ECONOMIC MARKET SNAPSHOT

WINTER 2018 | ISSUE NO. 3

National MI is pleased to bring you our 3rd issue of the Economic Market Snapshot.

A strong economic upswing this winter continues to fuel growth across the U.S. There are more positive indicators than negative indicators for both housing and the economy in 2018. 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 Winter Issue:

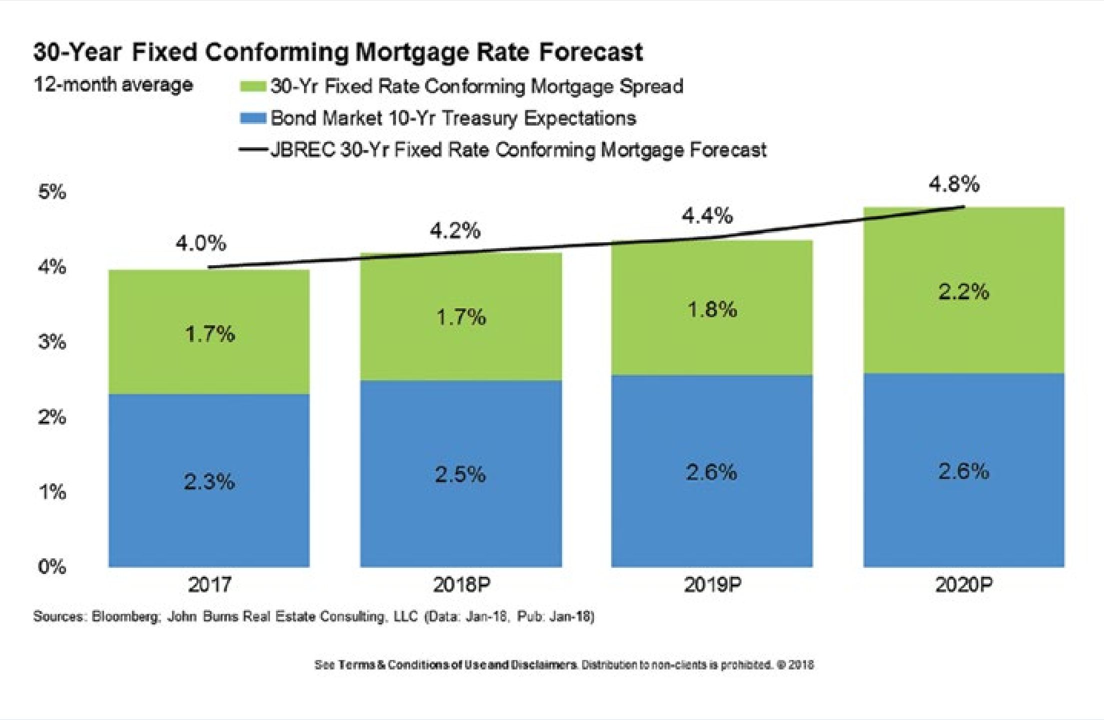
- Continued positive indicators for both housing and the economy in 2018. Many gauges have accelerated to the strongest YOY gains since early in the recovery.
- Consumer sentiment toward home buying has become more positive.
- We are calling for slowing economic growth going forward, which should gradually drive mortgage premiums higher.
- A slight increase in job growth over the previous estimate – 1.6% in 2017 vs. our Fall Issue projection of 1.5%.
- Current Market Conditions held steady, with 90% of markets still at normal or better.
- The Burns Economic Performance Index indicates above average economic conditions.
- The unemployment rate declined to 4.1% compared to 4.2% in our Fall Issue, still reflecting near the lowest level since 2000. The broader U6 which capture underemployed and discouraged workers continue its downward trend and is at the lowest level since 2007.
- Maintaining 2016 gains, National FICO® Score distribution reflects a slow rebuilding of credit profiles. In 2017, 57% of consumers had FICO scores above 700, and 80% had FICO scores above 600.
- High LTV lending remains strong – 57% of loans had less than a 10% down payment.
- Existing home sales remain strong, running at a 5.8 million seasonally adjusted annual rate (SAAR) and are forecasted to be flat or declining through 2020.
- There is a very low supply of homes in most markets and the lowest months of supply nationally since 1982. Improved technology and more all-cash buyers have caused some of this supply decline.
- New home sales are stronger than projected and the NAHB Housing Market Index has reached an 18-year high.

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

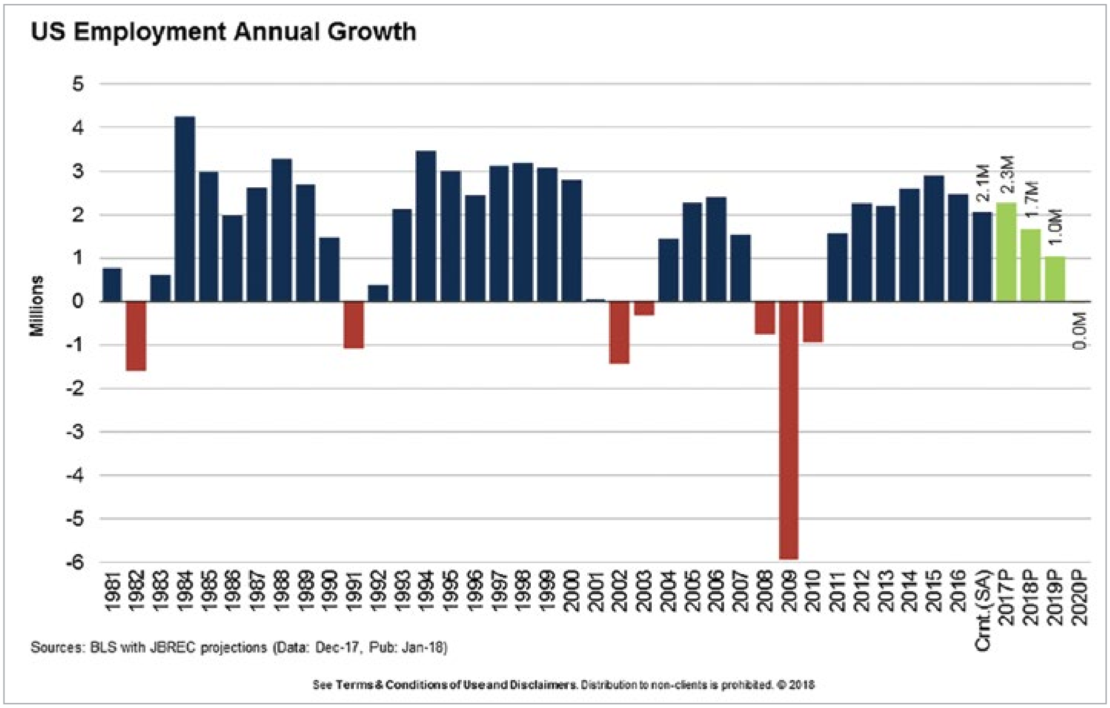
We Base Our Mortgage Rate Forecast on Market Pricing for 10-Year Treasuries and Our View of the Mortgage Premium

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 1.7M in 2018 will decline to flat growth in 2020.



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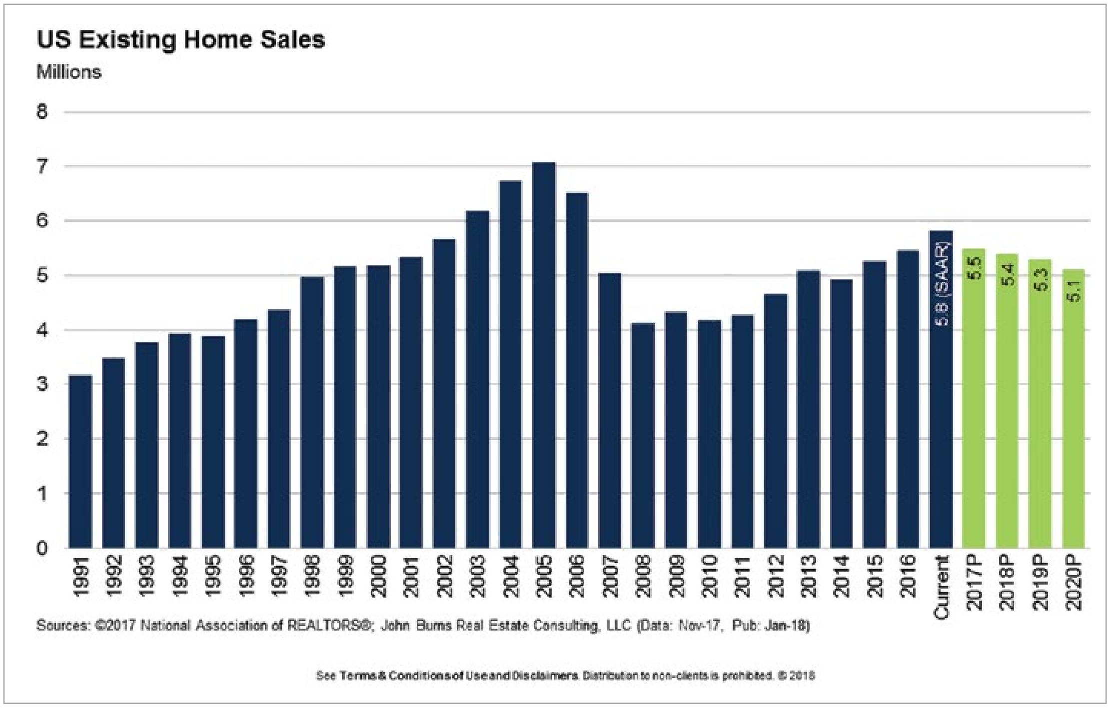
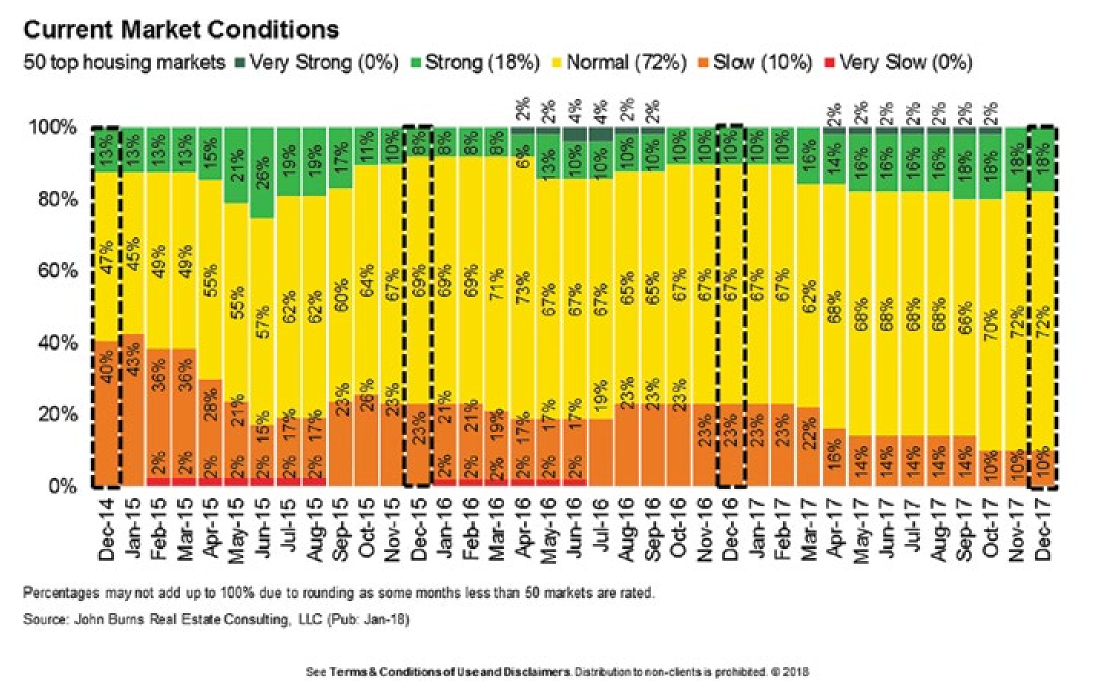
US Existing Home Sales

Existing home sales are currently running at a 5.8 million annual rate (SAAR). We forecast flat to declining existing home sales volumes through 2020.



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.



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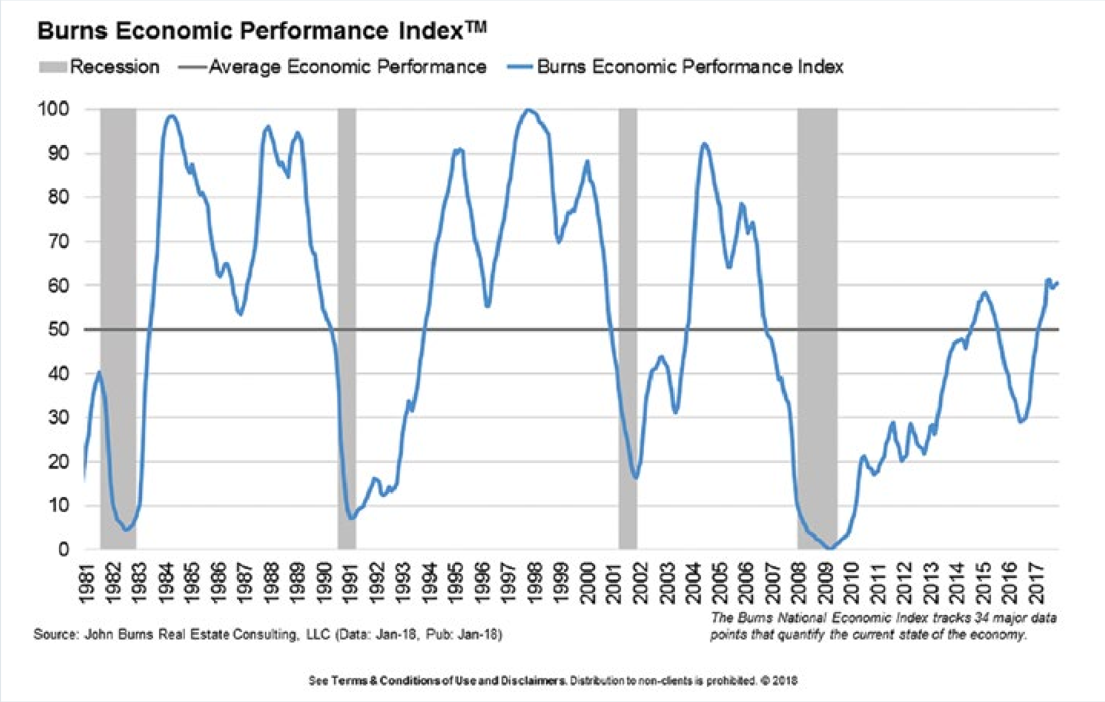
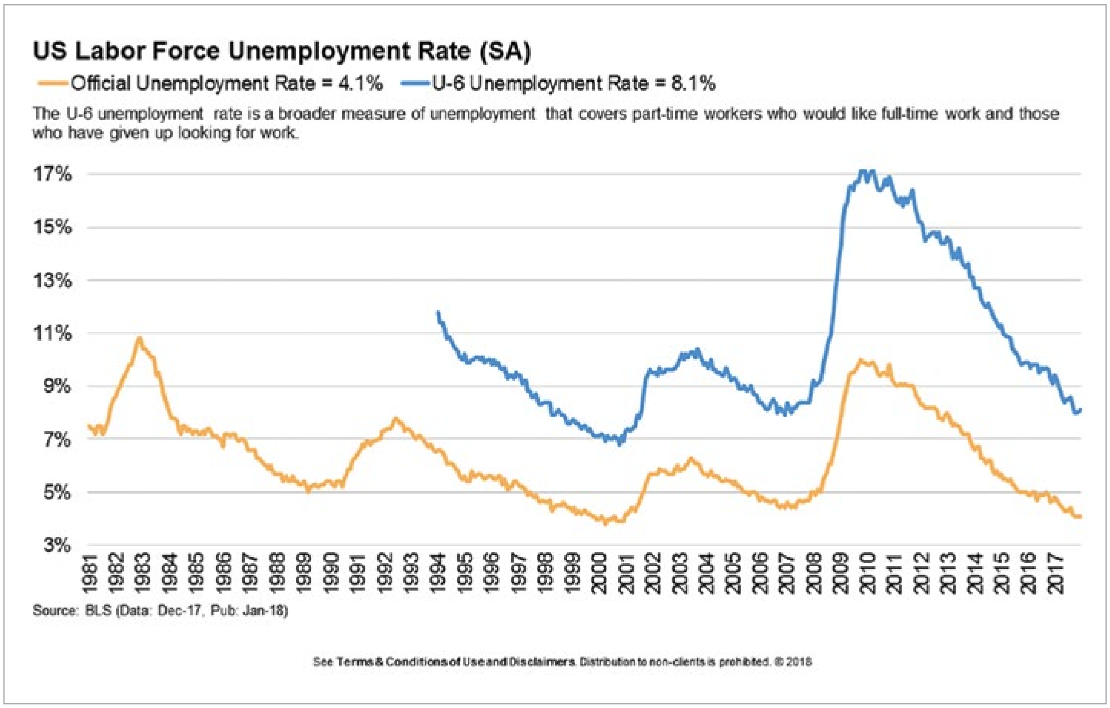
Burns Economic Performance Index™

Our Burns Economic Performance Index signals above average economic conditions.



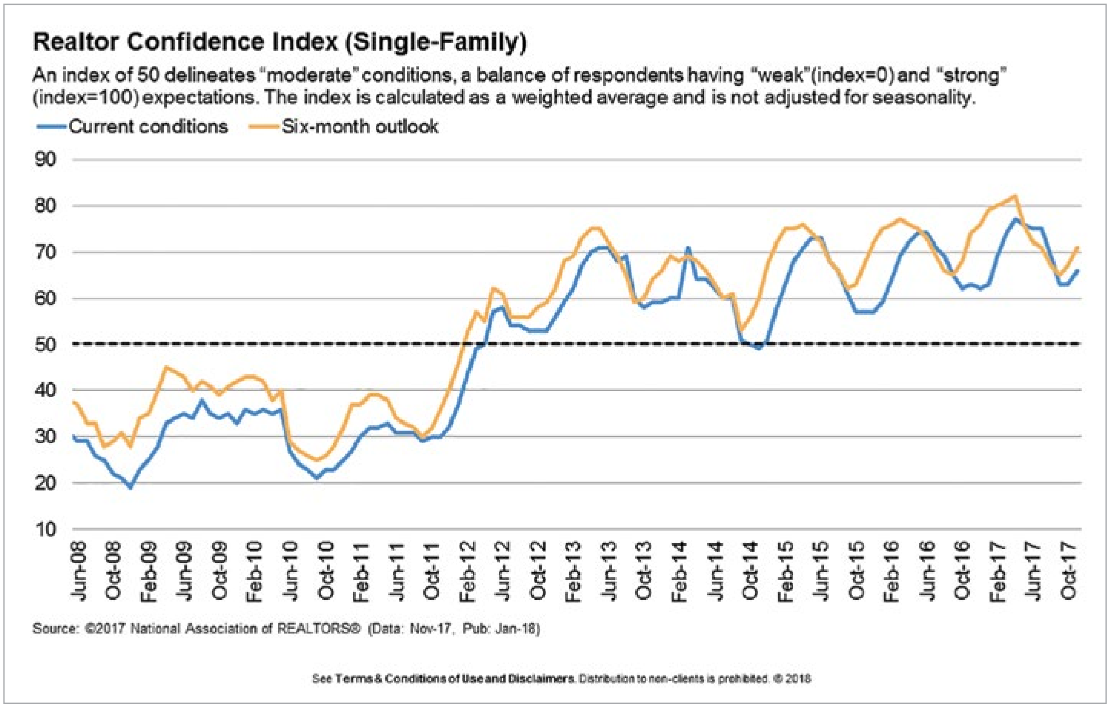
Unemployment Rate

The Unemployment Rate remains steady at 4.1% in December, near 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 2007.



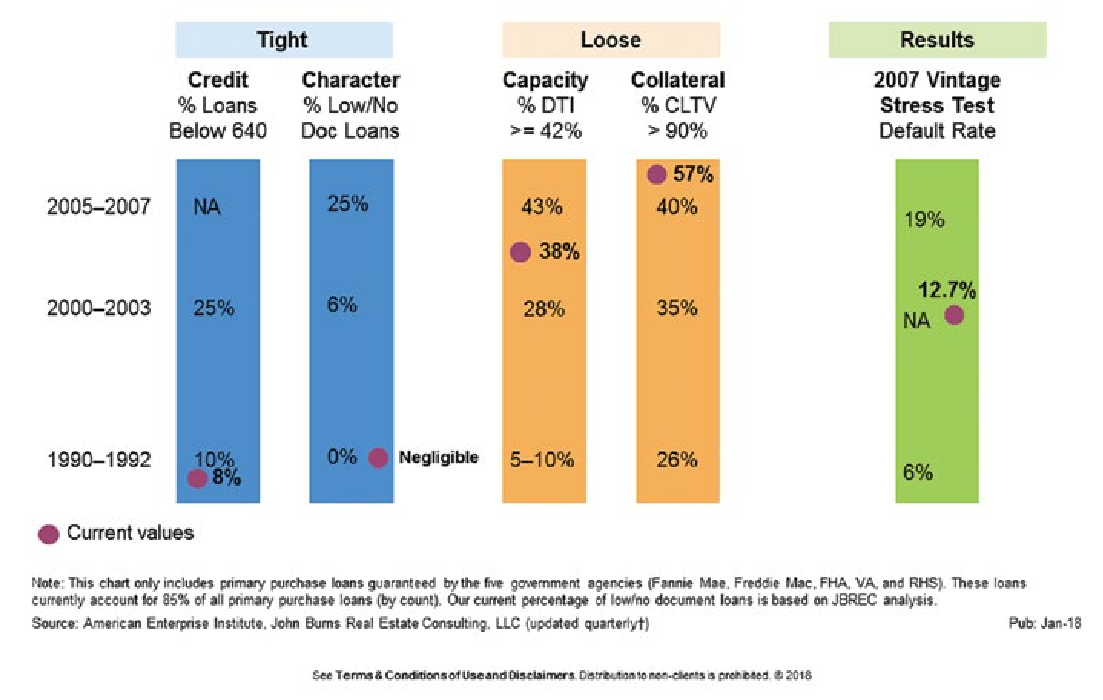
Realtor Confidence Index

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



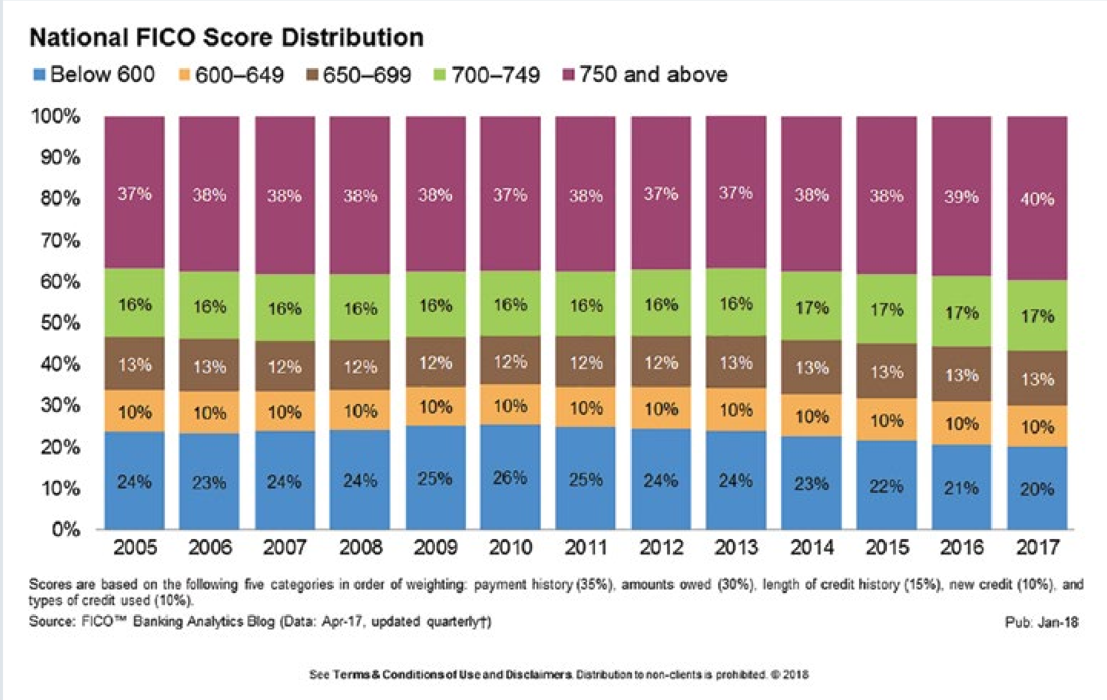
Lending Standards

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



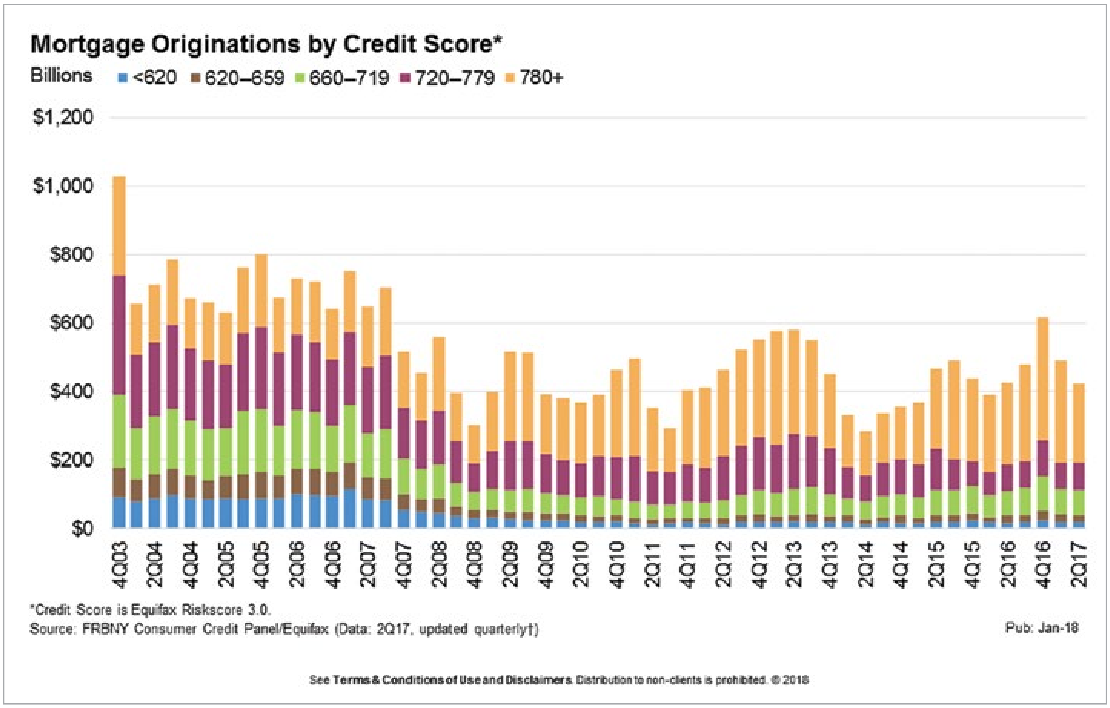
National FICO Score Distribution

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



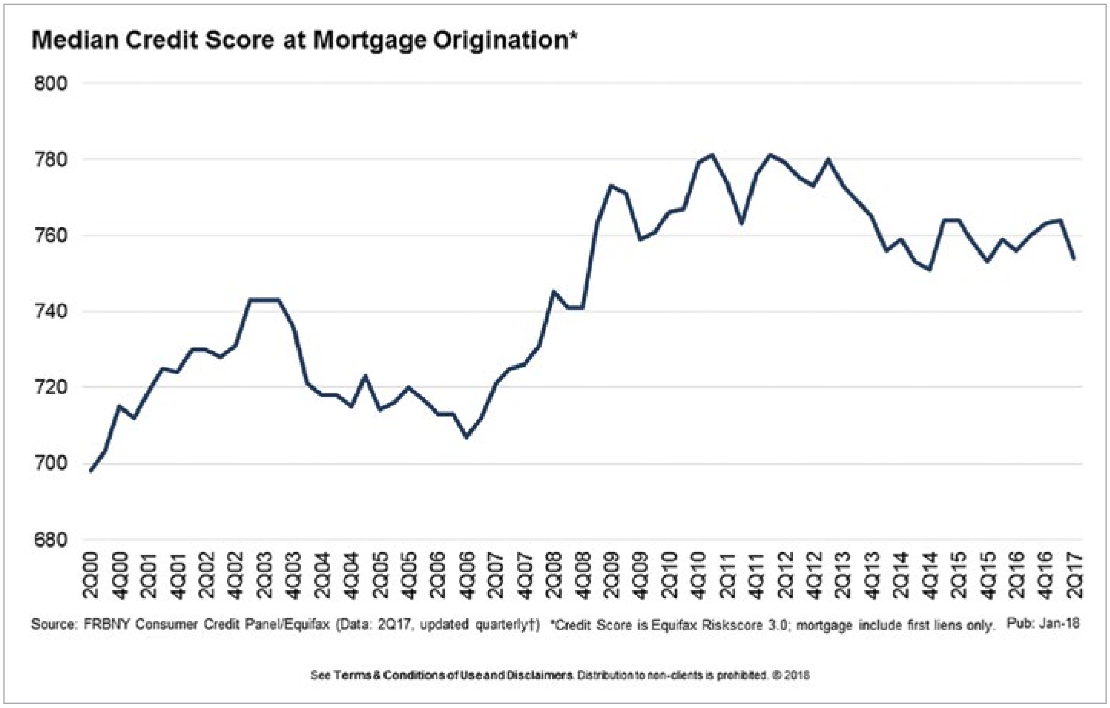
Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 2Q17, only 4% of mortgages went to borrowers with a credit score less than 620.



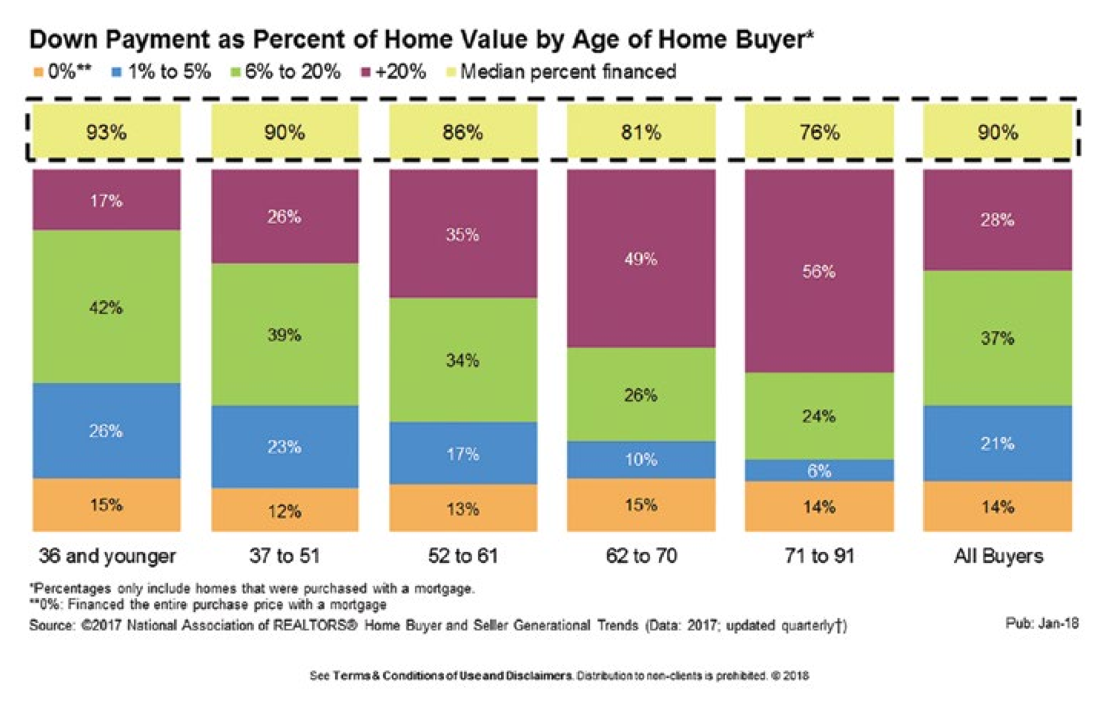
Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 2Q17, median score at origination was 754.



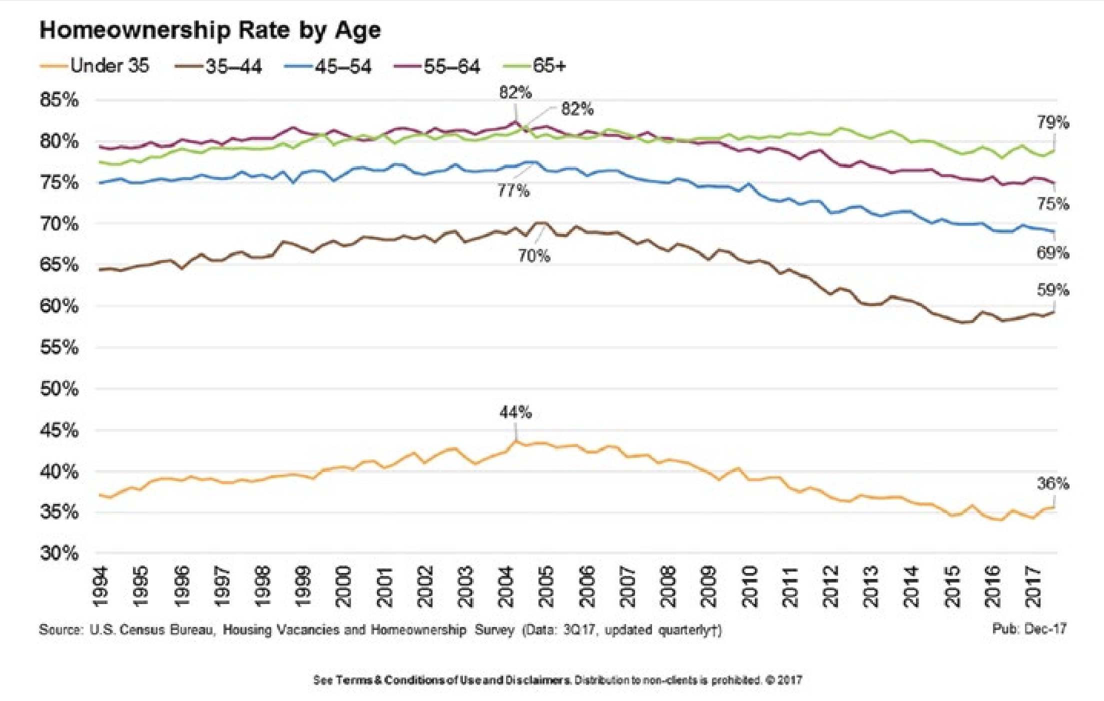
Financing the Home Purchase by Age Group

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%.



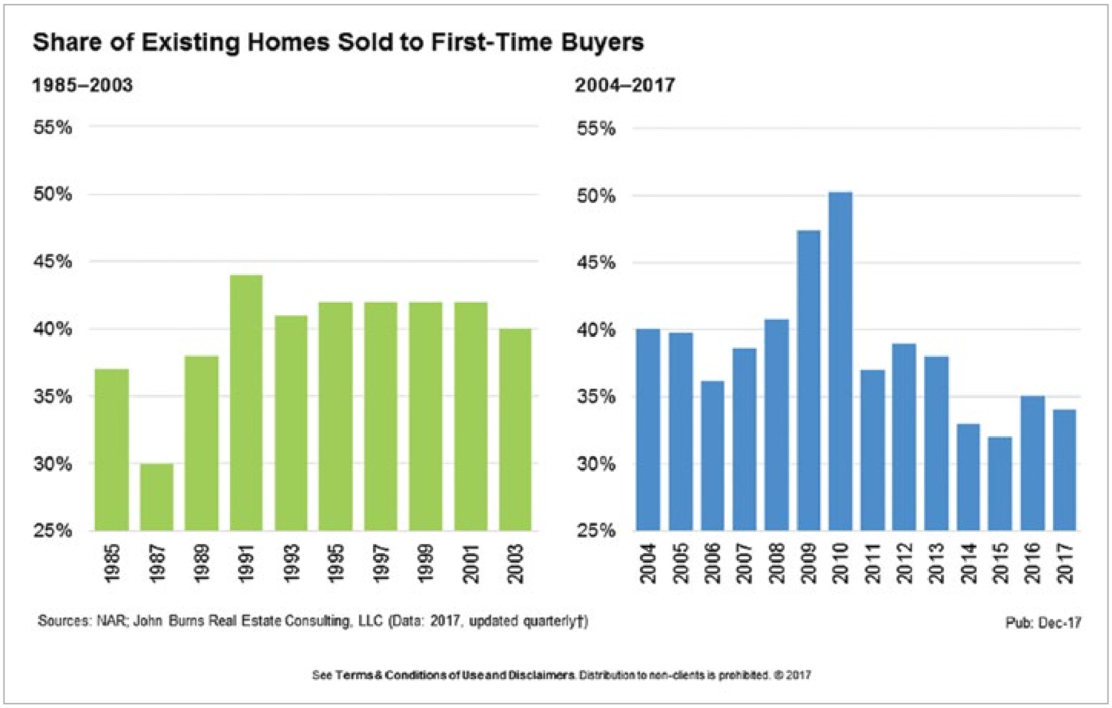
Homeownership Rate by Age

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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- **Stability.** And the strength to drive change in the mortgage insurance industry
- **The first** to deliver Ironclad 12-month Rescission Relief Report
- **Sensible Servicing®** of life events

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.