

THE HOUSING & MORTGAGE MARKET REVIEW

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PMI MORTGAGE INSURANCE COMPANY'S MONTHLY ANALYSIS OF ECONOMIC, HOUSING, AND MORTGAGE MARKET CONDITIONS

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The Outlook

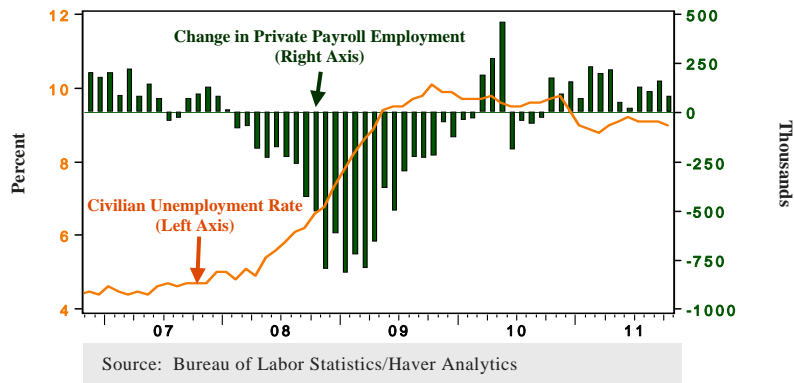
Most measures of economic activity accelerated over the past month, but the expansion remains subdued. Additionally, the sovereign debt default issues in the European Union (E.U.) remain. While the debt problems in Greece appear to be less of an issue, Italy has become a problem – and given its relatively large size economically (at least relative to Greece), the impacts on the international banking system could be large if an unruly sovereign debt default occurs there. A disorderly debt default that causes financial market uncertainty to spike remains the most likely reason for a dip in the U.S. economy, but stronger domestic growth has reduced those odds to around 20-30 percent. Otherwise, we continue to expect only modest (although perhaps slightly stronger) growth through 2012, as low business/consumer confidence, household deleveraging, significant borrowing constraints, and an overhang of distressed housing units remain impediments to a more normal economic expansion.

The headline employment growth in the October employment report was weaker than expected, but the details within the report were positive and point to a continued modest improvement in the job market.

- The unemployment rate edged down to 9.0 percent, the lowest level in six months, and household employment jumped by 277,000 – the third consecutive month of strong gains in this volatile series. This is undeniably very positive.
- Total nonfarm payroll employment increased by 80,000 – a bit below expectations but the 16th consecutive monthly gain.
- The prior two months' estimates of payroll employment were revised upward by a net 102,000 jobs. This is the second consecutive month with significant positive revisions to the prior month's gains, on the heels of a 99,000 upward revision in the September report. This is a very bullish indicator for future job gains.
- Private sector employment increased by 104,000 (see Figure 1), the 20th consecutive monthly gain. Over the past four months, in order to eliminate the monthly volatility induced by the strike at Verizon, gains have averaged 135,000 per month.

(Continued on page 2)

Figure 1: Private Job Growth is Slow



Special Topic: Mortgage Credit Conditions are Tight

There are a number of reasons why record-low mortgage rates haven't resulted in a surge in home sales and only a relatively modest increase in refinancings. Slow job growth, worries about further house price declines, weak household gains, and a significant number of underwater homeowners are all holding sales back, while house price declines – and the resulting shortage of equity – has kept refi activity from exploding. (After all, with mortgage rates effectively at the lowest levels since World War II, every loan should be in the money to refinance).

(Continued on page 12)



- Average weekly hours worked for production and non-supervisory workers, a leading indicator of the direction of job growth, edged up by 0.1 hours in October to the highest level since August 2008 – just before the financial market panic hit.
- Income, as measured by average hourly earnings for all workers, rose by 0.2 percent for a second consecutive month.

Most economists usually pay more attention to the larger payroll employment survey than the smaller, and thus more volatile, household survey (from which the unemployment rate is derived). The payroll survey is very good at finding and surveying large employers, although it is not as good at finding smaller and newer firms – so they tend to be underrepresented in this survey. The analysts at the Bureau of Labor Statistics try to account for this by putting an adjustment factor into their survey results for the impact of newer and smaller firms, but by construction it is a backward-looking measure. The household survey, on the other hand, is a survey of individual households – so it captures the impact of newer and smaller firms (as well as self-employment) in a more real-time way than the payroll survey can. Because the household survey is less backward-looking with respect to smaller and newer firms, it tends to be a better indicator of current conditions in the labor market than the payroll survey – at least when viewed over a period of several months to smooth out its greater volatility.

Figure 2 compares the 12-month growth rates of the nonfarm payroll employment and household employment surveys over the last six business cycles. In the early months of the recoveries from the 1974-75, 1981-82, 1990-91, and 2000 recessions, there was a stronger pickup in the household employment figures than the payroll numbers. Eventually the payroll job growth estimates caught up with the household figures, suggesting that the household survey was a leading indicator of the payroll job estimates in those periods. In the current expansion, however, the growth rate of the household employment figures has lagged behind that of the payroll survey, suggesting that newer and smaller firms have not added much to the current rebound. As noted above, however, over the past three months the household employment figures have increased sharply – both in absolute terms and relative to the payroll survey. This may be a sign, especially if this strong growth continues, that job growth from the payroll survey may accelerate soon.

Other data over the past month also suggested that the economy was growing at a faster pace. Real GDP growth for the third quarter rose at an annualized rate of 2.5 percent, the fastest pace in a year. Moreover, as with the employment report, the details were stronger than the headline number – as a slower accumulation of inventories held overall growth down. Survey data suggest that many firms are holding fewer inventories of goods than they would like, implying that orders and production should pick up in coming months. Orders of nondefense capital goods (excluding the volatile aircraft industry) jumped by 2.9 percent in September, a strong signal that production will rise in the near-term. The manufacturing survey index from the Institute for Supply Management (ISM) edged down to 50.8 in October, but only because inventories were down. New orders in the ISM survey were up, suggesting stronger growth in future months. Additionally, consumers continue to spend – with auto and light truck sales at nearly the fastest pace of the year in October and retail sales jumping by 1.1 percent in September.

Fears of an imminent recession over the past few months were clearly overstated, given the pickup in economic activity. Still, the problem of E.U. debt default continues and in the worst case could cause another global downturn. In the absence of this event, however, we expect growth in the U.S. to slowly accelerate over the next year. For all of 2011, we project real GDP growth of 1.8 percent – moving up to a bit over 3.0 percent next year. Even this faster pace of growth is barely

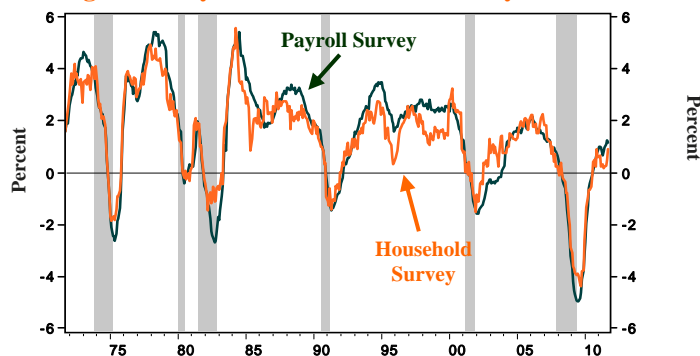
enough to allow the unemployment rate to fall, so by the end of 2012 unemployment is unlikely to fall to even 8.0 percent. Faster gains in economic growth and more rapid declines in the unemployment rate should eventually occur, but not until three things happen first: (1) concerns subside about a disorderly E.U. debt default, (2) worries about the U.S. federal budget deficit and debt decline, and (3) deleveraging in the U.S. economy finally abates. Unfortunately, the timing of these things is very uncertain.

Housing: Housing activity is modestly stronger now than it was over the summer, on a seasonally adjusted basis. New home sales rose by 5.7 percent in September to 313,000 units (seasonally adjusted annual rate, or SAAR), toward the top of the narrow range they have been in for the past year. Total existing home sales (single-family plus condominiums), which are a lagging indicator of buying activity since they are counted when purchase contracts are closed, slipped by 3.0 percent in September to 4.91 million units (SAAR) – after a surprising jump in the prior month. Existing sales have been more volatile than new sales over the past couple of years, but they are about in the middle of their range for the past year. Housing starts jumped by 15.0 percent in September to 658,000 units (SAAR), the highest level of the year. While single-family starts edged up by 1.7 percent, the volatile multifamily sector soared by 51.3 percent – reflecting strong demand for rental housing.

Leading indicators of home sales were mixed over the past month. The National Association of Realtors' (NAR) pending home sales index fell for a third consecutive month, down to the second lowest level of the year (but still significantly above the cycle lows of late 2009). The National Association of Homebuilders' (NAHB) housing market index jumped by four points to 18 in October – the highest level of the year, but still historically low as the new home sales market continues to face significant competition from distressed properties. Finally, the purchase applications component of the Mortgage Bankers Association's (MBA) weekly applications survey was little changed in October from the prior month, but was up a bit in early November. Taken together, these indicators suggest little change in home sales in the near-term.

Measures of house prices were mixed again over the past month, with seasonal factors starting to hurt prices. The median price of existing homes sold fell by 3.4 percent in September, down by 3.5 percent from a year earlier. The monthly 20-city S&P/Case-Shiller repeat-transaction house price index (HPI), which doesn't suffer from the change in the mix of homes sold problems of median and average price measures, rose for a fifth consecutive month in August – up by 0.2 percent, but little changed on a seasonally adjusted basis. The CoreLogic HPI fell for a second consecutive month in September, as seasonal factors helped to push it down by 1.1 percent (including distressed sales). Excluding distressed sales, however, the CoreLogic HPI increased by 0.3 percent in September, despite unfavorable seasonal factors. *(Continued on page 3)*

Figure 2: Payroll and Household Survey Growth



Source: Bureau of Labor Statistics / Haver Analytics



On a seasonally adjusted basis, this HPI measure was up by 0.4 percent, indicating some modest strength in non-distressed house prices outside of seasonal factors. The value of non-distressed homes is almost back to year-ago levels. Finally, the monthly purchase-only HPI from the Federal Housing Finance Agency slipped by 0.1 percent in August.

While housing activity is no longer weakening, it's not showing much acceleration either. Moreover, leading indicators of sales don't point to a sustained rebound. Despite the lowest level of mortgage rates since at least 1948, housing demand has yet to pick up appreciably – as below-trend job growth, low consumer confidence, tight lending standards, and only a modest pickup in household formations are keeping demand subdued. A faster pace of job gains, which we expect for the remainder of this year and for 2012, will help increase housing demand directly as well as through positive effects on consumer confidence and household formations. There are no signs of an easing in lending standards, however, and this will help to offset any increase in housing demand coming from these other factors. Additionally, the large number of underwater households will moderate increases in housing demand. Still, it is likely that the bottom in home sales has been reached and modest increases are expected in 2012. Moreover, other than for seasonal weakness in the coming fourth and first quarters, house prices are also probably past their trough – although gains here are likely to be very subdued for at least another year.

Interest Rates and Financial Markets: Despite signs of stronger economic growth and overall inflation above the top of the Fed's implicit target range, interest rates in the U.S. remain historically low as the Federal Reserve continues its zero interest rate policy (ZIRP). Additionally, concerns with the stability of the European Union have caused repeated flights to quality into safe assets – most notably U.S. Treasury securities. This increased uncertainty in financial markets has caused credit spreads to widen over the past few months, and measures of market volatility have increased. Equity prices have also been affected, with significant moves both up and down as news from the E.U. is either better or worse – depending on the day. The Fed's "Operation Twist" appears not have had much of an impact on interest rates, with whatever impact there has been overwhelmed by E.U. concerns.

The Fed has repeated its announcement that it would keep short-term interest rates at current levels through at least the middle of 2013. As a result, those rates are unlikely to move much until that time. Long-term interest rates will continue to be buffeted by the interplay between E.U. concerns, domestic discussions on federal budget deficits, inflation, and economic activity. If the U.S. economy strengthens over the next couple of years as we expect, then long-term rates should edge upward – but future E.U. and budget deficit concerns/results could trump, or at least mute, this generally upward trend.

Short-term interest rates that were unimaginably low just a few years ago appear likely to remain at least into 2013. The only way that the Fed would end its *de facto* zero interest rate policy would be if economic growth moved above trend for a sustained period of time or, less likely, if core inflation shifted upward significantly. We don't expect either of these things to occur over the next year. We do expect the economy to finally grow fast enough in 2013 to allow the Fed to move away from its ZIRP. How quickly the Fed moves then will depend upon the pace of economic growth and inflation and how concerned the Fed is about the potential for the economy to stall given the tightening of policy. Long-term rates should edge upward over the next year (subject to the concerns noted above), but no change in short-term rates and only modest economic growth and inflation suggest that any rise will be modest. By the end of next year we project that the yield on the 10-year Treasury note will climb to a little over 3.00 percent – still an historically low rate, but up by about 100 basis points from today. By

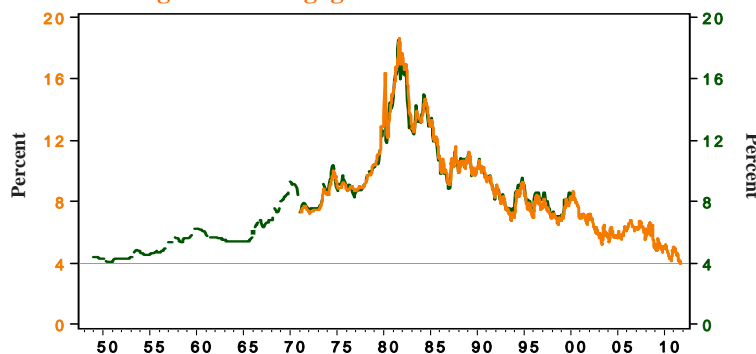
the end of 2013, with continued economic growth, it should rise to over 4.00 percent – closer to its long-term sustainable rate of 4.50-5.00 percent.

Mortgage Markets: While not quite at their lows for this cycle, yields on 30-year fixed-rate mortgages (FRMs) again dropped below 4.00 percent – bringing mortgage rates down to essentially the lowest levels in the post-war period. Figure 3 shows the weekly survey rates for 30-year FRMs from Freddie Mac as well as the monthly data on interest rates in the secondary market for FHA-insured loans. While the data for the FHA series were no longer collected after mid-2000, the years that it and the Freddie Mac survey data overlap indicate that they are measuring the same things. Since the Freddie Mac data only go back as far as 1971, the FHA data give us a consistent data source back to 1949. There is still a bit more room for FRM yields to fall further, as they have trailed the decline in Treasury rates – pushing mortgage-Treasury spreads up. These spreads typically rise as refinance risks increase (which occurs in an environment of low and falling rates), so they are likely to remain wider than usual for a while.

Applications for purchase money mortgages have remain muted despite the record-low mortgage rates, as job concerns, large numbers of underwater homeowners, and extremely tight underwriting standards have combined to keep many potential homebuyers on the sidelines. In the most recent week, however, purchase applications jumped to the highest level in three weeks. Since this is a weekly survey, it tends to be volatile and consequently any particular week's data should be discounted. But if this stronger pace of purchase applications continues – which it might, given a stronger job market recently – then it probably is signaling a pickup in housing demand. Refinance volumes remain strong, but not as strong as would be expected given the low level of mortgage rates. It is likely that tight underwriting standards are keeping both purchase and refinance volumes down.

We have edged our forecast of mortgage originations up a bit from last month for 2011 to \$1.30 trillion – still down by nearly 20 percent from last year's figure. (Note that we have increased our estimate of 2010 originations by 5.2 percent to \$1.62 trillion in response to the latest data from the Fed's Home Mortgage Disclosure Act.) Virtually all of the increase in our new 2011 originations projection is from a higher level of refinance activity as mortgage rates have declined to record lows. Our forecast for 2012 mortgage originations is little changed from our prior estimate, although a greater share is expected to come from refinance activity. At \$1.01 trillion, total originations would fall by an additional 22 percent from this year's level, with refi activity falling sharply as mortgage rates finally start to edge upward. Despite the sharp decline in total originations, stronger home sales, modest increases in house prices, and modestly easier underwriting standards should allow purchase originations to climb by about 30 percent in 2012.

Figure 3: Mortgage Rates at Post-War Lows

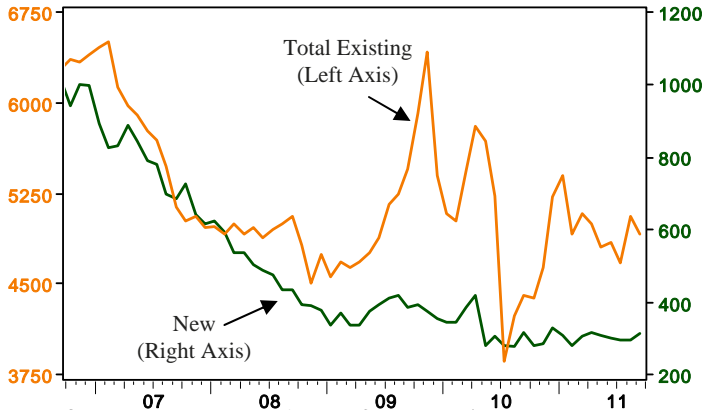


Source: Federal Reserve Board / Haver Analytics



Housing Market Indicators

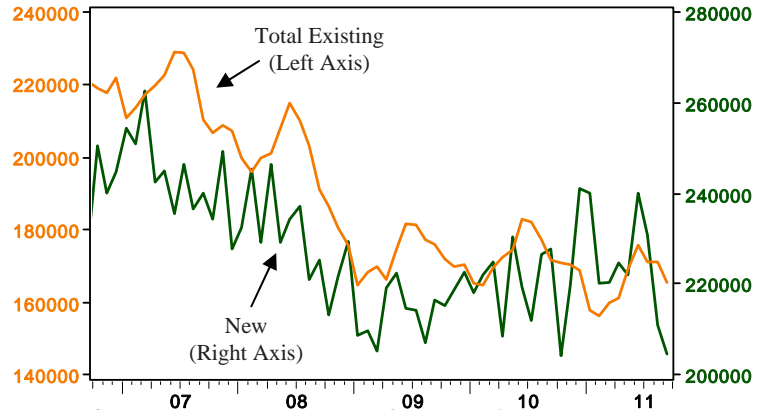
HOME SALES
(THOUSANDS OF UNITS)



Source: National Association of Realtors/ Census Bureau/ Haver Analytics

% Change	Existing	New
Sept-10 to Sept-11	11.3	-1.0
Aug-11 to Sept-11	-3.0	5.7

MEDIAN HOME PRICES
(\$)



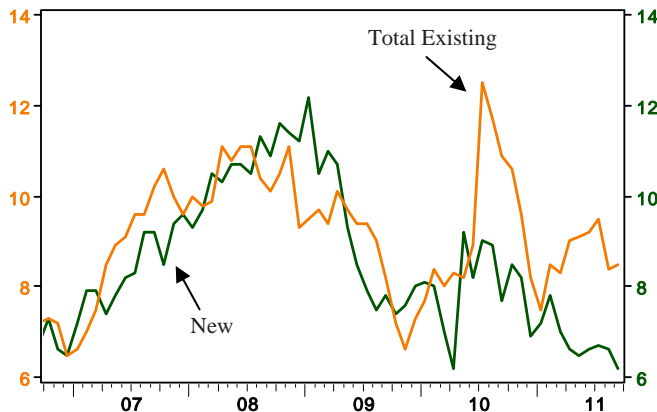
Source: National Association of Realtors/ Census Bureau/ Haver Analytics

% Change	Existing	New
Sept-10 to Sept-11	-3.5	-10.4
Aug-11 to Sept-11	-3.4	-3.1

NOTES:

- Although fluctuating month-to-month, home sales have no discernable trend.
- The trend in months' supply of homes for sale continues to be downward, helping to support prices.
- Multifamily starts are jumping in response to a shift toward rental units by households.

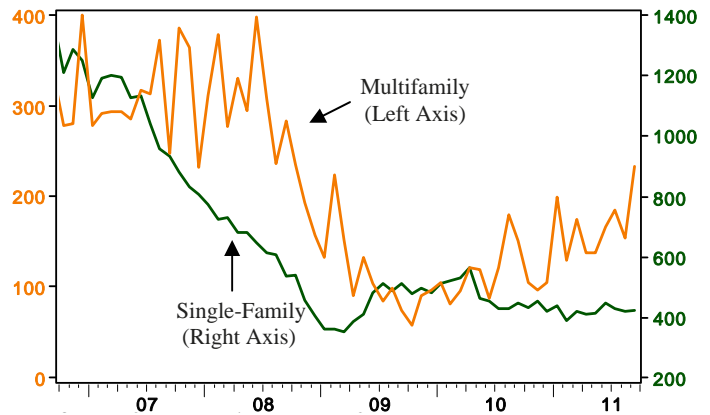
MONTHS' SUPPLY OF HOMES



Source: National Association of Realtors/ Census Bureau /Haver Analytics

Months	Existing	New
September 2010	10.9	7.7
September 2011	8.5	6.2

HOUSING STARTS
(THOUSANDS OF UNITS)



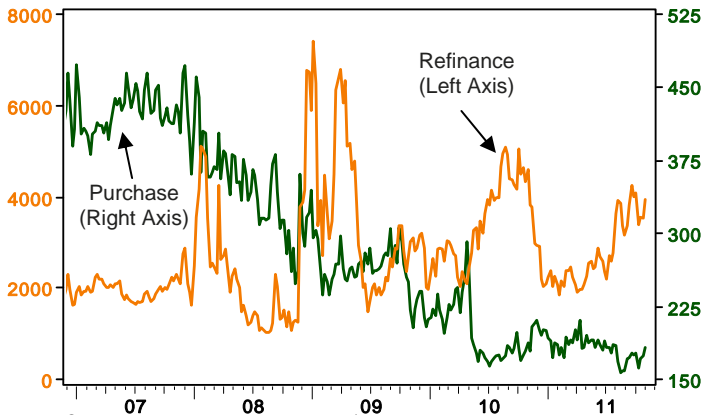
Source: U.S. Census Bureau / Haver Analytics

% Change	Single Family	Multi Family
Sept-10 to Sept-11	-4.9	55.3
Aug-11 to Sept-11	1.7	51.3



Mortgage Market Indicators

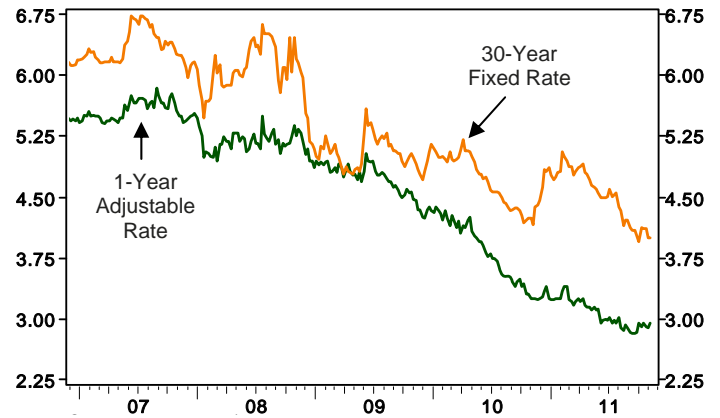
MORTGAGE APPLICATIONS (INDEX: MARCH 16, 1990 = 100)



Source: Mortgage Bankers Association / Haver Analytics

% Change	Purchase	Refinance
Oct-10 to Oct-11	-5.4	-19.8
Sept-11 to Oct-11	0.2	-2.2

MORTGAGE RATES (%)



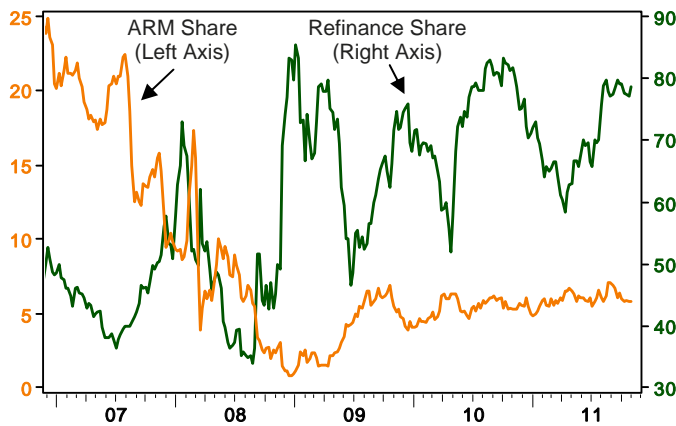
Source: Freddie Mac / Haver Analytics

Percent	30-Year Fixed	1-Year Adjustable
October 2010	4.23	3.36
October 2011	4.07	2.92

NOTES:

- Refi activity is climbing in response to low mortgage rates, but purchase activity continues to lag.
- Yields on 30-year FRMs are at post-war lows.
- Most measures of mortgage delinquencies continue to drift lower.

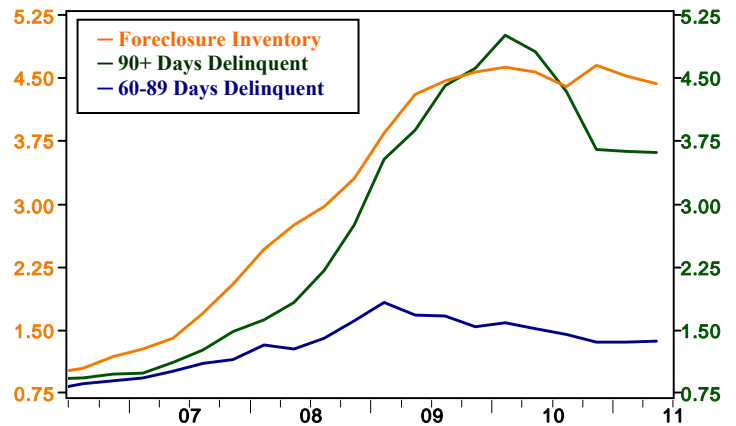
REFI/ARM SHARES (%)



Source: Mortgage Bankers Association / Haver Analytics

Percent	Refinance	ARM
October 2010	81.6	5.6
October 2011	77.8	5.9

DELINQUENT MORTGAGE LOANS (SHARE OF MORTGAGES)

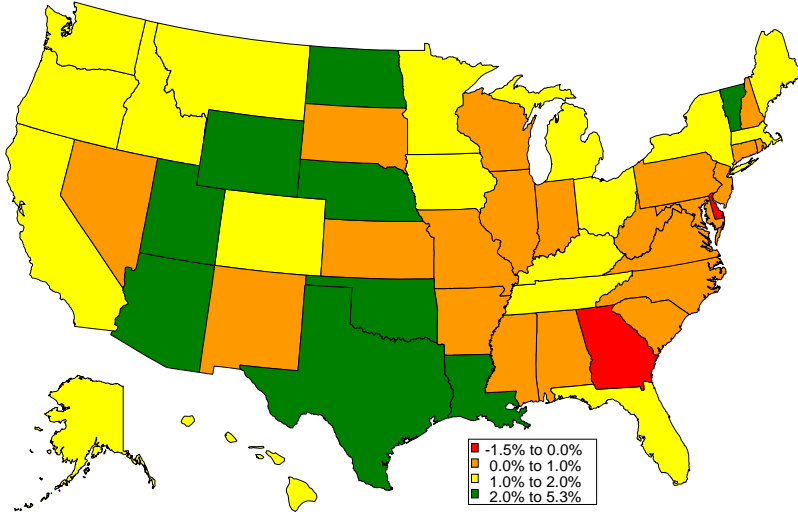


Source: Mortgage Bankers Association / Haver Analytics

Percent	Foreclosure Inventory	90+ Days Delinquent	60-89 Days Delinquent
2 nd Quarter 2010	4.57	4.82	1.52
2 nd Quarter 2011	4.43	3.61	1.37



12-MONTH CHANGE IN PAYROLL EMPLOYMENT SEPTEMBER 2011



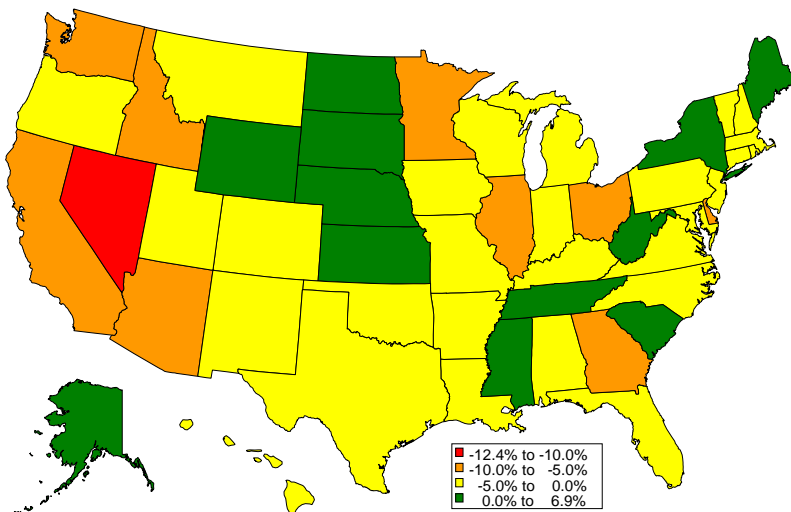
Delaware	-1.5%	New York	1.1%
Georgia	-0.6%	Maine	1.2%
District of Columbia	0.0%	United States	1.2%
Rhode Island	0.0%	Iowa	1.2%
Missouri	0.0%	Florida	1.3%
Virginia	0.1%	Kentucky	1.3%
Alabama	0.1%	Idaho	1.3%
Indiana	0.2%	Ohio	1.3%
North Carolina	0.3%	Minnesota	1.4%
New Mexico	0.3%	Massachusetts	1.5%
New Jersey	0.5%	Washington	1.6%
Maryland	0.5%	Alaska	1.6%
West Virginia	0.5%	Hawaii	1.7%
Kansas	0.6%	Michigan	1.7%
Connecticut	0.6%	Oregon	1.7%
South Dakota	0.8%	Montana	1.7%
Wisconsin	0.8%	California	1.8%
Illinois	0.8%	Vermont	2.1%
New Hampshire	0.9%	Nebraska	2.3%
Pennsylvania	0.9%	Louisiana	2.4%
South Carolina	0.9%	Texas	2.4%
Mississippi	0.9%	Arizona	2.4%
Arkansas	0.9%	Oklahoma	2.8%
Nevada	1.0%	Wyoming	3.0%
Colorado	1.0%	Utah	3.0%
Tennessee	1.1%	North Dakota	5.3%

Source: Bureau of Labor Statistics / Haver Analytics

NOTES:

- Payroll employment trends continue to improve, with only two states seeing declines in jobs over the past year.
- Including distressed sales, house price trends are mostly negative but improving.
- In September, 13 states had prices above year-earlier levels while only one had double-digit declines.

12-MONTH GROWTH IN HOUSE PRICES SEPTEMBER 2011



Nevada	-12.4%	Maryland	-1.7%
Illinois	-9.2%	Colorado	-1.5%
Arizona	-9.0%	Texas	-1.3%
Minnesota	-8.3%	New Jersey	-1.2%
Georgia	-7.2%	Indiana	-0.7%
California	-6.5%	Vermont	-0.6%
Ohio	-6.0%	Louisiana	-0.6%
Delaware	-5.8%	North Carolina	-0.6%
Washington	-5.5%	Iowa	-0.4%
Idaho	-5.0%	Montana	-0.3%
New Mexico	-4.7%	Oklahoma	-0.2%
Wisconsin	-4.7%	Virginia	-0.2%
Alabama	-4.6%	Pennsylvania	-0.1%
Missouri	-4.4%	Mississippi	0.1%
Oregon	-4.3%	South Carolina	0.6%
Utah	-4.2%	Tennessee	0.6%
United States	-4.1%	Alaska	0.9%
Michigan	-3.8%	Kansas	1.2%
Florida	-3.8%	Nebraska	1.2%
Connecticut	-3.5%	District of Columbia	1.4%
New Hampshire	-3.2%	New York	2.3%
Rhode Island	-2.7%	North Dakota	3.1%
Massachusetts	-2.2%	Maine	3.4%
Hawaii	-2.0%	South Dakota	3.6%
Arkansas	-1.8%	Wyoming	3.7%
Kentucky	-1.7%	West Virginia	6.9%

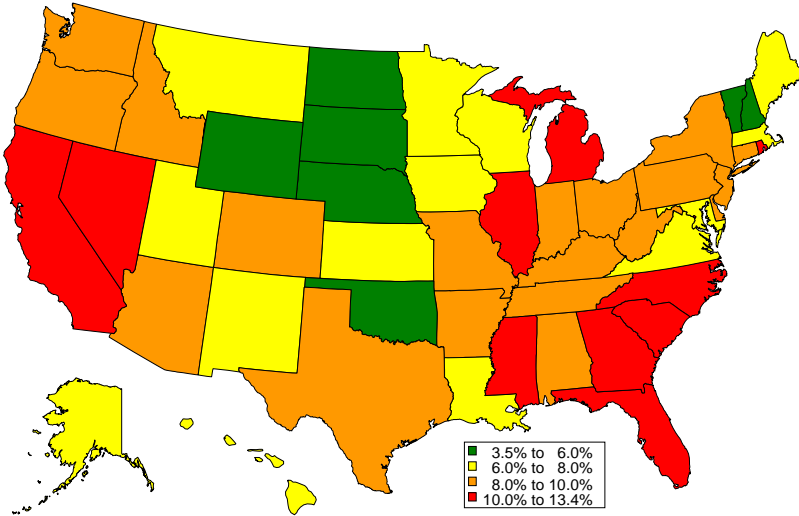
Source: CoreLogic

Note: Single-family detached + single-family attached including distressed sales



Regional Roundup

UNEMPLOYMENT RATES SEPTEMBER 2011



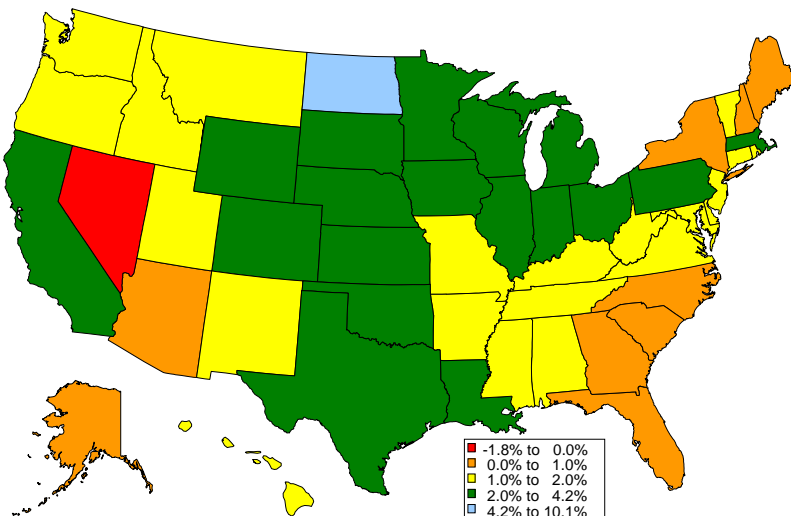
North Dakota	3.5%	Pennsylvania	8.3%
Nebraska	4.2%	Texas	8.5%
South Dakota	4.6%	Missouri	8.7%
New Hampshire	5.4%	Connecticut	8.9%
Vermont	5.8%	Indiana	8.9%
Wyoming	5.8%	Idaho	9.0%
Oklahoma	5.9%	United States	9.1%
Iowa	6.0%	Arizona	9.1%
Hawaii	6.4%	Ohio	9.1%
Virginia	6.5%	Washington	9.1%
New Mexico	6.6%	New Jersey	9.2%
Kansas	6.7%	Oregon	9.6%
Louisiana	6.9%	Kentucky	9.7%
Minnesota	6.9%	Alabama	9.8%
Massachusetts	7.3%	Tennessee	9.8%
Maryland	7.4%	Illinois	10.0%
Utah	7.4%	Georgia	10.3%
Maine	7.5%	North Carolina	10.5%
Alaska	7.6%	Rhode Island	10.5%
Montana	7.7%	Florida	10.6%
Wisconsin	7.8%	Mississippi	10.6%
New York	8.0%	South Carolina	11.0%
Delaware	8.1%	Michigan	11.1%
West Virginia	8.2%	District of Columbia	11.1%
Arkansas	8.3%	California	11.9%
Colorado	8.3%	Nevada	13.4%

Source: Bureau of Labor Statistics / Haver Analytics

NOTES:

- Mirroring the national average, state unemployment rates have been little changed over the past few months.
- In September, 11 states had double-digit unemployment rates – including the sand states of California and Nevada.
- While income growth remains slow in several states, Nevada is the only state with declines over the past year.

4-QUARTER CHANGE IN REAL PER CAPITA PERSONAL INCOME 2ND QUARTER 2011



Nevada	-1.7%	Oregon	1.7%
North Carolina	0.2%	Rhode Island	1.7%
Alaska	0.6%	West Virginia	1.8%
Arizona	0.8%	Connecticut	1.9%
Florida	0.8%	Montana	1.9%
South Carolina	0.9%	United States	1.9%
New Hampshire	1.0%	Colorado	2.0%
New York	1.0%	Pennsylvania	2.2%
Maine	1.0%	District of Columbia	2.2%
Georgia	1.0%	Indiana	2.2%
New Jersey	1.0%	Massachusetts	2.2%
Mississippi	1.0%	Wyoming	2.4%
Hawaii	1.1%	Louisiana	2.5%
Alabama	1.1%	Ohio	2.5%
Virginia	1.1%	Wisconsin	2.8%
New Mexico	1.1%	Texas	2.8%
Vermont	1.2%	California	2.9%
Washington	1.3%	Illinois	2.9%
Arkansas	1.4%	Minnesota	3.4%
Missouri	1.4%	Michigan	3.5%
Utah	1.4%	Oklahoma	3.6%
Tennessee	1.5%	Kansas	3.7%
Kentucky	1.5%	South Dakota	3.7%
Idaho	1.5%	Nebraska	3.9%
Delaware	1.5%	Iowa	4.1%
Maryland	1.6%	North Dakota	10.1%

Source: Mortgage Bankers Association / Haver Analytics



REGION IN FOCUS

*The Northeast region includes CT, MA, ME, NH, NJ, NY, PA, RI, and VT.

**All Region in Focus graphs contain data gathered from BLS, CoreLogic, and MBA.

Region in Focus: The Northeast

The Northeast is slowly on the mend, similar to the nation as a whole. Unemployment rates in the Northeast region, while still lower than in the other regions, stagnated during the third quarter as domestic economic growth and E.U. debt concerns increased. On the positive side, payroll employment continued to trend upward. Home sales leveled off in September after increasing in the previous two months. Median house prices have not shown any significant improvement beyond the usual seasonal gains. Foreclosure inventory in the Northeast continued to increase, although overall mortgage quality still remains similar to the nation as a whole.

Labor market conditions in the Northeast have generally improved. The average unemployment rate in the region was 8.2 percent in September, slightly higher than its post-recession low of 8.0 percent. The Northeast's unemployment rate remains the lowest of the four Census regions, and is almost a full percentage point below its post-recession peak. Rhode Island has the highest unemployment rate in the region at 10.5 percent, while New Hampshire and Vermont have the lowest at 5.4 and 5.8 percent, respectively. The leisure and hospitality sector has been especially strong, fully recovering since the recession ended and reaching new all-time employment highs throughout 2011. On the other hand, the government sector continues to be weak, hindering overall job growth.

According to the National Association of Realtors (NAR), existing single-family home sales in the Northeast were up by 5.5 percent over the year ending in September. While sales are still up on the year, they have trended downward since the end of 2010. The median sales price of existing single-family homes sold in the Northeast dropped by 5.6 percent in September from a year earlier.

Mortgage credit quality in the Northeast has turned worse on average compared to the U.S. as a whole, with the exception of foreclosure starts. According to the Mortgage Bankers Association (MBA), the rate of foreclosures started fell to 0.78 percent (non-seasonally adjusted, or NSA) in the second quarter of 2011, remaining below the national average of 0.96 percent. Seriously delinquent loans (90+ days delinquent plus foreclosure inventory) were 8.20 percent of the total, with only the South having a higher rate. The high serious delinquency rate was driven by an increasing foreclosure inventory – the only region to still show consistent increases. The Northeast also had higher delinquency rates on all loans at 7.86 percent – the second highest of the four regions.

Connecticut

Connecticut's job market has been relatively weak with solid recovery in only a few industries. The unemployment rate has also shown little improvement since the recession ended. Home sales fell in the third quarter, and are still at low levels. House prices have seen mostly normal seasonal fluctuations. According to the Bureau of Economic Analysis (BEA, part of the Commerce Department), per capita personal income in the state rose by 1.1 percent in the second quarter, and was up by 4.4 percent from a year earlier. Mortgage credit quality in Connecticut is better than the national average; however, it has shown very little improvement outside of the 90+ day delinquent category.

Connecticut's unemployment rate dropped to 8.9 percent in September, although it is only 0.3 percentage points below its post-recession peak. The state's largest MSA, Hartford-West Hartford-East Hartford, also has an unemployment rate of 8.9 percent. Bridgeport-Stamford-Norwalk has a lower unemployment rate at 8.2 percent. New Haven-Milford, on the other hand, had a higher unemployment rate at 9.3 percent. After losing 119,200 jobs in the recession, Connecticut has gained 27,400 back. Since hitting bottom, job growth in the state has been similar to the national average, both increasing by 1.7 percent. Over the past year, the private sector, which has added 11,900 jobs, has performed much better than the government sector, which has lost 1,500 jobs. The private sector recovery, however, has not been broad based, with only the professional and business services

and the leisure and hospitality categories showing improvement.

According to NAR, third quarter total existing home sales in the state were down by 8.9 percent from the previous quarter, up by 7.4 percent over the previous year, and down by 49.3 percent from the peak. According to Moody's Economy.com, existing single-family home sales were down in all four MSAs over the past year. Sales did improve recently, increasing in three of the four MSAs in the second quarter. In Hartford-West Hartford-East Hartford, sales increased by 11.4 percent in the second quarter, but were down by 19.0 percent over the past year. Sales in Bridgeport-Stamford-Norwalk decreased in the second quarter, down by 21.2 percent, and decreased over the past year by 9.8 percent.

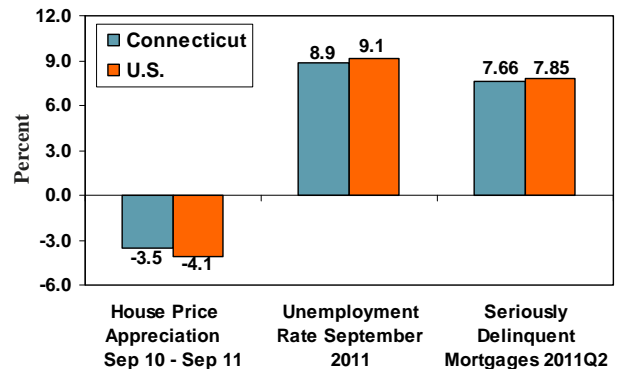
House prices in Connecticut have been relatively flat since the early spring of 2009 with prices fluctuating due to seasonal reasons. According to September data from CoreLogic's house price index (HPI), Connecticut house prices (including distressed sales) were down by 3.5 percent over the past year. Prices in Bridgeport-Stamford-Norwalk dropped over the past year by 4.9 percent. Norwich-New London decreased by 3.9 percent over the same period. House prices fell the most in New Haven-Milford, decreasing by 10.0 percent, while they decreased the least in Hartford-West Hartford-East Hartford, dropping by just 2.0 percent.

(Continued on page 9)

Region in Focus: The Northeast

Connecticut (continued from page 8)

Mortgage credit quality in Connecticut has been a tad better than the national average. According to the MBA, the rate of foreclosures started in the state rose to 0.97 percent (NSA) during the second quarter of 2011. This is similar to the national average of 0.96 percent. The delinquency rate on all mortgages in the state was 7.21 percent, below the national average of 8.11 percent. The share of seriously delinquent loans in Connecticut was 7.66 percent, below the national average of 7.85 percent. The foreclosure inventory in Connecticut continues to increase rapidly, reaching a new high at 4.73 percent, and is above the national average for the first time in over ten years.



New Hampshire

The unemployment rate in New Hampshire has been increasing, but remains one of the lowest in the nation. Home sales are still at low levels, having bounced around from 18,000 to 20,000 over the past year. After some gains in the spring, house prices have begun to fall once again in recent months. The state's per capita personal income rose by 1.2 percent in the second quarter, and was up by 3.5 percent from a year earlier. Mortgage credit quality in New Hampshire continues to be better than the nation as a whole with low new foreclosure and delinquency rates.

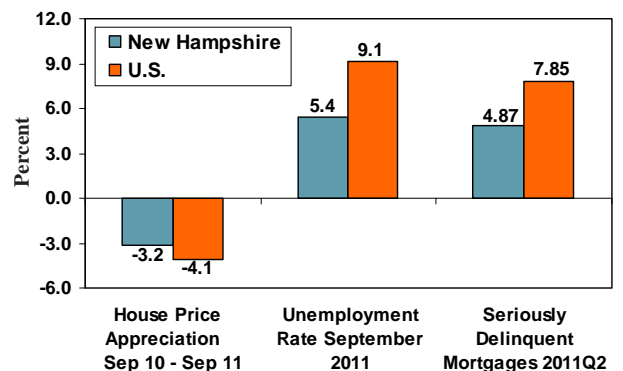
Although New Hampshire's unemployment rate has increased in recent months, it is still far below the national average, with only 3 states having lower unemployment rates. The unemployment rate was 5.4 percent in September, up from 4.8 percent in May. Manchester had a slightly lower unemployment rate of 5.3 percent. After losing 31,800 payroll jobs in the recession, 8,100 have been recovered. Employment is up by 0.9 percent over the past year. However, there was a 0.9 percent drop in September alone – the largest one-month drop since June 2009 (completely due to private sector job losses). As in Connecticut, the professional and business services and the leisure and hospitality categories are leading job growth – with both reaching new highs in 2011 even with the job losses from the recession.

According to NAR, third quarter total existing home sales in the state were up by 8.9 percent from the previous quarter, but down by 16.7 percent from a year earlier. Still, they are at low overall levels. According to Moody's Economy.com, single-family home sales were down in both of the state's MSAs. Sales in Rockingham County-Strafford County were down during the second quarter, falling by 9.5 percent, and also down by 16.1 percent over the past year. Home

sales decreased by more in Manchester-Nashua, down by 10.4 percent during the second quarter and by 20.7 percent over the past year.

According to CoreLogic, house prices in New Hampshire were up by 6.6 percent from March to June thanks to some seasonal gains. Prices have slipped by 0.6 percent over the past three months, however, and are now down by 3.2 percent over the past year. House prices in Rockingham County-Strafford County also fell by 3.2 percent over the past year. Prices in Manchester-Nashua are down by 1.5 percent over the past year.

Mortgage credit quality in New Hampshire is better than the national average. According to the MBA, the rate of foreclosures started in the state fell to 0.91 percent (NSA) during the second quarter of 2011. This is lower than the national average of 1.08 percent. Seriously delinquent loans were 4.87 percent, also below the national average of 7.85 percent. The delinquency rate on all mortgages in the state was 7.11 percent, below the national average of 8.11 percent.



Region in Focus: The Northeast



Rhode Island

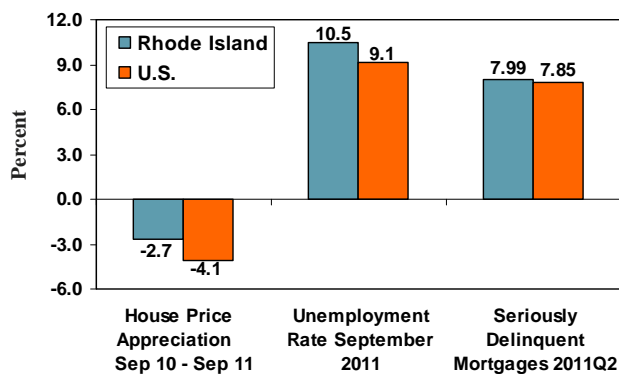
While Rhode Island's unemployment rate has continually decreased from its peak, most of the decline in 2011 can be attributed to a declining labor force rather than an increase in employment. According to the Payroll Survey, job growth has recently turned negative after strong gains during the first half of the year. The state's per capita personal income rose by 1.3 percent in the first quarter and was up by 4.3 percent from a year earlier. Home sales have also moved up over the past year. House prices in Rhode Island, while still weak overall, are up over the past six months. Mortgage credit quality is mostly worse than the country as a whole, with higher rates of foreclosure and delinquent mortgages.

Rhode Island's unemployment rate has slowly drifted downward over the past year-and-a-half and is now at 10.5 percent. The unemployment rate in the state's only MSA, Providence-New Bedford-Fall River, was 10.6 percent in September. According to the September payroll employment survey, there was strong growth in the first half of the year with a 2.3 percent increase from January 2011 to July 2011. On the downside there was a 1.6 percent drop during the past two months reducing job growth to zero over the past year.

According to NAR, third quarter total existing home sales in the state were down 3.1 percent, but they have increased in three of the past four quarters. Home sales were also up over the past year, increasing by 13.8 percent, but still down by 35.3 percent from their peak. According to Moody's Economy.com, single-family home sales in Providence-New Bedford-Fall River were down by 10.9 percent during the second quarter and down by 24.6 percent over the past year.

According to data from CoreLogic's HPI, house prices in the state are down by 2.7 percent over the past year, although they are up over the past six months by 2.8 percent. Prices fell in Providence-New Bedford-Fall River by 0.8 percent over the past year. As with the state overall, prices are up over the past six months, increasing by 4.7 percent.

Mortgage credit quality in Rhode Island is worse than the national average. According to the MBA, the rate of foreclosures started in the state rose to 1.21 percent (NSA) during the second quarter of 2011, above the national average of 0.96 percent. The delinquency rate on all mortgages in the state was 8.43 percent, above the national average of 8.11 percent. The share of seriously delinquent loans in Rhode Island was 7.99 percent, just a bit higher than the national average of 7.85 percent.





Region in Focus: The Northeast – Selected Housing / Economic Indicators

State	MSA	Unemployment Rate		House Price Appreciation			Homeowner Vacancy Rate	
		Sep-11	Jun-11	3rd Qtr 11	2nd Qtr 11	3rd Qtr 11	2nd Qtr 11	
Connecticut	Bridgeport-Stamford-Norwalk	8.2	9.1	-6.8	19.4	1.6	2.4	
	Hartford-West Hartford-East Hartford	8.9	9.1	-10.4	19.3	0.6	3.6	
	New Haven-Milford	9.3	9.5	2.5	6.2	1.2	1.9	
Maine	Portland-South Portland-Biddeford	7.5	7.8	-13.6	14.9	1.4	0.9	
		6.0	6.2	22.6	0.5	3.0	2.4	
Massachusetts	Portland-South Portland-Biddeford	7.3	7.6	-1.1	2.7	-	-	
	Barnstable Town	8.4	8.4	2.0	9.4	1.5	2.0	
	Boston-Quincy	6.2	6.4	-2.2	9.5	-	-	
	Boston-Quincy	6.2	6.4	-4.8	6.2	1.0	1.6	
	Cambridge-Newton-Frammingham	-	-	0.0	6.0	1.0	1.6	
New Hampshire	Springfield	8.5	8.8	11.5	9.5	2.6	2.7	
	Worcester	7.8	8.1	-3.1	1.4	3.1	1.4	
New Jersey	Manchester-Nashua	5.4	4.9	7.7	11.5	1.9	2.2	
	Camden	5.3	4.8	5.9	10.0	-	-	
New York	Edison-New Brunswick	9.2	9.5	11.2	-1.1	1.7	1.8	
	Newark-Union	-	-	9.5	-6.3	1.6	2.1	
	Trenton-Ewing	9.1	9.4	2.9	0.7	-	-	
Pennsylvania	Newark-Union	7.8	8.0	24.3	-3.4	3.9	2.8	
	Albany-Schenectady-Troy	8.0	8.0	8.4	3.9	3.0	2.7	
	Buffalo-Niagra Falls	7.1	7.0	8.1	3.9	2.8	2.7	
	Nassau-Suffolk	7.8	7.8	4.1	6.3	2.3	0.9	
	New York-White Plains-Wayne	7.0	7.0	11.5	4.1	2.3	0.9	
Rhode Island	New York-White Plains-Wayne	8.5	8.6	6.2	-1.0	2.5	2.7	
	Poughkeepsie-Newburgh-Middletown	7.6	7.6	7.0	4.8	2.5	2.7	
	Rochester	7.4	7.4	2.0	-1.2	4.6	1.5	
	Syracuse	7.4	7.4	6.6	5.2	0.6	0.6	
	Syracuse	7.9	7.8	13.0	5.2	0.6	0.6	
Vermont	Allentown-Bethlehem-Easton	7.9	7.8	8.0	1.5	-	-	
	Harrisburg-Charlisle	8.3	7.6	8.0	3.3	2.2	2.0	
	Lancaster	8.9	8.4	16.7	1.1	2.1	2.1	
	Philadelphia	7.5	6.9	7.5	2.6	2.1	2.1	
	Pittsburgh	7.0	6.4	2.1	0.9	2.1	2.1	
Vermont	Reading	8.6	7.9	5.4	0.1	1.6	2.1	
	Scranton-Wilkes-Barre	7.5	7.0	16.0	12.3	3.1	0.9	
	York-Hanover	8.4	7.8	7.0	6.4	3.1	0.9	
Rhode Island	Scranton-Wilkes-Barre	9.5	8.7	-1.8	1.9	1.6	2.1	
	York-Hanover	7.9	7.3	2.0	1.0	2.0	2.2	
Vermont	Providence-New Bedford-Fall River	10.5	10.8	5.2	0.4	2.0	2.2	
	Burlington-South Burlington	10.6	11.0	15.0	-1.4	2.0	2.9	
United States	Burlington-South Burlington	5.8	5.5	5.9	2.3	1.6	1.5	
		4.6	4.5	2.4	10.7	1.6	1.5	
		9.1	9.2	6.7	6.9	2.4	2.5	

Source: Bureau of Labor Statistics / CoreLogic / U.S. Census Bureau / Haver Analytics

Special Topic *(Continued from cover page)*



An additional and important impediment to both home sales and mortgage refinancings is the difficulty in getting qualified for a mortgage. Mortgage lenders, mortgage insurers, Fannie Mae and Freddie Mac, and the FHA have all tightened lending standards, raised fees with respect to credit risk, or both, in response to the oversupply of mortgage credit during the housing boom and the resulting surge in mortgage delinquencies and foreclosures.

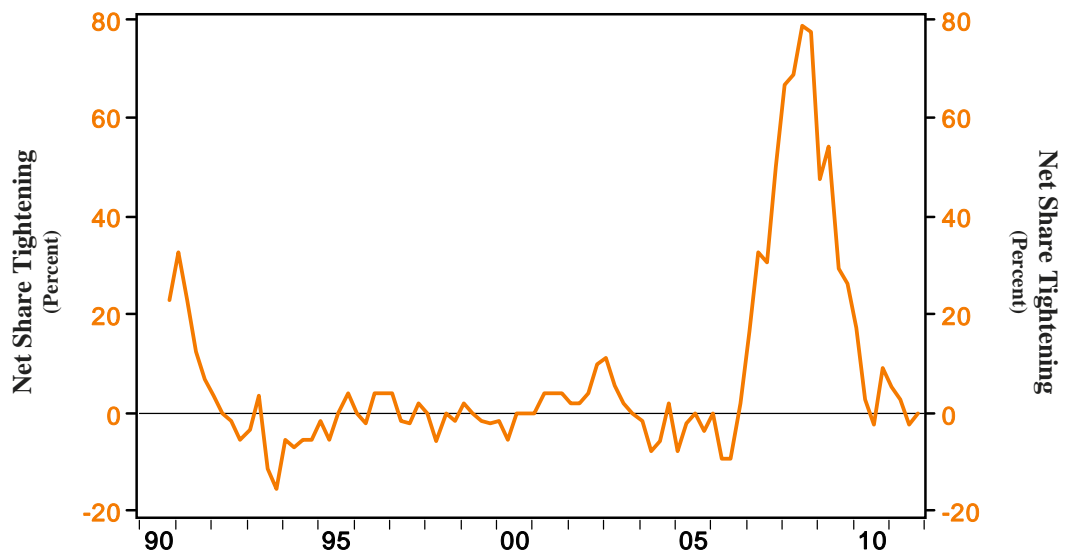
How much have credit conditions tightened since the end of the housing boom? One way to measure this is to look at the quarterly Senior Loan Officer Survey on Bank Lending Practices from the Federal Reserve. For our purposes, the most important question asked has to do with the net percentage of respondents reporting tighter standards for mortgage loans. Figure 1 shows the net share of banks that have tightened mortgage lending standards. Three distinct periods need to be recognized: (1) the 2004-2006 period corresponding to the housing boom, when somewhat more lenders eased standards than tightened them in virtually every quarter; (2) the 2007-2011 period corresponding to the housing bust, when the vast majority of banks tightened

mortgage lending criteria every quarter in an unprecedented fashion (far surpassing the tightening of lending standards in the early 1990s in the wake of the S&L crisis); and (3) the second half of 2011 corresponding to current conditions, with little further change in the net share of lenders either tightening or easing mortgage lending standards. Interestingly, the Fed's Senior Loan Officer Survey also shows that there has been an increasing share of banks that are easing lending standards for other types of consumer loans since early 2010 – the mortgage sector stands alone in regard to the lack of easing in credit standards over the past year or two.

While the Fed survey doesn't provide information on how much lending standards have tightened or eased, the magnitude of the net tightening during the housing bust – with more than half of banks tightening standards every quarter from the end of 2007 to the middle of 2009 – is compelling. Moreover, a significant share of lenders tightened credit policy both before and after this period. The most recent survey data suggest that the tightening is about over, but there is no evidence of any easing in lending standards yet.

(Continued on page 13)

Figure 1: Significant Tightening During the Housing Bust



Source: Federal Reserve Board / Haver Analytics



A separate survey from the Federal Housing Finance Agency (FHFA) on the characteristics of loans closed may give some information on the magnitude of changes in lending standards. Figure 2 shows the share of loans closed in the FHFA survey that had loan-to-value ratios over 90 percent, and thus are riskier than lower LTV loans with other similar credit characteristics. The housing boom is again clearly evident in this survey, as the share of over-90 percent LTV loans climbed to one-third at the end of 2007. In the period of tightening lending standards, however, that share dropped to single digits. More recently, the high LTV share has been rising again, with a jump to 21 percent in September 2011. Since this survey is based on a small sample, it tends to be volatile and any particular month's results need to be viewed with caution. So, while we might not believe that the high LTV share has actually climbed to 21 percent, the trend over the course of this year has been upward.

Does this suggest that lending standards have been loosened? Perhaps, although there is no corresponding agreement in the Fed's Senior Loan Office Survey. It may be that the move to more balance between tightening and easing mortgage lending standards in the most recent Fed data has allowed for a modest rise in LTVs. Of course, LTVs are only one measure of credit risk, and it

may also be that there has been an increase in credit quality in other ways that allow for higher LTVs while not changing the overall risk profile of these loans.

Figure 3 shows an index of the credit risk in the mortgage loans that PMI has insured over time. The private mortgage insurance industry insures higher LTV loans, typically those over 80 percent LTV and often over 90 percent, so it isn't representative of the entire mortgage market. But the measure of credit risk used here is likely representative of the market for over-80 percent LTV mortgages. The housing bubble is clearly seen with the jump in the index for the 2004-2008 period, and the sharp drop in credit risk correlates with the housing bust period of 2008-2011. While this credit risk index has edged up just a tad during 2011, it doesn't show the jump that the FHFA data show with regard to the share of higher LTV loans. This suggests that the credit risk inherent in the greater share of higher LTV lending as shown in the FHFA data has been almost completely offset by other tighter lending standards – resulting in little net change. As a result, despite an increase in higher LTV lending recently, overall credit standards remain extremely tight – significantly offsetting the positive impact of lower mortgage rates on home sales and mortgage refinancing.

Figure 2: Over 90% LTVs Surged in the Boom

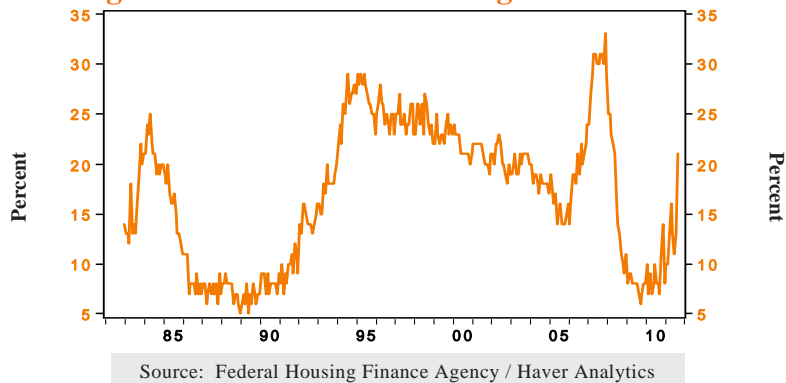
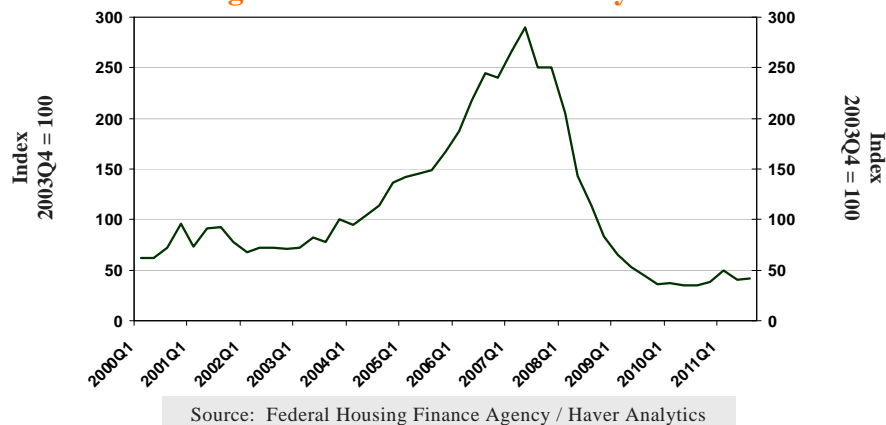


Figure 3: Credit Risk Still Very Low





The PMI Forecast

	2010				2011				2012				2010	2011	2012	2010	2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4							
<u>Economic Outlook</u>																			
Real GDP Growth ¹	3.9	3.8	2.5	2.4	0.4	1.3	2.5	2.9	3.0	3.1	3.3	3.5	3.1	1.8	3.2	3.2	3.2	3.6	3.6
Consumer Price Inflation ²	1.5	-0.7	1.5	2.6	5.2	4.1	3.1	1.8	1.7	1.9	2.2	2.3	1.7	3.2	2.2	2.2	2.6	2.6	2.6
Civilian Unemployment Rate	9.7	9.6	9.6	9.6	8.9	9.1	9.1	9.0	9.0	8.9	8.8	8.7	9.6	9.0	8.9	8.9	8.2	8.2	8.2
<u>Interest Rates</u>																			
30-year Fixed Rate Mortgage (%)	5.00	4.91	4.45	4.41	4.88	4.66	4.31	4.05	4.15	4.40	4.65	4.85	4.69	4.48	4.51	4.51	5.40	5.40	5.40
1-year Adjustable Rate Mortgage (%)	4.25	4.01	3.57	3.31	3.26	3.11	2.91	2.90	3.00	3.10	3.20	3.30	3.79	3.05	3.15	3.15	3.80	3.80	3.80
10-year Treasury Note (%)	3.72	3.49	2.79	2.86	3.46	3.21	2.43	2.17	2.25	2.50	2.90	3.10	3.21	2.82	2.69	2.69	3.70	3.70	3.70
<u>Housing Market</u>																			
Existing Sales (Thousands of Units)	5183	5570	4170	4747	5137	4883	4880	5000	5100	5250	5400	5550	4908	4975	5325	5700	5700	5700	5700
New Sales (Thousands of Units)	360	335	291	300	299	309	302	315	325	350	375	410	322	306	365	500	500	500	500
Median Existing Home Price Change (%) ³	-2.6	6.2	0.2	-4.0	-7.0	6.8	0.4	-2.5	-3.5	6.5	2.0	-1.5	0.2	-4.2	1.7	2.3	2.3	2.3	2.3
<u>Mortgage Market</u>																			
Single Family Originations (Billions of \$)	355	385	415	465	330	300	330	340	240	280	280	210	1620	1300	1010	1200	1200	1200	1200
Refinancing Share (%)	69	60	70	73	66	64	70	74	65	50	40	35	68	69	48	33	33	33	33
ARM Share (%)	5	6	6	6	6	8	9	10	11	12	13	14	6	8	12	14	14	14	14

All forecasted values are in **bold**

- 1 Quarterly = annualized percent change ; Annual = Q4 / Q4
- 2 Quarterly = annualized percent change ; Annual = Year Avg. / Year Avg.
- 3 Quarterly = percent change ; Annual = Year Avg. / Year Avg.

Cautionary Statement:

Statements in this document that are not historical facts, or that relate to future plans, events or performance are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include our expectations with respect to national and regional economic activity, the risk of recession in the United States, inflation, employment trends, consumer spending and borrowing, interest rates, home sales and price trends, governmental policy and its anticipated impact on future economic trends, and other trends in housing, financial, and mortgage markets. Readers are cautioned that forward-looking statements by their nature involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Many factors could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements. Such factors include, among others, different than expected levels and growth rates of national or regional economic activity; changes in monetary and fiscal policy, sources and uses of bank liquidity, and credit and other market disruptions; political tensions and unrest in certain foreign nations; fluctuations in oil prices; natural and manmade disasters; changes in international economic and financial conditions, particularly financial and fiscal volatility in Europe, and the risks of national debt default; changes in interest rates, lending standards, housing prices and employment rates; foreclosure trends; and regulatory and legislative developments. Other risks and uncertainties are discussed in the SEC filings of the PMI Group, Inc., including its Annual Report on Form 10-K for the year ended December 31, 2010 (in Part I, Item 1A), filed on March 15, 2011 and its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011 (in Part II, Item 1A), filed on May 10, 2011 and June 30, 2011 (in Part II, Item 1A), filed on August 4, 2011. PMI undertakes no obligation to update forward-looking statements.