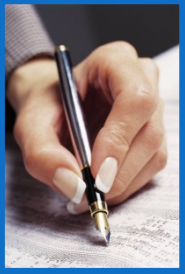


Huron Valley Financial, Inc. 2018 Economic Forecast



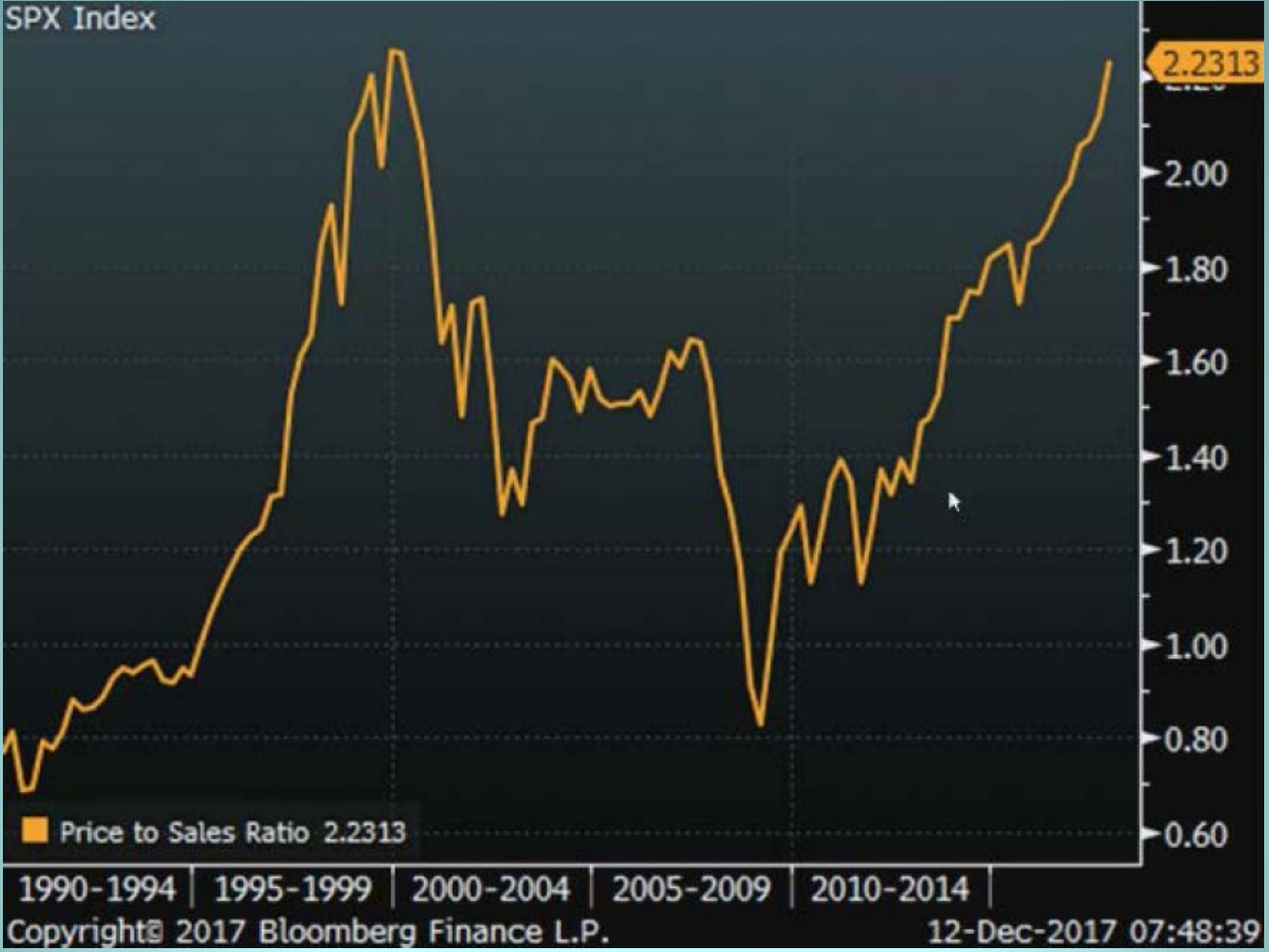


What We will Cover



- Possible Stock Market Correction
- Federal Reserve – Change in the guard & reduce the B.S.
- Mortgage Rates – Set to rise in 2018...How much?
- Can housing continue impressive run up in prices – Will tax reform be a drag on housing?
- Summary & Conclusion

Stock Market and Impact on Mortgage Rates



Stock Market and Impact on Mortgage Rates

Stocks

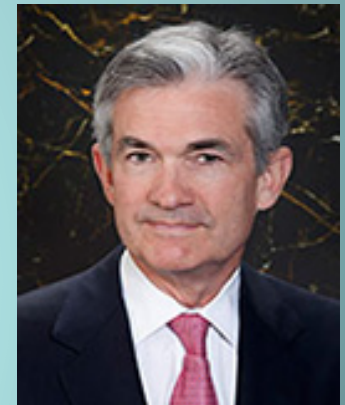
10-Year Treasury Yield Minus 2-Year Treasury Yield



Stock Market and Impact on Mortgage Rates

- Stock market currently at a 30 year high in investor optimism...often a sign the market may be overbought.
- We're in the midst's of the 3rd longest economic expansion in history
- Most Expensive stock market based on price to sales ratio – ever
- Combined with Flattening of the Yield Curve
- **Prediction: We're expecting a significant stock market correction in 2018 (This *shouldn't* be a surprise but probably will be)**
- How does this impact mortgage rates? Stocks & MBS compete for the same investor \$\$\$\$. A significant correction will keep a lid on rates.

Federal Reserve Bank



Janet Yellen will be replaced by Jerome Powell as Chairman

Financial Projections and Offering Details

The Fed

- Inflation should remain tame
- Stock correction could limit number of hikes
- Fed continues ramp up of Quantitative Tightening (Fed reinvesting less)

	<u>Reduction</u>	<u>Approx. Monthly MBS Reinvestment Purchases</u>
Before Reduction Plan	0	25 Billion
October	4 Billion	21 Billion
January	8 Billion	17 Billion
April	12 Billion	13 Billion
July	16 Billion	9 Billion
<u>October</u>	<u>20 Billion</u>	<u>5 Billion</u>

Financial Projections and Offering Details

Fed's Balance Sheet

	<u>Yearly Reduction</u>	<u>MBS Balance Sheet</u>
Before Reduction Plan	0	1.8 Trillion
2018	120 Billion	1.68 Trillion
(12B Q1, 25B Q2, 36B Q4, 48B Q4)		
2019	240 Billion	1.44 Trillion
2020	240 Billion	1.2 Trillion
2021	240 Billion	960 Billion
2022	240 Billion	720 Billion
2023	240 Billion	480 Billion
2024	240 Billion	240 Billion
2025	240 Billion	0

Federal Reserve Bank – Changing of the Guard and Change of Policy?

- Janet Yellen is out Jerome Powell is in as Fed Chairman.
- Fed Governors signaling 3 rate hikes in 2018...only one problem...
- The President may need to appoint up to 4 Fed Governors.
- Aggressive Quantitative Tightening combined with aggressive plan to shrink MBS held on Fed's balance sheet. 2.00% Inflation target.
- **Our Prediction: Stock market correction and potential inverted yield curve will limit Fed to two rate increases.**
- Impact mortgage rates? It's complicated...quantitative tightening and shrinking the balance sheet both push rates higher. Increases in the Fed Funds rate however doesn't directly impact mortgage rates...more psychological impact on consumers.

Interest Rate Forecast

- We believe inflation will continue to be main driver of rates, and inflation should remain tame – Rate will move moderately higher.
- Federal Reserve Quantitative Tightening ramp up = Fed reinvesting less will be main driver of higher mortgage rates.
- Stock market correction will act as counterbalance to Fed QT and help restrain increase mortgage rates.
- **Our Prediction: Mortgage Rates .375% higher on average with the usual fluctuations higher and lower.**
 - ✓ **30 year fixed in 4.375% range**
 - ✓ **15 Year fixed in 3.875% range**

Local Housing Market

- Strength in housing market will continue through 2018
- Low Inventory continues – builders can't build homes fast enough (skilled labor constraints financing constraints?)
- Local Rents increasing over 4% per year (in many cases its cheaper to own!)
- Local demand and demographics remain strong (3.23% unemployment in AA 3.35% in WC, national rate 4.1%).
- Tax Reform implications on Real Estate
 - ✓ Overall Tax Reform Bill is inflationary
 - ✓ 2/5 year exclusion remains
 - ✓ People who take mortgage deduction in 2017 represent 21% of all filers
 - ✓ Double Standard Deduction 2018 = just 4% of filers take Mortgage Deduction
- **Our Prediction: 3.5% – 4.5% Local Housing Appreciation**

Summary of our Economic Forecast



- **We're expecting a significant stock market correction in 2018**
- **Stock market correction and potential inverted yield curve will limit Fed to two rate increases.**
- **Mortgage Rates .375% higher on average. 30 year fixed in 4.375% range and 15 Year fixed in 3.875% range.**
- **Strong housing market continues with 3.5% – 4.5% Local Housing Appreciation in 2018**
- **Higher rates and reduced tax incentives won't make a dent in 2018.**

What are we seeing from our vantage point?



- Continued strong buyer demand for existing and new construction homes
- Significant amount of pre-approvals in process now for spring selling season (We usually don't see this level until late early March).
- Experiencing 40% average growth in construction & rehab loans past three years. Forecasting 25% growth in 2018. HG TV Effect.
- A little relaxation in some underwriting guidelines...its about time.
- A lot of optimism for 2018!

Quote from Albert Einstein

“Compound interest is the eight wonder of the world. He who understands it, earns it...he who doesn't...pays it.”

A 4.00% annual rate of appreciation of a \$300,000 home would result in a value of \$447,000 or \$147,000 gain in 10 years. 10 years representing the average time NAR says a buyer stays in a home.