

ECONOMIC MARKET SNAPSHOT

WINTER 2020 | ISSUE NO. 11

NATIONAL MI IS PLEASED TO BRING YOU OUR Winter 2020 Edition of the **Economic Market Snapshot**

As reported by John Burns Real Estate Consulting, Realtors are more optimistic about housing conditions going into 2020 than they were going into 2019. The current conditions component of Realtor confidence rose 22 percent and the six-month outlook rose 20 percent year-over-year. The economy remains strong with a 3.5 percent US unemployment rate. The U6, a broader measure that captures underemployment and discouraged workers, hit a record low of 6.7 percent in December 2019.

- The 30-year fixed mortgage rate is projected to remain low between 3.8 - 4.2 percent over the 2020-2022 period.
- The John Burns Market current market condition report indicates strong improvements in the top 50 housing markets in January 2020. Slow markets have decreased from 38 percent to 24 percent, and strong markets have increased from 0 percent to 8 percent.
- Nearly half of homebuyers aged 28 and younger are putting 5 percent or less down on their homes. The availability of low

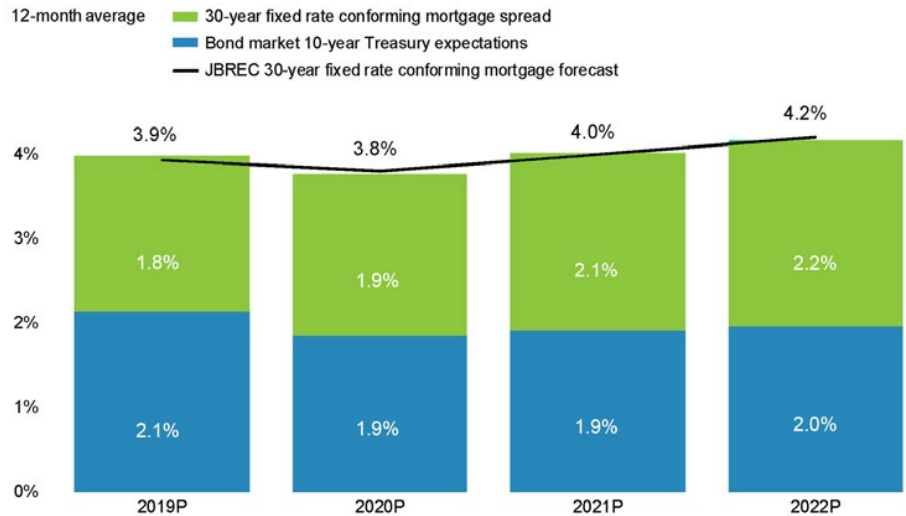
down payment mortgages may be contributing to the small uptick to 38 percent homeownership rate for this youngest age group.

US existing home sales closings are projected to remain strong, reaching an annual rate of 5.5 million in 2020. The John Burns proprietary economic performance index has continued to improve overall since 2009, despite trending slightly below average at the end of 2019. Low interest rates and the low unemployment rate support the strong projections for existing home sales closings.

We Base Our Mortgage Rate Forecast on Market Pricing for 10-Year Treasuries and Our View of the Mortgage Premium

The future spread for mortgage rates over 10-year Treasuries should be ~20-30 basis points higher than the historical 170 basis point spread for 3 reasons: 1) Mortgage servicing compliance costs have risen ~25bps per year, 2) GSE mortgage fees have increased ~25bps per year, 3) Mortgage investing risk has increased as some liability shifts to mortgage owners, but has also decreased due to better documentation and an explicit government guarantee, so assume a negligible net effect. We are calling for slowing economic growth going forward, which should gradually drive premiums higher. The spread can vary widely over time for other reasons.

30-YEAR FIXED CONFORMING MORTGAGE RATE FORECAST



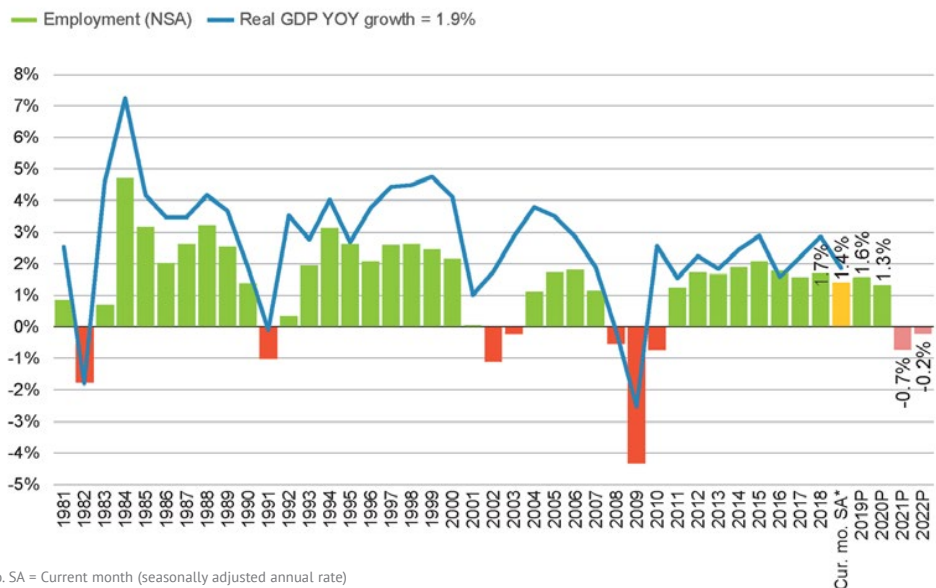
SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Dec-19, Pub: Jan-20)

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US Employment Growth Rates

We forecast slowing job growth through 2020 and a decline starting in 2021.

US EMPLOYMENT ANNUAL GROWTH RATES



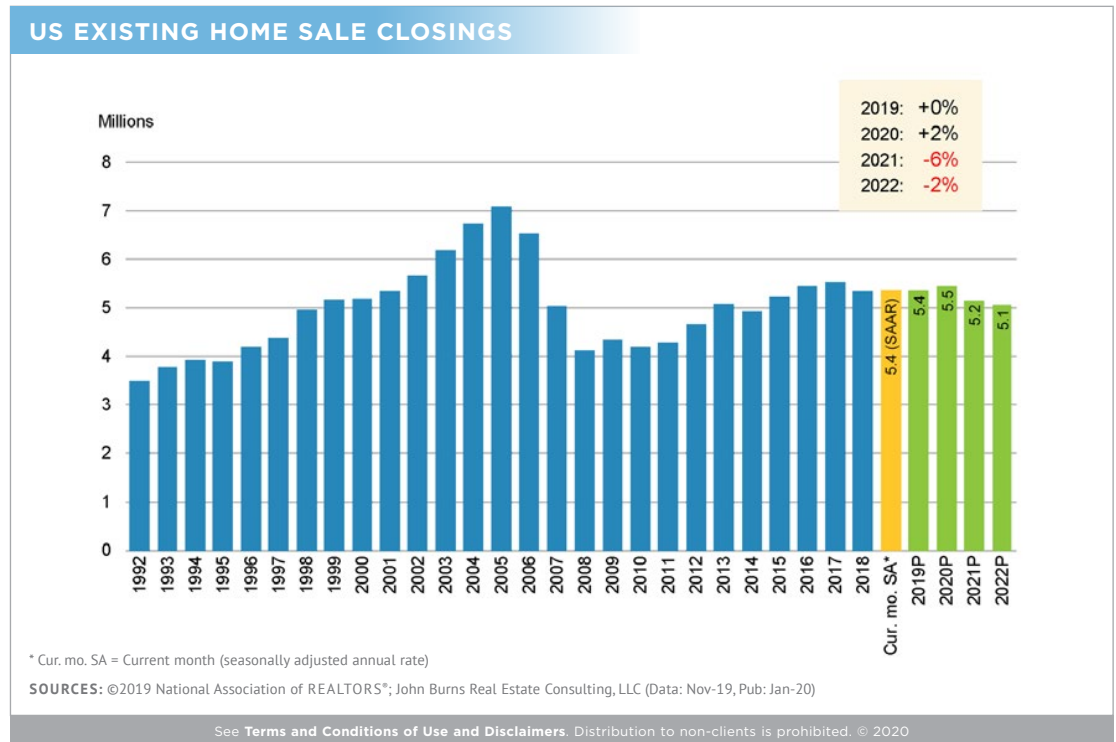
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Dec-19, Pub: Jan-20)

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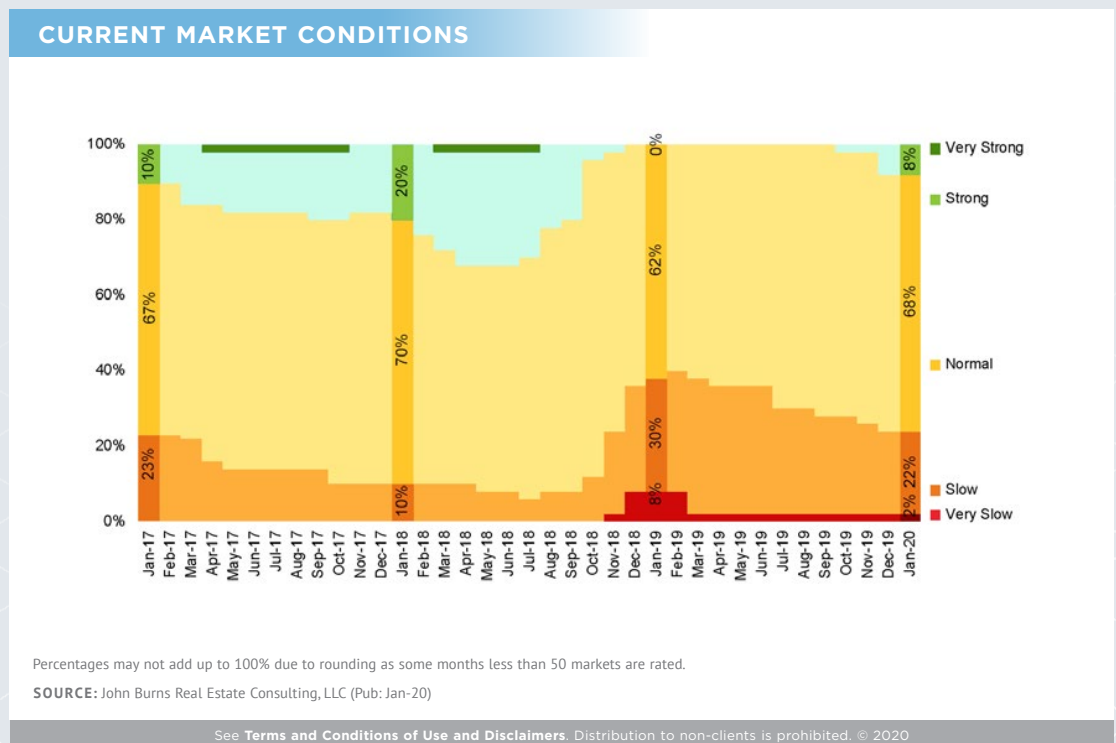
US Existing Home Sale Closings

Existing home sales closings are running at a 5.4 million Seasonally Adjusted Annual Rate (SAAR). We forecast a 2% increase in 2020. We expect declining existing home sales closings in 2021/2022.



Current Market Conditions: 68% of Markets are Normal

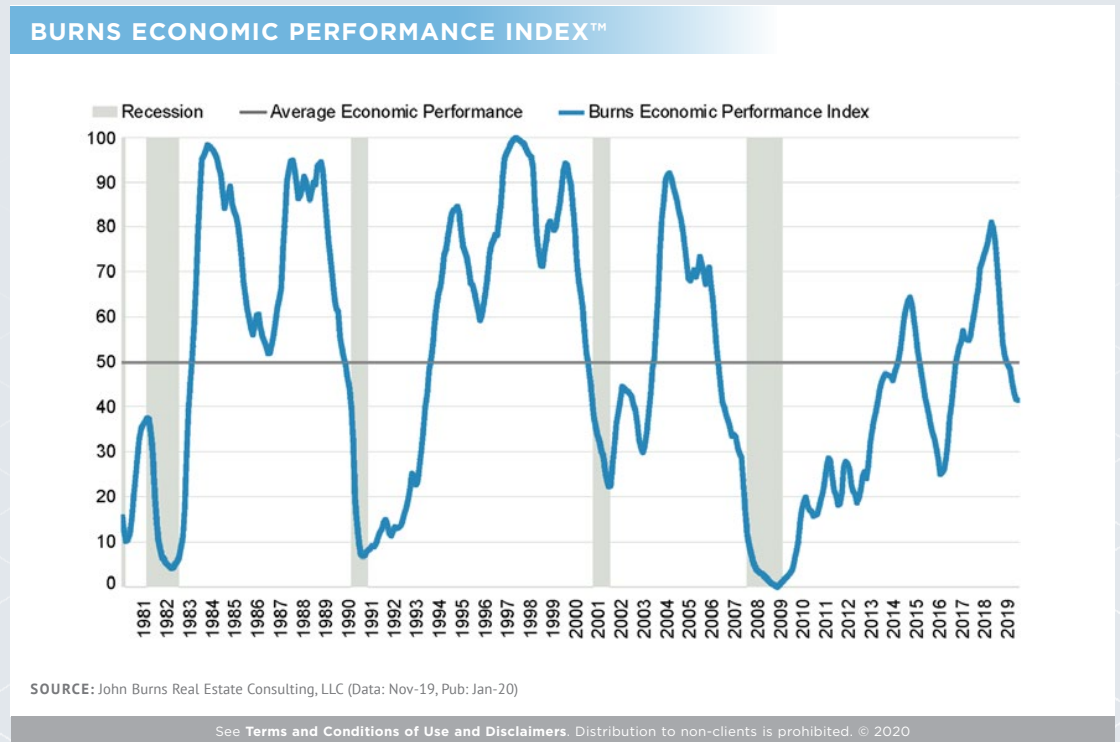
In our rating process, Normal reflects builders selling 2-3/month per community with slightly rising net prices. The share of Slow/Very Slow markets remains elevated at 24%.



Burns Economic Performance Index™

Our proprietary index shows that US economic performance is slightly below average compared to history.

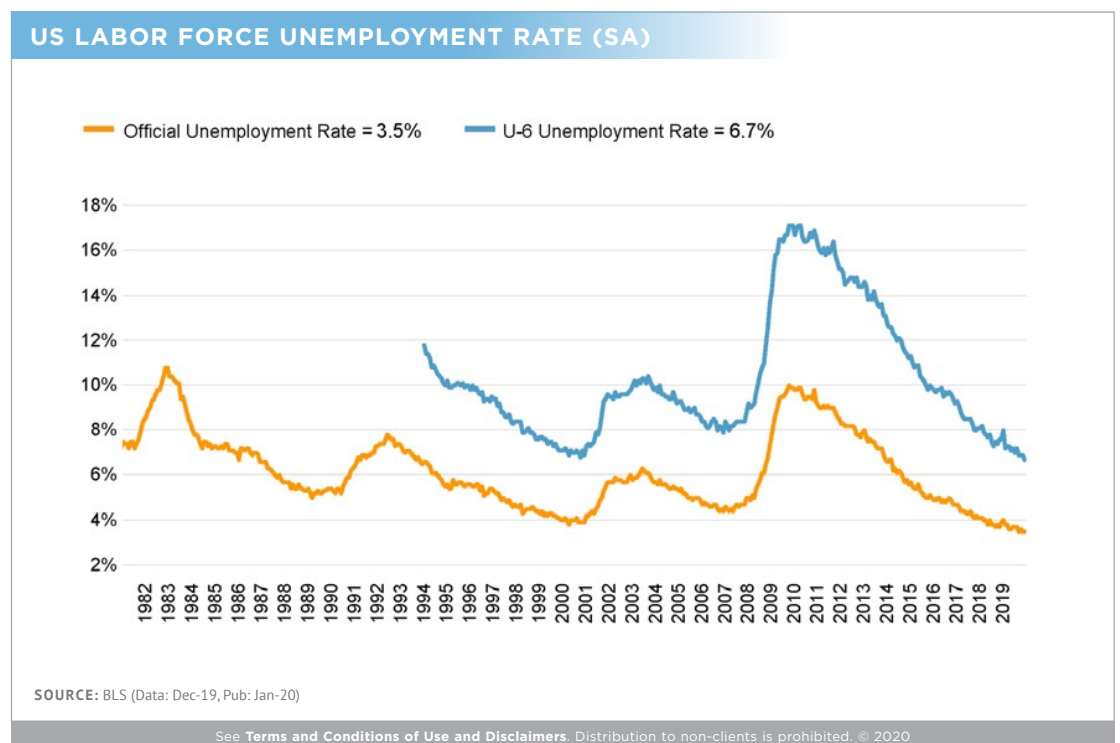
The Burns National Economic Index tracks 34 major data points that quantify the current state of the economy.



Unemployment Rate

The unemployment rate is at the lowest level since 1969, at 3.5%. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, hit a record low in December.

The U-6 unemployment rate is a broader measure of unemployment that covers part-time workers who would like full-time work and those who have given up looking for work.

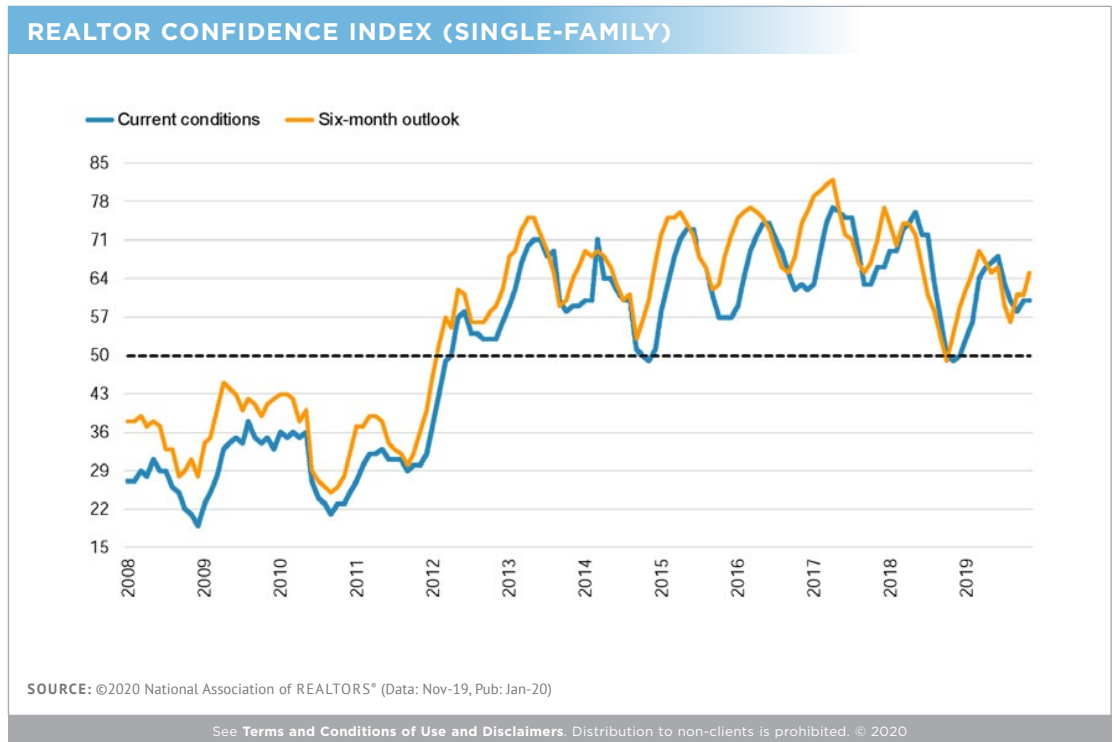


Realtor Confidence Index

The current conditions component of Realtor confidence rose 22% YOY, while the six-month outlook component rose 20% YOY. Realtors are more optimistic about housing conditions compared to last year.

Realtor Confidence Index (Single-Family)

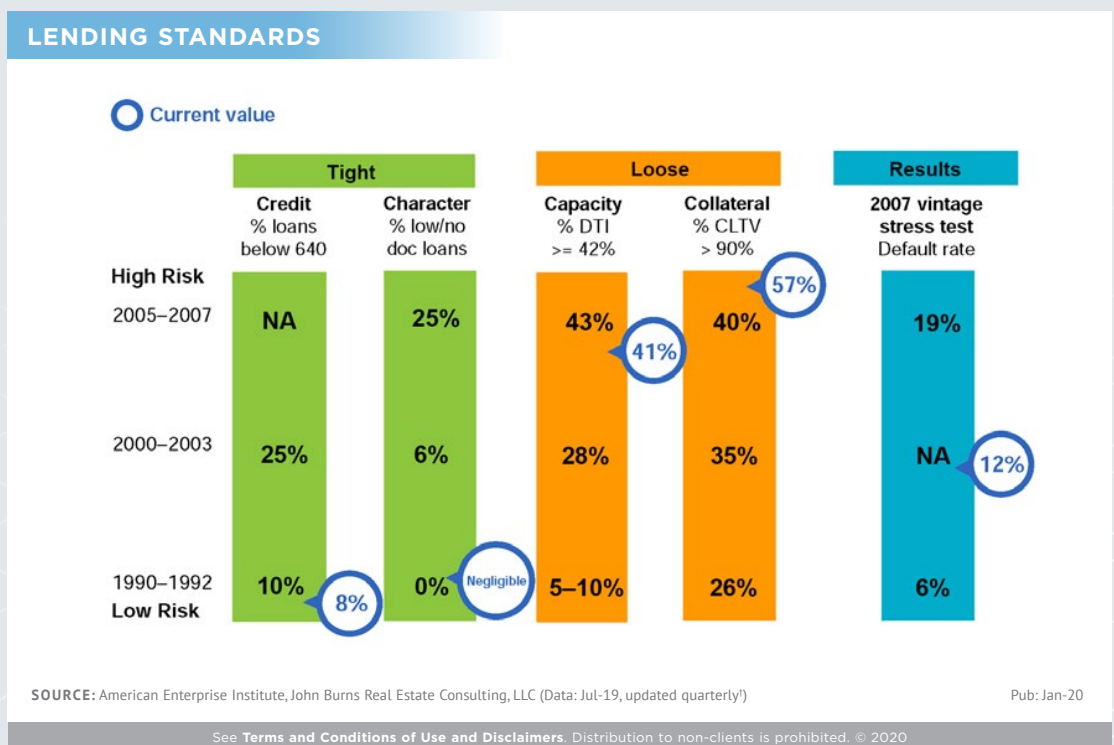
An index of 50 delineates moderate conditions, a balance of respondents having weak (index=0) and strong (index=100) expectations. The index is calculated as a weighted average is not adjusted for seasonality.



Lending Standards on Government-Backed Loans: 71% of All Loans

Current lending standards are tight on credit and documentation, but not on DTI and LTV.

This chart only includes primary purchase loans guaranteed by the five government agencies (Fannie Mae, Freddie Mac, FHA, VA, and RHS). These loans currently account for 85% of all primary purchase loans (by count). Our current percentage of low/no document loans is based on JBREC analysis. The DTI numbers shown include only back-end DTI percentages.

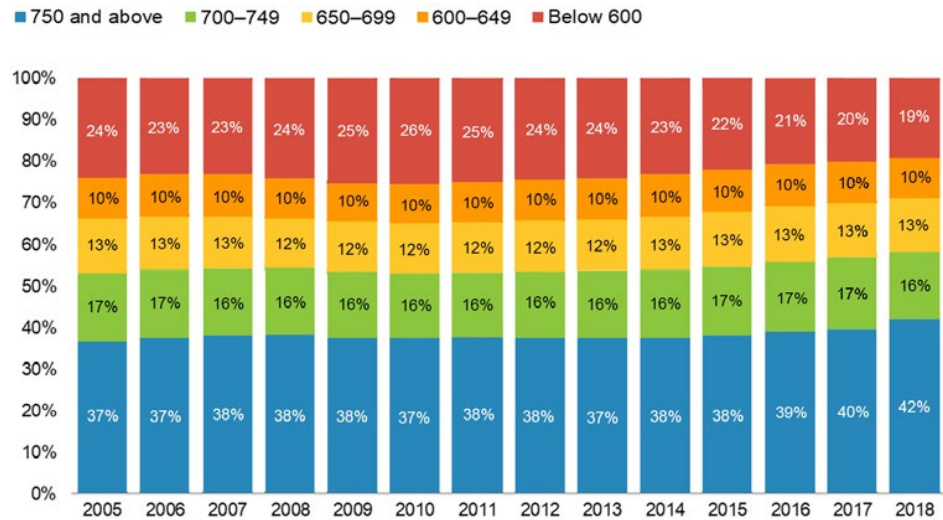


National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2018, 58% had FICO scores above 700, and 81% had FICO scores above 600.

Scores are based on the following five categories in order of weighting: payment history (35%), amounts owed (30%), length of credit history (15%), new credit (10%), and types of credit used (10%).

NATIONAL FICO™ SCORE DISTRIBUTION FOR ALL CONSUMERS



SOURCE: FICO™ Banking Analytics Blog (Data: Apr-18, updated quarterly)

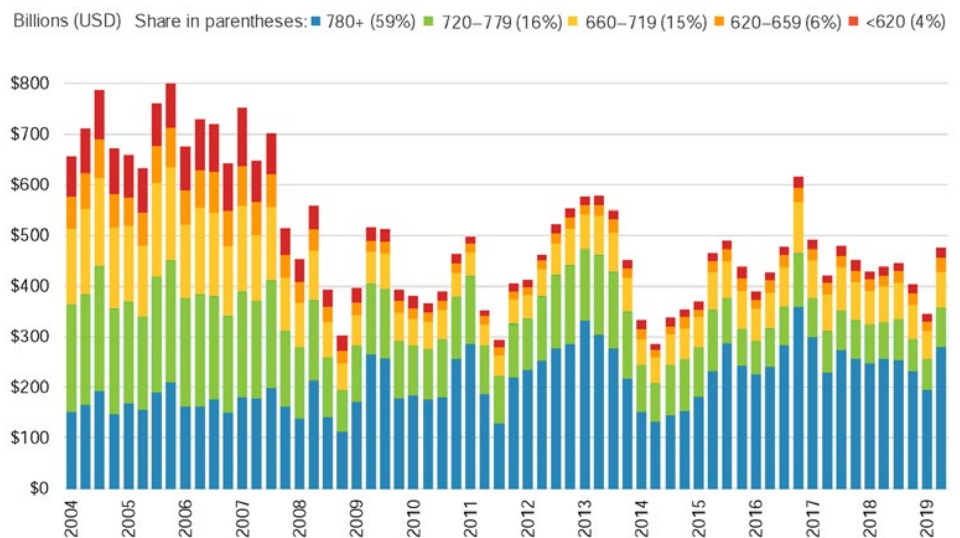
Pub: Jan-20

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Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 2Q19, only 4% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



* Credit Score is Equifax Riskscore 3.0

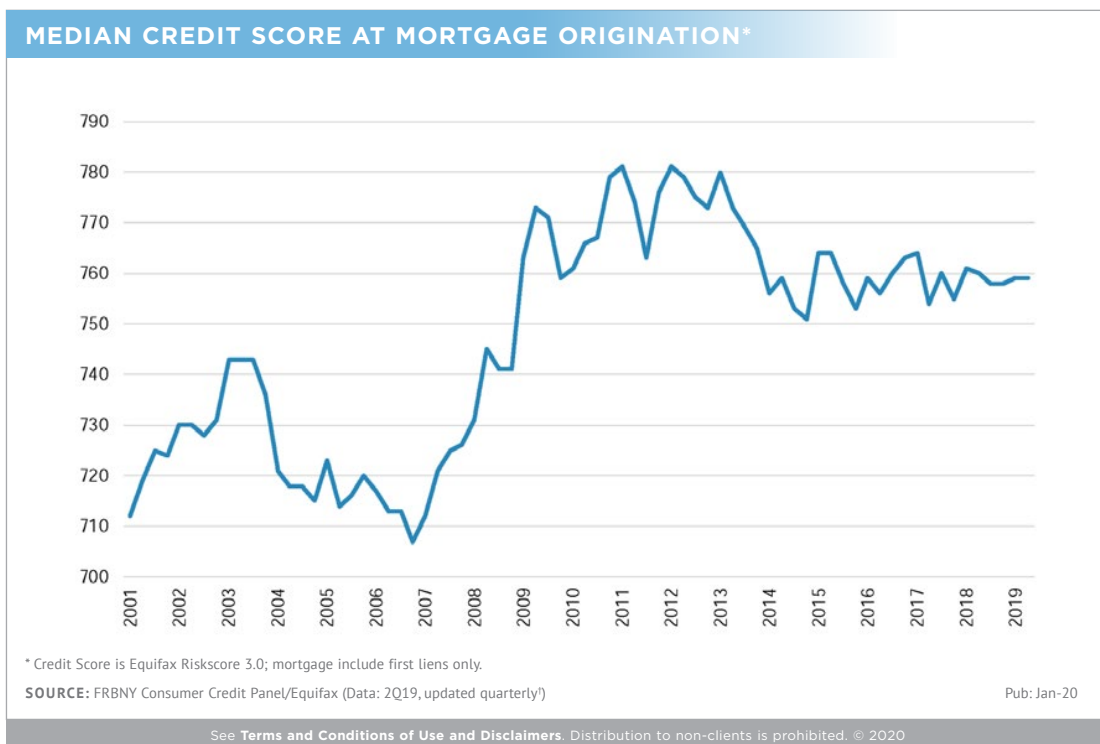
SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 2Q19, updated quarterly)

Pub: Jan-20

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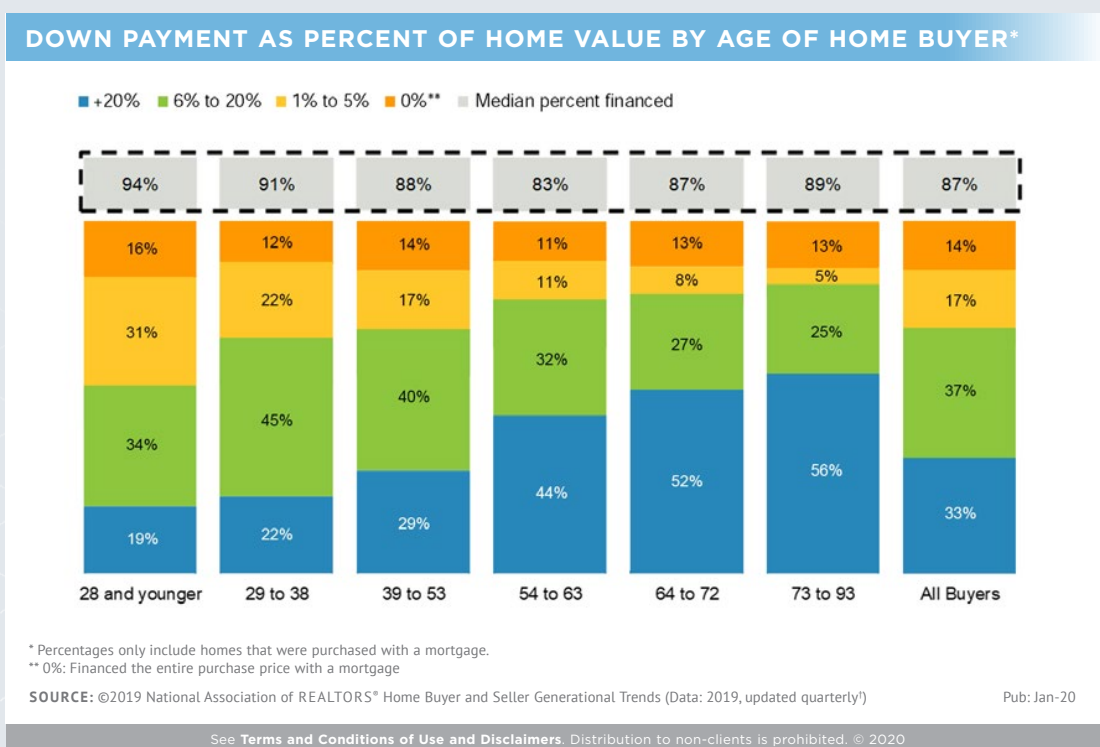
Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 2Q19, median score at origination was 759.



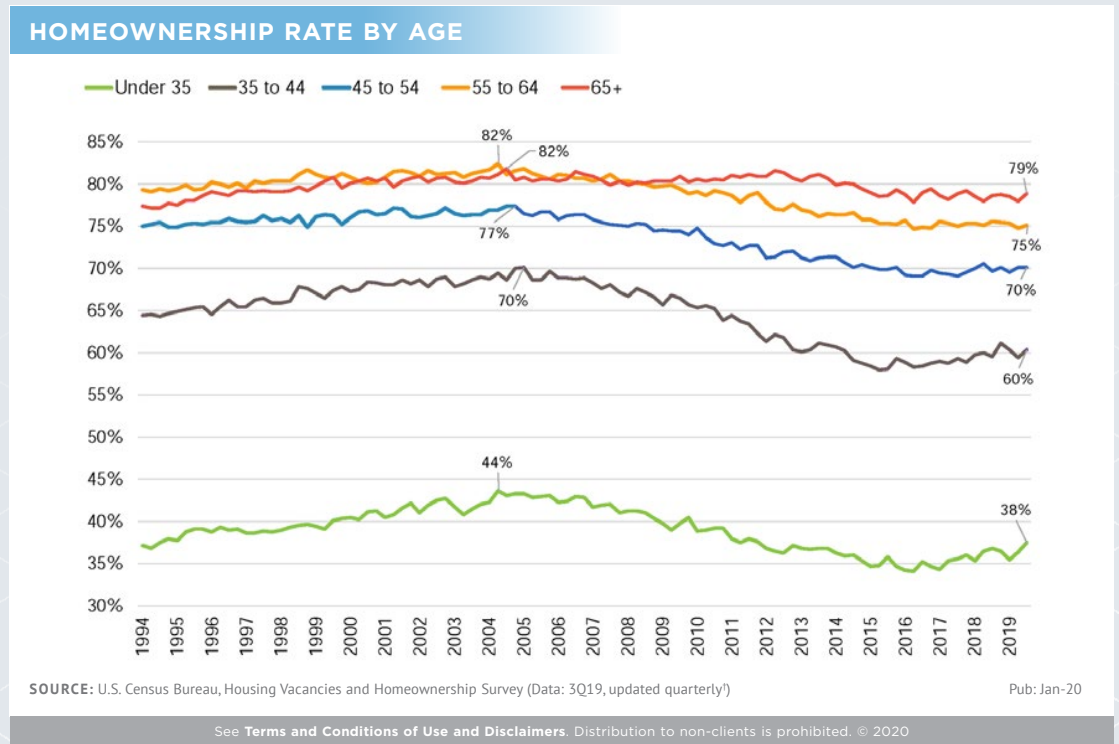
Financing the Home Purchase by Age Group

31% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 47% among those 28 and younger. Only 21% of 64- to 72-year-olds have a LTV of +95%.



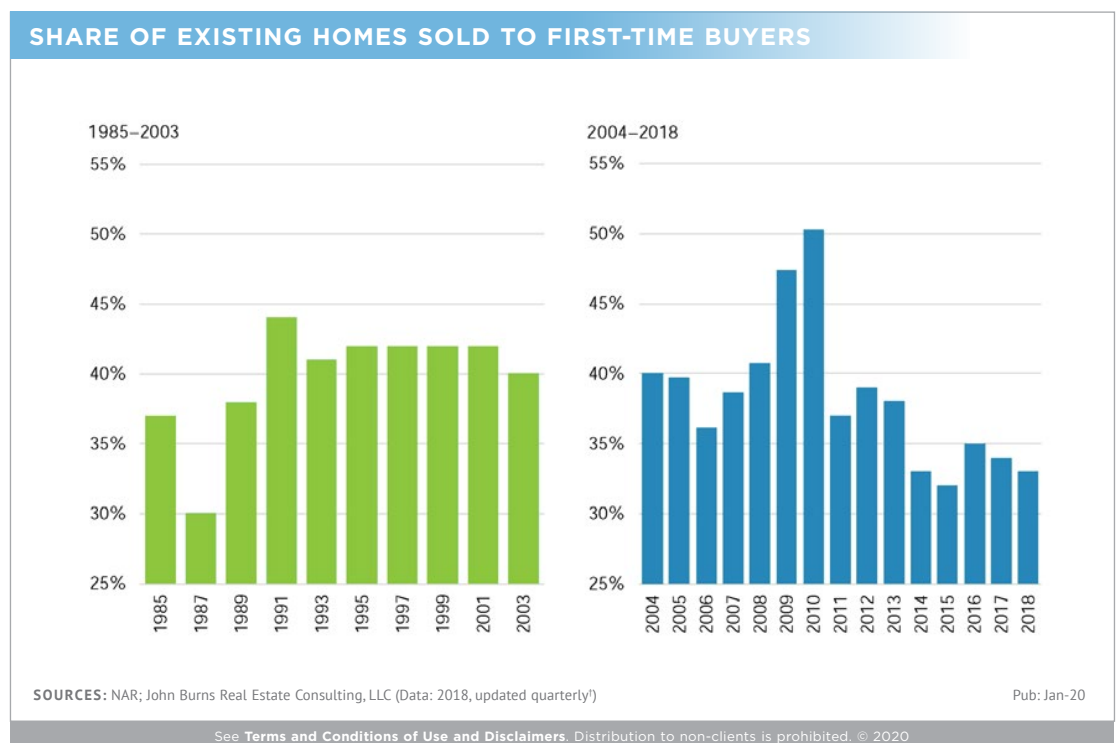
Homeownership Rate by Age

Homeownership rates across age groups have dropped noticeably from 2004-2005 levels.



Share of Homes Sold to First-Time Buyers

The share of existing homes sold to first-time buyers is near the lowest level since 1987. Peak share was reached in 2010, when 50% of buyers were first-time buyers.



John Burns Real Estate Consulting, LLC helps executives make informed housing industry decisions. Our clients engage with us in two primary ways:



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An ongoing, retainer-based relationship, providing clients with our published research, client services, and exclusive events.



CONSULTING

A specific contracted engagement to help clients with a housing related strategic decision.

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- **Competitive Rate GPSSM** for your borrowers available through most LOS and pricing engines, on our mobile app, and by visiting our website

Cautionary Note Regarding Forward Looking Statements

This Market Snapshot report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements about future, not past, events and involve certain important risks and uncertainties, any of which could cause actual events to differ materially from those expressed in such forward-looking statements. Forward-looking statements in this report include, without limitation, statements regarding certain economic and market indicators that impact the U.S. residential mortgage and mortgage guaranty insurance markets. Any or all of the forward-looking statements in this report may turn out to be inaccurate. More information about the risks, uncertainties and assumptions affecting National MI can be found in the risk factors and forward-looking statements cautionary language contained in our Annual Report on Form 10-K and in other filings we make with the Securities and Exchange Commission. All forward-looking statements are necessarily only estimates of future trends, and actual events may differ materially from expectations. You are, therefore, cautioned not to place undue reliance on such statements. We do not undertake, and specifically disclaim, any obligation to revise any forward-looking statements to reflect the occurrence of future events or circumstances.

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