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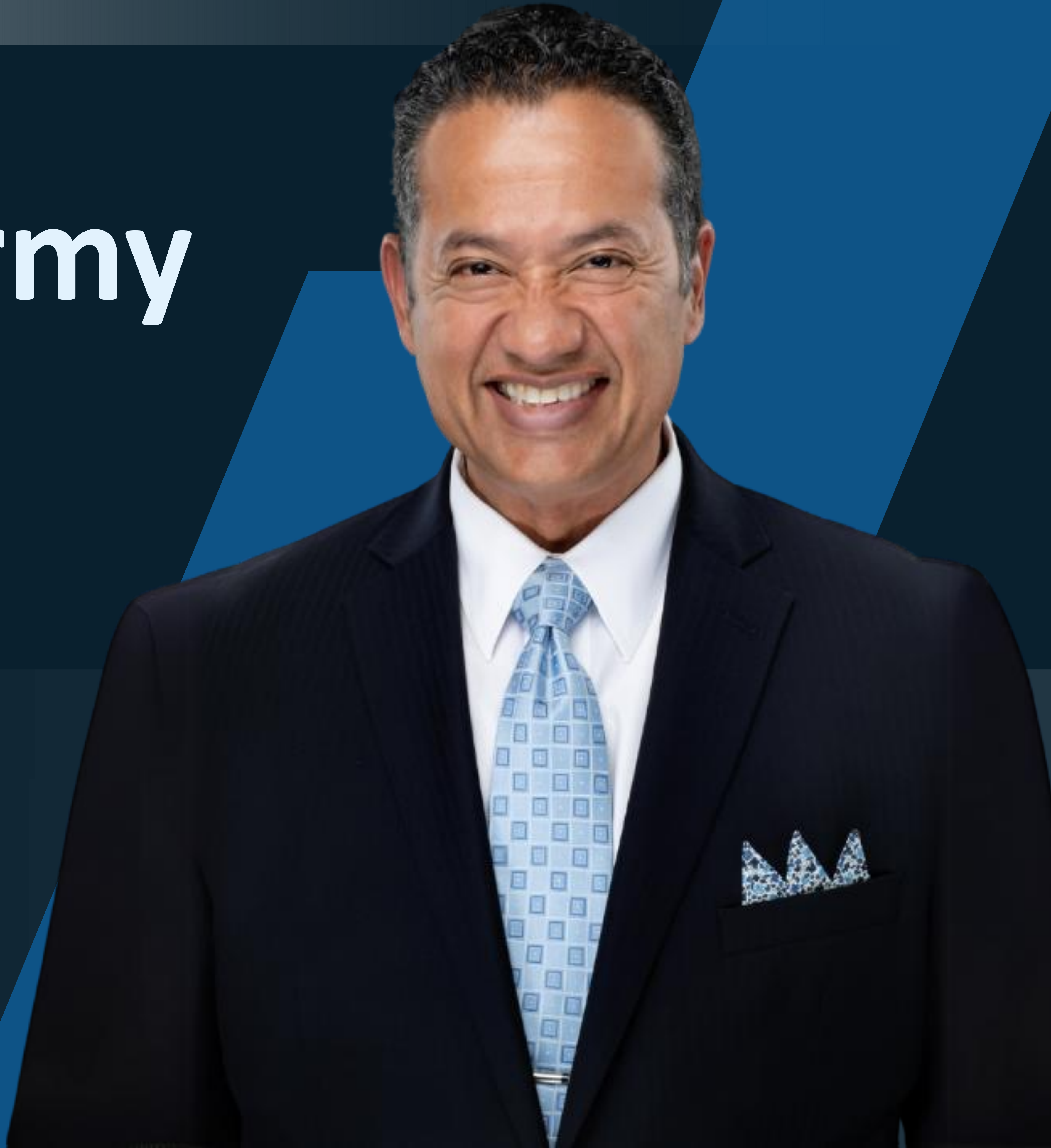
Sunny Skies or Stormy Weather Ahead



with
DAVID LUNA
President, ProMort

WELCOME!

It's fantastic to have you here. Prepare to dive deep into crucial market dynamics and uncover the information you need to make smart, timely decisions. This session is packed with clarity you won't want to miss.

Let’s dive in!

TODAY'S AGENDA

- A.I. and the Mortgage Industry: Will A.I. take jobs or assist?
- The Fed Rate Cuts: How low will they go?
- Latest Housing Data
- Credit Scores - What's NEW?

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A.I. and the Mortgage Industry

Job Replacement?

2025 Nobel Memorial Prize in Economic Sciences

- The 2025 Nobel Prize in Economic Sciences was awarded to Joel Mokyr, Philippe Aghion, and Peter Howitt for their research on innovation-driven economic growth.
- Their work explains how new technologies replace older ones.
- This research shows that sustained economic growth, which has lifted billions out of poverty over the past two centuries, is not guaranteed and requires continued innovation and careful policy support.

- The trio's findings offer a hopeful perspective amid current fears about disruptive new technologies like artificial intelligence, quantum computing, and biotechnology.

- Historical parallels highlight that during the 1750s Industrial Revolution, people feared new technologies would destroy livelihoods and social fabric, but innovation ultimately created new opportunities and prosperity.

- The laureates remind us to stay optimistic about the future and the potential benefits of emerging technologies despite the challenges they bring.

The 1750s: Fear at the Dawn of the Industrial Revolution

Moral panic: Intellectuals and clergy warned that industrialization was breeding moral decay. Despite these fears, society adapted.

New roles emerged, education expanded, and labor movements fought for rights. The industrial age didn't erase humanity—**it reshaped it**.

The 1750s: **Fear at the Dawn of the Industrial Revolution**

In the mid-18th century, as steam engines roared to life and textile mills began to dominate the landscape. While this era would eventually usher in unprecedented economic growth, **it was also a time of deep anxiety:**

Livelihoods threatened: Skilled artisans, weavers, and craftsmen feared that machines would replace their trades.
Cultural upheaval: Rural communities were disrupted as people migrated to urban centers for factory work.

Today: A.I. and the Mortgage Industry

Fast-forward to today, we see a similar wave of transformation—this time driven by artificial intelligence. In industries like mortgage lending, A.I. is automating tasks such as:

- **Loan origination and underwriting**
- **Fraud detection**
- **Customer service via chatbots**
- **Document handling and verification**

AI and the Mortgage Industry and why we still matter

Despite AI's growing capabilities—there are several irreplaceable human strengths that keep mortgage professionals at the heart of the process:

Emotional Intelligence & Trust

- **Buying a home is emotional**: Clients want someone who understands their fears, dreams, and financial anxieties.
- **Human reassurance**: AI can't offer empathy or build trust the way a knowledgeable loan officer can.

AI and the Mortgage Industry and why we still matter

Complex Decision-Making

- **Edge cases**: Not every borrower fits neatly into an algorithm. Unique financial situations require human judgment.

Ethical Oversight & Compliance

- **Bias mitigation**: AI can inherit biases from data. Humans are needed to ensure fairness and regulatory compliance.
- **Final accountability**: Professionals remain responsible for decisions, especially in high-stakes scenarios.

A.I. and the Mortgage Industry and why we still matter

Strategic Relationship Building

Client loyalty: Long-term relationships drive referrals and repeat business.

Partnerships: Loan officers collaborate with real estate agents, financial planners, and title companies—roles A.I. can't replicate.

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THE FED RATE CUTS

How low will they go?

FED RATE-CUTTING CYCLE HAS STARTED

As of mid-October 2025, the **CME FedWatch Tool** indicates a **very high probability** that the Federal Reserve will cut interest rates further at its upcoming meetings:

October 29, 2025, FOMC Meeting

- Probability of a rate cut: 99.6%
- Expected cut: 0.50 percentage points
- New target range: 3.75%–4.00%

FEDERAL RESERVE MONEY SUPPLY MANIPULATION

Quantitative Easing ("QE"):

- Fed buys treasuries and MBS, holds on their balance sheet
- This pumps money into the economy
- This lowers interest rates because this creates more demand for securities (higher demand=higher price=lower rate)
- **Raises inflation** - more dollars in the economy chasing goods and services is inflationary

FEDERAL RESERVE MONEY SUPPLY MANIPULATION

Quantitative Tightening ("QT"):

- Fed sells treasuries and MBS or allows them to mature without replacement.
- This removes money from the economy
- This raises interest rates because US Government loses a big buyer of their treasuries and therefore has to raise the interest rate of securities offered for sale to attract buyers
- **Lowers inflation**

- **Let's look at two examples:**

Example: in 2000

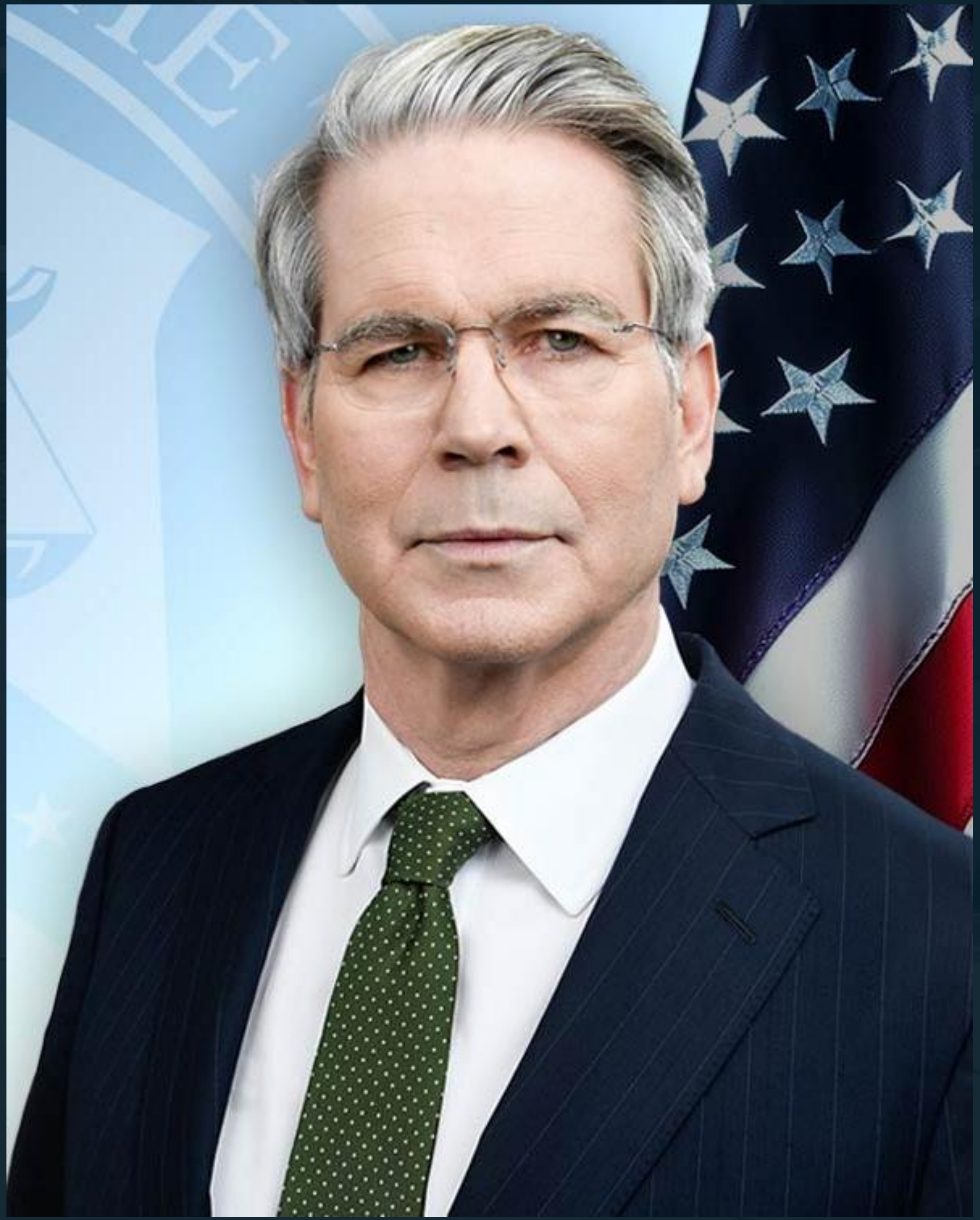
- Fed pumped liquidity into the economy expecting an economic disaster
- No disaster, Fed reversed policy
- This set off the stock market crash of March 2000 that led to a 78% drop in the NASDAQ (Fed does not want to repeat that mistake)

Example: 2020 Pandemic

- Fed balance sheet in early 2020: $3.8 Trillion
- Fed balance sheet mid 2022: $9 Trillion ... QE added over $5 Trillion to the Fed balance sheet
- Current balance sheet as of Oct 16, 2025: $6.6 Trillion ... QT removed $2.4 Trillion in liquidity

Powell: "Some signs have begun to emerge that liquidity conditions (are) gradually tightening"… "both layoffs and hiring remain low" … "while households' perceptions of job availability and firms' perceptions of hiring difficulty continue their downward trajectories"

Treasury Secretary Bessent wants the 10-yr lower and "unfreeze" housing markets.



Latest Housing Data:

Purchase & Refi's

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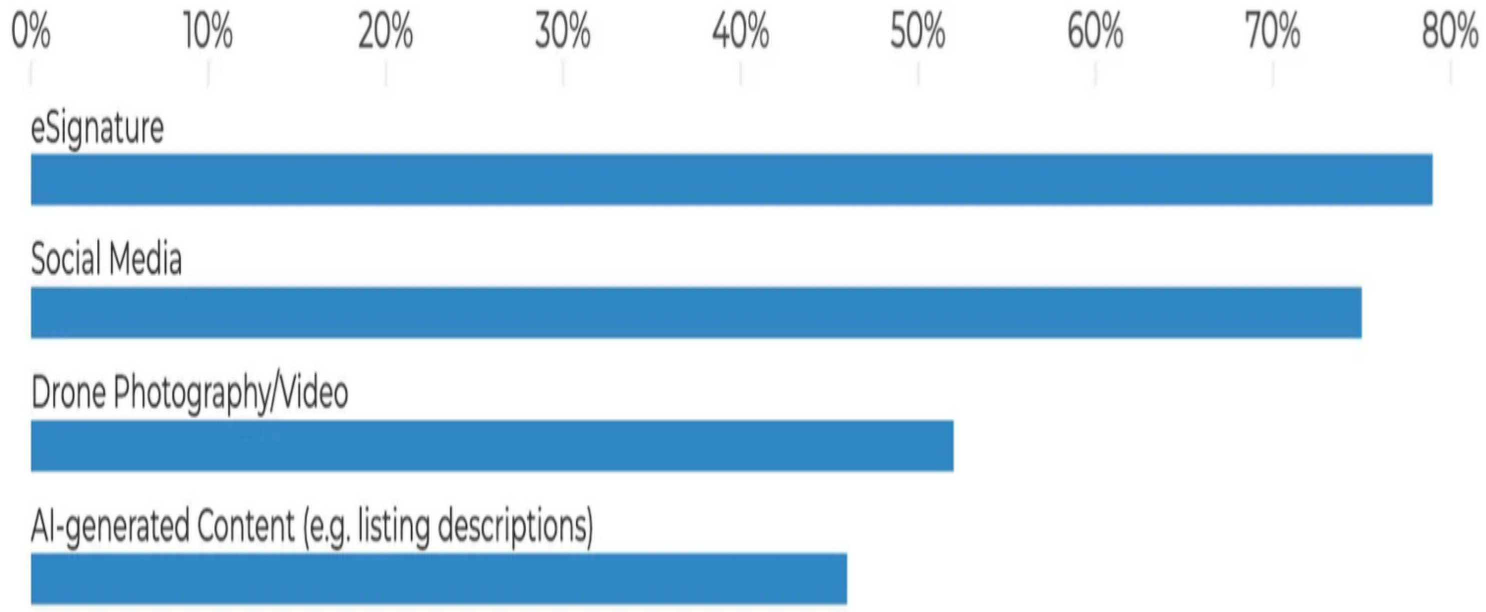
Blogs › Economists' Outlook

Tech With a Human Touch: How REALTORS® Are Using Tech Tools in Today's Real Estate Market

October 20, 2025 Real Estate Technology, Artificial Intelligence (AI) in Real Estate

Share

The real estate landscape is transforming faster than ever, and today's professionals are engaging with that change head-on. They're using technology to streamline processes, reach clients in new ways, and bring listings to life without losing sight of what truly matters: trust, communication, and connection. Behind every app and innovation stands a REALTOR® dedicated to helping clients navigate their homebuying and selling journey with confidence.



Mortgage Rates Are Easing: After peaking above 7% earlier in 2025, rates have started to decline. As of October 20, the average 30-year fixed mortgage rate dropped to 6.22%, with forecasts suggesting it could even dip below 6% in 2026.

Purchase Activity Is Expected to Rise: Fannie Mae projects single-family mortgage originations to reach $1.85 trillion in 2025 and $2.32 trillion in 2026, driven by improving affordability and lower rates.

https://www.fanniemae.com/newsroom/fannie-mae-news/mortgage-rates-expected-move-below-6-percent-end-2026

Refinancing May Rebound: With rates trending downward, the refinance share of mortgage activity is expected to grow from 26% in 2025 to 35% in 2026.

Home Sales Outlook:

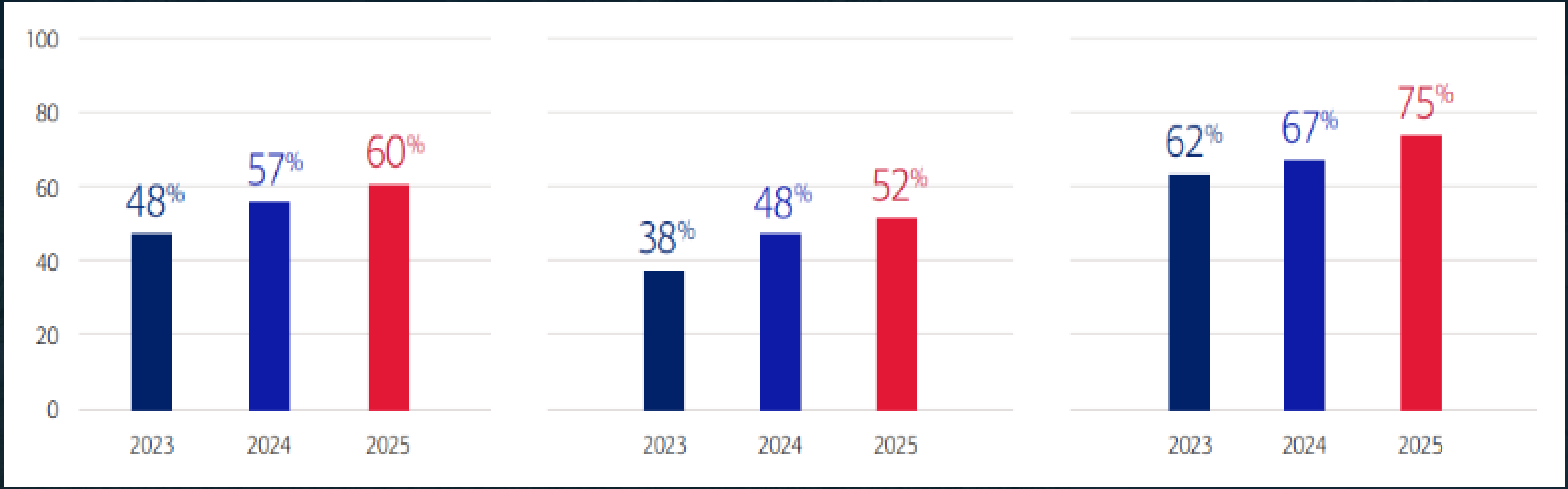
Combined new and existing home sales are forecast to hit **4.72 million in 2025 and 5.16 million in 2026**, signaling a gradual recovery in housing demand.

Ready to Buy or Not?

Current homeowners and prospective buyers who say they can't tell whether it's a good time to buy a home or not:

Prospective homebuyers who believe the homebuying market is better now than it was a year ago:

Prospective homebuyers who say they expect prices and interest rates to fall and are waiting until then to buy a new homer:



CURRENT WEEKLY HOUSING TRENDS HIGHLIGHTS

Active inventory climbed 16.4% year over year

The number of homes active on the market is climbing year over year, compared to the previous week for the 14th consecutive week.

Active inventory is growing significantly faster than new listings, an indication that more homes are sitting on the market for longer.

CURRENT WEEKLY HOUSING TRENDS HIGHLIGHTS

Homes spent 7 days longer on the market than a year ago

The sluggish pace of sales continued this week, as still-high home prices and mortgage rates combined with general economic uncertainty are preventing buyers from making a move, despite ample for-sale options. However, **conditions vary greatly regionally.**

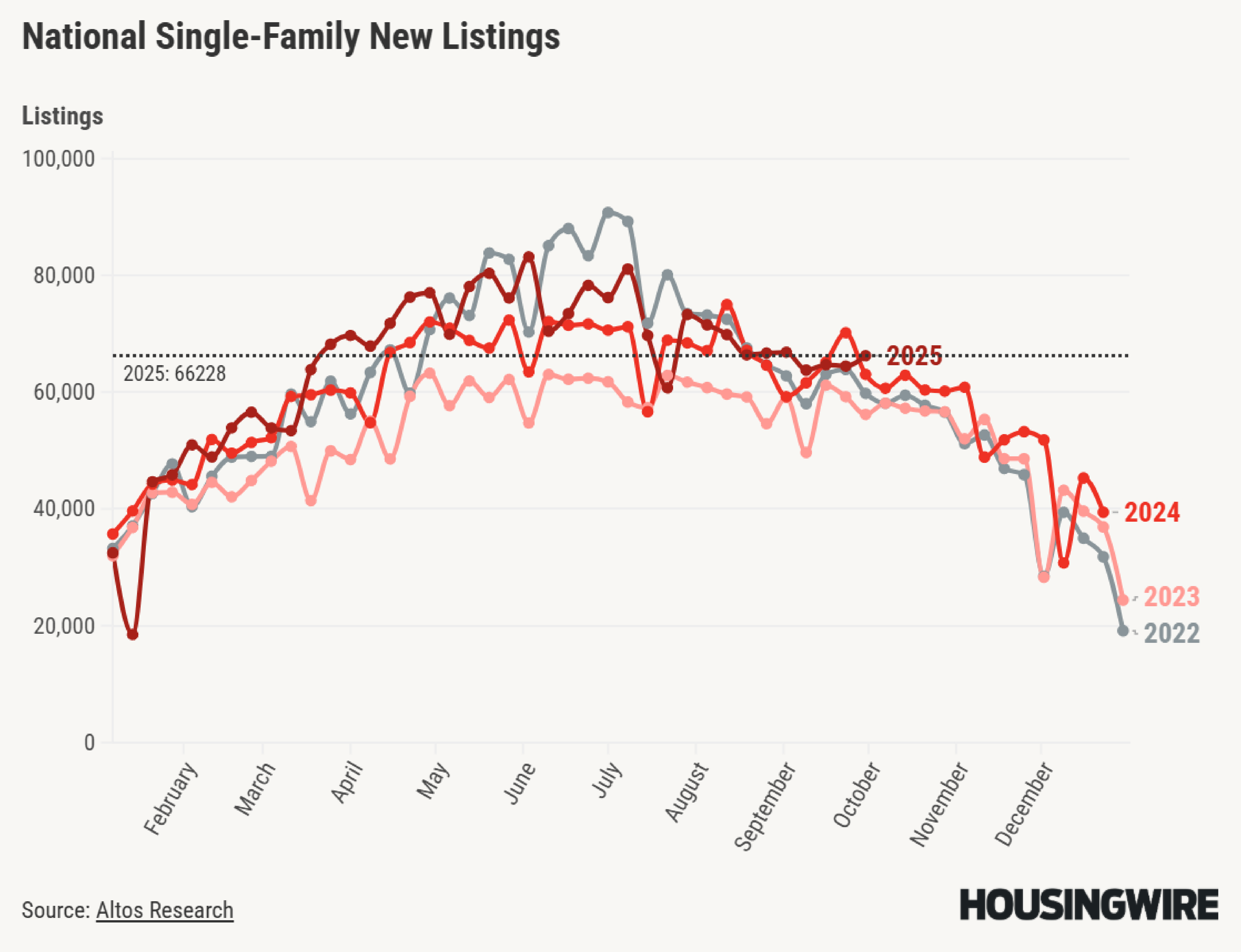
The West and South see relatively high inventory and a slow market pace, which is driving the national figure higher despite relatively tight conditions in the Midwest and Northeast.

The median listing price was flat year over year

The median list price was flat compared to the same week one year ago. Adjusting for home size, the **price per square foot fell 0.5%** year over year for the third consecutive week.

The price per square foot had been growing steadily for almost two years, but the weak sales activity has finally caught up and stalled out this metric, suggesting underlying home values are starting to soften.

https://www.realtor.com/research/weekly-housing-trends-view-data-week-sep-20-2025/?utm_source=Realtor.com+Economi c+Research+Mailing+List&utm_campaign=b754b1c5af-EMAIL_CAMPAIGN_2020_04_26_01_53_COPY_01&utm_medium=email&u tm_term=0_5fdb87a164-b754b1c5af-490510673



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Realtor.com® Weekly Housing Trends

	Year to Date	Week of Sept 6	Week of Sept 13	Week of Sept 20
Median Listing Prices	-0.2%	-0.9%	0.0%	0.0%
New Listings	+6.1%	-1.9%	+1.6%	-1.9%
Active Listings	+26.1%	+18.4%	+17.6%	+16.4%
Time on Market	6 days slower	6 days slower	6 days slower	7 days slower

Source: Realtor.com® Weekly Housing Data

realtor.com

WEEKLY HOUSING TRENDS

New Listings only increased 4.6% year over year, showing some reluctance by homeowners to sell.

Active Inventory rose 15.1% year over year, with over 1.1 million homes on the market for 24 consecutive weeks, indicating more homes are staying longer without selling.

Time on Market extended by 4 days compared to last year, reaching a median of 63 days, like pre-pandemic levels. This may lead sellers to reduce prices to close sales before year-end.

“Each month, the **HMI** (Housing Market Index) depicts overall builder sentiment toward housing market conditions on a scale ranging between 0 and 100. A higher reading (>50) is an indication that the majority of builders feel confident about the current and near-term outlook for housing. Lower readings signify less optimism among builders.

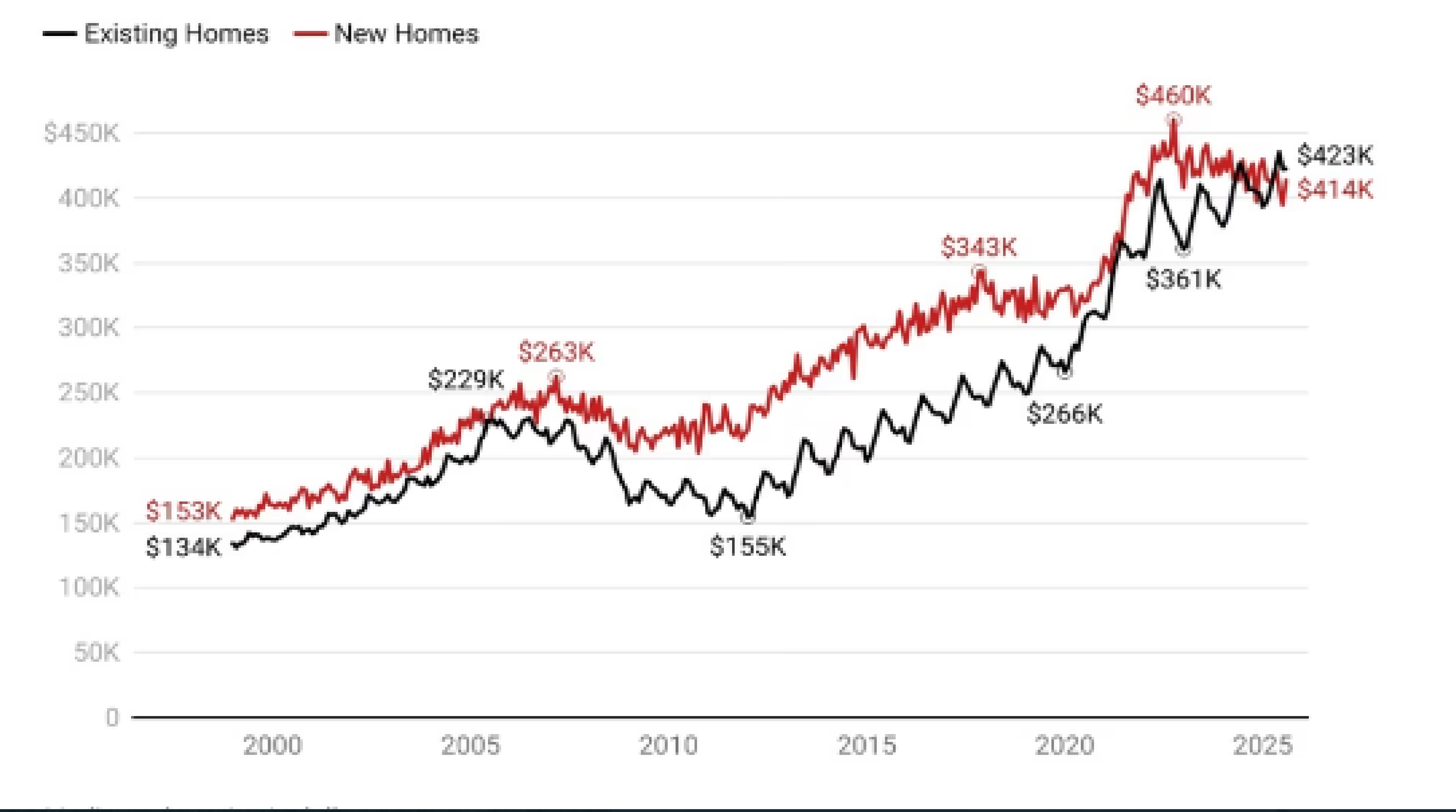
Builder confidence in the market for newly built single-family homes was 37 in October the highest reading since April.”

(Seasonally Adjusted)	2024			2025									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep *Revised*	Oct. *Prelim.*
Housing Market Index	**43**	**46**	**46**	**47**	**42**	**39**	**40**	**34**	**32**	**33**	**32**	**32**	**37**
Housing Market Index Components													
Single Family Sales: Present	47	48	48	50	46	43	45	37	35	36	34	34	**38**
Single Family Sales: Next 6 Months	57	63	66	59	47	47	43	42	40	43	43	45	**54**
Traffic of Prospective Buyers	29	32	31	32	29	24	25	23	21	20	22	21	**25**

https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index

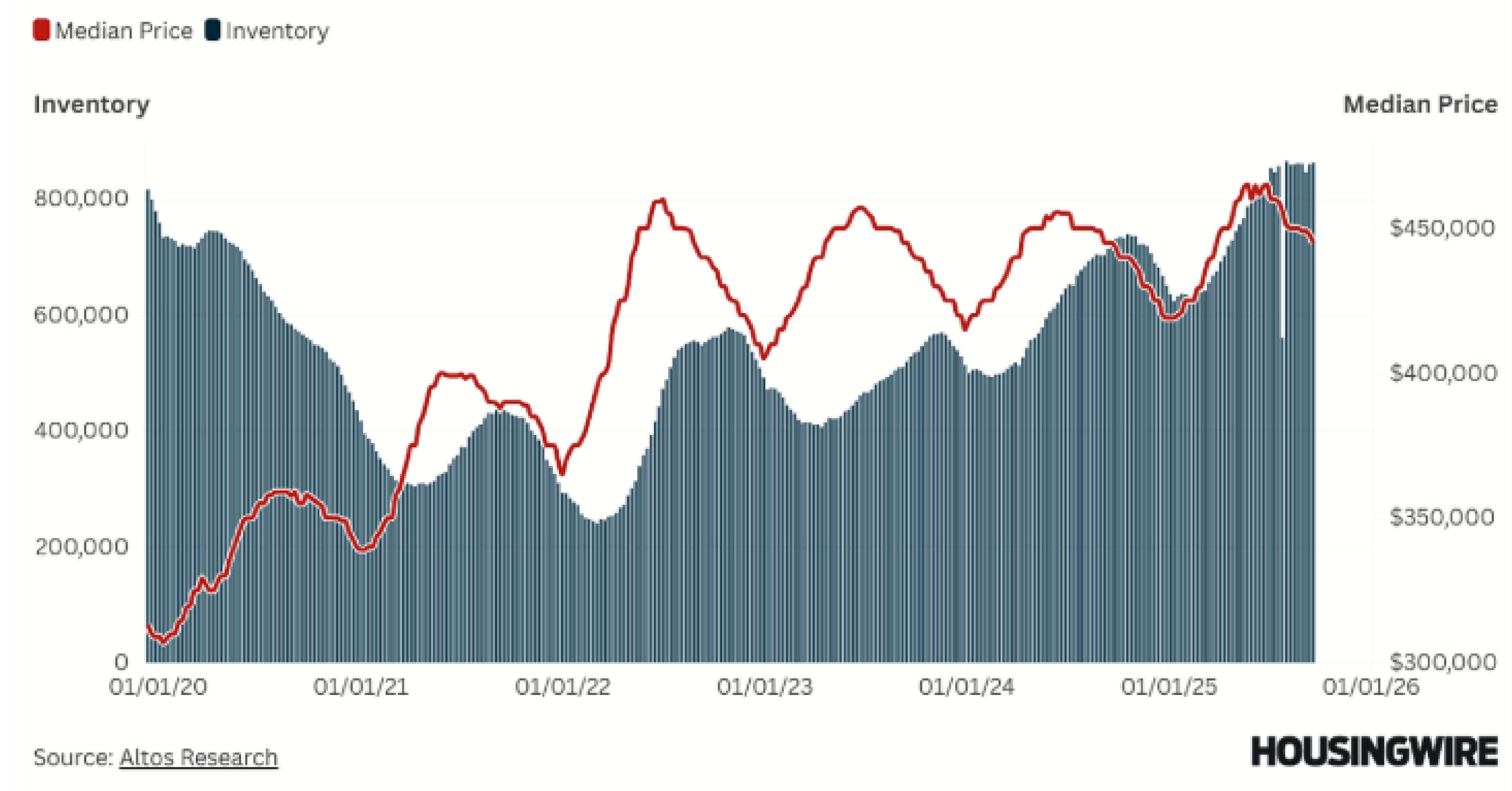
NEW HOMES NOW CHEAPER THAN PREVIOUSLY WONED HOMES

New-home prices are typically higher than those of existing homes. The long-standing trend has reversed in recent months, with new homes now selling at a discount.



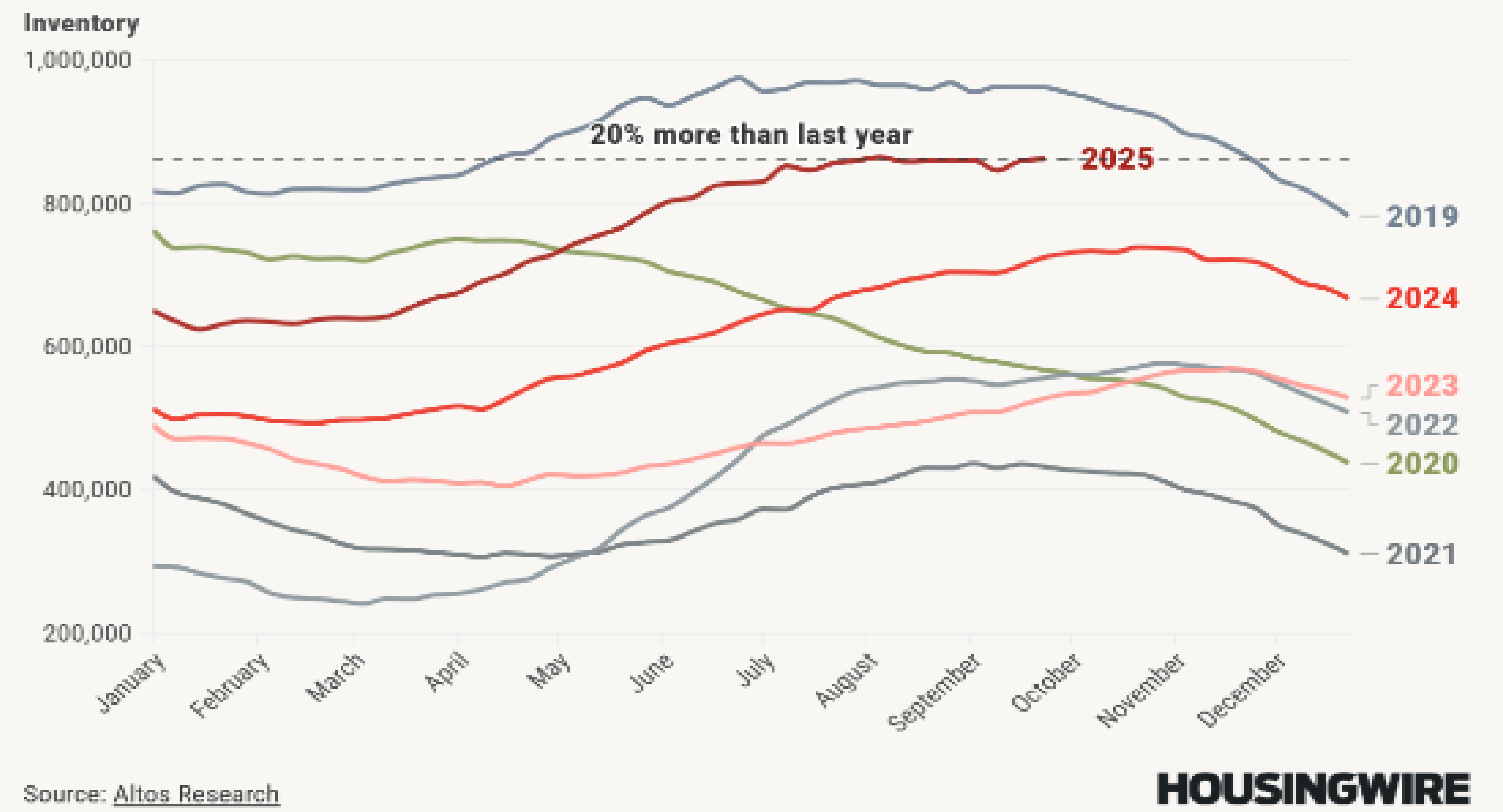
MEDIAN HOME PRICE AND INVENTORY

Single Family homes - National



NATIONAL SINGLE FAMILY INVENTORY

Inventory is up



DR. LAWRENCE YUN
NAR, Chief Economist

"The relatively subdued sales are largely due to persistently high mortgage rates. Lower interest rates will attract more buyers and sellers to the housing market."

"If mortgage rates decrease in the second half of this year, expect home sales across the country to increase due to strong income growth, healthy inventory, and a record-high number of jobs."

NATIONAL ASSOCIATION OF REALTORS®

- Nearly 50% of home sales involve seniors, with Baby Boomers making up 42% of buyers.
- Millennial homeownership has dropped significantly to 29% of buyers, down from 38% a year prior.
- FHFA Director Pulte has ordered Fannie Mae and Freddie Mac to accept crypto as a mortgage asset, supporting President Trump's "crypto capital" goal.

Federal Reserve Chair

- President Trump plans early nomination of Fed Chair to sway markets.
- **Candidates:** Kevin Warsh, Kevin Hassett, Chris Waller, David Malpass, and Scott Bessent are being considered.
- A "shadow Fed president" and **weaker labor data** could prompt bond buying, driving down mortgage rates.
- The Fed's proposal to let financial institutions hold more treasuries aims to lower bond yields and mortgage rates.

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- Expected cut: 0.50 percentage points
- New target range: 3.75%–4.00%

“Morgan Stanley calling for seven rate cuts in 2026"

- **FOMC's Stance:** Powell signals FOMC's majority supports rate cuts in 2025.
- **Market Expectations:** Despite Powell's comments, market expects two more rate cuts in 2025.
- **Inflation Update:** PCE Price Index (for August 2025, released September 26, 2025) shows the headline year-over-year inflation rate was 2.7%, and the core PCE (excluding food and energy) was 2.9%.

Starter Homes - are continuing to get smaller

- Median size of new U.S. homes dropped to 2,150 sq. ft., continuing a three-year decline.
- Shrinking home sizes reflect demand for affordable housing amid high prices and interest rates.
- Townhome construction surged 59% since 2019, with 176,000 starts in 2024, reflecting compact housing demand.
- Housing inventory rises for 20th month, with new listings up across all major regions.
- Over 1 million homes for sale, the highest inventory since December 2019.

Economic Indicators & Real Estate Trends

- **Personal Income Decline:** U.S. personal income drops for the first time since 2021, losing nearly $110 billion, signaling recession risk.
- **Condominium Price Drop:** U.S. condo prices are dropping 2.2% to $354,100, with a buyer's market dominated by sellers.
- **Job Market Growth:** The U.S. labor market is in trouble. Revised numbers coming out after the official numbers. The report dated Sep. 9, 2025 from the Bureau of Labor Statistics shows hiring for the 12 months ending in March was **overstated by an estimated 911,000 jobs**. It was the largest such preliminary revision on record, going back to 2000.

One Big Beautiful Bill Act: Key Housing & Mortgage Provisions

- Pro-Housing Tax Bill praised for strengthening housing and economic growth provisions; cuts CFPB funding.
- Borrowers can now permanently deduct mortgage insurance (PMI, FHA, VA, USDA), cutting low-down-payment loan costs (income limits apply).
- Permanent $750K cap for mortgage interest deduction provides a stable limit.
- No new federal down payment aid; rely on state/local programs.
- Temporary SALT (State And Local Tax deductions) cap increase to $40K (2025-2029) aids high-tax state homeowners.

What is happening to the price of credit reports?
What's going on with FICO and Vantage Scores?
What are the latest changes going on with FICO?

Vantage 4.0 Credit Score Adoption

- Fannie Mae and Freddie Mac will allow lenders to use the Vantage 4.0 credit score.
- This move aims to boost credit score competition and lower costs, per President Trump's mandate.
- Lenders can adopt Vantage 4.0 without needing to build new infrastructure, as it "stays Tri Merge."
- Expands credit access for "forgotten Americans," including rural residents and on-time renters.
- FHFA Director Pulte states the change will also help bring down closing costs.
- VantageScore 4.0 utilizes trended data and incorporates rent and utility payments into its scoring model.

Vantage 4.0 Credit Score

- VantageScore was created by the three credit bureaus as a competitor to FICO.

- In the recent price changes to credit reports the score price was changed upward a few dollars.

- The credit providers increased costs to us their customers by much more.

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FICO

Lenders

experian

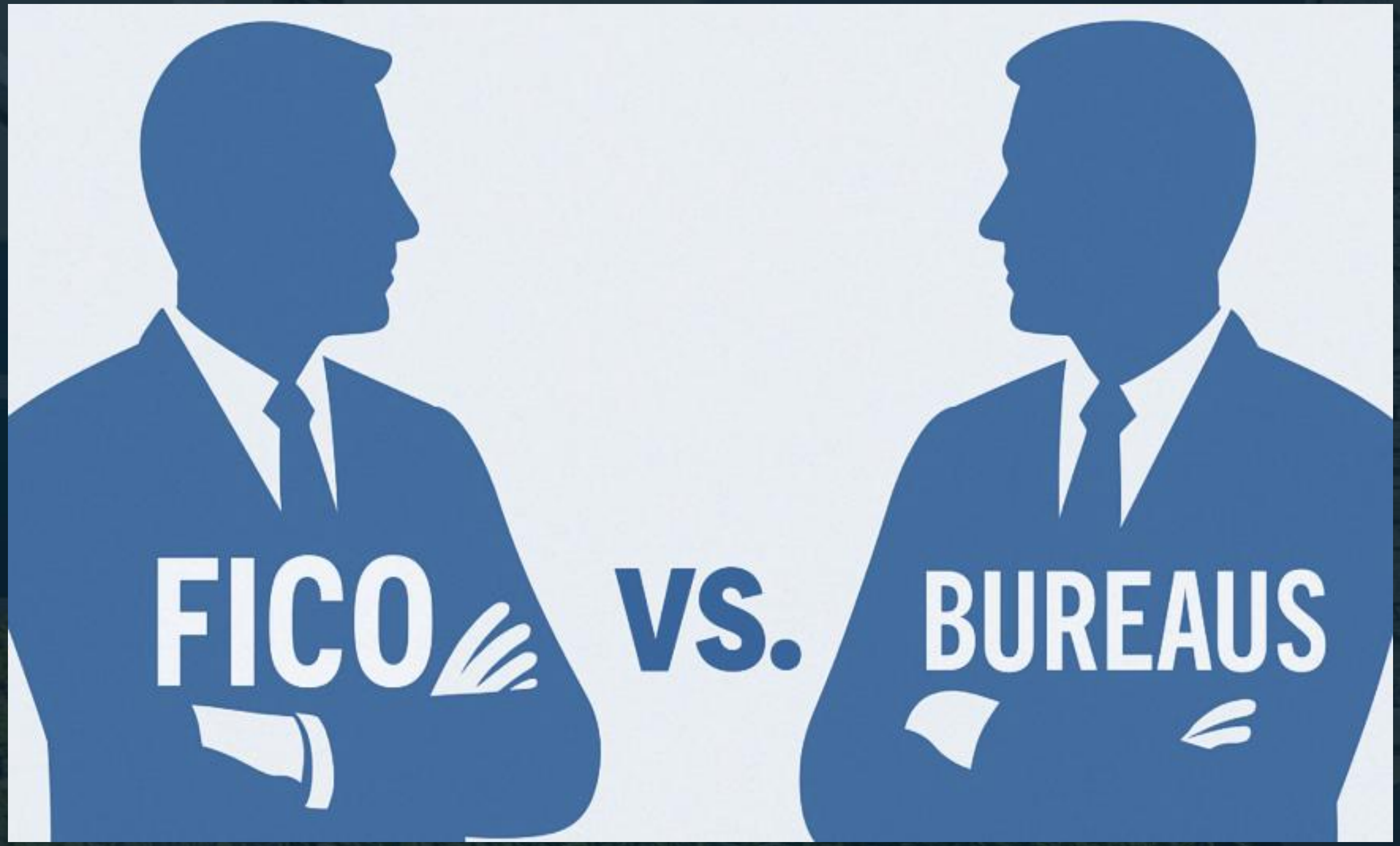
TransUnion

EQUIFAX

FICO vs. Bureaus

New Licensing Program for lenders

FICO is changing how credit scores are sold to lenders



FICO (Fair Isaac Corporation) has launched a new program that lets certain companies send FICO scores directly to lenders—cutting out the middleman (credit bureaus) and potentially lowering costs.

- **Would you agree: Credit scores** have gotten more expensive in recent years.
- **FICO's new pricing** could cut those costs by up to 50%.
- **Lenders now have more options** and transparency when buying scores.

But not everyone's convinced

- Some experts say this move might not shake up the system as much as FICO claims.
- Others see it as a way for FICO to respond to pressure from the market.

FICO wants to make credit scores less expensive and easier to access for lenders, which could help homebuyers in the long run—**but it's too early to tell how big the impact will be**.

FICO's Direct License Program Shakes Up Mortgage Credit Scoring – NMP

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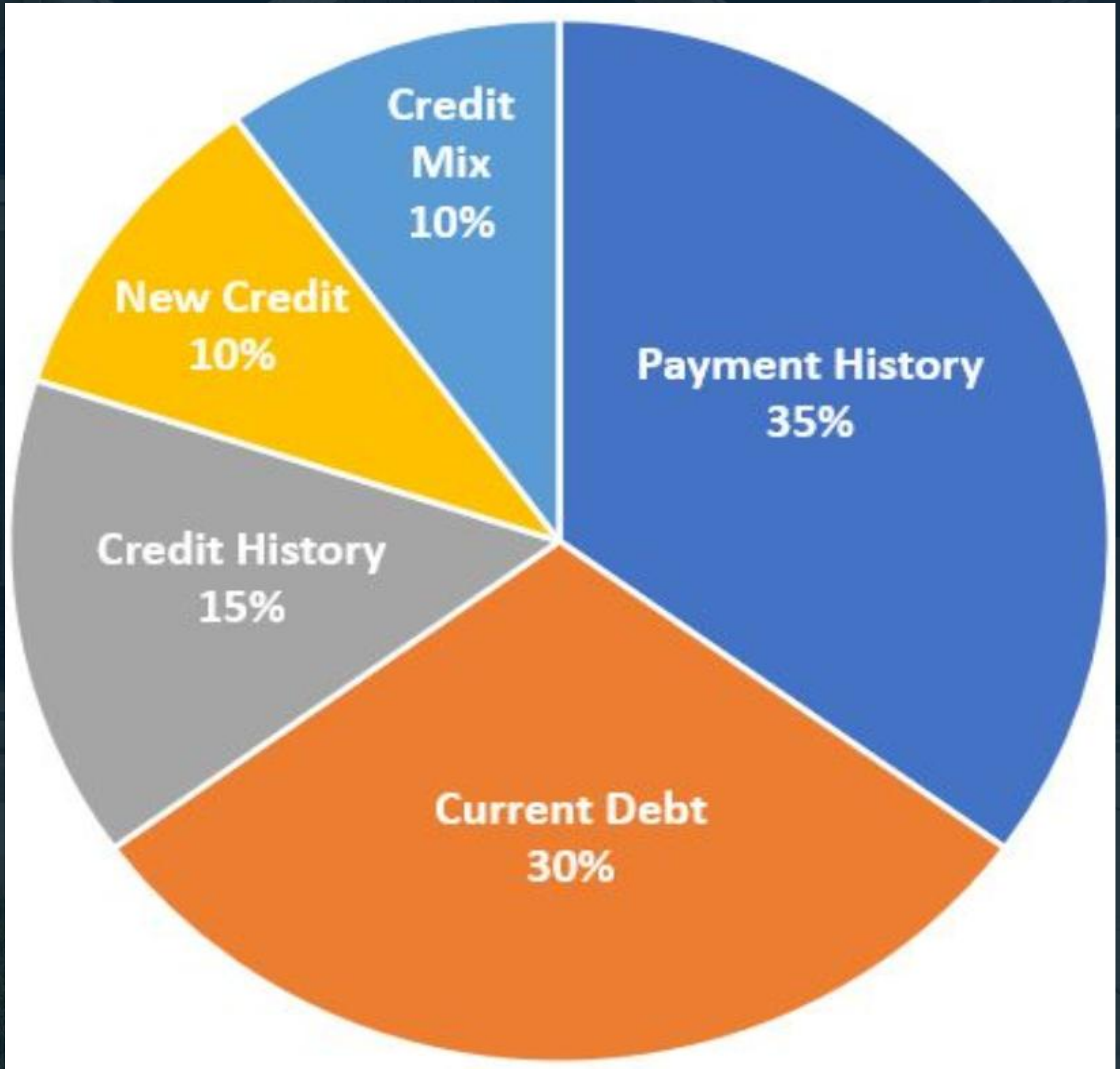
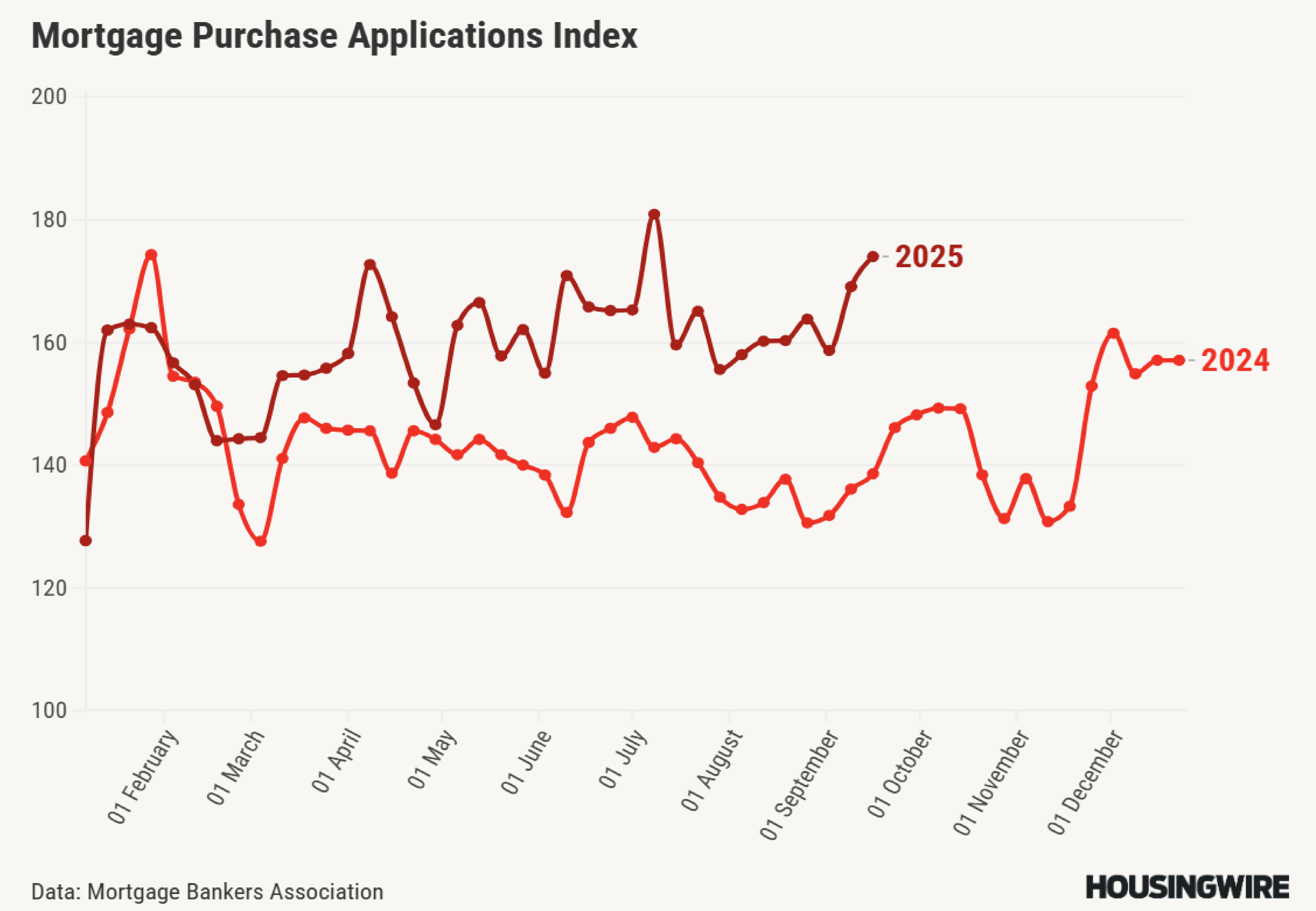
	VantageScore 4.0
Payment History	41%
Depth of Credit	20%
Credit Utilization	20%
Balances	6%
Recent Credit	11%
Available Credit	2%



The positive news is that borrowers are responding to these positive changes such as lower rates as reflected in the MBA application Index



ProMort Forecast:

- Labor market is weaker than currently recognized. This will force the Fed to stimulate economy (lower rates)
- QT is likely over. Again, lower rates ahead!
- Inflation is at least 0.5% overstated. As this is realized, rates can fall.
- Two rate cuts before year end 2025
- ProMort forecasts mortgage rates to hit 5.25% in 2026
- Eligible refinancings > 8MM loans (20% of 85 million US mortgages are at rates above 5.0%)

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Anthony Johnson

SVP, ProMort

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THANK YOU!

We wish you great success.