

ECONOMIC MARKET SNAPSHOT

SUMMER 2021 | ISSUE NO. 15

NATIONAL MI IS PLEASED TO BRING YOU OUR Summer 2021 Edition of the **Economic Market Snapshot**

As reported by John Burns Real Estate Consulting, 94 percent of the top 50 housing markets remain strong or very strong, with just a handful of markets showing signs of cooling in July. Thirty-year, fixed mortgage rates continue to hover around 3.1 percent, with gradual increases anticipated over the next three years.

- Through May 2021, U.S. existing home sale closings total 5.8 million, up 11 percent vs. 2020 and expected to grow year-over-year through 2024, reaching 7 million, the highest volume since 2005.
- After a record drop in 2020, employment is expected to grow 2.7 percent year-over-year in 2021 and continue growing through 2024.
- Credit quality remained strong in 1Q-21, as the median credit score at mortgage origination reached a record high of 788. During this period, only 1 percent of borrowers with a mortgage had a credit score below 620.

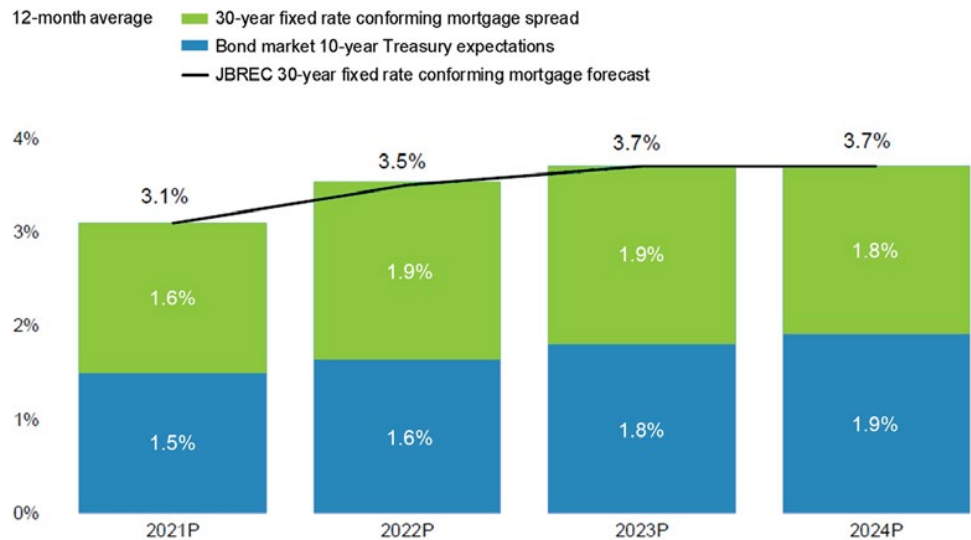
Current lending standards remain tight, but 31 percent of all home buyers utilizing a mortgage are putting a down-payment of 5 percent or less. For buyers age 30 and younger, that jumps to 46 percent.

As we emerge from the impact of COVID-19 in 2021, the housing industry continues to be a positive driver in the economic recovery. The employment figures are improving, the volume of home sales continues to increase, and market conditions are strong. Low interest rates will continue to bolster the impressive housing market.

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



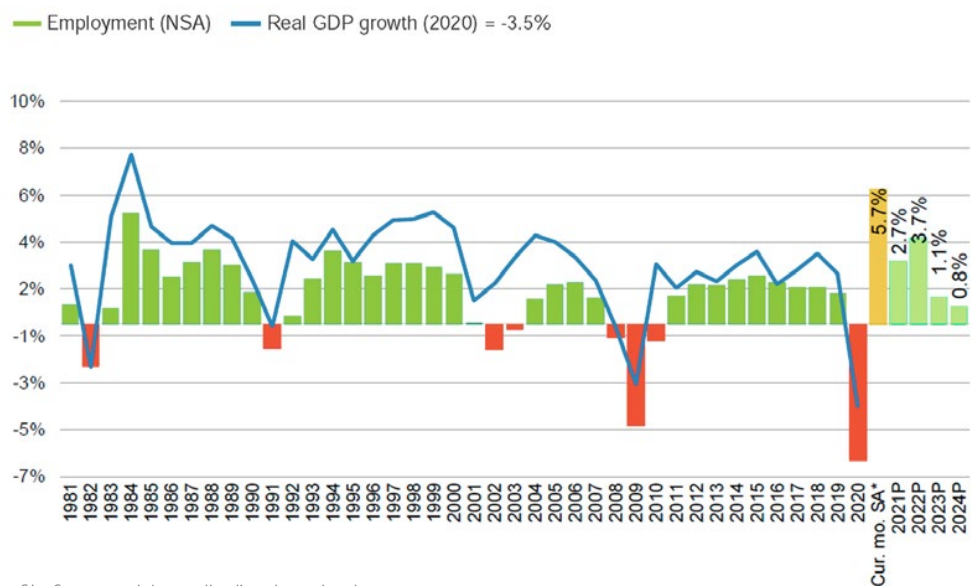
SOURCES: Bloomberg; John Burns Real Estate Consulting, LLC (Data: Jun-21, Pub: Jul-21)

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US Employment Growth Rates

After a record drop in 2020, we expect employment to grow 2.7% YOY in 2021 and continue growing through 2024. Note that YOY employment growth for June is high due to large job losses one year ago.

US EMPLOYMENT ANNUAL GROWTH RATES



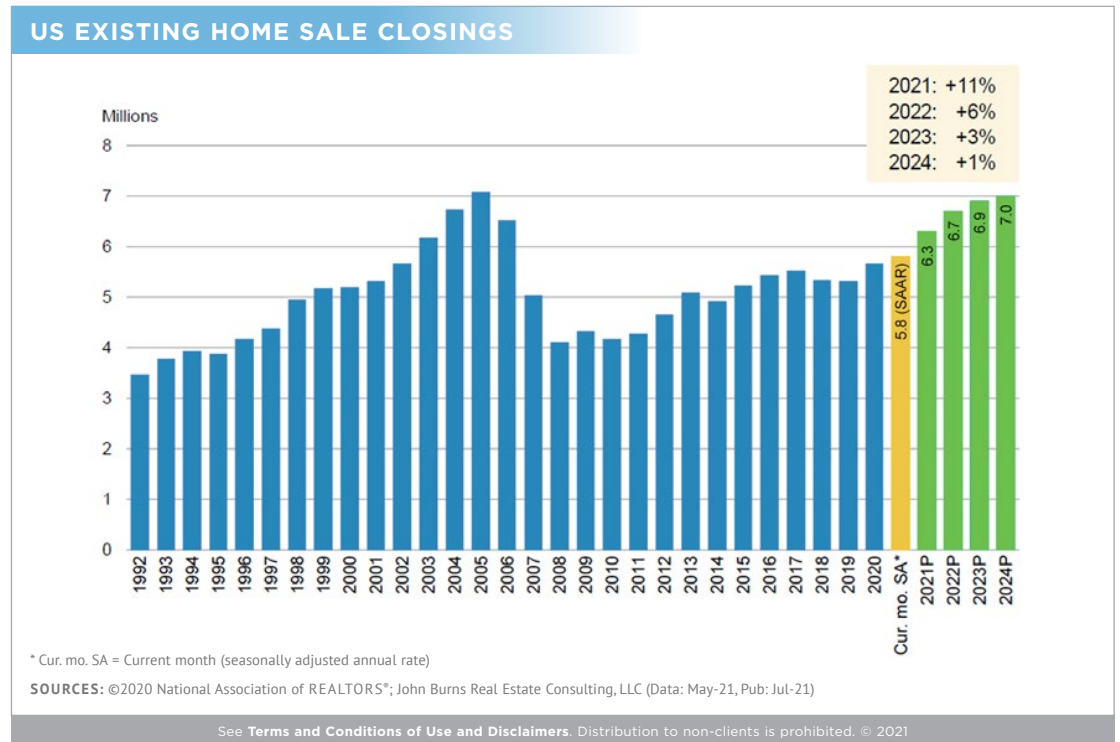
* Cur. mo. SA = Current month (seasonally adjusted annual rate)

SOURCES: BLS with JBREC projections (Data: Jun-21, Pub: Jul-21)

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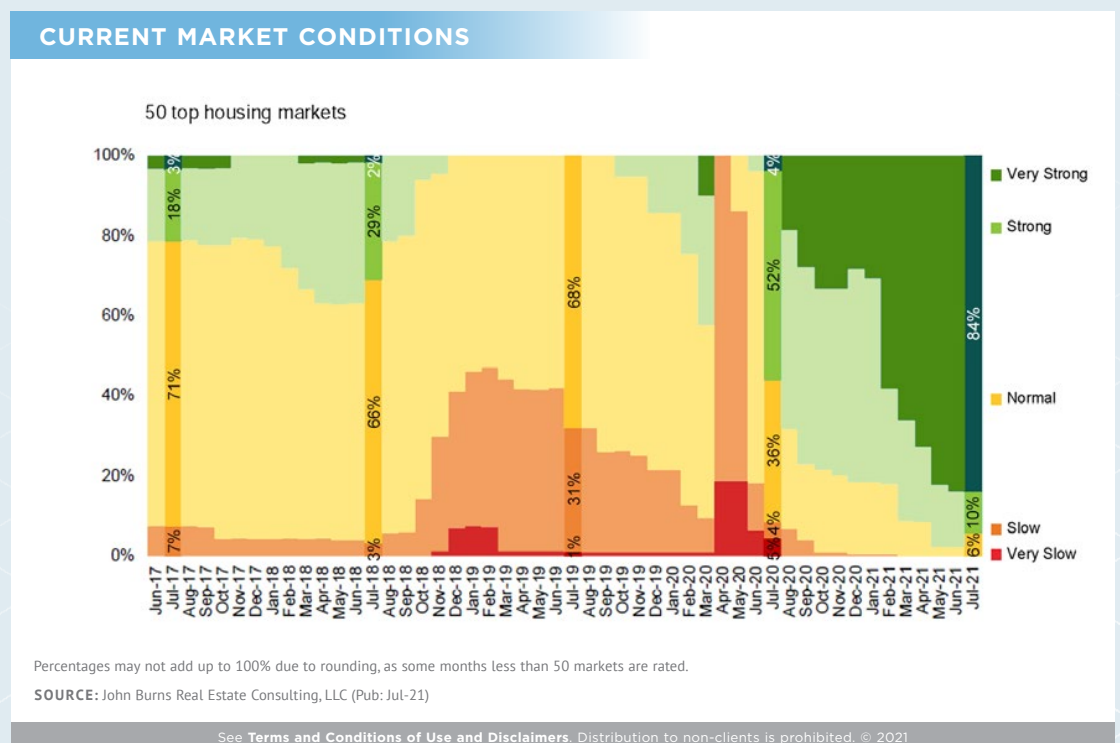
US Existing Home Sale Closings

We forecast existing home sales to grow YOY through 2024, reaching 7 million (highest since 2005).



Current Market Conditions: 84% of Markets are Very Strong

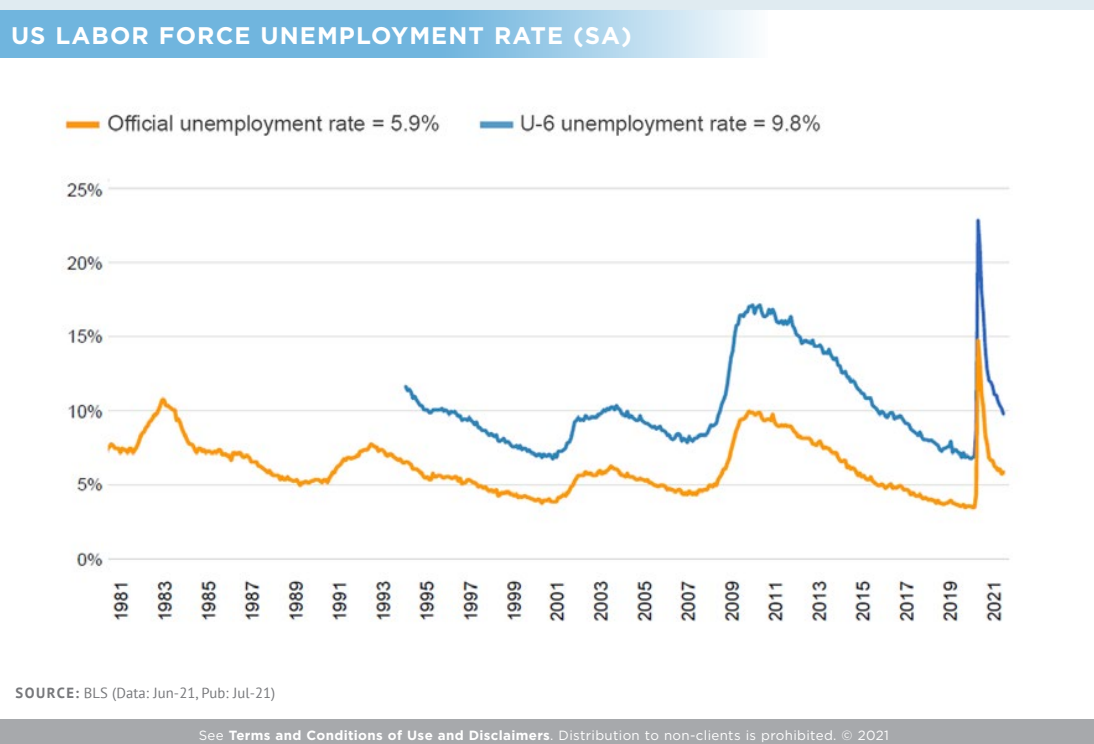
94% of markets remain Strong or Very Strong. We downgraded a handful of markets in July as sales and pricing conditions showed signs of cooling. In our rating process, Normal reflects builders selling 2-3/month per community with rising net prices.



Unemployment Rate

The unemployment rate rose to 5.9% in June. The U6, a broader measure of unemployment that captures underemployment and discouraged workers, fell to 9.8%.

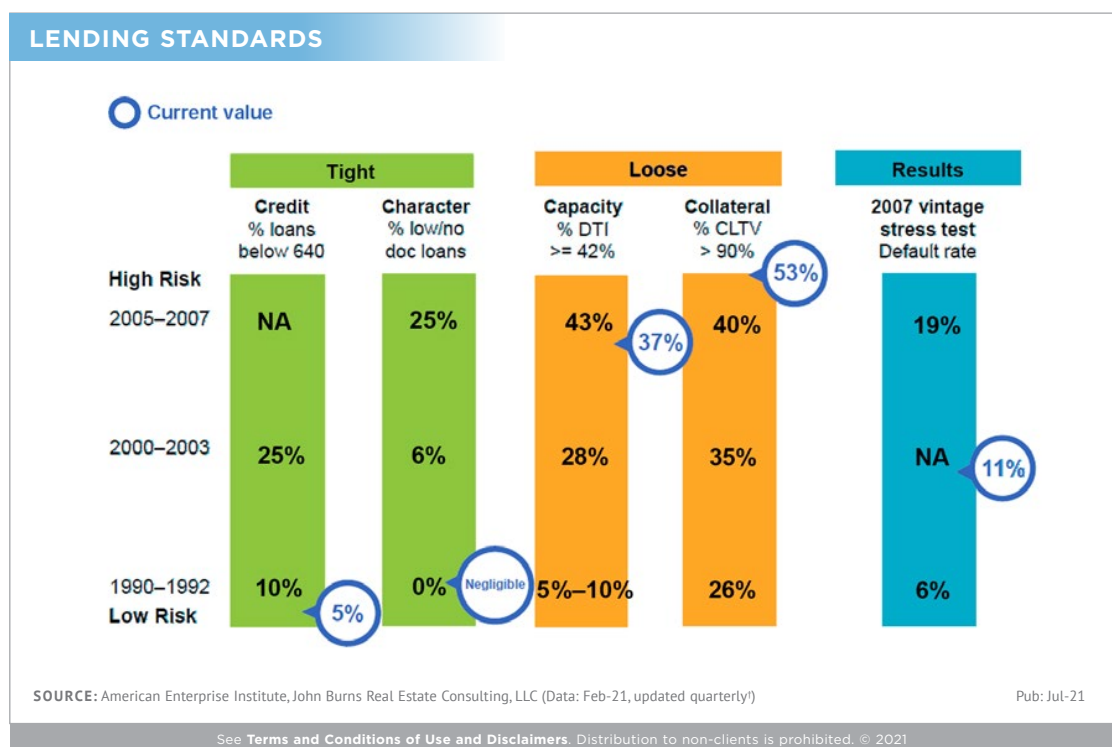
The U6 unemployment rate is a broader measure of unemployment that covers part-time workers who would like full-time work and those who have given up looking for work.



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.

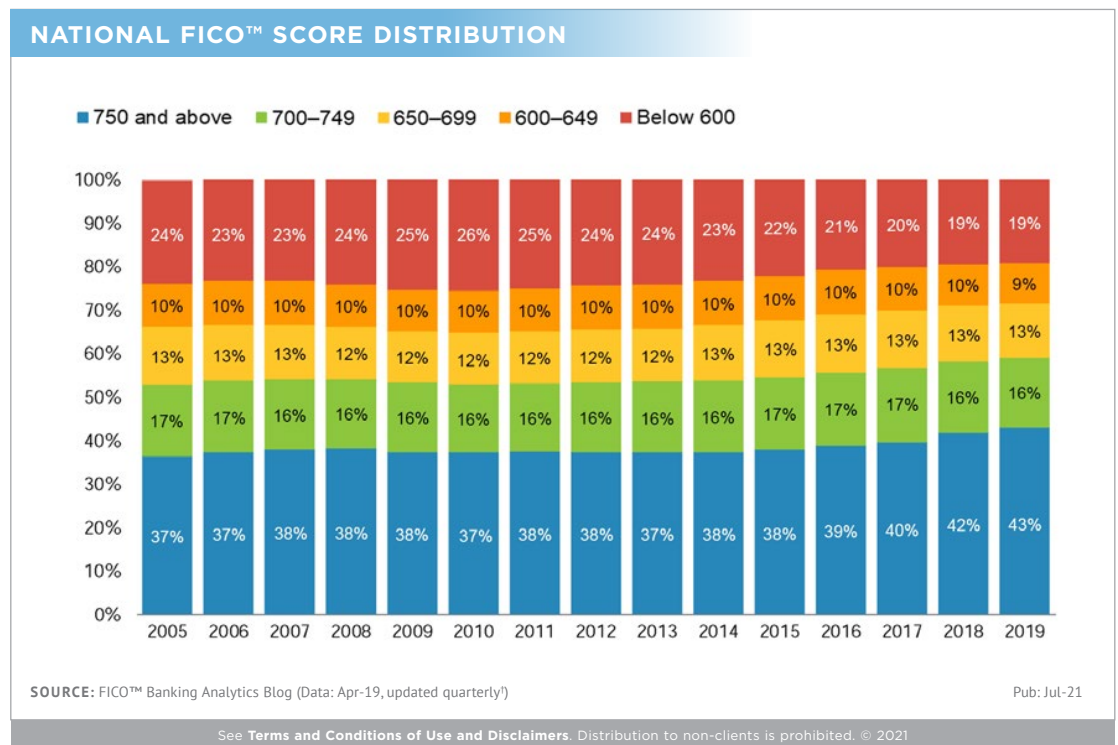
This chart only includes primary purchase loans guaranteed by the five government agencies (Fannie Mae, Freddie Mac, FHA, VA, and RHS). These loans currently account for 70% of all primary purchase loans (by count). Our current percentage of low/no document loans is based on JBREC analysis. The DTI numbers shown include only back-end DTI percentages.



National FICO® Score Distribution

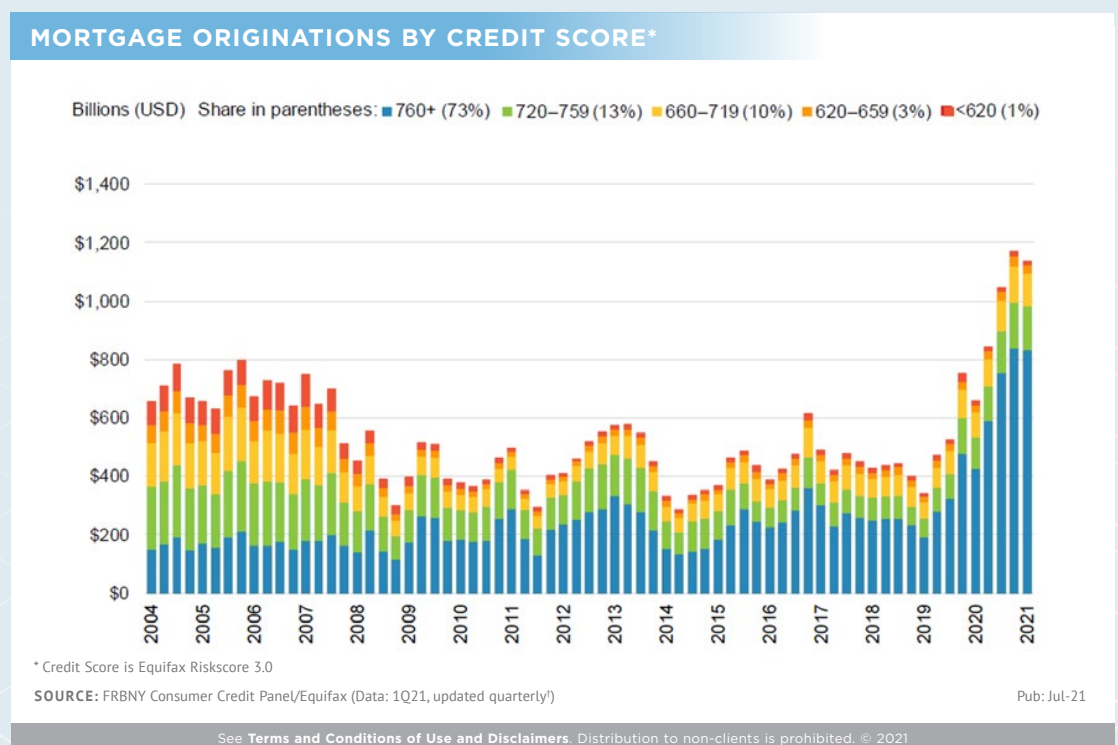
Consumers have slowly rebuilt their credit profiles. In 2019, 59% had FICO scores above 700, and 81% had FICO scores above 600.

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%).



Mortgage Originations by Credit Score

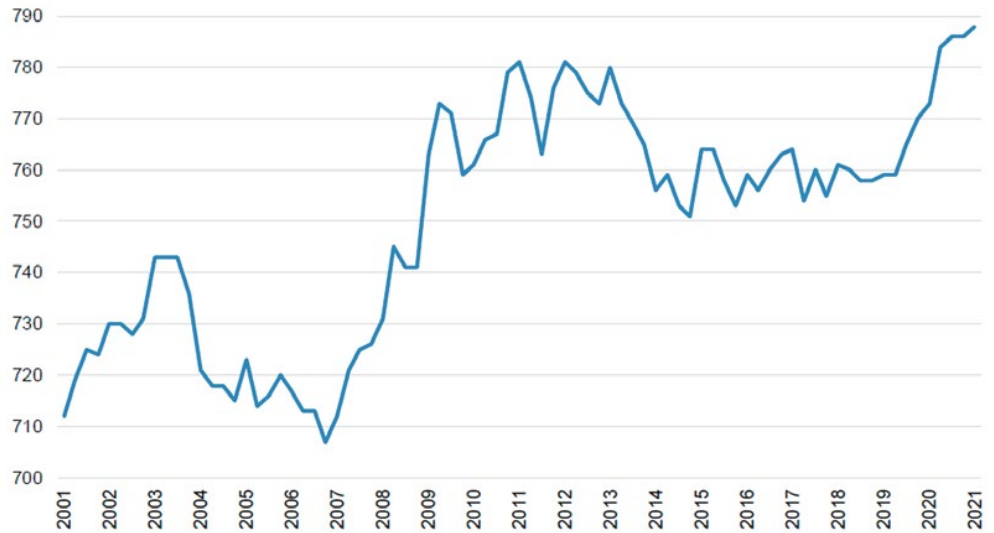
In 1Q07, 15% of mortgage originations were to subprime borrowers with a credit score of <620. As of 1Q21, only 1% of mortgages went to borrowers with a credit score less than 620.



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 1Q21 median score at origination was a record high 788.

MEDIAN CREDIT SCORE AT MORTGAGE ORIGATION*



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

SOURCE: FRBNY Consumer Credit Panel/Equifax (Data: 1Q21, updated quarterly)

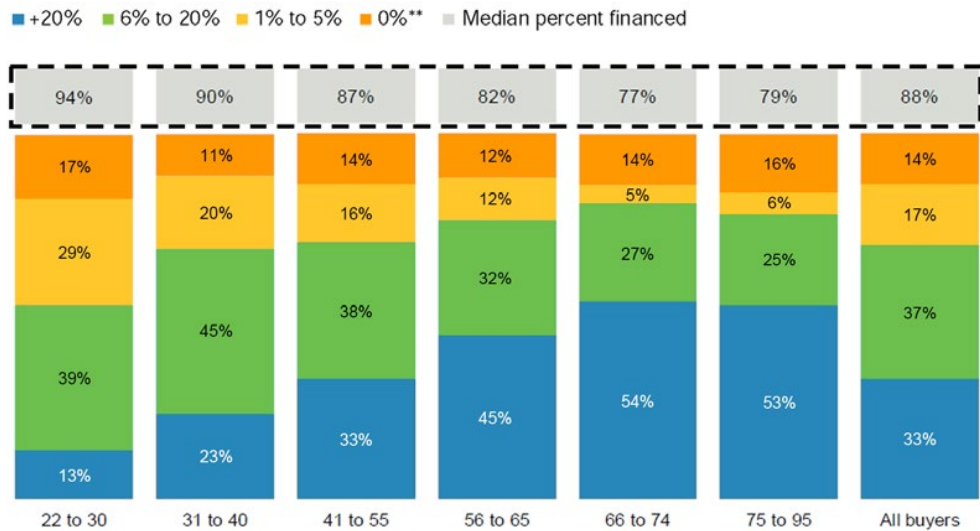
Pub: Jul-21

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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: Jul-21

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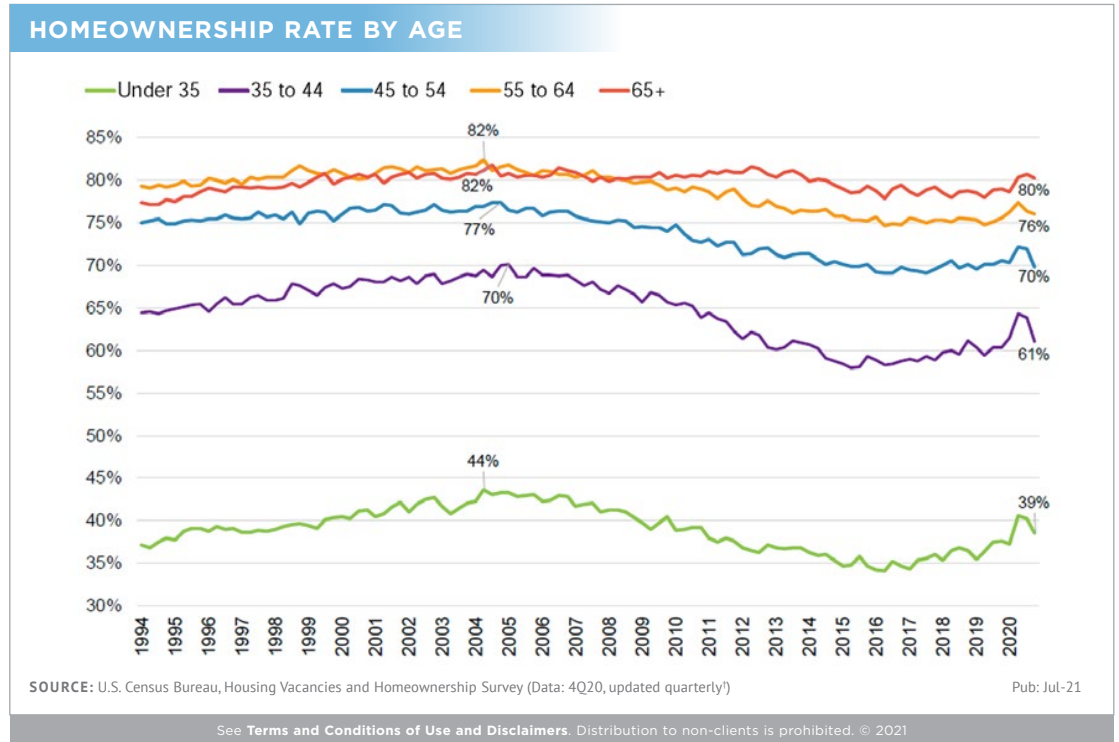
Homeownership Rate by Age

Homeownership rates decreased across all age groups in 4Q20.



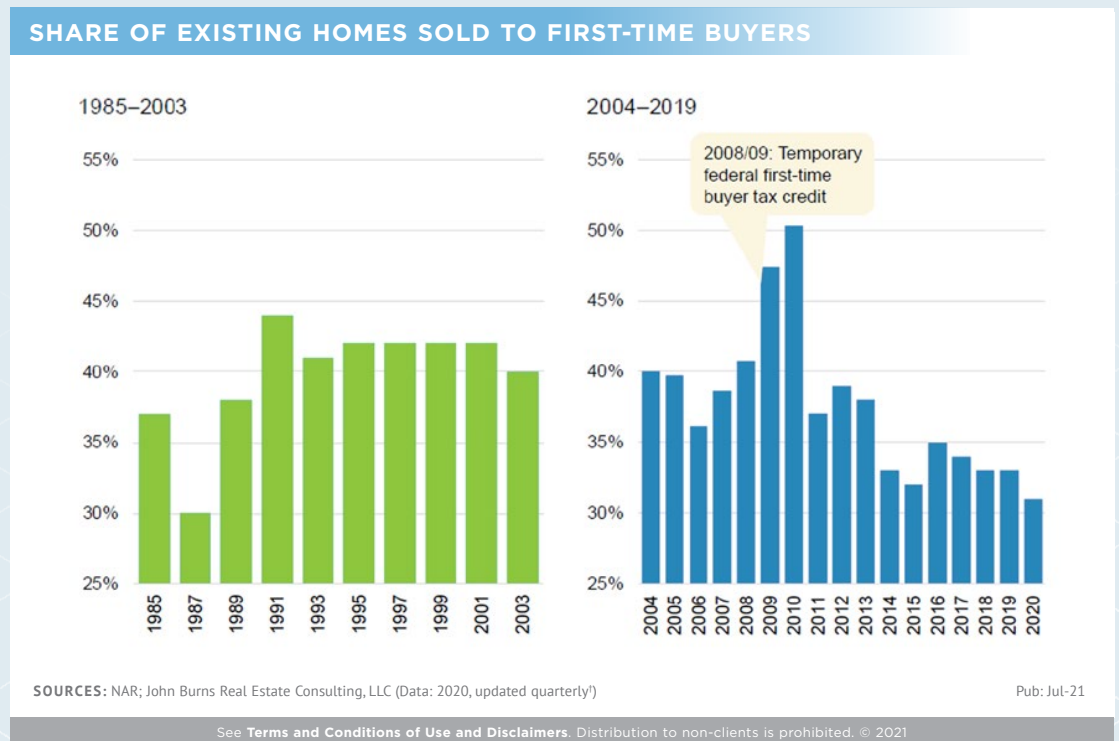
CAUTION

The pandemic has complicated the Census's most recent collection process. We do not believe the most recent print is accurate.



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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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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