

ECONOMIC MARKET SNAPSHOT

SPRING 2018 | ISSUE NO. 4

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

Conditions remained solid through the first quarter of 2018, with almost all leading economic indicators trending higher. Despite rises in interest rates, new home sales and pricing trends continue to improve, which bodes well for the mortgage and housing industries. In this issue we continue to highlight key data utilizing unique graphics and charts to reflect changes related to the housing industry and the economic climate that you can use.

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

- Existing home sales are currently running at a 5.5 million annual rate, in line with 2017.
- The Unemployment Rate remained steady at 4.1% in March, the lowest level since 2000. The economy is running out of qualified people to employ due to heavy retirement and a low unemployment rate.
- Housing inventory levels remain at 3.4 months of resale supply – incredibly low, with very little new home supply.
- Solid demand/supply backdrop has driven resale prices up 6% YOY.

- The credit box is expanding at a rapid pace as mortgage lenders search for growth, leading to short-term positives for housing and the economy but raises concerns for the longer term:
 - 56% of primary purchase mortgages with a government guarantee now have combined LTVs of 90%+, compared to 40% of loans during the lending period of 2005-2007.
 - 41% of primary purchase mortgages backed by government agencies have DTIs above 42%, on par with 2005-2007 lending standards.

2018 is predicted to be a great year for housing, but rising risks on the horizon are noted. Affordability is now slightly worse than the historical average and remains the biggest risk to housing growth forecasts.

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

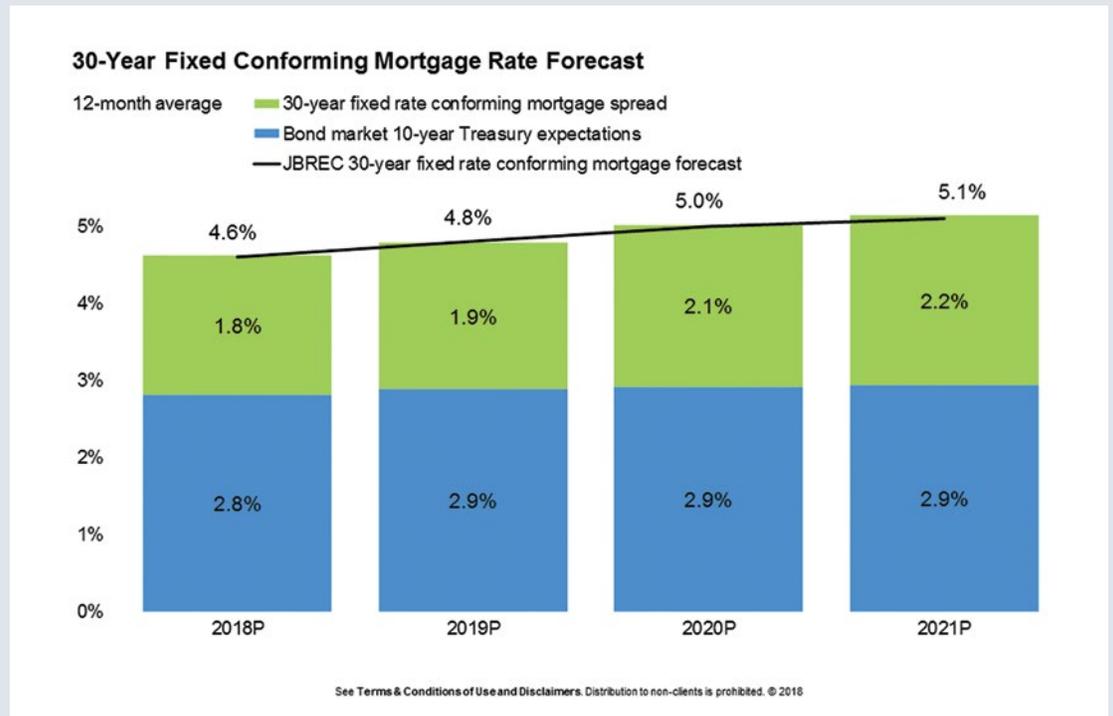
www.nationalmi.com/economic-market-snapshot

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 ~50 basis points higher than the historical 170 basis point spread for 3 reasons:

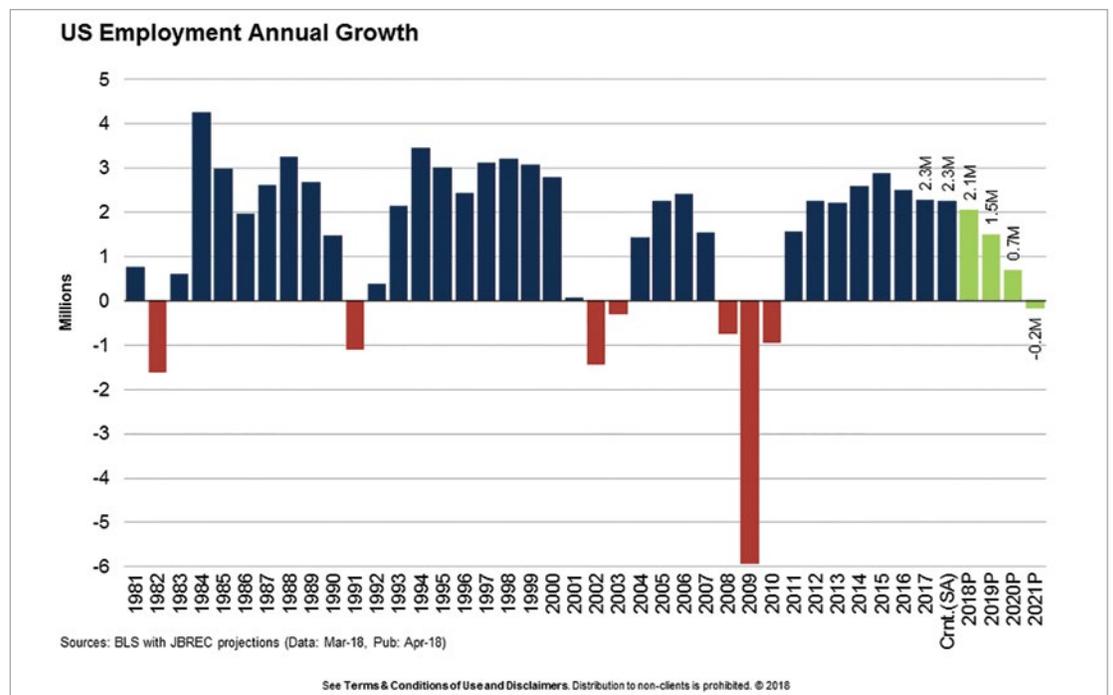
- 1) Mortgage servicing compliance costs have risen ~25bps per year,
- 2) GSE mortgage fees have increased ~25bps per year,
- 3) Mortgage investing risk has increased as some liability shifts to mortgage owners, but has also decreased due to better documentation and an explicit government guarantee, 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.



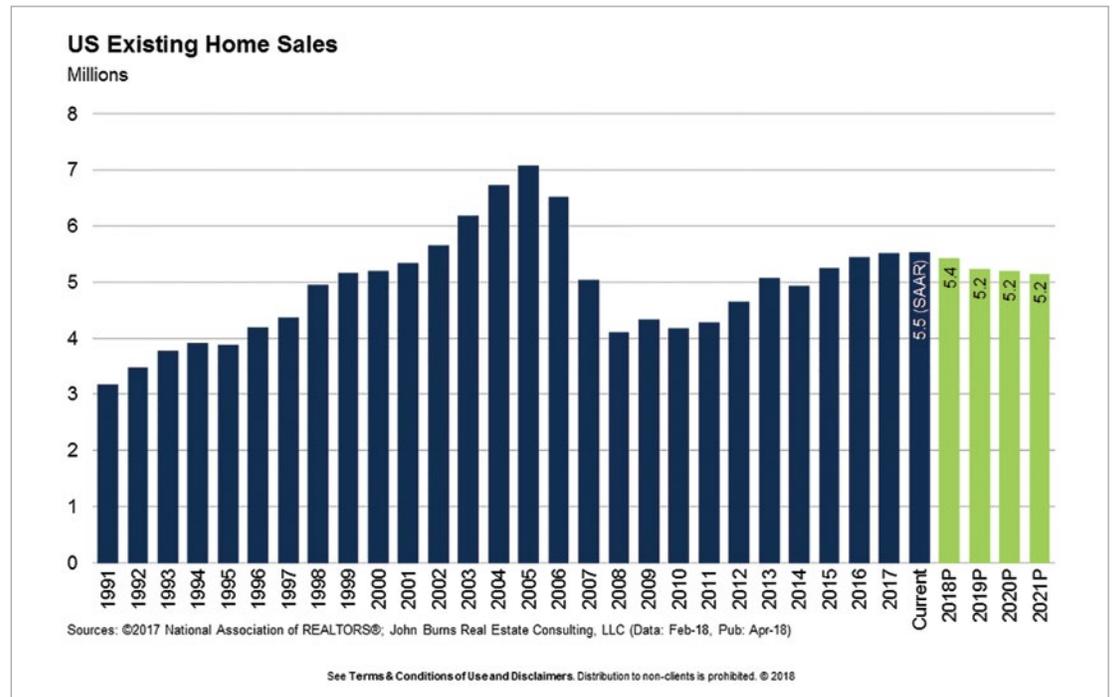
US Employment Growth

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



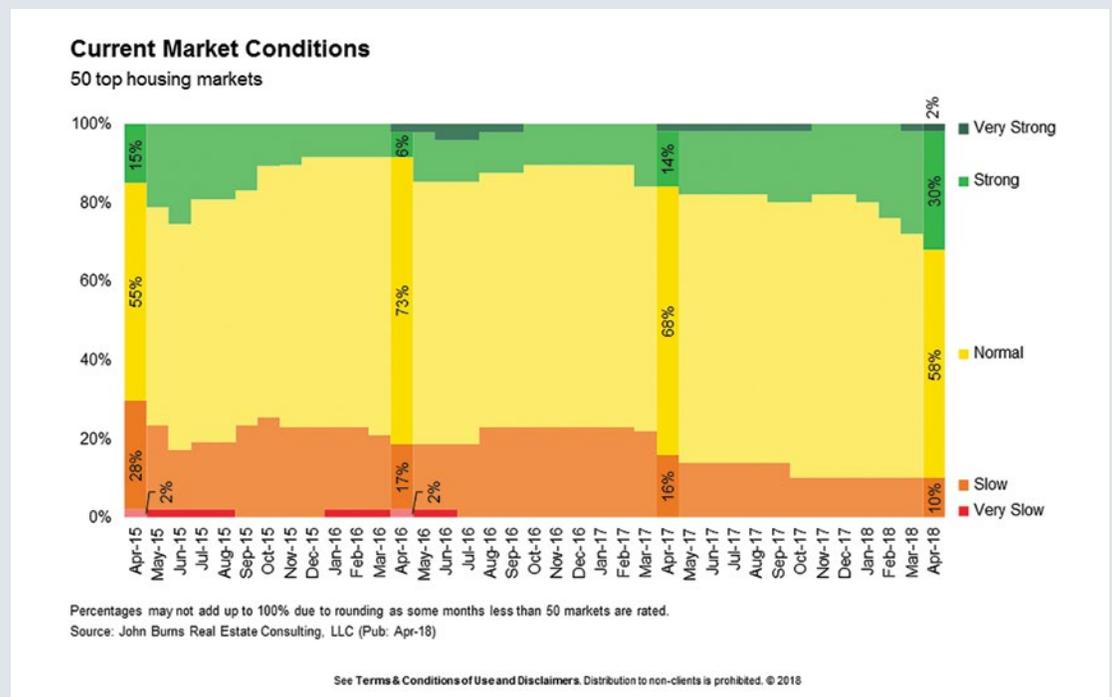
US Existing Home Sales

Existing home sales are currently running at a 5.5 million seasonally adjusted annual rate (SAAR). We forecast flat to declining existing home sales volumes through 2021.



Current Market Conditions: 90% are Normal or Better

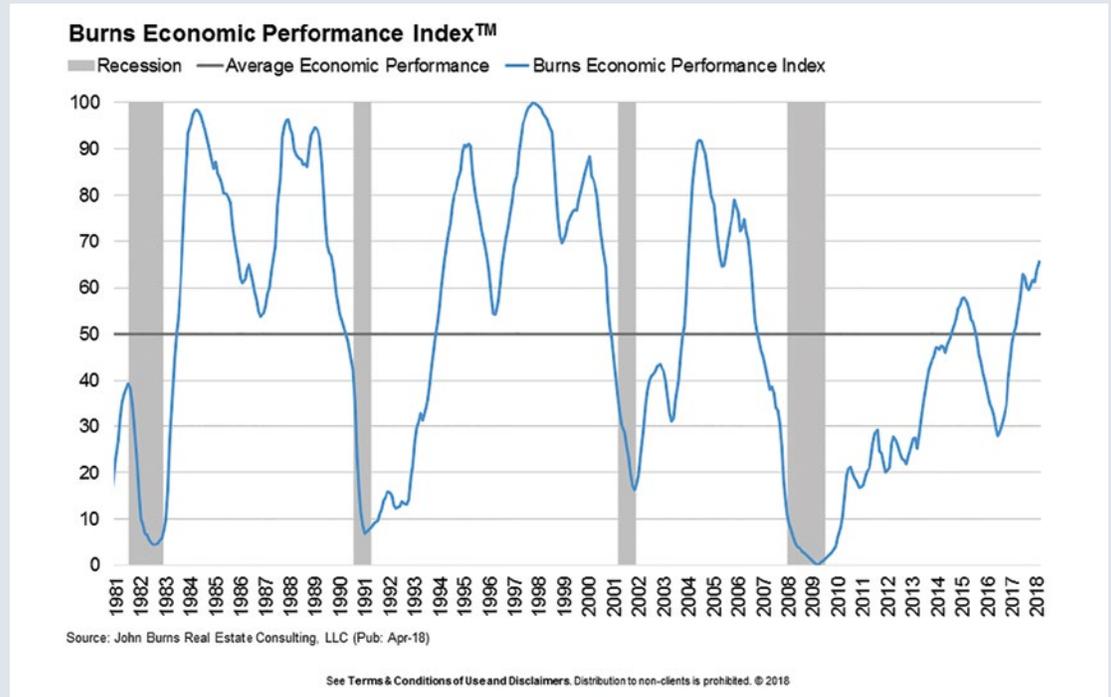
In our rating process, Normal sales reflect builders selling 2-3/month per community with flat to slightly rising net prices.



Burns Economic Performance Index™

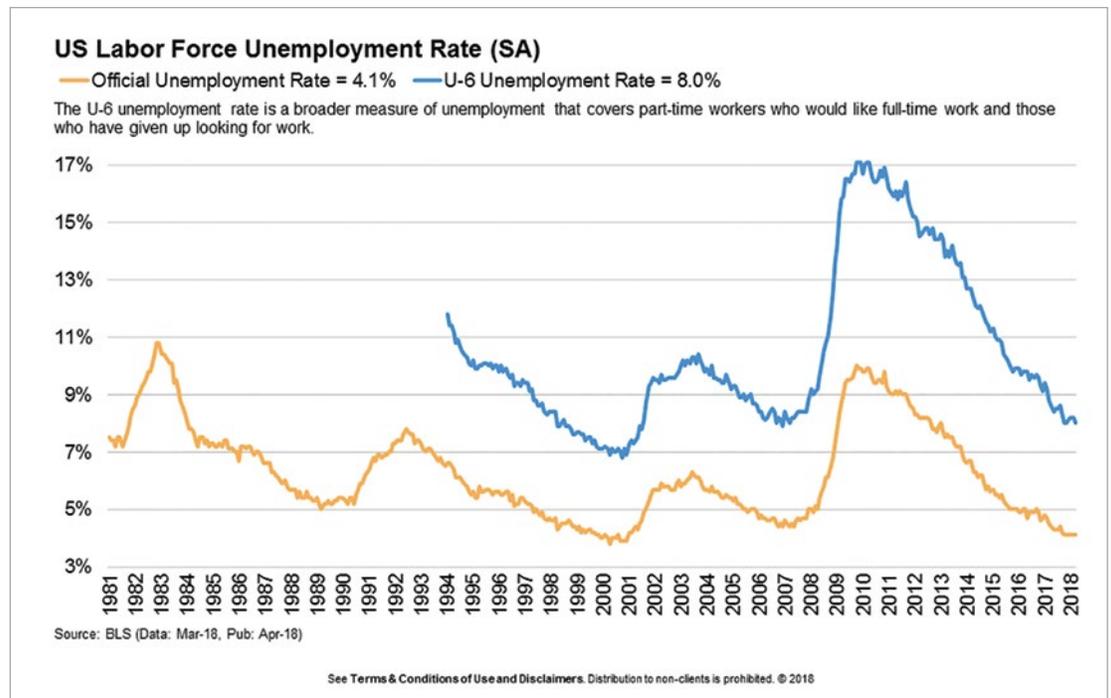
Our Burns Economic Performance Index signals above average economic conditions.

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



Unemployment Rate

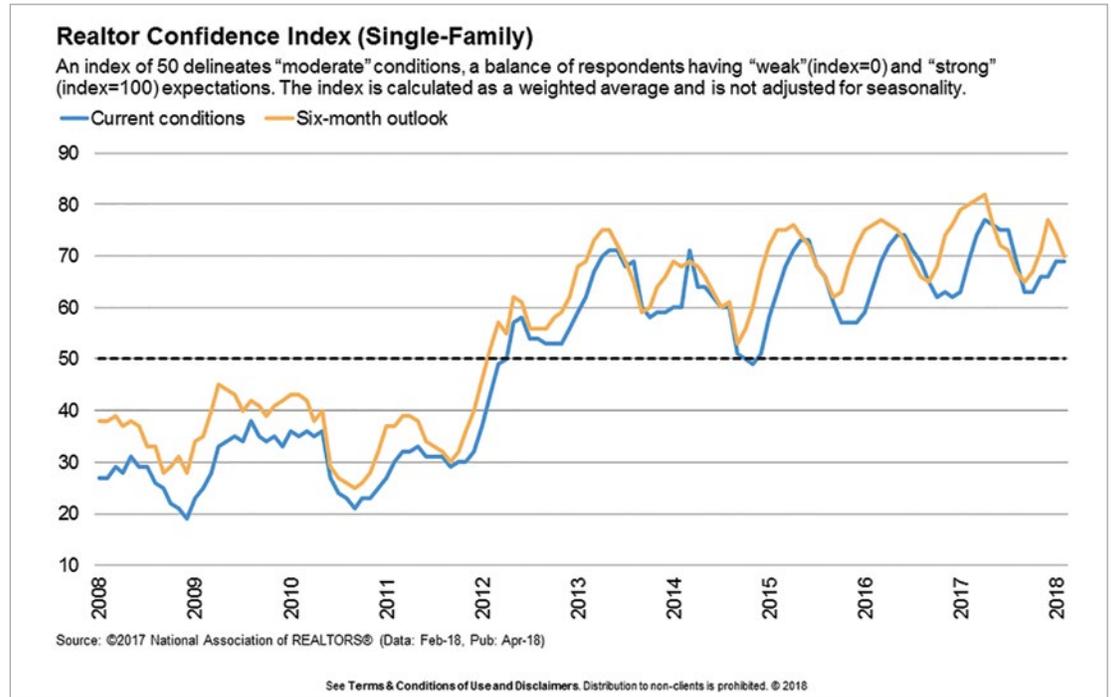
The Unemployment Rate remains steady at 4.1% in March, the lowest level since 2000. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, has been trending down and remains at near the lowest level since 2006.



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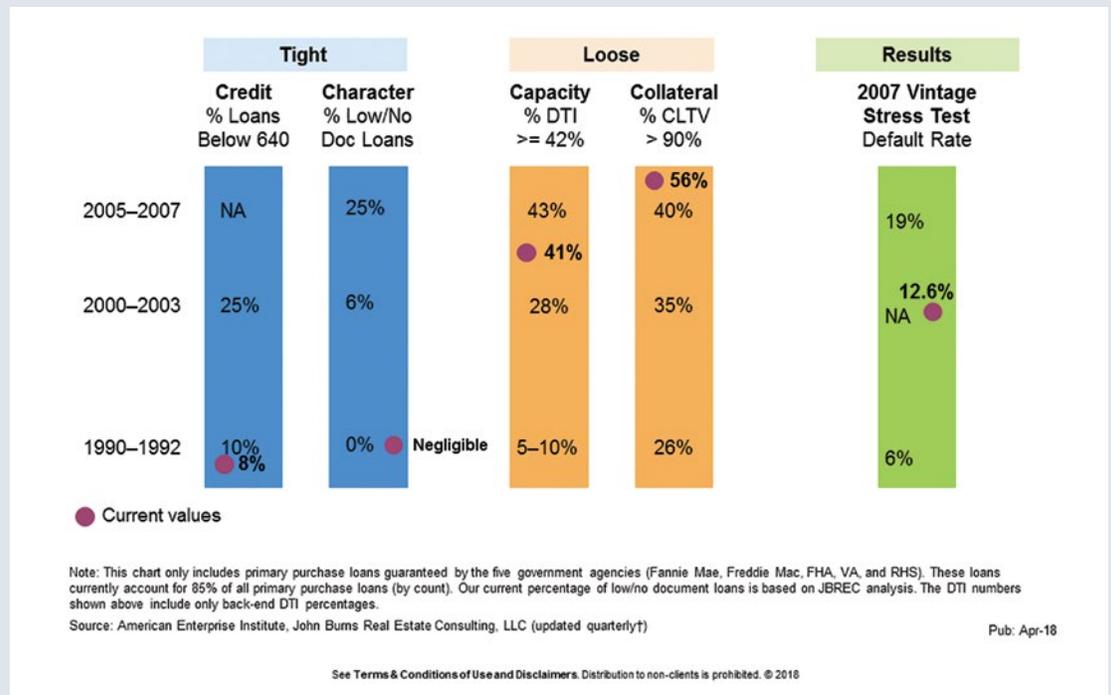
Realtor Confidence Index

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



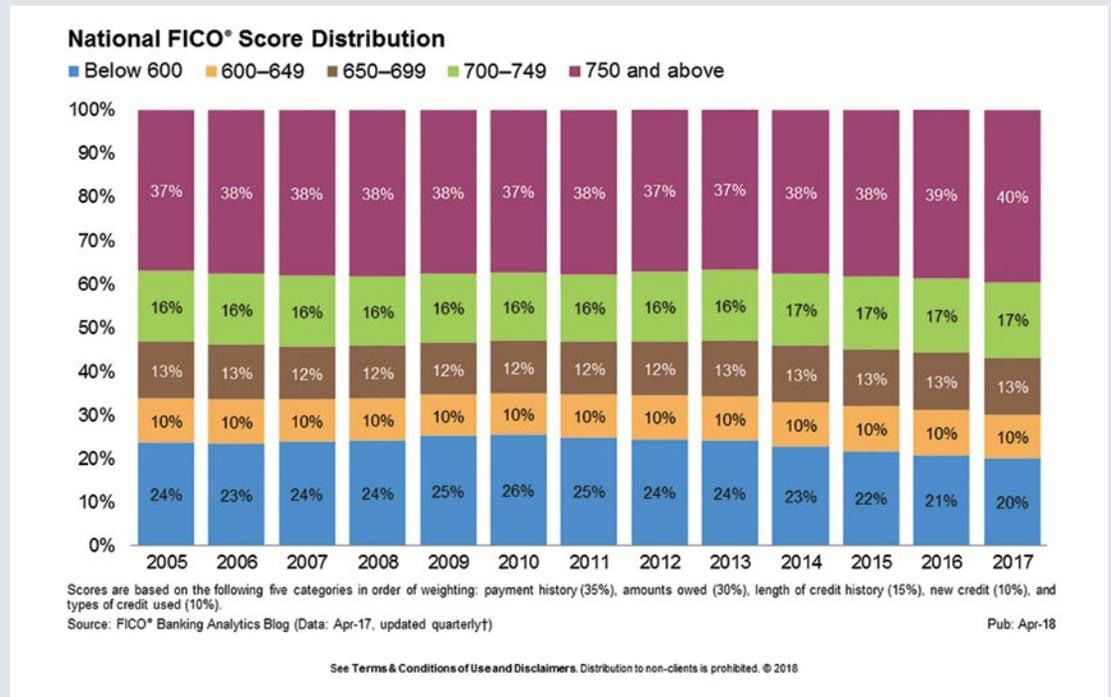
Lending Standards

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



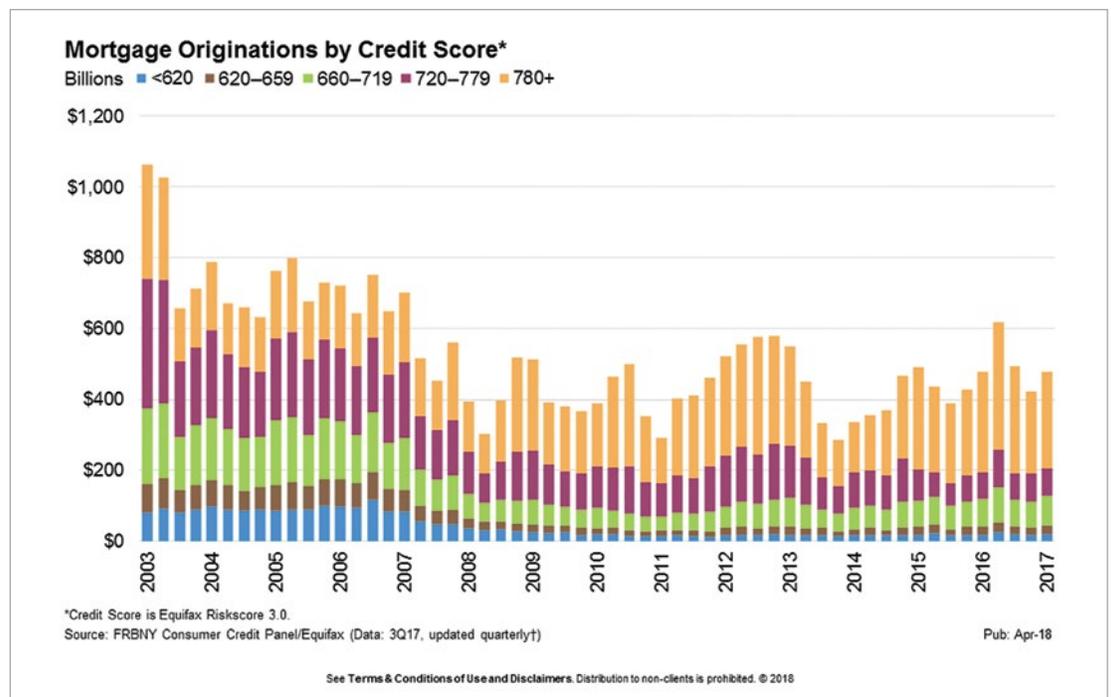
National FICO® Score Distribution

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



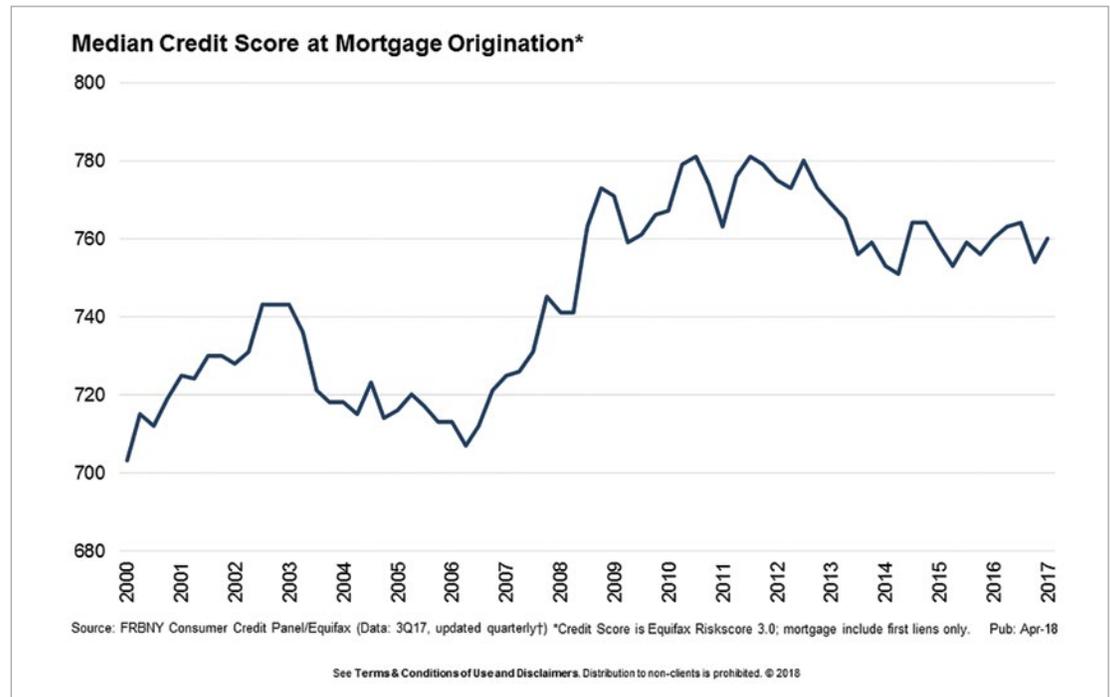
Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 3Q17, only 4% of mortgages went to borrowers with a credit score less than 620.



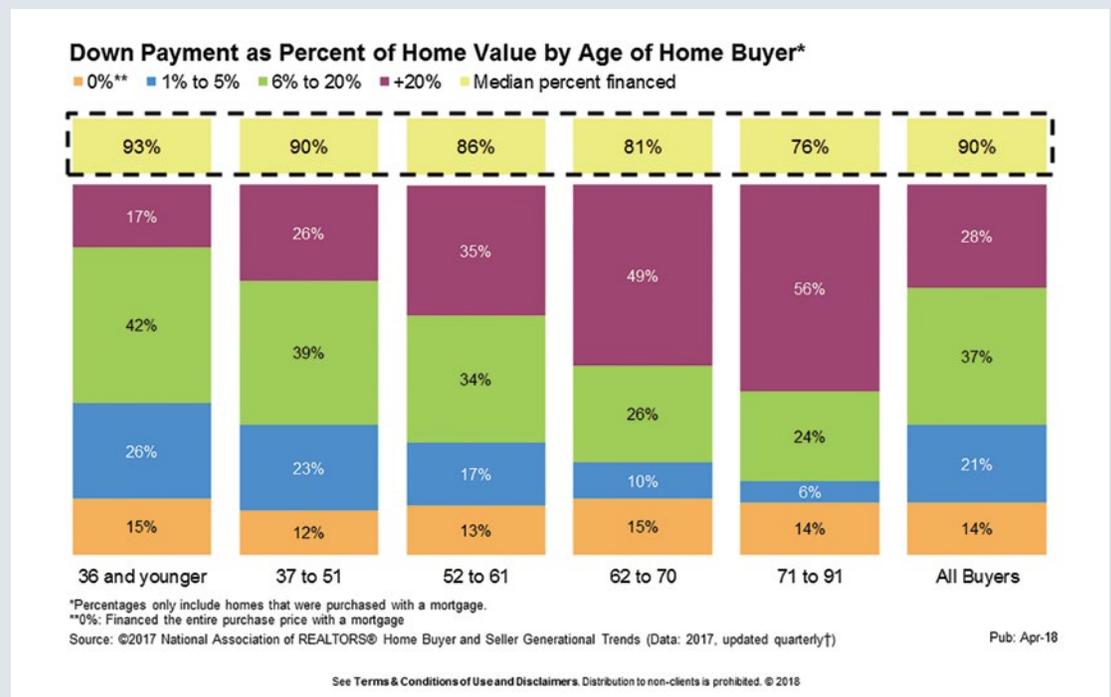
Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 3Q17, median score at origination was 760.



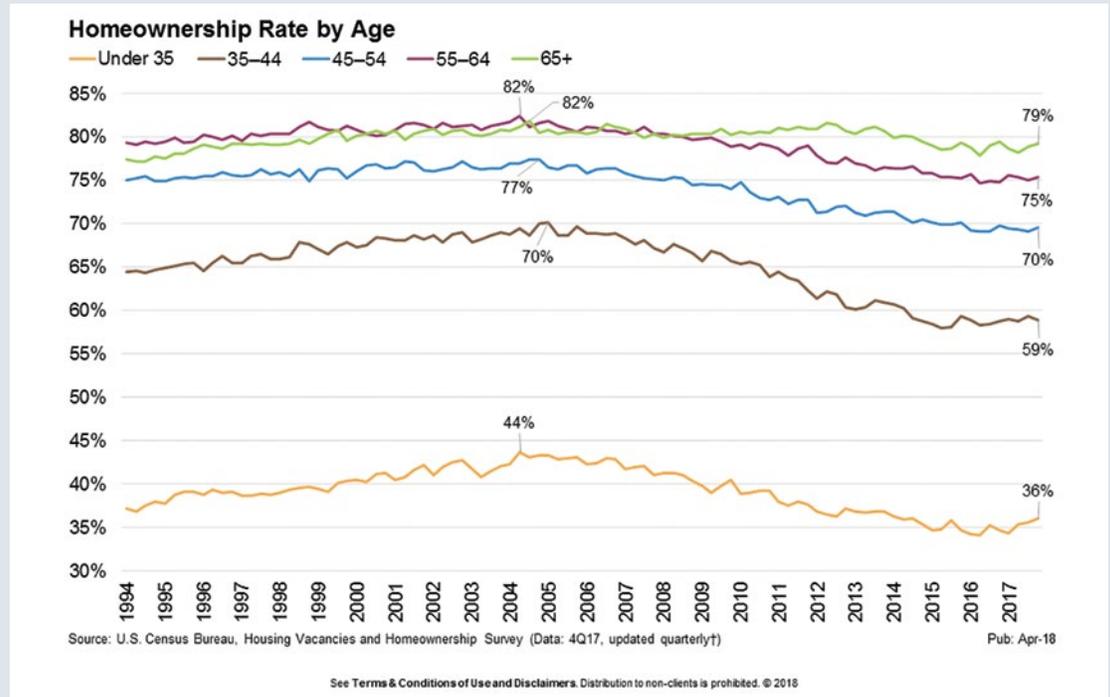
Financing the Home Purchase by Age Group

35% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 41% among those 36 and younger. Only 25% of 62- to 70-year olds have a LTV of +95%.



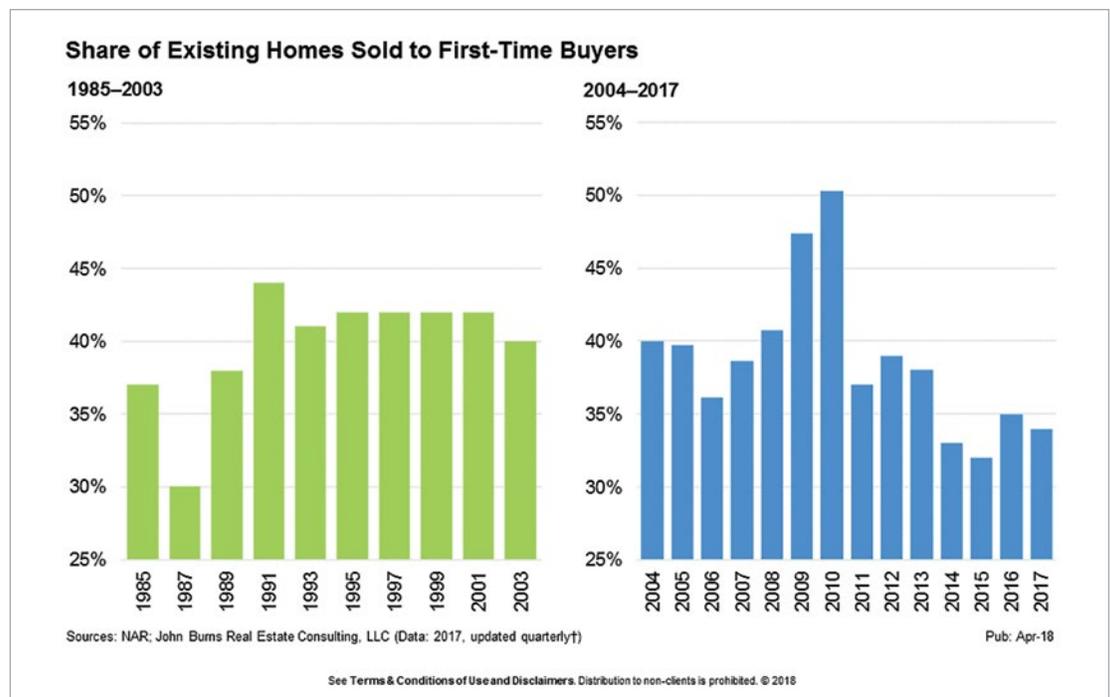
Homeownership Rate by Age

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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Making an Impact

- **Delivering** on Our Promise
- **Strength** to Drive Change in the Mortgage industry
- Promote activities that advance the productive development of culture and lifestyles, foster **Multicultural Diversity** and inclusiveness in the Mortgage industry
- **Innovation** that Moves MI Forward
- **Best** Terms of Coverage



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.