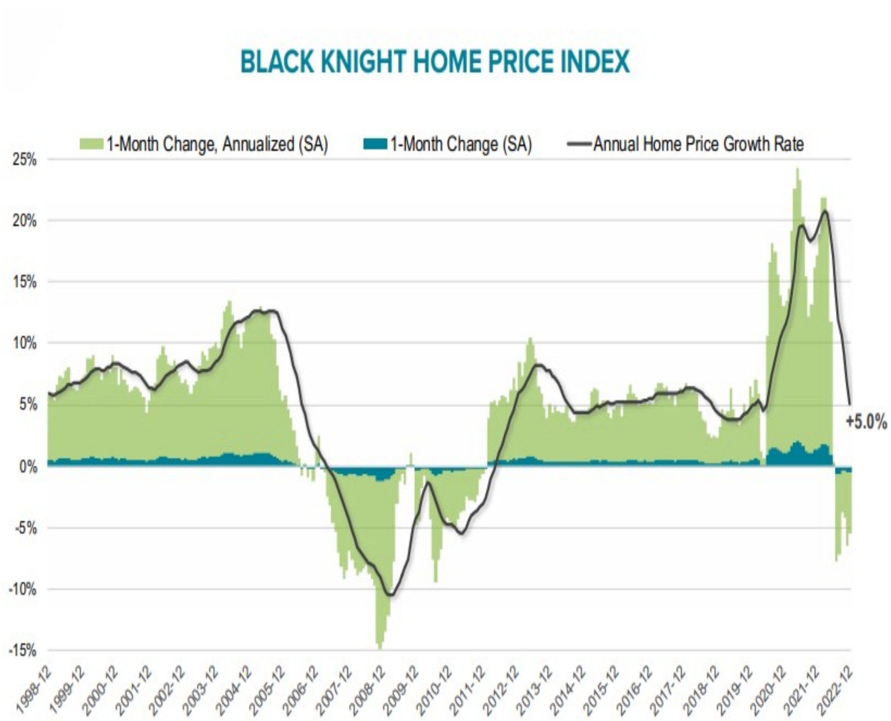
Black Knight Sees Home Price Gains Turning Negative Soon

Black Knight's Mortgage Monitor for December highlights a continuation of recent home price declines, an overview of current loan performances, rate lock activity, and buyer use of buydowns.

December saw the sixth straight monthly decline in Black Knight's Home Price Index (HPI). **The seasonally adjusted index fell 0.45 percent from November**, roughly on par with the 0.48 percent average decline over those six months. The unadjusted index was down 0.87 percent.



Source: Black Knight Home Price Index (HPI)

December's decline pushed the annual home price growth rate down to 5.0 percent -- only 0.4 percent above its 30-year average – and the slowest home price growth rate since June 2020, near the start of the pandemic. However, if recent monthly changes are annualized, they would represent a 3.8 to 7.7 percent decline which may offer insight into where we could be headed in coming months. **If the current pattern persists, the company estimates we will see the annual home price growth rate turn negative within the next three months.**

As always, there are substantial differences in markets. Fourteen of the 50 largest have seen declines of 6 percent or more from the 2022 peaks, with San Francisco, San Jose, Seattle, and Phoenix all falling more than 10 percent on an SA basis while one in five markets have fallen 10 percent or more on an NSA basis. Four markets, Kansas City, Indianapolis, Virginia Beach, and Louisville continue to see SA prices rise.

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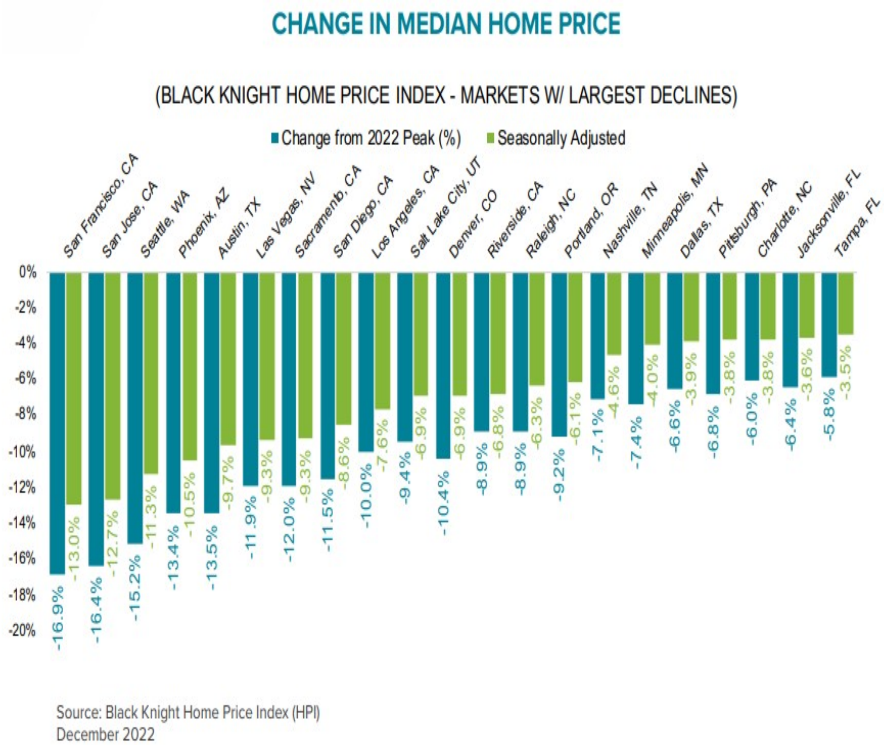
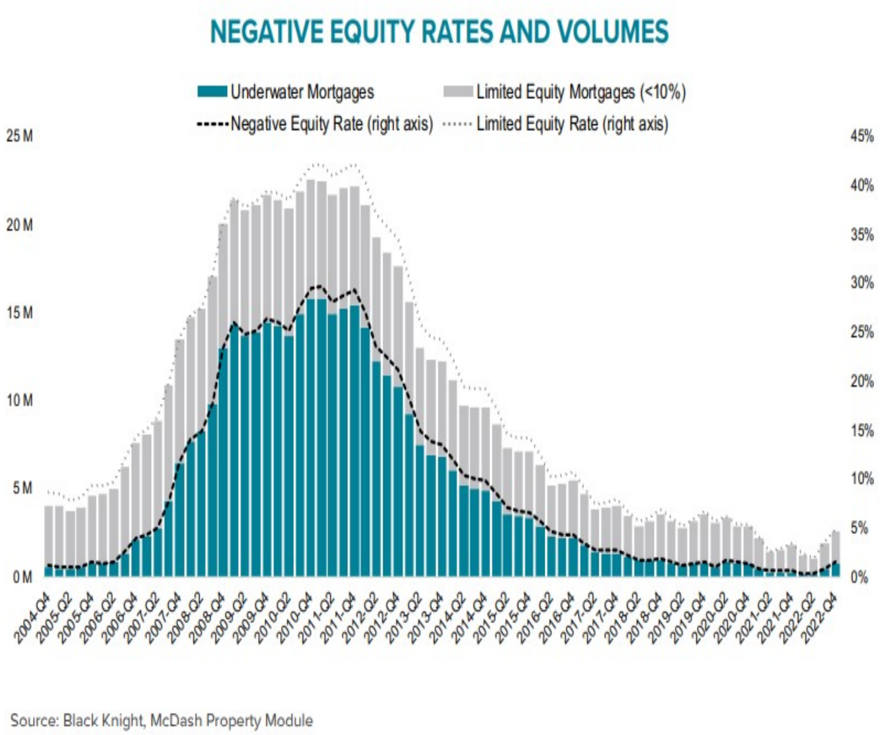


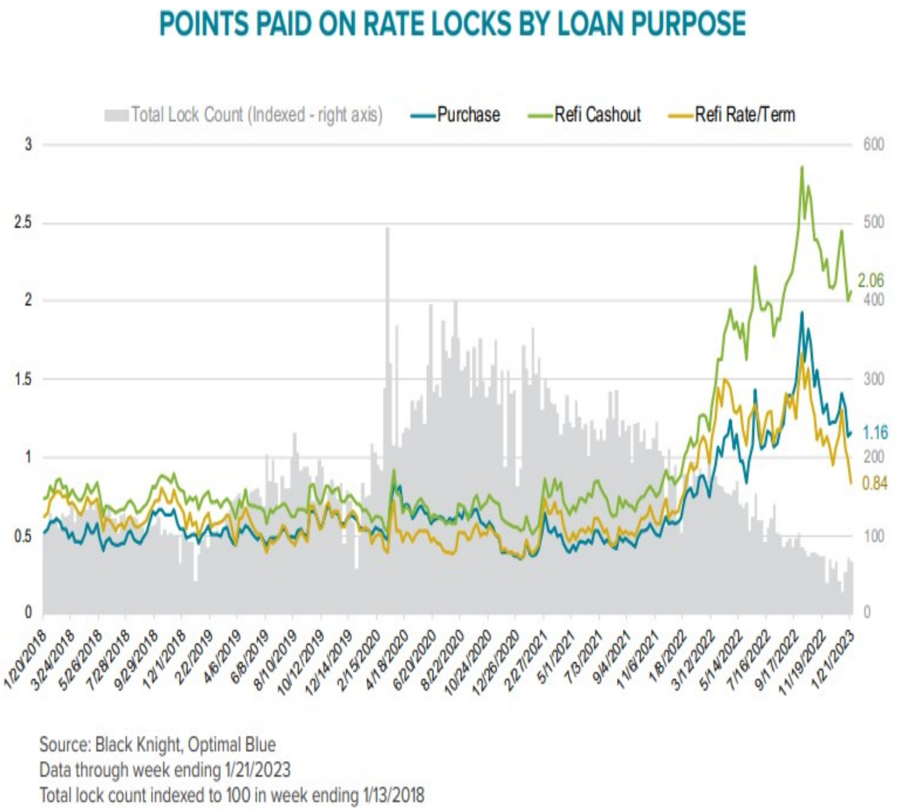
Declining home prices, of course, mean **a loss of homeowner equity and Black Knight estimates it has fallen by $2.3 trillion or 13 percent over the last two quarters**. Tappable equity, the share available to borrow while still maintaining a 20 percent cushion – fell by $1.8 trillion over that span. This is an annual change of -1 percent, marking the first decline in equity available to lend against since 2012. West Coast markets are exacerbating the issue. Los Angeles, San Francisco, San Jose, and Seattle account for nearly one-third of the overall national decline over the past two quarters.



Black Knight Data & Analytics President Ben Graboske says that, despite easing home prices, "Affordability still has a stranglehold on much of the market, with the monthly mortgage payment on the average-priced home more than 40 percent higher than it was this time last year." While down from a peak of 38.4 percent in October, the current 34.8 percent payment to income ratio remains above peak levels seen in 2006. **It now takes nearly $600 more to make the monthly mortgage payment** on the average-priced home with an 80 percent 30-year mortgage than at year earlier.

Graboske says that one manifestation of this affordability challenge is the increasing trend where borrowers pay points up front and buy down their first lien interest rate. In the third week of January, 57 percent of borrowers locking in rates paid a half-point or more for a permanent buydown, 44 percent paid at least a full point, and nearly a quarter paid two points or more. The average was 1.25 points, at $4,300 each. This was down from a peak of 2.03 points in September-October at $6,900. For context the average points paid in 2018-2020 was around 0.5, with a corresponding cost of around $1,500.

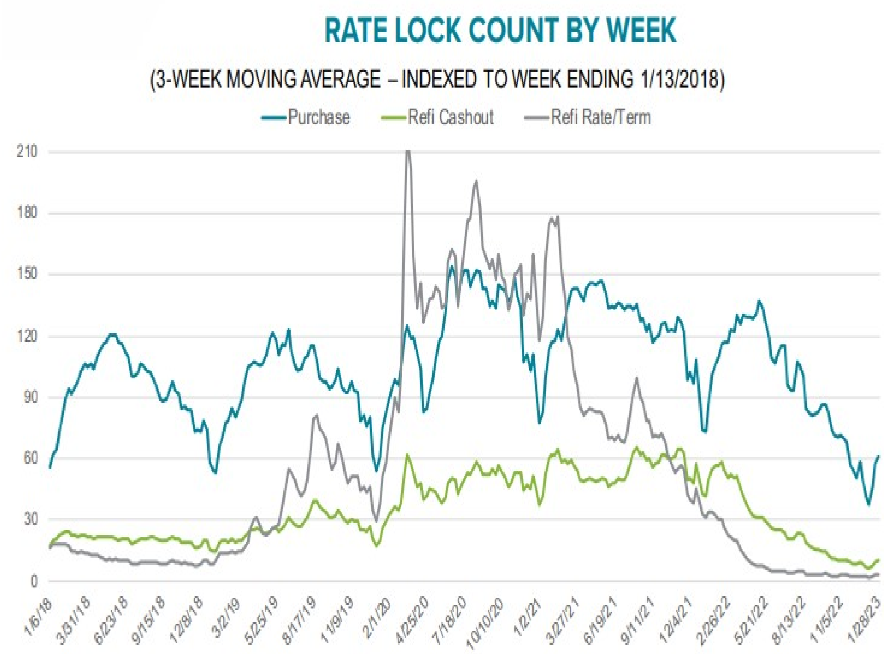
The buydowns were concentrated among purchase borrowers who paid an average of 1.16 points. Rate/term refinances paid an average of 0.84 point while cash-out borrowers paid 2.06 points.



In addition, temporary buydown products have emerged in recent months. The most common of these are 1/0s (1 point off the rate for the first year) and 2/1s (2 points off the first year, 1 point off the second year). During the week ending January 21, at least 3 percent of purchase rate locks included a temporary buydown. Those temporary buydowns with stepped provisions may result in payment shocks to the borrower as their rates increase each year, thus their impact warrants oversight from both a delinquency and prepayment perspective.

Purchase locks rebounded modestly in early January, while refinancing remains depressed, even as mortgage rates are down a full point from their October peak. Purchasers made up 81.7 percent of locks during the week ended January 21, with cash-outs having a 13.7 percent share. Rate/term refinances had only a 4.6 percent share.

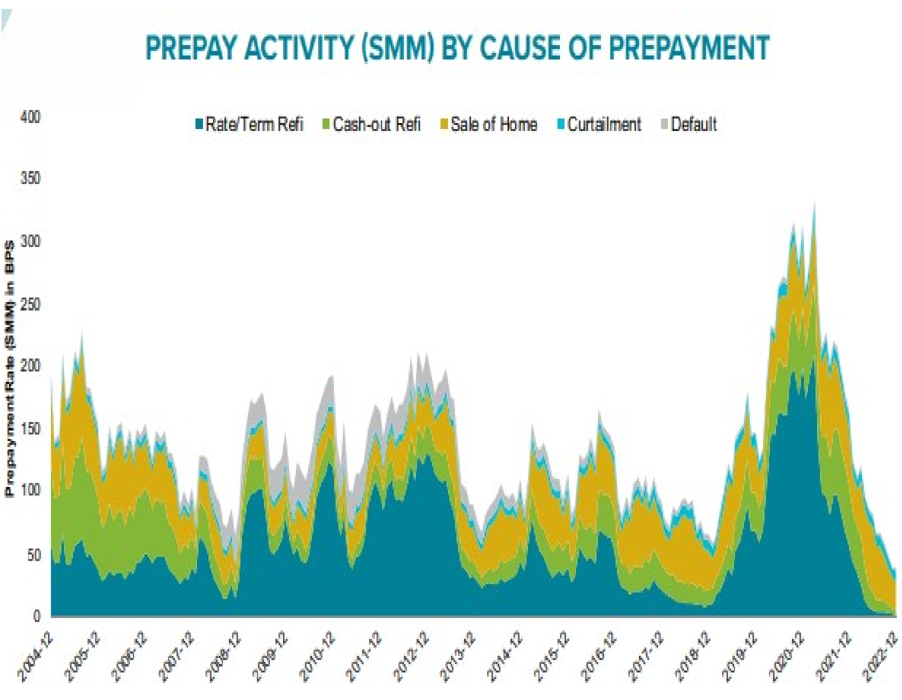
It is encouraging that purchase rate locks rose 64 percent from the first to the fourth week of January, the sharpest such rise in the past 5 years. Still, by the end of month, purchase locks were down 13 percent from 2018/2019 pre-pandemic levels.



Source: Black Knight, Optimal Blue Mortgage Market Index (OBMMI)

Loan performance remains stable. The 413,000 loans that rolled from current to 30 days delinquent in December was only 0.7 percent more than did so in December 2019. Those rolling from 60 to 90 days increased by 8.9K loans, nearly all explained by Florida, where borrowers are still dealing with Hurricane Ian's impact.

Both rate/term and overall refinances again drove the lowest single-month mortality rate (SMM) and share of overall prepayments on record dating back more than 20 years. The total December SMM of 39 BPS (0.39 percent) marks the third consecutive record low, falling another 9 BPS in two months since October, and 20 BPS lower than the previous record of 59 BPS from January 2019.



Source: Black Knight, McDash Property Module