



## U.S. Residential Mortgage Market Update

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Strong buyer demand amidst a limited supply of homes for sale resulted in properties selling faster and at the highest prices since 2009. These market conditions, including low interest rates, have driven growth in housing starts and demand for prime mortgages.



# Housing Market Fundamentals

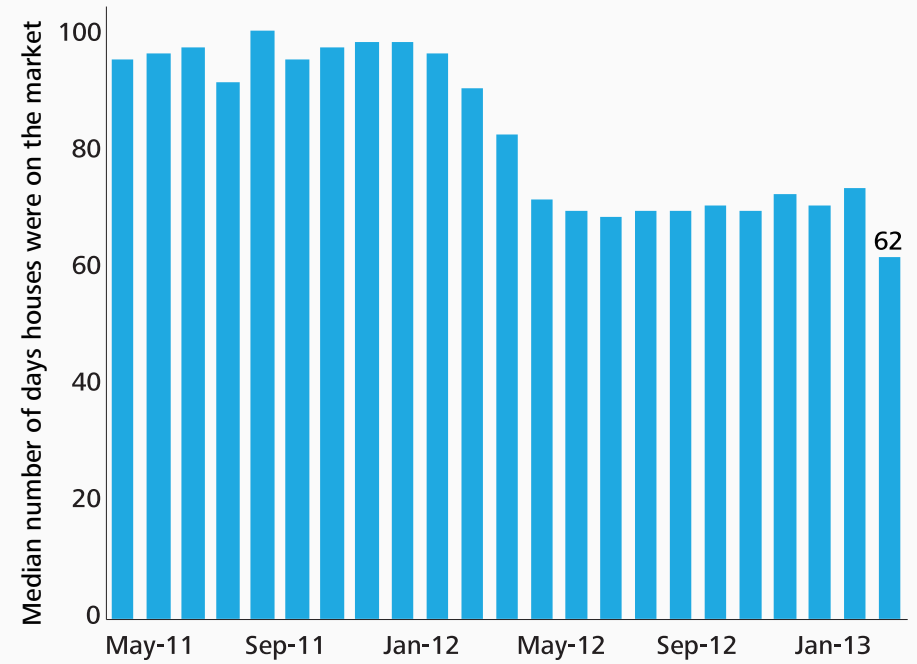
Inventory of homes for sale remained low, causing buyers to get more competitive over potential purchases. Homes are selling faster and at higher prices, a stark contrast to the abundant inventory and depressed prices of previous years.

While limited supply has parked housing starts, higher material costs were a headwind to new construction.

- **Low inventory slowed sales:** New homes sales increased in April but remained 0.9% below January peak.
- **Prices rose:** In March, 86% of realtors reported constant or higher prices from the previous year, the highest share reported in recent years.
- **Housing starts rose:** In 1Q 2013, annualized housing starts surpassed the one million mark for the first time since 2008, despite high material costs.

- Housing inventories were cut in half over the past two years as rising demand consumed supply
- Homes sold 39% faster at the highest prices since 2009
- Housing starts rose 35% over the year, but material cost were a constraint

**Days on the market declined reflecting strong demand**



Source: National Association of Realtors, [REALTORS Confidence Index](#) ,  
March 21, 2013

# Credit Conditions

Credit conditions improved on higher prime mortgage demand.

Households' balance sheets continued to improve as demand for prime mortgages increased in recent quarters.

- **Households improved their balance sheets:** Households continued to improve their financial footing, using refinancing to lower mortgage balances. Additionally, homeowners' equity rose 25% or \$1.6 trillion from 2011 to 2012.
- **Demand for prime mortgages rose:** Borrower demand for prime mortgages increased for the seventh consecutive quarter, while demand for nontraditional mortgages was flat.

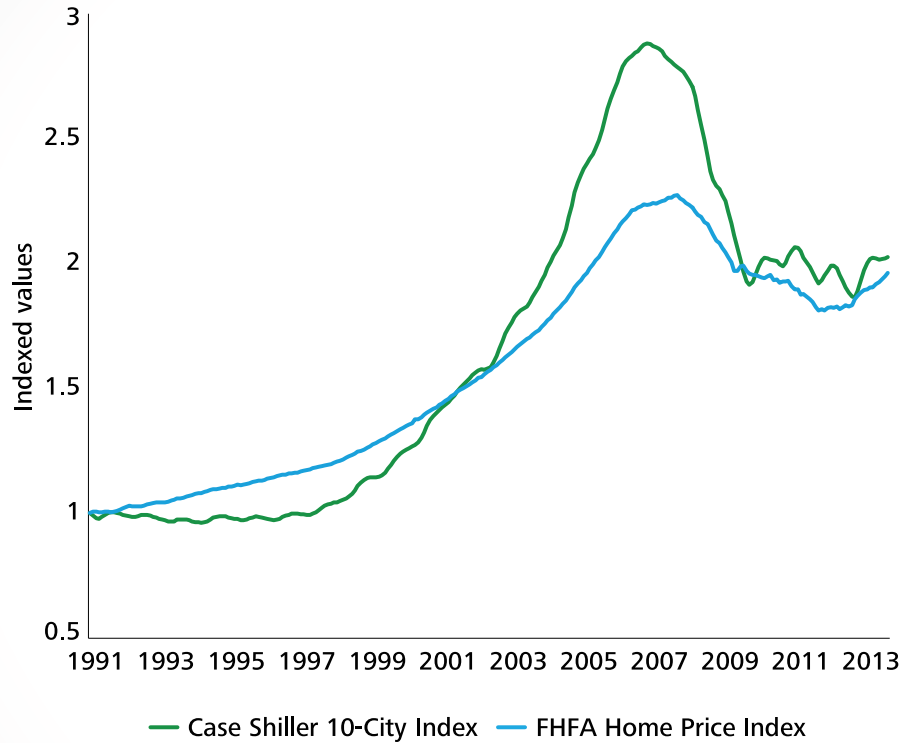
## Housing market scoreboard

	Metric [period analyzed]	Trend	This period	Last period	Date range high	Date range low	Date range average
Macroeconomics	Unemployment rate (%) <sup>11</sup> [January 2009 – March 2013]	↓	7.60%	7.70%	10.0% (October 2009)	7.6% (March 2013)	8.9%
	10-year treasury yield (%) <sup>12</sup> [1Q09 – 1Q13]	↑	2.0%	1.7%	3.7% (1Q10)	1.6% (3Q12)	2.7%
	Consumer price index (12 month % change) <sup>13</sup> [January 2009 – March 2013]	↓	1.5%	2.0%	3.9% (September 2011)	-2.0% (July 2009)	1.6%
	Mortgage industry employment (Annual, in thousands) <sup>14</sup> [2000 – 2013]	↑	288.9	272.9	496.3 (2006)	265.1 (2011)	352.1
Housing market	Total housing sales ('000) <sup>15</sup> [1Q06 – 1Q13]	↑	5,361	5,279	7,914 (1Q06)	4,157 (3Q10)	5,258
	Inventory of existing homes (Months of supply) <sup>16</sup> [January 2011 – April 2013]	↑	5.2	4.7	9.5 (July 2011)	4.3 (January 2013)	6.7
	Inventory of new single-family homes (Months of supply) <sup>17</sup> [January 2011 – April 2013]	↔	4.1	4.1	8.1 (February 2011)	3.9 (January 2013)	5.4
	Housing starts ('000) <sup>18</sup> [1Q06 – 1Q13]	↑	968	904	2,120 (1Q06)	526 (1Q09)	942
	S&P Case-Shiller Index (Composite 20) <sup>19</sup> [April 2003 – February 2013]	↑	149.80	147.97	206.65 (April 2006)	136.86 (January 2012)	163.98
Credit conditions	Mortgage originations (Quarterly, \$ billions) <sup>20</sup> [1Q06 – 4Q12]	↑	511	471	712 (2Q06)	278 (4Q08)	453
	30-year conventional mortgage rate (%) <sup>21</sup> [April 1971 – April 2013]	↑	3.35%	3.57%	18.45% (October 1981)	3.31% (November 2012)	8.63%
	RMBS issuance (Annual, in \$ billions) <sup>22</sup> [1996 – 2012]	↑	1,730	1,241	2,481 (2003)	408 (1997)	1,311
	Agency share of RMBS issuance (Annual, in %) <sup>23</sup> [1996 – 2012]	↑	99.80%	99.78%	99.80% (2012)	55.99% (2006)	85.05%
Asset performance	Bankruptcies (Thousands) <sup>24</sup> [1Q09 – 4Q12]	↓	272.3	273.9	422.1 (2Q10)	272.3 (1Q13)	351.0
	Delinquencies (%) <sup>25</sup> [May 2010 – February 2013]	↓	6.80%	7.03%	9.74% (May 2010)	6.80% (February 2013)	7.94%
	Foreclosure starts (Thousands) <sup>26</sup> [May 2010 – February 2013]	↓	131.9	147.6	282.5 (August 2010)	130.1 (November 2012)	207.4

### Source:

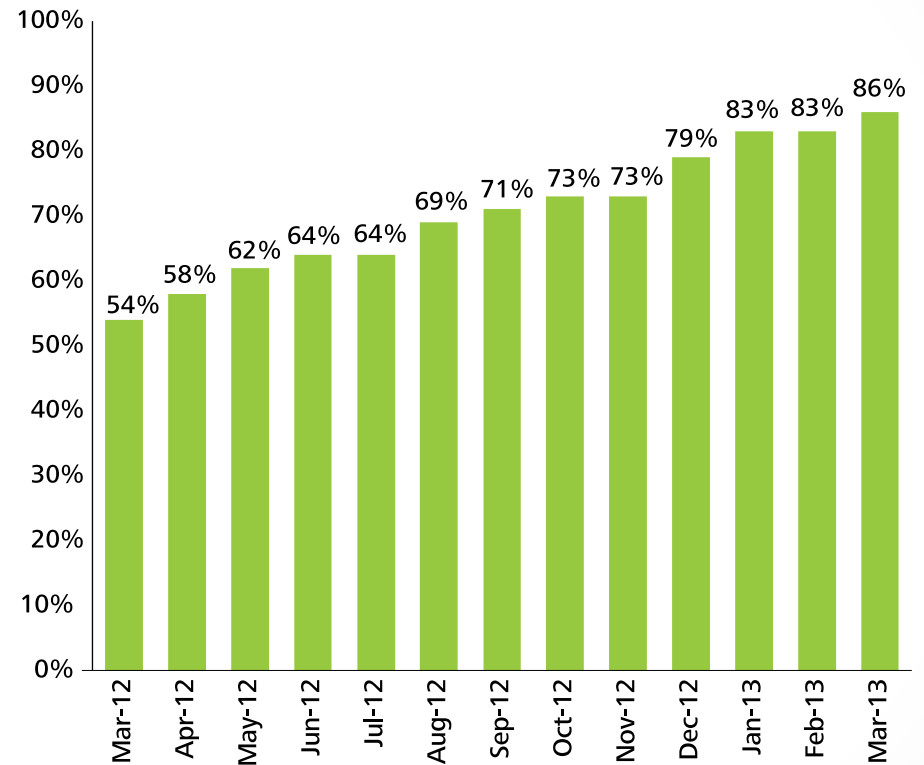
11. Bureau of Labor Statistics
12. Federal Reserve
13. Bureau of Labor Statistics
14. U.S. Census Bureau
15. National Association of Realtors
16. Ibid
17. U.S. Census Bureau
18. Ibid
19. Standard & Poor's
20. Mortgage Bankers Association
21. Federal Reserve
22. Securities Industry and Financial Markets Association
23. Ibid
24. United States Courts
25. LPS Applied Analytics
26. Ibid

### Home prices rose on tight supply and high demand



Source: [Standard & Poor's](#), February 2013 data released April 30, 2013; Federal Housing Finance Agency, [House Price Index](#), February 2013 data released April 23, 2013

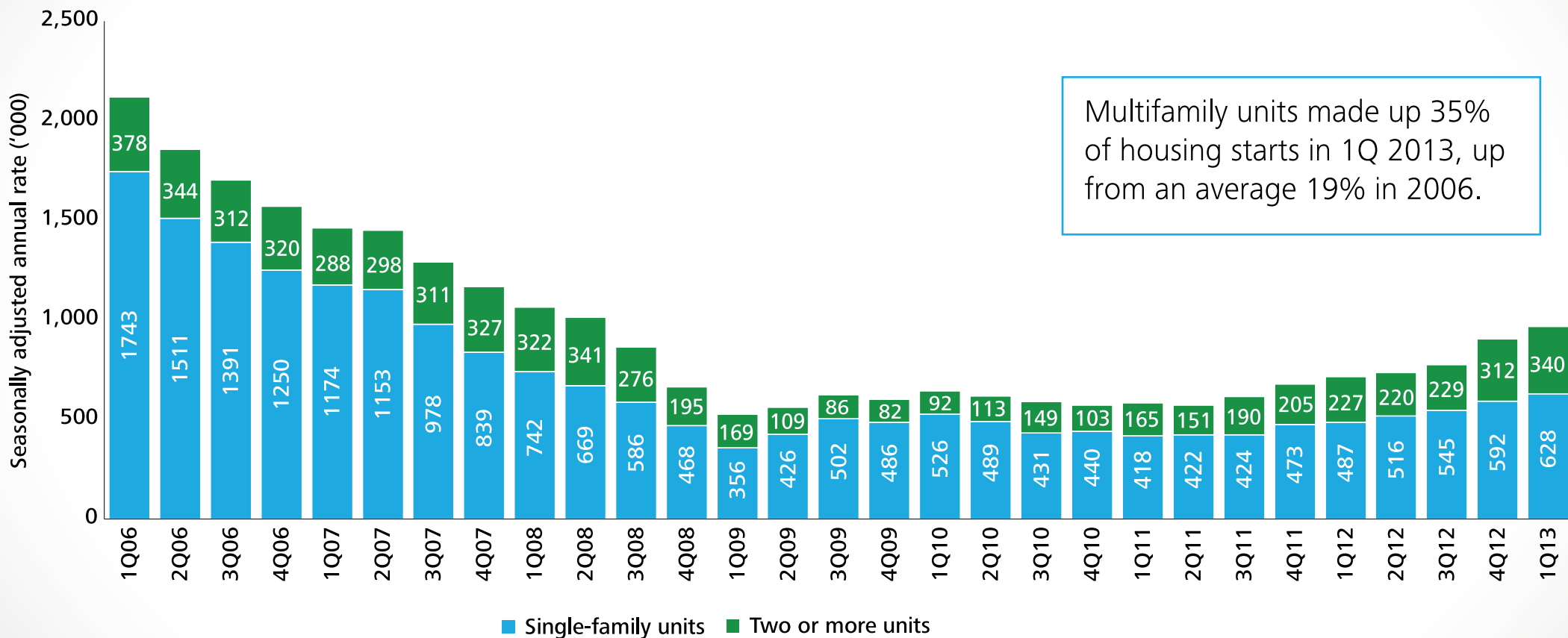
### Percent of realtors reporting constant or higher prices compared to the previous year



Source: National Association of Realtors, [REALTORS Confidence Index](#), March 2013

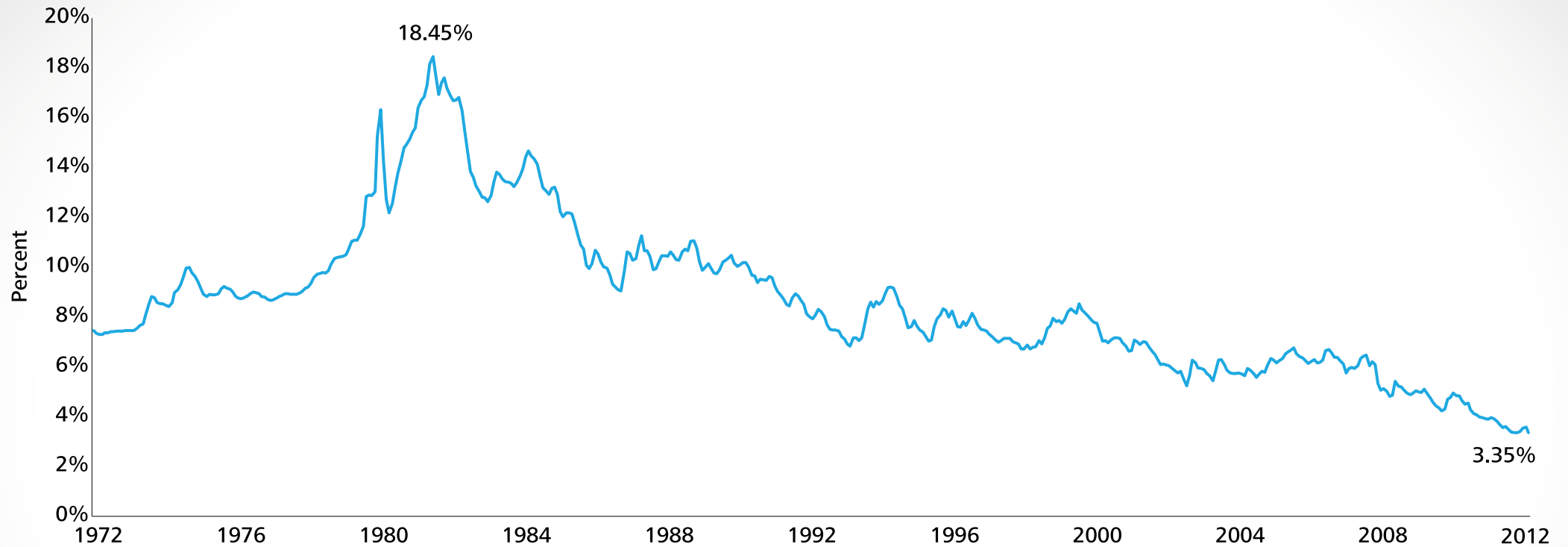


### Housing starts by quarter (seasonally adjusted)



Source: U.S. Census Bureau, New Residential Construction, Published: April 16, 2013

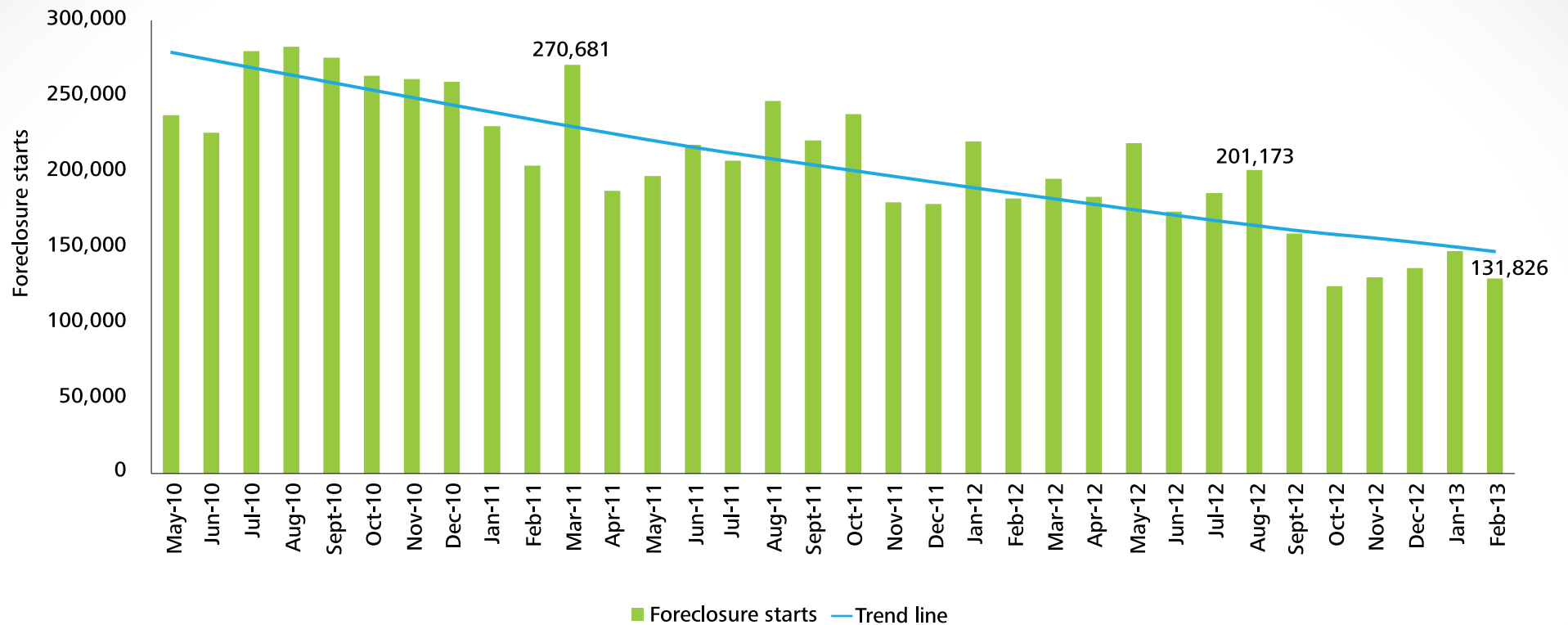
## 30-year conventional mortgage rate



Source: Freddie Mac via the Federal Reserve Bank of St. Louis  
Monthly data through May 3, 2013

- Prime mortgage demand increased; lenders eased borrowing standards
- Originations expected to fall 48% from 1Q 2013 to 1Q 2014, driven by steep decline in refinancing
- Non-agency residential mortgage-backed securities (RMBS) issuance expected to reach \$20 billion in 2013, up from \$6 billion in 2012

### Residential mortgages entering foreclosure process



Source: LPS Applied Analytics, Published: April 2013

- February's foreclosure rate improved to 3.38% but was still six times above the 1995-2005 average of 0.53%
- 16% of subprime loans were seriously delinquent compared to 4.4% of all mortgages
- Modifications have declined four consecutive months, falling 3.7% from January to February



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#### Content Reference

Deloitte Services. (2013, June). U.S. Residential Mortgage Market Update. Retrieved November 21, 2013, from Deloitte:  
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