ECONOMIC MARKET SNAPSHOT

NationalMI

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NATIONAL MI IS PLEASED TO BRING YOU OUR

Summer 2023 Edition of the Economic Market Snapshot

John Burns Consulting is optimistic on housing and the economy.

The US housing market and economy continue to show strength going into the second half of 2023, though the new home market is clearly stronger than the resale market.

The new home market continues to outperform (namely in sales), with new home sales jumping +20% YOY. This reflects the highest reading since February of 2022, when mortgage rates were just 3.5%. New homes now represent 28% of all available single-family homes for sale, more than double the 13% norm, as resale inventory stays depressed.

The forecast for the new home market are more bullish going forward:

- +9% new home sales YOY (up from +3%), as builders continue to exploit their unique window of elevated market share.
- -5% single-family permits YOY (improved from -11%), as builders look to extend their strong sales momentum.
- -5% new home prices net of incentives YOY (unchanged), as incentive use stays widespread.

The resale market is struggling with sales due to limited listings, which is helping prices rise again.

- Resale home prices have fully recovered. Nationally, resale home prices are back to all-time highs after six consecutive months of month-over-month price increases, per the Burns Home Value Index™.

(continued on page 2)

PLEASE REFER TO OUR Economic Market Snapshot webpage for previous editions of this report

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New homes now represent 28% of all available single-family homes for sale.

- Inventory remains extremely low by historical standards. There is currently just 1 active listing for every 100 owned households in the US. Typically, the ratio of inventory-to-owned households hover around 3%.
- Demand continues to exceed supply. With homeowners locked into low rates and reluctant to sell, we are hearing reports of competition (bidding wars) between buyers for limited supply in some markets.

The economy is firing on almost all cylinders as consumers finally regain confidence. The unemployment rate fell to 3.6% in June. Inflation is back down to 3%. It's too early for the Fed to declare a victory given that core inflation, which excludes volatile food and energy categories, is still at 5%. The housing-related categories will put significant downward pressure on headline inflation over the next several months, given the lag due to the Fed's method of calculating housing costs.

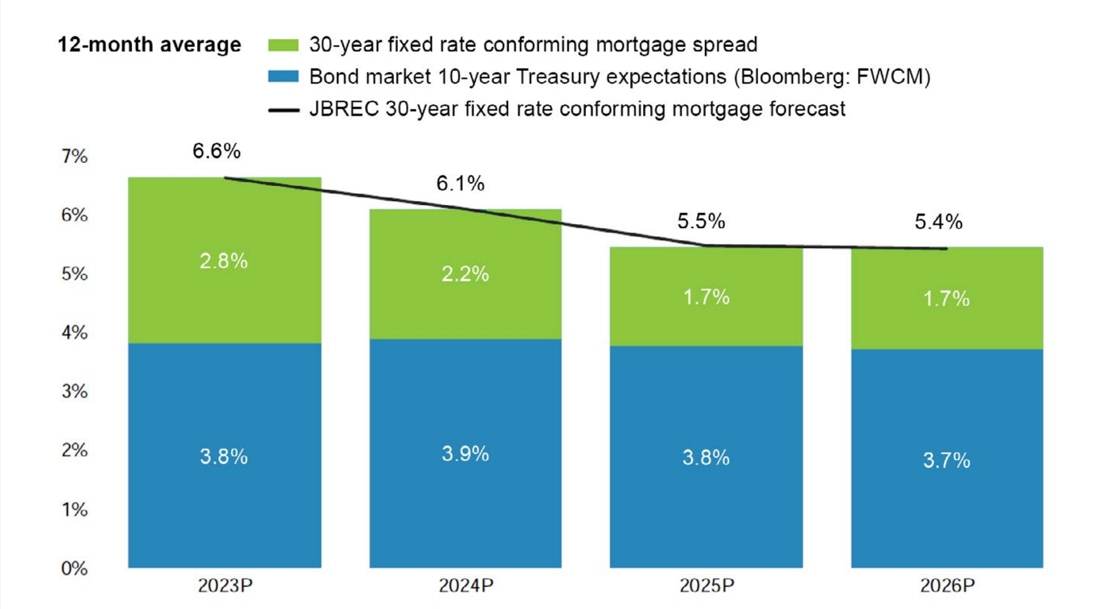
Only 19% of market are slow. Sales and pricing conditions are strong in 37% of markets up from 36% last month. Nearly half of the markets are normal, which reflects 2-3/month sales per community with rising net prices. Lending standards on Government-backed loans which represents 80% of all loans is tight on credit and documentation, but not on DTI and LTV. Consumers have continued to slowly rebuild their credit profiles. In 2022, 64% had FICO scores above 700, and 85% had FICO above 600. Homeownership is rising for those under 45 and the share of existing homes sold to first-time buyers fell in 2022 to a record low of 26%. Peak share reached in 2010 when 50% of buyers were first-time buyers due to temporary tax credits.

John Burns reports that while we are still wary of potential risks to housing and the economy, affordability may get worse. 7% mortgage rates will likely push the housing cost-to-income ratio to all-time highs once we have full-month data for this past quarter. We continue to see affordability as a barrier for first-time home buyers.

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

Currently, the spread for mortgage rates over the 10-year Treasury is higher than normal (typically 170bps). The elevated spread is due to uncertainty around interest rates and less demand for mortgage-backed securities since the Fed stopped purchasing MBS in 2022. We expect the spread to normalize in the coming years as interest rates stabilize.

ANNUAL AVERAGE 30-YEAR FIXED CONFORMING MORTGAGE RATE FORECAST

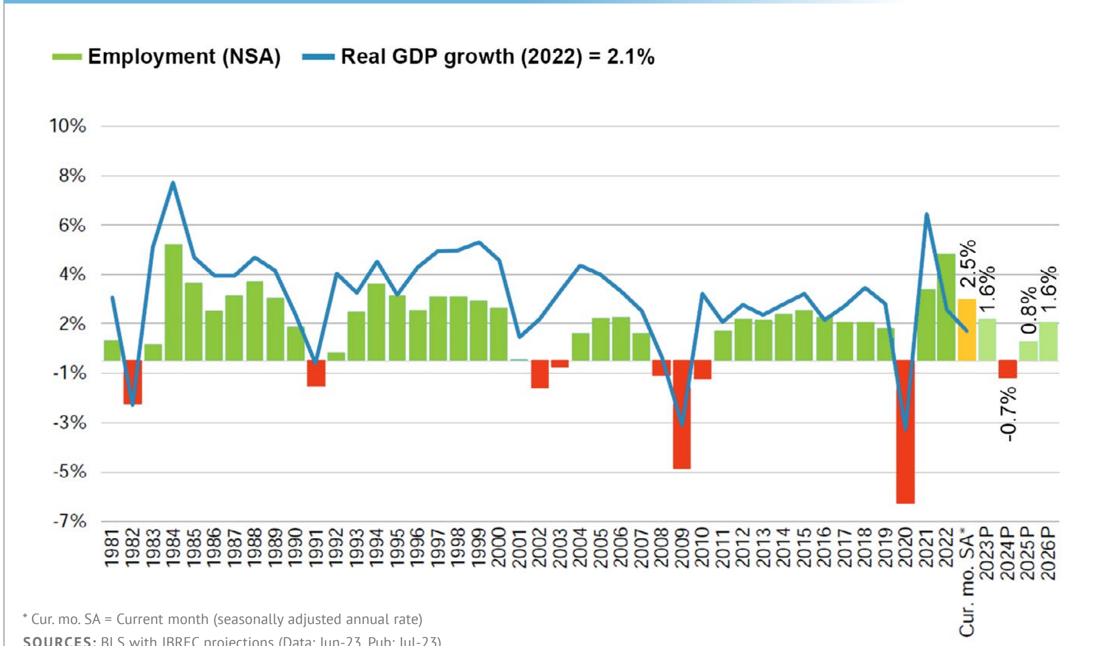


SOURCES: Bloomberg; John Burns Research and Consulting, LLC (Data: Jun-23, Pub: Jul-23)

National Employment Growth Rates

We expect employment to rise 1.6% YOY in 2023 and fall -0.7% in 2024, as the Fed attempts to tame inflation and likely incurs mild job losses.

NATIONAL EMPLOYMENT ANNUAL GROWTH RATES



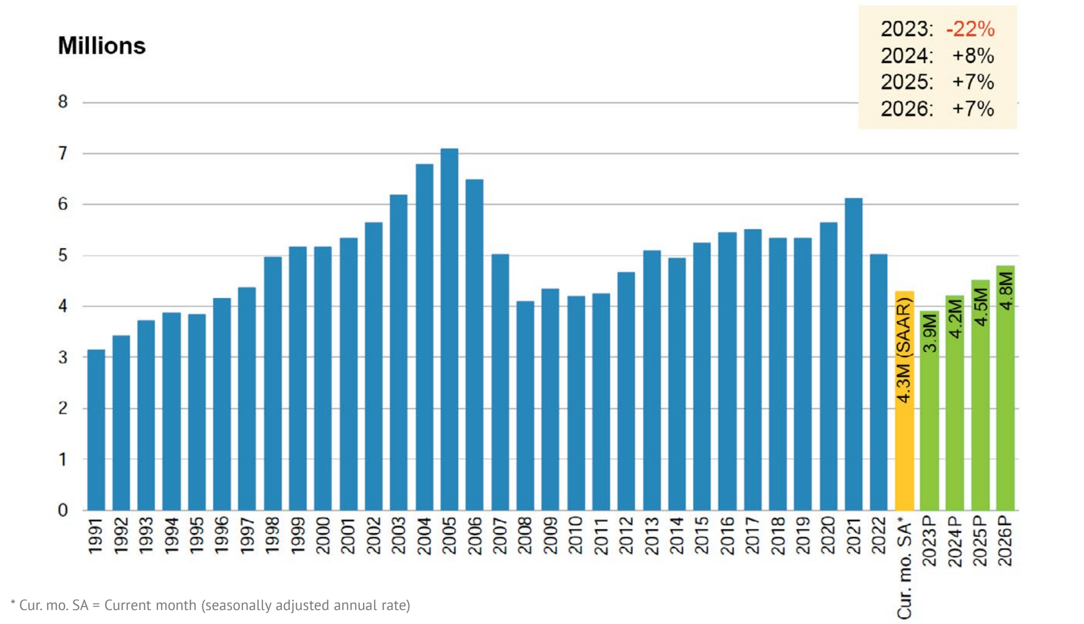
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Jun-23, Pub: Jul-23)

National Existing Home Sale Closings

We forecast existing home sales will fall -22% YOY in 2023 due to still elevated mortgage rates, limited inventory, inability to compete with builder rate buydowns, and a slowing economy.

NATIONAL EXISTING HOME SALE CLOSINGS



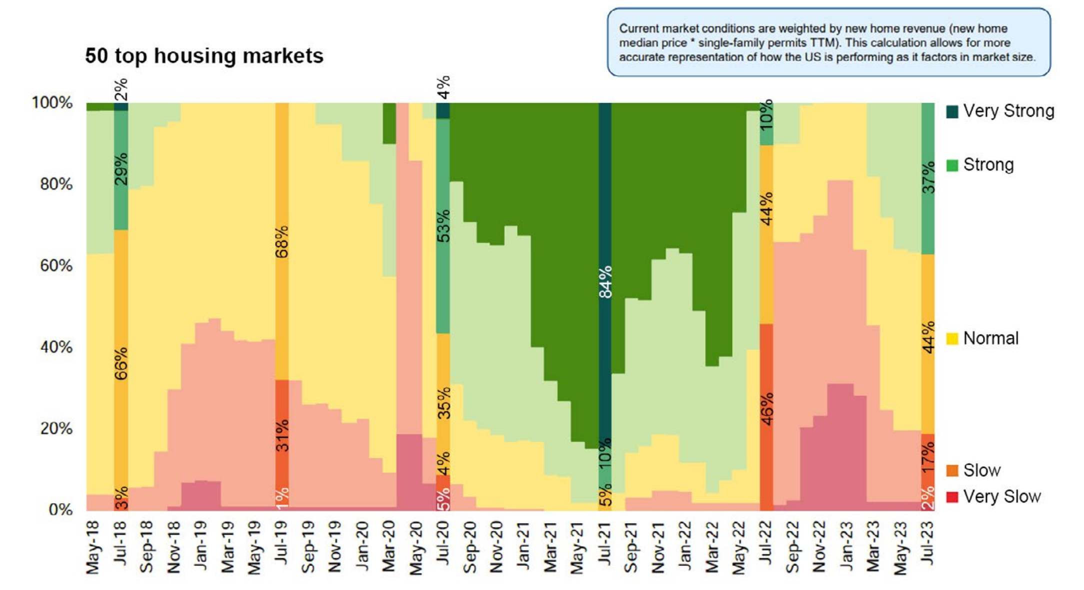
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: ©2020 National Association of REALTORS®; John Burns Research and Consulting, LLC (Data: May-23, Pub: Jul-23)

Current Market Conditions: Just 19% of Markets Are Slow

Sales and pricing conditions are Strong in 37% of markets, up from 36% last month. Nearly half of the markets are Normal, which reflects 2-3/month sales per community with rising net prices.

CURRENT MARKET CONDITIONS



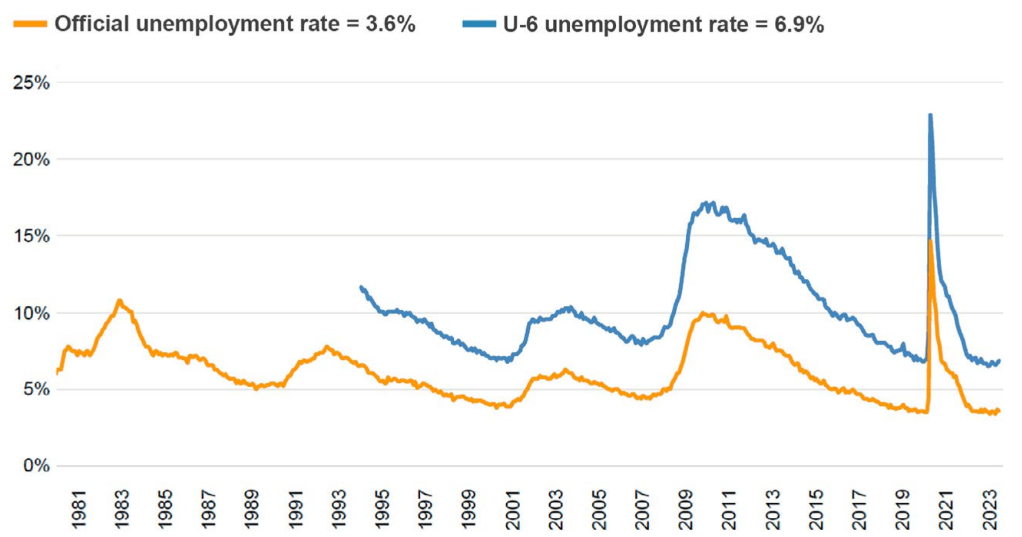
Percentages may not add up to 100% due to rounding, as some months less than 50 markets are rated.

SOURCE: John Burns Research and Consulting, LLC (Pub: Jul-23)

Unemployment Rate

The unemployment rate fell to 3.6% in June. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, rose to 6.9%.

LABOR FORCE UNEMPLOYMENT RATE (SA)



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.

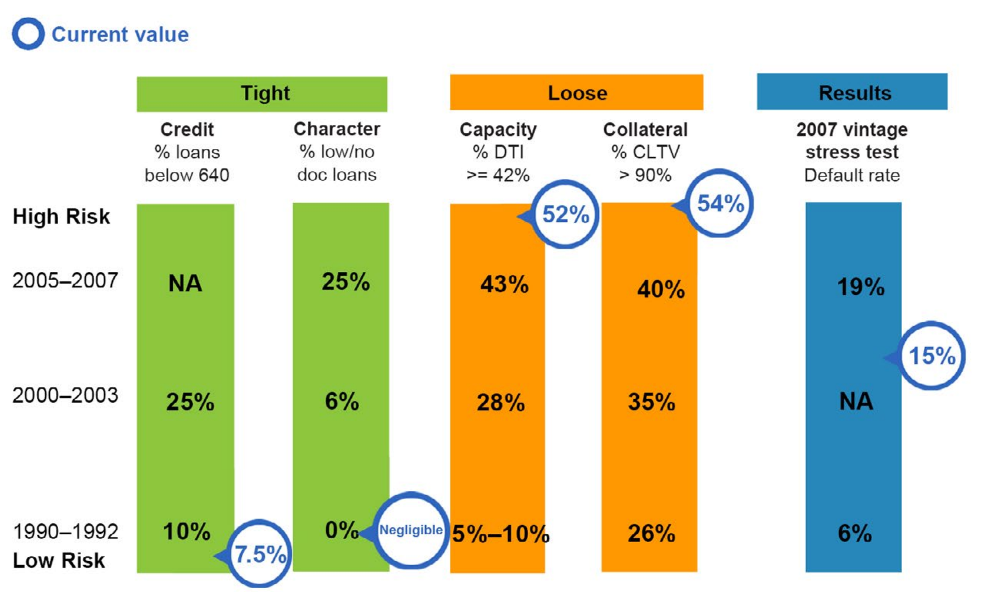
SOURCE: Bureau of Labor Statistics (Data: Jun-23, Pub: Jul-23)

Lending Standards on Government-Backed Loans: 80% 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 70% 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.

LENDING STANDARDS



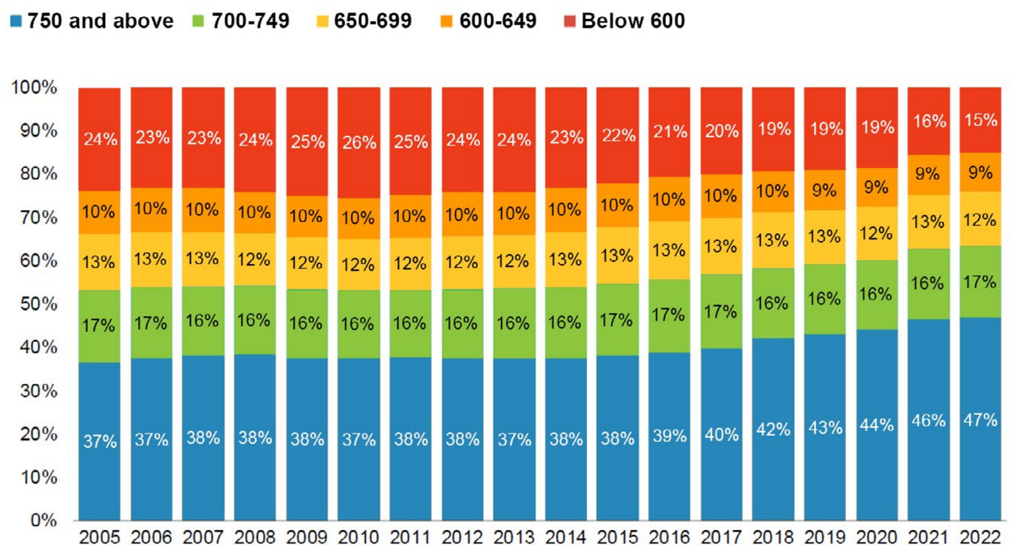
SOURCES: American Enterprise Institute, John Burns Research and Consulting, LLC (Data: Jan-23, updated quarterly[1]) Pub: Jul-23

National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2022, 64% had FICO scores above 700, and 85% 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



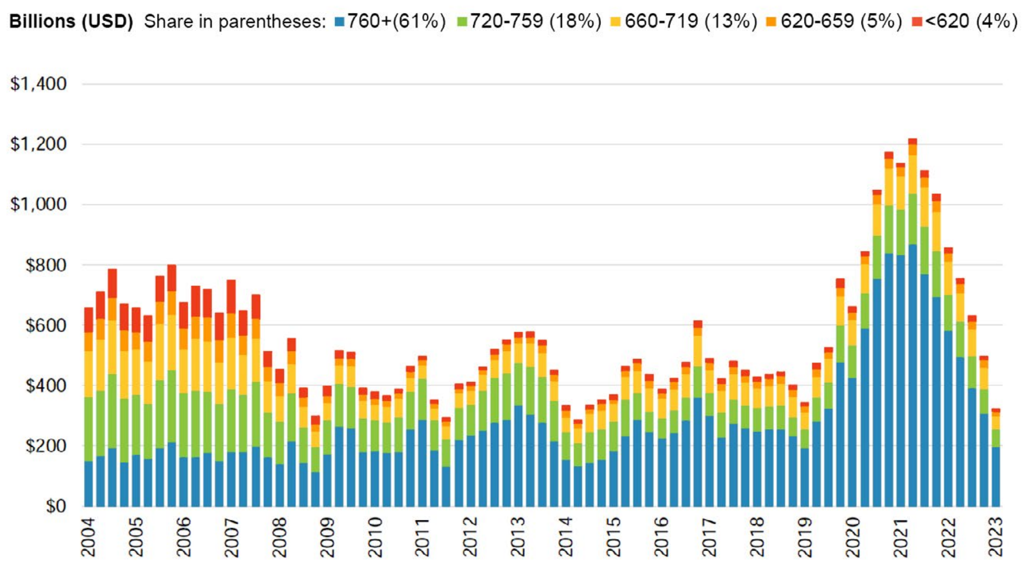
	750 and above	700-749	650-699	600-649	Below 600
2005	37%	17%	13%	10%	24%
2006	37%	17%	13%	10%	23%
2007	38%	16%	13%	10%	23%
2008	38%	16%	12%	10%	24%
2009	38%	16%	12%	10%	25%
2010	37%	16%	12%	10%	26%
2011	38%	16%	12%	10%	25%
2012	38%	16%	12%	10%	24%
2013	37%	16%	12%	10%	24%
2014	38%	16%	13%	10%	23%
2015	38%	17%	13%	10%	22%
2016	39%	17%	13%	10%	21%
2017	40%	17%	13%	10%	20%
2018	42%	16%	13%	10%	19%
2019	43%	16%	13%	9%	19%
2020	44%	16%	12%	9%	19%
2021	46%	16%	13%	9%	16%
2022	47%	17%	12%	9%	15%

SOURCE: FICO® Banking Analytics Blog (Data: Apr-22, updated quarterly[†]) Pub: Jul-23

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 1Q23, only 4% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



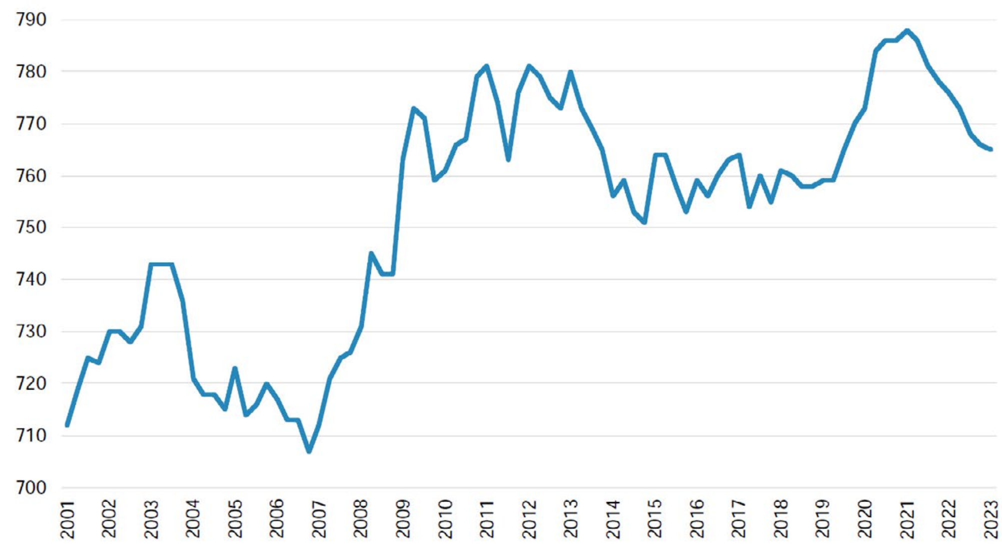
* Credit Score is Equifax Riskscore 3.0

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 1Q23, updated quarterly[†]) Pub: Jul-23

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 1Q23, median score at origination was 765.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



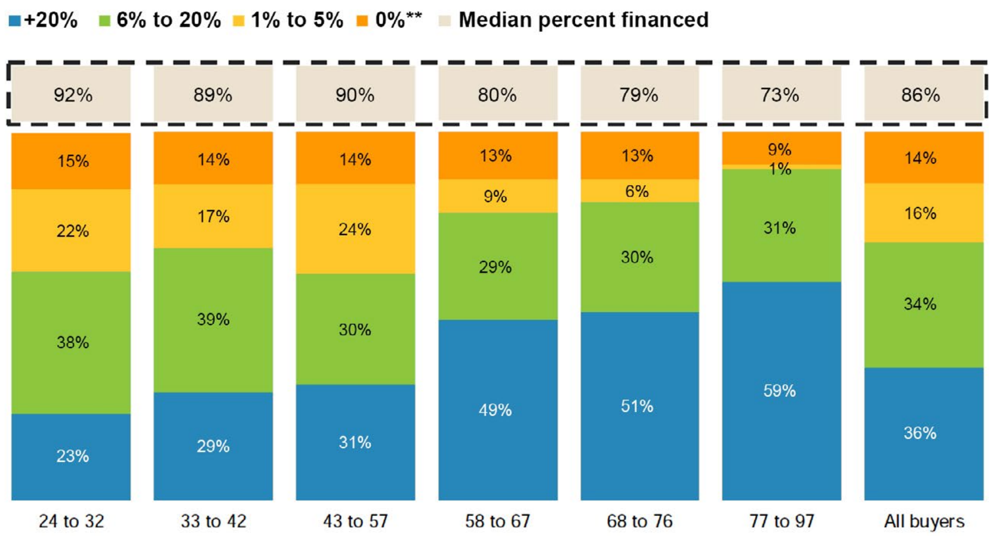
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 1Q23, updated quarterly[†]) Pub: Jul-23

Financing the Home Purchase, by Age Group

30% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 37% among those 32 and younger. Only 19% of 68- to 76-year-olds have an LTV of +95%.

DOWN PAYMENT AS PERCENT OF HOME VALUE BY AGE OF HOME BUYER*



* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

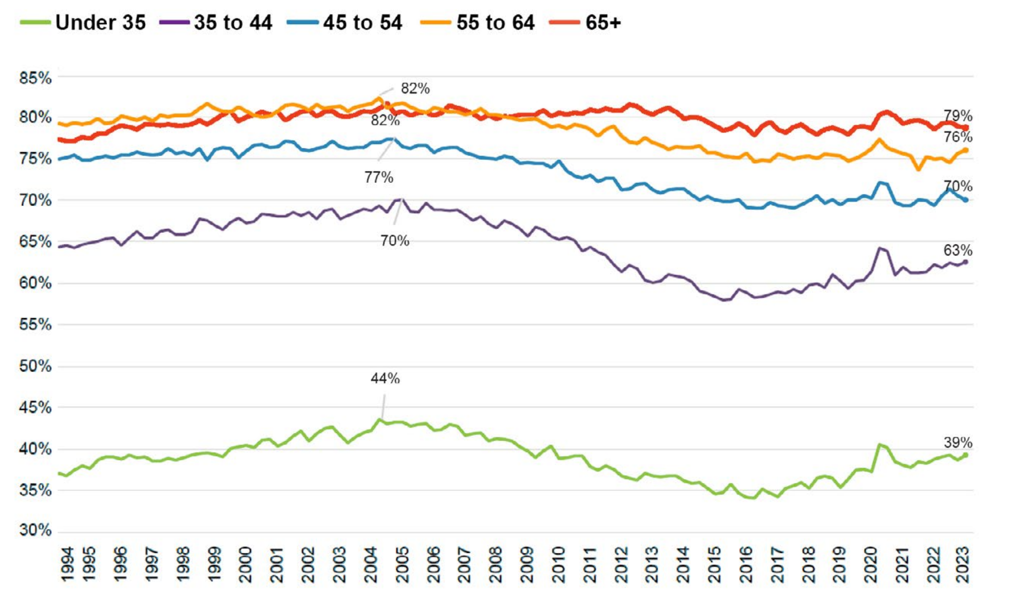
SOURCE: ©2023 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2023, updated quarterly[†]) Pub: Jul-23

Homeownership Rate by Age

Homeownership is rising for those under 45.

Note: The pandemic complicated the Census Bureau's collection process in 2020. We advise using caution in comparing data from this time period.

HOMEOWNERSHIP RATE BY AGE

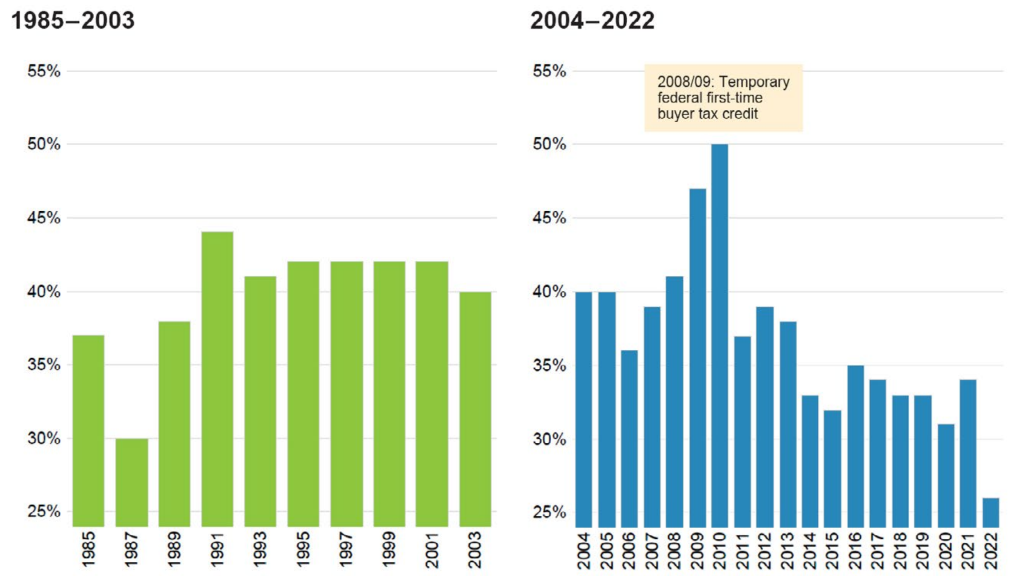


SOURCE: Census Bureau, Housing Vacancies and Homeownership Survey (Data: 1Q23, updated quarterly, Pub: Jul-23)

Share of Homes Sold to First-Time Buyers

The share of existing homes sold to first-time buyers fell in 2022 to a record low of 26%. Peak share was reached in 2010 when 50% of buyers were first-time buyers due to temporary tax credits.

SHARE OF EXISTING HOMES SOLD TO FIRST-TIME BUYERS

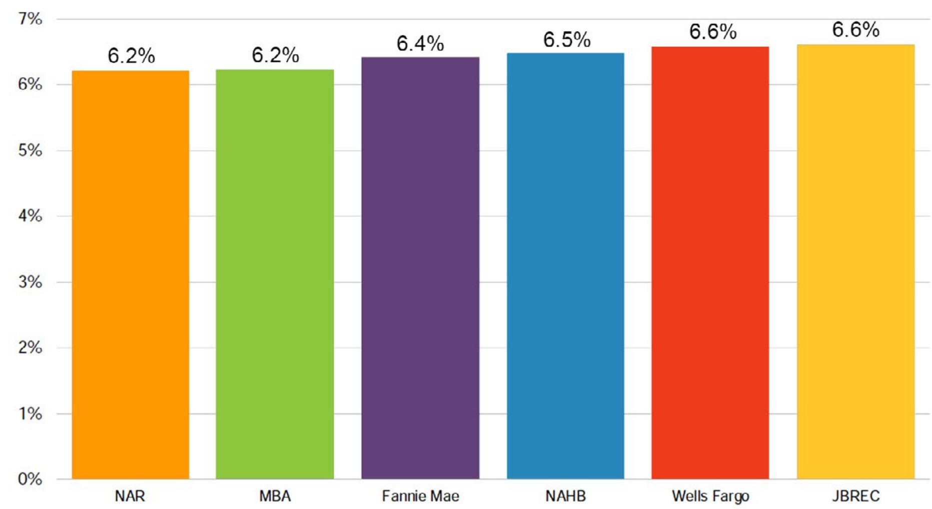


SOURCES: NAR; John Burns Research and Consulting, LLC (Data: 2022, Pub: Apr-23)

Our Key Assumptions for 2023: We are above MBA and below NAHB on Mortgage Rates

Key assumptions for 2023, provided by MBA, Wells Fargo, JBREC, NAR, Fannie Mae and NAHB.

2023 ANNUAL AVERAGE 30-YEAR FIXED MORTGAGE RATES



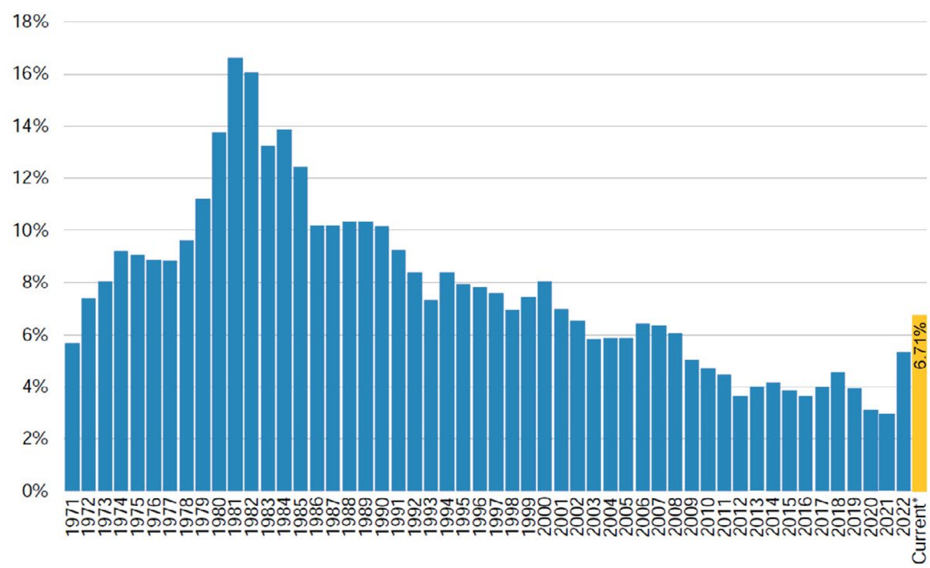
NAR (Apr-23); MBA (Jun-23); Fannie Mae (Jun-23); NAHB (Jun-23); Wells Fargo (Jun-23)

SOURCE: John Burns Research and Consulting, LLC (Pub: Jul-23)

Mortgage Rates

The bond market expects mortgage rates will average in 6.6% in 2023.

ANNUAL AVERAGE 30-YEAR FIXED MORTGAGE RATES



Current* = last value reported by Freddie Mac during Nov-22

SOURCES: Freddie Mac; John Bums Research and Consulting, LLC forecasts (Data: Jun-23, Pub: Jul-23)

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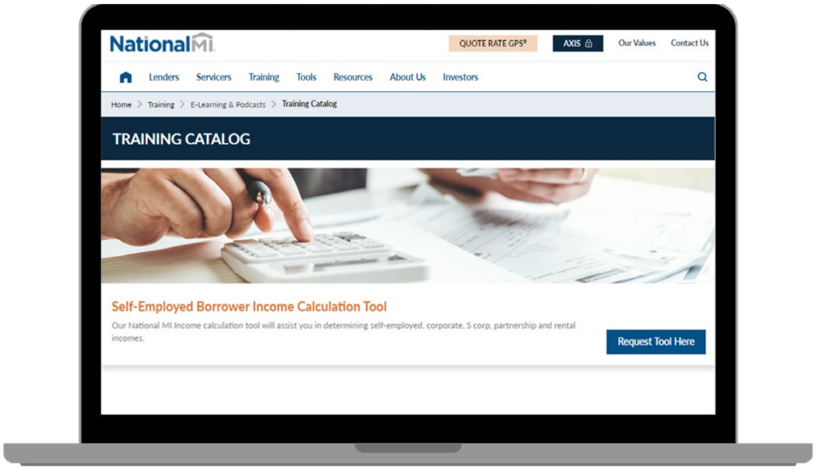

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National Mortgage Insurance Corporation | 2100 Powell Street | 12TH Floor | Emeryville, CA 94608 | nationalmi.com