

Financial Update 2014

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This presentation contains rumors, speculation, gossip, opinions, as well as some factual information. The opinions expressed in this presentation are wholly mine and those of any sane, intelligent person but not necessarily those of my employer, my friends or my golf buddies.



Financial Update 2014

Legal Disclaimer

The opinions expressed by me are typically not the opinions of anyone else on the planet. I am a normal person, which means that I am not an Economist. I do not play one on TV, although I did stay at a Holiday Inn Express last week, so I am qualified to act as an Economist and charge you \$500 per hour for my non-binding, vague, rambling, nonsensical opinion. All rights to this presentation are reserved (just like all of the good parking spaces at the mall).



US Economy in 1996



US Economy in 2008



US Economy in 2013

HomeStart
Capital



US Economy in 2014

America's Financial Dilemma

The National Bureau of Economic Research

Great Recession Officially Declared Over

WORKPLACE



US Economy in 2014

America's Financial Dilemma

It's official

The National Bureau of Economic Research

- **The recession lasted 18 months**
 - **December 2007 to June 2009**
- **That was the longest of any recession since World War II**
 - **Previously the longest postwar downturns were those in 1973-1975 and in 1981-1982. Both of those lasted 16 months.**

Source: Business Cycle Dating Committee, National Bureau of Economic Research;
www.nber.org , September 20, 2010

US Economy in 2014

America's Financial Dilemma

■ Characteristics of past Recession

- A 0% funds rate, \$1.6 trillion budget deficit and a \$2.7 trillion Fed balance sheet



Source – Texas A&M University Real Estate Center Dr. Jim Gaines

US Economy in 2014

America's Financial Dilemma

- ❑ One-third of homeowners have negative equity
- ❑ 1 in 6 were either unemployed or underemployed
- ❑ 1 in 7 homeowners either delinquent or in foreclosure process



US Economy in 2014

America's Financial Dilemma

- **Characteristics of past Recession**
 - ❑ Small business failures up 44% y/y
 - ❑ 30% slide in home prices
 - ❑ 50% plunge in commercial real estate values



Source – Texas A&M University Real Estate Center Dr. Jim Gaines

US Economy in 2014

America's Financial Dilemma

Recession over, but recovery not felt

The news is little comfort to the millions of Americans still out of work, underwater on their mortgages or uncertain about the future



US Economy in 2014

America's Financial Dilemma



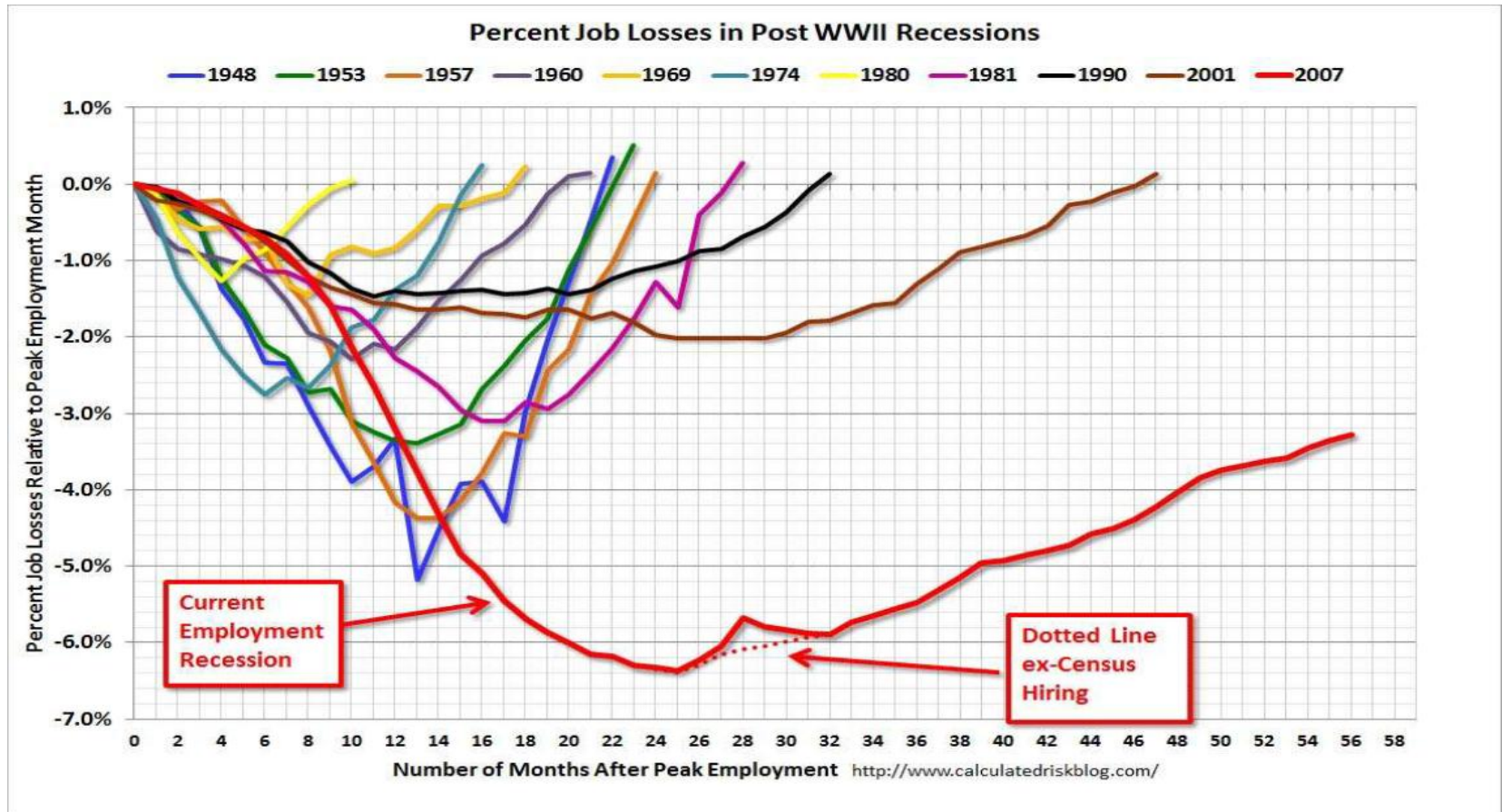
**Economic Recovery
still Slow Going**

US Economy in 2014

Slow job recovery: more people are working & jobs created, but still ~1 million < peak

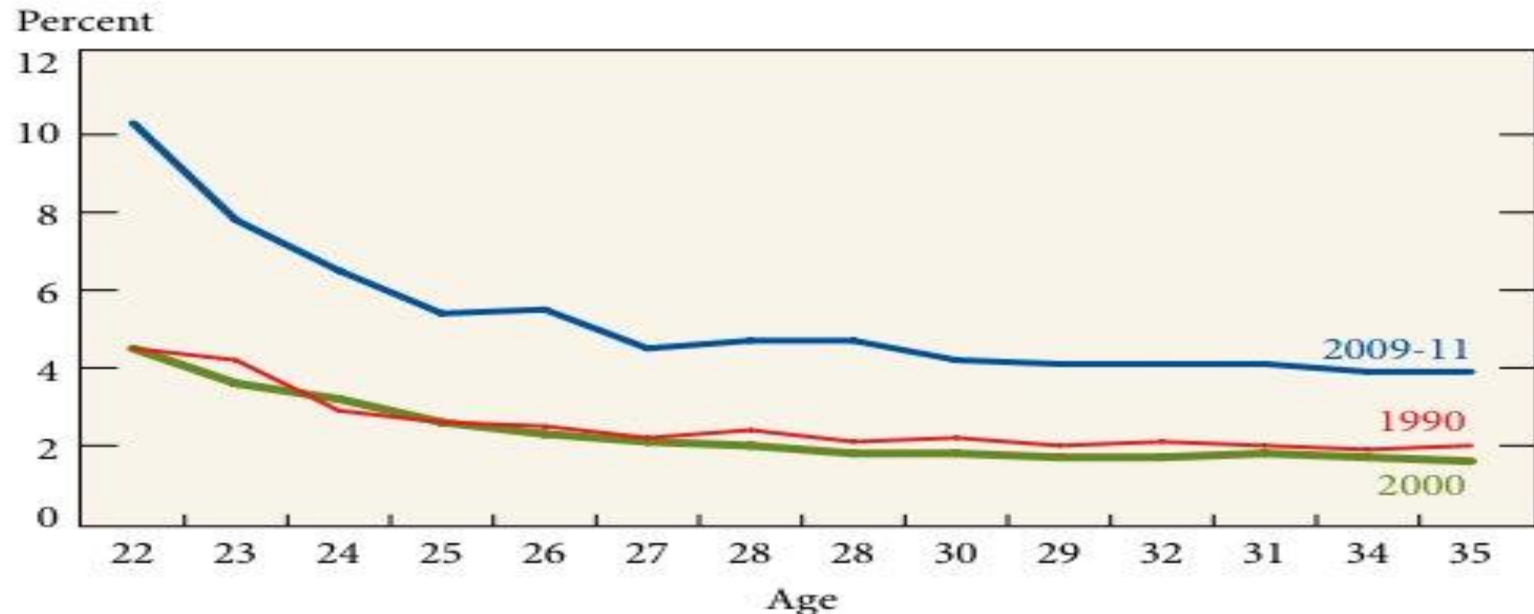


US Economy in 2014



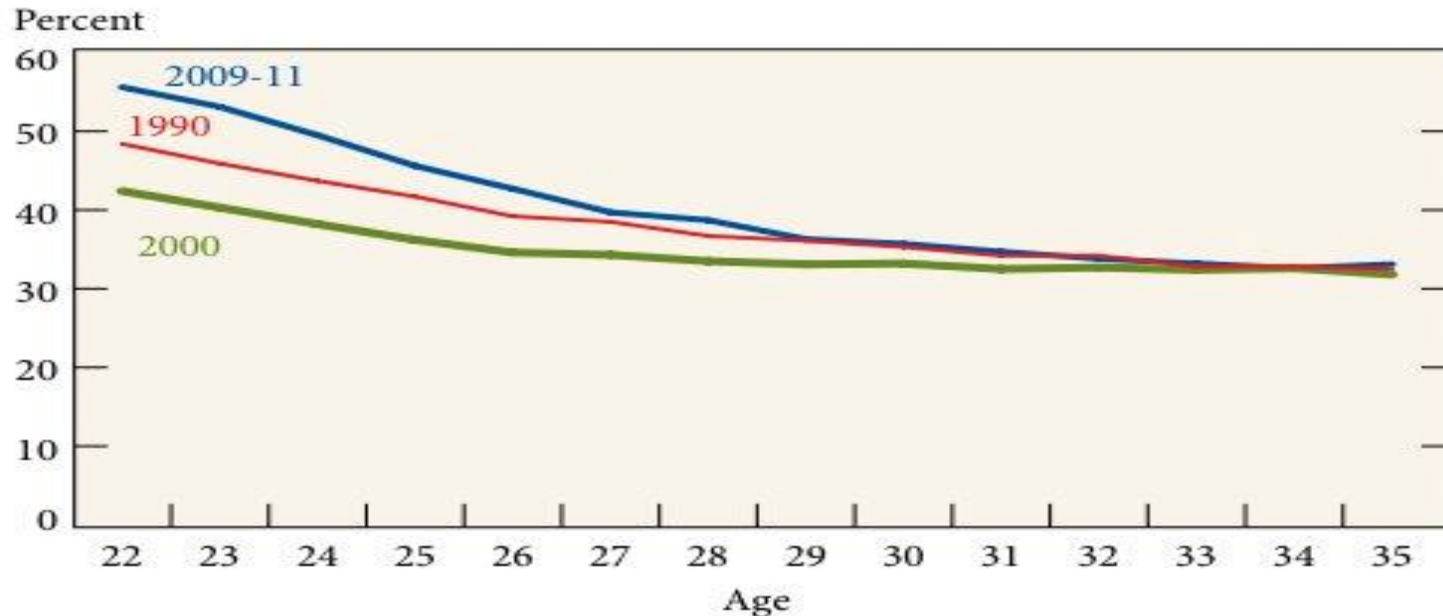
Source – Texas A&M University Real Estate Center Dr. Jim Gaines

College Graduates' Unemployment Rate Is Highest In 20+ Years



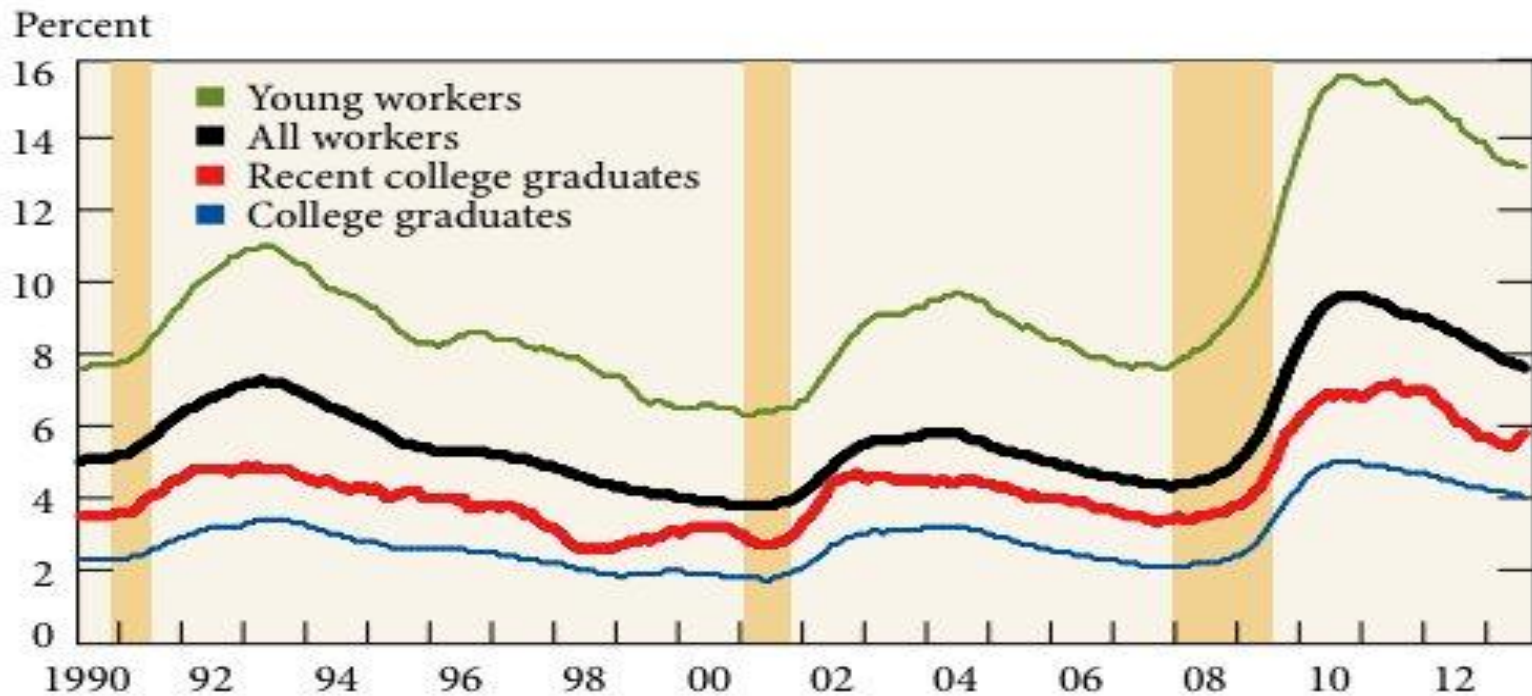
Sources: U.S. Census Bureau, Decennial Census and American Community Survey.

Their Underemployment Rate Is Also Highest In Decades



Sources: U.S. Census Bureau, Decennial Census and American Community Survey, U.S. Department of Labor, O*NET.

It Could Be Worse?



Sources: U.S. Census Bureau and U.S. Bureau of Labor Statistics, Current Population Survey.

Of Course, Some Jobs are Better Than Others



Gross Domestic Product

- GDP represents the total dollar value of all goods and services produced over a specific time period. In short, it's everything produced by people and businesses, including salaries of workers.
- Important indicator on the health of a country's economy.

US Economy in 2014

- The consensus is for about 2.5 percent real GDP growth during 2014
- Compared with an average of 2 percent over the past three years



2014 Key Issues

- Rebound started fall 2011 but moving slowly
- More people are working, but ~1 million <peak
- Interest rates will continue at low levels but gradual increases



US Economy in 2014

2014 Key Issues

- Continued relatively low inflation
- Negativity replaced by positive expectations
- Americans have credit capacity again, but lenders slow to lend



US Economy in 2014

Housing Historically Has Lead Coming Out of a Recession, Even This Time!

The General Economy Will Lean Heavily on Housing in 2014



2014 US Housing Outlook



Outlook:	Pros	Cons
Mortgage Rates Increase Slightly (25-100bps)	FED Tapering; Dodd-Frank regulations finalized	Overall econ not recovered; Fed outlook/actions
Home Price Increase Slows; Affordability declines	Recovery in hard-hit metros; investor buying slows; higher rates & tight credit	Strong pent up demand; Supply still lagging Demand; prices highly volatile locally

Source – Texas A&M University Real Estate Center Dr. Jim Gaines

2014 US Housing Outlook



Outlook	Pros	Cons
Homeownership slips some more; rental market stays strong	Income/employment restricting Demand; young (25-35) renting	Opportunity to buy before further price & interest rate increases; more confidence in investment
Home Sales Volume Increases Modestly	Financing still tight; lot inventory; mortgage rates	HBs more confident; strong Demand for new, higher-priced

2014 US Housing Outlook



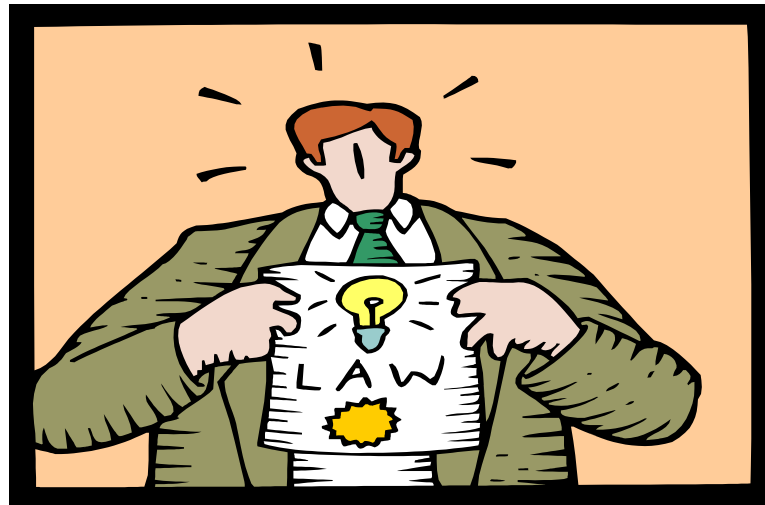
Outlook	Pros	Cons
Mortgage Credit Remains Tight	Dodd-Frank Act regulations & uncertainty; no significant private money; higher loan fees	Fin Institutions need business; Stronger purchase & weaker refinance Demand

Source – Texas A&M University Real Estate Center Dr. Jim Gaines

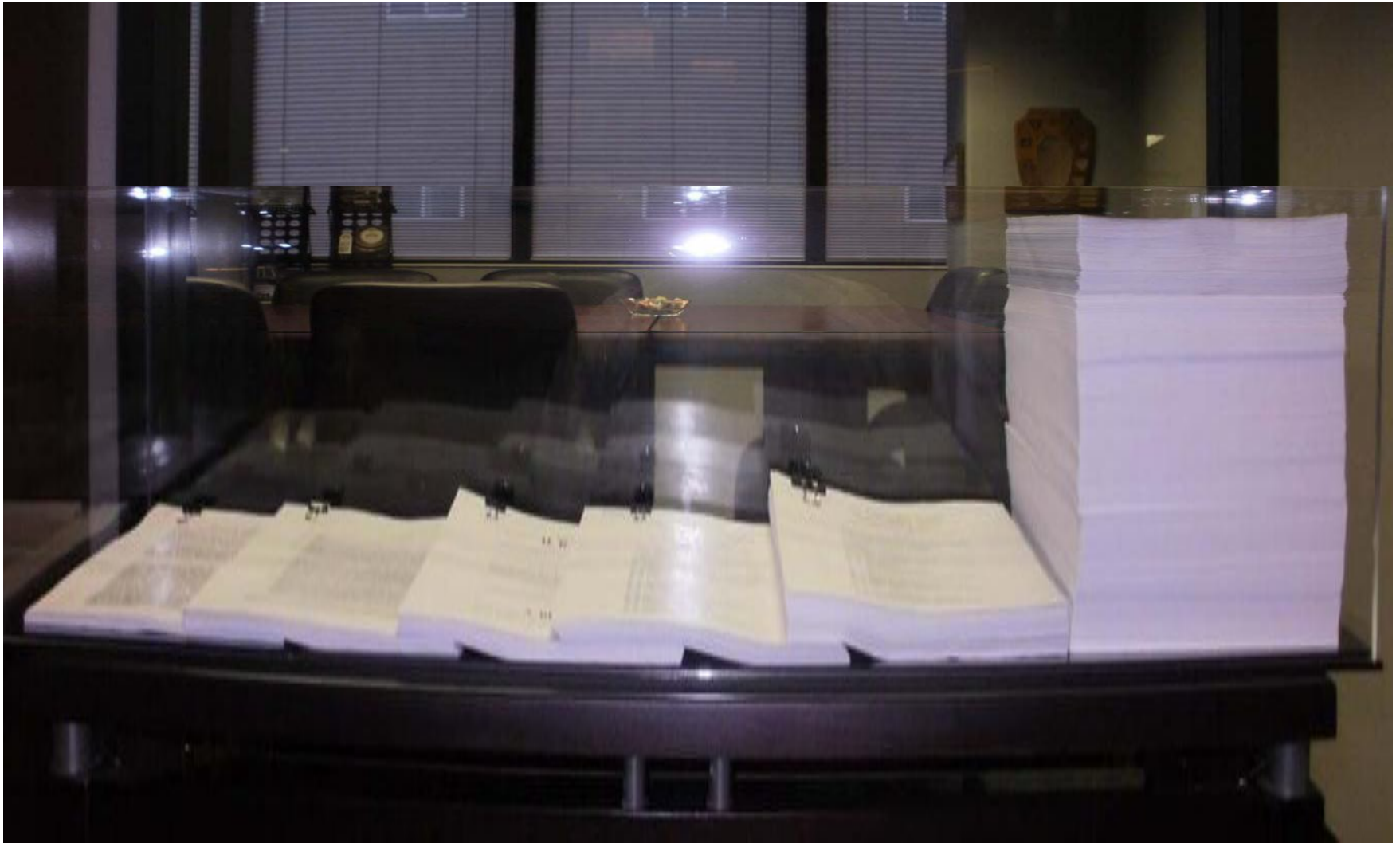
2014 Housing Outlook

Flight to Quality

- Dodd Frank Wall Street Reform and Consumer Protection Act



Significant Banking Laws



Title XIV - Mortgage Reform and Anti-Predatory Lending Act

Dodd-Frank Ability to Repay

1. The consumer's current and expected income
2. Employment status
3. Payment of any simultaneous liens
4. Payment of applicable taxes, insurance and assessments



- The consumer's current obligations
- The consumer DTI ratio or residual income
- The consumer's credit history.
- Fees and Points – 3% Cap



Qualified Mortgage Standard (QM)

- Ability to Repay
 - ❑ The consumer's current and expected income
 - ❑ Employment status
 - ❑ Payment of any simultaneous liens
 - ❑ Payment of applicable taxes, insurance and assessments
 - ❑ The consumer's current obligations
 - ❑ The consumer DTI ratio or residual income
 - ❑ The consumer's credit history.
 - ❑ Fees and Points – 3% Cap



■ **CFPB final rule Qualified Mortgage**

- Requires a creditor to calculate the mortgage loan payment based on:
 - the fully indexed rate or any introductory interest rate (whichever is greater); and
 - monthly, substantially equal payments that fully amortize the loan amount over the loan term.

 - Bans prepayment penalties for certain fixed rate, qualified mortgages

 - Requires lenders to keep records demonstrating they have complied with the ability-to-repay rule for at least three years
-

2014 Housing Outlook

- **Terms of the mortgage must not include any negative amortization, interest-only payments, or balloon payments**
- **The loan term cannot exceed 30 years**
- **The lender must consider and verify the borrower's current or reasonably expected income or assets**
- **Establishes a maximum DTI ratio for all qualified mortgages, requiring that a borrower's DTI ratio be less than or equal to 43%**



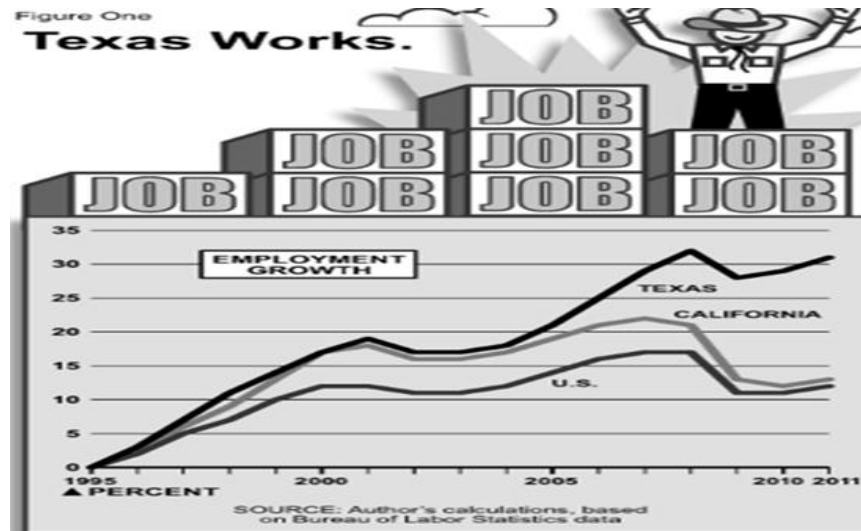
Texas Economy Outlook for 2014

○○○ HomeStart
Capital



Texas Economy Outlook for 2014

- Texan job creation has far outpaced the national average
- The number of jobs in Texas has grown by a truly impressive 31.5 percent since 1995, compared with just 12 percent nationwide



Source: U.S. Bureau of Labor Statistics

Texas Economy Outlook for 2014



New Texas Jobs Paid Well

- For industries paying over 150 percent of the average American wage, Texas claimed 216,000 extra jobs
- The Lone Star State, with 8 percent of the U.S. population, created nearly a third of the country's highest-paying positions



Source: U.S. Bureau of Labor Statistics

Texas Economy Outlook for 2014



- The Texas economy gained 275,700 jobs from November 2012 to November 2013
- Unemployment rate
 - Texas 6.1%
 - National 7.0%



Source: Texas Workforce Commission December 2013

Houston Economy Outlook 2014

Houston Area Added 97,700
July 2012 – July 2013



Source: U.S. Bureau of Labor Statistics, March 2013

Houston Economy Outlook

2014

- Economy still strongly tied to energy
- Natural gas prices and activity just as important as oil prices



Source – Texas A&M University Real Estate Center Dr. Jim Gaines

2014

The Economic Impact of the Port of Houston

- Ship channel-related businesses contribute **1,026,820 jobs** throughout Texas, up from more than 785,000 jobs cited in 2007
- Generated more than **\$178.5 billion** in statewide economic impact, up from nearly \$118 billion
- **\$4.5 billion** in state and local tax revenues are generated by business activities related to the port, up from \$3.7 billion.



Houston Economy Outlook 2014

- 1st ranked US port in foreign tonnage
- 2nd ranked US port in total tonnage
- Largest Texas port with 46% of market share by tonnage



Houston Economy Outlook 2014

- **November marked the 30th consecutive month of positive home sales across the greater Houston area**



Source: Houston Association of Realtors, December 2013.

Houston Economy Outlook

2014

- **At \$245,707 single-family home average price reached a historic high for Houston**

- **At \$181,000, single –family home median price also hit a historic high for Houston**



Source: Houston Association of Realtors, December 2013.

Texas Economy Outlook 2014

Seller's Market

For the first time in more than 14 years, the inventory of single-family homes fell below five months, dropping from 4.1 months a year ago to 2.9 months, a level the Houston market last observed in December 1999

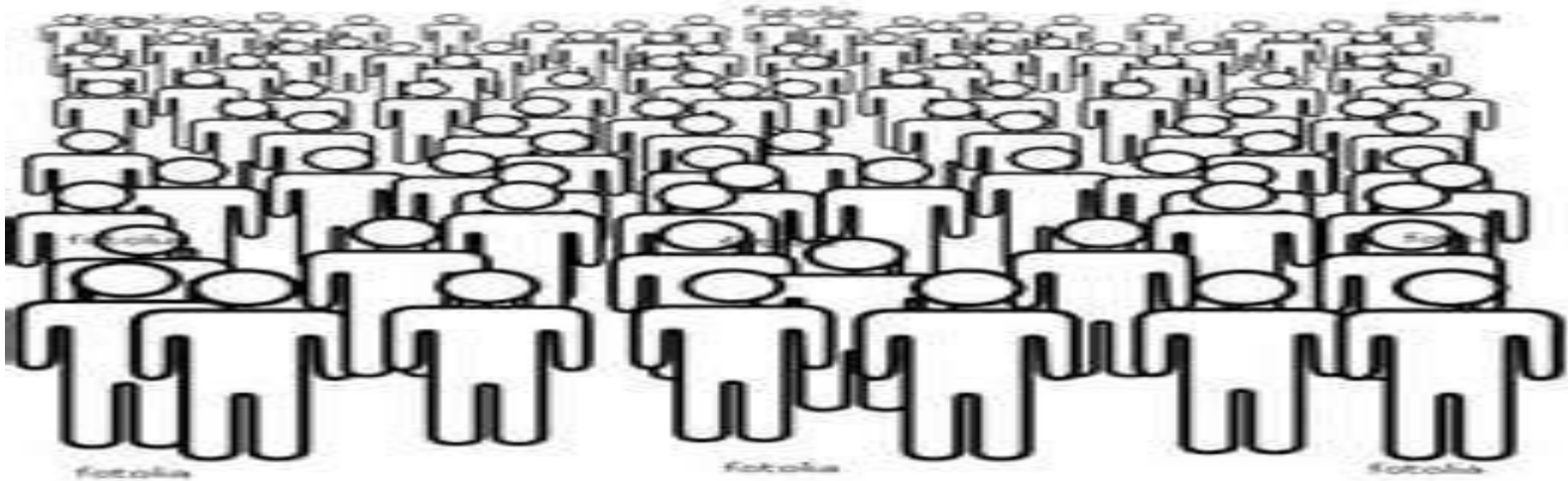


Source: Houston Association of Realtors, December 2013.

Texas

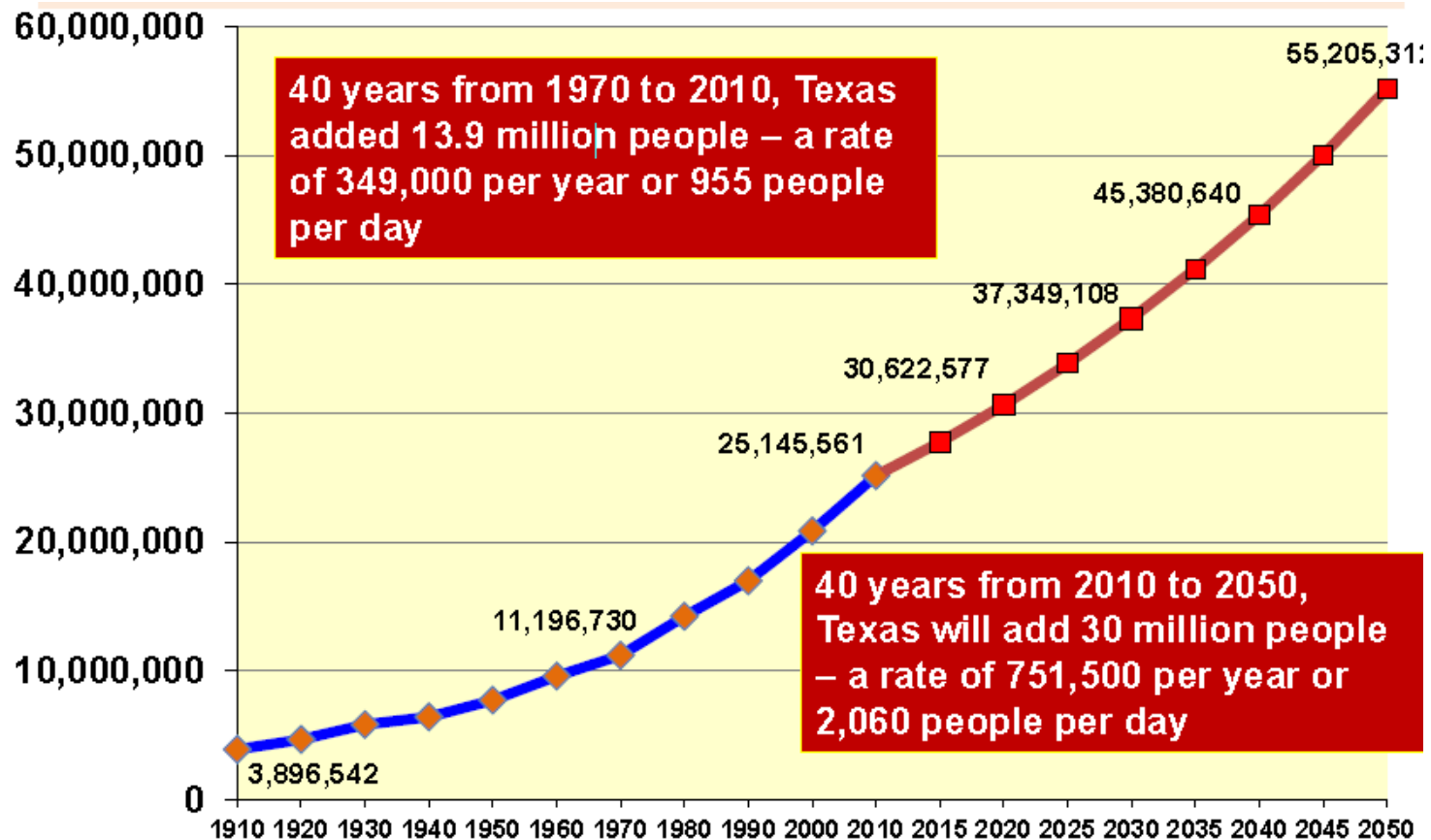
Poised for a 21st Century Boom

- Real Estate Center economists have been saying it for the past few years, and now the latest census data are supporting it: Texas is on the verge of a population boom.



Texas Economy

2014

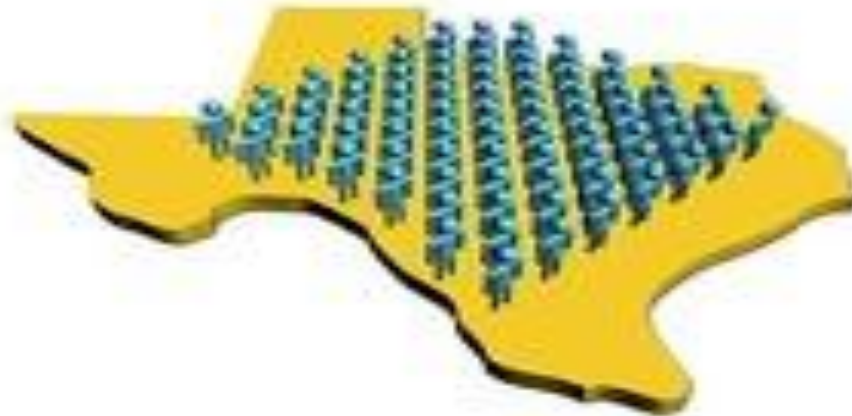


Source – Texas A&M University Real Estate Center Dr. Jim Gaines

Texas

Poised for a 21st Century Boom

- Today, one out of 12 Americans lives in Texas — the same proportion that lived in New York City in 1930.



Source: Michael Barone, *Wall Street Journal*

Poised for a 21st Century Boom

- Metropolitan Dallas and metropolitan Houston, with about six million people each, threaten to overtake our fourth-largest metro area, San Francisco Bay (population about seven million), in the next decade



* Source: Michael Barone American Enterprise Institute

Poised for a 21st Century Boom

- 2010 census population statistics call for Texas to pick up four additional congressional districts.

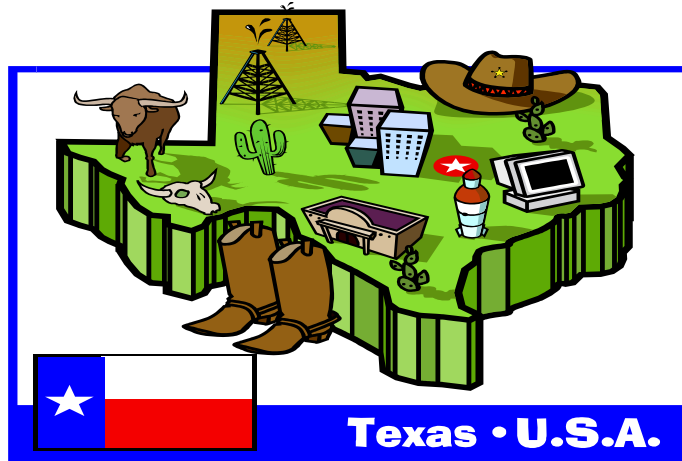


Source: *San Antonio Express-News*

Texas

Poised for a 21st Century Boom

- Population and Economic growth
- Low cost, available labor
- Pro Growth Attitude



Poised for a 21st Century Boom

- Migration into State from elsewhere
- Attractive Retirement Area
- Most affordable state for land, housing and overall cost of living



Poised for a 21st Century Boom

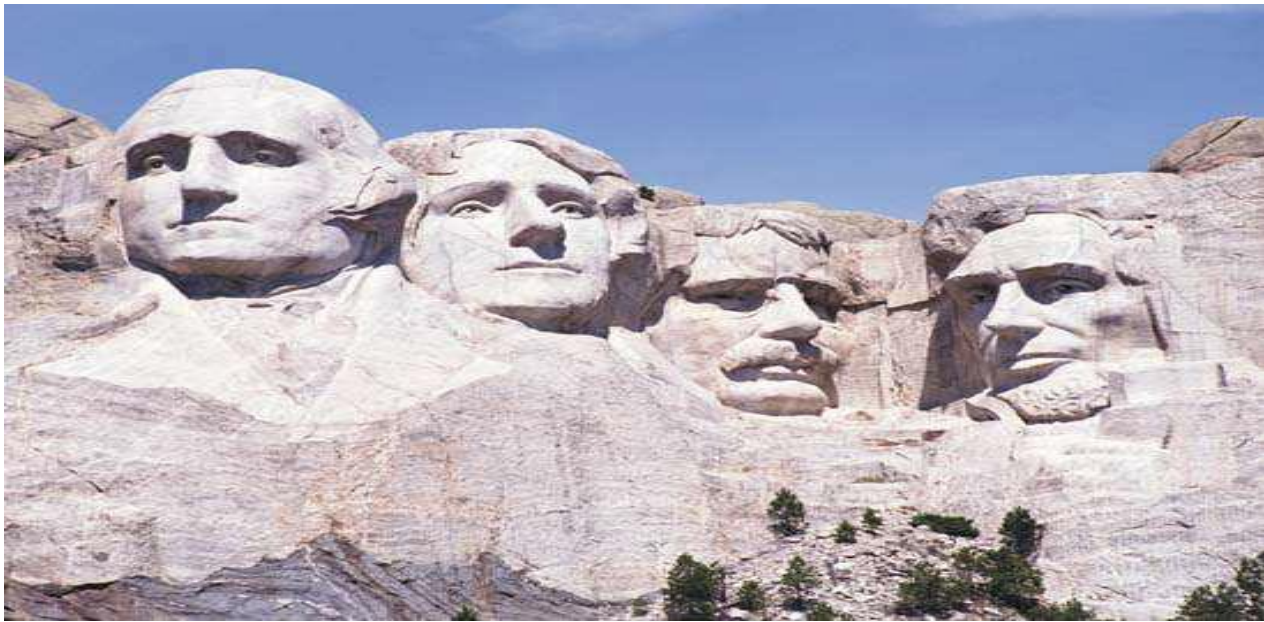
Reasons for Optimism

- Houston continues to grow in jobs & population
 - Years of pent up demand
 - Affordability: prices and interest rates
 - Home building more optimistic than previous five years
 - For qualified buyers, an ideal time to buy in terms of rates, but inventory a problem
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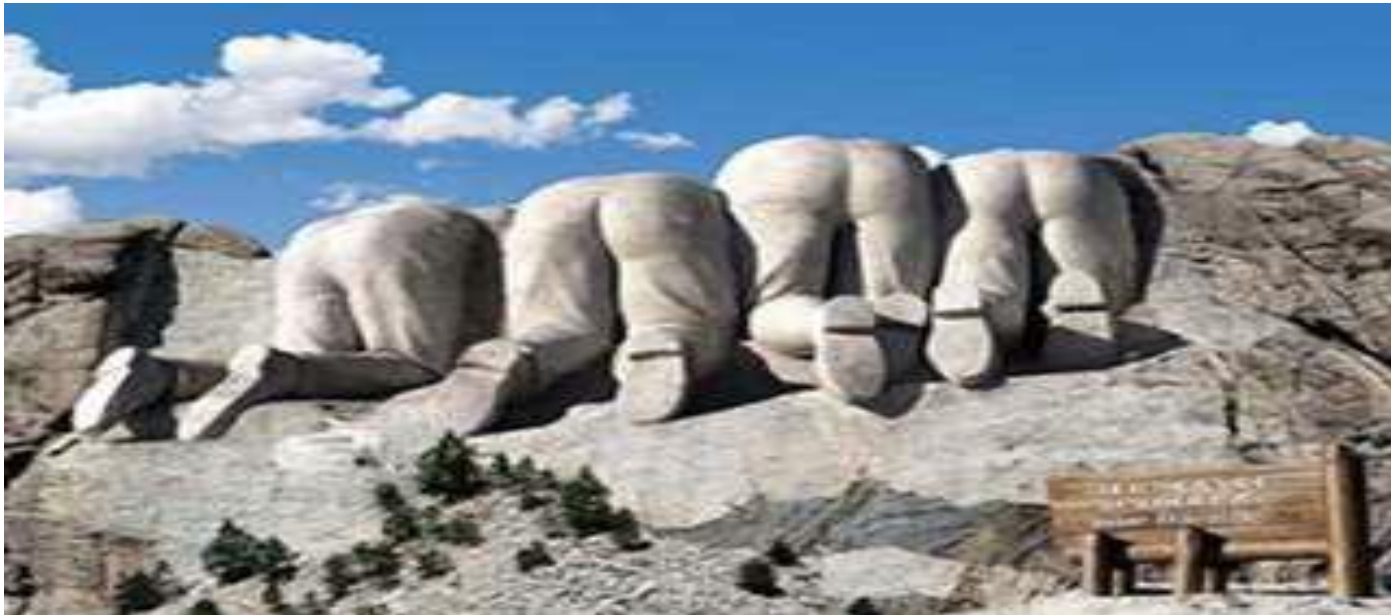
Some things you just never think about, and sometimes you have to look at things from different perspectives .

Take, for example, Mount Rushmore ...

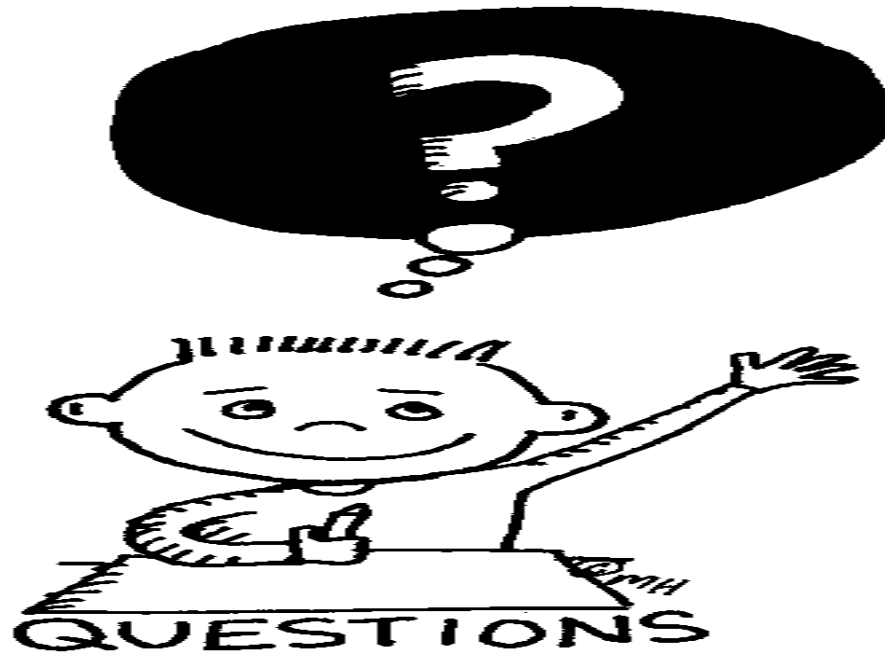


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... and how Mount Rushmore looks from Canada



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