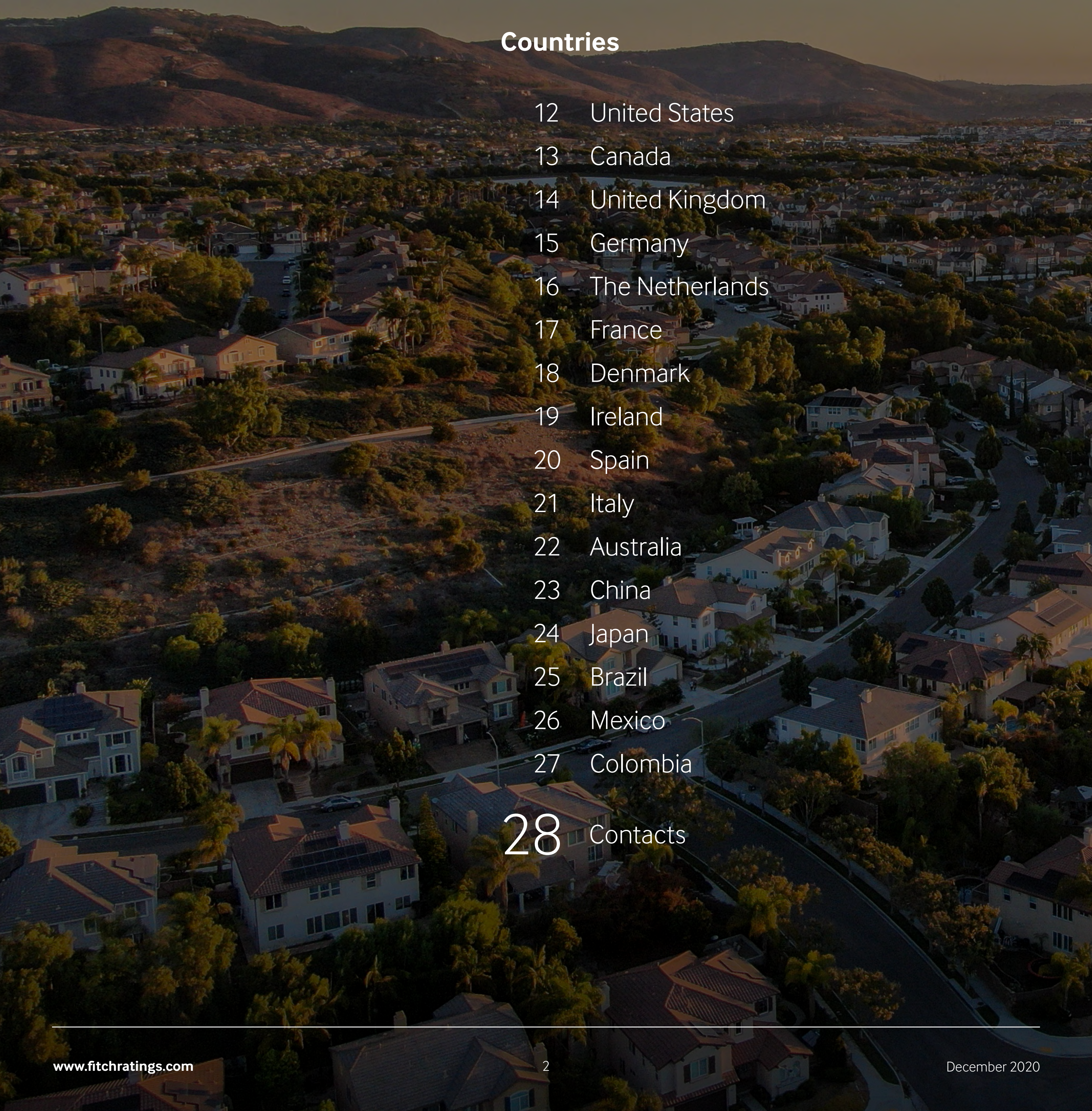
FitchRatings

Global Housing and Mortgage Outlook – 2021

Arrears to Rise as Home Price Growth Stalls

Contents



Market Forecasts

Region	Country	Page	Nominal Home Prices[a] (% Change Yoy)			Late-Stage Mortgage Arrears[c] (%)		
			2020 estimate	2021 forecast	2022 forecast[b]	2020 estimate	2021 forecast	2022 forecast[b]
North America	USA	12	5.6	1-3	▶	5.0	4-5	▼
	CAN	13	7.0	(-5)-(-3)	▲	0.27	0.35-0.5	▼
Europe	UK	14	5.0	(-6)-(-4)	▲	0.9	1.5-2.5	▼
	GER	15	6.0	1-3	▶	0.4	0.4-0.6	▼
	NLD	16	8.0	(-1)-1	▲	0.3	0.4-0.8	▼
	FRA	17	5.0	0-2	▼	1.4	1.5-1.7	▲
	DEN	18	5.0	1-3	▲	0.25	0.3-0.5	▲
	IRL	19	0.0	(-4)-(-2)	▶	9.5	14-16	▼
	ESP	20	-5.0	(-6)-(-4)	▲	3.5	4-5	▶
	ITA	21	-1.0	(-2)-(-1)	▲	1.2	1.5-2.5	▼
Asia-Pacific	AUS	22	1.0	3-5	▲	0.65	1.5-2	▼
	CHN	23	4.0	1-3	▼	0.4	0.3-0.4	▶
	JPN	24	3.5	(-2)-(-1)	▼	0.28	0.4-0.5	▼
Latin America	BRA	25	2.8	1-3	▲	1.2	1.5-3.5	▶
	MEX	26	5.0	2-4	▶	4.0	4-6	▶
	COL	27	3.0	2.5-4.5	▲	4.5	5.5-7.5	▼

Legend

(a) Index of eight capital cities Australia and Index of Tier 1 cities (four largest cities) in China.

(b) Forecasts for nominal home price changes for 2022 are ▲ (positive) if the forecast ranges include larger numbers, ▶ (neutral) if the same, or ▼ (negative) if smaller numbers than the 2021 forecast ranges. For late-stage mortgage arrears, ▼ (positive) applies if the forecast ranges include smaller numbers, ▶ (neutral) if the same, or ▲ (negative) if larger numbers than the 2021 forecast range.

(c) Germany, Japan: Fitch-rated RMBS three-months-plus arrears including defaults. Netherlands, Italy: Fitch-rated RMBS three-months-plus arrears excluding defaults. China: Annualised gross loss from Chinese RMBS transactions, loss definition varies between 90d+ and 180d+. Remaining countries: Market-wide or largest lender arrears/impaired loan ratio (definitions vary).

Source: Fitch Ratings

Macro Indicators

	Country	Sovereign Environment			Unemployment (%)				Real GDP Growth (%)				Short-term Rates (%) [d]			
		LT IDR [a]	BSI [b]	MPI [c] 2020 (2019)	2019	2020^f	2021^f	2022^f	2019	2020^f	2021^f	2022^f	2019	2020^f	2021^f	2022^f
North America	USA	AAA	a	1 (1)	3.7	8.1	6.5	5.6	2.2	-3.5	4.5	3.5	1.8	0.3	0.3	0.3
	CAN	AA+	aa	2 (2)	5.7	9.5	7.8	6.4	1.9	-5.7	4.5	3.6	1.8	0.3	0.3	0.3
Europe	UK	AA-	a	1 (1)	3.8	4.8	7.3	6.1	1.3	-11.2	4.1	3.6	0.8	0.1	0.1	0.1
	GER	AAA	a	1 (1)	3.1	4.2	4.9	4.7	0.6	-5.6	5.0	3.7	0.0	0.0	0.0	0.0
	NLD	AAA	a	1 (1)	3.4	4.6	7.2	5.5	1.7	-5.1	3.4	2.3	0.0	0.0	0.0	0.0
	FRA	AA	a	1 (1)	8.5	8.3	10.7	9.3	1.5	-9.7	4.8	3.8	0.0	0.0	0.0	0.0
	DEN	AAA	a	1 (1)	5.0	5.6	5.4	5.1	2.3	-3.8	3.4	2.2	0.0	0.0	0.0	0.0
	IRL	A+	bbb	1 (1)	5.0	6.0	8.5	7.0	5.6	0.7	2.5	3.0	0.0	0.0	0.0	0.0
	ESP	A-	bbb	1 (1)	14.1	15.9	18.4	14.8	2.0	-11.7	5.3	6.6	0.0	0.0	0.0	0.0
	ITA	BBB-	bb	1 (1)	9.9	9.8	11.8	9.5	0.3	-9.1	4.5	4.3	0.0	0.0	0.0	0.0
Asia-Pacific	AUS	AAA	a	1 (1)	5.2	6.5	6.2	5.6	1.9	-2.8	3.8	2.7	0.8	0.1	0.1	0.1
	CHN	A+	bb	1 (1)	5.2	5.3	5.1	5.0	6.1	2.3	8.0	5.5	3.3	3.0	3.0	3.0
	JPN	A	a	2 (2)	2.4	2.9	2.8	2.4	0.7	-5.3	3.5	1.5	-0.1	-0.1	-0.1	-0.1
Latin America	BRA	BB-	bb	1 (1)	11.9	13.5	15.0	14.0	1.4	-4.6	3.1	2.5	4.5	2.0	3.0	4.5
	MEX	BBB-	bbb	1 (1)	3.6	5.5	5.0	4.5	-0.1	-8.9	4.2	2.5	7.3	4.0	4.0	4.5
	COL	BBB-	bbb	1 (1)	11.2	16.0	13.0	11.0	3.3	-6.9	4.9	3.8	4.3	2.8	2.0	3.0

Legend

(a) IDR: Issuer Default Rating

(b) As of August 2020; the Bank System Indicator (BSI) is a system weighted average of bank standalone strength as measured by banks' Viability Ratings.

(c) As of August 2020; with the Macro-Prudential Indicator (MPI) Fitch systematically monitors macro-prudential risks on a scale from '1' (low) to '3' (high).

(d) Short-term rates shown are end-of-period policy rates in the US, Canada, the eurozone, Australia, Japan, Brazil and Mexico, the One-year Medium-Term Lending Facility rate in China and annual average policy rates for the others.

Source: Fitch Ratings

Key Global Trends in 2021

Home Prices to Be Mainly Flat in 2021

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Pandemic Impact on Late-Stage Mortgage Arrears Pushed to 2021 for Most Countries

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Significant Upside and Downside Risks

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Macroeconomic Forecasts Reflect Varied Handling of the Pandemic

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Government Measures, Forbearance and Low Rates to Support Home Prices in 2021

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Demand to Continue Outpacing Supply in New Suburban Hotspots

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Global Highlights

Home Prices to Be Mainly Flat in 2021

Fitch Ratings forecasts nominal home prices to be mostly stable in 2021 for the countries covered in this report. We expect national home price growth for next year to be from -3% to +3% in nine of the 16 countries (see **Market Forecasts**).

For example, we expect home prices in the US to rise by between 1% and 3% next year as existing supply will fail to meet higher demand with mortgage rates near historic lows. Price growth in the US is likely to be near the higher end of the range if public policy supports consumers by means of further payment holidays and foreclosure moratoriums, while it could be lower if unemployment rates increase during a renewed wave of the coronavirus pandemic without a commensurate government response.

For the remaining seven countries, Fitch sees market fundamentals leading to a greater risk of home price falls in Spain and the UK with forecasted drops of 4% to 6% in each country with lower but notable price drops also expected in Canada and Ireland. Colombia and Mexico should witness nominal growth of about 2% to 4%, which is more in line with our CPI forecasts, while Fitch forecasts the highest home price growth in 2021 in Australia (of 3% to 5%).

Globally, despite the large hit to the economy and disruption in daily life from the pandemic, government support for workers and borrowers, low policy rates, quantitative easing (QE) and a strong lending offer from well-capitalised banks have supported home prices in 2020. We believe that home prices will be flat or will grow in nearly all of the countries in this report for 2020.

High unemployment levels, the contraction in personal income for those on hourly wages, temporary workers and the self-employed, and uncertainty on the length of coronavirus restrictions will weigh on home prices in 2021.

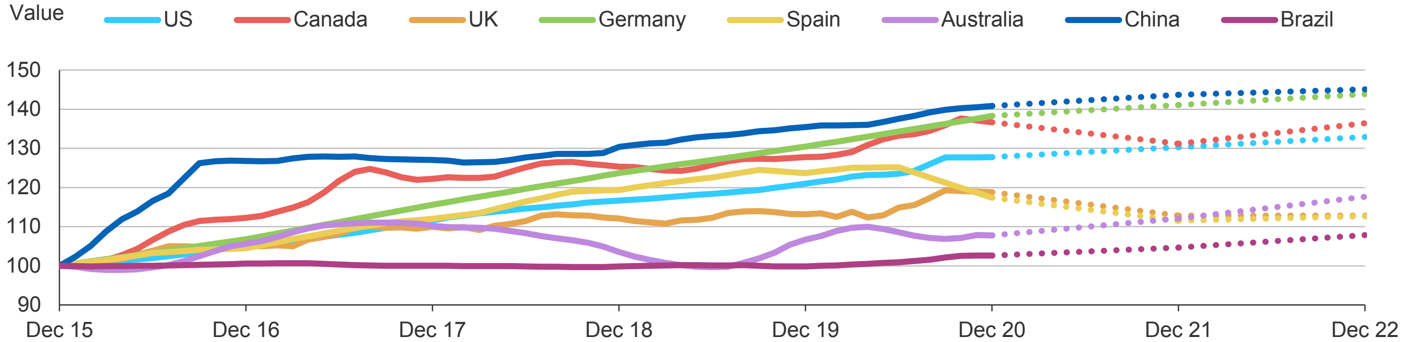
But we expect prices to be mostly flat in 2021 underpinned by prospects of an effective vaccine rollout by the middle of the year that should allow for a rapid economic recovery in the second half of 2021, substantial albeit lower government support and debt relief, low mortgage rates and lenders working with borrowers to avoid substantial foreclosures and forced sales. Limited supply in increasingly popular suburban markets will contribute to price resilience in several countries.

We expect continued real GDP growth in 2022 (See **Macro Indicators** and **Global Economic Outlook**), which reflects the latest vaccine developments. As a result, our home price forecasts for 2022 show higher or stable rates of growth from 2021 for most countries. This includes Canada, Spain and the UK, where we expect home prices to bottom out or start to recover. Home price growth should slow in China in 2022 and there could be mostly mild falls in France, Ireland and Japan.

We have issued our forecasts in ranges this year in light of the significant uncertainty associated with the pandemic, the length and degree of restrictions in place, and the resulting level of government support for mortgage borrowers and home buyers.

High unemployment levels, the contraction in personal income for some borrowers, and uncertainty on the length of coronavirus restrictions will weigh on home prices in 2021.

Nominal Home Price Indicies and Mid Points of Forecast Ranges



Source: Fitch Ratings, Haver Analytics, Case-Shiller, TER/NBC, HMLR, Bulwien, INE, CoreLogic, CNBC, FIPE

Pandemic Impact on Late-Stage Mortgage Arrears Pushed to 2021 for Most Countries

Support and forbearance programmes have led to late-stage arrears being mostly stable in 2020 with only Colombia, Mexico and the US expected to see arrears increase by more than 50bp by end-2020 (see **Market Forecasts**). In the US, loans on payment holidays and in forbearance are included in arrears data, which has not been the case in most other countries.

We forecast rising late-stage mortgage arrears levels in 2021 in all countries except for China and the US, where we expect the rates to improve slightly. However, the range of forecast increases is wide. Several countries face increases of less than 25bp (including the higher end of the forecast ranges), including Canada, Denmark, France, Germany and Japan, because we expect payment forbearance, low rates and fairly stable home prices to support borrower payments.

A more substantial increase, of 1pp or more, is within the forecast ranges for Brazil, Colombia, Ireland, Italy, Mexico, Spain and the UK, where the economic effect of the pandemic may be harder. We forecast a similar increase in Australia as the stabilisationof the economy leads to a pull-back of the support and forbearance programmes.

Due to further economic recovery, Fitch expects stable or improving mortgage arrears levels for all countries in 2022, except for France, where we expect a minor deterioration in line with unemployment forecasts.

We consider self-employed borrowers as more vulnerable to arrears. However, those most affected by the economic crisis, namely individuals working under temporary contracts or within the retail and leisure services sectors, are also less likely to be mortgage borrowers or in prime RMBS pools. According to Eurostat, 80.5% of the fall in employment for 20- to 64-year-olds in 2Q20 in the EU was due to reduced availability of temporary contracts.

Significant Upside and Downside Risks

The pandemic creates the most uncertainty. Home prices and mortgage arrears would benefit from lockdowns being shorter and less restrictive and vaccine rollouts occurring more quickly and reaching more people than expected (and vice versa).

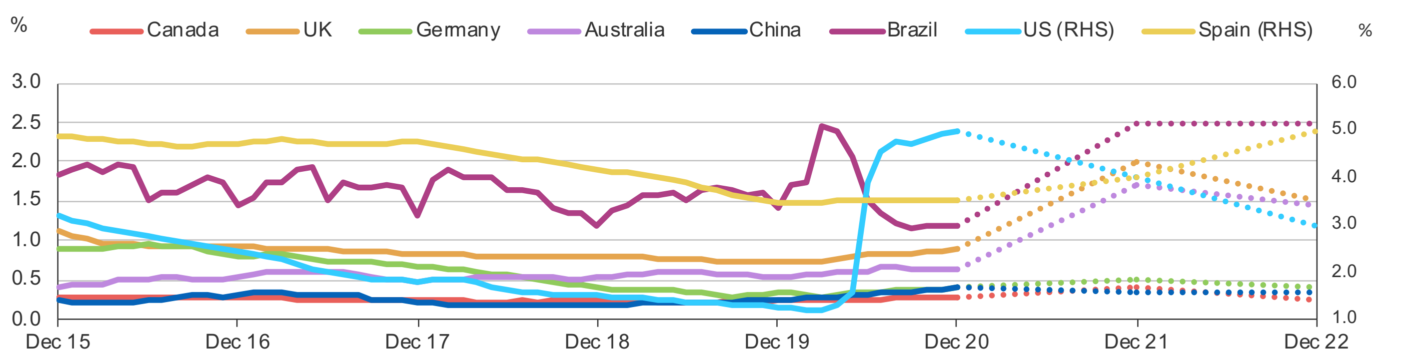
We have assumed that substantial government support will be provided when it is most needed, likely in 1Q21, but that this will decline as economies recover. Government support in line with or above 2020 levels would support home prices and mortgage arrears rates for longer than can be seen in our forecasts. However, a sudden retraction of support by governments would be a downside scenario for home prices and arrears, although continued forbearance by lenders would soften the impact.

In our forecasts for UK and Irish home price growth, mortgage arrears and the wider economy, we have assumed that the UK ends the Brexit transition period at end-2020 without a free-trade agreement (FTA) with the EU. The signing of a comprehensive FTA would meaningfully improve our forecasts while a skinny deal would have only a small positive impact.

In the near term for the US, the electoral outcome means that any new fiscal stimulus bill is likely to be limited, while over the longer term, interparty divisions will present significant challenges to passing legislation to address key structural fiscal and economic issues.

We forecast rising late-stage mortgage arrears levels in 2021 in all countries except for China and the US, where we expect the rates to improve slightly.

Late-Stage Mortgage Arrears (Definitions Vary)



Market wide 90d+: USA, Canada, UK, Spain, Brazil, Australia. FItch-rated transactions: Germany (3M+), China (90dpd)
Source: Fitch Ratings, Haver Analytics, BKFS, CBA, UKF, BdE, BCB

Macroeconomic Forecasts Reflect Varied Handling of the Pandemic

Several European countries that had some success in containing the number of new cases in 2Q20 reverted to national or severe regional lockdowns in 4Q20 after other containment measures against a second wave failed. However, the eventual length and success of these or similar measures, and the availability and rollout of the announced vaccines remain uncertain. China, on the other hand, has had so much success in containment that the pandemic has not been largely felt on housing trends. Resurging numbers of cases could still occur in countries currently with minimal outbreaks or successful pandemic containment strategies.

The forecast recovery in real GDP growth over the next two years in most markets and the recent positive vaccine developments provide support for generally stable home prices and mortgage arrears rates in several markets despite our expectation that government support for individuals and borrowers will not be as extensive as in 2020.

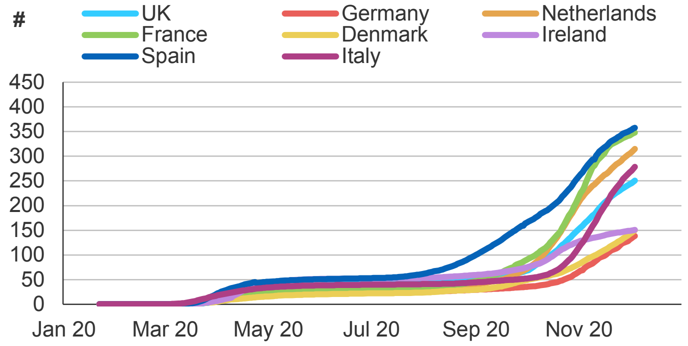
We expect all countries to post real GDP growth in 2021, but only Australia and the US should grow sufficiently to recover from the contractions of 2020 (China and Ireland will post higher growth in 2021 than in 2020). We forecast all the countries apart from France, Italy, Japan, Mexico, Spain and the UK to have recovered from their 2020 GDP falls by 2022.

Fitch forecasts average unemployment to improve in 2021 in all the North American, APAC and Latin American countries in the report (see **Macro Indicators**). The picture is more negative in Europe where we expect annual unemployment rates to deteriorate for most countries in 2021 as furlough schemes come to an end. We forecast increases in average unemployment rates in 2021 from 60bp for Germany to about 250bp for France, Ireland, the Netherlands, Spain and the UK (see **European Unemployment Shock Postponed**).

We expect unemployment rates to improve or be stable in all countries in 2022, but we only expect to see rates close to 2019 levels in Australia, China, Colombia, Denmark, Italy and Japan.

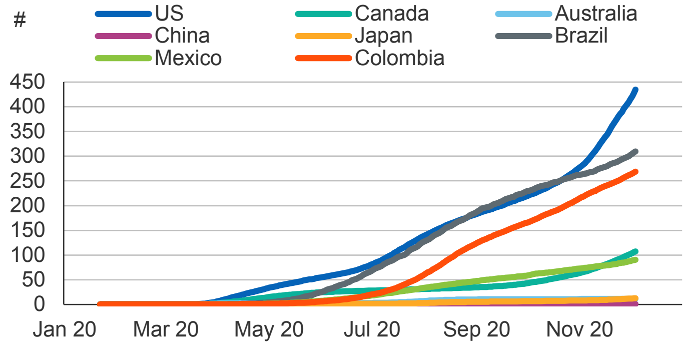
> Forecast economic recovery over the next two years and the prospects of effective vaccines will support stable home prices and mortgage arrears rates in several markets.

Europe: Confirmed Covid-19 Cases
Cases per 10,000 inhabitants



Source: Fitch Ratings, Johns Hopkins University Centre (JHU CCSE)

Rest of the World: Confirmed Covid-19 Cases
Cases per 10,000 inhabitants



Source: Fitch Ratings, Johns Hopkins University Centre (JHU CCSE)

Government Measures, Forbearance and Low Rates to Support Home Prices in 2021

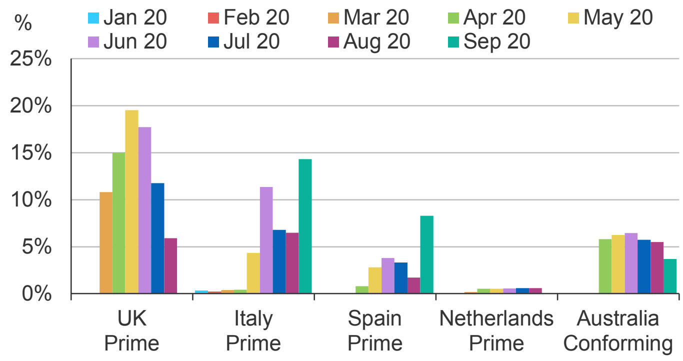
Government support for workers and the availability of government and lender-led forbearance schemes have been major factors supporting home prices and mortgage arrears levels in 2020 (see **Global Structured Finance Coronavirus Performance Report**). Most direct consumer and borrower-focused government support schemes are scheduled to expire by the end of 2020, but recent lockdowns have already led to the extension of some programmes and we expect more extensions into 2021.

Except for the US, where loans in deferral and forbearance are accounted for as delinquent, payment holidays have largely prevented rises in mortgage arrears in 2020, but their use in 2021 is likely to depend more on lenders than governments. Forbearance measures, such as term extensions, loan restructurings and temporary interest-only payments, may become more popular as lenders move away from payment holiday schemes. We also believe that more borrowers will ask to prolong their payment deferrals than will join schemes for the first time.

Some foreclosures and forced sales are likely from 2H21 and in 2022, but several government support mechanisms have already been extended into 2021 as further restrictions have been enacted, and lenders are under pressure to work with borrowers to avoid repossession. Once the repossession process starts, the time needed for the full process will also limit forced sales until after 2022 in several countries and regions where the foreclosure process took longer than 12 months even before lockdown delays.

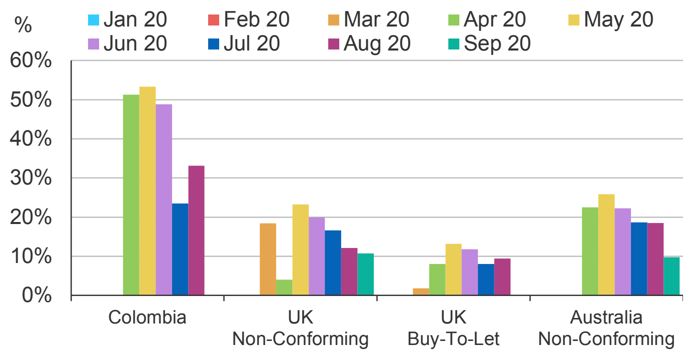
Direct support for property markets has also been a factor. The UK raised the stamp-duty threshold and reduced stamp-duty rates on home purchases until end-March 2021, which has significantly supported transaction volumes and prices. The Australian government initiated a homebuilder scheme in 2020, which offered grants of AUD25,000 to eligible owner-occupiers to build a new home or substantially renovate an existing one. The Biden campaign has suggested an advanceable tax credit of up to USD15,000 in the US.

RMBS Payment Holiday by Month
European and Australian Prime



Source: Fitch Ratings, Servicer Reports

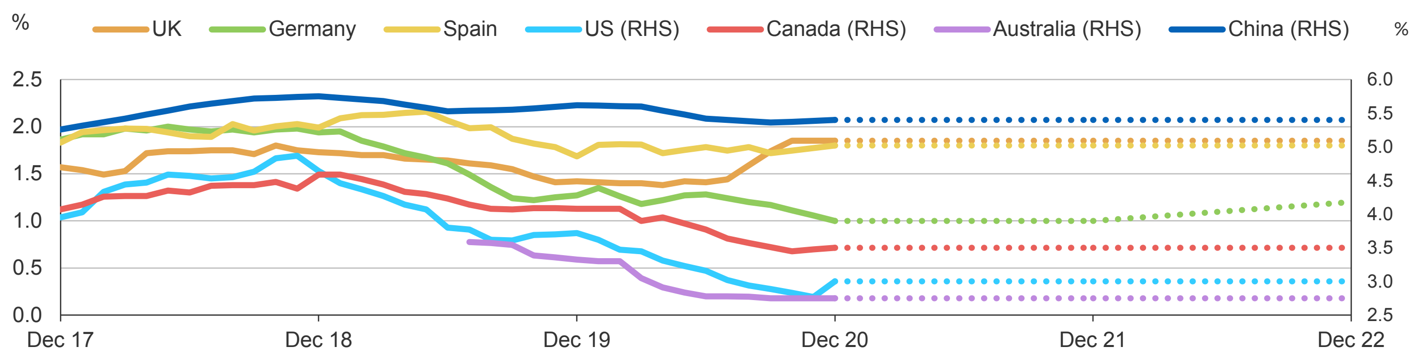
RMBS Payment Holiday by Month
Colombia, UK & AU NCF and UK BTL



Source: Fitch Ratings, Servicer Reports

Falling policy rates and QE have driven notable drops in mortgage rates in Australia, Canada, Denmark, Mexico and the US, while the UK has seen rates increase as demand for credit was high. Low Mortgage rates have been a positive driver of home price growth in 2020 in many of these markets and will continue to be a supportive factor for prices in 2021, especially as low rates contribute to demand staying higher than stretched supply in the most popular areas. Fitch expects mortgage rates to be mostly stable over the next two years.

Mortgage Rates



Source: Fitch Ratings, Haver Analytics, FHLMC, CHMC, BoE, BBK, BdE, RBA, PBC

Demand to Continue Outpacing Supply in New Suburban Hotspots

In our last **Home Price Outlook** in July 2020, we expected both low demand and low supply to drive home price growth. But demand has been high in various markets, especially for larger properties outside of city centres as buyers seek more space for lower costs and take advantage of greater opportunities to work from home (see **Remote Working to Affect Housing Demand but Not US RMBS Ratings**). This supply/demand imbalance has led to substantial home price rises in 2020 in several countries, even the UK, which saw about 25% fewer home sales in the year to September 2020 than in the same period in 2019. With increased buyer interest in suburban neighbourhoods, home prices in high-density urban areas are softening.

A "tale of two first-time buyers" has emerged since the start of the pandemic. Some potential home buyers who have lost their jobs, particularly in highly affected industries such as hospitality and tourism, or have lower incomes now find themselves further away from purchasing. Others in secure employment have quickly taken advantage of opportunities to leave expensive renting behind. This is particularly true of first-time buyers taking advantage of deposits built up further in lockdown, especially when supplemented by families, and lower mortgage rates or tax breaks in some countries to buy properties outside city centres. For example, the home ownership rate in the US reached 67% – the highest level since 2009 as per 3Q20 US Census Bureau data.

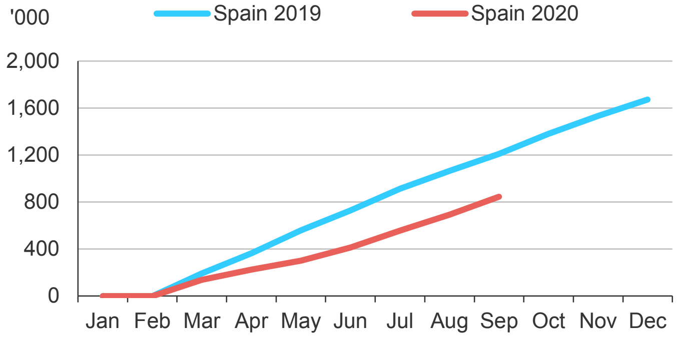
Moreover, we expect the supply of mortgage lending, which is supported by QE, low rates and heathy liquidity positions for banks, to continue to be strong for borrowers with high credit quality seeking standard mortgages. However, mortgage lending for high loan/value loans, non-standard products and for applicants not in full-time employment or who frequently rely on government support programmes has been pulled back or made more expensive in several countries and we expect this to continue in 2021. Home ownership is therefore becoming less likely for many individuals, which is a hit to an equitable distribution of wealth and demand from first-time buyers and therefore prices over the longer term.

Certain parts and property types in large cities, including London, Paris, Toronto and Vancouver, the inner-city areas of Sydney and Melbourne, as well as coastal areas in Spain, had attracted many domestic and international property investors, some of whom focused on short-term lets. The drop in tourism has pushed these properties to the long-term letting market where possible. This has increased vacancies and put pressure on yields, and we expect demand for these properties to remain fairly low in 2021. However, some investors are likely to remain active due to low returns in other assets, but they are likely to consider areas outside of city centres.

Australia faces the challenge of limited immigration into 2021, but the expected negative impact of virtually no immigration was counteracted by government support measures in 2020. Sydney and Melbourne will not receive their usual large numbers of foreign students, while Spain faces a drop in demand from foreign buyers.

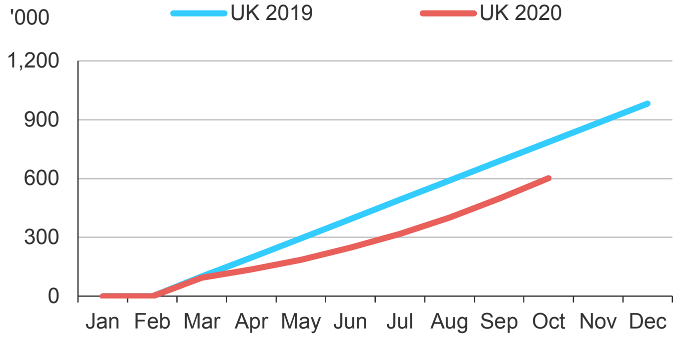
In the long run, we expect climate change to reduce demand in areas facing more frequent natural disasters, such as hurricanes, wild fires and flooding, but these are not driving our national home price forecasts for the next two years. Additionally, shifting demographic trends will lead to significantly less demand and put downward pressure on home prices in some regions.

Spain: Property Transfers
Cumulative



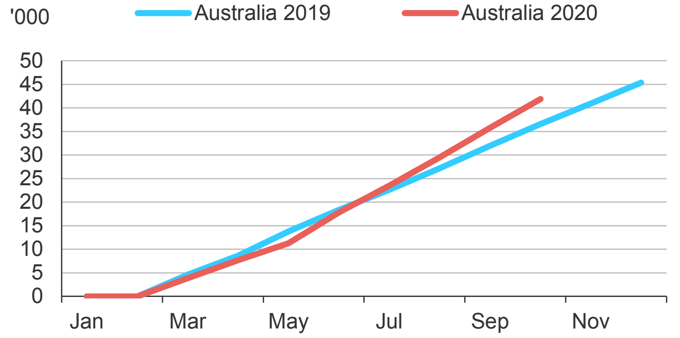
Source: Fitch Ratings, Haver Analytics, Instituto Nacional de Estadistica

UK: Residential Property Transactions
Cumulative



Source: Fitch Ratings, Haver Analytics, HM Land Registry

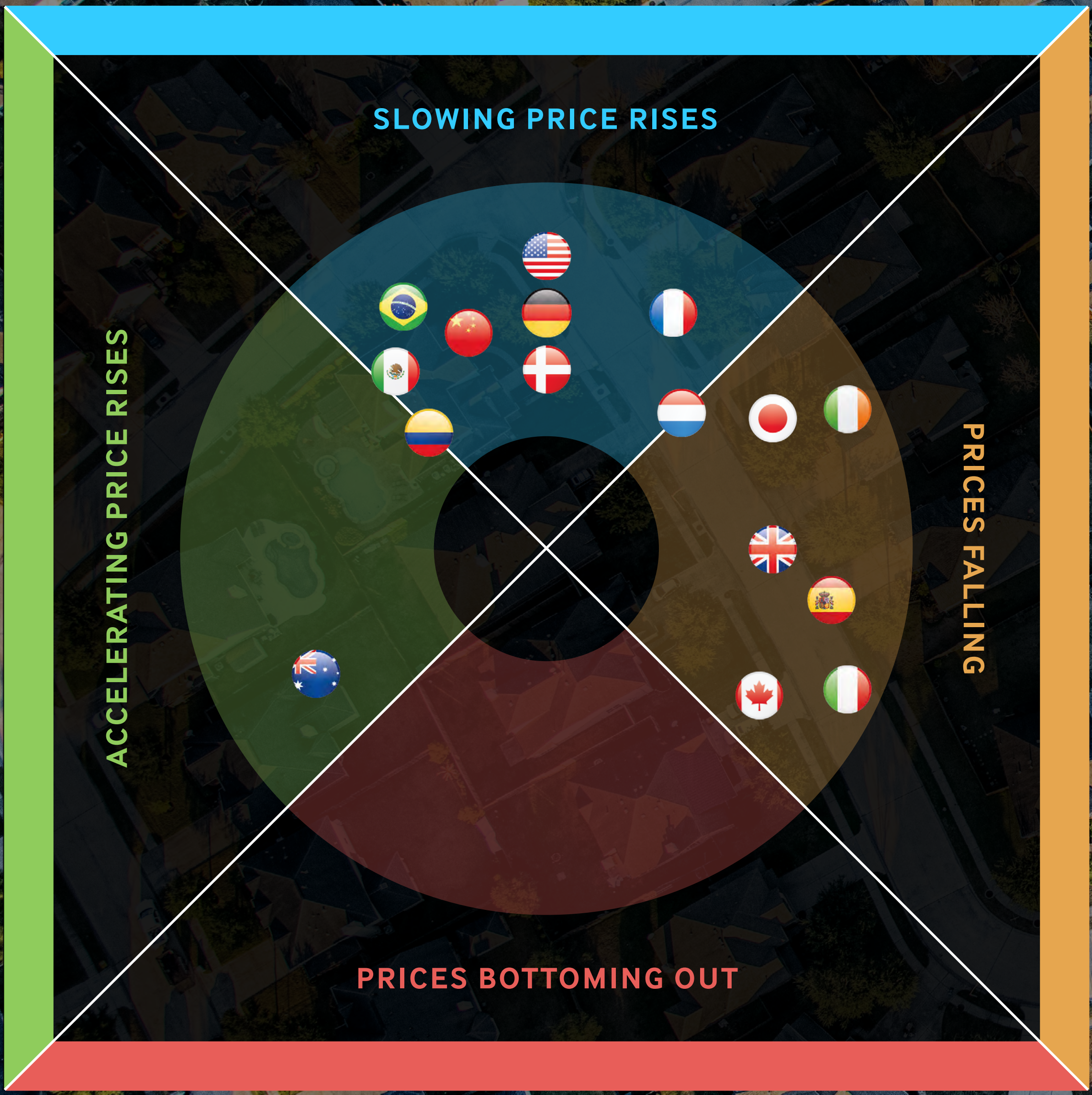
Australia: New Home Sales
Cumulative



Source:Fitch Ratings, Haver Analytics, Housing Industry Association

Global Housing and Mortgage Outlook – 2021

Position in Home Price Cycle



United States

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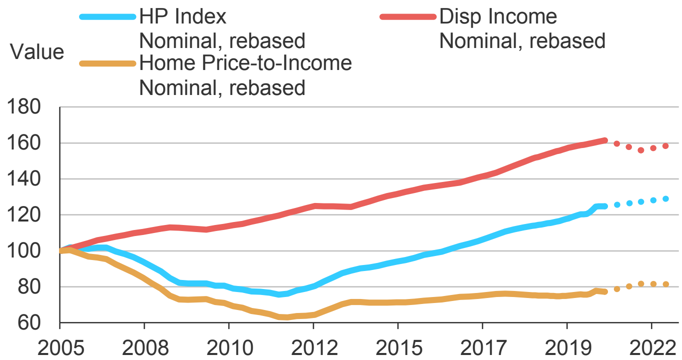
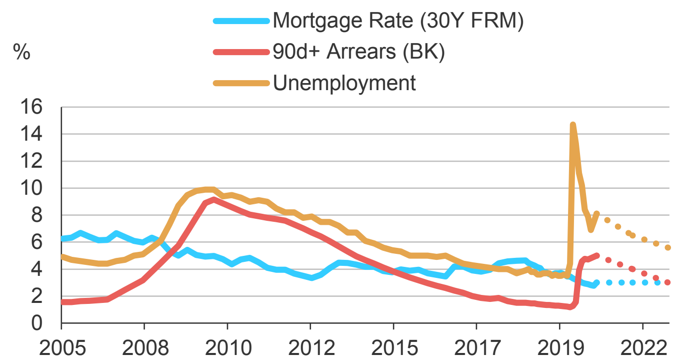
Prices could rise by 3% in 2021 in the US if demand continues to outpace supply and there is further policy support.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Commission/ AMECO, S&P CoreLogic Case-Shiller Home Price Indices

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Black Knight, Inc., Federal Home Loan Mortgage Corporation, Bureau of Labor Statistics

Demand Outweighing Fundamentals

We expect US home price growth of between 1% and 3% in 2021 and 2022, as strong demand, limited supply and historically low mortgage rates will continue to drive prices upwards. The higher end of the forecast is likely if public policy further protects consumers affected by the pandemic, while a lower rate will result from persistent high levels of unemployment during a renewed wave of the pandemic without a commensurate public policy response.

The pre-pandemic housing supply shortage has been exacerbated by sellers delaying or removing listings and a recent surge in the home-ownership rate as shown by strong demand for single-family suburban homes.

While we expect home price inflation to stay in positive territory due to the supply/demand imbalance, uncertainty remains. Borrowers who have become unemployed are likely to feel pressure when payment holidays and foreclosure moratoriums end and may be forced to sell. Approval of a second stimulus and extensions to forbearance plans or moratoriums will provide relief for home owners trying to regain their financial footing. These policies will continue to keep properties off the market and price growth positive.

More Borrowers to Exit Forbearance

We forecast mortgage delinquencies to improve modestly to between 4% and 5% in 2021 as some borrowers currently in forbearance restart monthly payments, before the level declines further in 2022 due to the expected economic recovery. Performance will remain dependent on the economy and any additional strain on the labour markets due to unexpected pandemic restrictions in 2021 is likely to keep delinquencies elevated.

Lower credit quality and self-employed borrowers are most vulnerable and make up a greater share of forbearance plans. Additional government assistance will help borrowers struggling with their payments until economic activity recovers. A significant number of borrowers facing permanent job or income loss is likely to lead to a rise in loan modifications or foreclosures once forbearance plans and moratoriums conclude. However, borrower equity and home price growth will mitigate any rise in defaults even without a supportive public policy response.

Prime jumbo delinquencies remain slightly higher than pre-pandemic levels. We expect delinquencies in this sector to improve in 2021 given the very strong credit profiles of the borrowers and employment stability. Reperforming loan borrowers exhibited slightly higher delinquencies during the pandemic but are showing signs of stabilising and should continue to improve in 2021.

Canada

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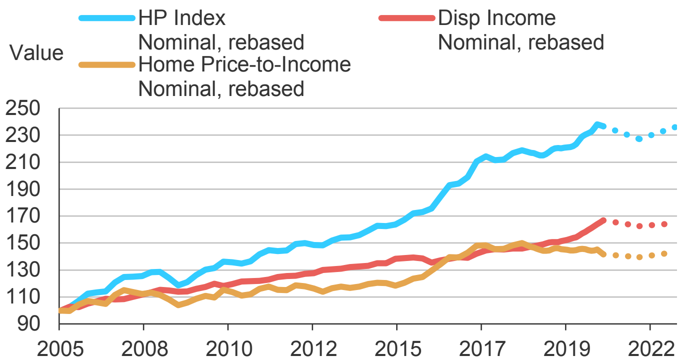
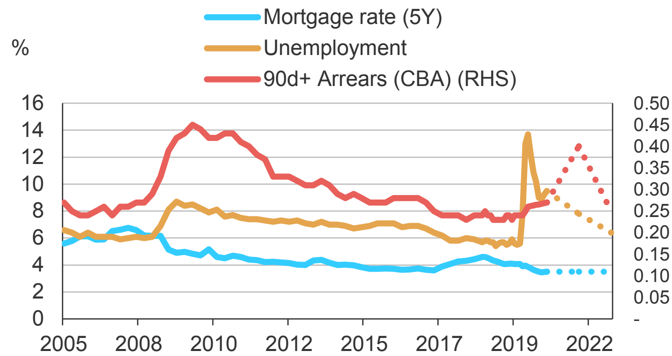
> We forecast home price declines and increasing arrears in 2021 in Canada, followed by a quick recovery in 2022.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Statistics Canada, Teranet/National Bank of Canada

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Canada Mortgage and Housing Corporation, Canadian Bankers Association Statistics Canada

Unsustainable Demand Puts Damper on Home Prices

Fitch expects home prices to decline by 3%-5% in 2021 after the strong growth of 7% that we estimate for 2020, with prices recovering to 2020 levels in 2022 as economic activity returns to pre-pandemic levels. We attribute the expected decline to lower demand caused by elevated levels of unemployment and increasing affordability issues. Additionally, declining rents, a significant drop in immigration and the B20 mortgage affordability stress test will put further pressure on home prices.

Any affordability gains will be diminished due to the surge in home prices in 2H20 and high household debt to disposable income (158% as of 2Q20). This decline from 175% was driven by government support and payment holidays, and we do not consider it to be sustainable.

Lower rents that have recently declined by 10%-15% in major cities are making home ownership less attractive while immigration was down by 41% year-on-year in the first seven months of 2020 and we expect it to stay low through 2021. The B20 stress test will further hinder demand as less borrowers will be able to qualify.

Payment Holidays Ending

As many as 16% of all mortgage borrowers are on a payment holiday according to data from CMHC. With the six-month payment holidays coming to an end and borrowers having to resume payments in 2021, Fitch expects delinquencies to increase to 0.35%-0.50% due to elevated unemployment putting further pressure on the borrower. Fitch forecasts the unemployment rate to fall to 7.8% in 2021 (from 9.5% in 2020) but to remain higher than the 6.3% 2015-2019 average. About 15% of the workforce are self-employed and have been hit the hardest by the pandemic.

Although we expect delinquencies to increase in 2021, we do not expect the level of delinquencies, distressed sales or foreclosures to increase to the levels seen in the US during the financial crisis. This is due to servicers having strong relationships with their borrowers and their close monitoring of their borrowers' financial situations after putting them on payment plans. Historically, the servicers have been pro-active in offering modifications or working with borrowers to make payments affordable. We forecast delinquencies to return to the pre-pandemic levels in 2022 as the economy improves.

United Kingdom

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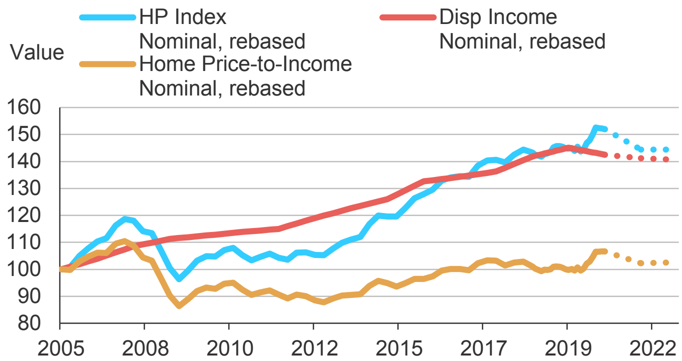
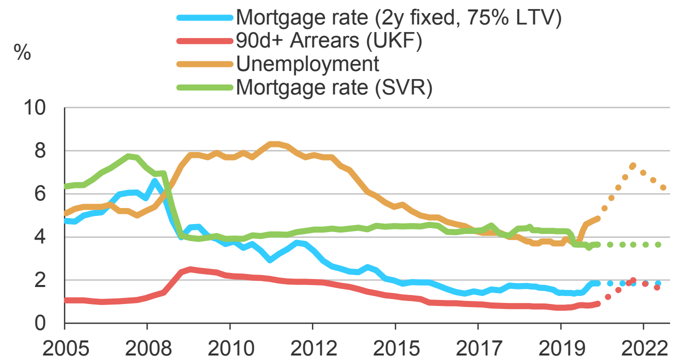
We expect annual unemployment to rise to above 7% in 2021 in the UK, but arrears should peak below the 2.5% observed during the global financial crisis.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Commission/ AMECO, HM Land Registry

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Bank of England, UK Finance, Eurostat

Home Prices to Fall in 2021

We expect home prices to fall by 4% to 6% in 2021 before stabilising in 2022. This represents a significant deceleration from our 2020 estimate of growth of 5%. Rising unemployment and falling income will lead to affordability pressure and price reductions. Interventions, such as the Coronavirus Job Retention Scheme (CJRS), have delayed a significant rise in unemployment to 4Q20 and 2021.

In London, Fitch anticipates the reduction in tourism to lead to investors previously focused on short-term lettings choosing to rent property under longer term tenancies. This change will place downward pressure on rents as supply to the long-term lettings market is increased.

We expect the rapid expansion of home working to increase demand for space and properties with gardens. City-centre flats are likely to underperform as a result with buyers finding suburban houses more attractive.

We assume that a WTO Brexit occurs for our forecasts, which could reduce consumer confidence in the short term and lead to further declines in foreign direct investments. Both factors will weigh negatively on home prices in 2021 and 2022.

Arrears to Peak Lower than During Global Financial Crisis

We expect arrears to peak at 1.5% to 2.5% in 2021 before falling to a slightly lower rate in 2022. While this represents an increase from our 2020 estimate of 0.9% we expect the peak to be below the 2.5% observed in June 2009. Rising unemployment and declining income for self-employed borrowers will be the principal causes, becoming more evident as support schemes conclude. The CJRS has been extended to March 2021, but the pace of redundancies has already started to increase, partially the result of companies having planned for the scheme to end in October 2020.

Low interest rates will support a lower arrears peak than in 2009 with borrowers typically facing better serviceability. Higher origination standards since 2008 also support stronger performance.

We expect lenders to offer forbearance, such as payment holidays, to a greater extent than during 2008/2009. Repossessions will therefore be lower although borrowers may persist longer in late stage arrears.

A reduction in mortgage supply may lead lenders to become more selective and increase interest margins. The reduction in financing would particularly affect first-time buyers and higher LTV borrowers seeking to refinance.

Germany

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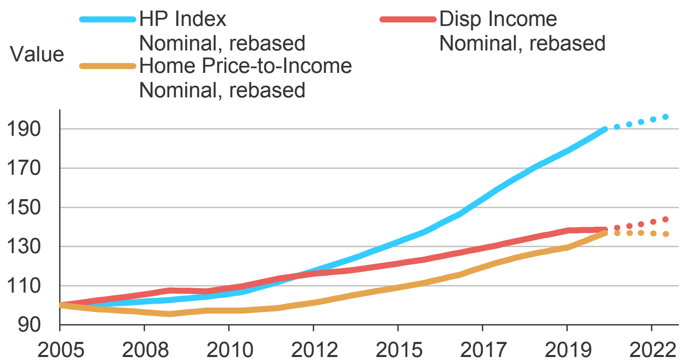
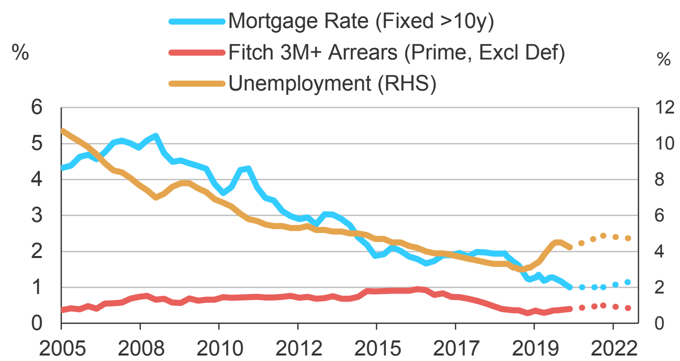
Home price growth in Germany will remain positive despite the pandemic. We expect mortgage loan performance to remain robust.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Commission/ AMECO, BulwienGesa AG

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: FItch Ratings, Haver Analytics, Deutsche Bundesbank, Eurostat

Supply Shortages and Low Rates Will Support Modest Price Increases

Fitch forecasts home prices to grow by 1% to 3% in both 2021 and 2022, despite the economic effects of the pandemic. Our expectation is lower than the forecasts made last year, because we expect growth of household income to temporarily slow as a result of a moderately impaired labour market.

Government schemes to alleviate the pandemic's impact on household income have been successful in preventing large-scale lay-offs, and the programmes are confirmed to be continued until the end of 2021. Employees in a short-term working scheme will face some reduction of income but to a lesser extent than being unemployed.

The demand for properties in metropolitan areas continues to outpace supply. We expect a moderate shift of demand to suburban areas as flexible working solutions gain popularity and acceptance. This development will not result in falling house prices in large cities.

Despite cuts to high LTV lending, bank financing will not represent a significant constraint for home buyers.

Robust Serviceability Will Limit Increases in Arrears and Repossessions

We expect arrears to remain low, between 0.4% and 0.6%, in 2021 and 2022, given slightly increasing unemployment.

Statutory payment holidays, with a take-up rate of between 1% and 2%, helped borrowers stay current on their debt until the scheme expired in June, with the majority of borrowers returning to performing status. Mortgage arrears therefore have only increased slightly throughout 2020.

Further payment arrangements have been agreed directly between lenders and borrowers. We expect lenders to continue offering economically justifiable arrangements to struggling borrowers, limiting increases in arrears to weaker debtors. Any increase in repossessions will also be limited.

Borrowers have locked in low rates by increasing their loans' fixed periods to about 14 years on average. Despite steadily increasing loan sizes, serviceability remains robust. Households typically spend 20% to 30% of available income to service mortgage debt, supporting borrowers' ability to pay. Many borrowers can therefore bridge periods of unemployment or income reduction without sliding into arrears.

Netherlands

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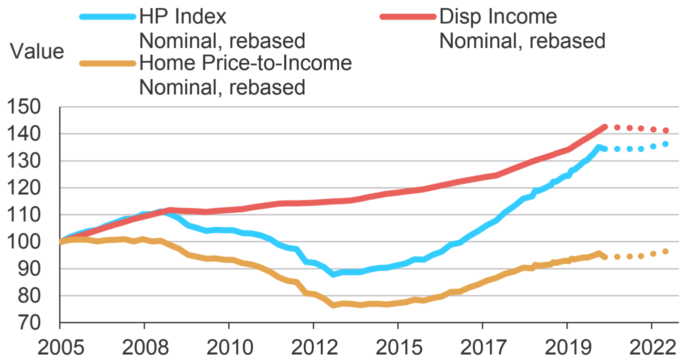
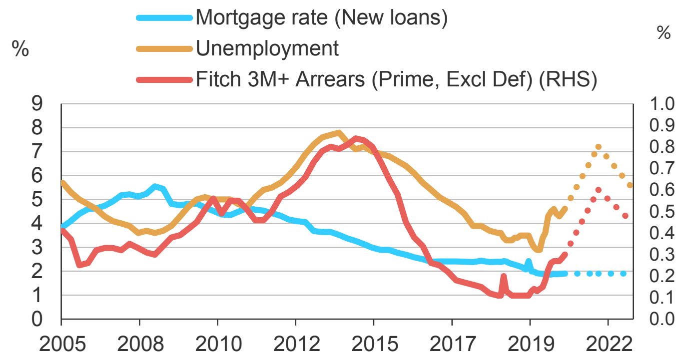
We expect home prices to stabilise in the Netherlands after a short-term acceleration in recent months as rising unemployment reduces demand in 2021.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Commission/ AMECO, Centraal Bureau voor de Statistiek

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Central Bank, Eurostat

Home Price Growth to Slow Significantly

We forecast home prices to remain broadly unchanged in 2021 (+/-1%), followed by a limited increase in 2022. This represents a significant deceleration from our estimate for 2020 of 8% price growth. The phasing-out of government support measures and rising unemployment in 2021 will lead to a more uncertain economic environment that will weigh on home prices, although a persisting housing shortage and continued low mortgage rates will support home prices into 2021.

Loss of income through unemployment will reduce demand and exert pressure on prices but with sectoral differences. Apartments in city centres are likely to underperform the overall market. Tourism and the influx of foreign students and foreign workers will decline, placing pressure on rents and reducing investors' appetite, whereas domestic buyers will be more attracted to buy suburban single-family homes.

However, these negative elements will be largely offset by increased affordability due to continuing low interest rates, the scrapping of stamp-duty for first-time buyers and increasing it for buy-to-let borrowers in 2021, and an increased consideration of the second income during mortgage applications. Additionally, construction of new homes remains below levels required to significantly reduce housing shortages.

Arrears to Increase as Support Measures Expire

We forecast mortgage delinquencies to increase to between 0.4% and 0.8% by the end of 2021 (currently 0.3%), before improving in 2022. The main drivers for this are rising unemployment once government support programmes are rolled back and lower income for self-employed borrowers.

However, we expect the increase in the unemployment rate to more intensely affect employees on flexible and temporary contracts, although these only represent a small share of mortgage borrowers. Additionally, the available social benefits in the Netherlands should limit the impact of rising unemployment figures on arrears levels as long as the economic shock remains temporary and recovery accelerates in 2021.

Our forecasts are well below the peak arrears levels observed during the sovereign debt crisis in 2014. This expectation is based on the substantially lower mortgage interest rates as well as the tightened underwriting standards, which were introduced in 2013 by means of the mortgage code of conduct. Both factors should improve the mortgage serviceability and support better performance.

France

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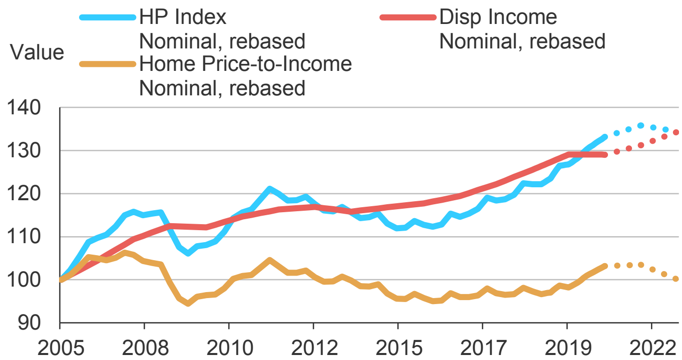
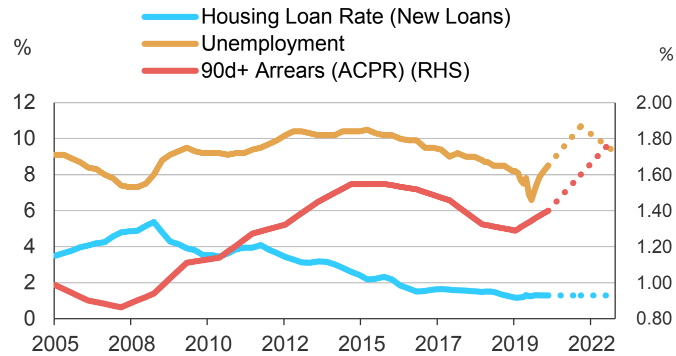
We expect home price growth to slow in France and loan performance to deteriorate through 2022 as extensive support measures fade out.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Commission/ AMECO, Institut National de la Statistique et des Etudes Economiques

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Banque de France, Autorité de contrôle prudentiel et de résolution, Eurostat

Home Price Growth to Slow as Underwriting Tightens

We forecast home price growth in 2021 to slow to 0% to 2%, and to marginally fall in 2022. The housing market will run out of steam due to an uncertain economic environment and tightening underwriting criteria. Continuing low rates and buyer appetite in a context of scarce supply will limit the fall in prices.

The accelerating growth in home prices that started in 2015 will reverse in 2021 as a result of the economic consequences of two national lockdowns in 2020, but the fall in prices will only start to become apparent in 2022. Demand will be progressively undermined by uncertainty from the health crisis and recommendations from France's High Council for Financial Stability to tighten loan underwriting. Financially weaker and highly leveraged borrowers (especially first-time buyers) will struggle to obtain financing. The buy-to-let segment will be affected not only by tighter restrictions in debt service/income ratios but also by reduced demand for tourist rentals.

The fall in prices will be contained by persisting low lending rates that will keep up strong buyer appetite, with French households viewing real estate as a haven.

Arrears to Increase as Government Support Fades

The level of residential loans in arrears is expected to reach 1.5%-1.7% in 2021 and increase slightly further in 2022, higher than our estimate for 2020 of 1.4%. Arrears will follow a similar path as unemployment, with significant deterioration only appearing once government support fades.

Unemployment in France, which is forecast to peak in 2H21, later than for most countries, will be the main driver of deteriorating loan performance. The rapid deterioration of GDP caused by the two national lockdowns has not yet translated into a significant deterioration of the arrears level due to extensive government support. These measures, aimed at supporting businesses and preserving employment and household income, have also limited the need for payment holidays, granted by banks on case by case basis (estimated 2%-5% of residential loans stock in June 2020).

Arrears increases will not be visible until the support measures are phased out, which we expect to take place in spring 2021. However, arrears in 2022 will remain at a moderate absolute level owing to prudent bank's underwriting practices and generous social benefits.

Denmark

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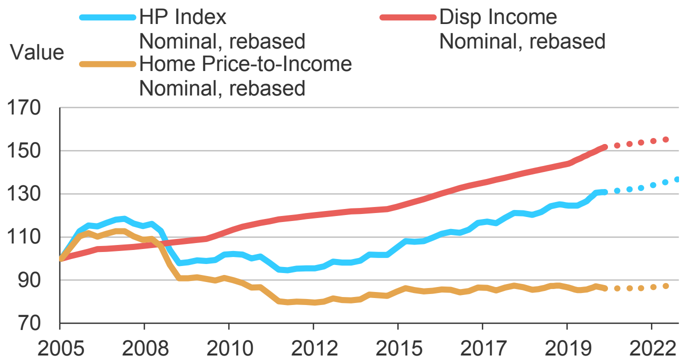
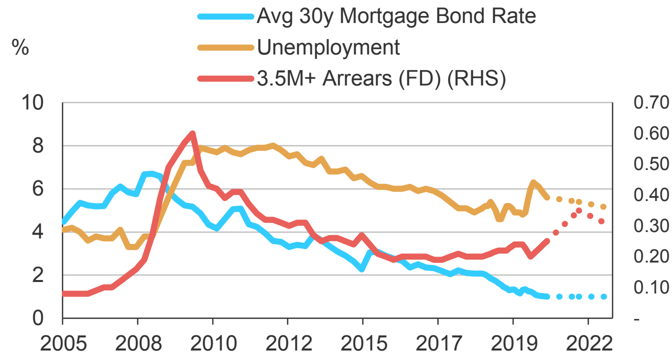
Denmark's resilient economy and low mortgage rates will support limited price growth and contain arrears.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Commission/ AMECO, Statistics Denmark

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Finance Denmark, Eurostat

Low Mortgage Rates Supporting Limited Home Price Growth

We forecast slowing home price growth in 2021, with annual growth between 1% and 3%, down from our estimate of 5% for 2020, when there was very strong demand post-lockdown. We expect prices to increase in 2022 at a slightly faster pace than in 2021. The price growth should be supported by very low mortgage rates, slightly lower average unemployment in 2021 and 2022 than in 2020 and increasing income, which will assist with affordability. The government's "work-sharing scheme" will continue to limit unemployment increases and reduce the negative hit on GDP growth.

The coronavirus pandemic froze housing market activity in 2Q20. Since then, there has been a very high number of sales. We expect this strong sales activity to continue in 2021, but to a lesser degree.

Interest rates in Denmark will continue to support home price growth. Although the average 30-year mortgage bond rate increased slightly to 1.34% in April 2020, it had reduced to an all-time low of 1.0% as of November 2020. We expect rates to remain low at around that level for the next two years, providing cheap funding for borrowers.

Resilient Economy and Strong Welfare System to Limit the Increase in Arrears

We expect arrears to peak at 0.3%-0.5% in 2021, before falling back by about 10bp in 2022. While this represents an increase from our estimate of 0.25% for 2020, we expect the peak to be well below the 0.6% observed in December 2009. The government's work-sharing scheme, which runs into April 2021, should limit the increase in unemployment. The strong unemployment benefits in Denmark should also help contain the increase in mortgage arrears.

Sufficient fiscal space would also allow further government support if required. Denmark entered the coronavirus pandemic from a strong fiscal position, with government debt at 33.2% of GDP in 2019. Household debt to GDP has gradually decreased over recent years, albeit from a high level, and more mortgage borrowers have switched to fixed rate, which now account for half of the total mortgage debt.

Denmark's economy has performed better than the majority of its European peers. Its short and less restrictive lockdown in response to the pandemic, in addition to resilience in external demand for less cyclically sensitive Danish exports, meant real GDP in Denmark is expected to decline by 3.8% in 2020, compared with an average fall of 7.6% for the eurozone.

Ireland

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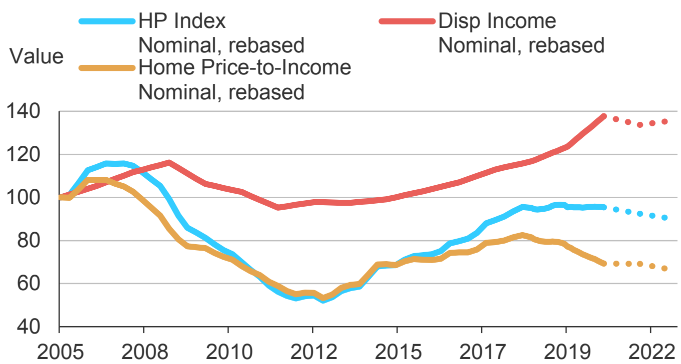
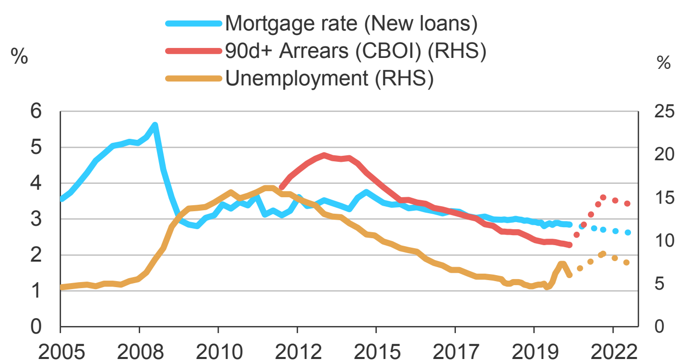
The pandemic and Brexit effects will depress Ireland's growth dynamics, resulting in falling home prices and deteriorating mortgage loan performance.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Commission/ AMECO, Central Bank of Ireland

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Central Bank of Ireland, Eurostat

Rising Unemployment and Brexit Transition to Cause Home Price Drop

Fitch expects home prices to fall between 2% and 4% in 2021. We forecast further price decreases at a similar pace in 2022. The price drops will follow mainly flat prices in both 2019 and 2020.

Falling home prices will be driven by lower demand reflecting the pandemic's impact on the economy. Another driver is the uncertainty around whether the UK and the EU will agree a free-trade agreement. We assume that a WTO Brexit occurs for our forecasts, putting further substantial pressure on Ireland's economic dynamics.

We expect real GDP growth of 0.7% in 2020, down from 5.6% in 2019. Domestic demand will decline sharply this year, while the typically volatile activity of multinational corporates avoids a sharper decline in overall growth. Expected GDP growth rates in 2021 and 2022 are around 3%. Unemployment will rise, averaging 8.5% in 2021, negatively affecting affordability and demand for housing.

We believe government support will play a key role in the medium term, supporting the economic recovery and cushioning the effects of the pandemic on home prices.

Low Repossessions and Forbearance Measures to Result in High Arrears

We expect mortgage arrears above 90 days past due to increase significantly and peak at 14%-16% in 2021 and to improve marginally in 2022. The projected increase in arrears from 9.5% estimated for end-2020 will reverse the decline since 2014. The main drivers will be rising unemployment and widespread use of forbearance.

We expect to see a pattern observed after the financial crisis, as servicers will apply extensive forbearance measures leading to a build-up in late-stage arrears and little or no repossession. Court repossession proceedings were deferred for up to six months from mid-March 2020, which we expect to push foreclosures of long-term, pre-pandemic arrears cases to 2021.

While the low interest rate environment will help the performance of seasoned loans, many first-time buyers from recent years borrowed at their serviceability limit and may be more vulnerable to changes in the labour market.

The resolution of the Brexit negotiations and the length of the government support measures leave a high level of uncertainty around the severity of the impact of the pandemic on the Irish labour market and mortgage loans' performance.

Spain

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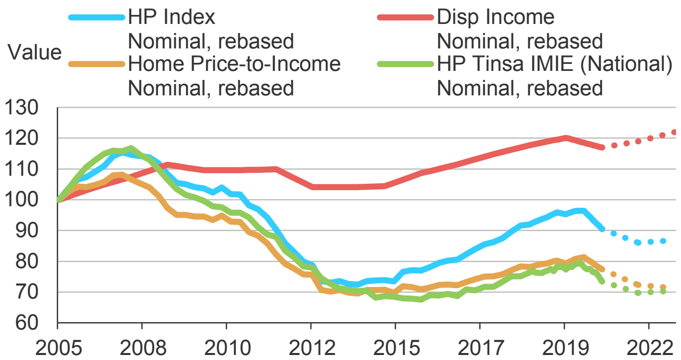
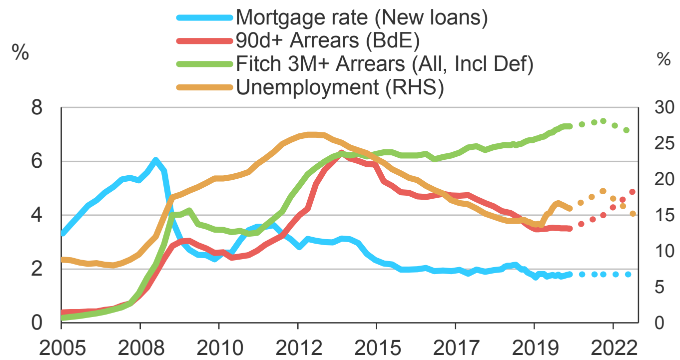
Home prices will decline in Spain due to sharp rise in unemployment, but government support measures will limit borrower performance deterioration.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: FItch Ratings, Haver Analytics, European Commission/ AMECO, Instituto Nacional de Estadistica, Tinsa IMIE

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Banco de Espana, Eurostat

Home Prices to Decline as Weak Fundamentals Prevail

We forecast home prices to fall between 4% and 6% in 2021 before stabilising in 2022, leading to a cumulative price drop of about 10%. Rising unemployment and weak job market fundamentals will negatively affect the Spanish housing and mortgage markets, despite support measures for vulnerable borrowers.

We forecast Spanish GDP to fall by about 12% in 2020 – one of the largest GDP contractions in Europe, which will put significant downward pressure on home prices. We do not expect consumption to recover in 2021, especially among potential first-time buyers. Prudent underwriting will limit self-employed and temporary workers' access to the mortgage market.

Housing transactions have been declining since 2017 as affordability constraints priced out first-time buyers, a trend exacerbated by the coronavirus crisis. Higher-than expected resilience in the labour market may result in more modest home price declines as it would reduce the number of forced sales expected when support schemes expire.

We expect hot city housing markets like Madrid and Barcelona, where homes trade at prices twice the national average, to cool as remote-working allows more buyers to choose less crowded neighbourhoods far from city centres.

Arrears to Peak Below Sovereign Crisis Levels

We forecast mortgage arrears within the banking system to reach 4%-5% over the next year and remain in a similar range in 2022. The ratio will be lower than the maximum level recorded in 2014 (6.3%) and is supported by recent prudent origination practices and low mortgage rates.

Unemployment and decreasing earnings for temporary and self-employed workers will be the main drivers of the rising arrears. Discontinuation of the payment holidays scheme, scheduled for 2021, could add pressure to economically vulnerable borrowers.

Low interest rates will help borrowers, as most of the market is floating-rate. Temporary support schemes and falling household debt will also contain deterioration in mortgage performance.

We forecast the average unemployment rate to sharply increase to 18.4% in 2021 (from 14.1% in 2019 and 15.9% in 2020) with long-term joblessness still a real concern, as many businesses will not return to the level of activity prior to the crisis.

Foreclosures increases will not be visible until 2022 as legal proceedings in Spain can only start 12 months after the first missed instalment, and banks favour amicable solutions over foreclosure proceedings.

Italy

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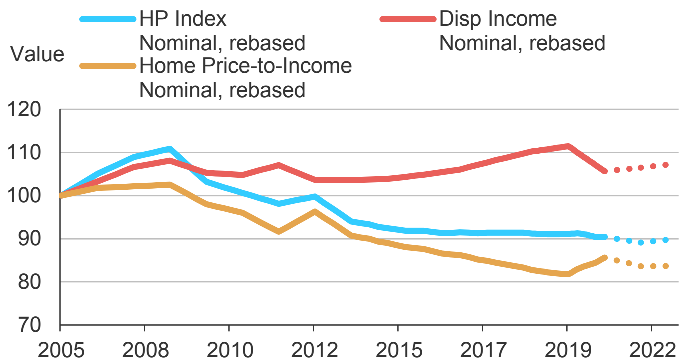
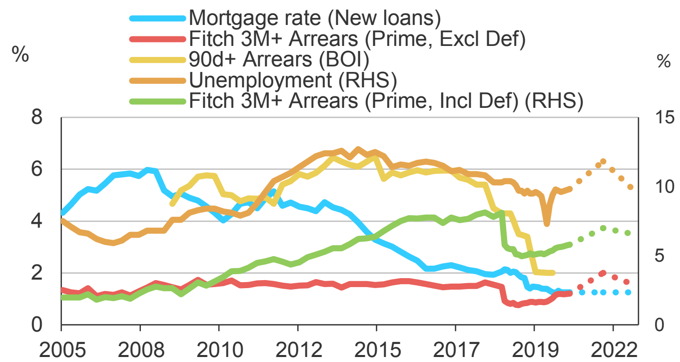
> The already subdued housing market will limit the effect of the pandemic on home prices, while we expect arrears to increase in 2021.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Commission/ AMECO, Scenari Immobiliari

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, European Central Bank, Eurostat

Home Prices Under Pressure

Fitch expects home prices in Italy to slightly decrease over the next year (between 1% to 2%), after an estimated fall of 1% in 2020 before stabilising or starting to rebound in 2022. The main drivers of our 2021 forecast are the large projected 9.1% fall in GDP in 2020 with only a partial recovery in 2021, fragile consumer confidence and an increase in average unemployment to 11.8% in 2021 from the 9.8% estimated for 2020 due to the pandemic.

Home prices were already stagnant before the coronavirus outbreak and we do not foresee changes in dynamics during the recovery phase, which we expect from end of 2021. The large stock of dated properties is limiting home price growth despite the low supply of new homes.

Larger use of remote working, online education and reduced commuting will have a negative impact on short-term lettings in main urban areas and may shape new housing needs and demand. However, we do not expect a high level of de-urbanisation to arise in the larger cities over the next two years.

Arrears May Increase to a Level Above the Global Financial Crisis

We expect arrears to increase to between 1.5% and 2.5% in 2021 before starting to show some improvement in 2022. Our forecasts for 2021 represent a deterioration to performance levels comparable to the global financial crisis from our estimate of 1.3% at end-2020. Our projections reflect our expectation that borrowers' ability to service debt will be reduced by the more challenging macroeconomic environment, the expected increase in average unemployment in 2021 and the gradual exit from payment deferral schemes.

Supporting measures implemented by the Italian government are slowing and postponing the effect of the pandemic on mortgage performance. Payment holidays have been particularly important with take-up reported by the Bank of Italy at about 20% as of September 2020. As a consequence, we do not expect arrears to materially increase until mid-2021, when the payment holiday schemes are expected to be phased out.

On the other hand, the low-interest-rate environment will support borrowers' serviceability in the medium term.

Australia

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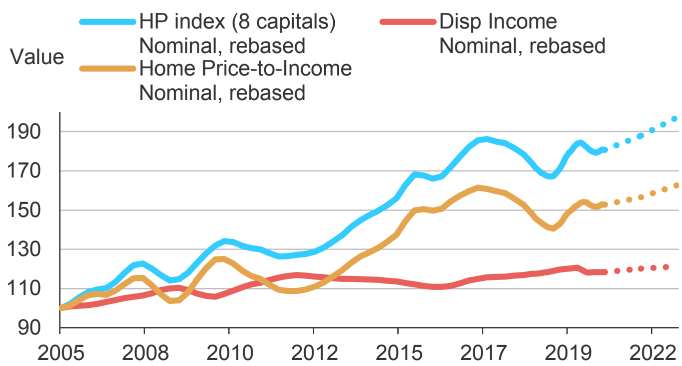
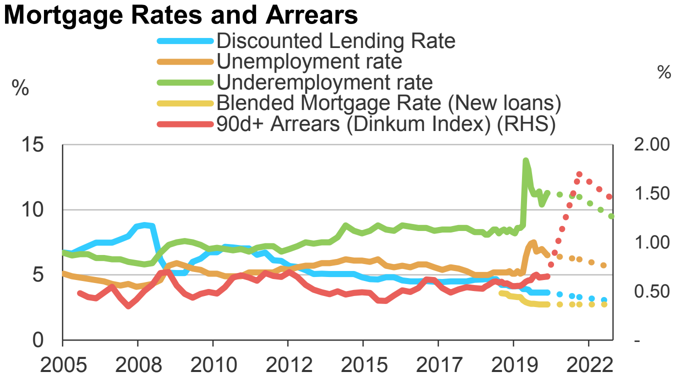
Low interest rates drive home price growth while the end of payment deferrals will increase arrears in 2021.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Australian Bureau of Statistics, CoreLogic

Mortgage Rates and Arrears



Graphs shows the mid-point of the forecast ranges.
'Discounted' rates are rates offered on standard variable rate housing loans.
Source: Fitch Ratings, Haver Analytics, Reserve Bank of Australia, Australian Bureau of Statistics

High-Density Inner-City Apartments to Underperform from Border Closures

Fitch sees the potential for national home price growth of between 3% and 5% in 2021 amid pandemic uncertainty with prices further strengthening in 2022 supported by improved pandemic conditions. Elevated unemployment and underemployment, the tapering of government stimulus, continued low immigration and the expiry of payment deferral terms in 2021 will place downward pressure on home prices, but these will be supported by record low mortgage rates, lower supply of housing stock and government incentives for housing.

The agency expects home price performance to vary across the nation with high-density inner-city apartments in Sydney and Melbourne to underperform due to low rental demand from international travellers as borders are likely to remain closed into 2021. Regional town and second-tier cities with established transport corridors to Sydney and Melbourne are expected to outperform benefiting from increased labour mobility and domestic tourism.

Country-wide pandemic outbreaks in 2021 leading to further restrictive lockdown measures represent a downside risk to our home price forecast. Alternatively, pandemic containment exceeding expectations or a global vaccine delivered ahead of scheduled represent upside potential.

Payment Deferrals Converting to Arrears Is a Key Driver of Performance

We forecast 90+ day mortgage arrears to increase to 1.5% to 2% in 2021 and to remain elevated in 2022 (from the current level of 0.6%), due to a material amount of pandemic-related payment deferrals converting to mortgage arrears. Continued elevated unemployment, tapering of government stimulus, threat of additional pandemic outbreaks and removal of the bankruptcy moratorium provide continued upward pressure on mortgage arrears.

Beneficial capital treatment and arrears reporting exclusions for payment deferral mortgages are scheduled to expire in March 2021. As of October 2020, 4% of mortgages were on payment deferral terms. We expect a material portion of the deferring mortgages to either move into arrears or be restructured after the scheme expiry with the latter delaying non-performance status until 2022.

Although unemployment has risen to a 20-year high, this has mostly affected younger and older Australians, who typically do not have mortgages. Lenders' willingness to assist borrowers to resolve missed payments through hardship provisions and mortgage restructuring will further limit excessive mortgage arrears in the near term.

China

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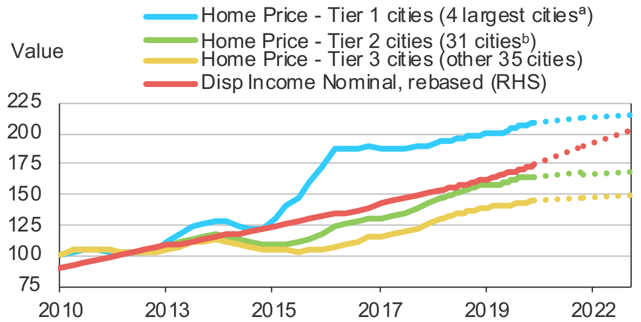
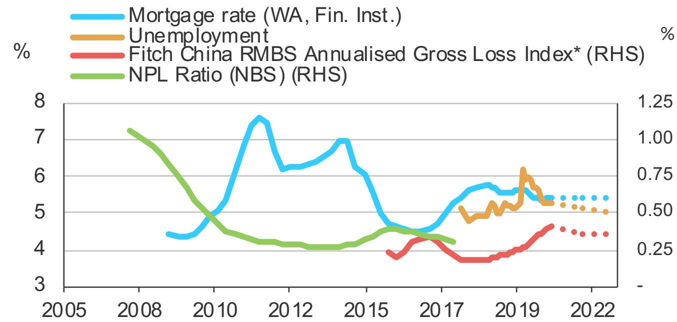
> We forecast little adverse impact from the pandemic on home prices and loan performance in China.

Home Prices and Affordability



[a] (Beijing, Shanghai, Shenzhen & Guangzhou), b (Capitals of provinces and autonomous regions), Home Price Index is calculated by NBS nominal home price index rebased as of end-2010.
Source: Fitch Ratings, NBS China (National Bureau of Statistics)

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
* 12-month rolling average of annualised gross loss %.
Source: Fitch Ratings, Haver Analytics, People's Bank of China, National Bureau of Statistics

Modest Price Growth Supported by Rebounding Economy

We expect home prices to grow by 1% to 3% in 2021 and remain largely stable in 2022, as the economy recovers and the central government continues to resolve to keep property prices stable. The slightly higher price growth than our mid-2020 forecast of 0% to 2% is due to the stronger-than-expected economic rebound.

Newly implemented capital rules for real estate developers are putting pressure on home prices after developers lowered prices to prompt sales and meet tighter capital requirements. However, modest home price growth will be supported by the projected 8% real GDP growth in 2021 (after 2.3% growth in 2020), stable mortgage rates, tight underwriting by global standards and only limited forced sales.

China will continue its "one city/one policy" to control home prices. Pent-up demand since 2017 in higher-tier cities resulting from strict purchase restrictions drove up home price by 3.6% in 10M20 despite the pandemic, leading to new local restrictions. Home prices may decline in smaller cities with weak demand and high inventory, but where local restrictions are likely to be loosened.

Arrears Low but Worse than Pre-Pandemic Level

Fitch expects the annualised gross loss rate for mortgages to stay elevated at 0.4% for the remainder of 2020 compared with 0.3% in 2019 for Chinese RMBS transactions, due to the effect of the pandemic. We expect the loss rate to slightly improve to between 0.3% - 0.4% in 2021 and be stable in 2022 as the economy rebounds further, the unemployment rate declines and household income growth becomes more solid. The pandemic effect has been fully reflected in the performance data, as the take-up of payment holidays has been limited and there is no delayed recognition of arrears.

The survey-based urban unemployment rate has improved from a peak of 6.2% in February 2020 to 5.3% in October, close to pre-Covid levels, but lower income segments of the population appear to have been hit harder. Any delay in recovery is likely to keep arrears at the current level.

Mortgage rates are expected to remain stable or decline marginally in 2021, which will support borrower's serviceability. However, as industries such as travel and leisure are still recovering, we expect some borrowers to continue to experience difficulties to meet their financial obligations, keeping arrears higher than the pre-pandemic level.

Japan

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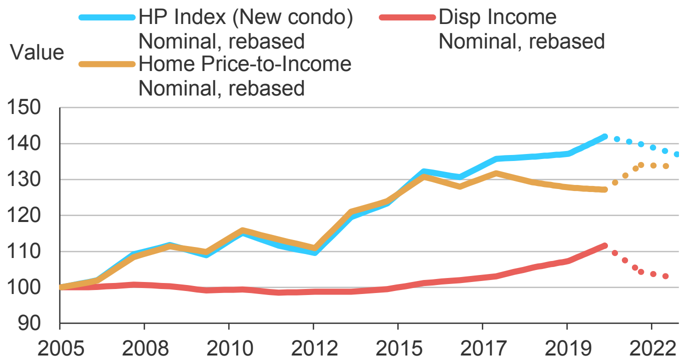
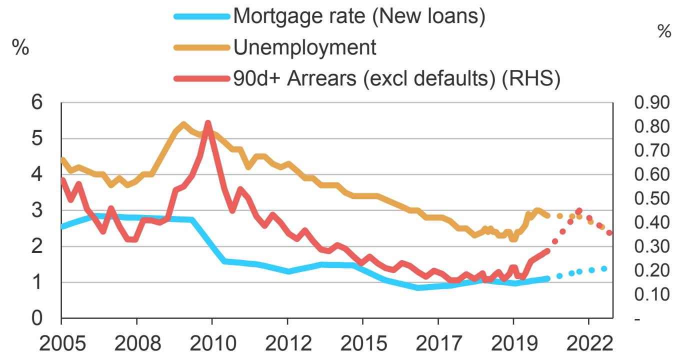
> We expect the impact of the pandemic on arrears to be limited in Japan while weaker demand after the Olympics will cause declining home prices.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Japan Housing Finance Agency , European Commission/ AMECO

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Japan Housing Finance Agency, Eurostat

Weaker Housing Demand to Cause Home Price Correction

Fitch forecasts a 1% to 2% home price fall in 2021, after a 3.5% increase in 2020, driven by weakening housing demand from the pandemic and a declining population. We believe that Japanese home prices have reached their peak given stretched affordability and a further correction is expected in 2022 despite the projected economic recovery. The slightly larger drop in home price in 2022 will result from the declining demand for investment properties after the Tokyo Olympics, especially from non-residents. The sluggish post-Olympics construction demand will contribute to lower construction costs and land prices.

We see limited room for credit availability to support home price increases, as borrowers' affordability is stretched in light of a historically low mortgage rate of around 1.0% and high LTVs of about 100% while income growth should be limited. Strong price growth since 2012 has been coupled with a 25% increase in construction costs, which is expected to diminish after the Olympics.

A remote working spur to suburban area housing demand would push prices towards the higher end of the forecasts.

Deterioration in Arrears from Higher Unemployment and DTI

Fitch forecasts 90+ mortgage arrears to deteriorate in 2021 due to the economic stress from the pandemic. Gradually decreasing support for borrowers from the government and financial institutions will push the arrears rate to 0.4% and 0.5% in 2021 from our forecast of 0.28% for 2020. We expect arrears to improve slightly in 2022, reflecting improving real GDP growth and unemployment rates.

We do not expect the unemployment rate to significantly increase in 2021 but to remain at a level similar to that in 2016 and 2017. However, we assume arrears worse than those seen in 2016 and 2017, as higher debt-to-income ratios observed in recently originated loans are likely to make borrowers more vulnerable to economic shocks. The average debt-to-income ratio has increased to 24% to 25% in 2017 to 2020 vintages, reflecting substantial home price appreciation under the low interest environment, while the ratio was 20% to 21% before 2008.

Any intensification of the contagion and related containment measures by the government may push arrears towards the higher end of the expected range.

Brazil

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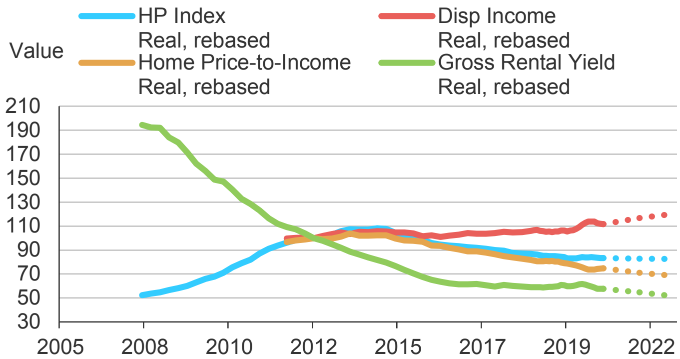
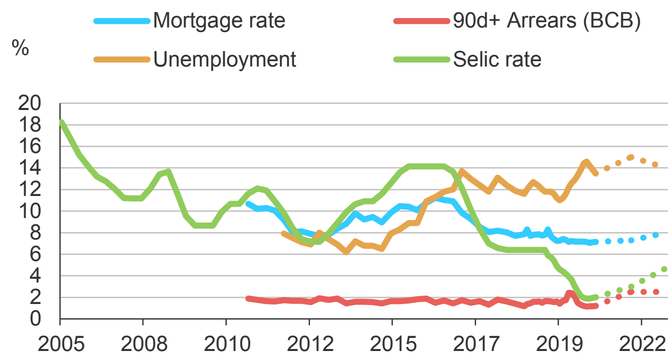
> Fitch expects home prices to grow in line with inflation while defaults will peak in mid-2021 in Brazil.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Instituto Brasileiro de Geografia e Estatística, Fundação Instituto de Pesquisas Econômicas, OECD

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Banco Central do Brazil

Credit Supply and Government Measures to Keep Prices Stable

Fitch forecasts annual nominal home price growth of 1% to 3% in 2021 followed by a slightly higher growth rate in 2022, from the 2.8% estimated for 2020. Government stimulus for credit, low mortgage rates, flexible underwriting and limited property supply should support prices while rising unemployment and the removal of fiscal support will be the main dampening factors, leading to mostly flat real home prices in the coming years.

Supported by government stimulus and increasing credit supply for secured lending, banks have grown origination of new mortgage loans and lent higher amounts in light of lower interest rates (with APRs falling to 7% from 8%), and higher original LTV limits (to 90% from 80%) established by lenders. The projected volume of properties being delivered by homebuilders will be low for the next few years after homebuilders have decreased launches since 2017 to manage their inventory.

On the other hand, we expect the rising unemployment rate (to 15% in 2021 from 13.5% in 2020) and the withdrawal of the fiscal support measures implemented in 2020 (especially the coronavoucher for the vulnerable population) to weigh on consumer confidence.

Massive Forbearance Use Will Delay Default Recognition

We expect mortgage arrears to increase to between 1.5% and 3.5% in 2021 and 2022, above our 2020 estimate of 1.2%. This increase will be driven by the high number of borrowers exiting their payment holiday periods next year as macroeconomic conditions worsen and government fiscal spending supporting individuals and employment maintenance decreases. Other drivers include the higher LTV limits from 2020 plus the extension of the grace period on new loans to six months.

More than half of the forbearance granted to individuals in Brazil have been related to mortgages. However, forbearance was available to all performing borrowers regardless of need, so we expect most to not enter arrears.

If early-stage delinquencies (15 to 90 days past due) are above 10% of the pool right after the end of the forbearance period in January 2021, this will be an early indicator of portfolio deterioration that has been hidden by payment holidays.

Fitch does not expect foreclosures to increase significantly from previous years, but expects a peak in 2021 following the halt in repossessions that occurred in 2020.

Mexico

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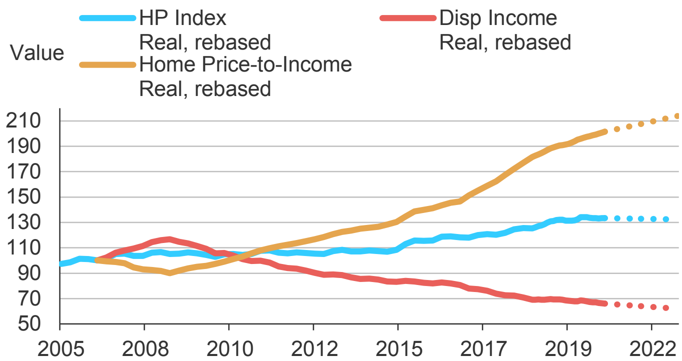
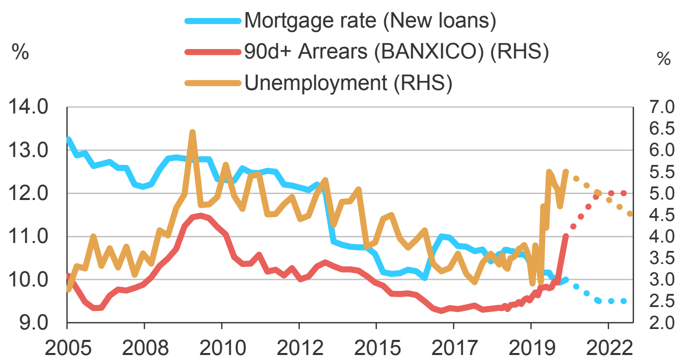
We forecast home price growth at a slower pace and mortgage performance deterioration in Mexico despite coronavirus relief programmes.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Instituto Nacional de Estadística Geografía e Informática, Sociedad Hipotecaria Federal, OECD

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Banco de México (BANXICO), Instituto Nacional de Estadística Geografía e Informática

Home Price Growth Limited by Rising Unemployment and GDP Contraction

Fitch expects nominal home price growth of 2% to 4% in 2021 with similar growth in 2022, which is a slower pace than our 2020 estimate of 5%. Negative trends in unemployment and GDP growth for 2021 with lingering effects in 2022 will weigh on home prices, while strong demand for purchases in light of low mortgage rates and strong mortgage supply will support prices.

Unemployment and underemployment are likely to continue into 2021 as the pandemic evolves. Infonavit and Fovissste will continue to be the most important mortgage providers for low-income borrowers covering about 70% of mortgage originations, and the recently approved law reforms should increase the available mortgage products from these lenders.

We expect new housing supply to continue the decline from 2020 driven by lower demand from low-income borrowers that had started from a reduction in subsidies in 2019, temporary closure of construction activities due to the pandemic and high borrowing costs for builders. Despite recent interest rate decreases, the cost of funding for construction loans has not fallen, as lenders are being conservative in a riskier environment.

Arrears for Mortgage Banks to Increase as Relief Programmes Evolve

Fitch expects 3m+ mortgage arrears for banks to increase to between 4% and 6% in 2021 and 2022 (from an estimated 4% in 2020), which will be worse than during the global financial crisis. The prolonged pandemic crisis, unprecedented lockdowns, reduced mobility and the resulting fall in GDP will cause the deterioration in arrears

Government intervention in the form of payment holidays of up to six months started in April 2020 and was followed in October 2020 by a loan modification programme, which allows instalments to reduce by at least 25% through an extension of the legal final maturity date, lower annual interest rates or principal write-offs. About 19% of borrowers requested payment holidays by July 2020 but it is still too early to determine the level of migration to delinquencies.

Government relief programmes were targeted to all debtors regardless of their needs, however Mexican banks used their own eligibility criteria for loan modification programmes. Since 3Q20 foreclosures and sales were reactivated following social distancing measures, so we expect recoveries to continue.

Colombia

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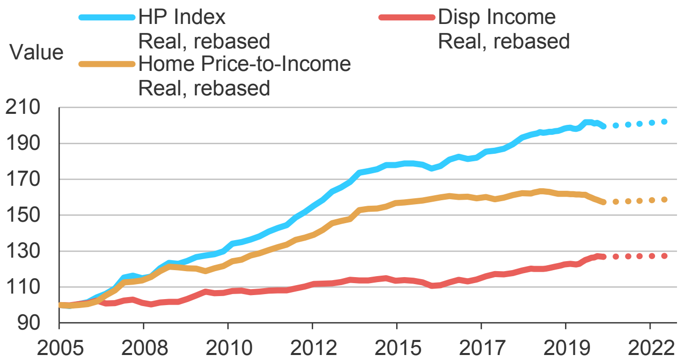
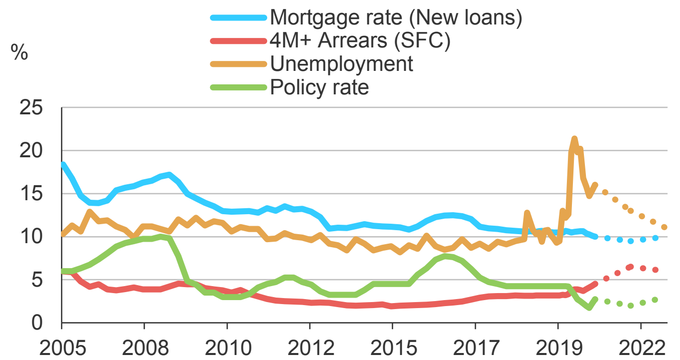
Government support will be key to avoid a drop in home prices and rise in mortgage arrears above our forecasts in Colombia.

Home Prices and Affordability



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Banco de la República, Departamento Administrativo Nacional de Estadísticas, OECD

Mortgage Rates and Arrears



Graph shows the mid-point of the forecast ranges.
Source: Fitch Ratings, Haver Analytics, Superintendencia Financiera, Banco de la República

Lending Incentives Will Lead to Home Prices Rising at a Slower Pace

We forecast nominal home prices to rise between 2.5% and 4.5% in 2021 from the 3% estimated for 2020. Annual home price inflation should return to close to the pre-crisis level of about 5% in 2022. The main cause of home price growth in 2021 will be the government support for social housing that we expect to continue next year, but the low risk appetite of banks and the slow recovery of the construction sector will weigh on growth.

Social housing demand was boosted in 2020 from a government programme providing 255,000 subsidies for first-time buyers. However, overall mortgage lending is still down from 2019 as social housing represents only a quarter of the total mortgage portfolio and new products that are guaranteed by the government have not fully incentivised banks to lend more. Construction was one of the first sectors to restart operations after the national lockdown of March to September 2020, but has not fully picked up.

We do not expect the presidential election in 2022 and the need for fiscal tightening in 2022 and beyond to result in home price declines as polices to boost the construction sector are likely to continue due to the large multiplier effect of the sector on the economy.

Arrears to Increase as Relief Measures Are Phased Out

We expect late-stage mortgage arrears to increase in 2021 to between 5.5% and 7.5% (from 4.5% estimated for end-2020) while stabilising at a similar to slightly lower level in 2022. We expect relief measures for borrowers to be the highest in 2020, so the lower relief and still high unemployment in 2021 and 2022 will reduce debtors' ability to maintain payments, leading to higher arrears.

Mortgage origination practices in Colombia were tightened after the last mortgages crisis (1998-2002), which has led to lower default risk in this crisis. The financial regulator also approved several economic relief schemes to avoid a significant deterioration in mortgage arrears and defaults.

Payment holidays were initially granted automatically, which led to significantly lower mortgage collections of up to 60% as of July 2020. Additional measures were approved on a case-by-case basis through December 2020, which allowed the use of lower instalments, reduced interest rates, longer terms or additional payment holiday periods. The expected slow recovery of the economy could continue affecting debtors, while banks will become more selective when granting extra financial relief.

Even higher mortgage arrears levels could still occur if lockdown measures are implemented again but we expect to see a more stable trend in 2022.

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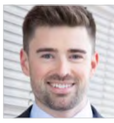

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