ECONOMIC MARKET SNAPSHOT

NationalMI

FALL 2019 | ISSUE NO. 10

NATIONAL MI IS PLEASED TO BRING YOU OUR

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

John Burns Real Estate Consulting has lowered the 30-year fixed interest rate forecast to a range of 3.5 percent to 3.8 percent over the 2020-2022 period. US home sales closings are strong, and the majority of borrowers have high credit scores, with 74 percent at a FICO® score of 720 and above. The median credit score of 759 is a great improvement over 2006 when the median credit score at mortgage origination fell to 707.

- The US unemployment rate remains at the lowest level since 1969, with a new low of 3.5 percent. In addition, the U6, a broader measure that captures underemployment and discouraged workers, has trended down to 6.9 percent, near the lowest level since 2001.
- The US Real GDP YOY growth is strong at 3.2 percent.
- Only 33 percent of all homebuyers who use a mortgage are using 20 percent or greater down payment. For homebuyers who are ages 28 and younger, just 19 percent have an LTV of 80 percent or less.
- US existing home sales closings are up from 2018, running at an annual rate of 5.5 million. John Burns Real Estate Consulting forecasts a decline in existing home sales closings through 2021 before a slight increase in 2022.

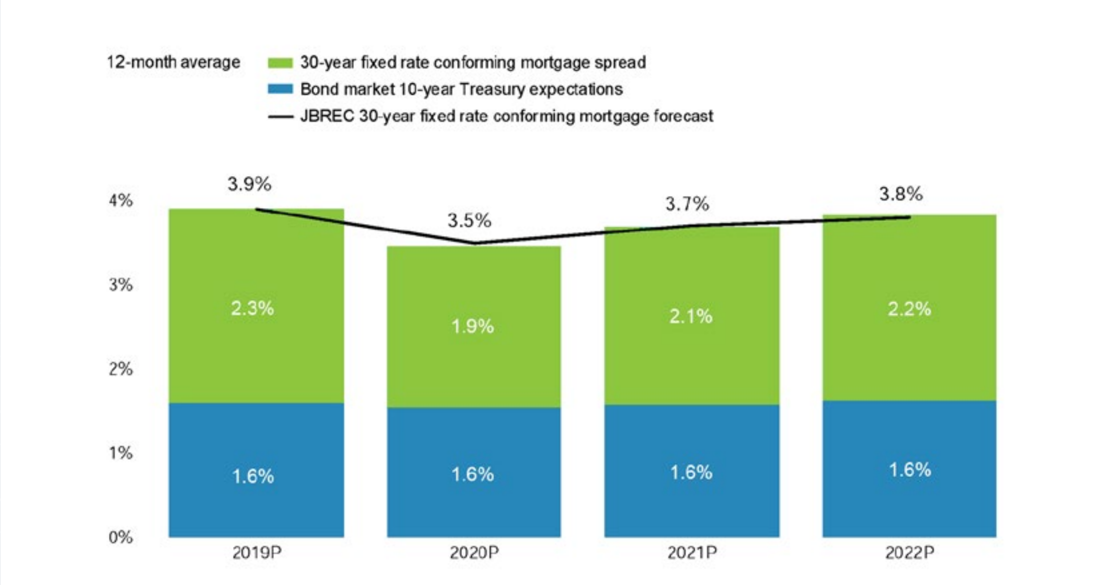
Current market conditions, based on 50 top housing markets, indicate that 70 percent of the markets are normal, with builders selling two-three months per community with slightly rising net prices. In October, 2 percent of the markets have moved up from "normal" to a rating of "strong." Low interest rates are helping to support continued strong home sales, but the Realtor Confidence Index has slightly declined. Realtors are a bit less optimistic about housing conditions compared to last year.

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

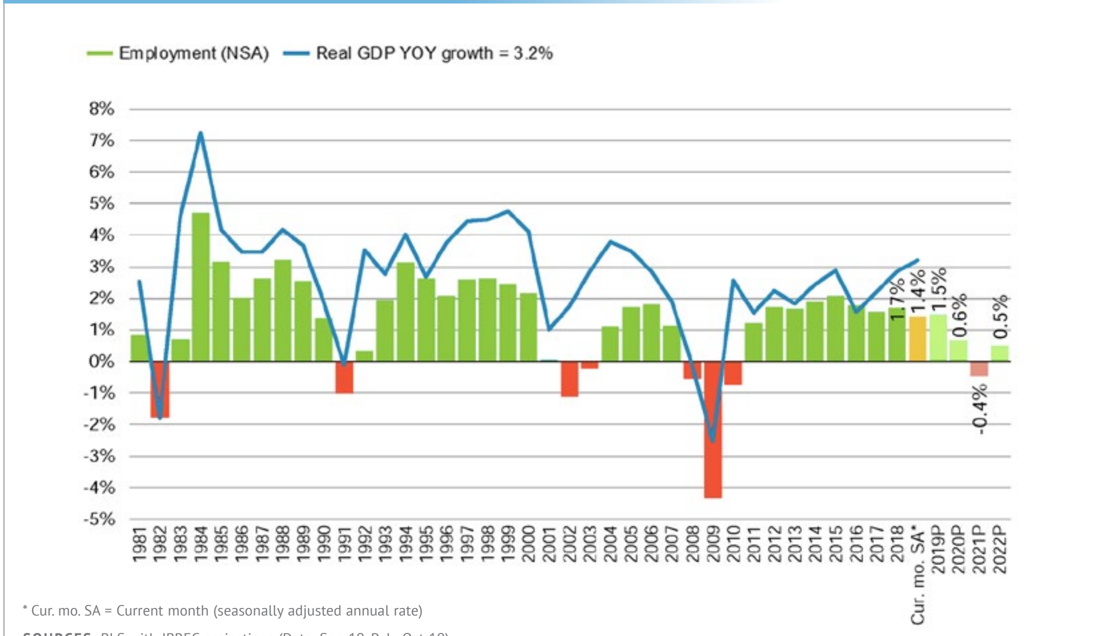


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Sep-19, Pub: Oct -19)

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



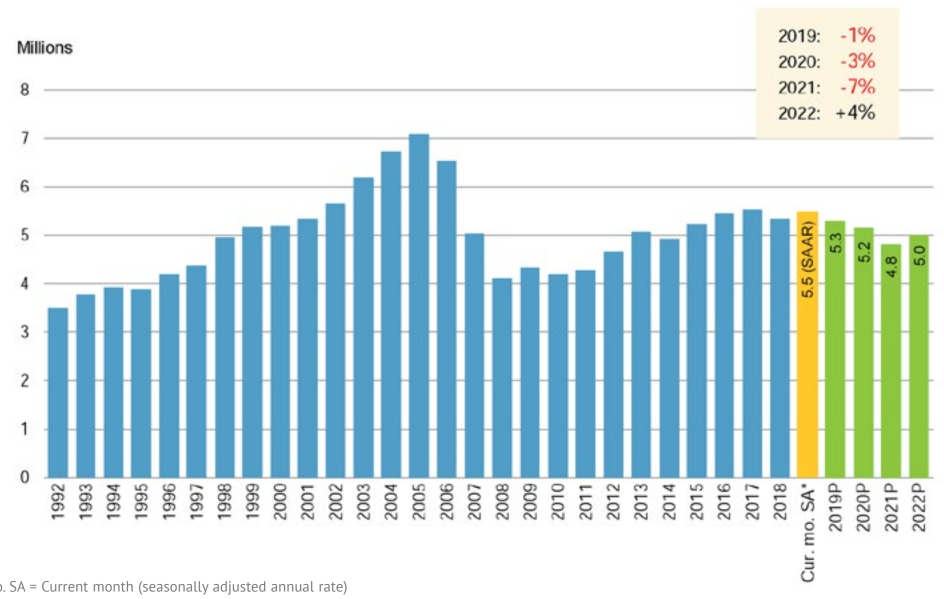
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Sep-19, Pub: Oct-19)

US Existing Home Sale Closings

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

US EXISTING HOME SALE CLOSINGS



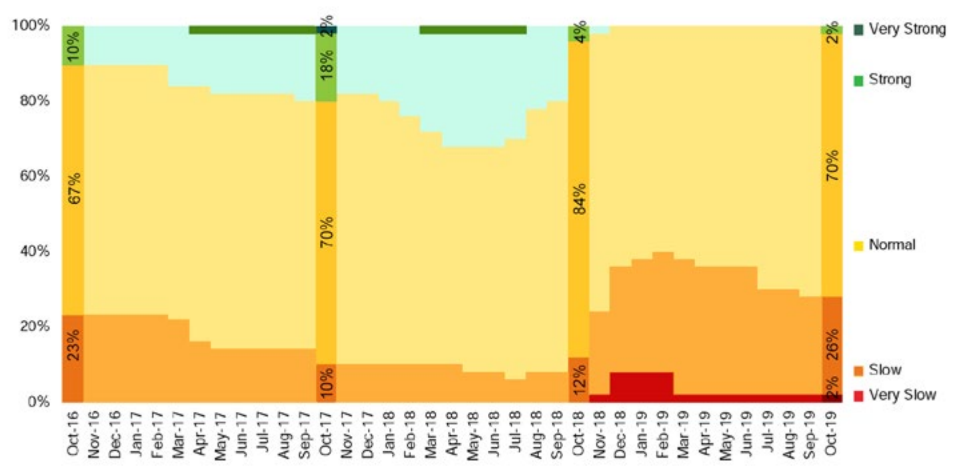
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: ©2019 National Association of REALTORS®; John Burns Real Estate Consulting, LLC (Data: Aug-19, Pub: Oct-19)

Current Market Conditions: 70% of Markets 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 28%.

CURRENT MARKET CONDITIONS



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

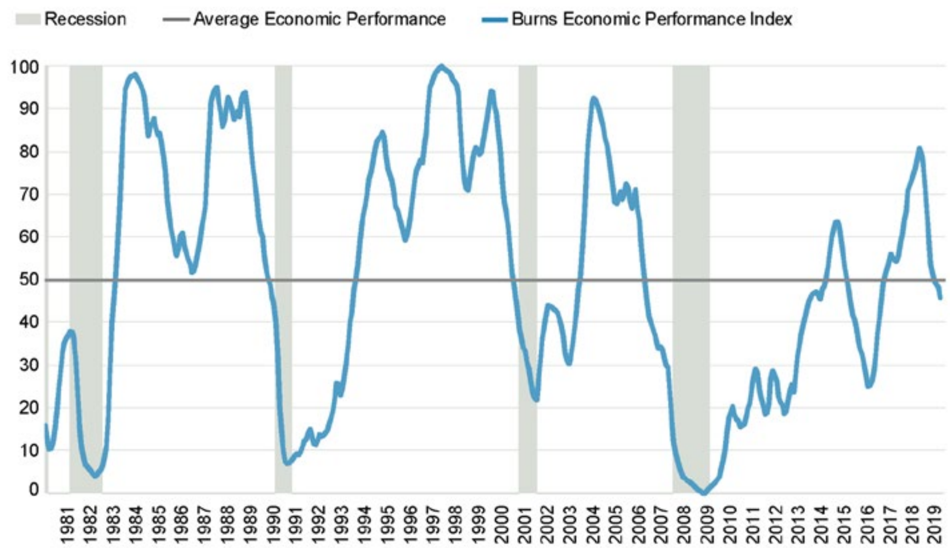
SOURCE: John Burns Real Estate Consulting, LLC (Pub: Oct-19)

Burns Economic Performance Index™

Inverting yield curves, which are a bearish/recessionary signal, and slowing corporate profits are pulling the Burns Economic Performance Index lower. The index now indicates below average economic performance.

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

BURNS ECONOMIC PERFORMANCE INDEX™



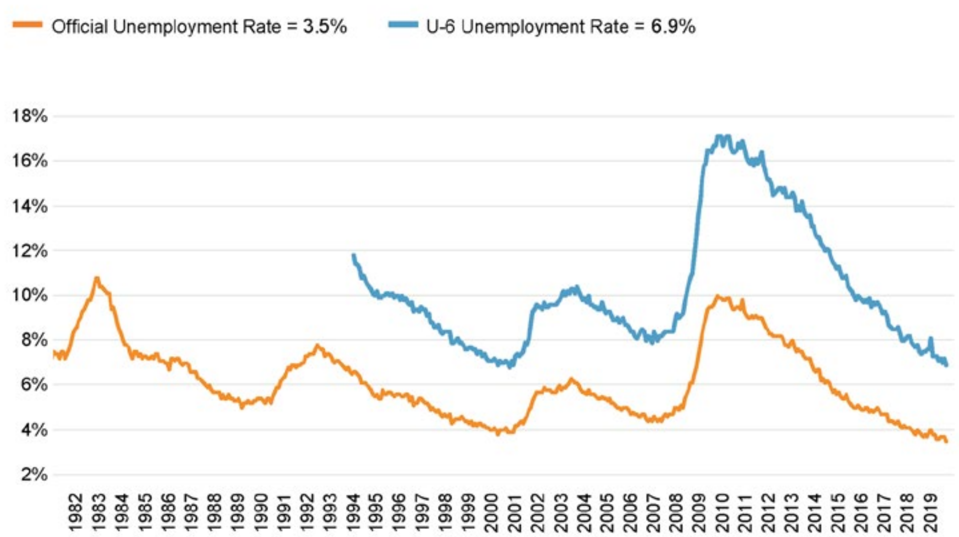
SOURCE: John Burns Real Estate Consulting, LLC (Data: Aug-19, Pub: Oct-19)

Unemployment Rate

The unemployment rate is at the lowest level since 1969, at 3.5%. 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.

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: Sep-19, Pub: Oct-19)

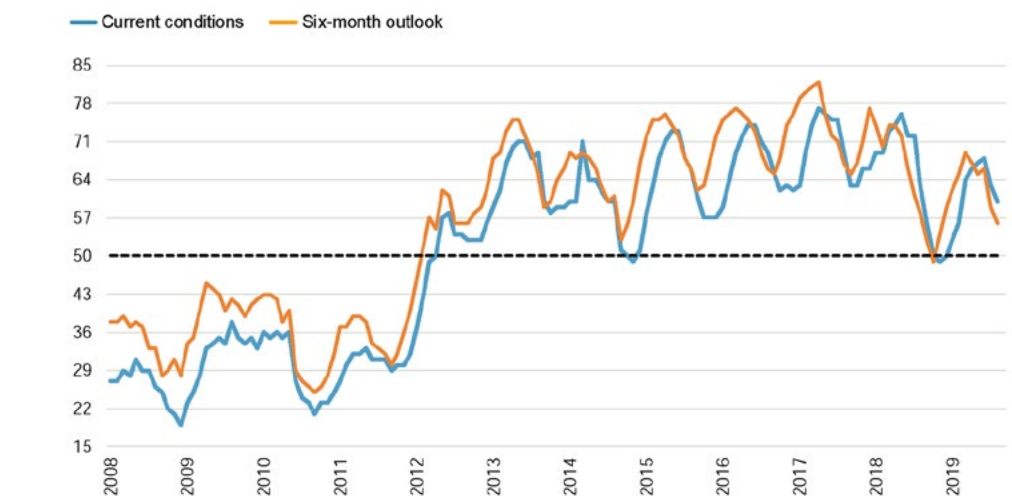
Realtor Confidence Index

The current conditions component of Realtor confidence declined -5% YOY, while the six-month outlook component fell -3% YOY. Realtors are less optimistic about housing conditions compared to last year.

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)



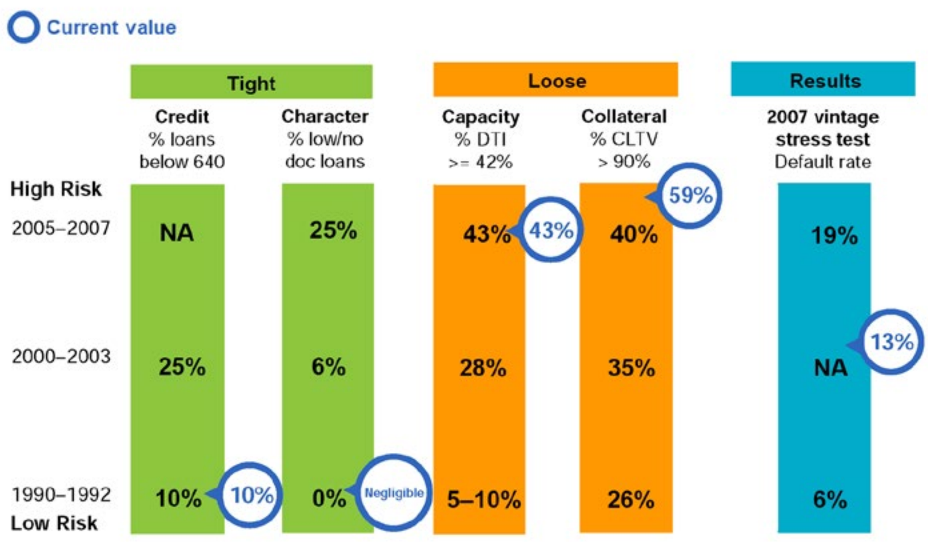
SOURCE: ©2019 National Association of REALTORS® (Data: Aug-19, Pub: Oct-19)

Lending Standards on Government-Backed Loans: 71% 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 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



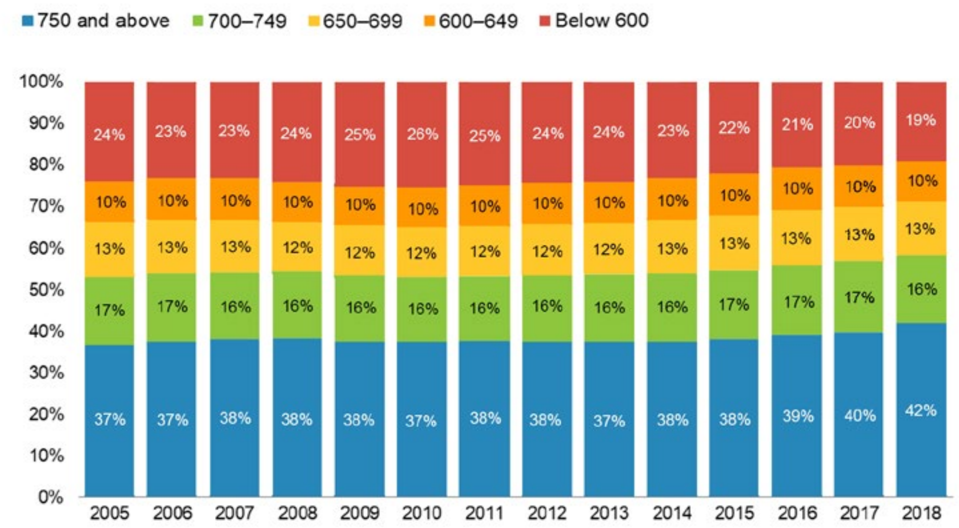
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Apr-19, updated quarterly[1]) Pub: Oct-19

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 FOR ALL CONSUMERS



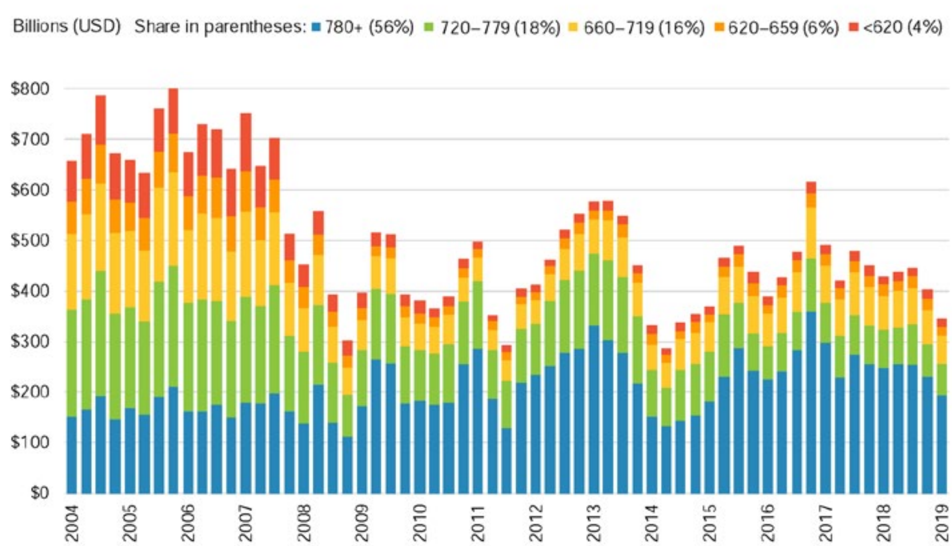
SOURCE: FICO™ Banking Analytics Blog (Data: Apr-18, updated quarterly†)

Pub: Oct-19

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 1Q19, 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

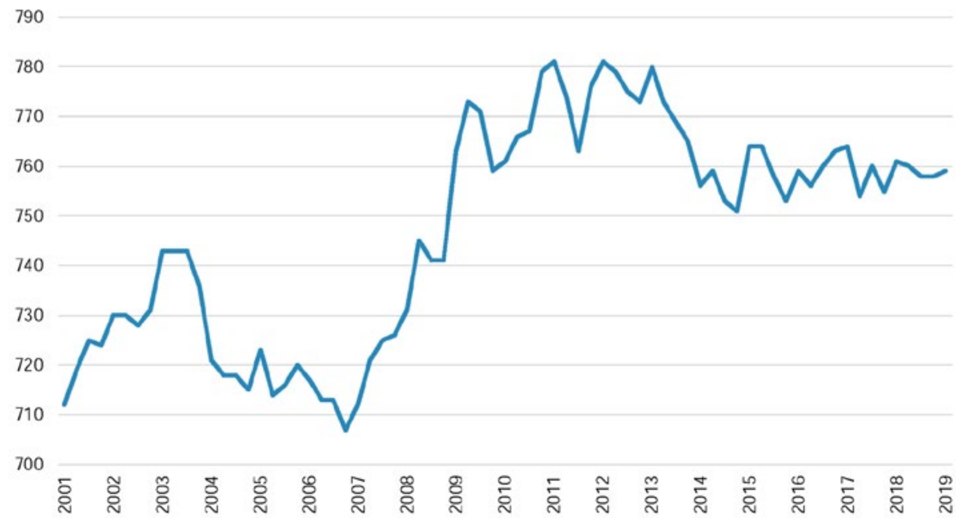
SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 1Q19, updated quarterly†)

Pub: Oct-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 1Q19, median score at origination was 759.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



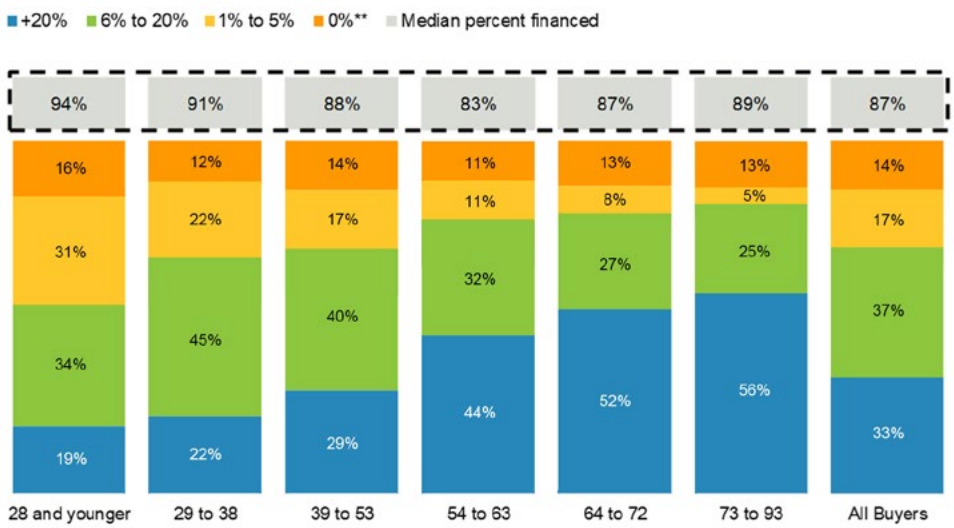
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 1Q19, updated quarterly[1]) Pub: Oct-19

Financing the Home Purchase by Age Group

31% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 47% among those 28 and younger. Only 21% of 64- to 72-year-olds have a LTV of +95%.

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

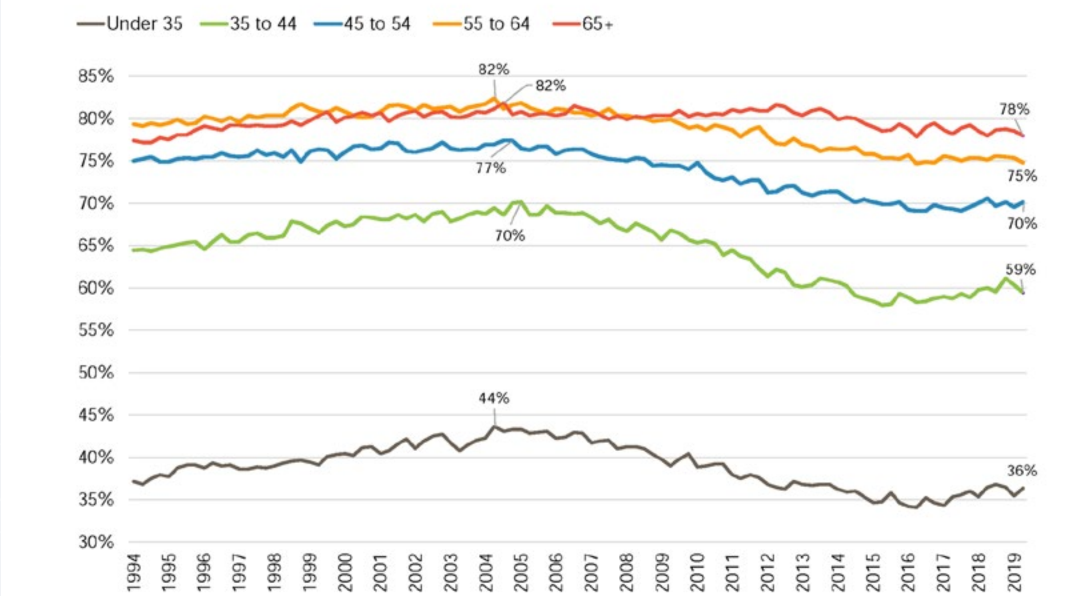


* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

SOURCE: ©2019 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2019, updated quarterly[1]) Pub: Oct-19

Homeownership Rate by Age

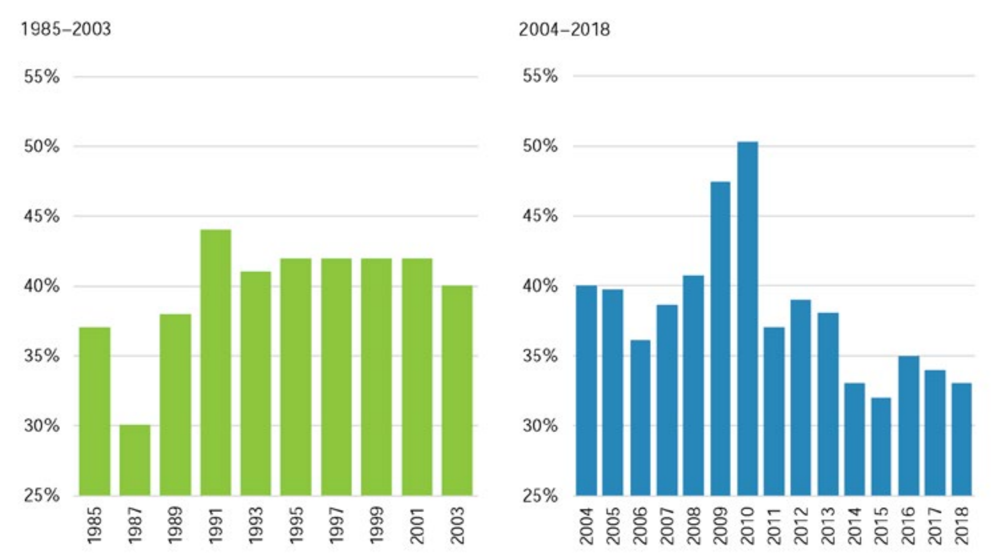
Homeownership rates across age groups have dropped noticeably from 2004-2005 levels.



SOURCE: U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 2Q19, updated quarterly[1]) Pub: Oct-19

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.



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

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NationalMI

MOVING MI FORWARD

WHEN MI COMPANIES COMPETE, LENDERS AND BORROWERS WIN

Pricing: Compare pricing for all MIs, especially National MI Rate GPS℠, to secure the right MI rate for your borrower

Assurance: With a new Master Policy, updated systems, and enhanced processes, we are ready to deliver earlier relief in alignment with GSE requirements

Technology: Leverage Best-Ex models and mortgage technology through LOS/PPE integrations to quickly and seamlessly run MI quotes

Industry Knowledge: Benefit from our unparalleled customer experience including an award-winning Operations team and robust training programs through National MI University

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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