

ECONOMIC MARKET SNAPSHOT

SUMMER 2018 | ISSUE NO. 5

National MI is pleased to bring you our Summer Edition of the Economic Market Snapshot.

In this issue we continue to highlight key data on the housing industry and the economic climate that you can use.

Current economic conditions are the best in 10+ years, with solid job growth and an improving economy attracting people back into the labor force. There is renewed demand from first-time buyers, but housing supply remains a concern and lack of inventory is steadily driving prices higher.

John Burns of John Burns Real Estate Consulting, LLC shares his perspective in this Summer Issue:

- Current mortgage rates are 4.55%, and are expected rise to 4.6% in 2018, 4.8% in 2019, and 5.0% by 2020.
- Existing home sales are currently running at a 5.4 million annual rate, and predicted to decline through 2021 due to low resale supply.
- Resale housing inventory remains low at 4.1 months nationally, with sales down 3% year over year. Volumes are expected to continue to drop in 2018 and 2019.
- Home prices are expected to continue to rise, up 6% in 2018 and 5% in 2019.
- Rising rates, in addition to lack of inventory are deterring some current homeowners from moving. Many current homeowners have mortgages with ultralow 3.5%–4.0% rates.
- Job growth is solid, with the 2018 YTD monthly average at 215K (up from 184K in the first half of 2017). Job openings fell from record high, but only because hiring is strong. The biggest issue for small business owners is still quality of labor.

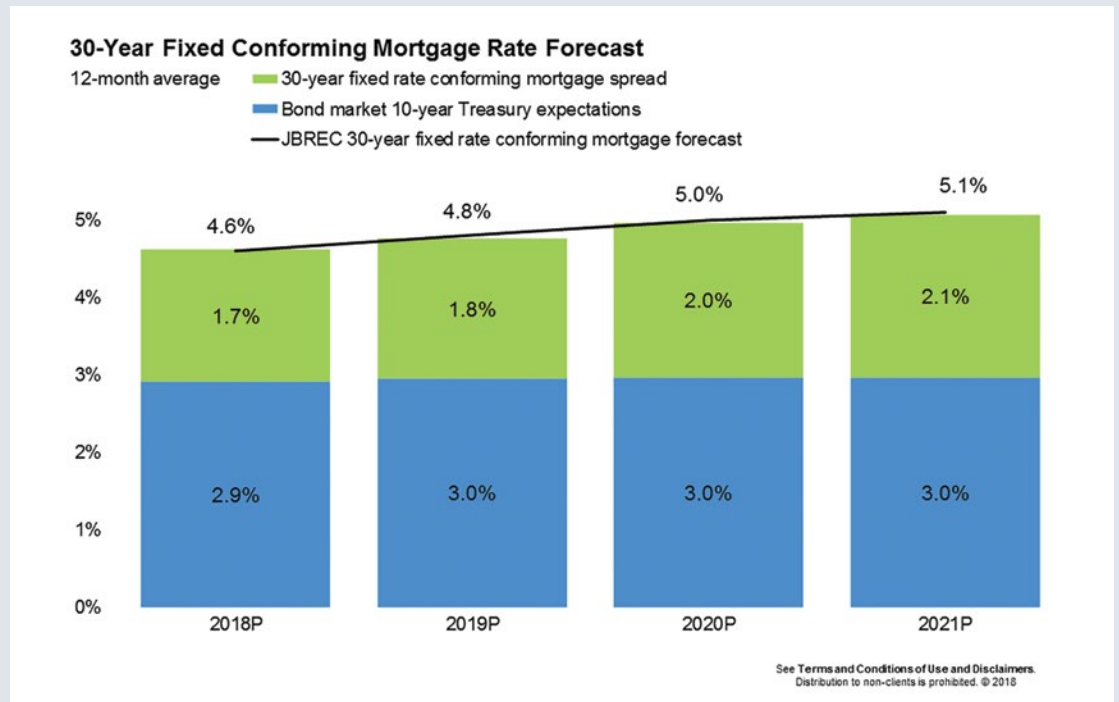
The strong economy in 2018 continues to support steady housing demand and the overall view is optimistic.

Please refer to our [Economic Market Snapshot webpage](#) for a full graphical representation of this data and previous editions of this report:

www.nationalmi.com/economic-market-snapshot

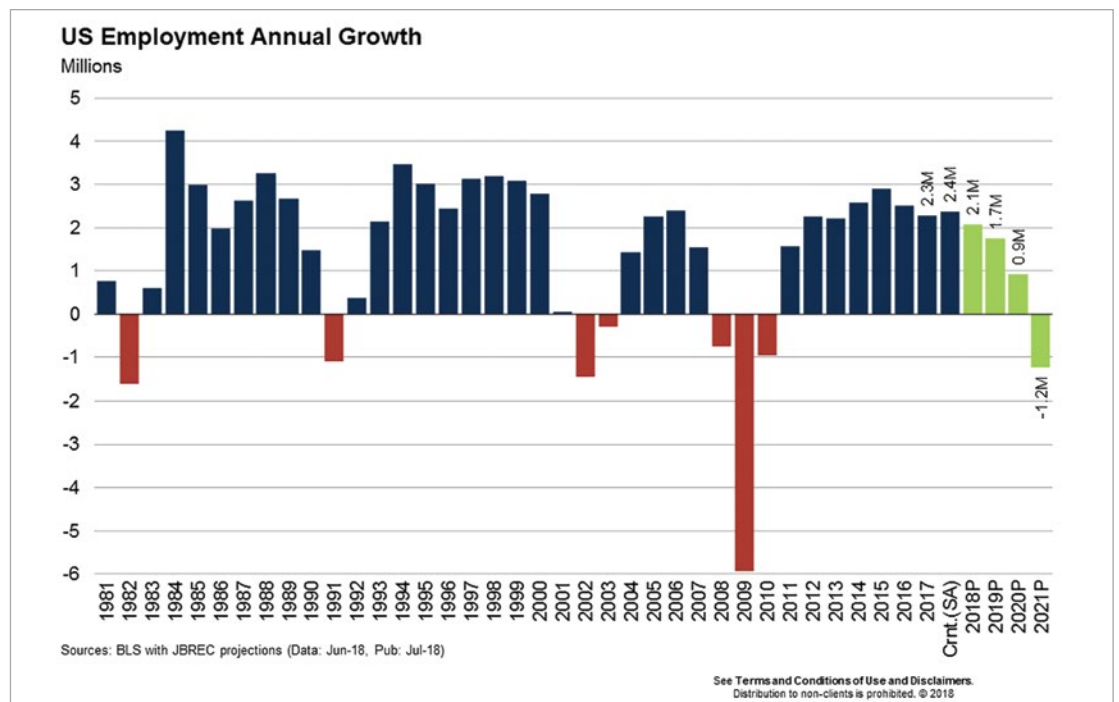
We Base Our Mortgage Rate Forecast on Market Pricing for 10-Year Treasuries and Our View of the Mortgage Premium

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.



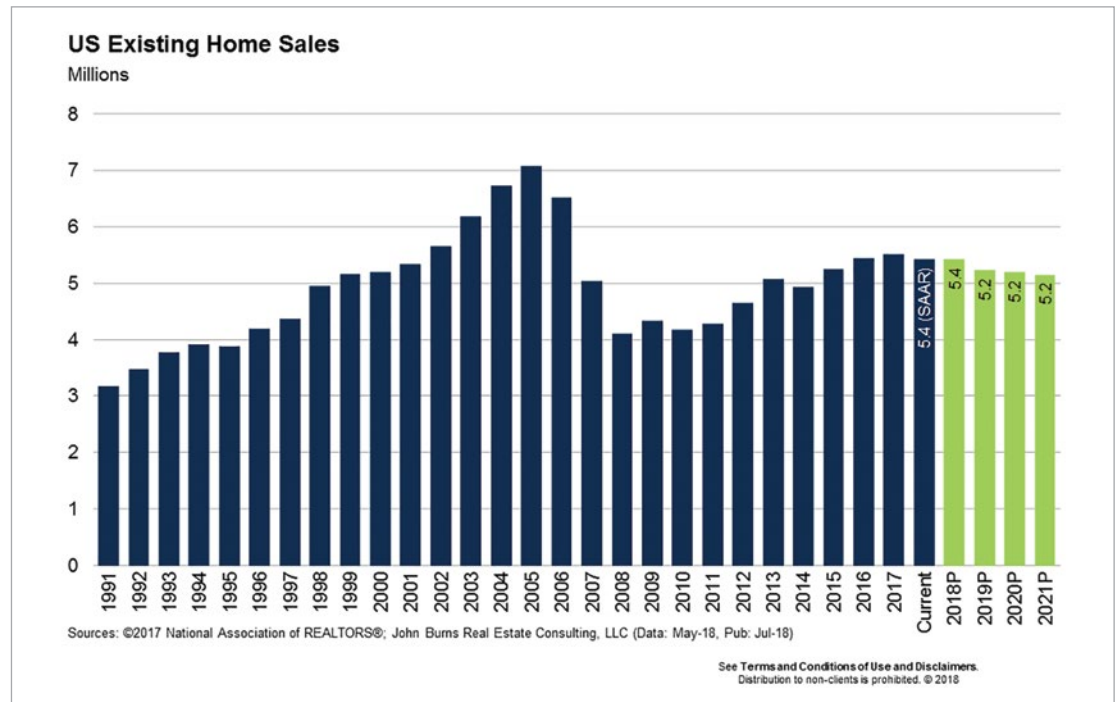
US Employment Growth

Our forecasts show that annual job growth of 2.1M in 2018 will decline to negative growth in 2021.



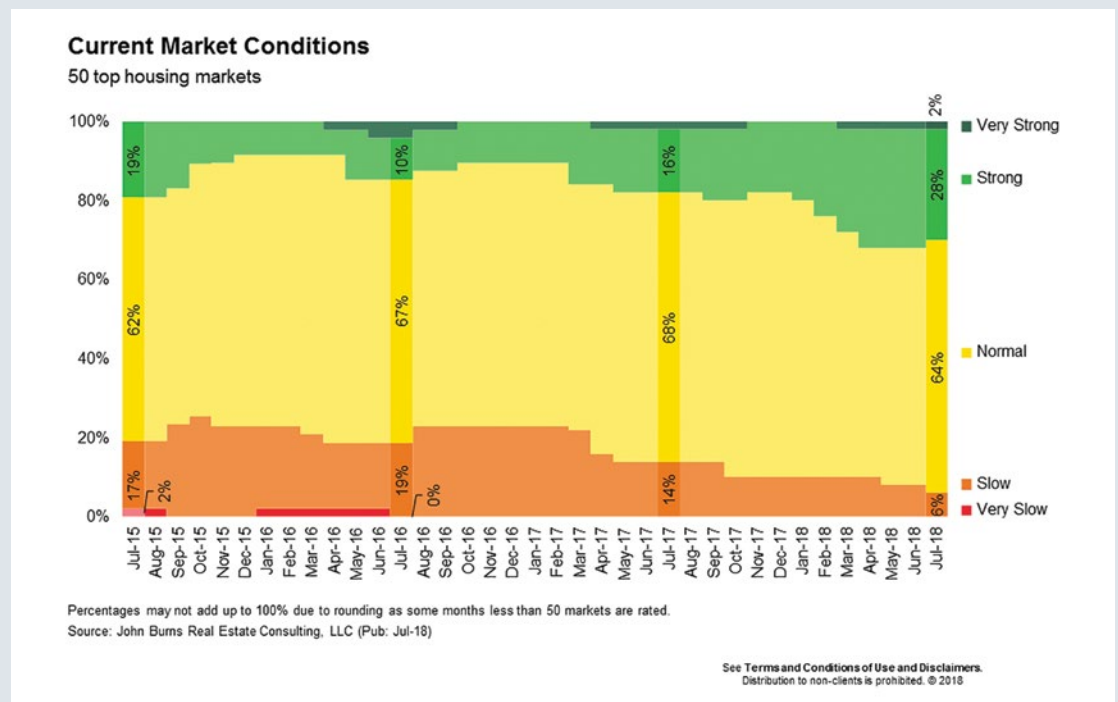
US Existing Home Sales

Existing home sales are currently running at a 5.4 million seasonally adjusted annual rate (SAAR). We forecast declining existing home sales volumes through 2021.



Current Market Conditions: 94% are Normal or Better

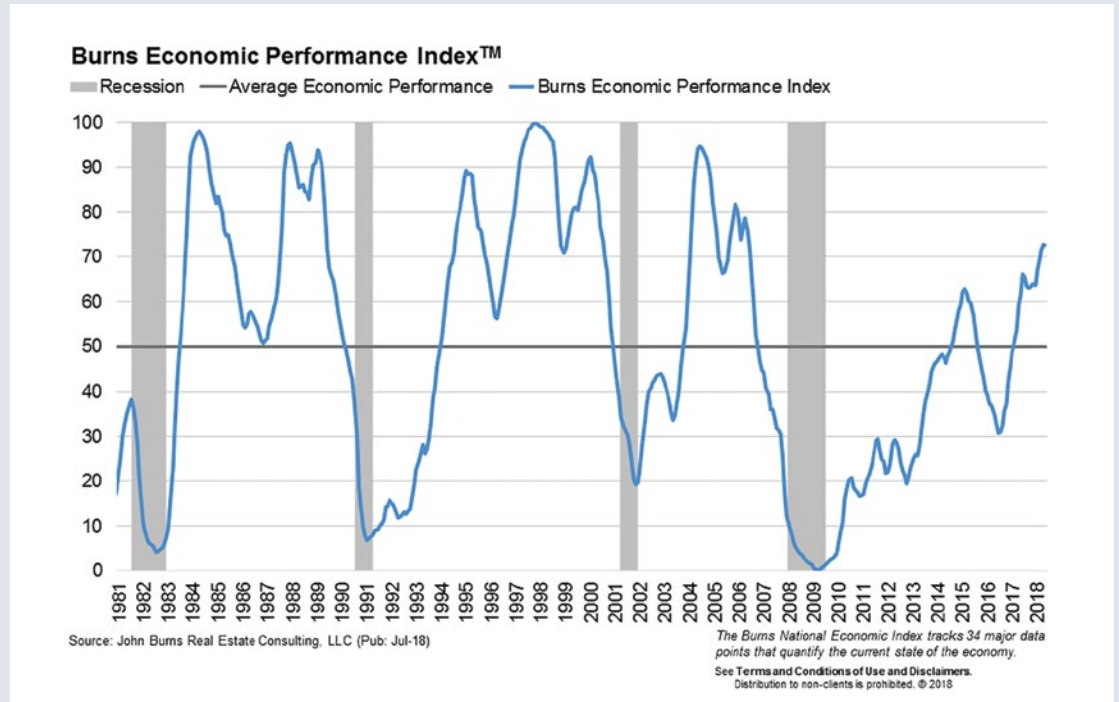
In our rating process, Normal sales reflect builders selling 2-3/month per community with flat to slightly rising net prices.



Burns Economic Performance Index™

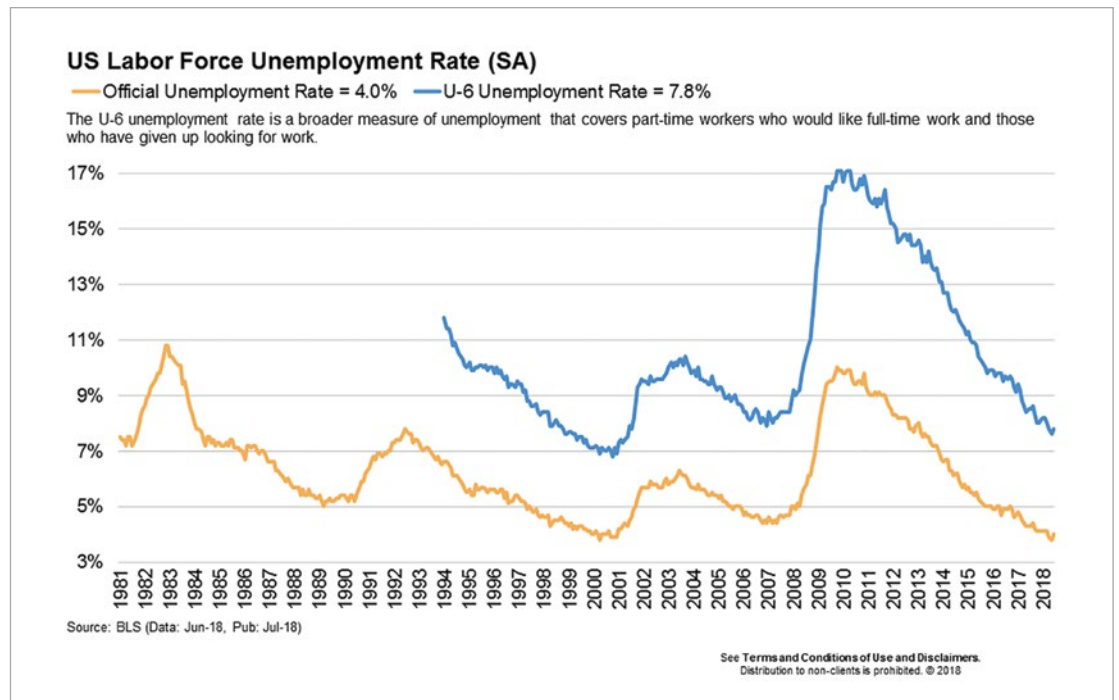
The Burns Economic Performance Index signals above average economic conditions, at the highest index level since 2006.

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



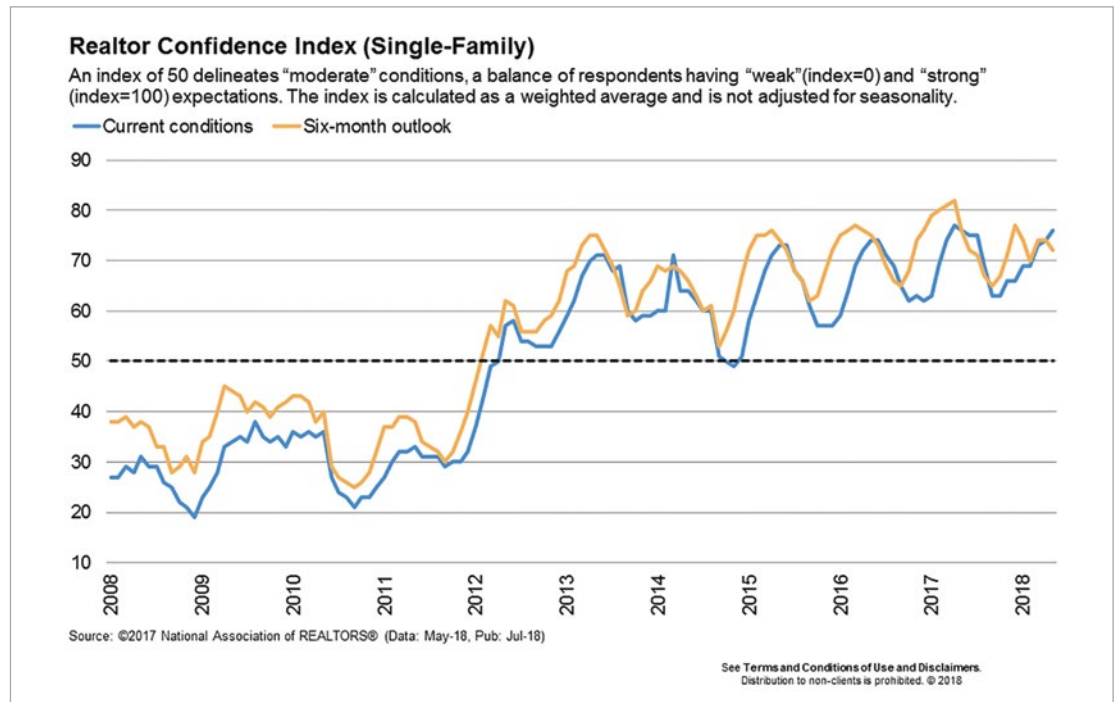
Unemployment Rate

The Unemployment Rate remains near the lowest level since 2000 at 4.0%. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, has been trending down and remains at near the lowest level since 2001.



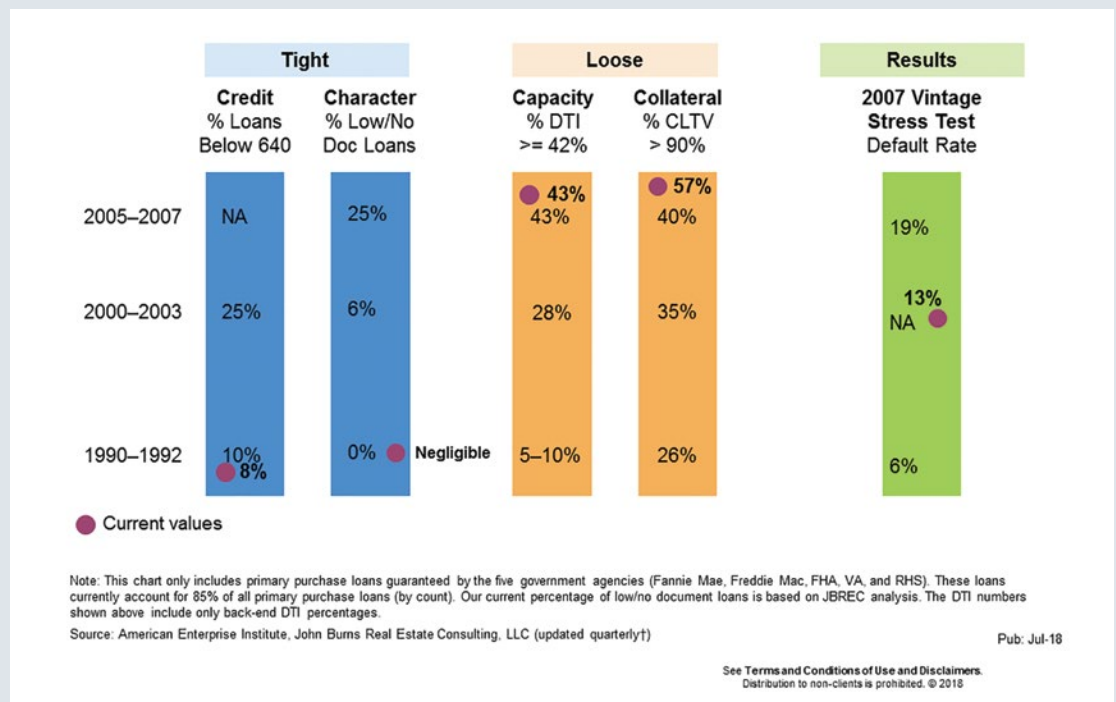
Realtor Confidence Index

The Realtor Confidence Index shows that most real estate professionals feel optimistic about current conditions and the six-month outlook for the housing market.



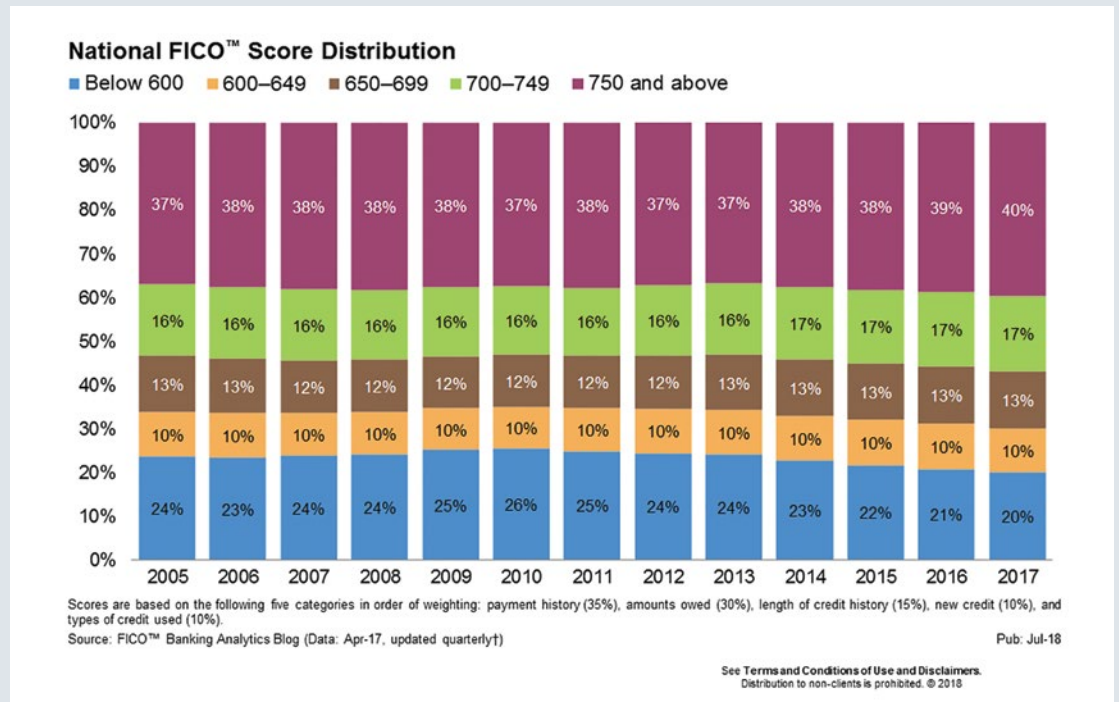
Lending Standards

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



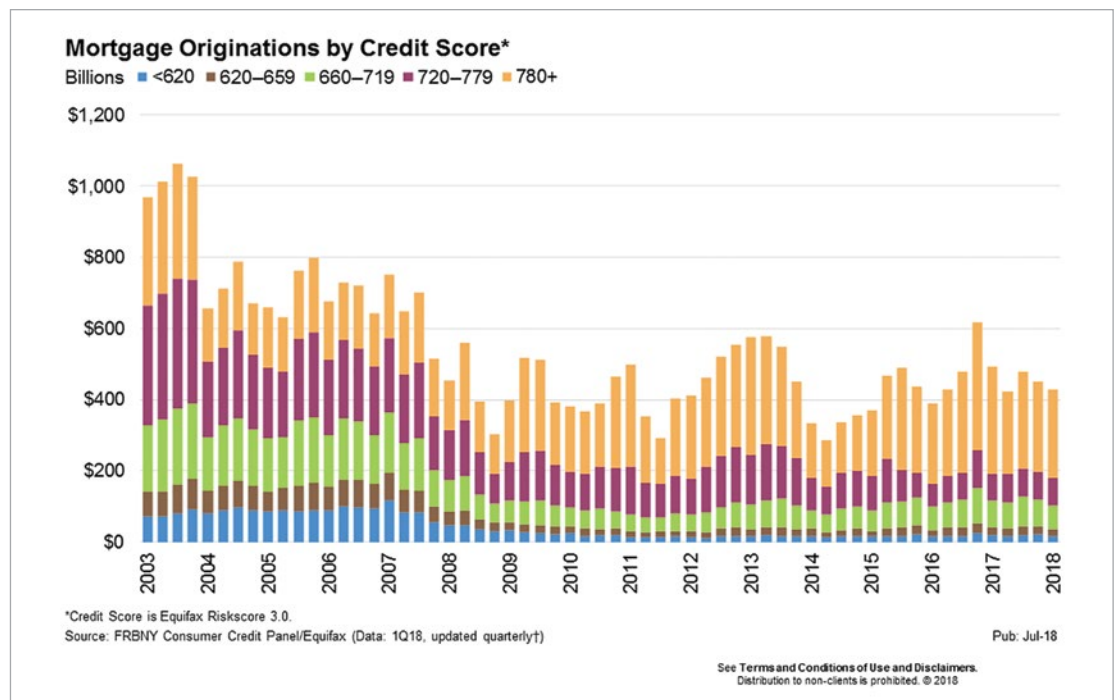
National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2017, 57% had FICO scores above 700, and 80% had FICO scores above 600.



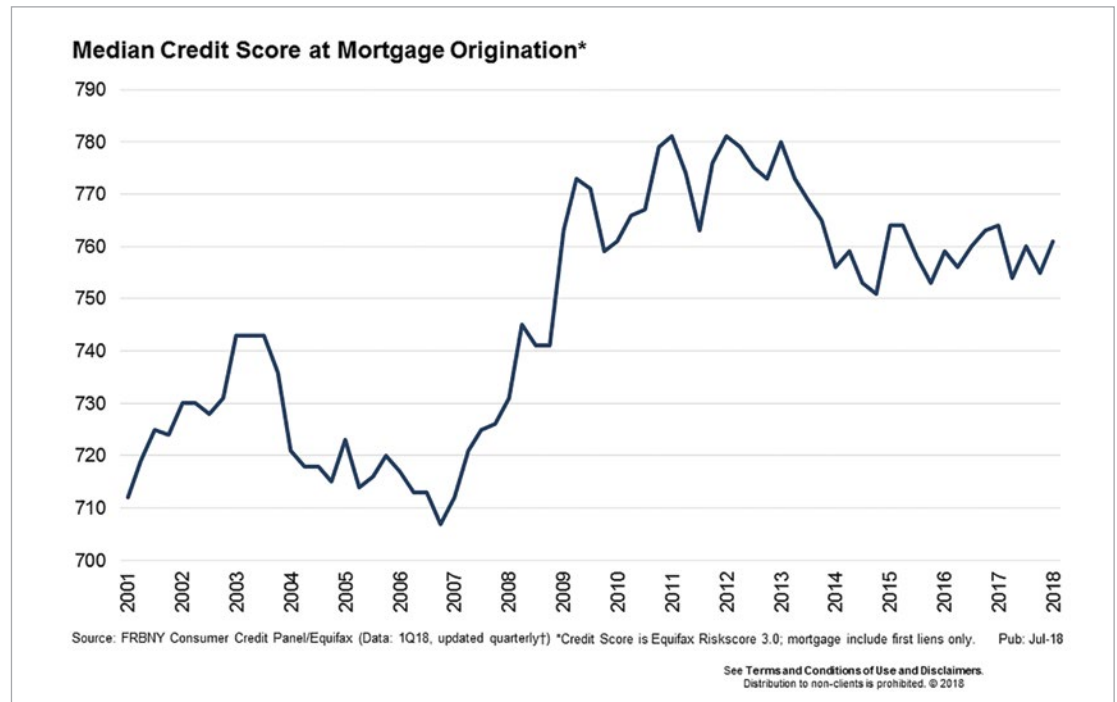
Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 1Q18, only 3% of mortgages went to borrowers with a credit score less than 620.



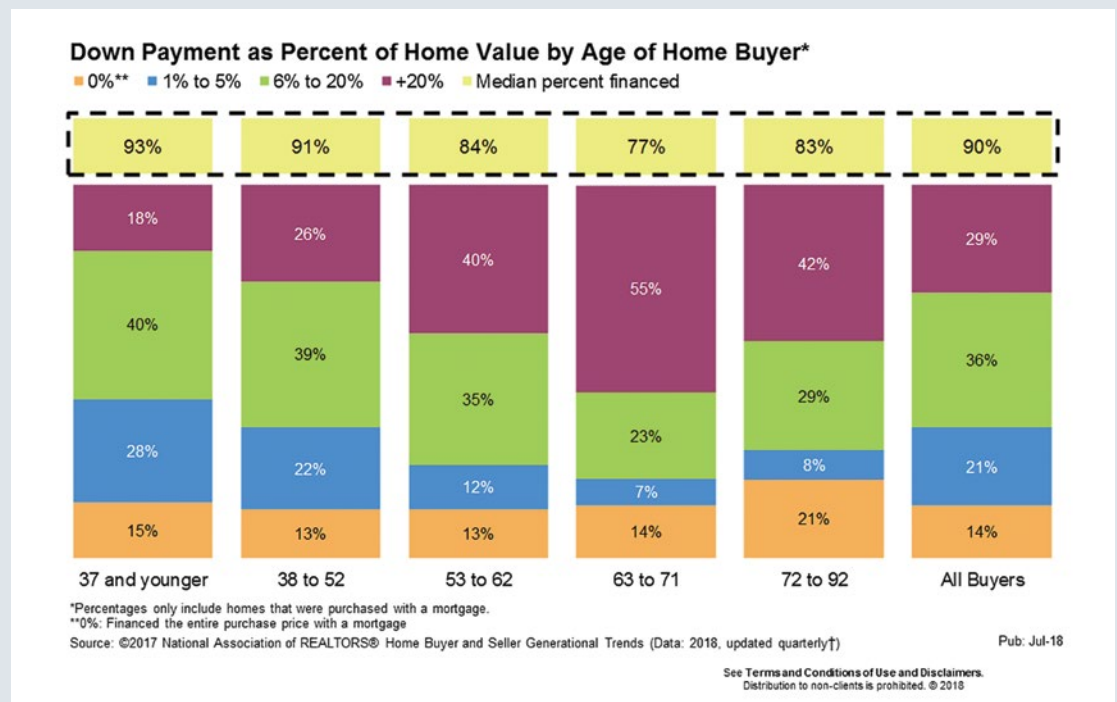
Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 1Q18, median score at origination was 761.



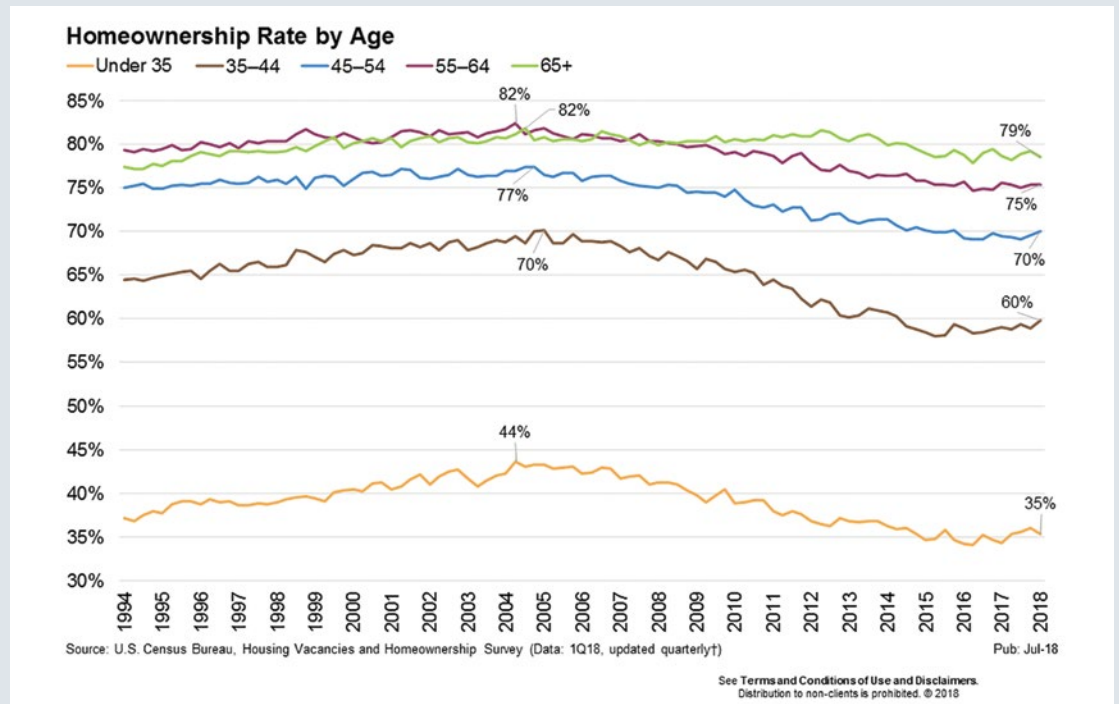
Financing the Home Purchase by Age Group

35% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 43% among those 37 and younger. Only 21% of 63- to 71-year olds have a LTV of +95%.



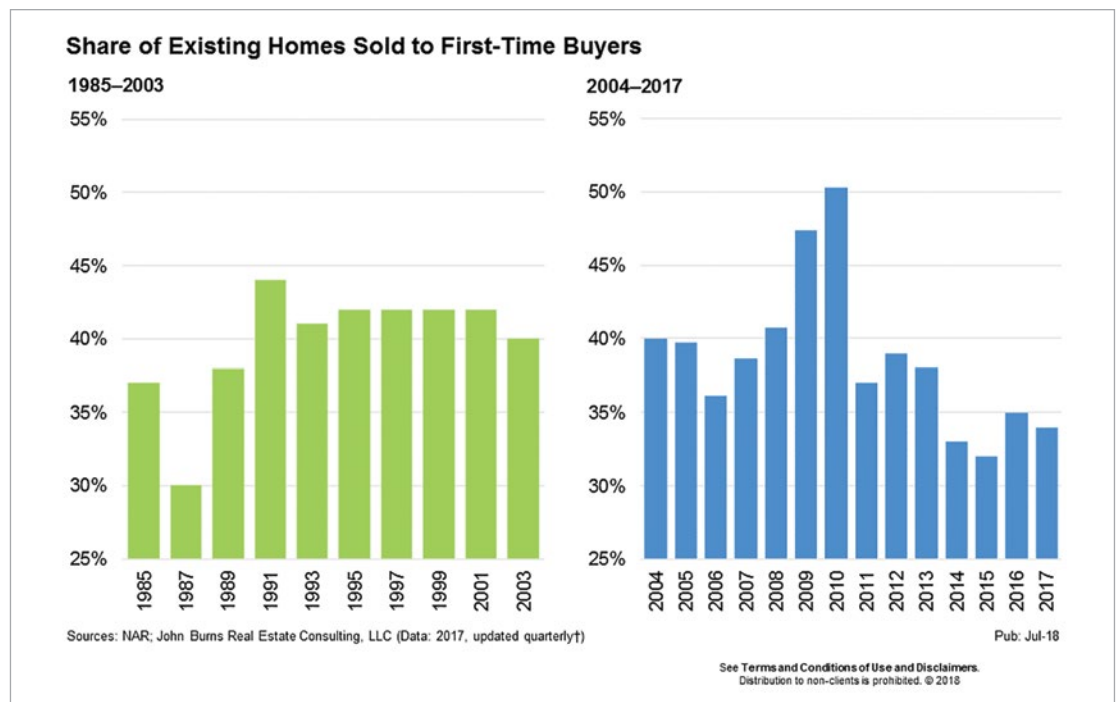
Homeownership Rate by Age

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



Share of Existing 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.



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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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