ECONOMIC MARKET SNAPSHOT

NationalMI

FALL 2020 | ISSUE NO. 12

NATIONAL MI IS PLEASED TO BRING YOU OUR

Fall 2020 Edition of the **Economic Market Snapshot**

As reported by John Burns Real Estate Consulting, mortgage rates continue to remain at historic lows and are expected to remain low for the next three years. With low interest rates come an anticipated growth in existing home sales through 2023. The unemployment rate fell to 7.9 percent in September, and the U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 12.8 percent after peaking above 20% earlier this year.

- After a record drop in 2020, employment is expected to grow through 2023.
- New home sales and price appreciation is now ranked "strong" or "very strong" in 78 percent of the top 50 housing markets, up from zero percent in April. This is an incredible turnaround given John Burns Consulting's rating process. Of the top 50 housing markets, 21 percent are rated "normal," which reflects builders selling 2-3/month per community with rising net prices.
- The Burns Economic Performance Index shows that the US economic performance was well below average, sitting at 7 in August 2020 (the lowest since 2010).

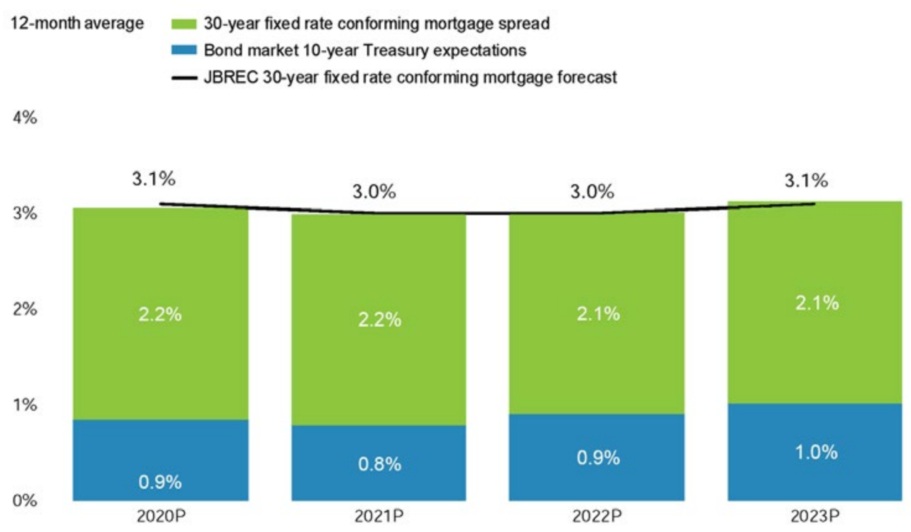
Existing home sales in 2020 are at the highest level in 14 years, and are projected to remain strong, increasing the YOY estimate to 6.4 million in 2023. Low interest rates and the declining unemployment rate support the strong projections for existing home sales to continue.

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

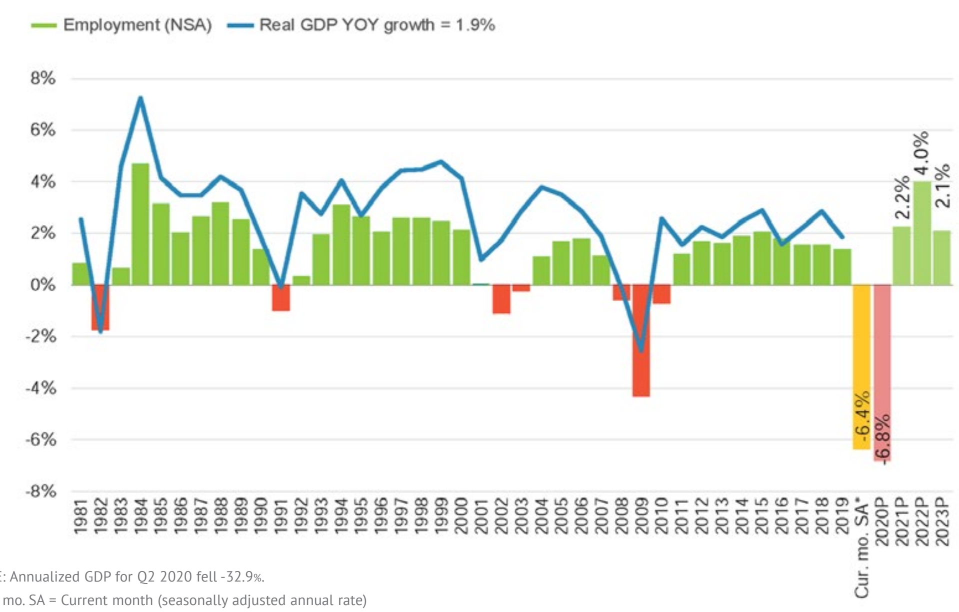


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Sep-20, Pub: Oct-20)

US Employment Growth Rates

After a record drop in 2020, we expect employment to grow through 2023.

US EMPLOYMENT ANNUAL GROWTH RATES



NOTE: Annualized GDP for Q2 2020 fell -32.9%.

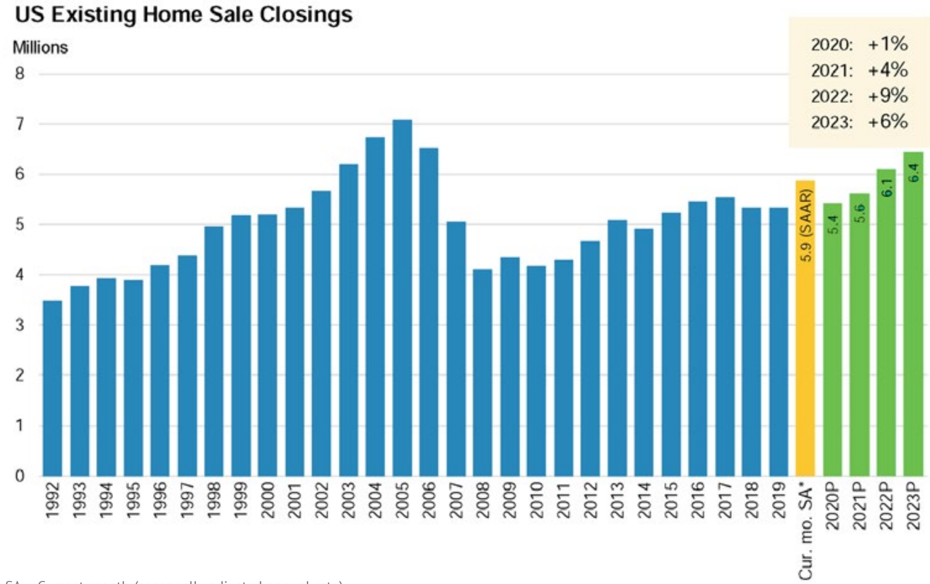
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Sep-20, Pub: Oct-20)

US Existing Home Sale Closings

We forecast existing home sales to grow YOY each year through 2023.

US EXISTING HOME SALE CLOSINGS



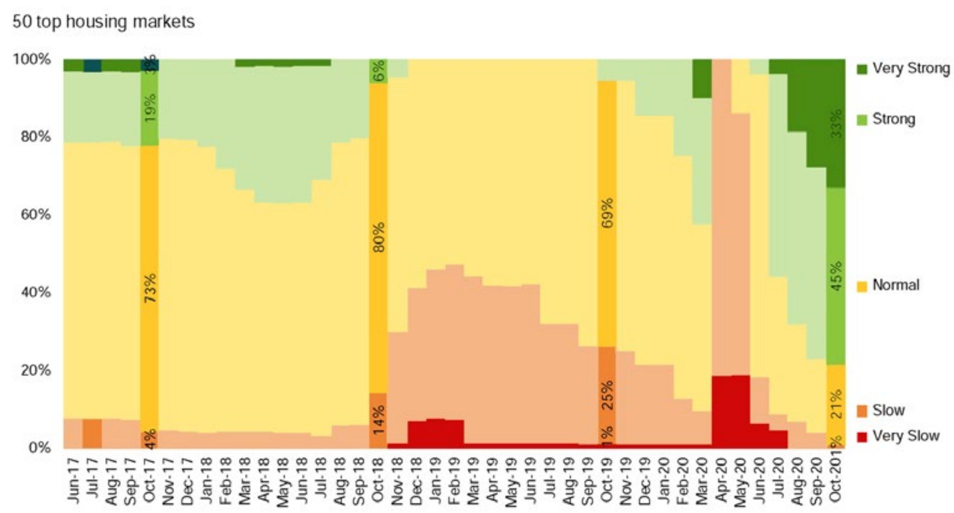
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: ©2019 National Association of REALTORS®; John Burns Real Estate Consulting, LLC (Data: Aug-20, Pub: Oct-20)

Current Market Conditions: 33% of Markets are Very Strong

New home sales and price appreciations is now Strong or Very Strong in 78% of markets, up from 0% in April. In our rating process, Normal reflects builders selling 2-3/month per community with rising net prices.

CURRENT MARKET CONDITIONS



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

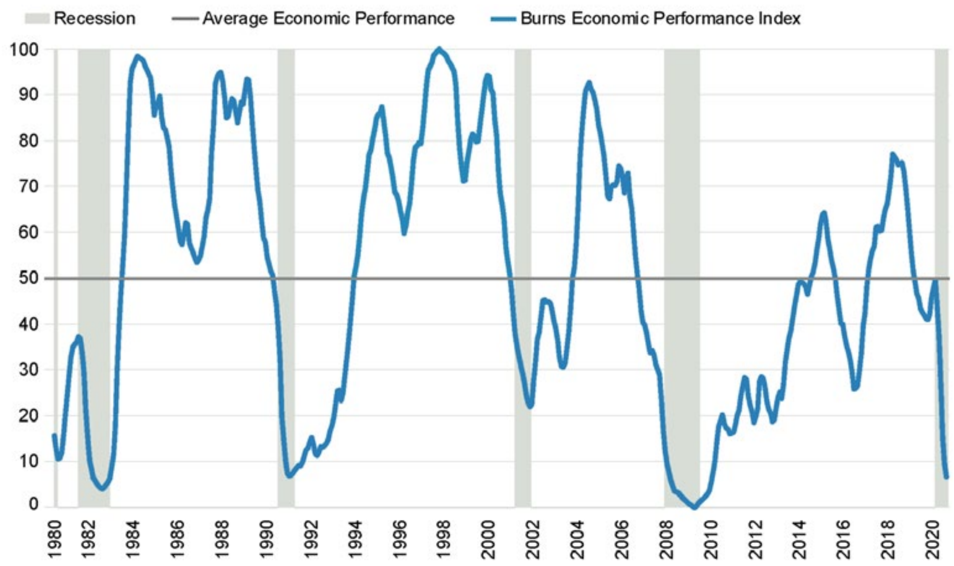
SOURCE: John Burns Real Estate Consulting, LLC (Pub: Oct-20)

Burns Economic Performance Index™

Our proprietary index shows that US economic performance was well below average in August at 7 (lowest since 2010).

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

BURNS ECONOMIC PERFORMANCE INDEX™



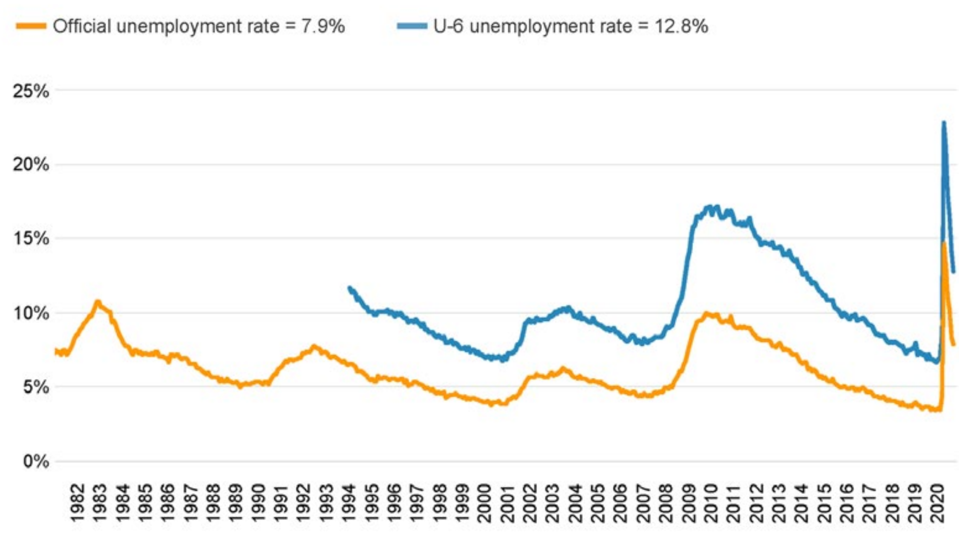
SOURCE: John Burns Real Estate Consulting, LLC (Data: Aug-20, Pub: Oct-20)

Unemployment Rate

The unemployment rate fell to 7.9% in September. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 12.8%.

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-20, Pub: Oct-20)

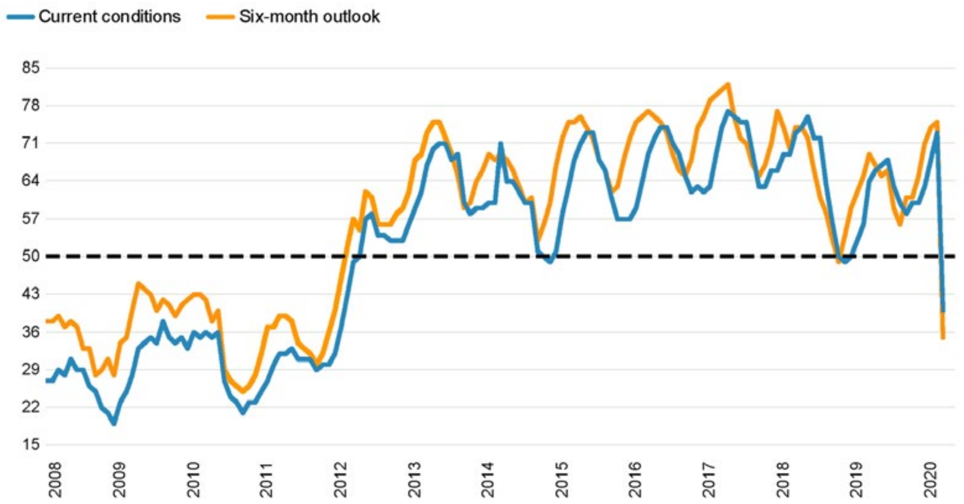
Realtor Confidence Index

As of March, the current conditions component of Realtor confidence fell -38% YOY, while the six-month outlook component fell -49% YOY.

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: Mar-20, Pub: Oct-20)

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

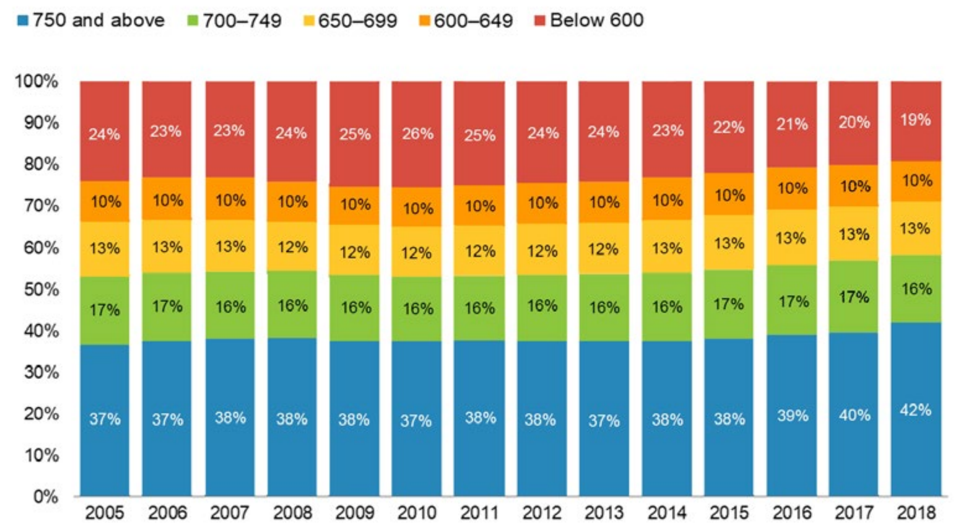
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Apr-20, updated quarterly[1]) Pub: Oct-20

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



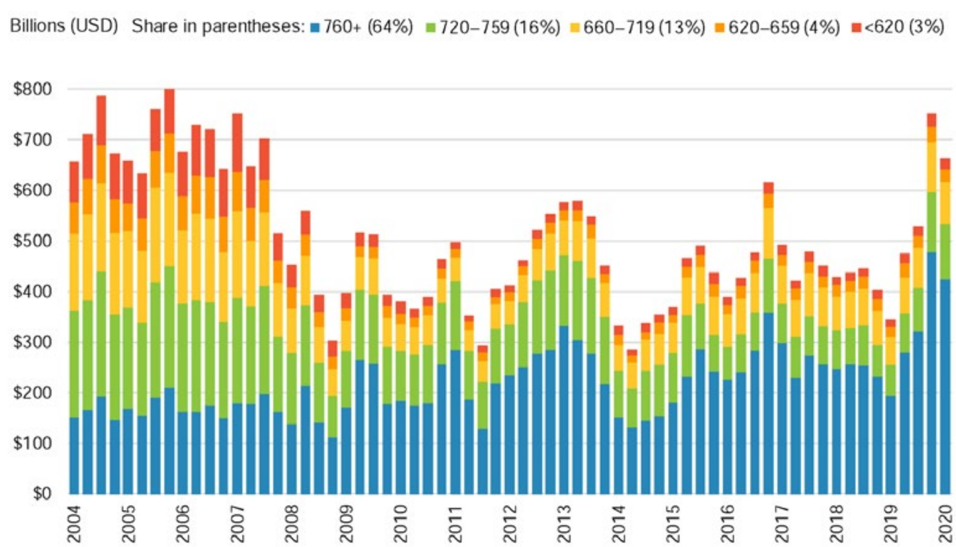
SOURCE: FICO™ Banking Analytics Blog (Data: Apr-18, updated quarterly[†])

Pub: Oct-20

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 1Q20, only 3% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



* Credit Score is Equifax Riskscore 3.0

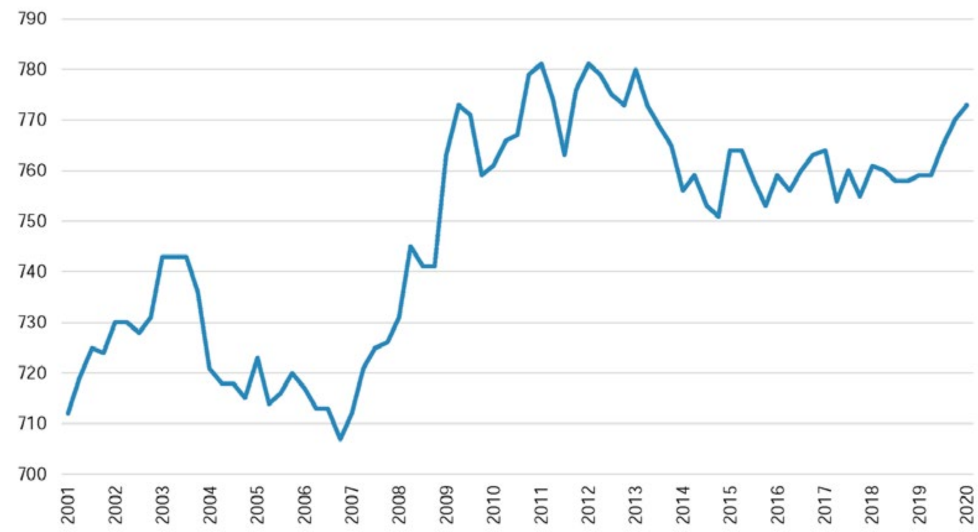
SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 1Q20, updated quarterly[†])

Pub: Oct-20

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 1Q20, median score at origination was 773.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



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

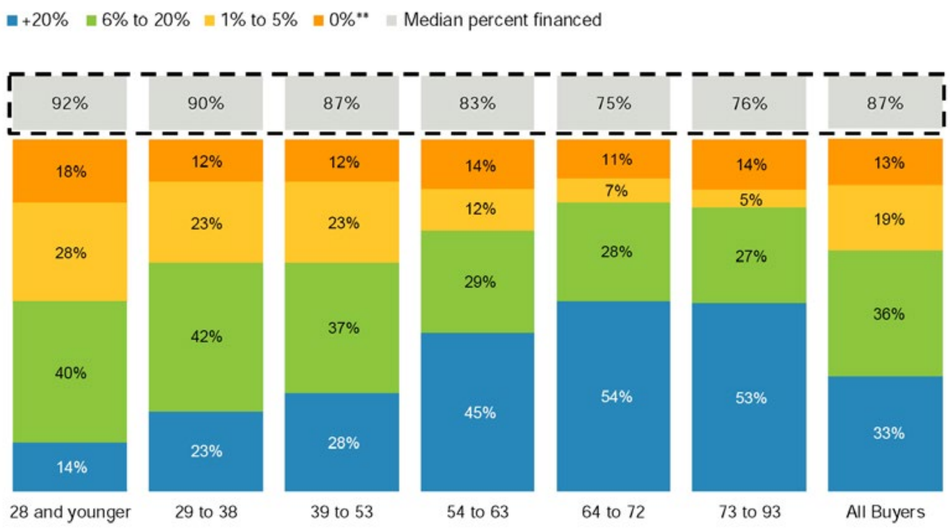
SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 1Q20, updated quarterly[1])

Pub: Oct-20

Financing the Home Purchase by Age Group

32% of all home buyers who use a mortgage are putting 5% or less down. The figure jumps to 46% among those 28 and younger. Only 18% of 64- to 72-year-olds have a LTV of +95%.

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



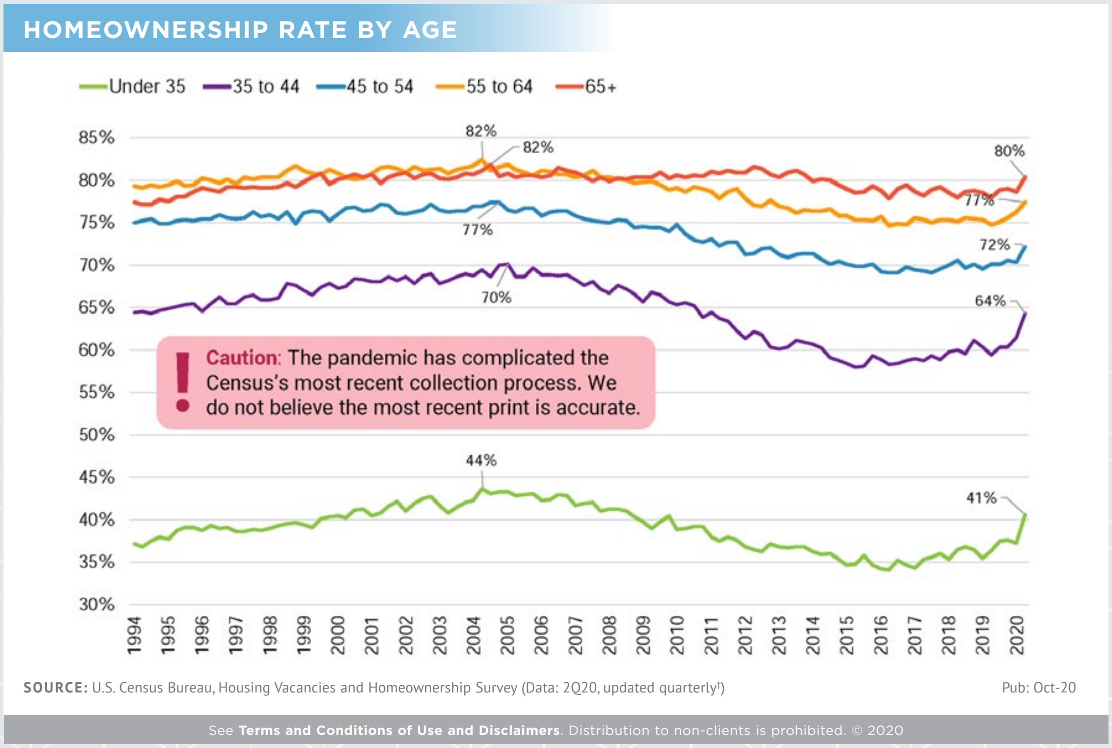
* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

SOURCE: ©2019 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2020, updated quarterly[1])

Pub: Oct-20

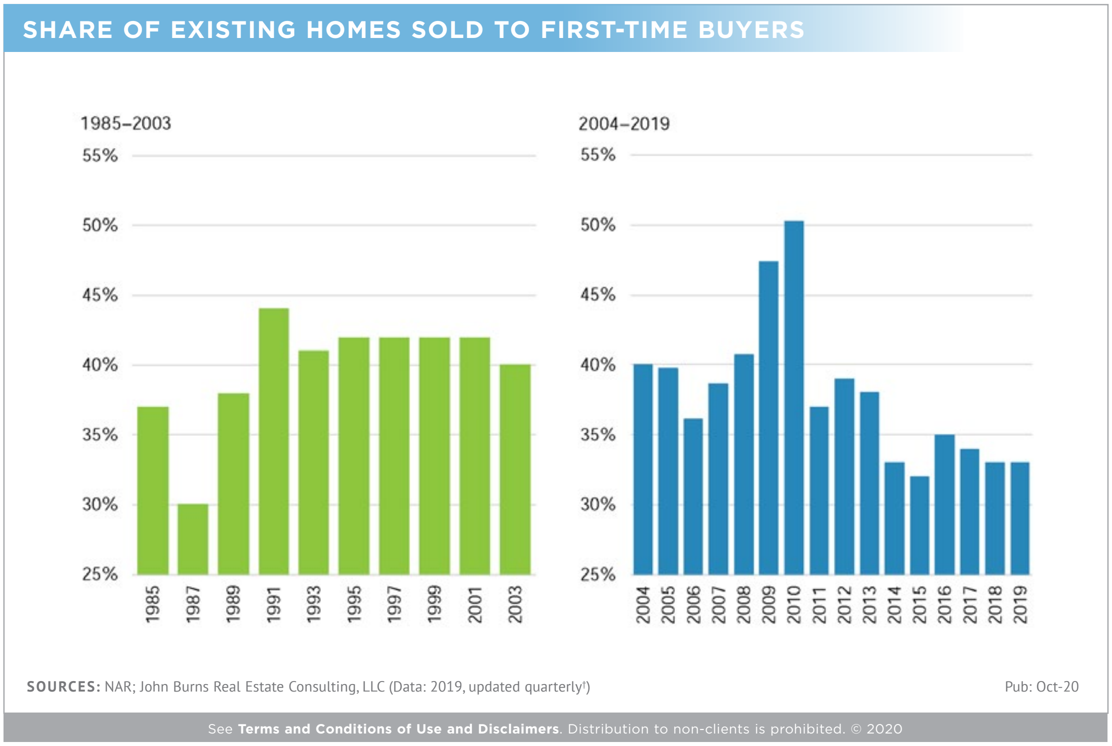
Homeownership Rate by Age

Homeownership rates across age groups increased in 2Q20.



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.



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John Burns Real Estate Consulting, LLC helps executives make informed housing industry decisions. Our clients engage with us in two primary ways:

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CONSULTING

A specific contracted engagement to help clients with a housing related strategic decision.

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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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