Mortgage Bankers Association Press Release

Title: MBA Sees Slow Growth in Purchase Originations, Drop in Refinancing, Weak Overall Economic Growth in 2012
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Chicago, IL (October 11, 2011) — The Mortgage Bankers Association (MBA) expects to see mortgage originations fall from an estimated $1.2 trillion in 2011 to $900 billion in 2012. The drop will be driven by a significant decline in refinance originations, while purchase originations will increase only slightly. The economy will see another year of anemic growth in 2012, and then will grow somewhat faster in 2013. Refinance originations are expected to fall despite low mortgage rates as economic uncertainty lingers and fewer eligible borrowers remain.

“We think growth driven by consumer spending on durables and business spending on new plants and equipment will keep the US out of recession, but there is significant uncertainty around this forecast,” said Jay Brinkmann, MBA's Chief Economist and Senior Vice President for Research and Education. “Europe is in or soon will be in recession. There is the risk that the European situation could harm the US financial system, and could lead to further damage to US consumer and business confidence. If that were to happen, we think that the US could fall into a short, and relatively mild recession. We do not anticipate any actions out of Washington that would have a material impact on the economic outlook.”

“However, the uncertainty is not one-sided. We also see a path for the economy that could lead to above-trend growth in 2012. Housing inventory and shadow inventory is declining steadily. A more robust housing market recovery could spur faster overall growth. The odds of this scenario, however, are low and we think the most likely outcome is another year of frustratingly slow economic growth and stubbornly high unemployment.”

“We expect that mortgage rates are at or near their low points, but we have been wrong on this call before. Our rate forecast assumes that the Fed maintains short-term rates near zero for the next two years, and also assumes that mortgage-Treasury spreads remain wide, given the current supply and demand imbalance in the market. If the economy tips into recession, rates would stay lower for longer, but we do not anticipate they would drop significantly. If the economy recovers more quickly, even with the Fed’s Operation Twist, longer-term rates could rise faster.”

“Purchase volume will stay low as home sales in 2012 remain little changed from 2011, and as home prices begin to grow by the end of 2012. The gradual increase in mortgage rates will slow refinance volume, but the first half of 2012 will benefit from a spillover of applicants from the end of 2011, and potential changes to the HARP program may also increase refinance volume. A recession would lead to a drop in 2012 origination volume. A faster economic recovery led by the housing market would mean faster home price growth and more sales volume, increasing purchase originations somewhat, but would cut off refinance volume sooner than in our forecast.”

“In summary, regardless of which path the economy and mortgage rates take, we are predicting another tough year, with origination volumes at their lowest point since 1997. Continued slow economic growth will mean that unemployment will remain elevated through 2012, which could slow the improvement in delinquency and foreclosure volumes, meaning that in addition to lower production volumes for the industry, mortgage servicers will also continue to be under pressure.”

Following are the key points of the latest MBA forecast:

• Real GDP growth will be 1.3 percent in 2011, which began with a dismal 0.4 percent growth in the first quarter and 1.3 percent growth in the second quarter. We expect the second half to average around 1.8 percent, but even that is on shaky ground, with a weak labor market, volatile financial markets and looming risks of a spillover from the European debt crisis. We expect 2012 to continue in a similar fashion, showing growth of around 1.7 percent, as Europe enters a recession of its own and the US economy flirts with a shallow recession until midway through 2012. There should be a modest recovery in 2013 with growth reaching 2.4 percent for the year.

• The unemployment rate will increase slowly until the second quarter of 2012, hitting 9.3 percent, from the current level of 9.1 percent. It is expected to be around 9.1 percent for 2011, 9.3 percent for 2012, and 9.1 percent for 2013. Even though both economic and job growth are in positive territory, they are still insufficient to lower the unemployment rate in the near term.

• Fixed mortgage rates are expected to remain low by historical standards, finishing 2011 at around a 4.5 percent average for the year, falling slightly to 4.4 percent for 2012 and climbing back up to 4.9 by 2013.

• Total existing home sales will stay around the 4.9 million unit pace for 2011 and 2012, before increasing slightly to 5.2 million units in 2013 as the broader economy recovers. The recovery in the new home sales will have a comparably slow start, and may well be slow for most of 2012, but will show some meaningful increases in 2013.

• Home price measures that exclude distressed transactions have stabilized, and certain markets are showing year-over-year appreciation. FHFA's national repeat transactions home price measure, which does not distinguish between distressed and non-distressed sales, will continue to decline before starting a reversal in mid to late 2012, but will vary by state and home value.

• Purchase originations will likely decrease in 2011 from 2010, totaling $400 billion from an estimated $472 billion in 2010. Seeing as 2012 will likely be another year of slow economic growth, purchase originations will increase slightly to around $412 billion for the year. As the economy picks up a little more speed in 2013 and home sales and home prices also start to increase, purchase originations are expected to increase to $770 billion for the year.

• Despite lower mortgage rates towards the end of the year, refinance originations in 2011 will be lower than in 2010, falling to $783 billion from an estimated $1.1 trillion, as there were fewer eligible borrowers left to refinance. We expect this “burnout” to continue through 2012 and 2013, even as rates remain below 5 percent, with refinance originations falling steadily to $495 billion and then $332 billion, respectively.

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