NationalMI

ECONOMIC MARKET SNAPSHOT

FALL 2021 | ISSUE NO. 16

NATIONAL MI IS PLEASED TO BRING YOU OUR

Fall 2021 Edition of the **Economic Market Snapshot**

As reported by John Burns Real Estate Consulting, the forecast for existing home sales is expected to grow year over year (YOY) through 2023, reaching 6.7 million, the highest volume since 2005.

- Employment rate: After a record drop in 2020, employment is expected to grow 4.3 percent YOY in 2022. Employment growth will slow but remain positive through 2024.
- Credit quality: In 2Q21 only 2 percent of mortgages went to borrowers with a credit score <620, compared to 1Q07 when 15 percent of mortgage originations went to subprime borrowers with a credit score <620.
- Mortgage rates: Based on Market Pricing for 10-year Treasuries, 30-year fixed conforming mortgage rates will gradually increase from 3.0 percent in September 2021 to 3.7 percent in 2024.

Based on a review of the 50 top housing markets, 50 percent are ranked "Very Strong". However, John Burns Real Estate Consulting has downgraded several other housing markets to "Strong" or "Normal," as sales and pricing conditions show signs of cooling, where normal is defined as *builders selling 2-3/month per community with rising net prices.*

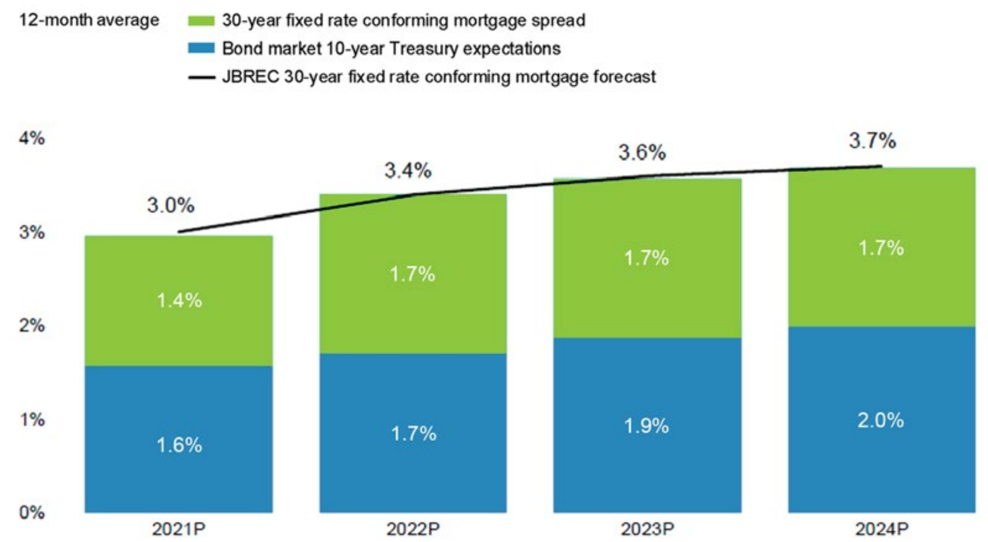
Low interest rates and employment growth will continue to bolster the housing market through 2024. Mortgage originations remain strong with the average borrower credit score at a record high of 786 as of 2Q21, and the median of loans financed at 88 percent. The highest median percent financed is among those age 30 and younger, at 94 percent.

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

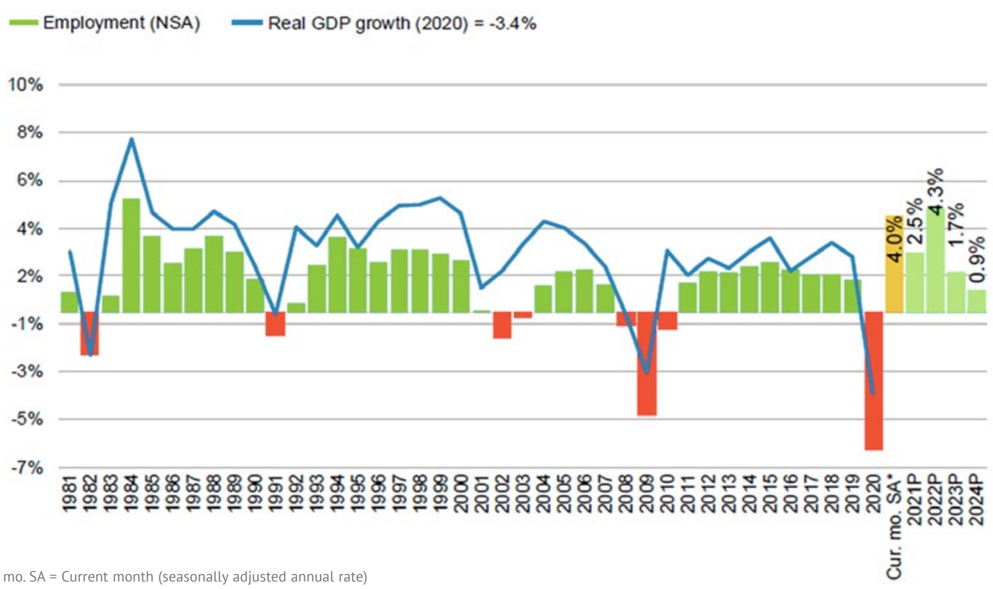


SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Sep-21, Pub: Oct-21)

U.S. Employment Growth Rates

After a record drop in 2020, we expect employment to grow 4.3% YOY in 2022. We expect employment growth will slow but remain positive through 2024.

US EMPLOYMENT ANNUAL GROWTH RATES



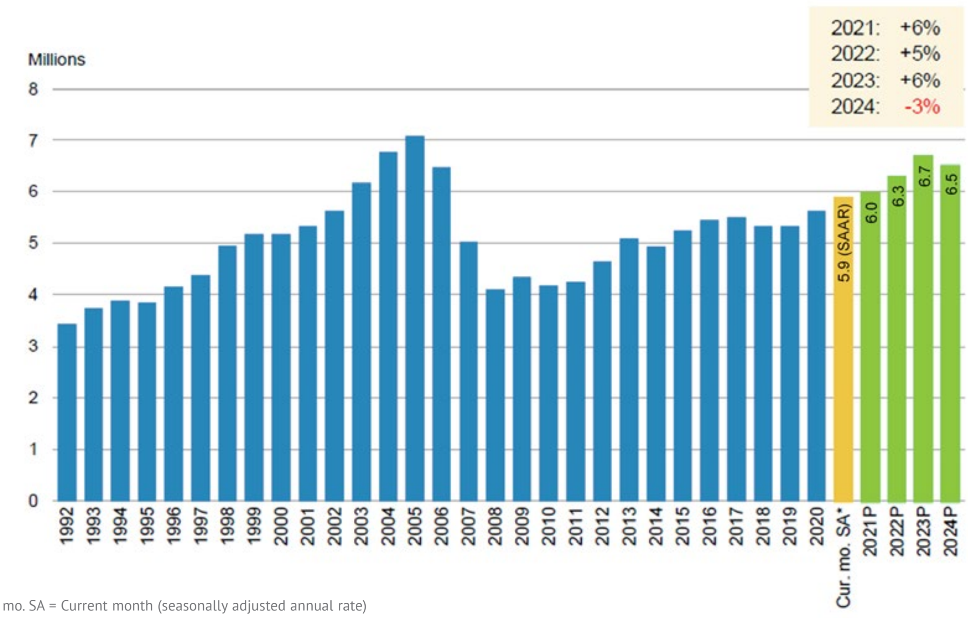
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Sep-21, Pub: Oct-21)

U.S. Existing Home Sale Closings

We forecast existing home sales to grow YOY through 2023, reaching 6.7 million (highest since 2005).

US EXISTING HOME SALE CLOSINGS



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

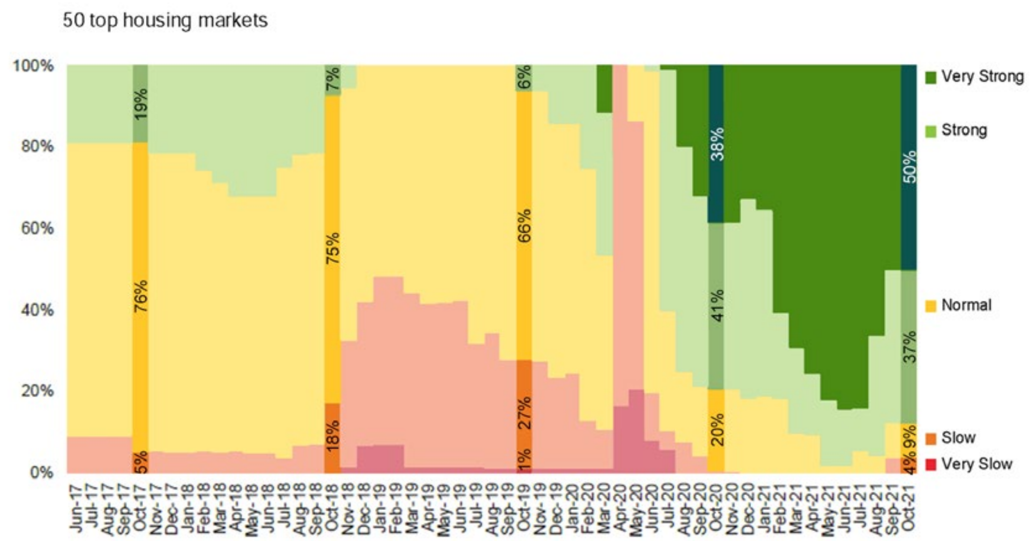
SOURCES: ©2020 National Association of REALTORS®; John Burns Real Estate Consulting, LLC (Data: Aug-21, Pub: Oct-21)

Current Market Conditions: 50% of Markets are Very Strong

87% of markets remain Strong or Very Strong. We downgraded several markets to Strong or Normal as sales and pricing conditions show signs of cooling. In our rating process, Normal reflects builders selling 2-3/month per community with rising net prices.

Current market conditions is weighted by new home revenue (new home median price * single family permits TTM). This calculation allows for more accurate representation of how the U.S. is performing as it factors in market size.

CURRENT MARKET CONDITIONS



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

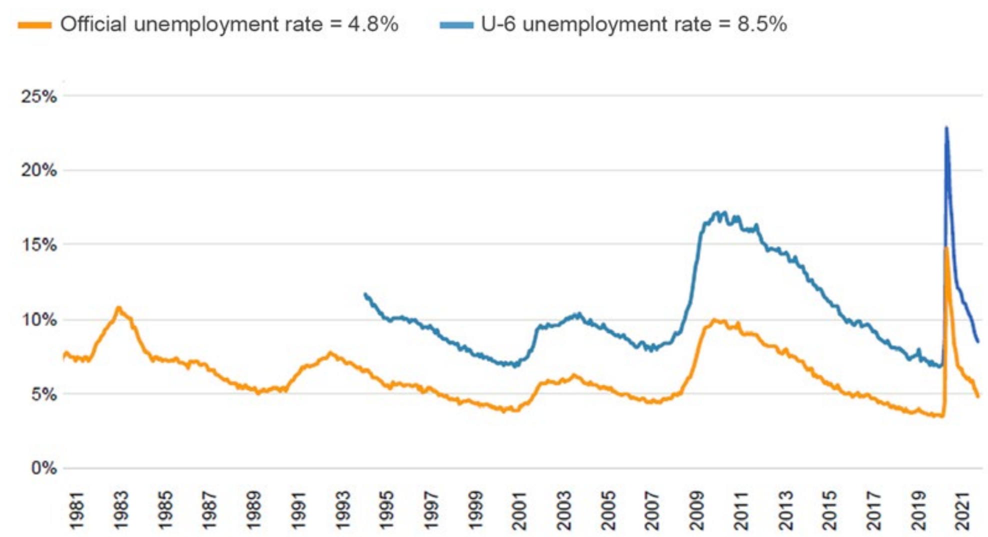
SOURCE: John Burns Real Estate Consulting, LLC (Pub: Oct-21)

Unemployment Rate

The unemployment rate fell to 4.8% in September. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 8.5%.

The U6 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)



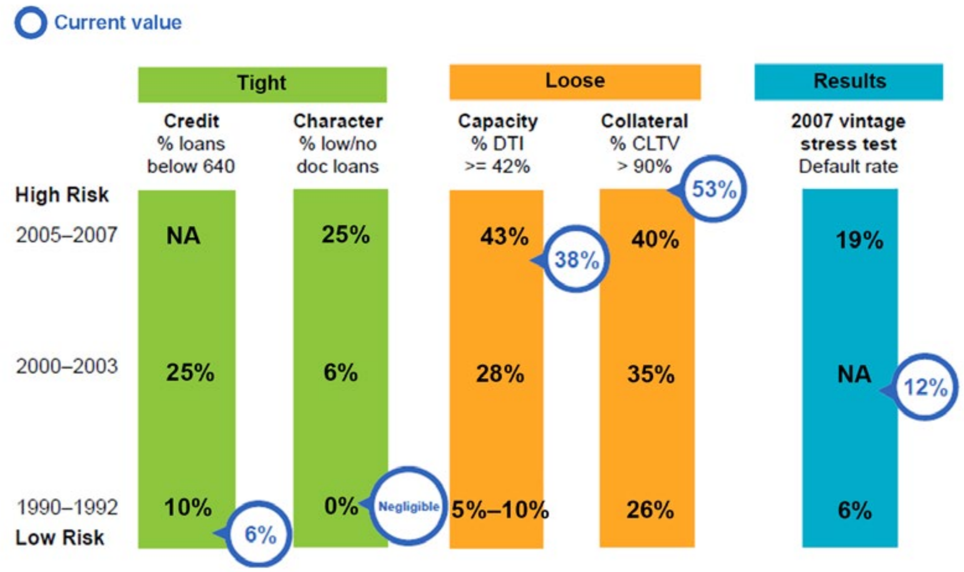
SOURCE: BLS (Data: Sep-21, Pub: Oct-21)

Lending Standards on Government-Backed Loans: 70% 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 70% 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



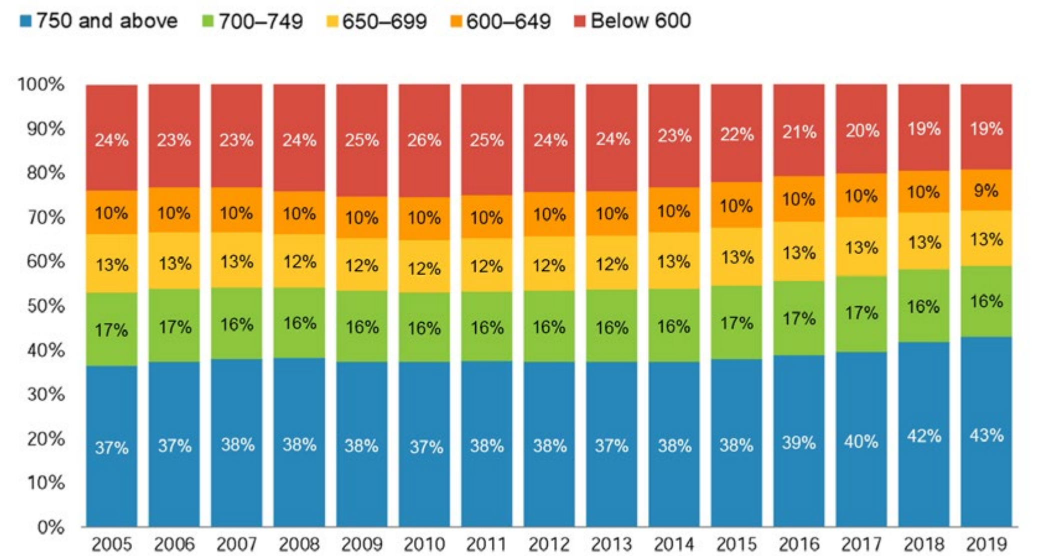
SOURCE: American Enterprise Institute, John Burns Real Estate Consulting, LLC (Data: Apr-21, updated quarterly[1]) Pub: Oct-21

National FICO® Score Distribution

Consumers have slowly rebuilt their credit profiles. In 2019, 59% 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

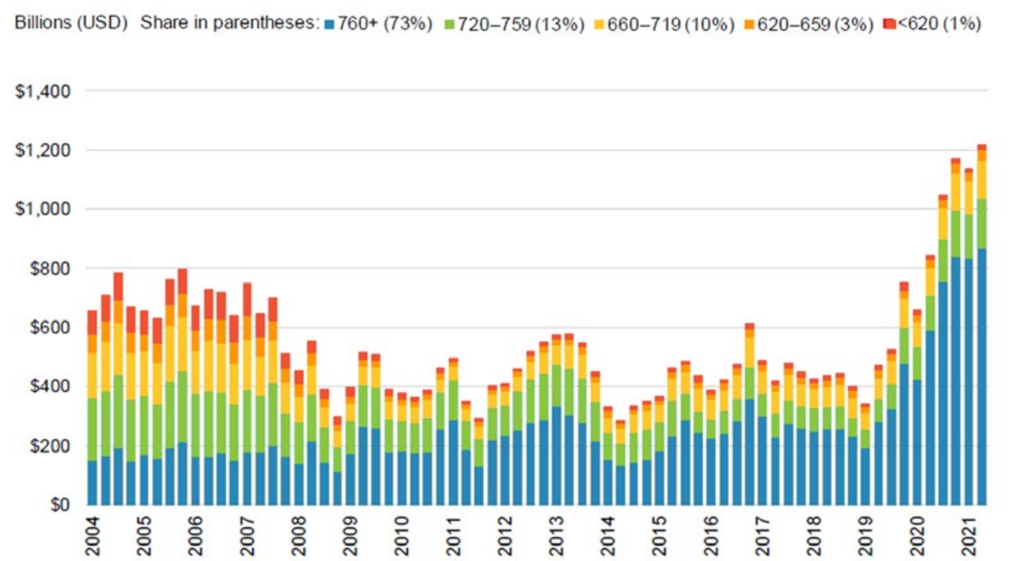


SOURCE: FICO™ Banking Analytics Blog (Data: Jan-20, updated quarterly[†]) Pub: Oct-21

Mortgage Originations by Credit Score

In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 2Q21, only 2% of mortgages went to borrowers with a credit score less than 620.

MORTGAGE ORIGINATIONS BY CREDIT SCORE*



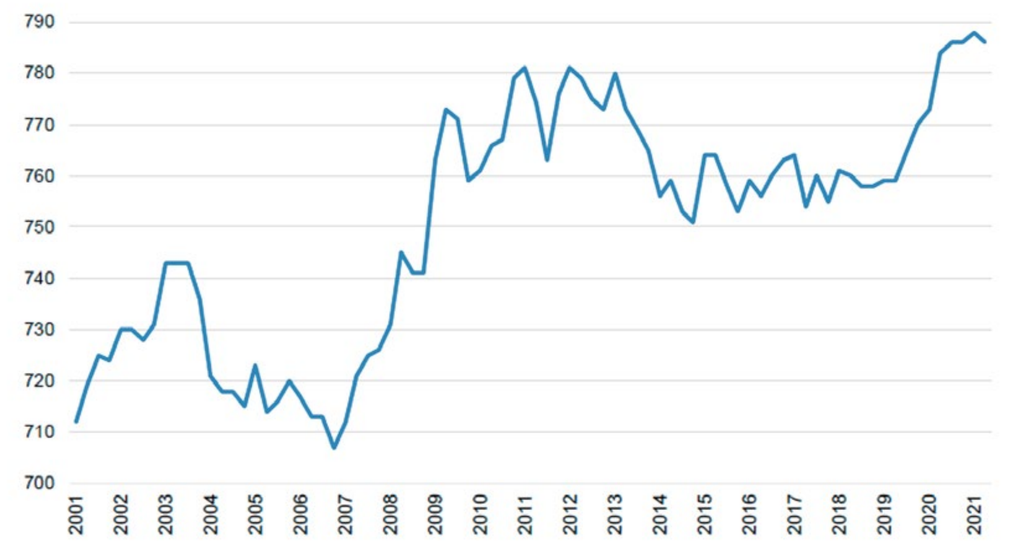
* Credit Score is Equifax Riskscore 3.0

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 2Q21, updated quarterly[†]) Pub: Oct-21

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 2Q21 median score at origination was a record high 786.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGINATION*



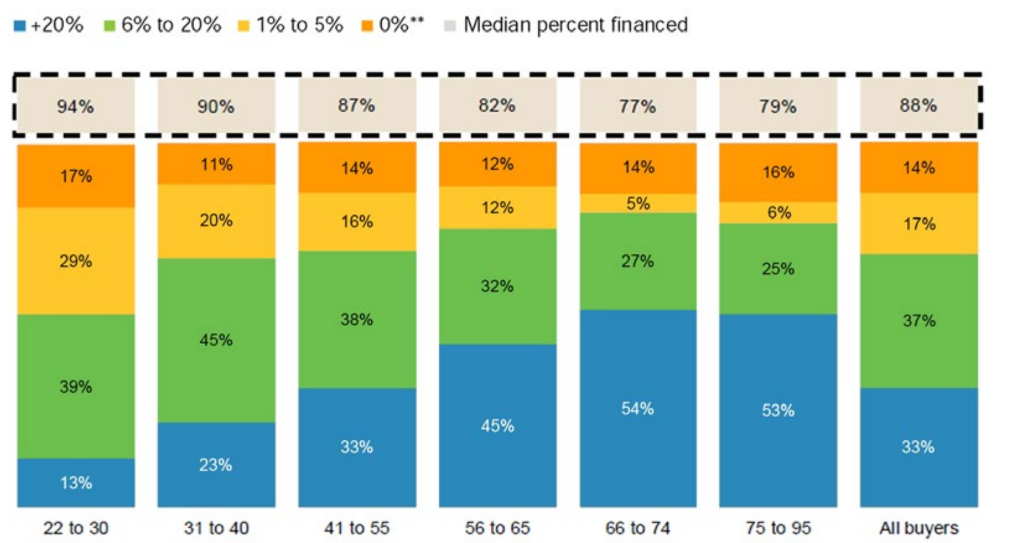
* Credit Score is Equifax Riskscore 3.0; mortgage include first liens only.

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 2Q21, updated quarterly[†]) Pub: Oct-21

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 46% among those 30 and younger. Only 19% of 66- to 74-year-olds have an LTV of +95%.

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



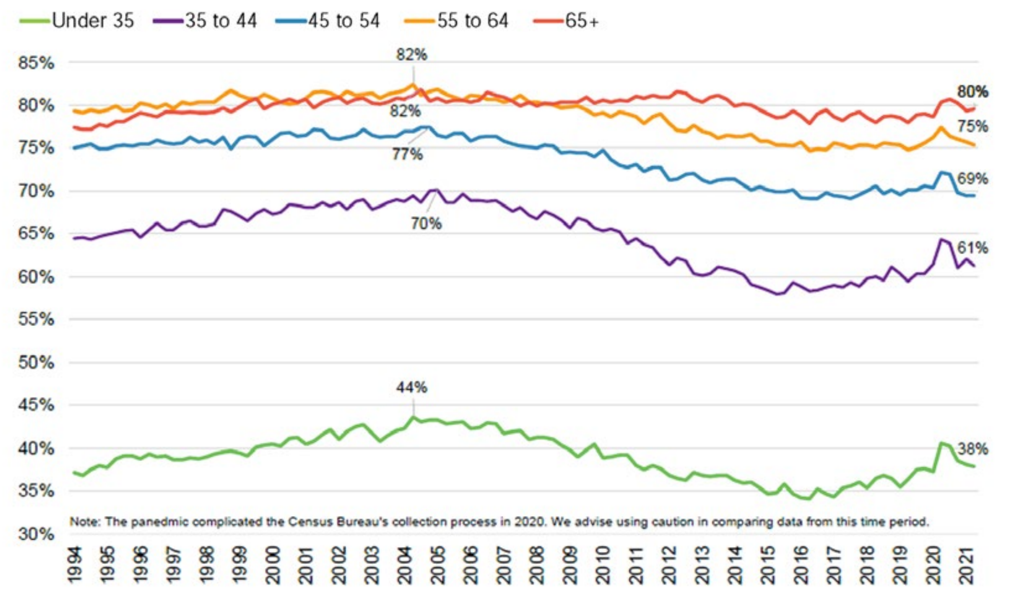
* Percentages only include homes that were purchased with a mortgage.
** 0%: Financed the entire purchase price with a mortgage

SOURCE: ©2021 National Association of REALTORS® Home Buyer and Seller Generational Trends (Data: 2021, updated quarterly[†]) Pub: Oct-21

Homeownership Rate by Age

Homeownership decreased across most age groups in 2Q21.

HOMEOWNERSHIP RATE BY AGE

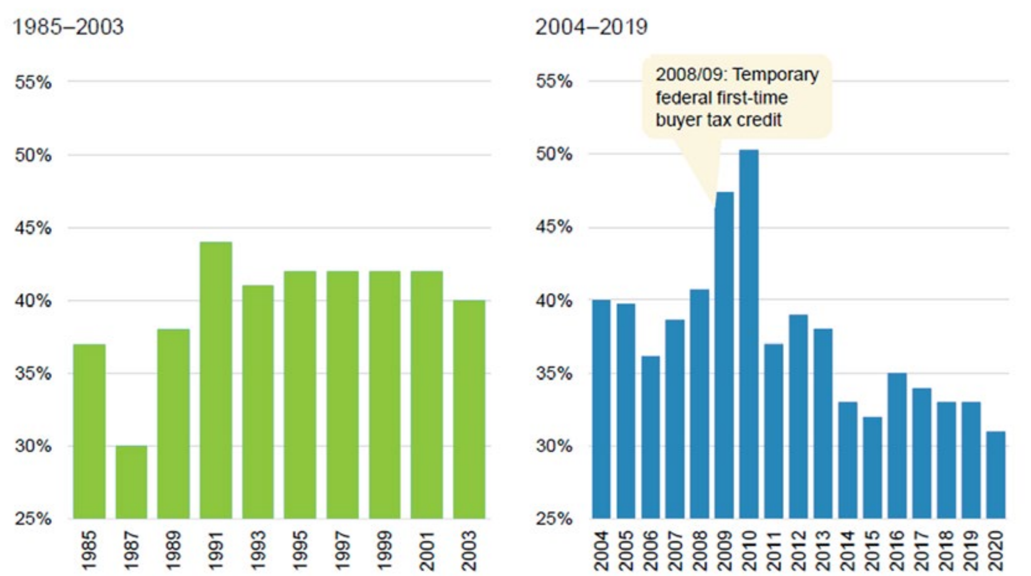


SOURCE: U.S. Census Bureau, Housing Vacancies and Homeownership Survey (Data: 2Q21, updated quarterly[1]) Pub: Oct-21

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.

SHARE OF EXISTING HOMES SOLD TO FIRST-TIME BUYERS



SOURCES: NAR; John Burns Real Estate Consulting, LLC (Data: 2020, updated quarterly[1]) Pub: Oct-21

JOHN BURNS REAL ESTATE CONSULTING

Trusted Analysis FOR Executive Decisions

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

RESEARCH

An ongoing, retainer-based relationship, providing clients with our published research, client services, and exclusive events.

CONSULTING

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

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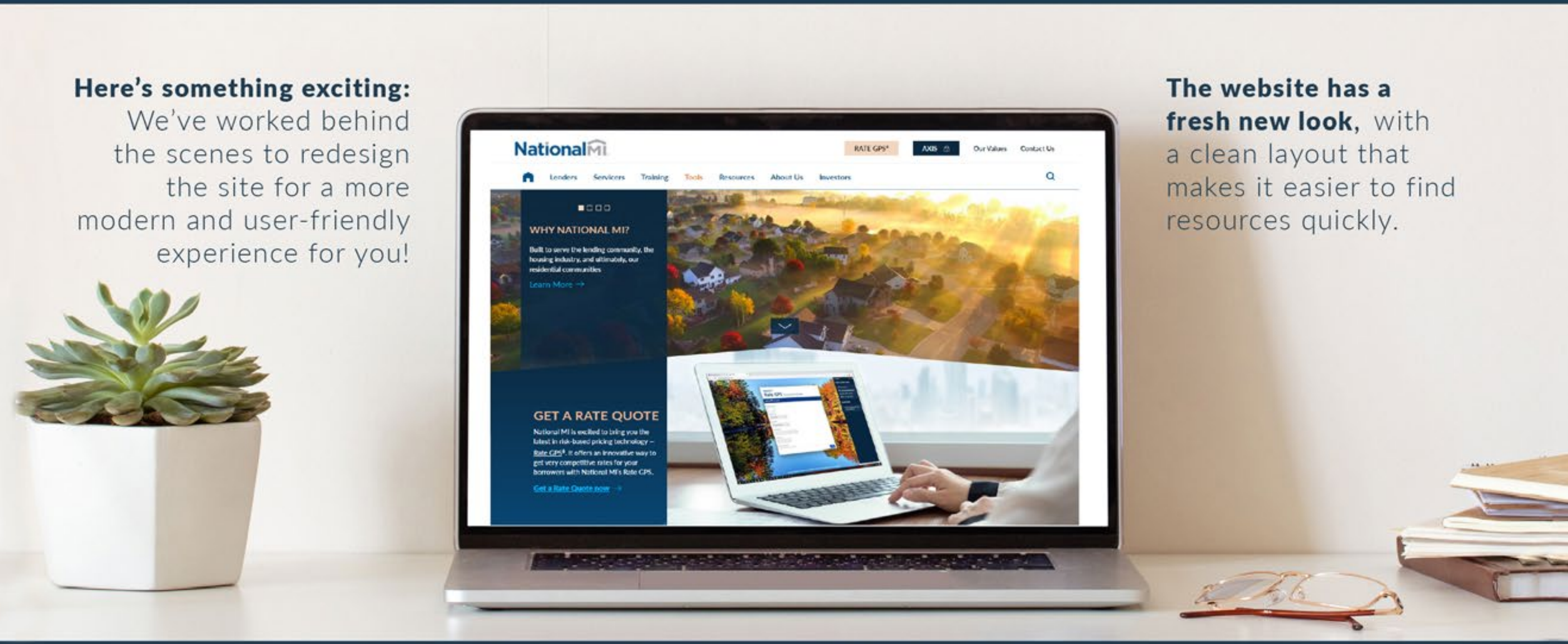
CHECK OUT

OUR NEW

NATIONAL MI WEBSITE

Here's something exciting: We've worked behind the scenes to redesign the site for a more modern and user-friendly experience for you!



The website has a fresh new look, with a clean layout that makes it easier to find resources quickly.

EXPLORE OUR NEW WEBSITE FEATURES:

ACCESS

Access training, tools and resources pages directly from our main menu

SEE

See underwriting guidelines, bulletins and upcoming webinars right from the home page

FIND

Find all the information for lenders and servicers in our expanded drop down

SAVE TIME

Save time by accessing Rate GPS® and AXIS through the top header or the body of the home page

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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