ECONOMIC MARKET SNAPSHOT

SPRING 2021 | ISSUE NO. 14

NATIONAL MI IS PLEASED TO BRING YOU OUR

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

As reported by John Burns Real Estate Consulting, new home sales and price appreciation are now strong or very strong in 91 percent of the top 50 housing markets! This is bolstered by 30 year fixed interest rates that are expected to remain in the 3.3 percent range for the remainder of 2021, then slowly rise over the next three years. With low interest rates and high demand, the share of existing homes sold to first-time buyers is near the lowest level since 1987.

- The unemployment rate fell to 6 percent in March. The U-6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 10.7 percent.
- After a record drop in 2020, employment is expected to grow 3.3 percent YOY in 2021 and continue to grow through 2024.
- US existing home sale closings are expected to grow YOY through 2024, reaching 7 million (the highest since 2005).
- Mortgage originations to borrowers with a credit score of 760 and above comprise the largest percentage of loans by a large margin at 72 percent, with a median credit score at origination of 786.

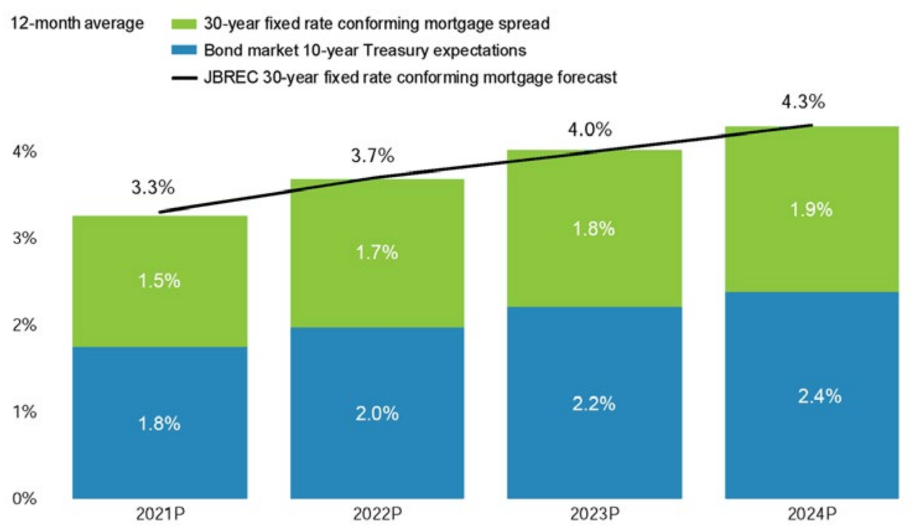
Credit quality remains high, and price appreciation continues to be strong with an incredible 72 percent of the top 50 housing markets ranked as "Very Strong." This is a substantial change from one year ago, when 81 percent of markets were ranked "Slow." Continuing low interest rates and the declining unemployment rate support strong projections for existing home sales to continue.

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

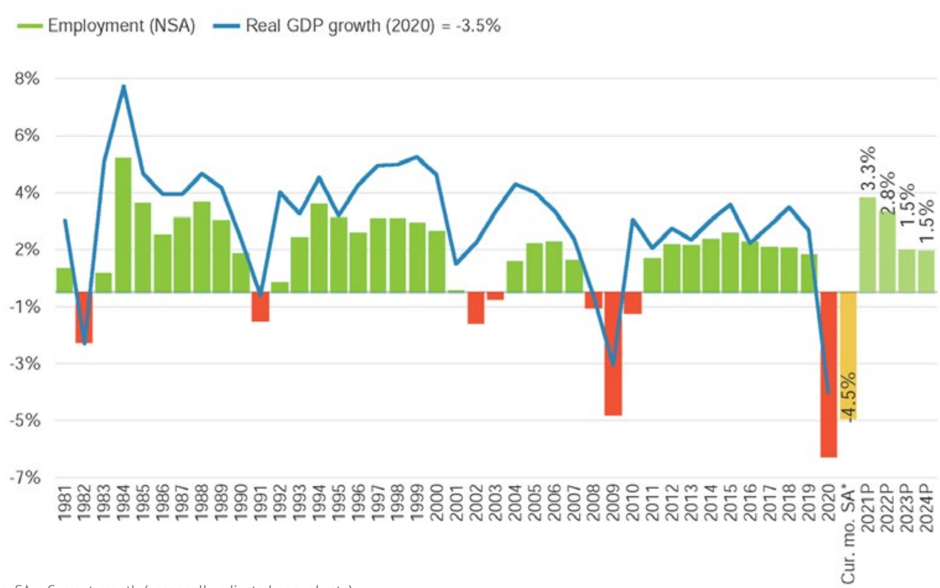


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Mar-21, Pub: Apr-21)

US Employment Growth Rates

After a record drop in 2020, we expect employment to grow 3.3% YOY in 2021 and continue growing through 2024.

US EMPLOYMENT ANNUAL GROWTH RATES



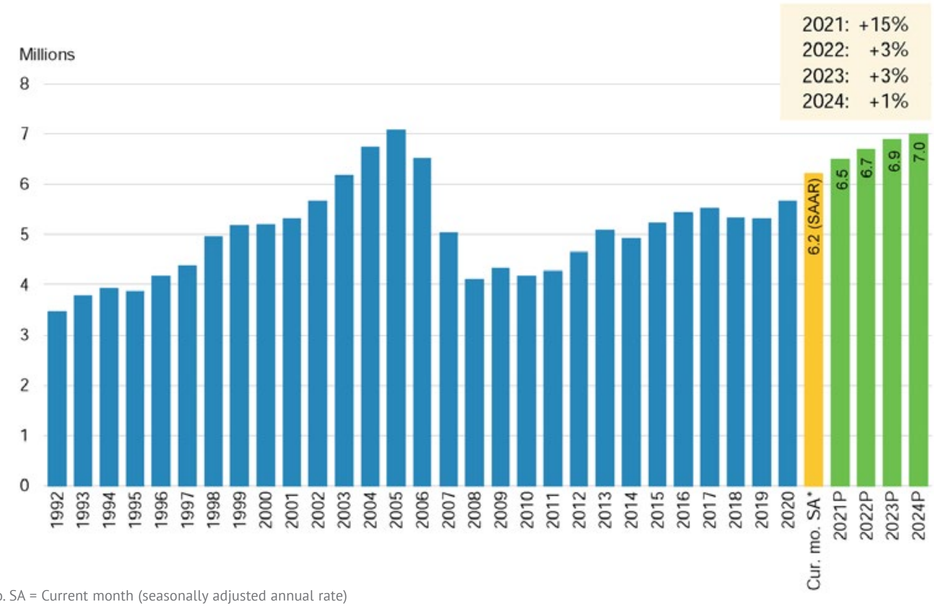
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Mar-21, Pub: Apr-21)

US Existing Home Sale Closings

We forecast existing home sales to grow YOY through 2024, reaching 7 million (highest since 2005).

US EXISTING HOME SALE CLOSINGS



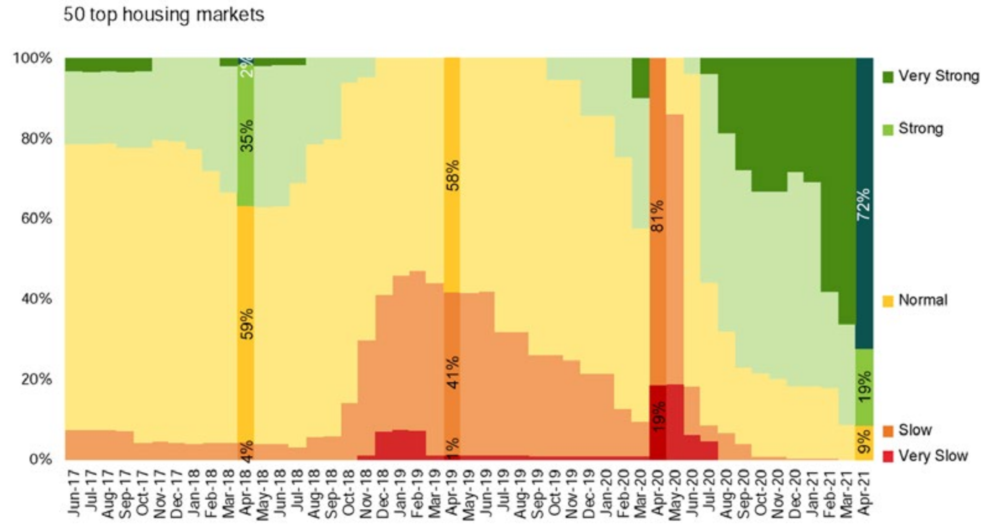
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

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

Current Market Conditions: 72% of Markets are Very Strong

New home sales and price appreciation is now Strong or Very Strong in 91% 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.

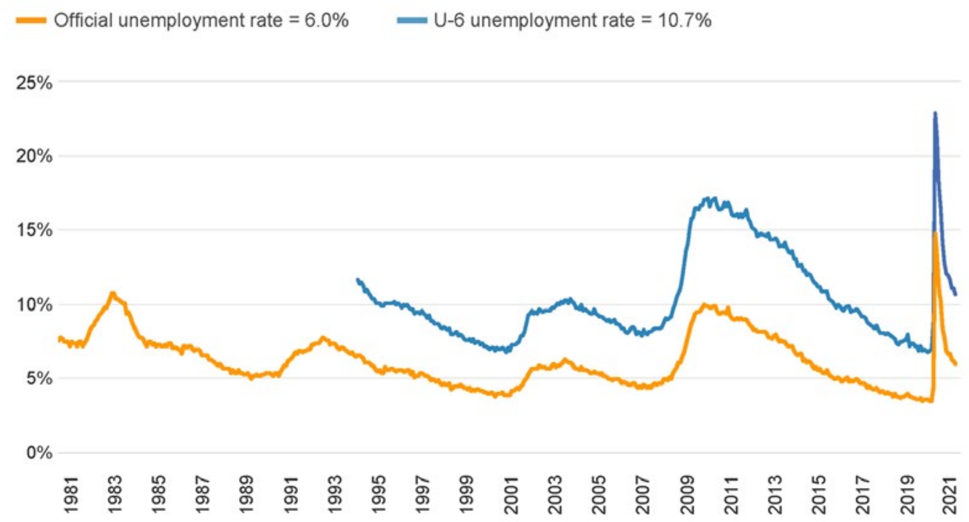
SOURCE: John Burns Real Estate Consulting, LLC (Pub: Apr-21)

Unemployment Rate

The unemployment rate fell to 6% in March. The U-6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 10.7%.

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)



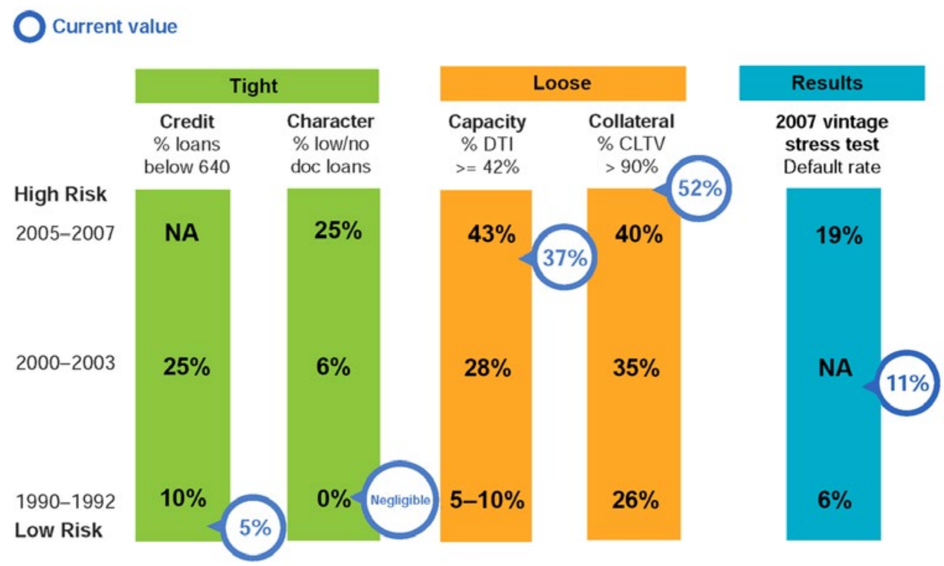
SOURCE: BLS (Data: Mar-21, Pub: Apr-21)

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



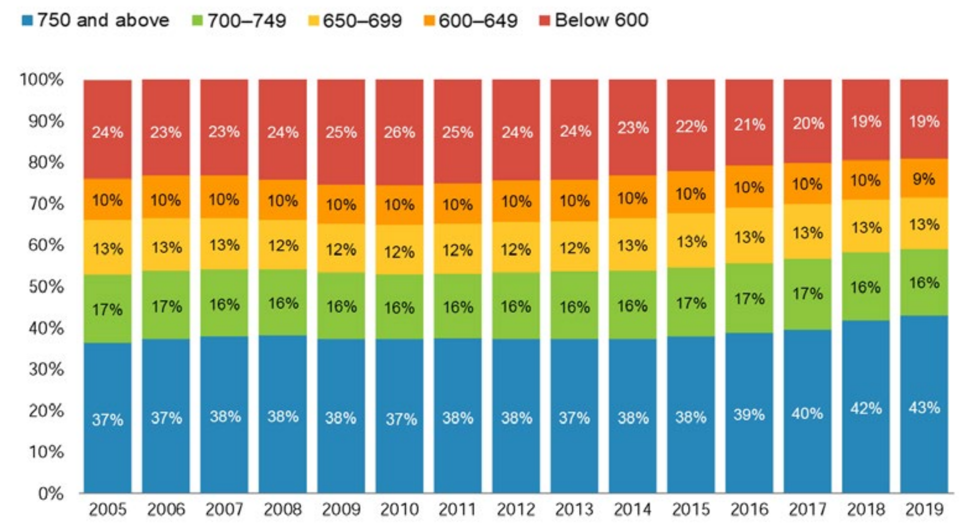
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Oct-20, updated quarterly[1]) Pub: Apr-21

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

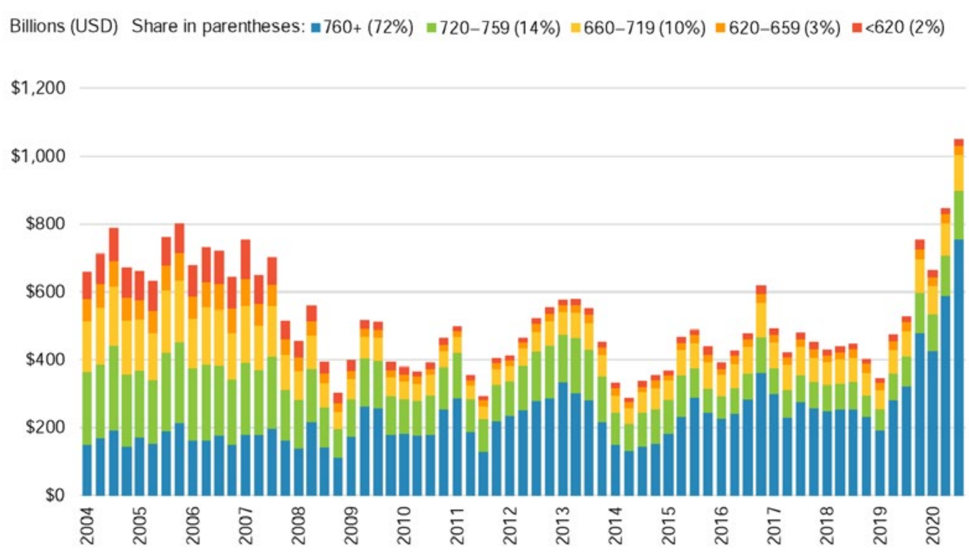


SOURCE: FICO™ Banking Analytics Blog (Data: Apr-19, updated quarterly[†]) Pub: Apr-21

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 3Q20, only 2% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



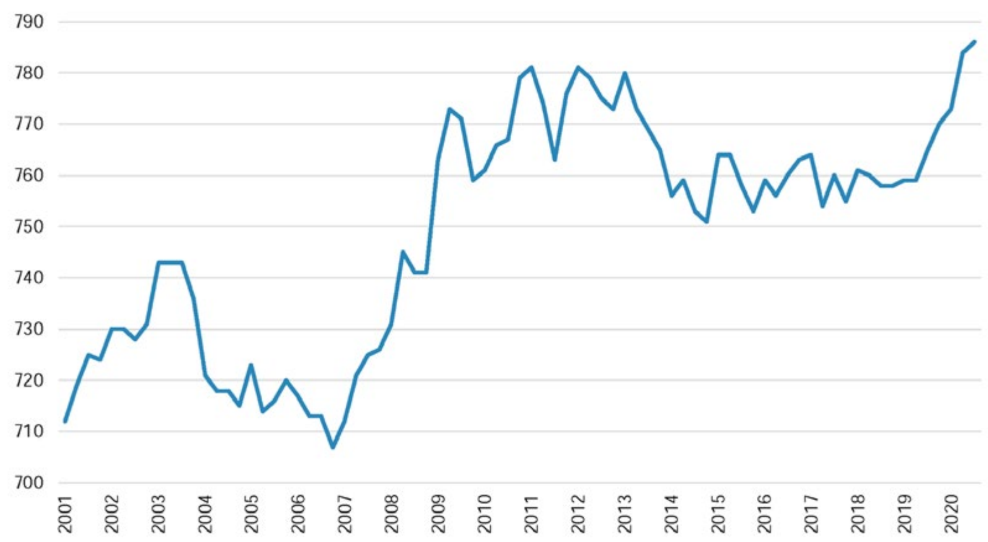
* Credit Score is Equifax Riskscore 3.0

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 3Q20, updated quarterly[†]) Pub: Apr-21

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 3Q20 median score at origination was a record high 786.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



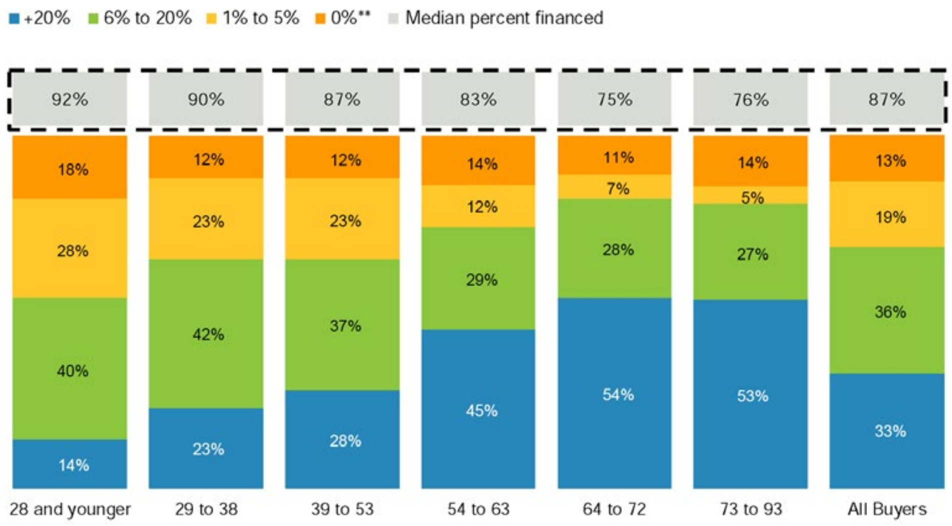
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 3Q20, updated quarterly[1]) Pub: Apr-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: Apr-21

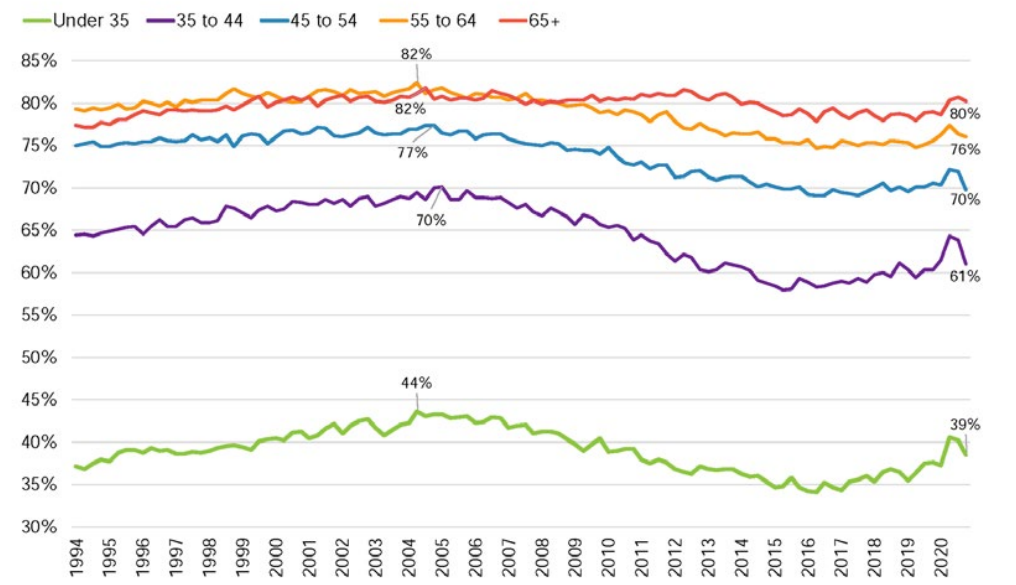
Homeownership Rate by Age

Homeownership rates decreased across all age groups in 4Q20.

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

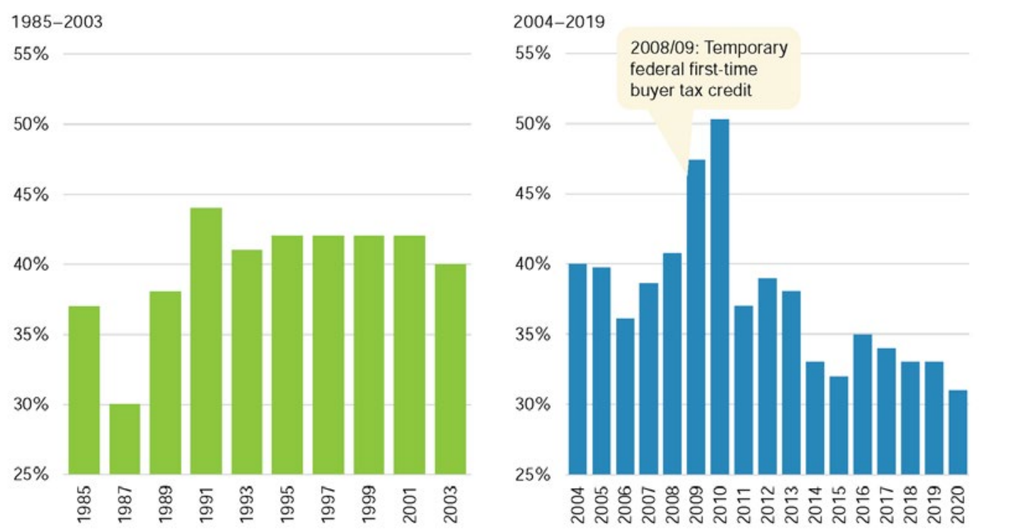


SOURCE: U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 4Q20, updated quarterly[1]) Pub: Apr-21

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: Apr-21

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