NationalMI

ECONOMIC MARKET SNAPSHOT

SPRING 2019 | ISSUE NO. 8

NATIONAL MI IS PLEASED TO BRING YOU OUR

Spring 2019 Edition of the **Economic Market Snapshot**

As reported by John Burns Real Estate Consulting, the REALTORS® Confidence Index indicates realtors remain optimistic about future sales conditions over the next six months but less bullish versus 2018. Interest rates remain lower than previously expected and the Burns Economic Performance Index™ continues to signal above-average economic conditions, though it has declined 22% from its recent peak. Existing home sales are currently running at 5.5 million annual rate (Seasonally Adjusted Annual Rate – SAAR), but we may see declining existing home sales volumes through 2021, before a slight increase in 2022.

- The US unemployment rate remains at the lowest level since 2000 at 3.8%. In addition, the U6, a broader measure that captures underemployment and discouraged workers, has trended down and remains near the lowest level since 2001.
- Current lending standards are tight on credit and documentation but have loosened up on DTI and LTV. DTI >= to 42% and LTV > 90% have increased significantly based on primary purchase loans guaranteed by the Government Sponsored Enterprises (GSEs), Federal Housing Administration (FHA), Veterans Affairs (VA), and Rural Housing Service (RHS). Median credit score of 758 at time of originations as of 3Q18 remains well above the 707 median score in 2006.
- 35% of all homebuyers who use a mortgage have 5% or less as a down payment. For homebuyers 37 and younger, this jumps to 43%.
- 2010 was peak share, when 50% of buyers were first–time homebuyers. In 2018, this level has dropped but remains solid at between 30-35%.

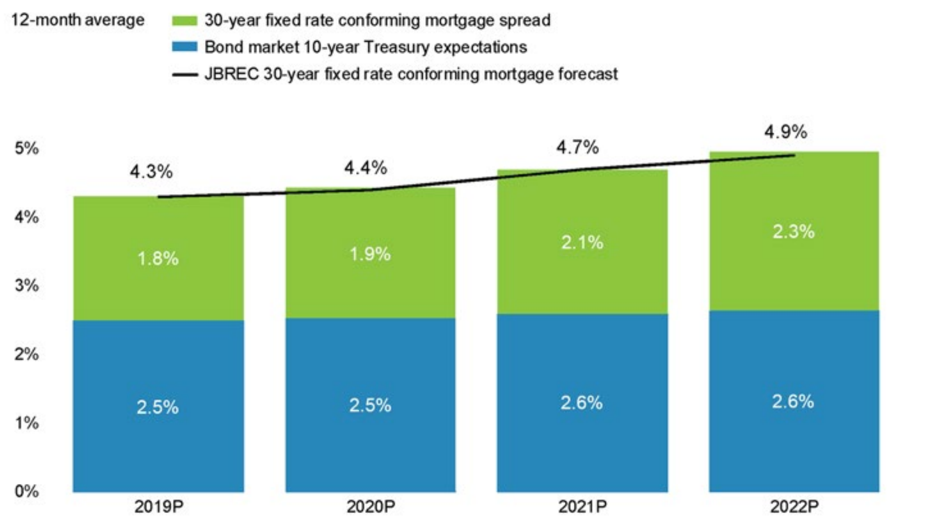
For the remainder of 2019 and early 2020, we should see positive but moderate home appreciation and sales forecasts are positive as mortgage interest rates are expected to remain in the low 4% range. While John Burns Real Estate Consulting is not reporting strong market conditions based on their analysis of the 50 top housing markets, they do report 64% of the markets remain normal. With the low interest rates and slower home appreciation, it will be interesting to watch for potential improvement in the remaining 36% categorized as "slow markets" currently.

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

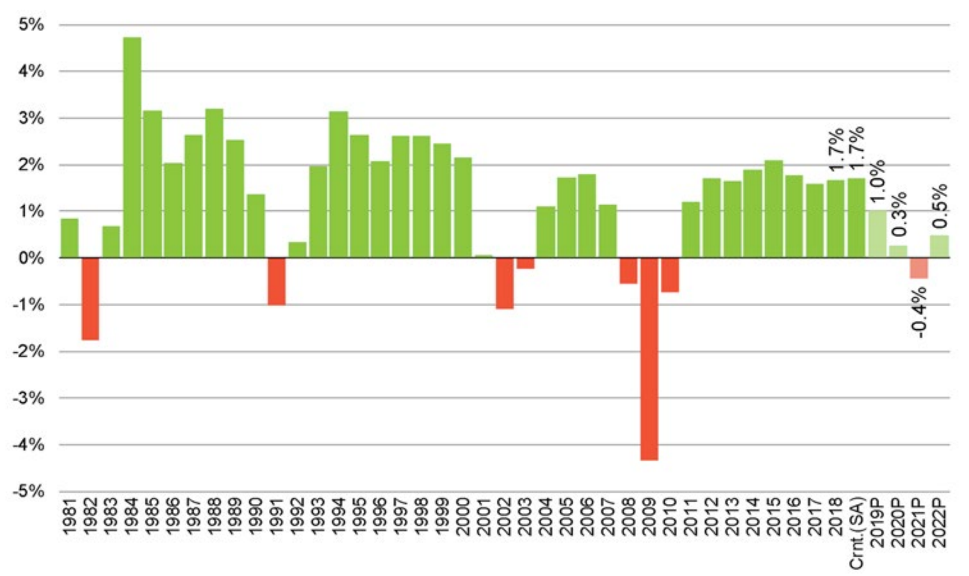


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Mar-19, Pub: Apr-19)

US Employment Growth Rates

We forecast slowing job growth through 2020, a decline in 2021, and a recovery beginning 2022.

US EMPLOYMENT ANNUAL GROWTH RATES

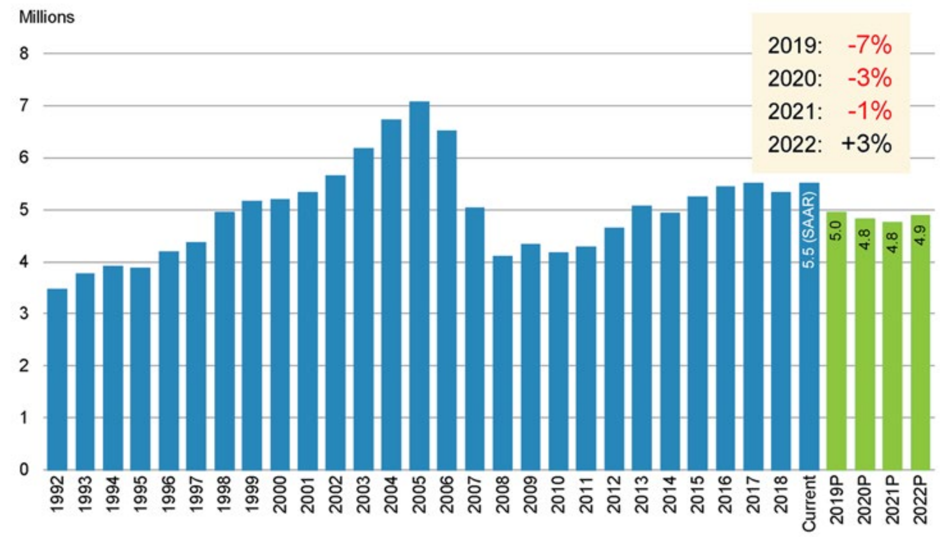


SOURCES: BLS with JBREC projections (Data: Mar-19, Pub: Apr-19)

US Existing Home Sales

Existing home sales are running at a 5.5 million Seasonally Adjusted Annual Rate (SAAR). We forecast declining existing home sales volumes through 2021 before a slight increase in 2022.

US EXISTING HOME SALES

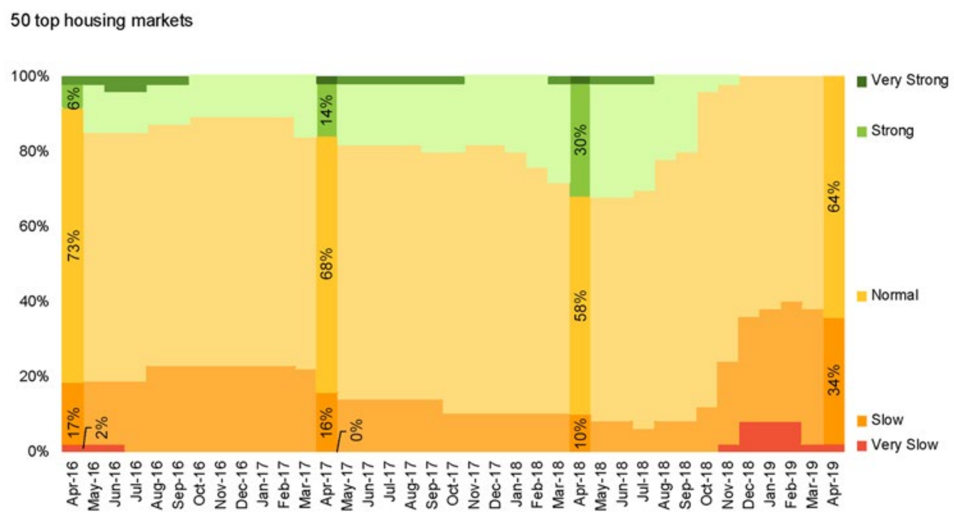


SOURCES: ©2017 National Association of REALTORS®; John Burns Real Estate Consulting, LLC (Data: Feb-19, Pub: Apr-19)

Current Market Conditions: 64% are Normal

In our rating process, Normal reflects builders selling 2-3/month per community with slightly rising net prices. The share of Slow/ Very Slow markets remains elevated at 36%.

CURRENT MARKET CONDITIONS



Percentages may not add up to 100% due to rounding as some months less than 50 markets are rated.

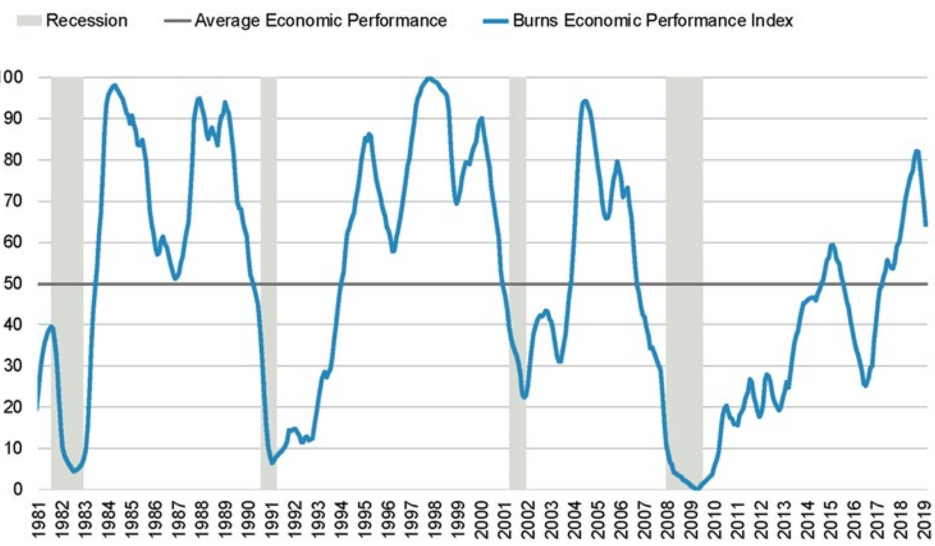
SOURCE: John Burns Real Estate Consulting, LLC (Pub: Apr-19)

Burns Economic Performance Index™

Our Burns Economic Performance Index signals above average economic conditions. The index has declined 22% from its recent peak due to softening small business confidence, weaker new home sales, and volatile stock market performance.

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

BURNS ECONOMIC PERFORMANCE INDEX™

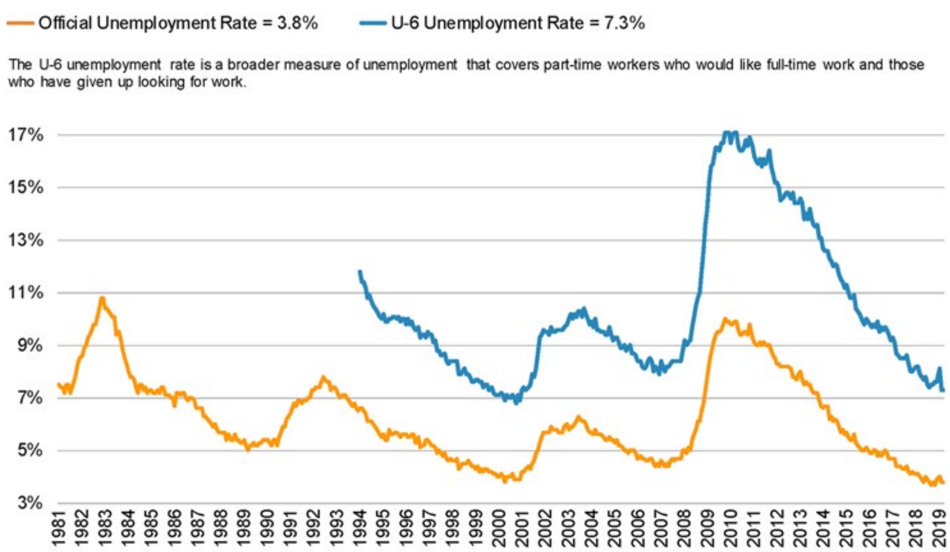


SOURCE: John Burns Real Estate Consulting, LLC (Pub: Apr-19)

Unemployment Rate

The Unemployment Rate is near the lowest level since 2000 at 3.8%. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, has been trending down and remains near the lowest level since 2001.

US LABOR FORCE UNEMPLOYMENT RATE (SA)



SOURCE: BLS (Data: Mar-19, Pub: Apr-19)

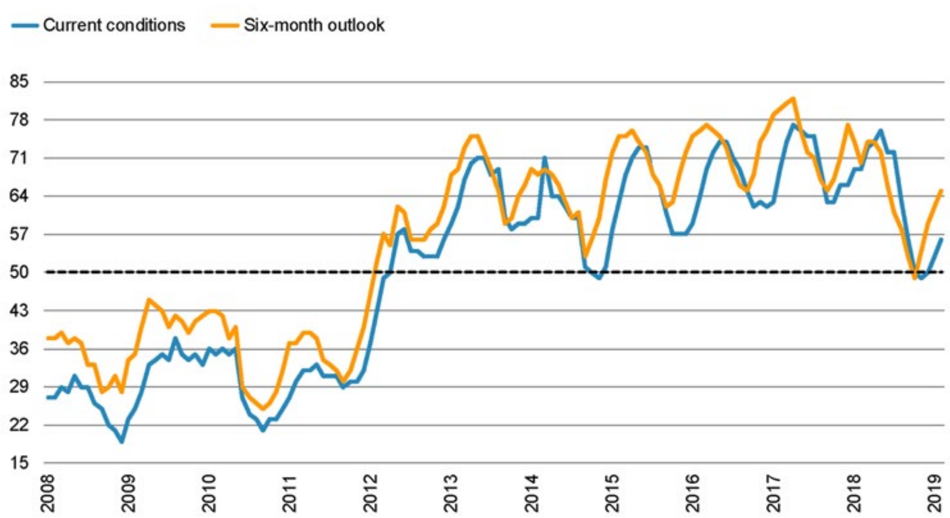
Realtor Confidence Index

The current conditions component of realtor confidence declined -19% YOY, while the six-month outlook component fell -7% YOY. Realtors remain more optimistic about future sales conditions.

Realtor Confidence Index (Single-Family)

An index of 50 delineates *moderate* conditions, a balance of respondents having *weak* (index=0) and *strong* (index=100) expectations. The index is calculated as a weighted average is not adjusted for seasonality.

REALTOR CONFIDENCE INDEX (SINGLE-FAMILY)



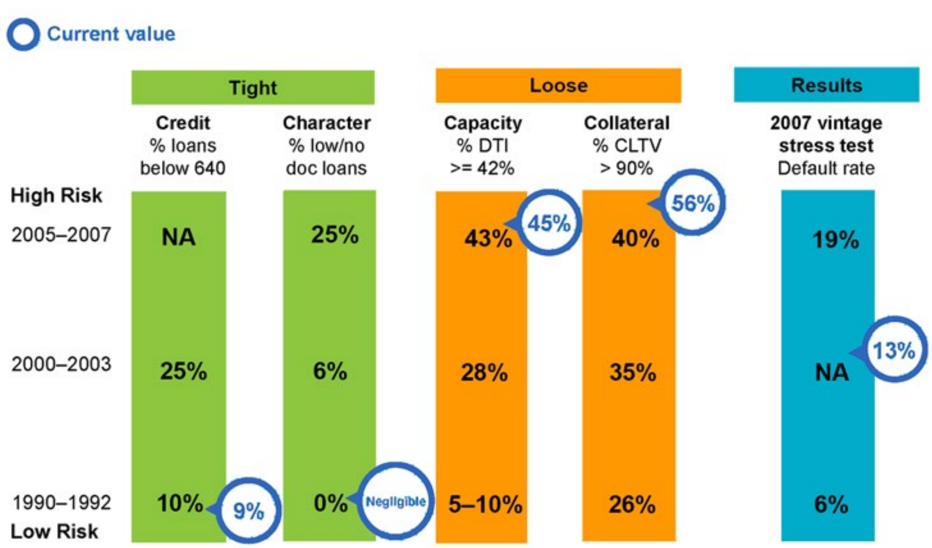
SOURCE: ©2017 National Association of REALTORS® (Data: Feb-19, Pub: Apr-19)

Lending Standards

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 85% 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



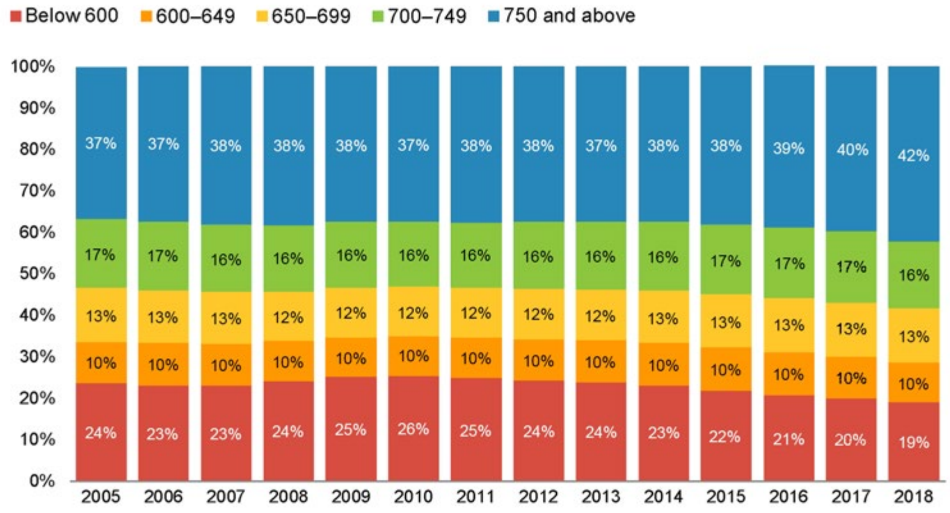
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Oct-18, updated quarterly[1]) Pub: Apr-19

National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2018, 58% 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

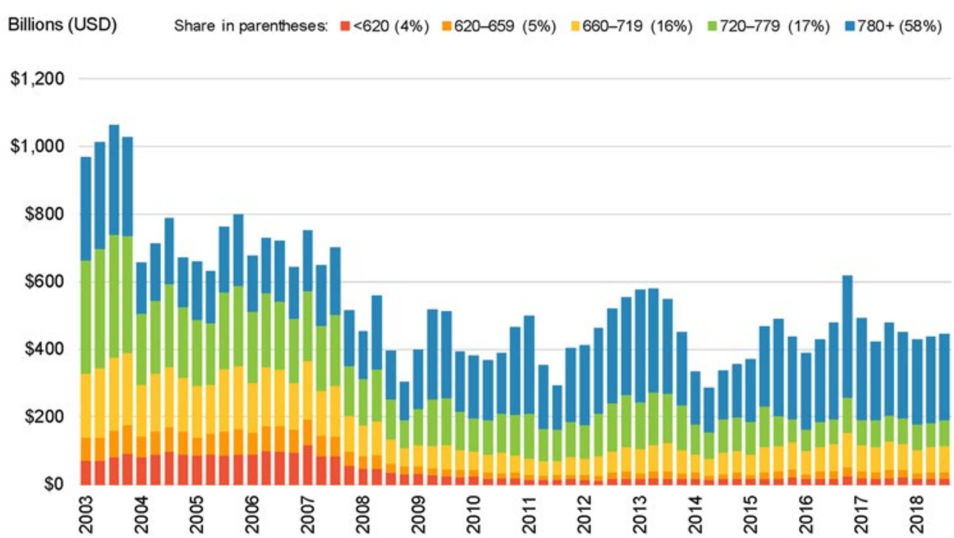


SOURCE: FICO™ Banking Analytics Blog (Data: Apr-18, updated quarterly[†]) Pub: Apr-19

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 3Q18, only 4% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



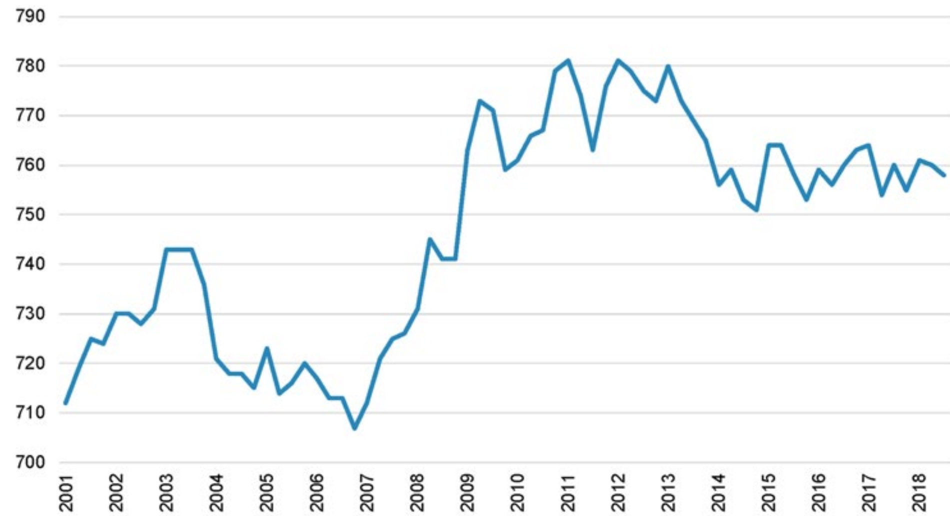
* Credit Score is Equifax Riskscore 3.0

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 3Q18, updated quarterly[†]) Pub: Apr-19

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 3Q18, median score at origination was 758.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION



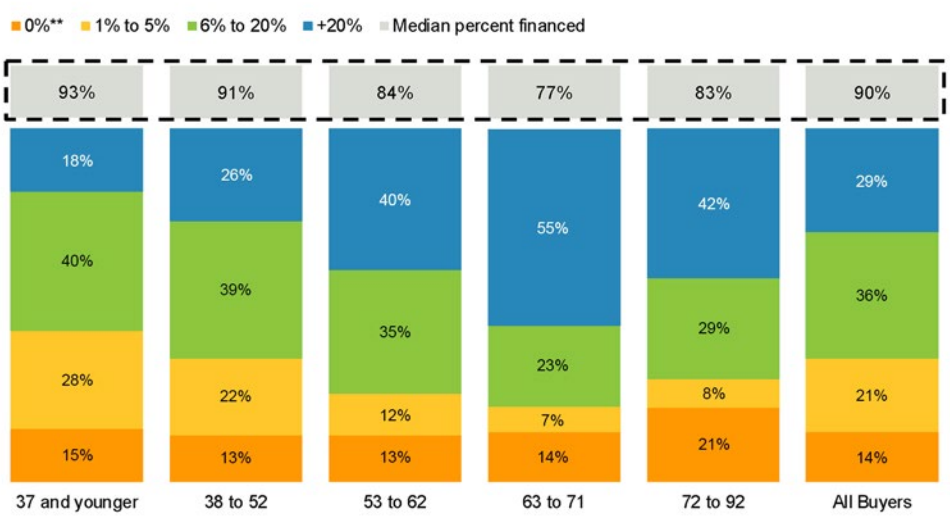
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 3Q18, updated quarterly[1]) Pub: Apr-19

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%.

DOWN PAYMENT AS PERCENT OF HOME VALUE BY AGE OF HOME BUYER*



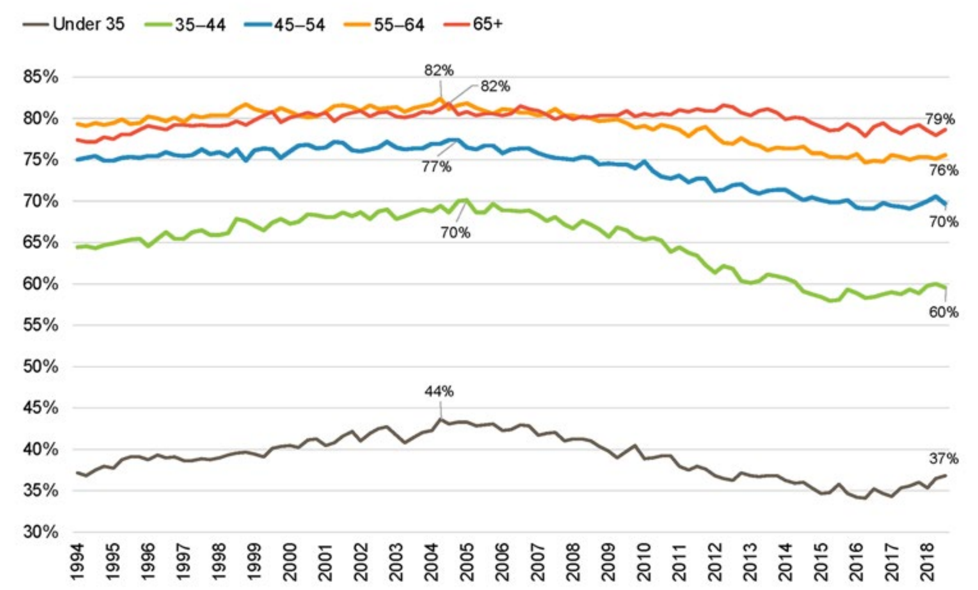
* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

SOURCE: ©2018 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2018, updated quarterly[1]) Pub: Apr-19

Homeownership Rate by Age

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

HOMEOWNERSHIP RATE BY AGE

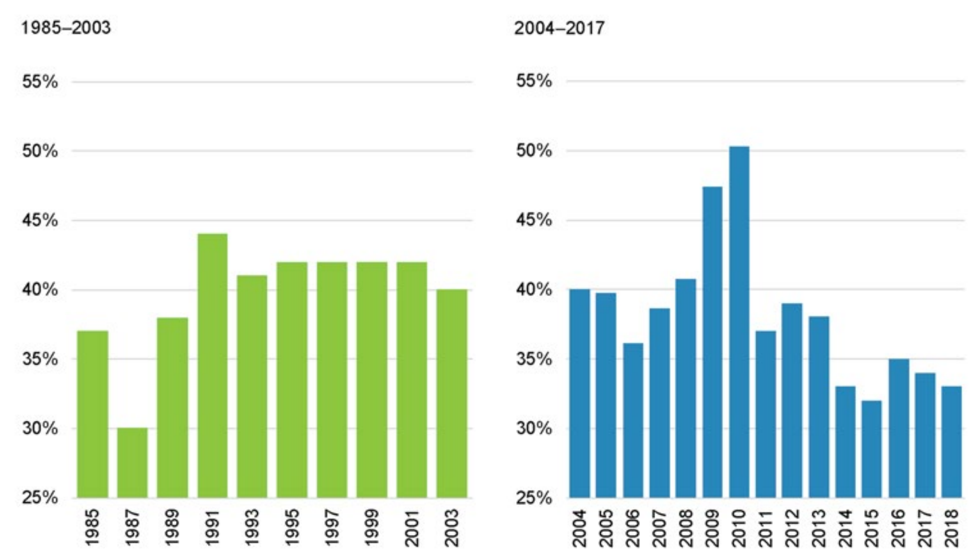


SOURCE: U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 3Q18, updated quarterly[1]) Pub: Apr-19

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.

SHARE OF EXISTING HOMES SOLD TO FIRST-TIME BUYERS



SOURCES: NAR; John Burns Real Estate Consulting, LLC (Data: 2018, updated quarterly[1]) Pub: Apr-19

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A UNIQUE APPROACH

- **Passion** for helping first time homebuyers realize their dreams
- **Steadfast commitment** to offering a different and personal experience in mortgage insurance
- **Collaboration** with organizations like Cultural Outreach that champion multicultural and millennial education
- **Focus on expanding technology** that enhances entire mortgage industry

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.

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