NationalMI

ECONOMIC MARKET SNAPSHOT

WINTER 2021 | ISSUE NO. 13

NATIONAL MI IS PLEASED TO BRING YOU OUR

Winter 2021 Edition of the **Economic Market Snapshot**

As reported by John Burns Real Estate Consulting, US existing home sales are expected to grow YOY through 2023, reaching their highest levels since 2005. The strong existing home sales growth is due in part to the record low interest rates that should remain in the 3 percent range through that same period.

- The share of existing homes sold to first-time buyers is near its lowest level since 1987.
- According to the John Burns Current Market Conditions report, new home sales and price appreciation are now ranked “strong” or “very strong” in 82 percent of the top 50 housing markets, up from zero percent in April of 2020. An additional 18 percent of the markets are ranked “normal,” which reflects builders selling 2-3 homes per month per community with rising net prices. There are no markets ranked lower than “normal.”
- Housing numbers remain strong even as the official unemployment rate remains flat at 6.7 percent for December 2020.

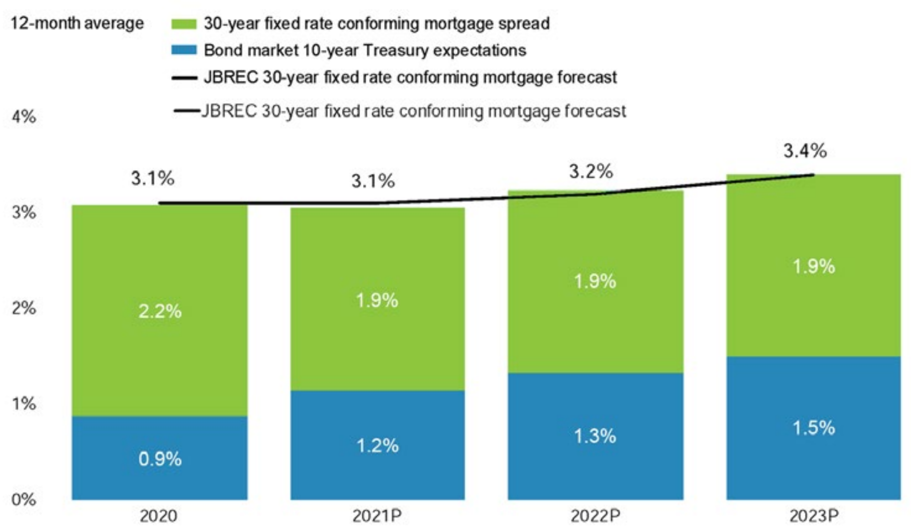
After a record drop in employment in 2020, John Burns consulting expects employment to grow 2.5 percent in 2021 and continue growing 2 to 3 percent annually through 2023. Median Equifax® credit scores remain elevated at a record high of 784 as of 2Q20 due to tightening credit standards since 2006 when the record credit score low was 707. Existing home sales continue to be a bright spot during the challenges of the pandemic, and with record low mortgage rates, we should see a strong housing market through 2023.

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

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

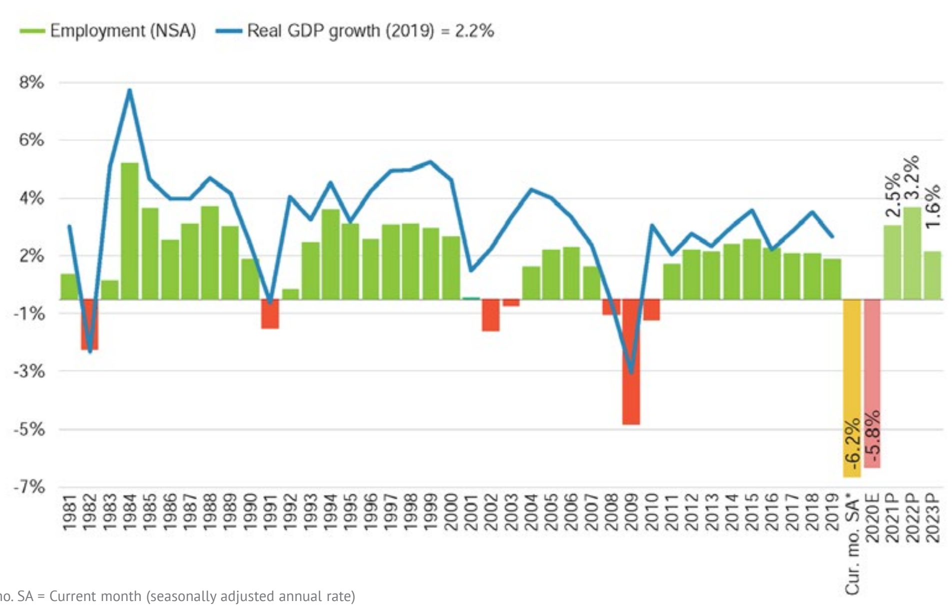


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Dec-20, Pub: Jan-21)

US Employment Growth Rates

After a record drop in 2020, we expect employment to grow 2.5% in 2021 and continue growing 2% to 3% annually through 2023.

US EMPLOYMENT ANNUAL GROWTH RATES



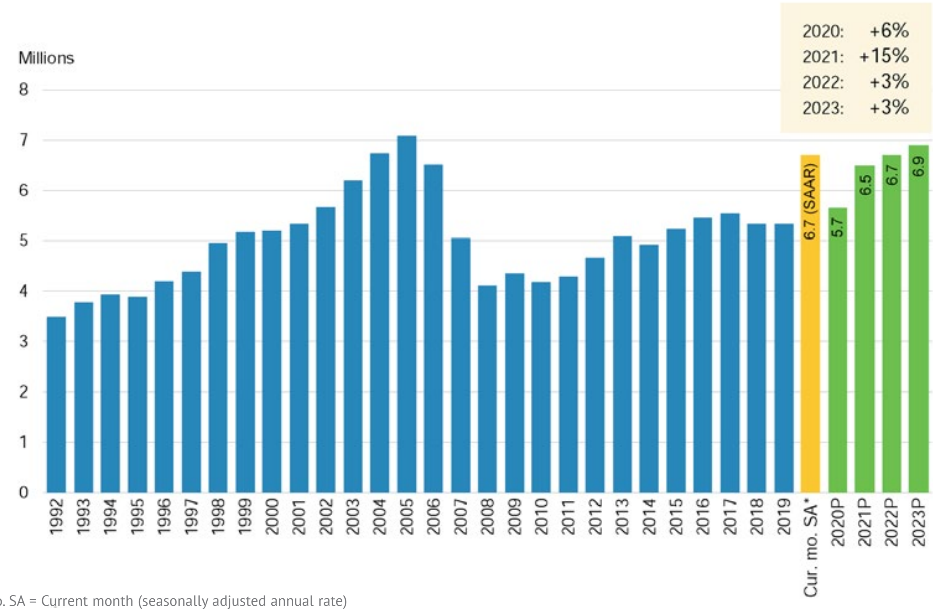
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Dec-20, Pub: Jan-21)

US Existing Home Sale Closings

We forecast existing home sales to grow YOY through 2023, reaching the highest since 2005.

US EXISTING HOME SALE CLOSINGS



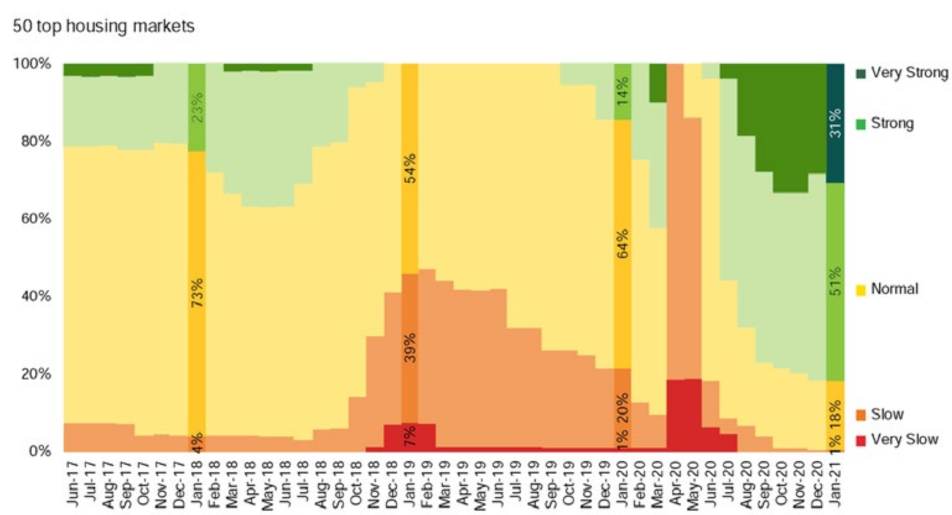
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: ©2020 National Association of REALTORS®; John Burns Real Estate Consulting, LLC (Data: Nov-20, Pub: Jan-21)

Current Market Conditions: 31% of Markets are Very Strong

New home sales and price appreciation are now Strong or Very Strong in 82% of markets, up from 0% in April. In our rating process, Normal reflects builders selling 2-3/month 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.

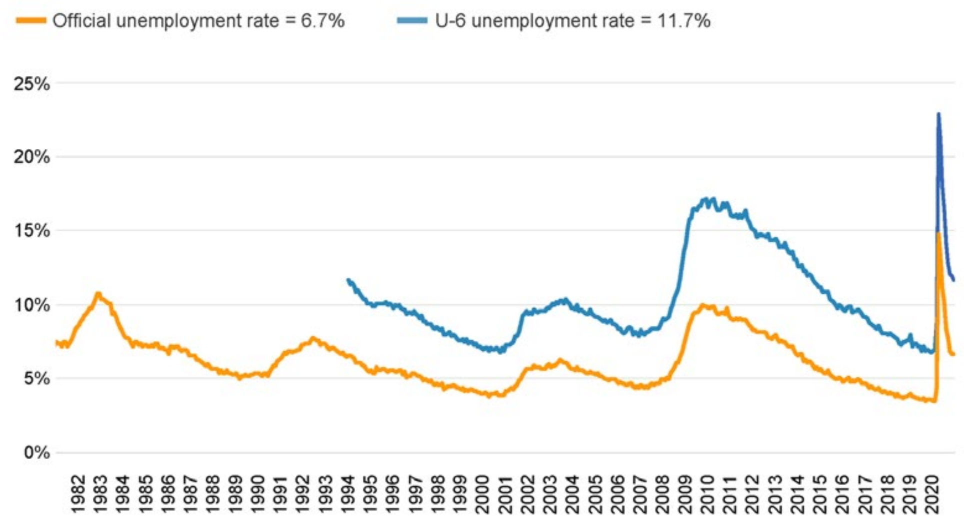
SOURCE: John Burns Real Estate Consulting, LLC (Pub: Jan-21)

Unemployment Rate

The unemployment rate remained flat at 6.7% in December. The U-6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 11.7%.

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.

US LABOR FORCE UNEMPLOYMENT RATE (SA)



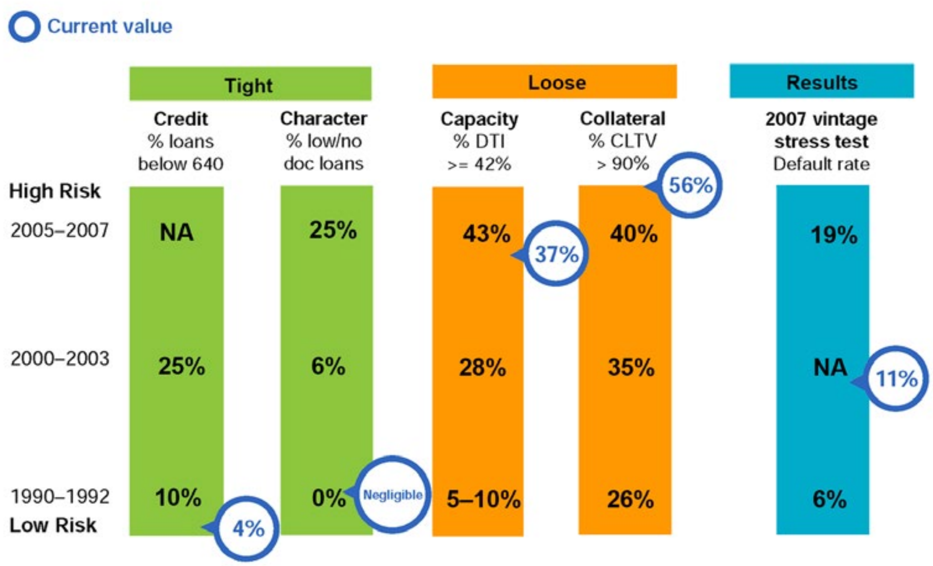
SOURCE: BLS (Data: Dec-20, Pub: Jan-21)

Lending Standards on Government-Backed Loans: 70% 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



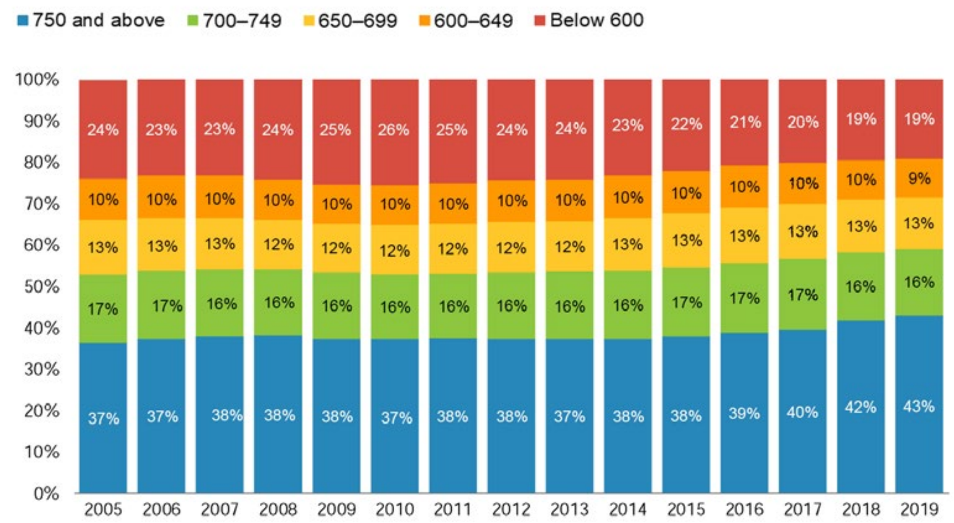
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Jul-20, updated quarterly[1]) Pub: Jan-21

National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2019, 59% 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

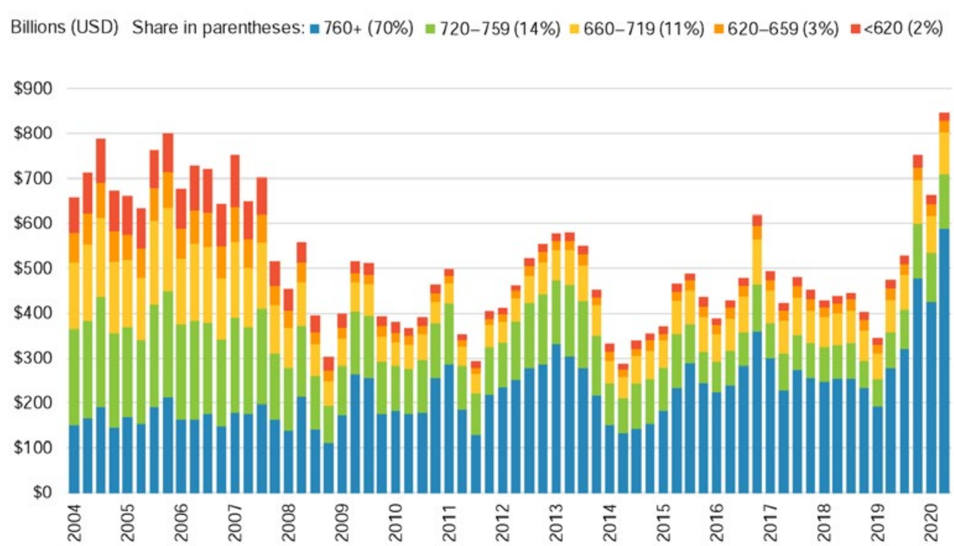


SOURCE: FICO™ Banking Analytics Blog (Data: Apr-19, updated quarterly†) Pub: Jan-21

Mortgage Originations by Equifax Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 2Q20, only 2% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



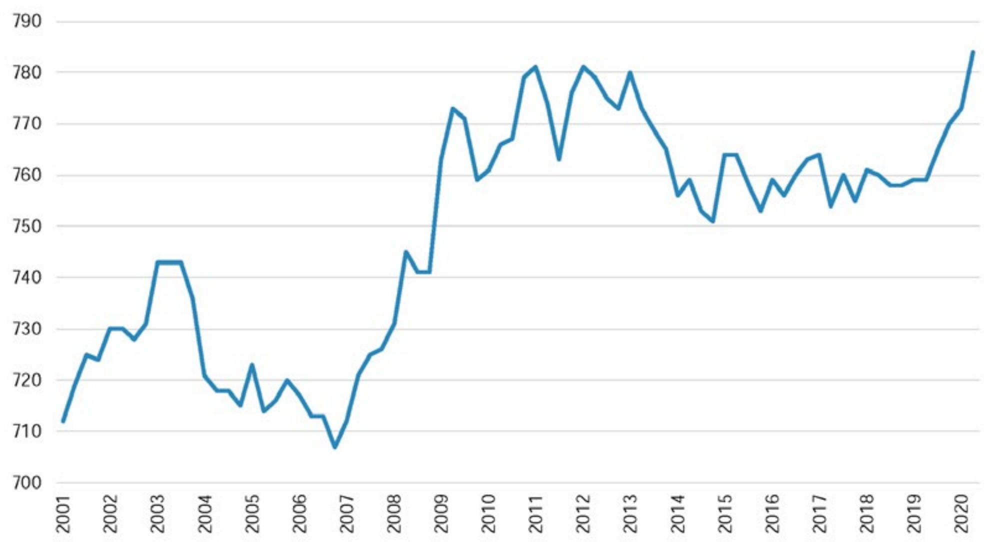
* Credit Score is Equifax Riskscore 3.0

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 2Q20, updated quarterly†) Pub: Jan-21

Median Credit Score at Mortgage Origination

The median Equifax credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 2Q20 median score at origination was a record high 784.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



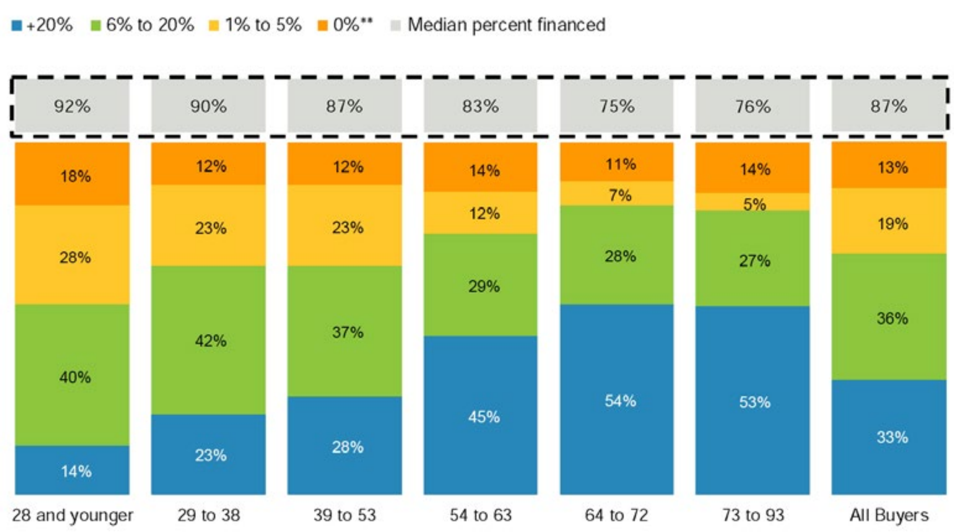
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 2Q20, updated quarterly[1]) Pub: Jan-21

Financing the Home Purchase by Age Group

32% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 46% among those 28 and younger. Only 18% of 64- to 72-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: ©2019 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2020, updated quarterly[1]) Pub: Jan-21

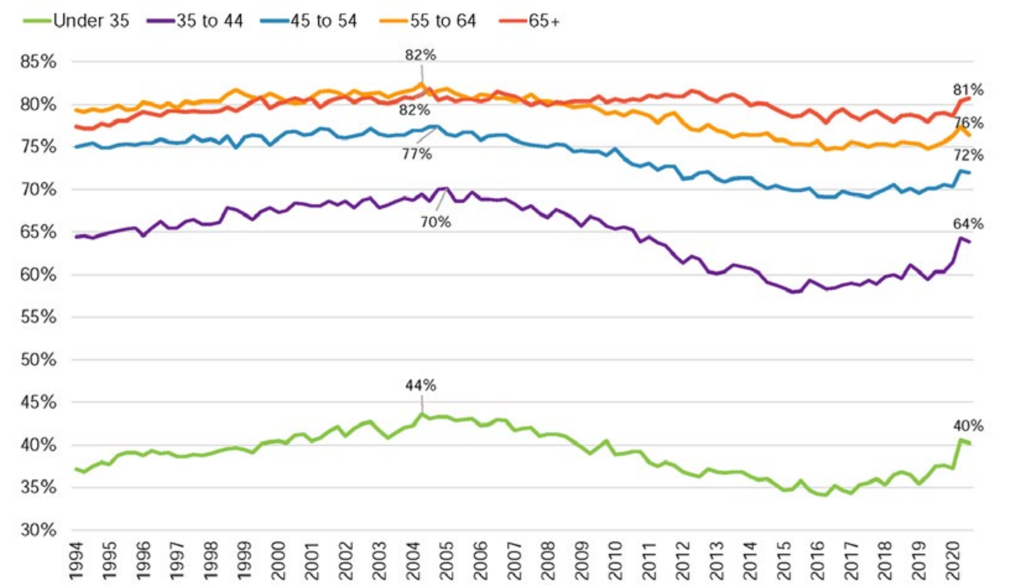
Homeownership Rate by Age

Homeownership rates decreased across all age groups in 3Q20, except 65+.

CAUTION

The pandemic has complicated the Census's most recent collection process. We do not believe the most recent print is accurate.

HOMEOWNERSHIP RATE BY AGE

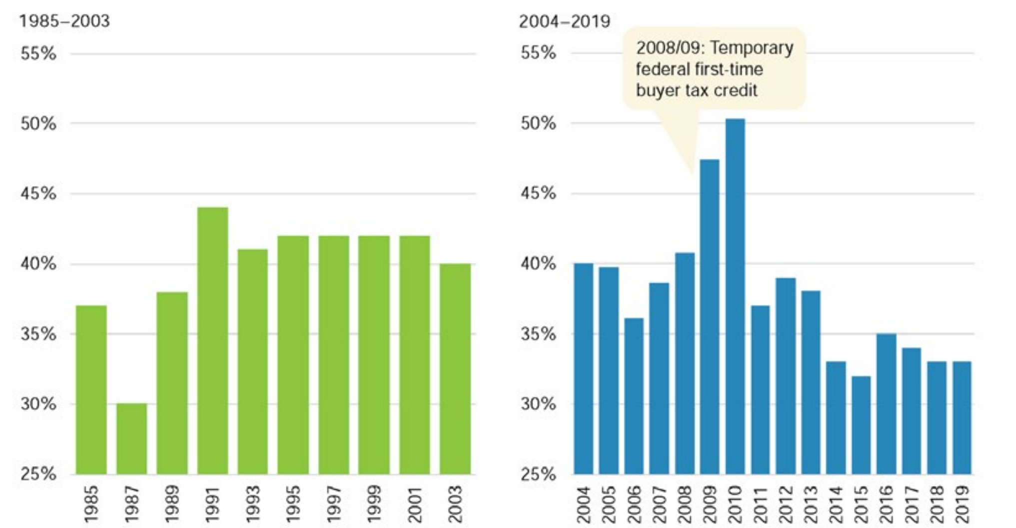


SOURCE: U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 3Q20, updated quarterly[1]) Pub: Jan-21

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.

SHARE OF EXISTING HOMES SOLD TO FIRST-TIME BUYERS



SOURCES: NAR; John Burns Real Estate Consulting, LLC (Data: 2019, updated quarterly[1]) Pub: Jan-21

JOHN BURNS
REAL ESTATE CONSULTING

Trusted Analysis FOR Executive Decisions

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

RESEARCH

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.

REALESTATECONSULTING.COM

See Terms & Conditions of Use and Disclaimers:	realestateconsulting.com/terms-and-conditions-of-use
Projections:	There will usually be differences between projected and actual results, and the differences may be material. We have no liability with respect to the achievement of any projections or forecasts.
Errors and Omissions:	While we continuously strive to adequately collect all of the data and address all of the issues, it is your responsibility to identify errors and omissions in this report.
Liability:	We assume no liability for anything in this report or for decisions made based on information in this report.

@ info@realestateconsulting.com

We're here for you.

When you do business with us, you have access to more than just mortgage insurance.

Industry leading sales experts and customer experience, including our award-winning Solution Center team.

An extensive training library and educational webinars featuring industry professionals such as Millennial expert and Cultural Outreach founder Kristin Messerli, bestselling author of Oh, shift! Jennifer Powers, founder and director of 90-Day Sales Manager™ Bruce Lund, Ph.D., and more.

NextGen and Multicultural resources to help you better understand the home buyer journey. Visit discoverm3.com to find information on upcoming webinars, and helpful tips to supplement your journey of expanding your outreach to young and diverse markets.

NationalMI®

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.

rate-gps.nationalmi.com | YouTube | @NationalMI

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