

ECONOMIC MARKET SNAPSHOT

FALL 2017 | ISSUE NO. 2

National MI is pleased to bring you our 2nd issue of the Economic Market Snapshot.

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Real Estate Advisory

In this Fall Issue, we continue to highlight key data pertaining to mortgage rate forecasts, U.S. employment growth rates, projections for existing home sales, and a myriad of forward looking charts, metrics, and unique graphics illustrating demographic changes related to the housing industry and economic climate, that you can act upon.

John Burns of John Burns Real Estate Consulting, LLC. Real Estate Advisory shares his perspective in this Fall Issue:

- Rate Forecasts for the 10-Year Treasuries remain constant, which should call for slowing economic growth going forward and gradually drive premiums higher.
- A slight increase in job growth over the previous estimate – 1.6% in 2017 vs. our Summer Issue projection of 1.5%.
- Existing home sales remain strong, running at a 5.4 million seasonally adjusted annual rate (SAAR). Current forecast for flat to declining existing home sales volumes now through 2020.

- Current Market Conditions reflect an upgrade in several markets: 90% of markets are average or better.
- The John Burns Economic Performance Index signals above average economic conditions, with a positive trend.
- The unemployment rate declined to 4.2% compared to 4.4% in our Summer Issue, still reflecting near the lowest level since 2001.
- National FICO® Score distribution reflects a slow rebuilding of credit profiles. In 2016, 56% of consumers had FICO scores above 700, and 79% had FICO scores above 600.

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

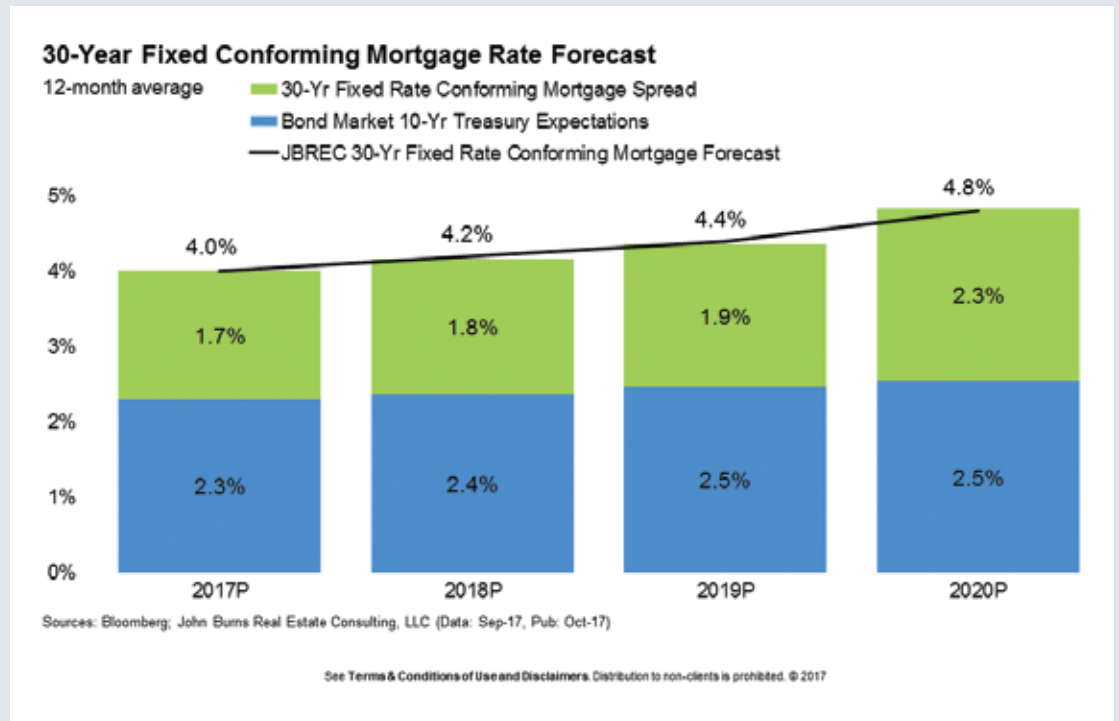
nationalmi.com/economic-market-snapshot

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:

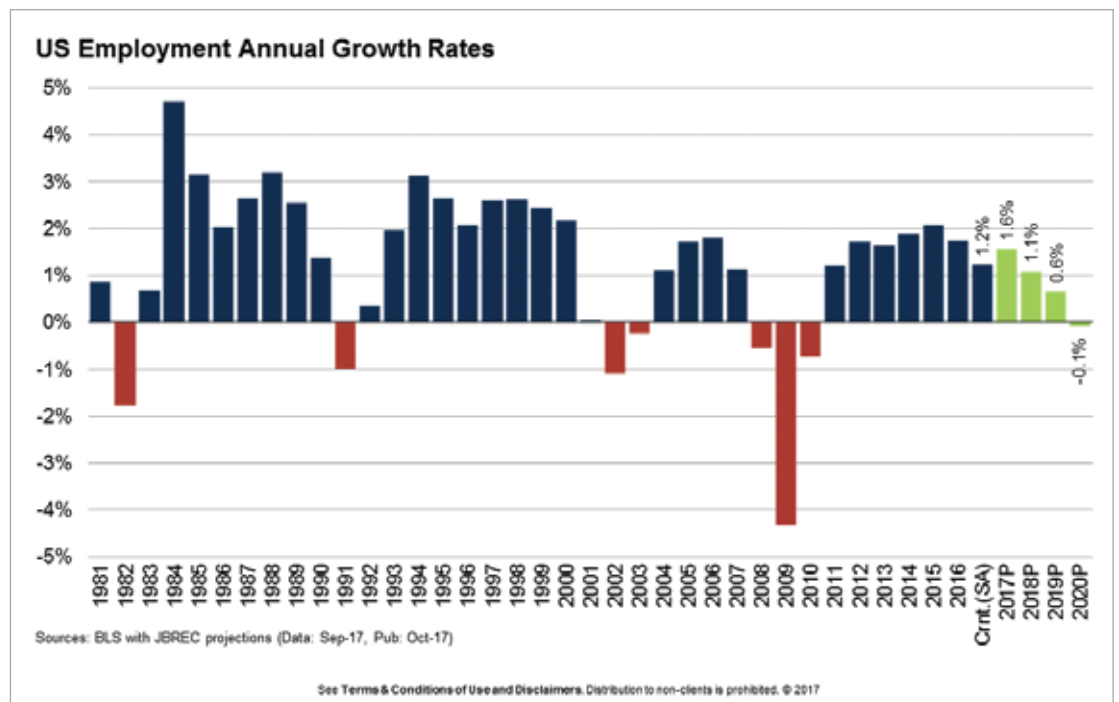
- 1) Mortgage servicing compliance costs have risen ~25bps per year,
- 2) GSE mortgage fees have increased ~25bps per year,
- 3) Mortgage investing risk has increased as some liability shifts to mortgage owners, but has also decreased due to better documentation and an explicit government guarantee,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



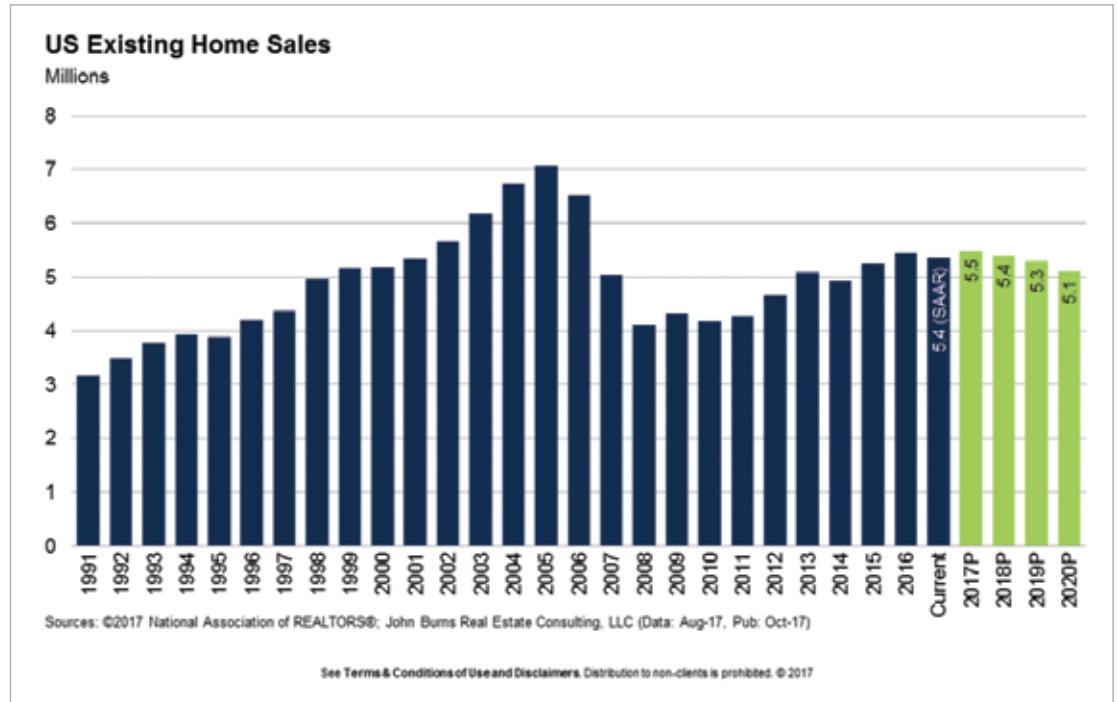
US Employment Growth Rates

We assume the economy will grow for 10.5 consecutive years. We forecast decelerating job growth out to 2020. Job growth of 1.6% in 2017 will slow to -0.1% in 2020.



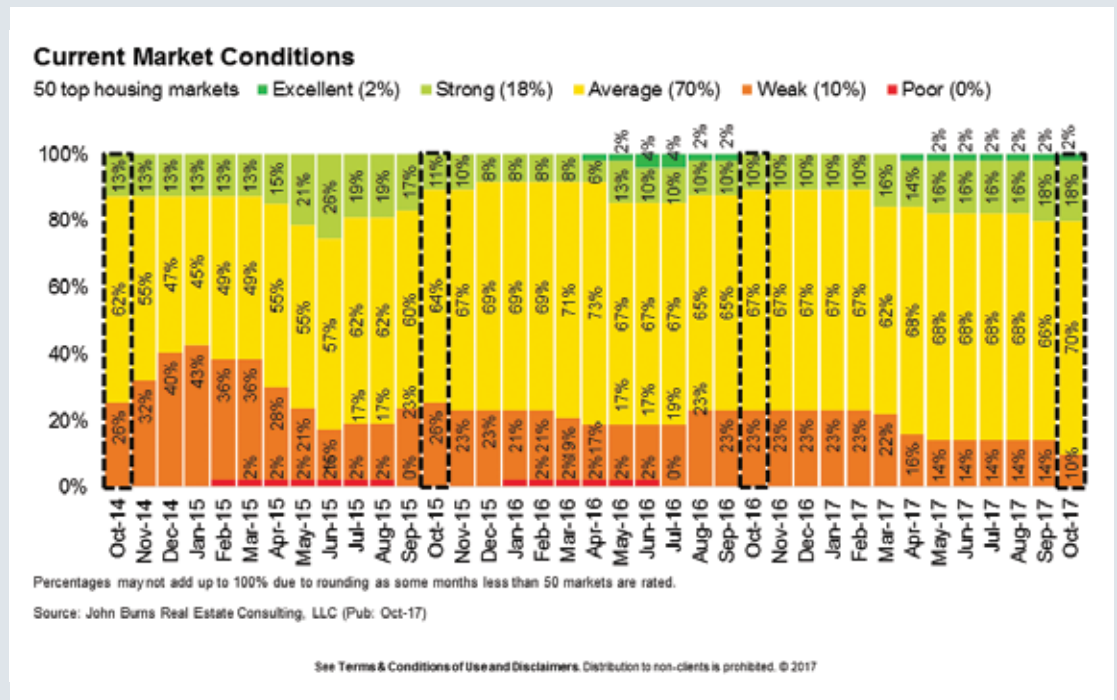
US Existing Home Sales

Existing home sales are currently running at a 5.4 million seasonally adjusted annual rate (SAAR). We forecast flat to declining existing home sales volumes through 2020.



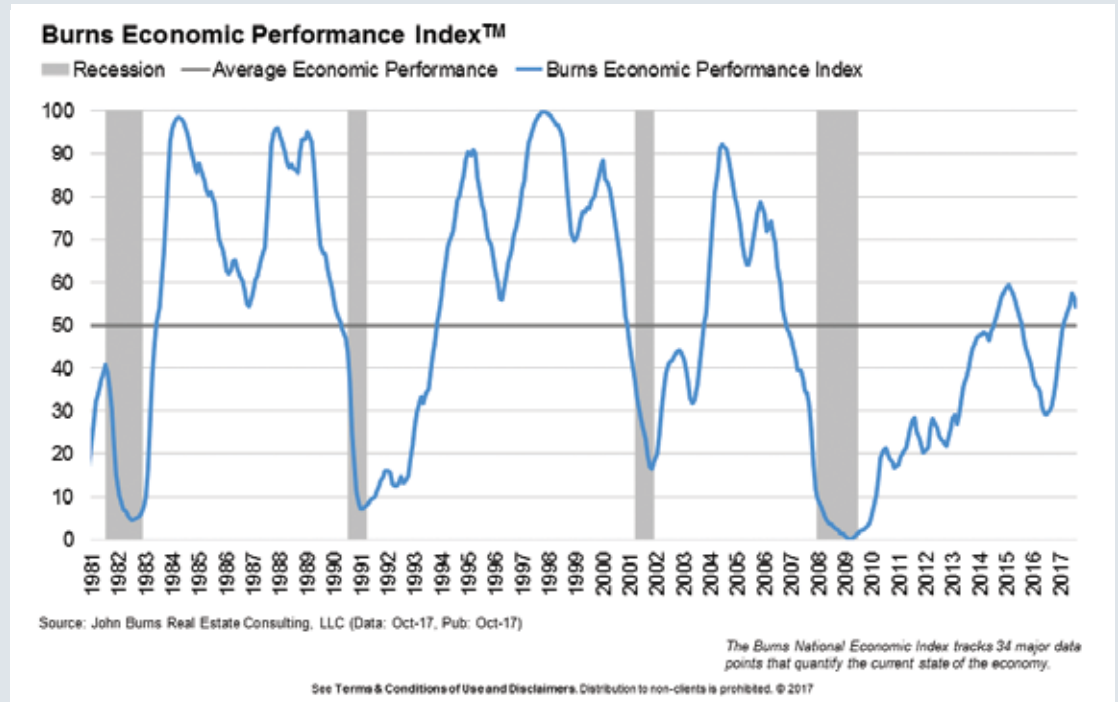
Current Market Conditions: 90% of Markets are Average or Better

In our rating process, average sales reflect builders selling 2-3/month per community with flat to slightly rising net prices. We have recently upgraded several markets to strong given a strong spring selling season.



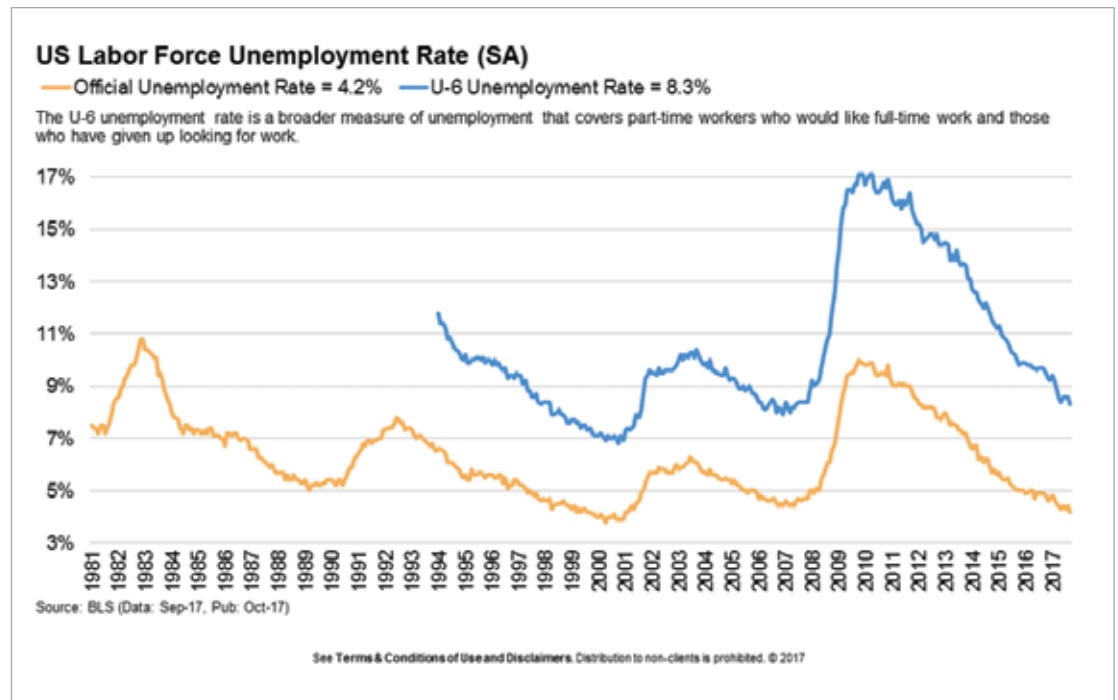
Burns Economic Performance Index™

Our Burns Economic Performance Index signals above average economic conditions.



Unemployment Rate

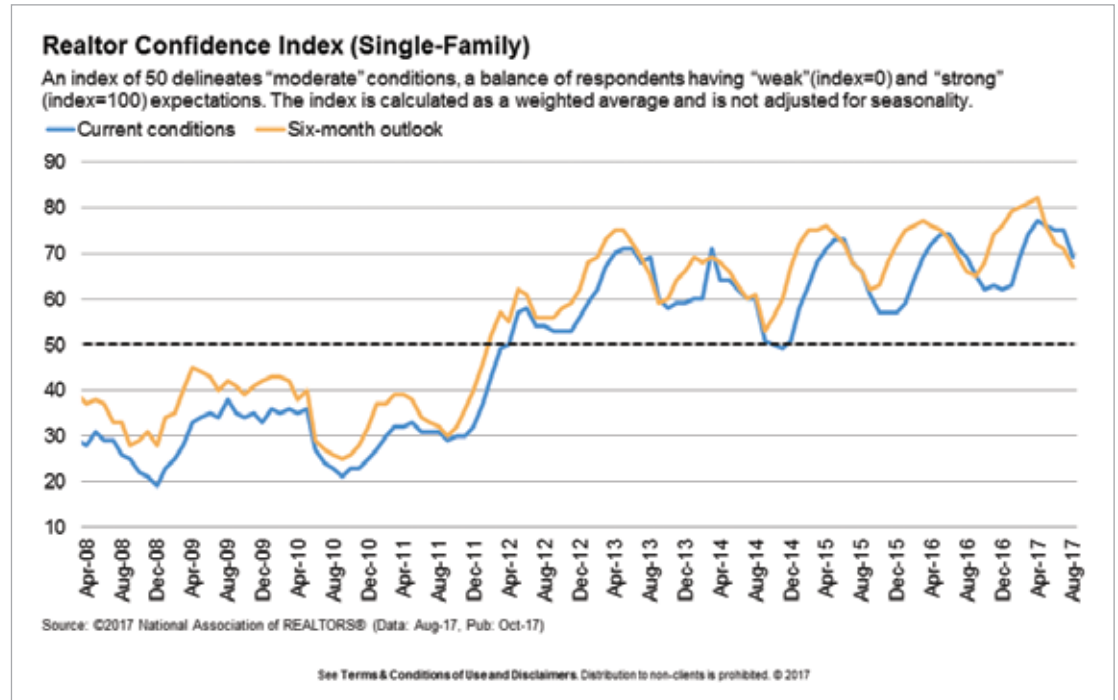
The Unemployment Rate declined to 4.2% in September, near the lowest level since 2001. The U-6, a broader measure of unemployment that captures under-employment and discouraged workers, has been trending down and remains at the lowest level since 2007.



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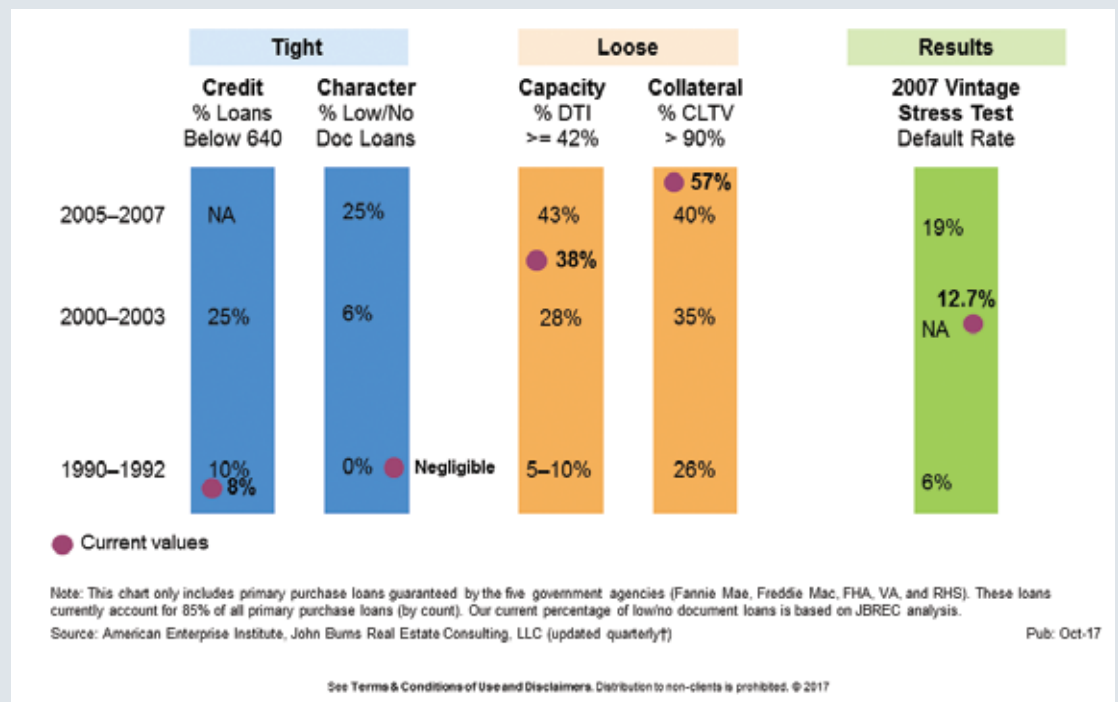
Realtor Confidence Index

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



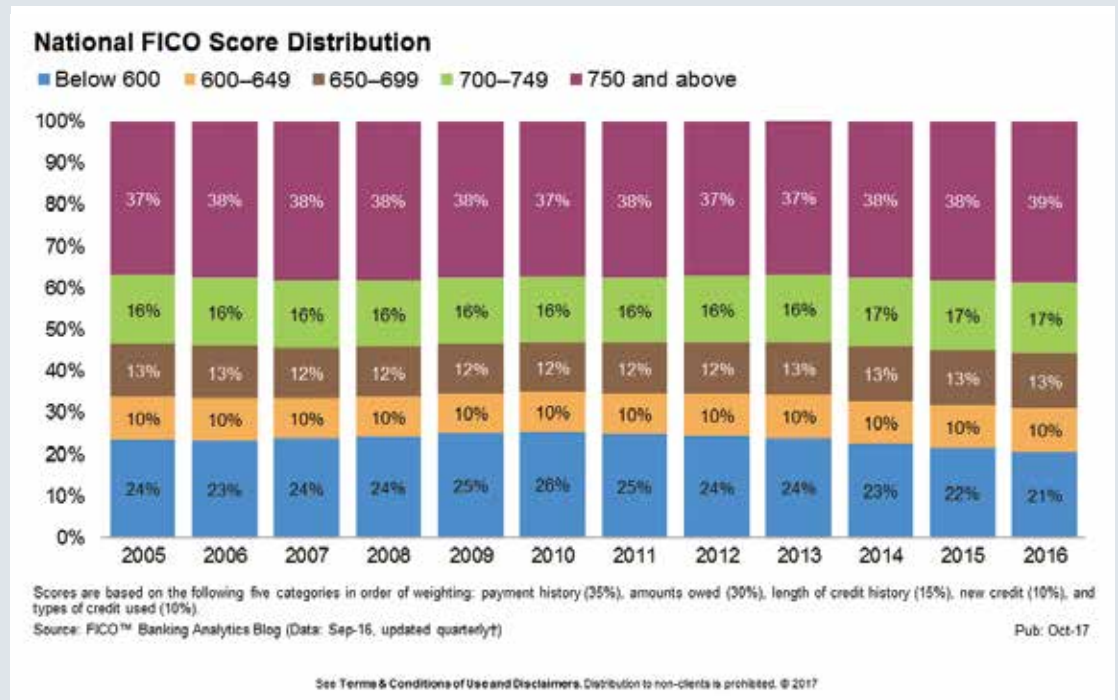
Lending Standards

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



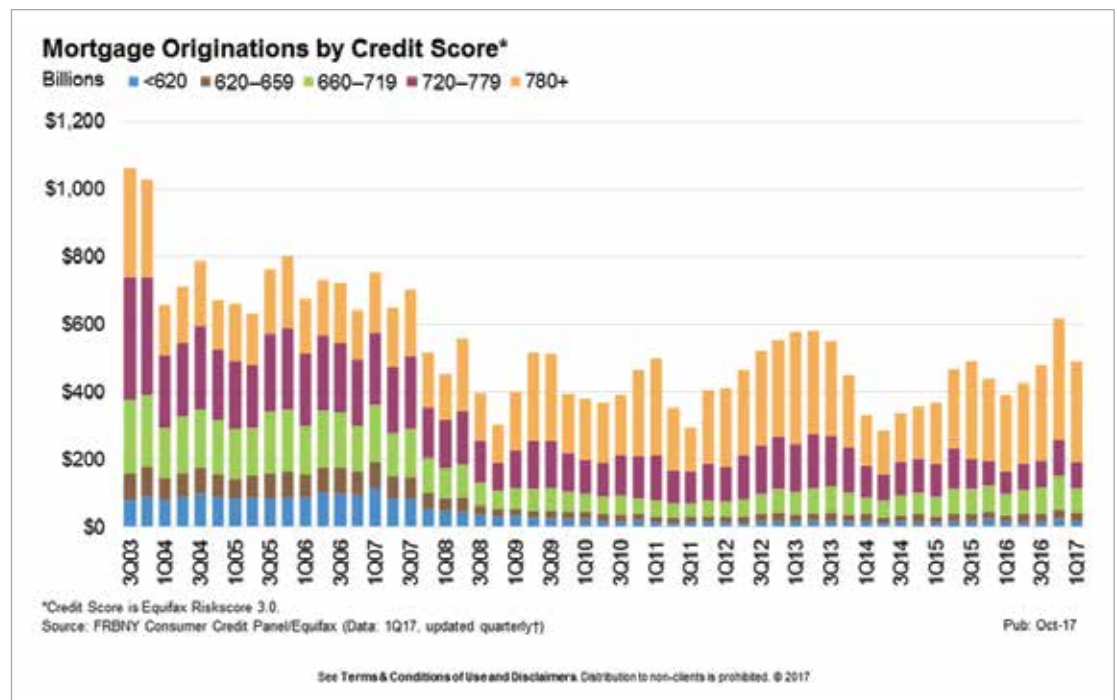
National FICO Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2016, 56% of consumers had FICO scores above 700, and 79% had FICO scores above 600.



Mortgage Originations by Credit Score

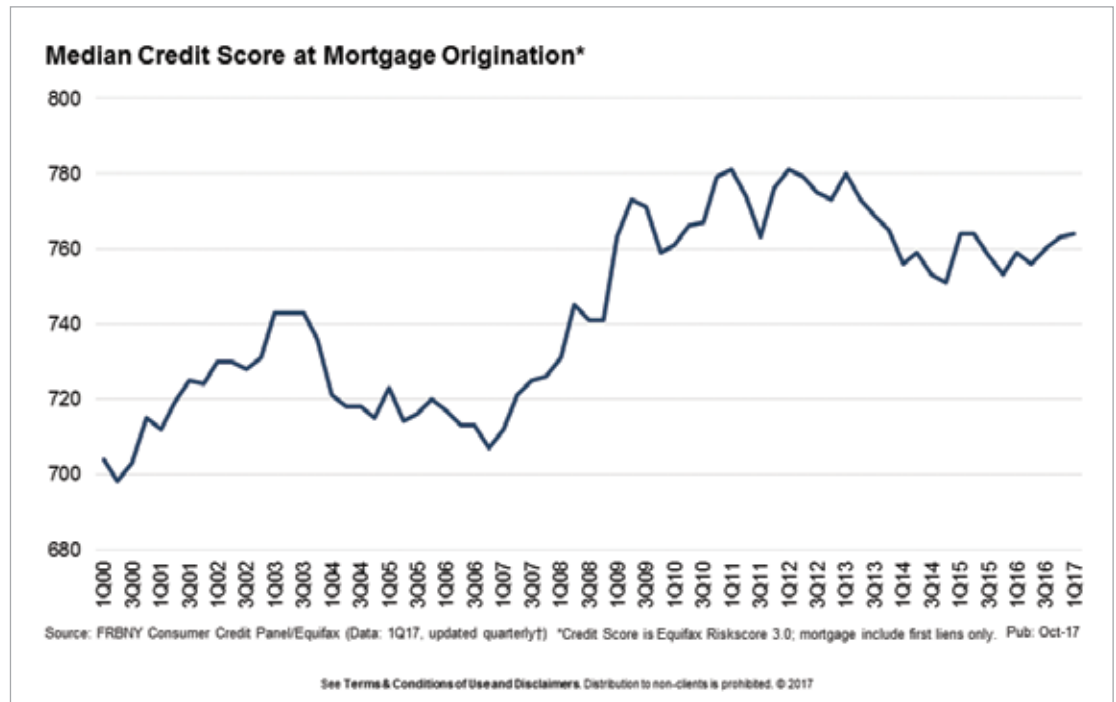
In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 1Q17, only 4% of mortgages went to borrowers with a credit score less than 620.



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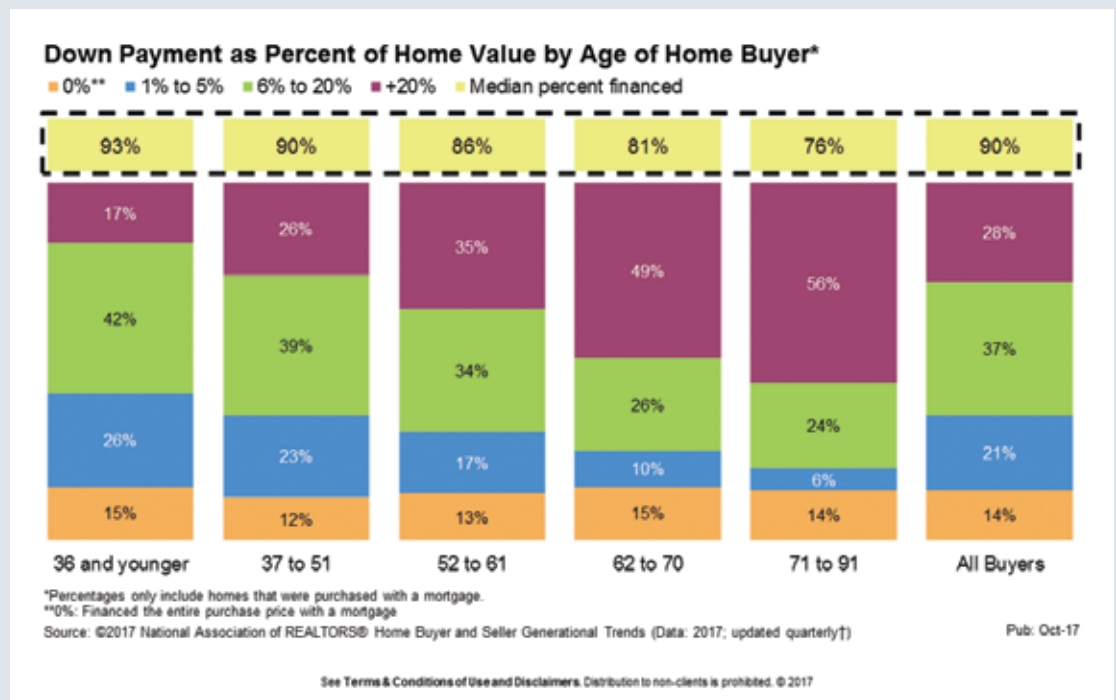
Median Credit Score at Mortgage Origination

The median credit score at mortgage origination fell to 707 during the credit heyday of 2006. Since then, creditors have tightened standards. As of 1Q17, median score at origination was 764.



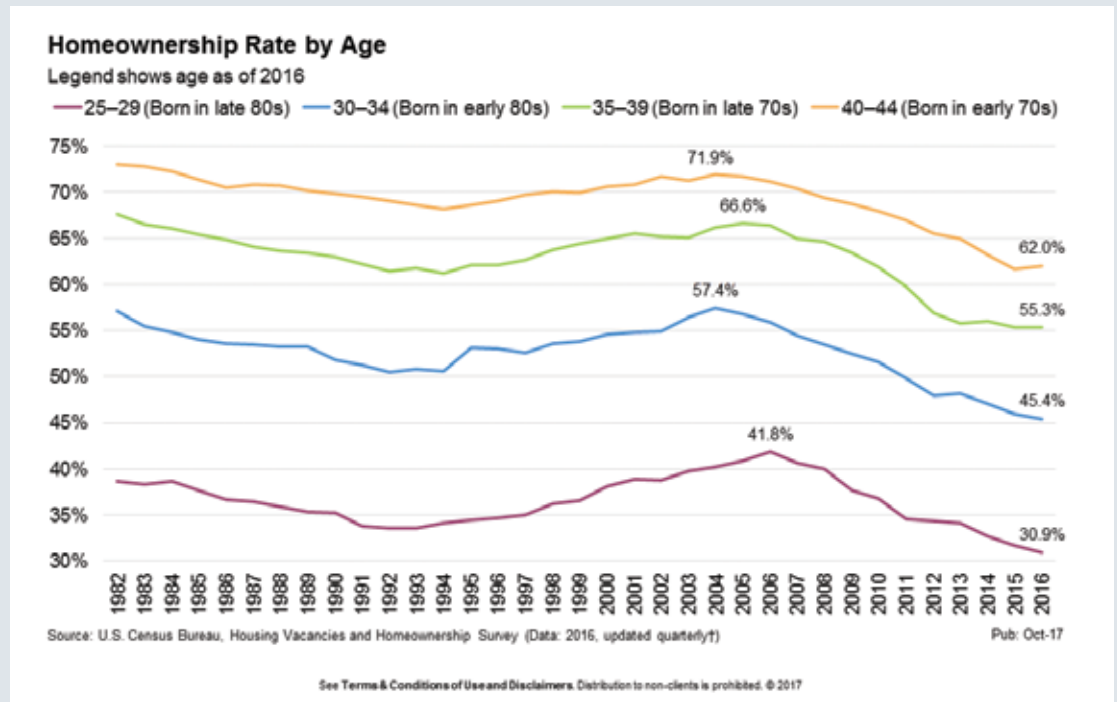
Financing the Home Purchase by Age Group

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%.



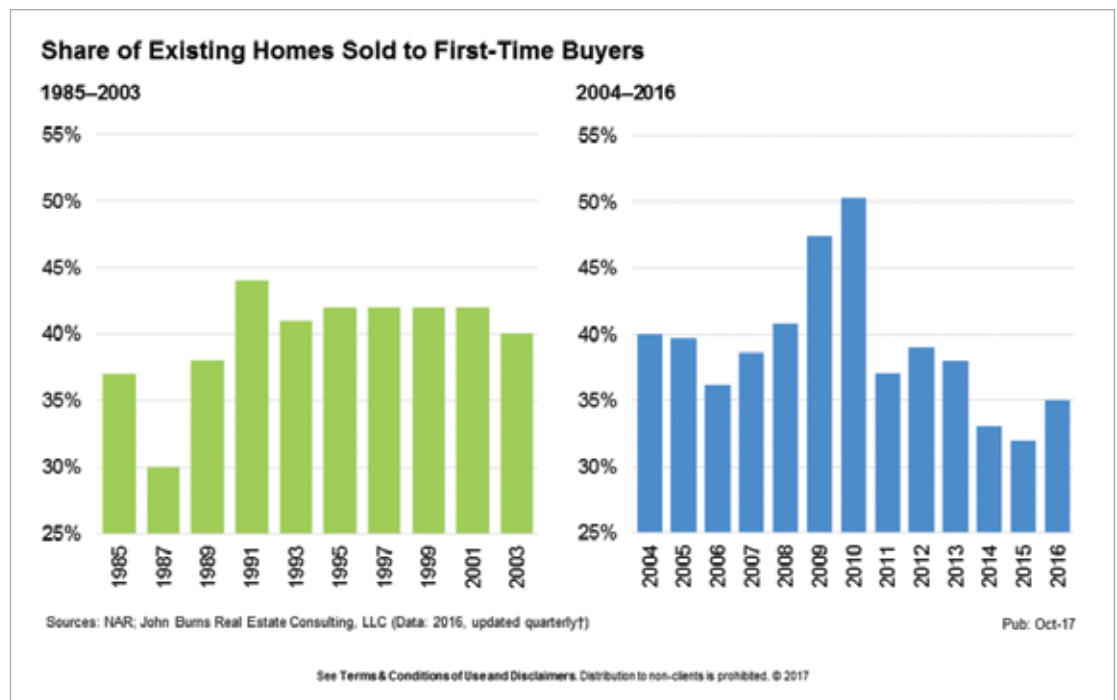
Homeownership Rate by Age (25 to 44 Age Cohorts)

Homeownership rates for 25-44 year-olds remain at the lowest levels in over 30 years.



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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