Housing Outlook

• Home is the most important financial asset for a person
• Real Estate is a key driver of economy
• What is the new normal?
• Credit to the sources –
  • National Association of Realtors
  • Montana Association of Realtors
  • Mortgage Bankers Association
  • Wall Street Journal
  • Federal Housing Finance Agency
  • Demand Institute
  • United States Census Bureau
Ben Bernanke, I feel your pain!

• Regulation

Shaping the future of the industry
Combined Regulation Affects

Recent Regulation 2014
- Qualified Mortgage
- Ability to Repay
- New Disclosures

Future Regulation 2015
- "Know Before You Owe"
- New Loan Estimate
- New Closing Disclosure

- Availability and cost of credit
- Days to complete transaction
- Underwriting
Home Sales Share

Montana

- Primary Residence: 86%
- Vacation Home: 7%
- Investment: 7%

National

- Primary Residence: 67%
- Vacation Home: 13%
- Investment: 20%

Sources: Montana- First Interstate Bank Year-to-date October 31, 2014; National- National Association of Realtors Presentation October 30, 2014
Where Have the First-Time Home Buyers Gone?

A Deficit of First-Time Home Buyers Weighs on Housing Market

- Changing demographics in median age
- Low inventory of affordable housing
- Difficulty meeting mortgage underwriting standards
- Down payment requirements

WSJ First-Time Buyers, Over Time

Sources: Wall Street Journal, Federal Housing Finance Agency, and Mortgage Bankers Association
Changes in Buyer Demographics

Source: National Association of Realtors
Changing demographics in median age
Low inventory of affordable housing

What is the new normal?

Source: National Association of Realtors, Convention October 30, 2014
Aspirations Gap

- **75%** Americans believe home ownership is an important goal
- **65%** Americans own a home

- **59%** Young renters (18 to 39) believe owning a home makes more sense
- **73%** Young renters also believe it would be difficult to get a mortgage

Source: Demand Institute; Fannie Mae 2013 Demand Institute Housing and Community Survey, and Tale of 2000 Cities Report February 2014
What get’s in their way?

<table>
<thead>
<tr>
<th>Expenses that Delayed Saving for Downpayment or Saving for Home Purchase</th>
<th>All Buyers</th>
<th>First-time Buyers</th>
<th>Repeat Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Saving for Downpayment was Most Difficult Task in Buying Process:</td>
<td>12%</td>
<td>23%</td>
<td>7%</td>
</tr>
<tr>
<td>Debt that Delayed Saving:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit card debt</td>
<td>50%</td>
<td>45%</td>
<td>58%</td>
</tr>
<tr>
<td>Student Loans</td>
<td>46</td>
<td>57</td>
<td>28</td>
</tr>
<tr>
<td>Car loan</td>
<td>38</td>
<td>42</td>
<td>32</td>
</tr>
<tr>
<td>Child care expenses</td>
<td>17</td>
<td>13</td>
<td>24</td>
</tr>
<tr>
<td>Health care costs</td>
<td>12</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>5</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: National Association of Realtors, Convention October 30, 2014

- Barriers to entry for home ownership
- So, where do they live now?
Multi-Generational Households

Pew Research - Pewsocialtrends.org July 2014

• 57 million Americans or 18.1% of the population live in a multi-generational family household in 2012
  ○ Double the number who lived in such households in 1980

AARP Public Policy Institute on Multigenerational Households

• 2008 to 2010 the intergenerational households increased
  ○ 2008 5.3% of all households were multigenerational
  ○ 2010 6.1% of all households were multigenerational

Source: National Association of Realtors, Economists’ Outlook Blog; Article November 24, 2014

Multi-Generational Housing: A Multi-Faceted Issue by Jessica Lautz, Director, Survey Research and Communications
New Normal?

Cost of Building / Tight Inventory = Pent Up Demand

Price Index of New Single-Family Houses Under Construction

Source: United State Census Bureau
Census.gov/construction/cpi/
Laspeyres Price Index (Constant Quality)
Montana 7 Major Markets - Housing Units Sold

Source: Montana Association of Realtors; 3rd Quarter MT Housing Statistics.pdf
2014 Midyear Housing Statistics July 1 thru September 30 – YTD 2 year comparison
<table>
<thead>
<tr>
<th>Montana 7 Major Markets – Average Sales Price</th>
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<tr>
<td>Northwest Montana Assoc. of REALTORS</td>
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<td>Missoula Organization of REALTORS</td>
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<td>Helena Assoc. of REALTORS</td>
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<td>Great Falls Assoc. of REALTORS</td>
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<td>Gallatin Assoc. of REALTORS</td>
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<td>Bitterroot Assoc. of REALTORS</td>
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<td>Billings Assoc. of REALTORS</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Price</th>
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<tr>
<td>2013</td>
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</tr>
<tr>
<td>2014</td>
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</table>

Source: Montana Association of Realtors; 3rd Quarter MT Housing Statistics.pdf
2014 Midyear Housing Statistics July 1 thru September 30 – YTD 2 year comparison
Montana 7 Major Markets - Average Days on Market

Source: Montana Association of Realtors; 3rd Quarter MT Housing Statistics.pdf
2014 Midyear Housing Statistics July 1 thru September 30 – YTD 2 year comparison
Mortgage Interest Rates – 30 YR Conventional Fixed

Source: First Interstate Bank
Living in a new norm?

• Regulations
• Changing Demographics
• Down Payment
• Credit Approval Standards
• Building Costs
• Additional regulatory requirements
• Low Mortgage Interest Rates