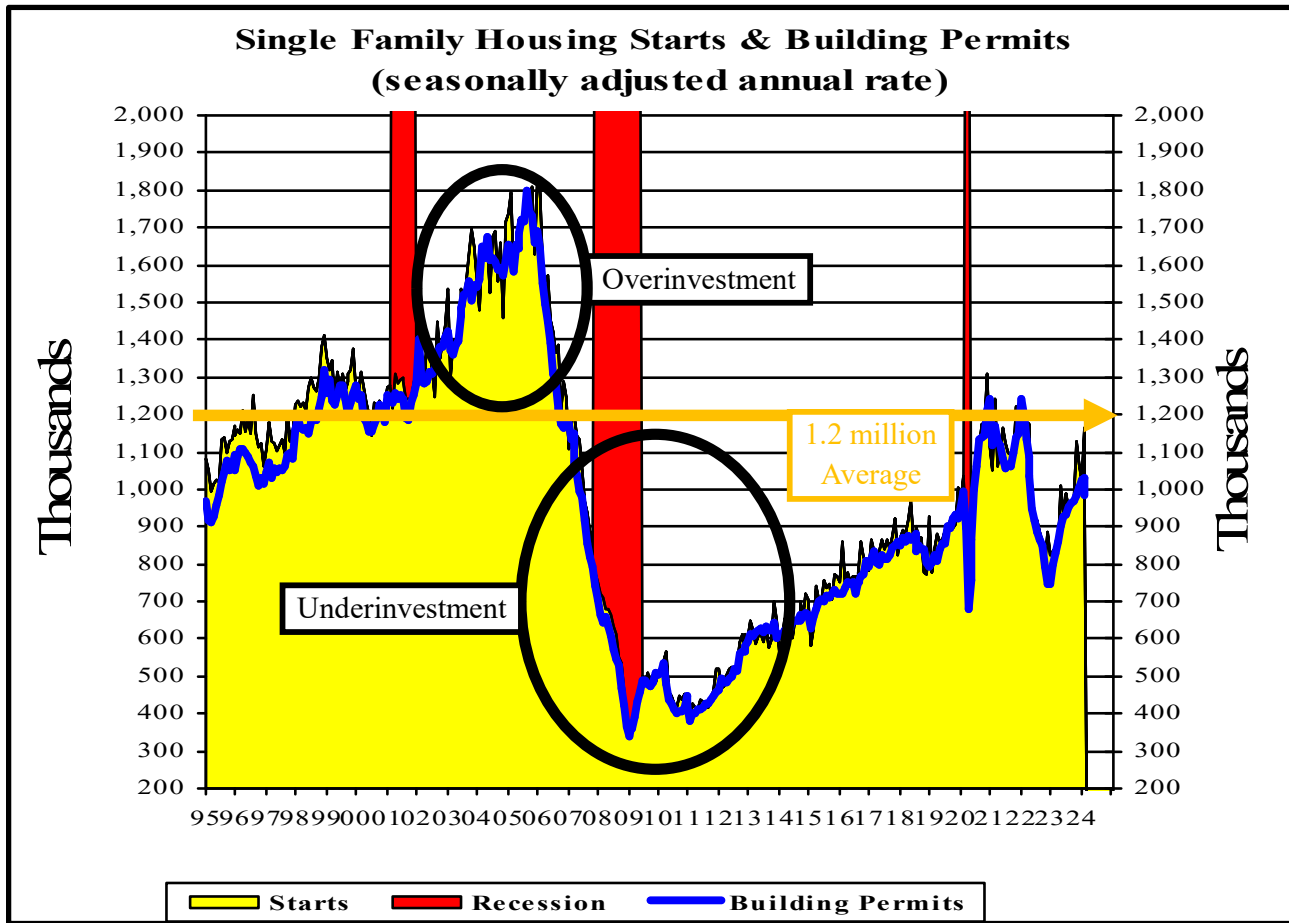
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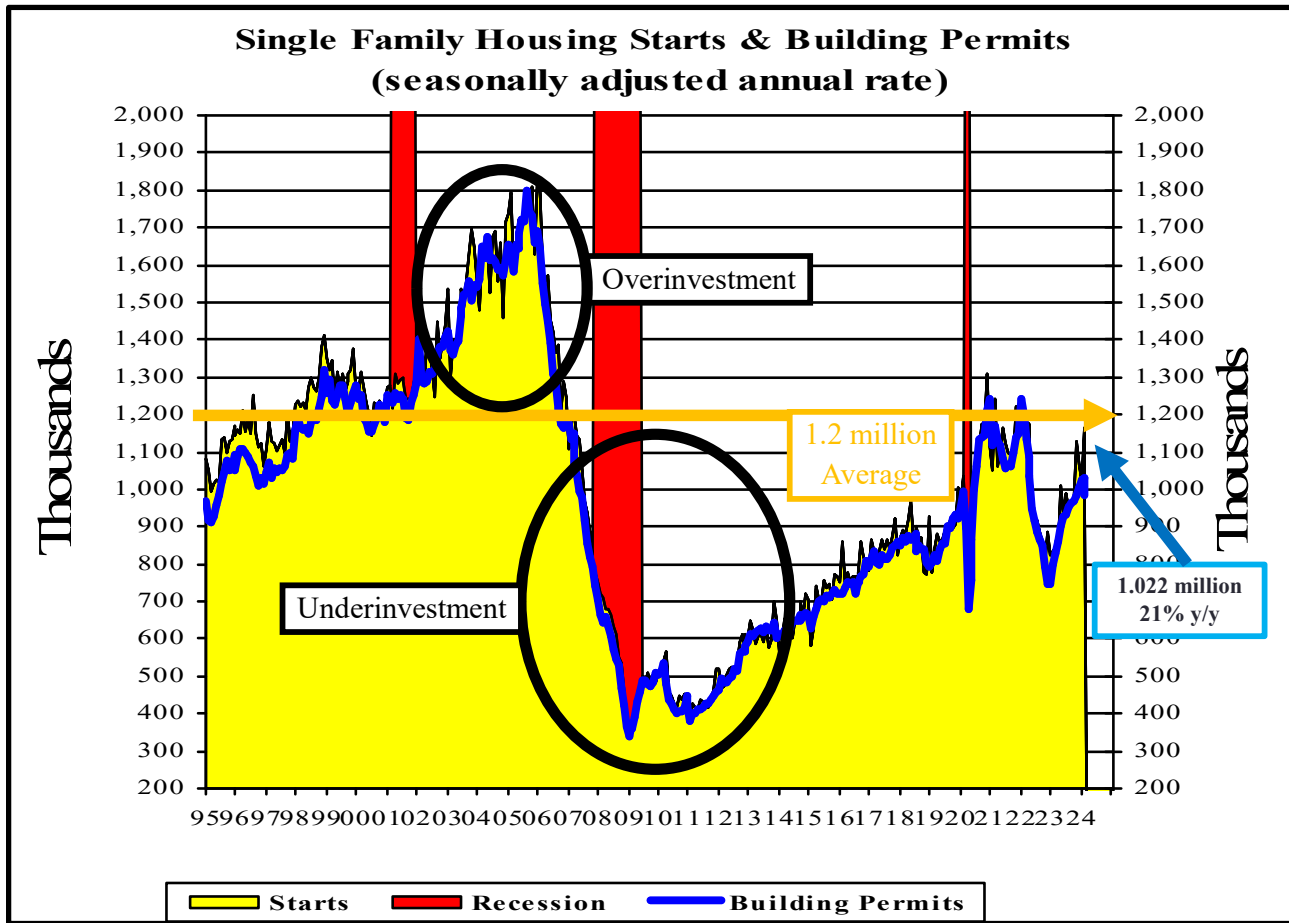




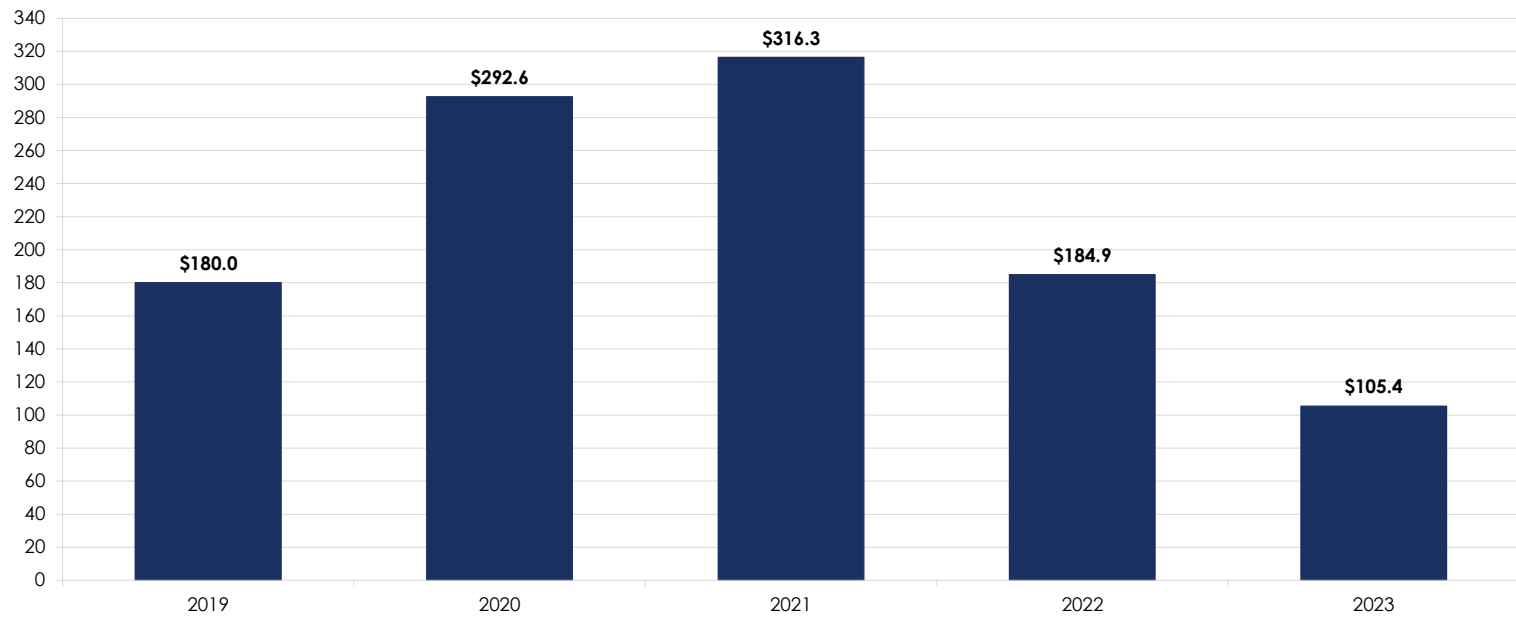




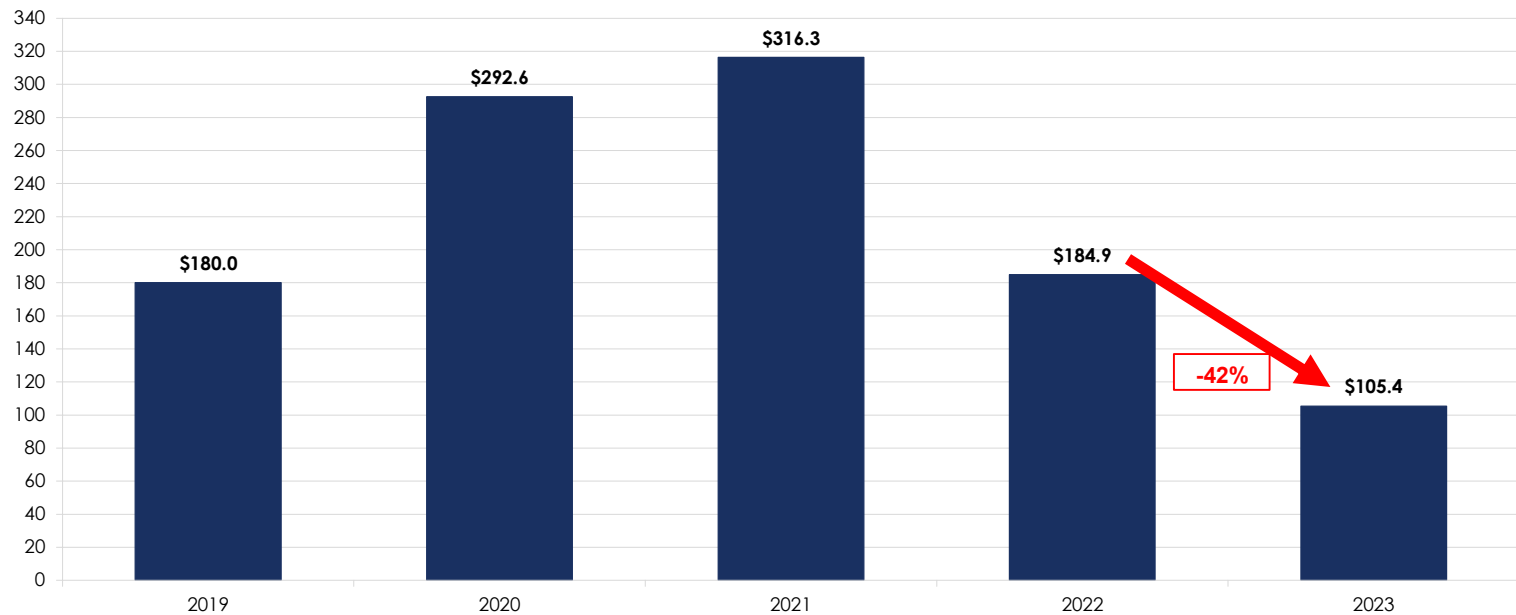




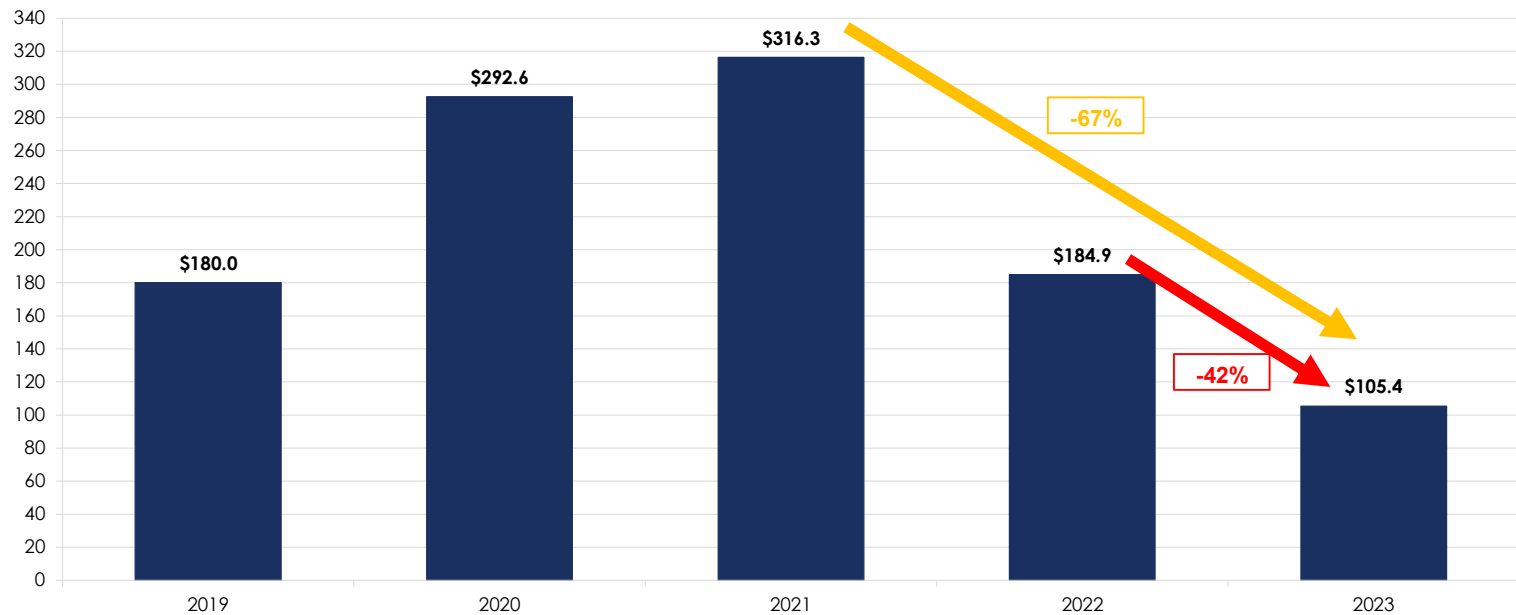
Credit Union 1st Mortgage Loan Originations (Billions of Dollars, Full Year)



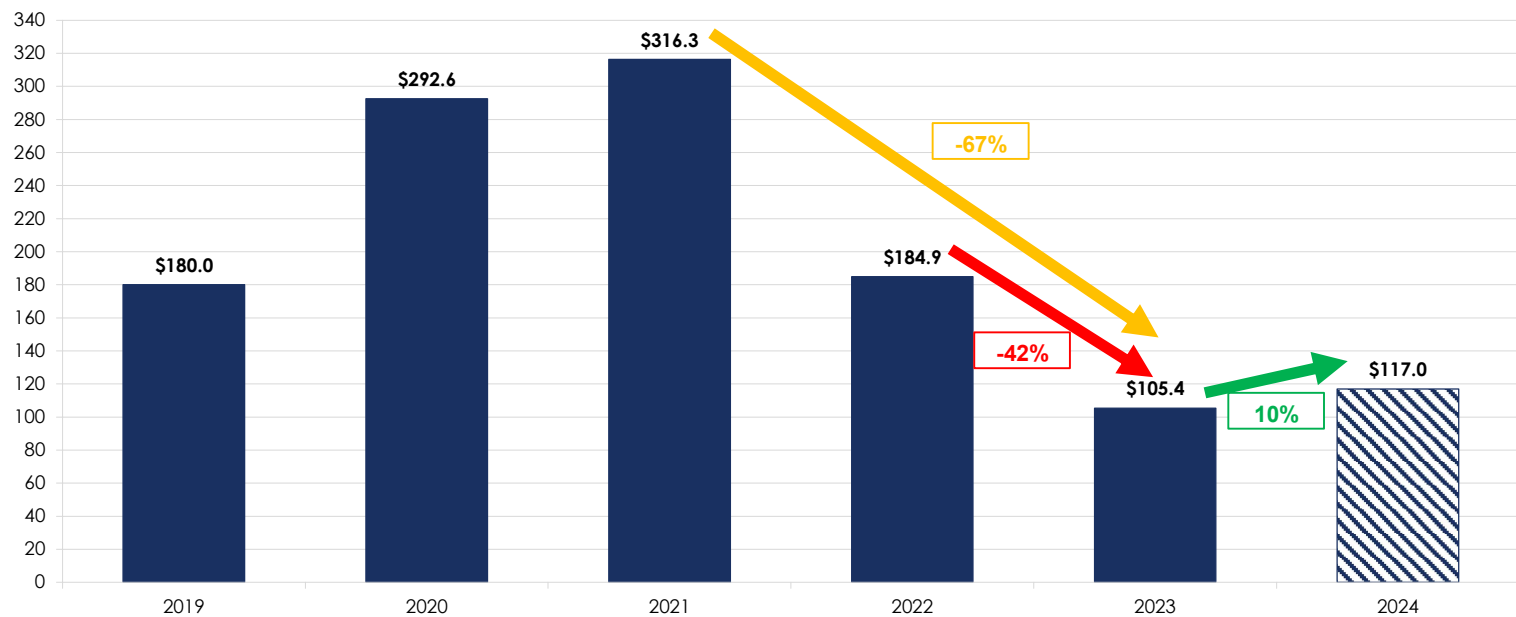
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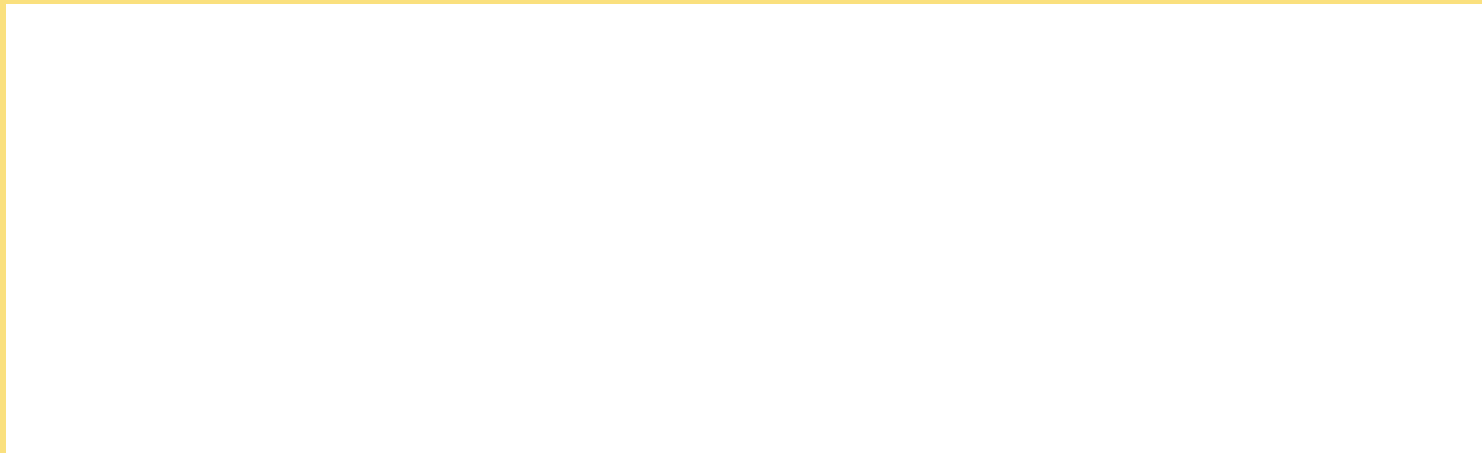


Credit Union 1st Mortgage Loan Originations (Billions of Dollars, Full Year)





Economic Update Summary For 2024



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Economic Update Summary For 2024

1. Below trend economic growth in 2024

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Economic Update Summary For 2024

1. Below trend economic growth in 2024
2. Falling inflation rate during 2024

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Economic Update Summary For 2024

1. Below trend economic growth in 2024
2. Falling inflation rate during 2024
3. Unemployment rate rising to natural rate in 2024

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Economic Update Summary For 2024

1. Below trend economic growth in 2024
2. Falling inflation rate during 2024
3. Unemployment rate rising to natural rate in 2024
4. Short-term interest rates above long-term interest rates in 2024

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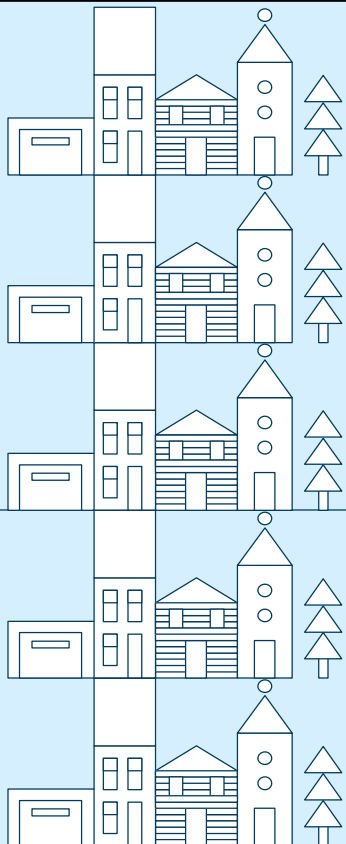


Economic Update Summary For 2024

1. Below trend economic growth in 2024
2. Falling inflation rate during 2024
3. Unemployment rate rising to natural rate in 2024
4. Short-term interest rates above long-term interest rates in 2024
5. Credit Union mortgage originations expected to rise 10% in 2024

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Questions?



Mortgage Market Update, Outlook & Trends

Information as of May 1, 2024

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Mortgage Guaranty Insurance Corporation (MGIC) (NYSE:MTG)



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Overview

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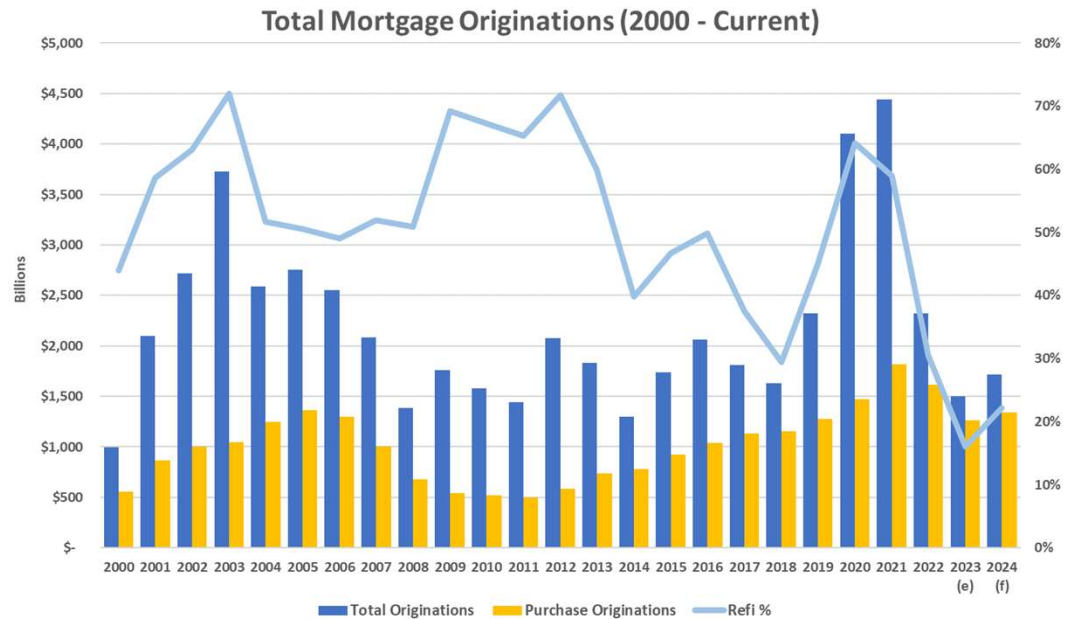
- Origination market trends and economic metrics
- Housing affordability
- Industry profitability trends
- Demographics
- Other industry themes
- Q&A



Originations expected to bounce back from 2023's post-pandemic trough but not by much



- We're expecting a \$1.72 trillion origination year for 2024, up \$220 billion (14.7%) from 2023, which was the lowest year for originations since 2014
- 2023 was down \$2.94 trillion or 66% from 2021's record \$4.44 trillion
- Refinance share in 2024 is expected to finish around 23%, up from 17% in 2023
- 2023's refinance share was the lowest mark this century



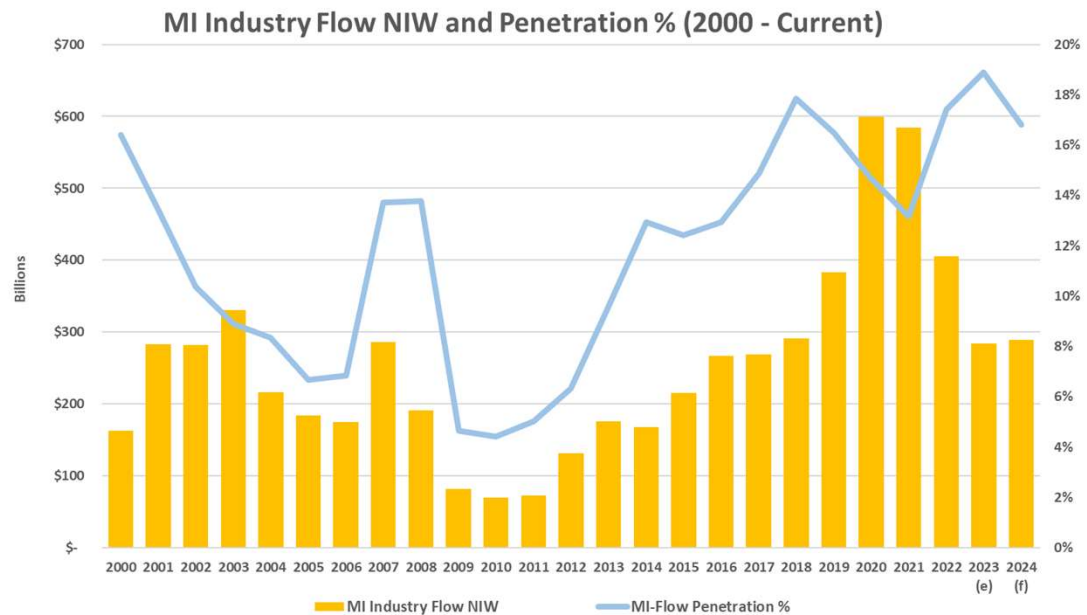
Source: MGIC Product Development as of April 12, 2024. Current-year estimates based on forecasts provided by the Mortgage Bankers Association, Fannie Mae and Moody's Analytics. Actual-year results as reported in Inside Mortgage Finance.



Sign of the Times: MI penetration near record high as borrowers continue scramble for affordability

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- The MI industry has also shrunk from a record of \$600 billion in new insurance written in 2020
- But a higher percentage of borrowers in 2023 relied on MI than in any other year this Century (18.9%)
- High home prices are increasing the percentage of buyers who need to make a down payment of less than 20%
- Fewer refis also mean a higher percentage of purchase loans where MI is more frequently utilized



Source: MGIC Product Development as of April 12, 2024. Current-year estimates based on forecasts provided by the Mortgage Bankers Association, Fannie Mae and Moody's Analytics. Actual-year results as reported in Inside Mortgage Finance.

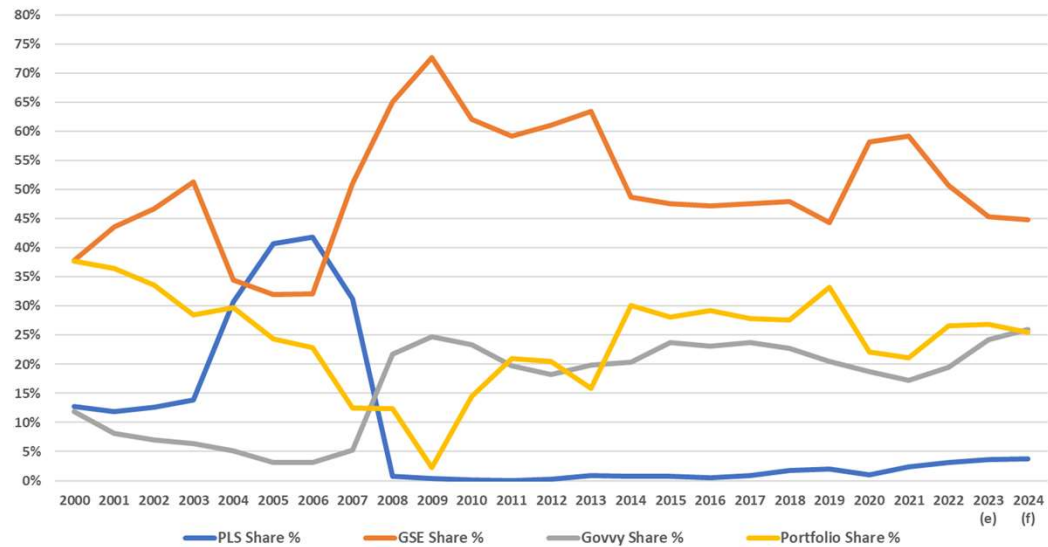


The GSE share of the originations market is retreating to normalcy after the inflated pandemic period



- 2024 will look a lot like 2018 in terms of market segmentation
- Government programs, spurred by the FHA premium rate reduction in early 2023, has gained ground
- Depository portfolio lending share is remaining strong despite liquidity and (potentially) capital headwinds
- The private-label securitization (PLS) segment, driven by prime jumbo securitizations, is off to a fast start to 2024

Mortgage Origination Market Segmentation



Source: MGIC Product Development as of April 12, 2024. Current-year estimates based on forecasts provided by the Mortgage Bankers Association, Fannie Mae and Moody's Analytics. Actual-year results as reported in Inside Mortgage Finance.



Once a tale of two forecasts, Fannie Mae and MBA are now generally aligned on outcomes for 2024

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- The MBA had been more optimistic than Fannie Mae about 2024 across all key housing metrics but they aligned in April
- MBA has reduced its originations estimate by ~\$270B since December
- MBA and Fannie Mae estimates are predicated on an expectation of 2 rate cuts by year's end

More Optimistic

Less Optimistic

2023 Estimate	Metric	Fannie Mae	MBA	Fannie/MBA Difference
5.188%	Fed Funds Rate	5.200%	4.875%	0.325%
4.3%	10-Yr Treasury Yield	4.1%	4.1%	-
3.6%	Unemployment Rate	3.9%	4.2%	0.3%
3.2%	Consumer Price Index (GDP)	3.1%	2.6%	0.5%
6.6%	Home Price Appreciation - HPA (YoY)	4.8%	4.1%	0.7%
3.1%	Gross Domestic Product (GDP)	1.8%	1.0%	0.8%
0.4%	Residential Investment (GDP component)	3.3%	1.9%	1.4%
1,418	Housing Starts (SAAR, thousands)	1,424	1,425	-
4,095	Existing Home Sales (SAAR, thousands)	4,266	4,302	36
7.1%	30-Year FRM Rate	6.6%	6.6%	-
7.3%	30-Year FRM Rate (as of Q4)	6.4%	6.4%	-
\$1,554	Total Mortgage Originations (\$ billion)	\$1,813	\$1,815	-
18%	Refinance %	23%	23%	-

Notes: Based on April forecasts. 2023 Estimate reflects simple average of Fannie Mae and MBA estimates. For home price appreciation (HPA), Fannie Mae's forecast is based on Fannie Mae's Home Price Index (HPI); and the MBA's is based on the Federal Housing Finance Agency (FHFA) House Price Index (HPI) for All Transactions.

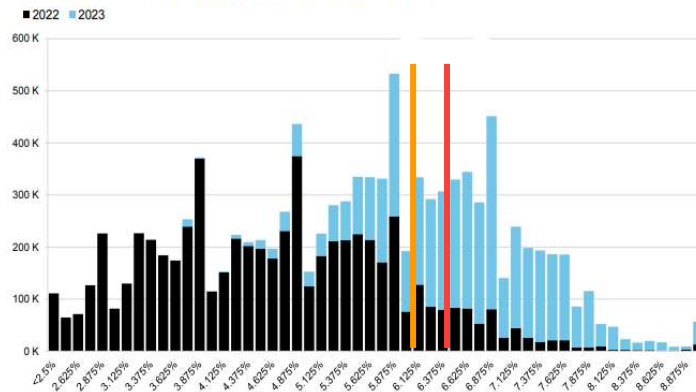


Thanks to the Great Rate Reset, refinancing is likely to remain in the doldrums through most of 2025



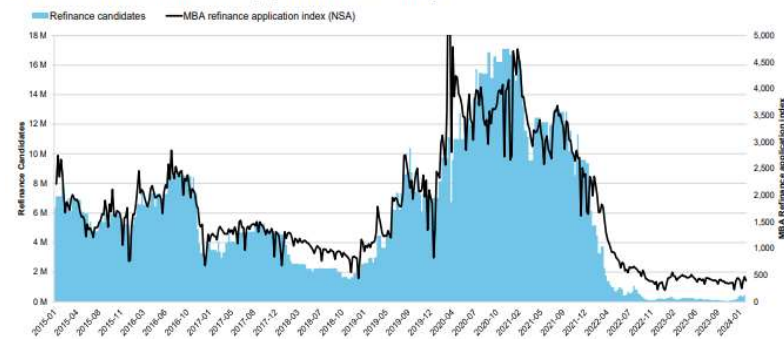
- ICE estimates that there are only 465,000 highly qualified 30-year mortgage holders (those with at least 20% equity and a 720+ credit score) in today's market, compared with an average of 5 million over the past two decades
- ICE notes that it may take rates moving closer to 6% to spur a meaningful increase in refinances

Interest rate distribution for 2022-2023 mortgages



Source: ICE Mortgage Monitor Report, February 2024.

Refinance incentive and applications - weekly



- The red line represents Fannie Mae's Q4 2024 rate estimate (6.4%) and the orange line plots the MBA's estimate (6.1%)
- Borrowers who took out mortgages in 2023 are the potential needle movers for refinance activity in 2024, according to ICE
- ~5% of 2022 loans would be 75 bps or more "in the money" for a refinance if interest rates fell to 6% by the end of 2024
- If rates fell to 6%, ~46% of all borrowers who took out mortgages in 2023 could reduce their rate by at least 75 bps through refinancing

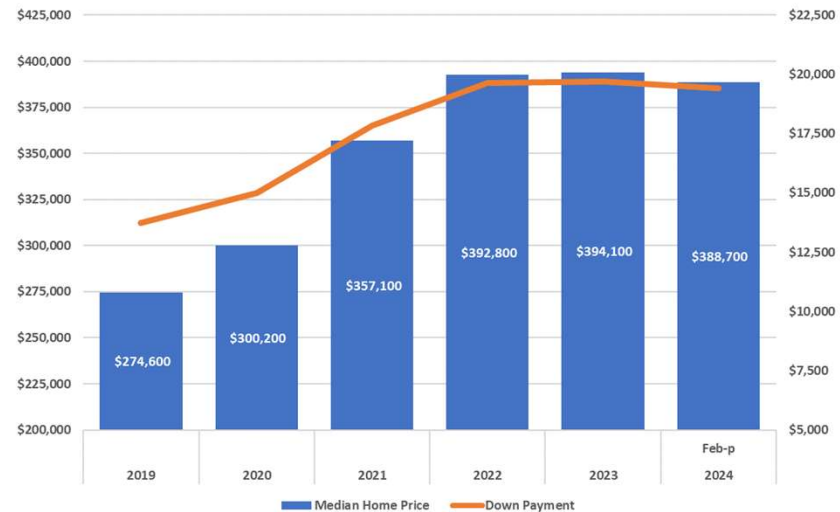


Current economics are undercutting the broader focus on affordability and throttling the market

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- The national median home price is up 29% and the average fixed-rate mortgage rate is up 108% since 2020, causing both monthly payment affordability and the down payment requirement to run away from prospective homebuyers
- The median home price in February was at \$383,700 and the average mortgage rate was 7.11%
- The down payment required to buy a median-priced home with a 95% LTV loan today is nearly \$20,000

Median Home Price and Down Payment Required



Source and Notes: The analysis producing the findings noted above is based on the National Association of Realtors monthly Housing Affordability Index (HAI). This index measures affordability based on the borrower purchasing with a 20% down payment. We've modified NAR's monthly housing affordability analysis to focus on monthly affordability with a 95% LTV loan, as opposed to an 80% LTV loan. As a result, we've modified the interest rate upward by 0.25% to reflect higher borrowing costs associated with higher-ratio loans. As a determination for "comfortably" affording the monthly P&I payment, we continue to use NAR's threshold of a 25% housing expense-to-income (HEI) ratio, calculated as monthly P&I as a percent of the monthly median household income. See addendum for deeper analysis.

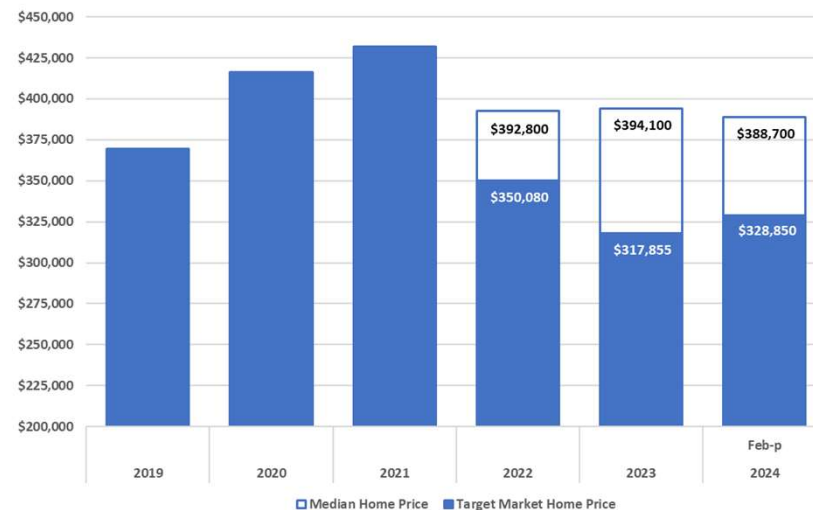


The market's affordability crunch is shrinking the accessible inventory for many would-be buyers

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- The Target Market Home Price is the home price at which a family earning the median income could comfortably afford the monthly mortgage payment with a 95% LTV loan
- Since March 2022, the Target Market Home Price has been **below** the NAR-reported median home price
- For a family earning the median income to buy a home they can comfortably afford, that family today will need to be shopping for a home that is 85% of the median-priced home
- For a family earning 80% of median income, they will be looking at homes in the range of 68% of the median-priced home – a maximum price point of ~\$263,000

Target Market Home Price Relative to Median Home Price



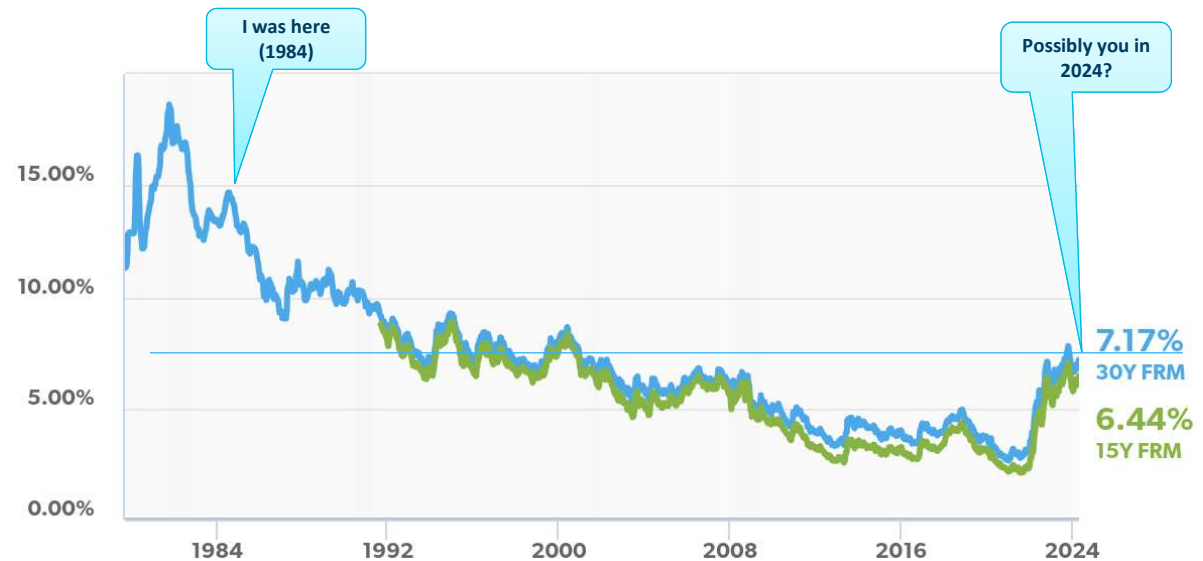
Source and Notes: The analysis producing the findings noted above is based on the National Association of Realtors monthly Housing Affordability Index (HAI). This index measures affordability based on the borrower purchasing with a 20% down payment. We've modified NAR's monthly housing affordability analysis to focus on monthly affordability with a 95% LTV loan, as opposed to an 80% LTV loan. As a result, we've modified the interest rate upward by 0.25% to reflect higher borrowing costs associated with higher-ratio loans. As a determination for "comfortably" affording the monthly P&I payment, we continue to use NAR's threshold of a 25% housing expense-to-income (HEI) ratio, calculated as monthly P&I as a percent of the monthly median household income. See addendum for deeper analysis.



Homebuyers? ... Possibly you!

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- Many Baby Boomers' and older Gen-Xers' first mortgage had a double-digit interest rate
- By historical standards, today's rates are relatively affordable
- We need to remind would-be homebuyers that you "own the home and rent the rate"
- Delaying the purchase decision could be costly in terms of foregone home price appreciation and additional savings required for cash-to-close



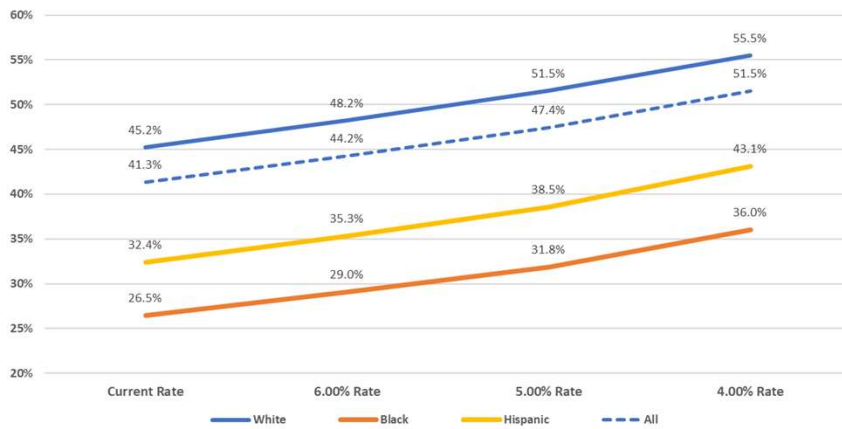
Source: Freddie Mac Primary Mortgage Market Survey, week of April 25, 2024, reflects the average weekly commitment rate for 30-year and 15-year fixed rate mortgages.



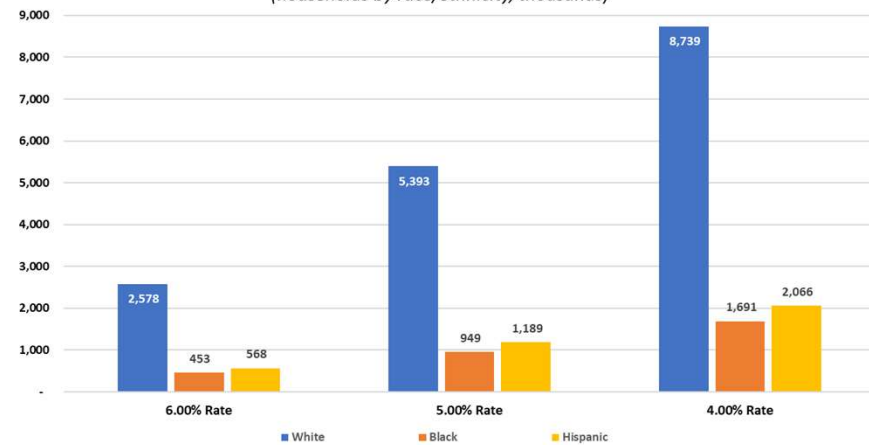
Current rate levels are making it harder to reach minority households and close homeownership gaps



% of Households Than Can Afford to Buy at Lower Rates
(% of households by race/ethnicity)



Incremental Gain in Households That Can Afford to Buy at Lower Rates
(households by race/ethnicity, thousands)



About a million more Black and Hispanic households could afford to buy if rates fell to 6.00%. This number increases to 2.2 million more Black and Hispanic households if rates fell to 5.00%, and 3.7 million more if rates fell to 4.00%.

Source and Notes: MGIC Product Development analysis completed using "Table A-2, Households by Total Money Income, Race, and Hispanic Origin of Households: 1967-2021" of the 2022 Current Population Survey, U.S. Census Bureau. Households were segmented by race/ethnicity and income. Analysis was based on the National Association of Realtors' 2021 median home price to correlate with the 2021 income and household data in the Current Population Survey. Analysis quantified the number and percentage of households, by race/ethnicity and income, that could afford a monthly payment on a 2021 median-priced home at 4 interest rate thresholds – 1) the current rate (6.88% was used), 2) 6.00%, 3) 5.00%, and 4) 4.00%. Other assumptions used to calculate the threshold monthly principal, interest, taxes and insurance (PITI) mortgage payments are: 95% LTV, 33% housing-expense-to-income (HEI) ratio, 38% debt-to-income (DTI) ratio, 360-month term, fixed rate, fully amortizing, monthly MI factor of 0.44% (stepping down to 0.20% in Month 121 and terminating at 78% LTV on the basis of amortization), and a factor of 1.5% (of purchase price) for other insurances and taxes.



Despite affordability challenges, waiting to buy could cost a household more in the long-run



- Borrowers who wait for a lower interest rate and a “buyers’ market” miss out on home price appreciation
- The same is true for borrowers who wait to save for a 20% down payment just so they can avoid MI
- ICE reports that homeowners, on average, increased their home equity 11% in 2023
- The result of waiting is not only foregoing HPA, but also needing to save more for a rising cash-to-close requirement
- Helping borrowers understand these dynamics is important because the best time to buy is typically “now”

Source and Notes: MGIC Product Development analysis of monthly payments and home price appreciation, assuming a 7% note rate on a 30-year fixed-rate mortgage (FRM), across varying scenarios.

Buying With 5% Down - Today

Closing Costs - Today

	Today
Purchase Month	
Purchase Price	\$ 383,500
Loan Amount	\$ 364,325
Down Payment	\$ 19,175
Closing Costs	\$ 6,903
Gifts	\$ -
Grants	\$ -
Borrower Out-of-Pocket	\$ 26,078

Buying With 5% Down - Later

Closing Costs - Later

	48
Purchase Month	
Purchase Price	\$ 432,330
Loan Amount	\$ 410,714
Down Payment	\$ 21,617
Closing Costs	\$ 7,782
Gifts	\$ -
Grants	\$ -
Borrower Out-of-Pocket	\$ 29,398

A consumer who delays using MI and buying today with 5% down could have to bring more cash to closing in the future while also foregoing home price appreciation (HPA).

\$ 3,320	More cash-to-close
13%	More cash-to-close
\$ 48,830	Missed HPA

Buying With 5% Down and MI - Today

Closing Costs - Today

	Today
Purchase Month	
Purchase Price	\$ 383,500
Loan Amount	\$ 364,325
Down Payment	\$ 19,175
Closing Costs	\$ 6,903
Gifts	\$ -
Grants	\$ -
Borrower Out-of-Pocket	\$ 26,078

Saving for 20% Down to Avoid MI

Closing Costs - Later

	48
Purchase Month	
Purchase Price	\$ 432,330
Loan Amount	\$ 345,864
Down Payment	\$ 86,466
Closing Costs	\$ 7,782
Gifts	\$ -
Grants	\$ -
Borrower Out-of-Pocket	\$ 94,248

A consumer who foregoes buying today with MI and a 5% down mortgage and instead saves for a 20% down payment will likely forego an amount of home price appreciation far in excess of the cost of paying monthly MI.

\$ 68,170	More cash-to-close
261%	More cash-to-close
\$ 48,830	Missed HPA
\$ 6,412	MI expense avoided

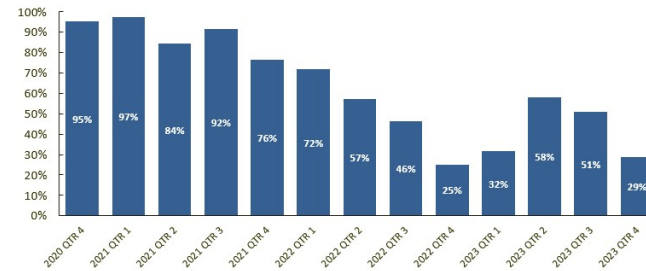


For non-banks, mortgage banking has remained largely unprofitable for nearly 2 full years

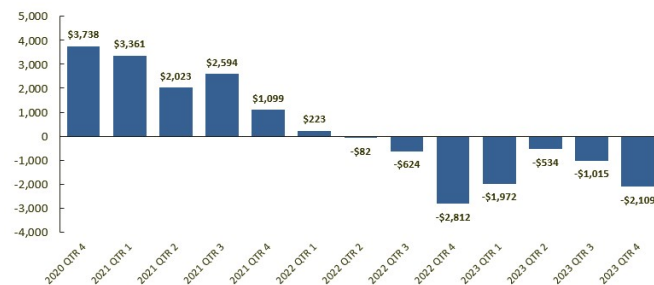


- Only 29% of mortgage bankers were profitable in Q4 on a pre-tax basis, compared with 25% in Q4 2022 and 76% in Q4 2021, the Mortgage Bankers Association (MBA) reports
- On average, mortgage bankers lost \$2,109 per newly originated loan, or 73 basis points (bps) per loan, in Q4
- The MBA's report reflects the continued stress that higher interest rates and reduced volume are placing on the traditional gain-on-sale and servicing profit business model

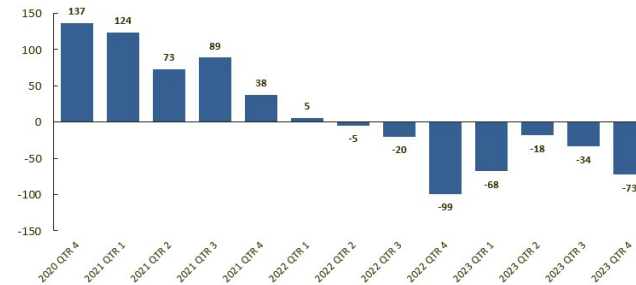
% Institutions with Pre-Tax Net Income > 0



Net Production Income (\$ per loan)



Net Production Income (bps)



Source: Quarterly Mortgage Bankers Performance Report, Mortgage Bankers Association (MBA), 4th quarter 2024, released March 15, 2024.

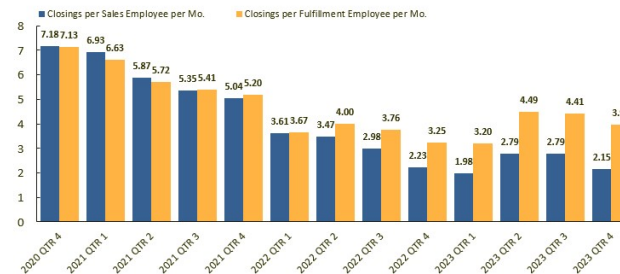


Lack of volume is crushing scale and productivity as the cost to originate a loan is near its record high

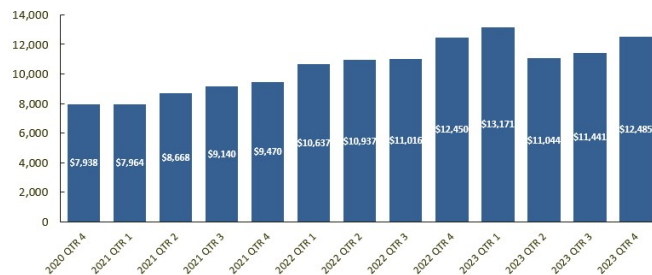


- Mortgage bankers have reduced employment over the last 2 years, but closings per employee continue to remain low despite improvements in late 2023
- The cost to originate a loan rose to \$12,485 (407 bps) in Q4, which is \$686 (19 bps) below its all-time high (Q1 2023, \$13,171 or 426 bps)
- Revenue is down from its 2021 levels, driven by a ~13% decrease in secondary marketing gains and a ~30% decrease in servicing income

Median Productivity - Retail/CD Only



Cost per Loan



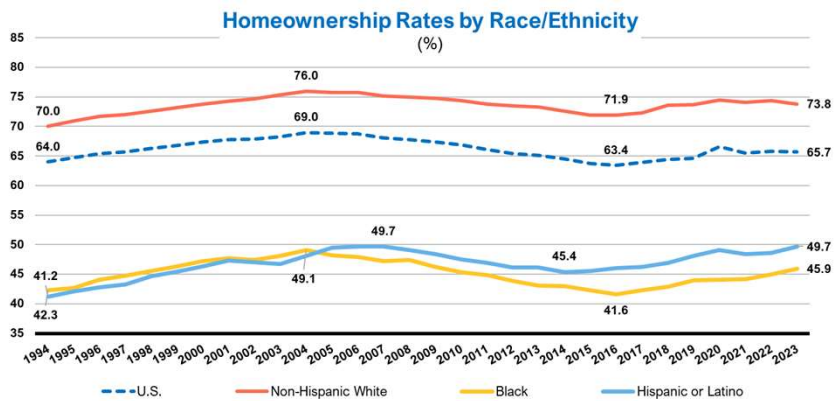
Revenue and Expenses (bps)



Source: Quarterly Mortgage Bankers Performance Report, Mortgage Bankers Association (MBA), 4th quarter 2024, released March 15, 2024. Note: Servicing income includes both servicing-released premium (SRP) and capitalized servicing.



Q: What is the challenge we need to address?
A: Closing homeownership and wealth gaps

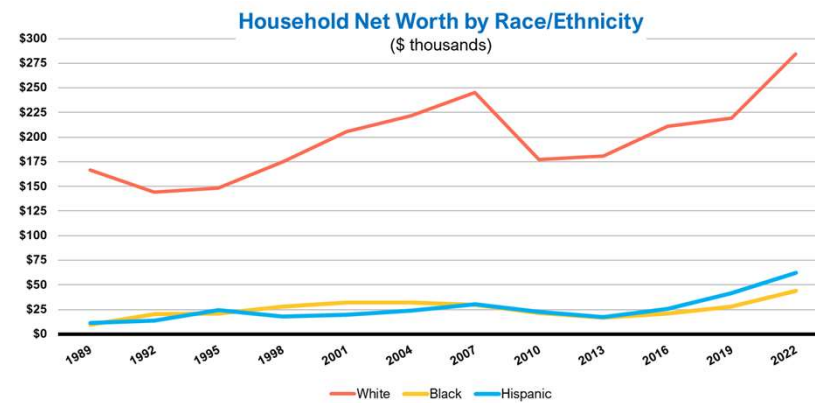


The nation's homeownership gaps ...

- The Black-to-White disparity is 27.9 percentage points, down from 30.3 since 2016
- The Latino-to-White disparity is 24.1 percentage points, down from 25.9 since 2016

... Contribute heavily to its wealth gaps

- White household net worth is \$284,000 in the latest Fed Survey of Consumer Finances
- Latino and Black household net worth are \$62,000 and \$44,000, respectively – disparities of 5x and 7x – respectively



Sources: The U.S. Census Bureau Quarterly Residential Vacancy and Homeownership Report, Q4 2023; and the Board of Governors of the Federal Reserve System 2022 Survey of Consumer Finances (SCF).



Expressing “the gap” in terms of business opportunity reframes the equity issue and changes the narrative

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Closing the gap is good for families, communities and (of course) the mortgage business

	U.S. Households (millions)	Households (% of total)	Homeownership Rate %	Owner- Households (millions)	The Gap (millions of households)	Incremental Origination Opportunity (\$ billions)
White	84.5	64%	73.8%	62.4	-	\$ -
Black	19.2	15%	45.8%	8.8	5.4	\$ 1,955
Latino	19.3	15%	49.7%	9.6	4.7	\$ 1,696
Other	8.4	6%	66.4%	5.6	0.6	\$ 227
Total	131.4	100%	65.7%	86.3	10.6	\$ 3,878

- Eliminating the homeownership gaps today would result in **10.6 million** more owner-households
- 94% of that growth would be attributable to Black and Latino households
- Eliminating the racial/ethnic homeownership gaps today would result in approximately **\$3.9 trillion** in overall incremental origination volume
- Moreover, if racial/ethnic gaps remained eliminated going forward, it would increase originations over the next 10 years by approximately **\$15 - \$39 billion annually**

Sources and Notes: MGIC estimates based on the U.S. Census Bureau Quarterly Residential Vacancy and Homeownership Report, Q4 2023, and Joint Center for Housing Studies (JCHS) at Harvard University, “The State of the Nation’s Housing 2022”, JCHS tabulations of U.S. Census Bureau, Housing Vacancy Surveys. 75% of the median home price for January 2024 of \$383,500, as reported by the National Association of Realtors (NAR), is defined as a “modestly-priced home” and was used to calculate the incremental origination opportunity. A 95% LTV is assumed. A 3% growth rate in the median home price was applied for the 10-year look-forward. Additionally, the 10-year look-forward is informed by JCHS research and assumes an average of 1.6 million new household formations annually with racial/ethnic distribution proportions skewing more minority based on population growth patterns. No adjustment was made for age cohorts.



Demographics – Key themes to consider as you evaluate go-forward business opportunities

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- People of color account for **all** population growth and this has been true for a decade
- Household formations drive homeownership and we're expecting 1.6 million annually for the next 10 years
- Roughly 75% of newly forming households are minority-headed and that percentage will continue to increase
- The growth and composition of the U.S. population shapes our markets of tomorrow in terms of household formations and rental-to-homeownership transition rates and timing
- Given that households of color have lower homeownership rates, we can expect the national homeownership rate to decline as Baby Boomers age unless we're successful in closing the homeownership gaps



Other industry hot topics

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- NAR's settlement and potential DOJ action on buyer's agent commissions
- Basel III End Game Notice of Proposed Rulemaking (NPR)
 - Bank capital requirements (portfolio, operational risk, mortgage servicing)
 - Credit risk transfer (credit-linked notes, Eligible Guarantor language)
- Special Purpose Credit Programs (SPCPs)
- Final Rule on the Community Reinvestment Act (CRA) – Effective April 1
- Credit Score Modernization – VS 4.0 and FICO 10T implementation



Credit Score Modernization timetable

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✓ 2Q 2023	Industry feedback window.
✓ 3Q 2023	Publish Uniform Loan Delivery Dataset (ULDD) specifications to support the updates.
3Q 2024	Publish VantageScore® 4.0 historical credit scores.
TBD	Publish FICO® Score 10 T historical credit scores.
TBD	Lenders deliver FICO® Score 10 T and VantageScore® 4.0 credit scores in addition to Classic FICO credit scores, and GSEs update MBS/CRT disclosures to include FICO® Score 10 T and VantageScore® 4.0.
4Q 2025	Implement “tri-merge” to “bi-merge” reports (optional) and new credit score calculation (mandatory) and incorporate new credit score model requirements into mortgage processes, while simultaneously retiring Classic FICO. Note: Milestones related to the implementation of FICO® Score 10 T are dependent on achieving the necessary conditions for the acquisition and publication of FICO® Score 10 T historical data.

Source: Enterprise Credit Score and Credit Reports Initiative, Partner Playbook, February 2024.

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