



**REPUBLIC MORTGAGE
INSURANCE COMPANY**

A Subsidiary of the Old
Republic International Corporation



Economic Commentary

Summer 2011

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Is The Economic Recovery Stalling?

- ▶ Early 2011 momentum in job growth slows greatly during 2Q 2011
- ▶ Confidence shaken by global events, weak sales, uncertainties
- ▶ Home prices stabilize in 2Q 2011 following drops in prior 6 months
- ▶ Foreclosure completions rise in 1Q 2011, but remain much lower than peak level of 3Q 2010
- ▶ Proprietary modifications drop in 1Q 2011

Expectations through early 2012:

- ▶ Private sector employment growth slowly builds back momentum, while government cuts continue
- ▶ Distressed sales activity grows as servicers improve foreclosure processes, leading to 5-10% home price drops nationally
- ▶ Interest rates slowly rise, decreasing refinance opportunities
- ▶ All cash sales account for 1/3 of total sales, driven by investors

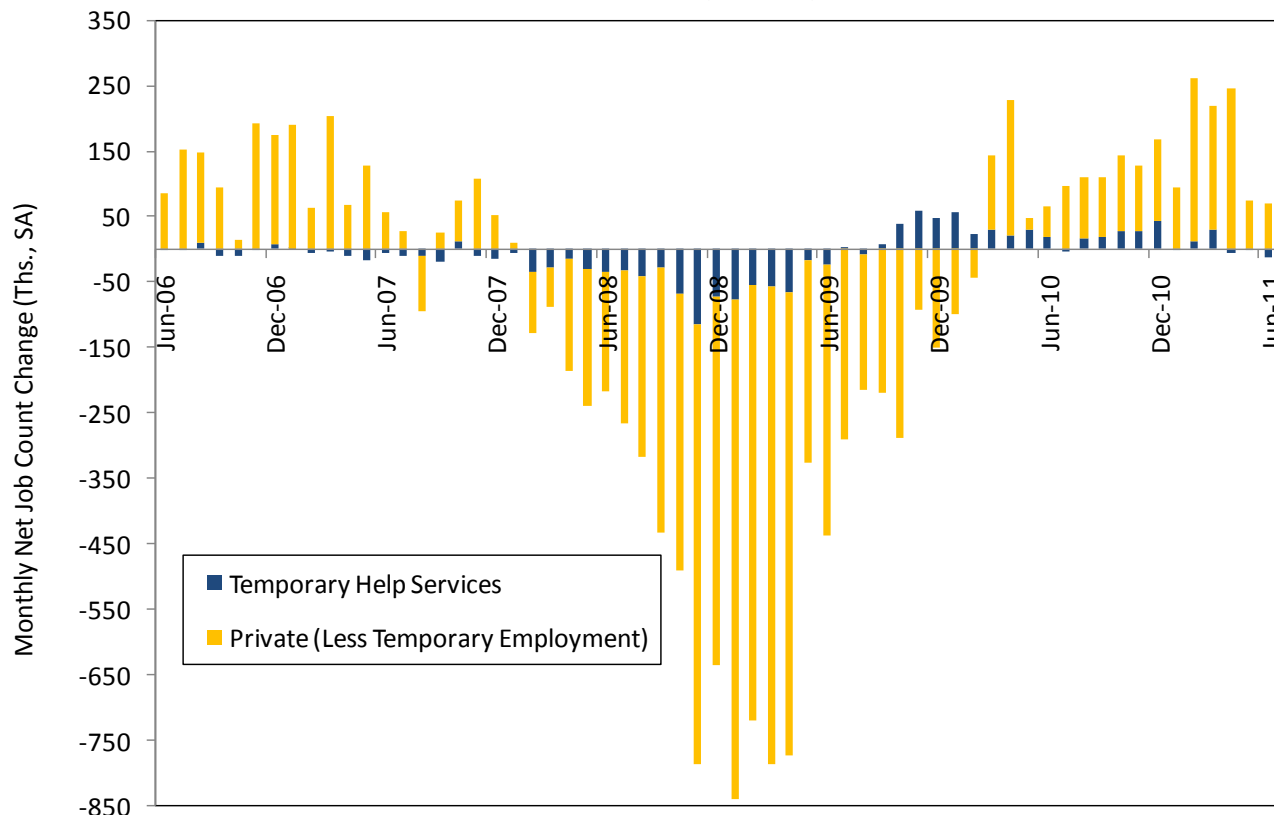
Employment

- ▶ 2Q 2011 saw weak employment growth
- ▶ Government job cuts will continue to offset private sector growth through mid-2012
- ▶ TX, MA, PA, and NY have each recovered more than 1/3 of jobs lost during the Great Recession
- ▶ Confidence remains low among small business owners and consumers due to the weak economic recovery
- ▶ Improved corporate profitability and strong growth in exports are overshadowed by weak sales, regulatory uncertainty, and housing market woes

Private Sector Job Growth Slowed in 2nd Quarter 2011

- ▶ Temporary hiring in late 2009 translated into growth in permanent hires during 2010
- ▶ 1.6 million private sector jobs have been added over the last 12 months, but growth slowed in the last 2 months
- ▶ Weak sales, low confidence in the economic recovery, rising healthcare costs, and uncertainty about potential impacts of federal budget changes, new regulations, and lawsuits drive reluctance to hire
- ▶ Most economists still expect job growth to pick up in the second half of 2011 since corporate profitability remains strong, but recent economic reports suggest the momentum will be weak

Monthly Net Job Count Change in Private Sector
Sources: BLS, Moody's Analytics



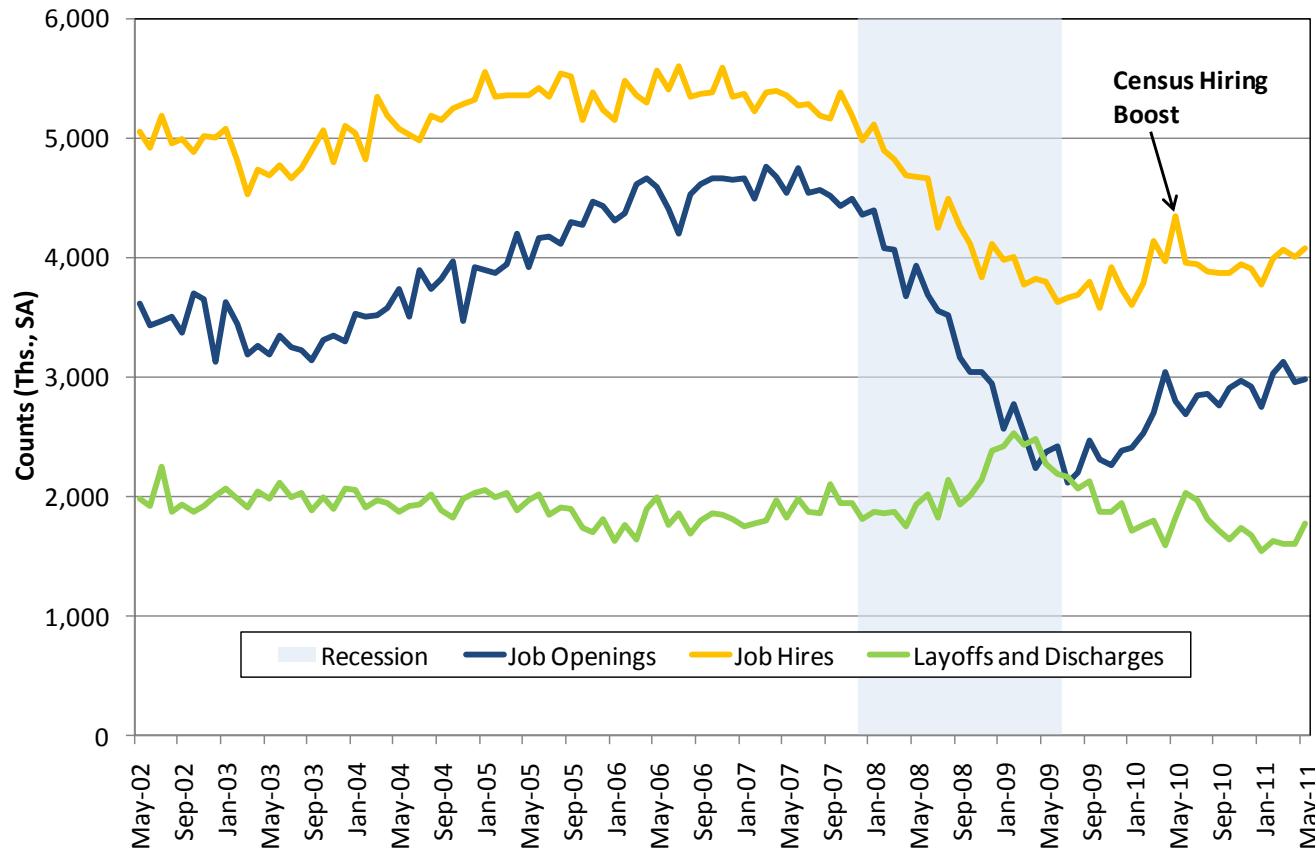


New Hiring, Job Openings Continue to Rise Slowly

- ▶ Hiring activity and job openings have seen slow but steady improvement since mid-2009
- ▶ Despite the improvement, hiring and job openings remain at levels observed during the Great Recession
- ▶ Net job growth continues to be positive due to the low level of layoffs
- ▶ The unemployment rate rose to 9.2% in June. The current labor participation rate of 64.1% is at its lowest level since March 1984
- ▶ The May 2011 uptick in layoffs was driven by weakness in the food and transportation equipment subsectors

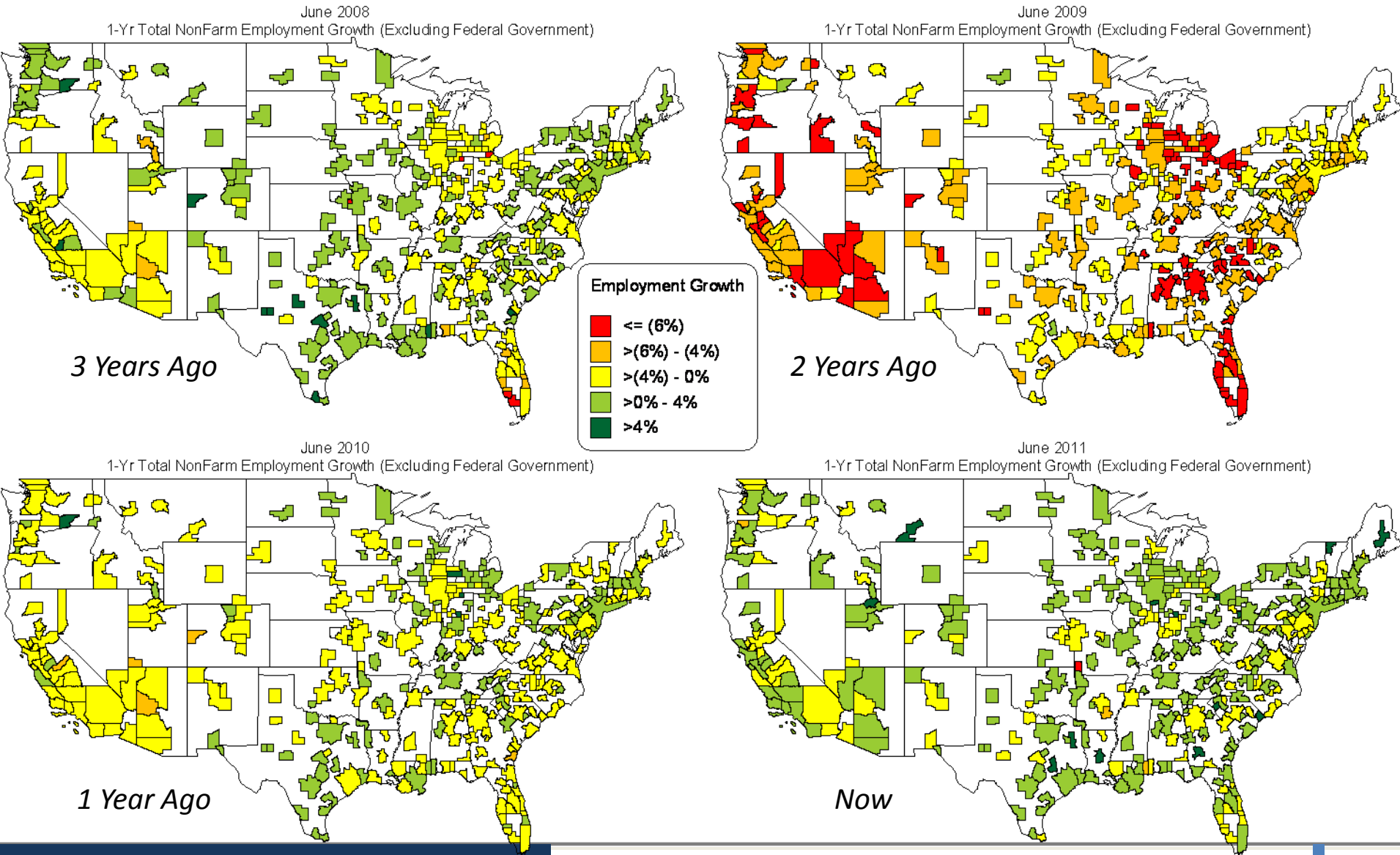
JOLTS: Monthly U.S. Total Hires, Layoffs, and Job Openings

Sources: BLS, Moody's Analytics



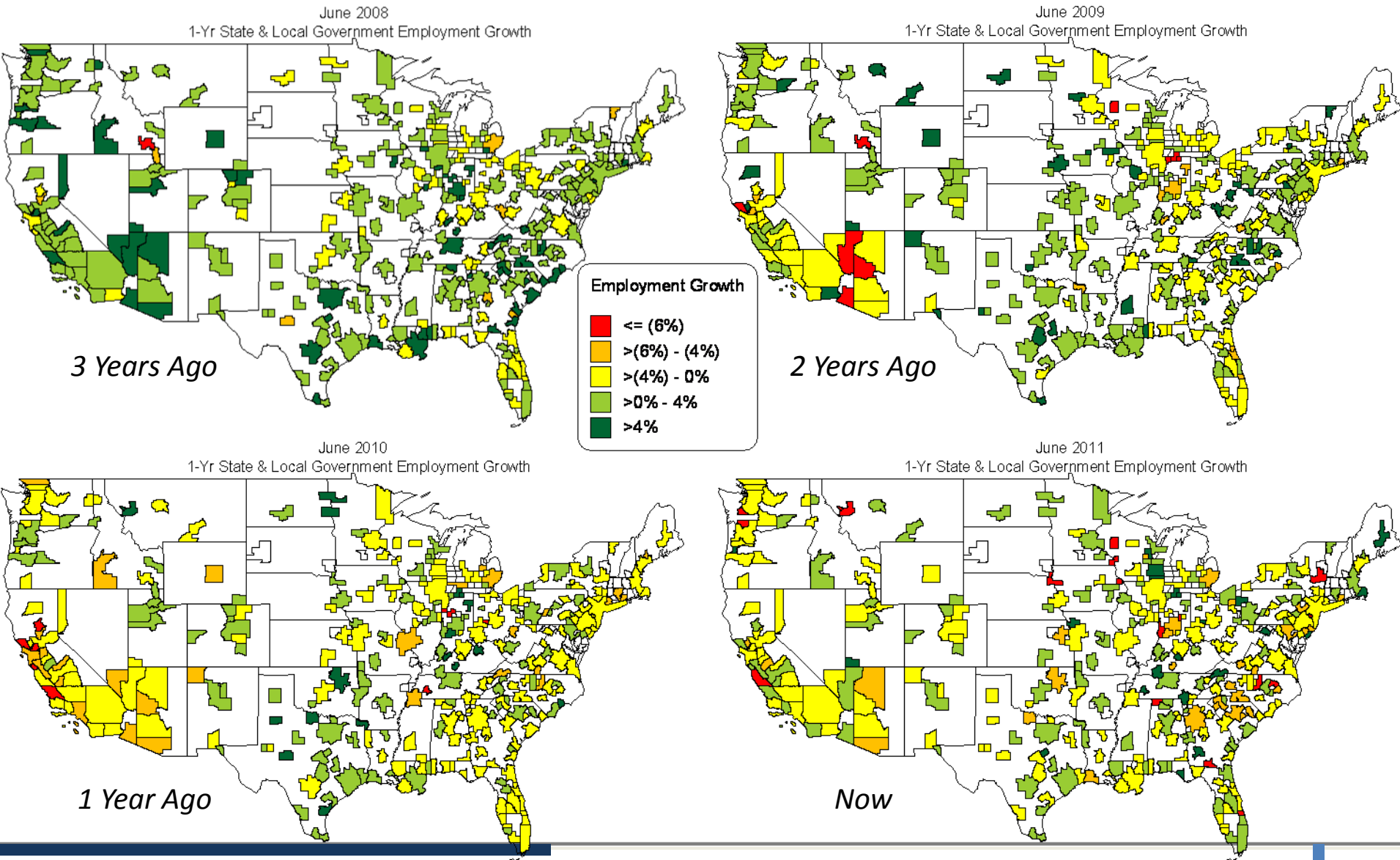


Last 12 Months Show Positive but Weak Job Growth (Federal Government Data Excluded Due to Census Impact)





State/Local Government Job Cuts Have Large Impact Since These Jobs Comprise 15% of Total Non-Farm Employment



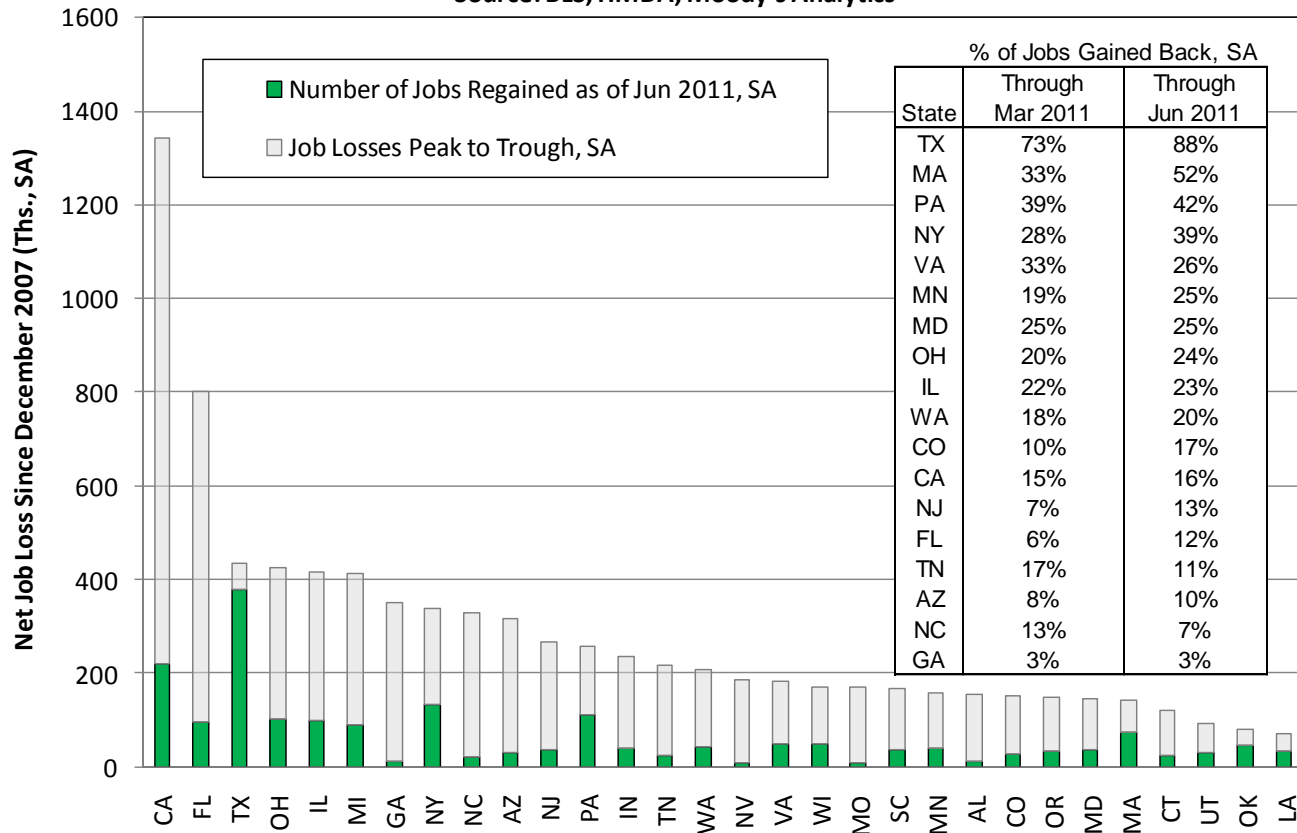


US Has Regained 20% of Lost Jobs, Led by Growth in Texas, Massachusetts, Pennsylvania, and New York

- ▶ TX has regained 88% of its lost jobs as of June 2011, far more than any other state
- ▶ Northeast states MA, PA, and NY have gained back almost half of their lost jobs
- ▶ MN, OH, and CO showed improving job growth from March to June 2011
- ▶ The next three months should see more improvement in Western states as that region's outlook has improved
- ▶ The weak economic recovery portends slow job growth through the remainder of 2011

Total Non-Farm Net Jobs Lost Since December 2007 and Subsequent Recovery for Largest 30 States Based on 2009 HMDA Volume

Source: BLS, HMDA, Moody's Analytics



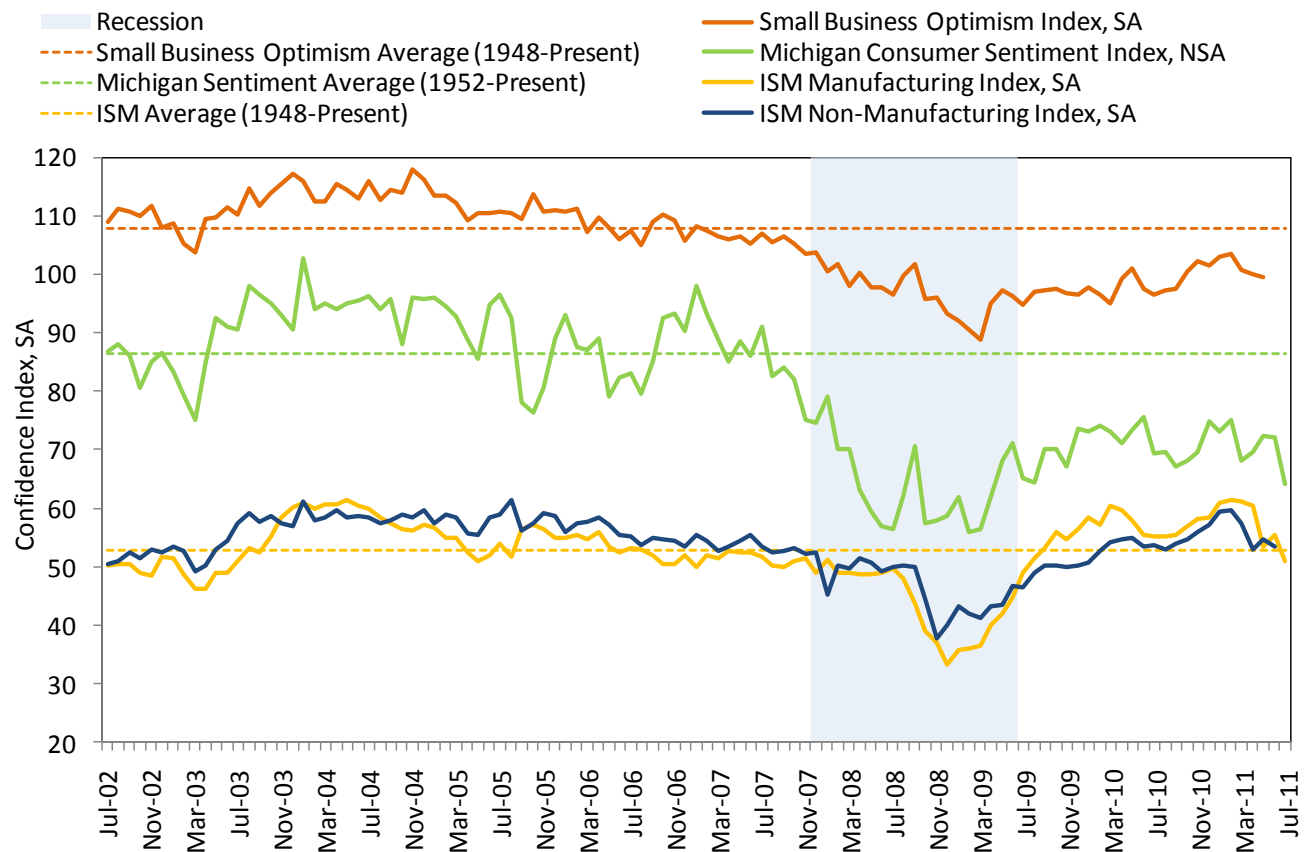


Improving Confidence Levels Slowed by Global Events

- ▶ Confidence levels slowly improved from mid-2009 through early 2011, but the last 3 months saw confidence dip
- ▶ Although credit availability is improving, small business confidence remains subdued due to weak sales activity, the fragile economic recovery, and political uncertainty in Washington
- ▶ Consumers have reduced spending in favor of saving and reducing debt burdens, driven by high unemployment, weak income growth, and a loss of wealth in housing equity
- ▶ Despite recent weak job reports, the ISM Indices for Manufacturing and Non-Manufacturing remain near their long-term averages, reflecting slight positive growth in business activity, new orders, and jobs

National Confidence Measures

Sources: ISM, Reuters/Univ of Michigan, NFIB, Moody's Analytics

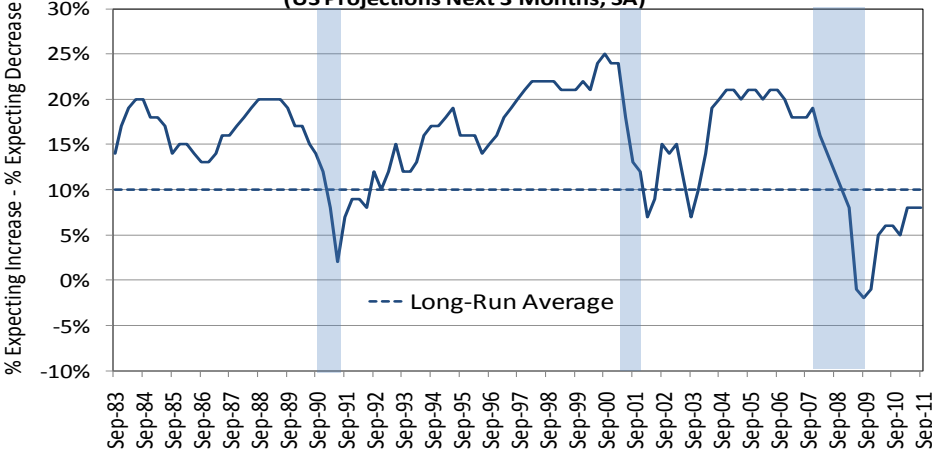




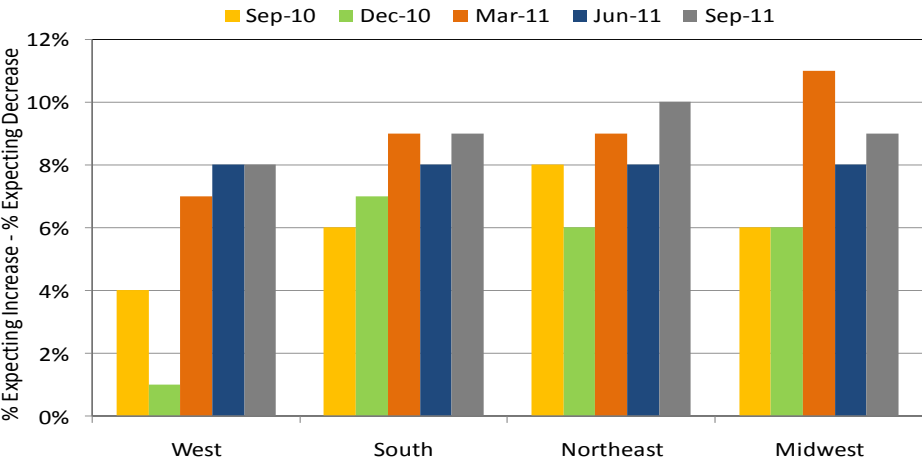
Employers Expect to Grow Staff in 3rd Quarter 2011

- ▶ More companies expect to increase rather than decrease hiring in 3Q 2011 based on the latest Manpower Employment Outlook Survey
- ▶ Midwest and South regions have benefited from resurgence of manufacturing and growing exports
- ▶ The last six months have seen improved employment growth in the West region, driven by strengthening exports to Asia
- ▶ All regions now show a similar outlook, with expectations for greater hiring activity

National Employment Outlook:
 % Expecting to Increase Hiring - % Expecting to Decrease Hiring
 Source: Manpower Employment Outlook Survey
 (US Projections Next 3 Months, SA)



Regional Employment Outlook:
 % Expecting to Increase Hiring - % Expecting to Decrease Hiring
 Source: Manpower Employment Outlook Survey
 (Regional Projections Next 3 Months, SA)

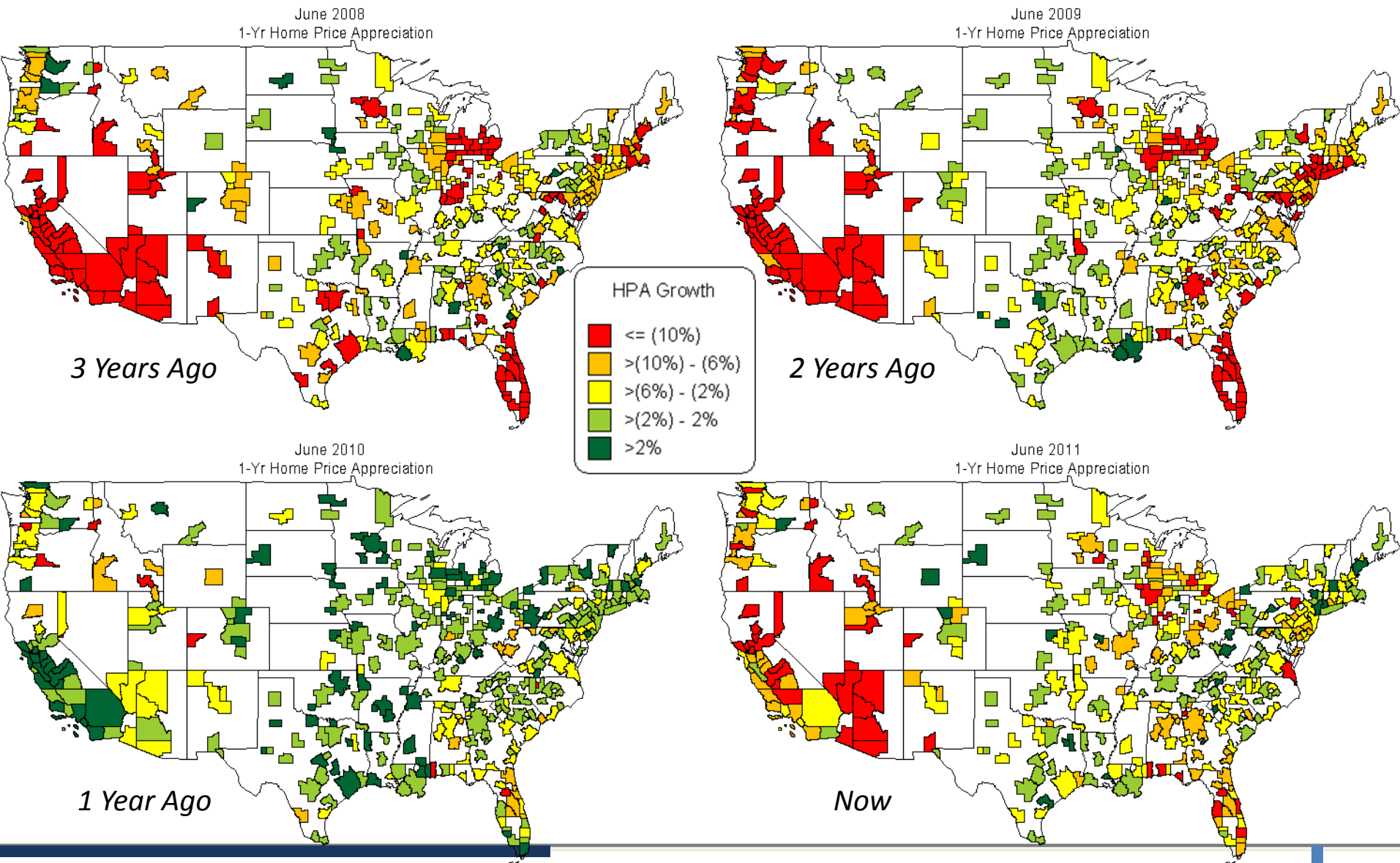


Home Prices & Affordability

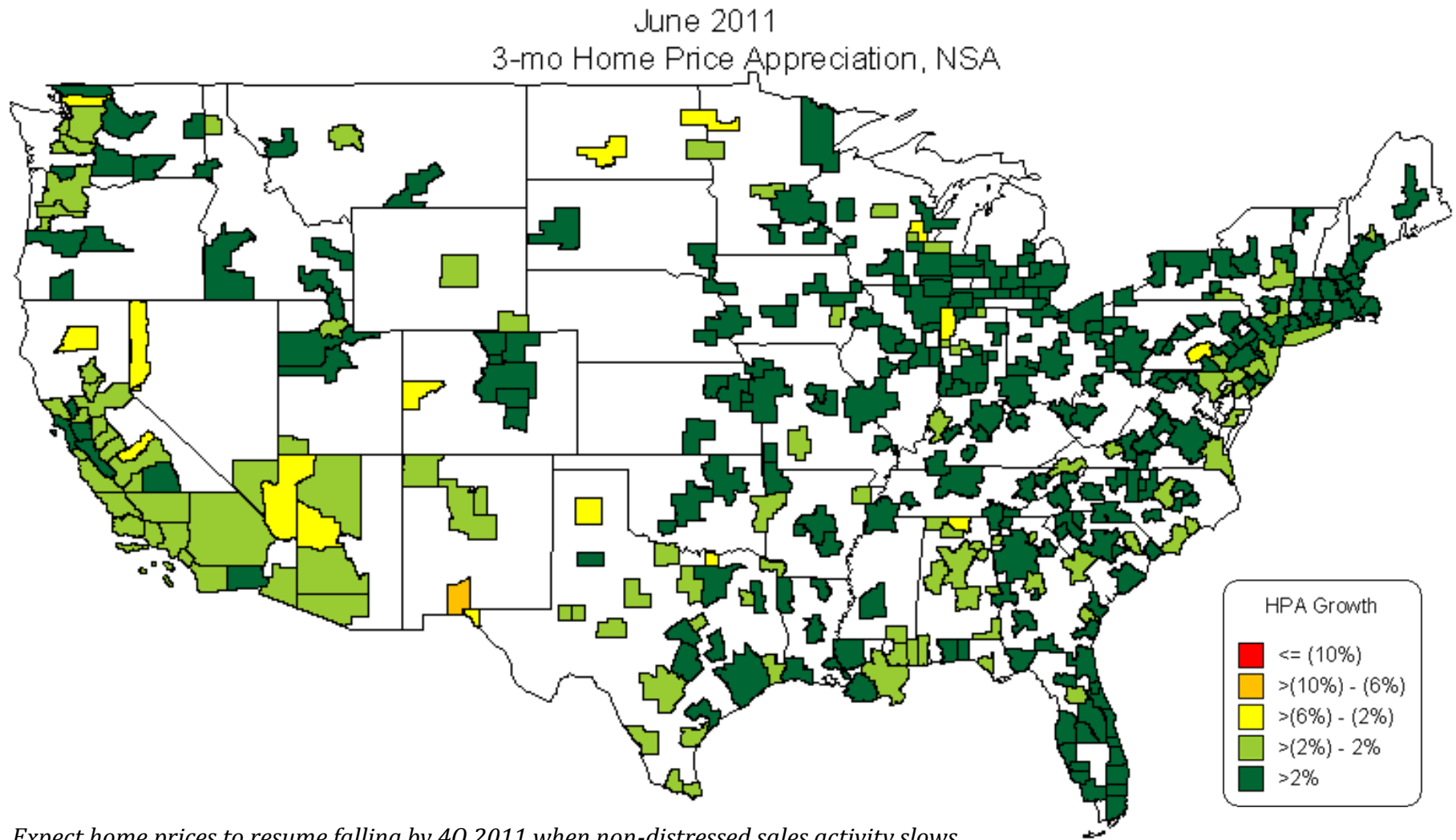
- ▶ Fall 2010 – Winter 2011: Home prices resumed falling after expiration of tax credits
- ▶ Spring 2011: Home prices stabilized as distressed sales fell as a percentage of total sales
- ▶ June 2010 – June 2011: Home price drops over last 12 months have been smaller than drops experienced in 2008-2009
- ▶ Stagnant income growth over last 4 years keeps price/income ratios slightly elevated, but low interest rates and rising rental prices fuel rising affordability of mortgages



Home Prices Resume Downturn After Expiration of Tax Credits, but at a Slower Pace than During 2008-2009



Home Prices Have Temporarily Stabilized as Distressed Sales Fell as a Percentage of Total Sales



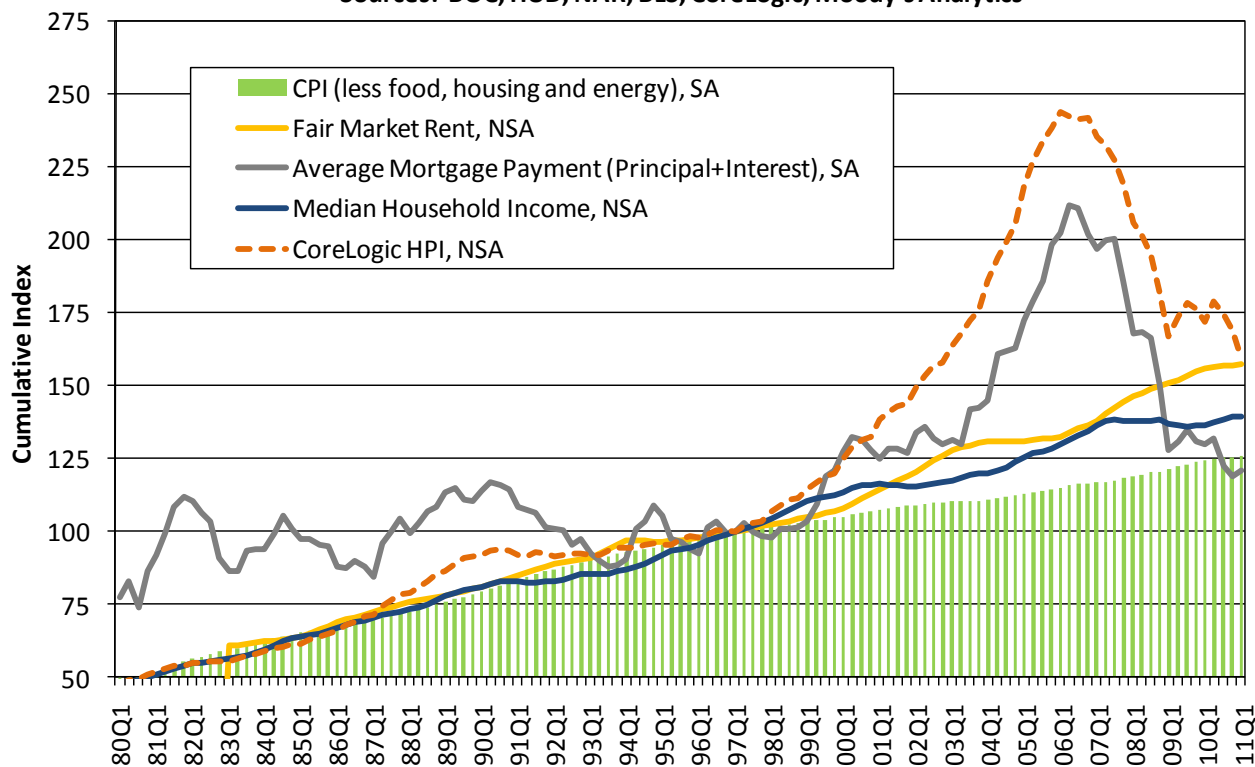
Expect home prices to resume falling by 4Q 2011 when non-distressed sales activity slows during the late Fall and Winter seasons.

Weak Income Growth Keeps Price-to-Income Ratio High; Mortgage Payments Affordable vs. Income & Rents

- ▶ Median income has not grown over the last 4 years, amplifying the gap between home prices and income
- ▶ Prices are expected to fall 5-10% through early 2012, narrowing the gap between prices and income
- ▶ Higher demand for renting has led to increases in rental prices, outpacing growth in income and mortgage payments
- ▶ As rental prices rise and landlord concessions are cut, home ownership will become a more attractive option for borrowers with stable income

Cumulative Index of House Price, Rent and CPI in the U.S.

Sources: BOC, HUD, NAR, BLS, CoreLogic, Moody's Analytics

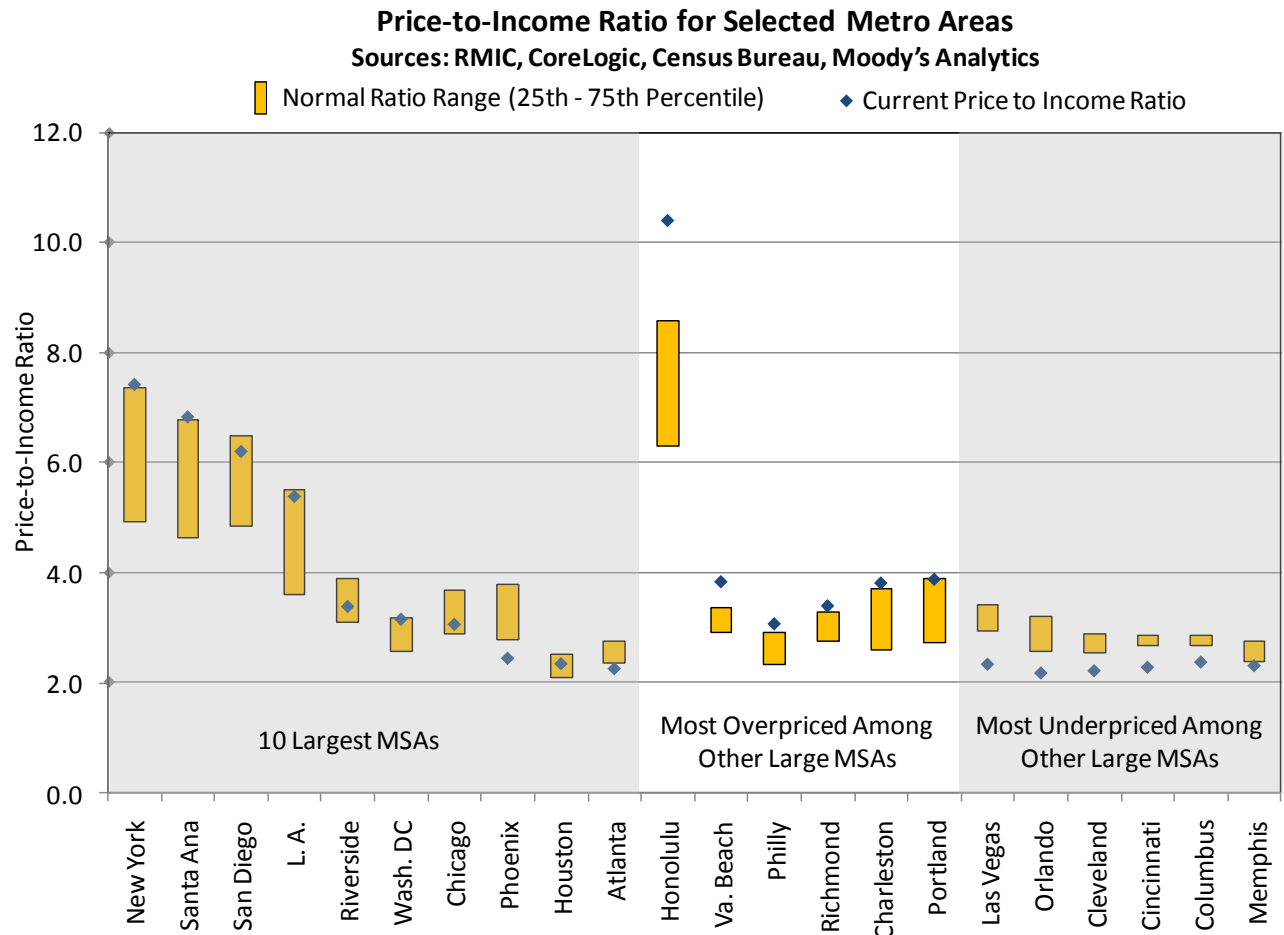


This chart assumes economic stability around 1997, which is supported by 3% home price appreciation, a 6-month supply of existing home inventory, low delinquency rates, and a stable price-to-income ratio of 2.5.



Home Prices Still Overpriced in Some California Metros; Other Sand State Metros Show Improved Affordability

- ▶ Price-to-Income Ratio = Average Home Price / Median Household Income
- ▶ Overpriced: Current ratio greater than 75% of historical values
- ▶ Underpriced: Current ratio less than 25% of historical values
- ▶ This ratio is only a single affordability measure, and doesn't take into account level of interest rates or rental prices
- ▶ Some areas with strong affordability will still see price declines due to other factors (distressed sales, supply-demand imbalance)



Mortgage Volume

- ▶ More borrowers are refinancing into shorter term FRMs as spread between 30-yr and 15-yr grows
- ▶ Refinance activity expected to continue falling through 2012 as interest rates rise
- ▶ Purchase activity expected to rise through 2012 as the economy recovers and home prices stabilize

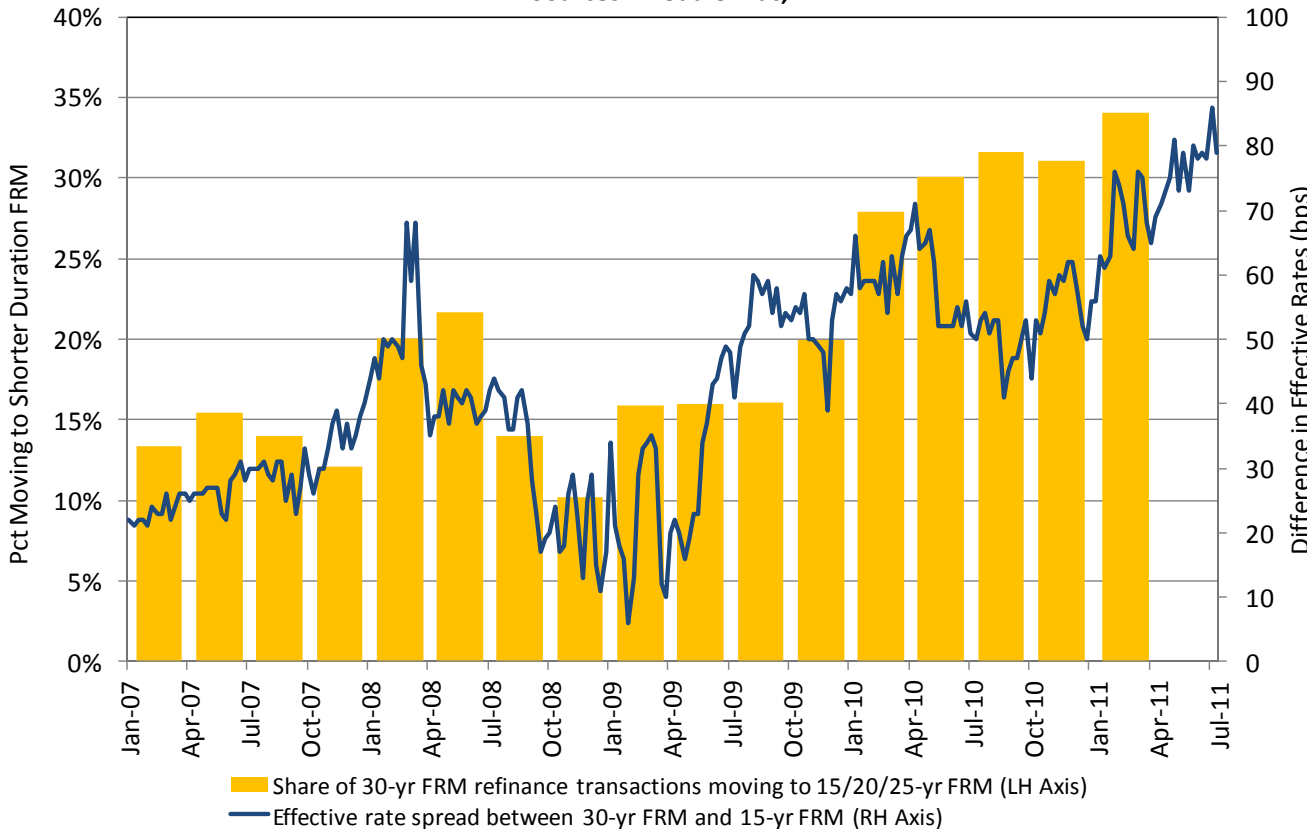


More Borrowers Moving to Shorter Term FRM

- ▶ During 1Q 2011, 34% of borrowers refinancing from a 30-yr FRM moved into a shorter duration FRM, the highest rate since 1Q 2004
- ▶ This movement into shorter duration products reflects both the higher spread between 30-yr and 15-yr mortgage rates and higher quality borrowers refinancing in 2011 compared to those refinancing in 2008
- ▶ Since early 2009, the spread between 30-yr and 15-yr FRMs has increased from the 10-30 bps range to a range of 75-85 bps in July 2011

Percentage of 30-yr FRM Moving Into Shorter Duration FRM vs. Spread Between 30-yr and 15-yr FRM Rates

Sources: Freddie Mac, MBA



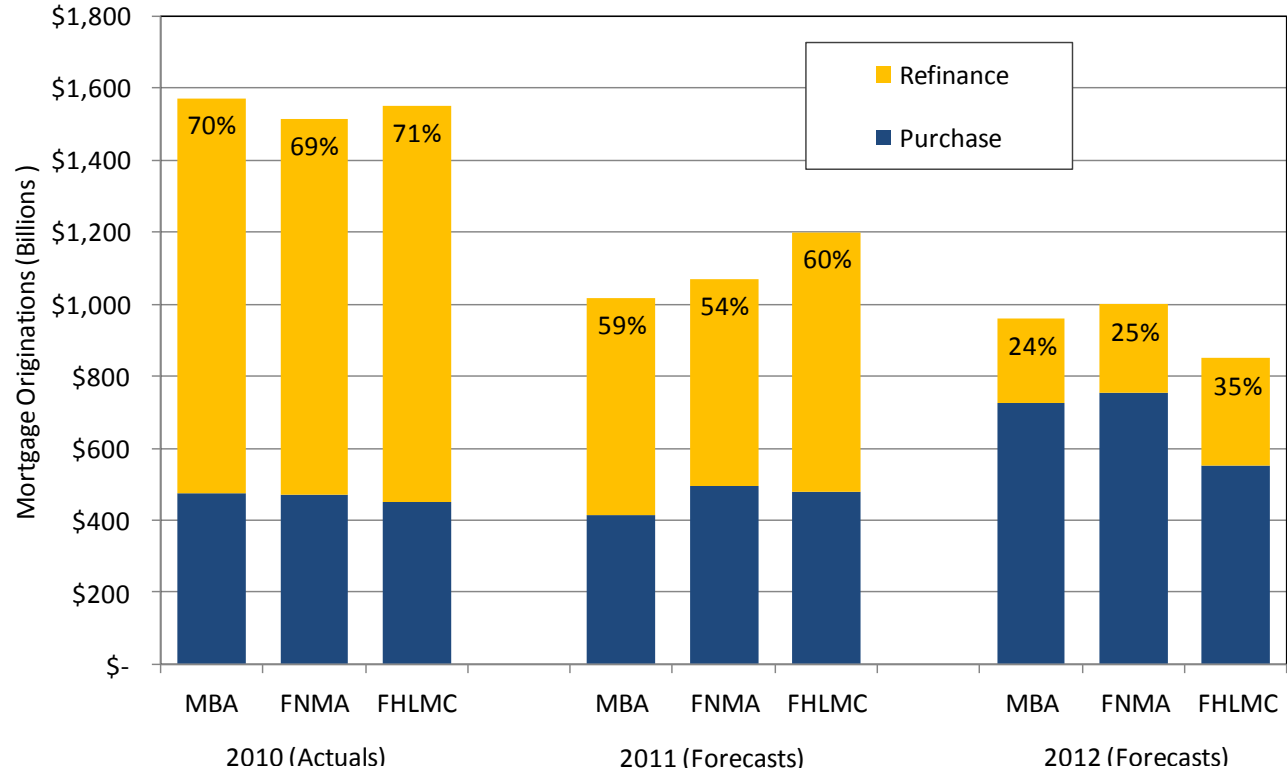


Falling Refinance Activity Drives Lower Volume Expectations

- ▶ Economists at FNMA, FHLMC, and MBA expect total 2011 mortgage volume to be 70-75% of the 2010 level, with total originations of \$1.1 Trillion
- ▶ Expectations are for 2011 purchase volume to be similar to 2010 volume
- ▶ The drop in 2011 volume is attributed to lower refinance volume, which is expected to be 40% lower in 2011
- ▶ 2012 volume will be similar to 2011 levels if growing purchase volume can offset declining opportunities for refinance activity

U.S. Mortgage Originations: 2011-2012 Projections One-to-Four Family Properties

Sources: MBA, FNMA, and FHLMC Economists as of July 2011



Credit Conditions

- ▶ Tighter underwriting guidelines significantly improved new delinquency rates
- ▶ Foreclosure completions rose in 1Q 2011, but remain well below peak activity in 3Q 2010
- ▶ Despite concerns over fraudulent transactions, short sales now represent 30% of home forfeitures
- ▶ Non-HAMP modifications fell by 30% in 1Q 2011
- ▶ More than 25% of properties for sale in IL, AZ, CA, and NJ are foreclosures

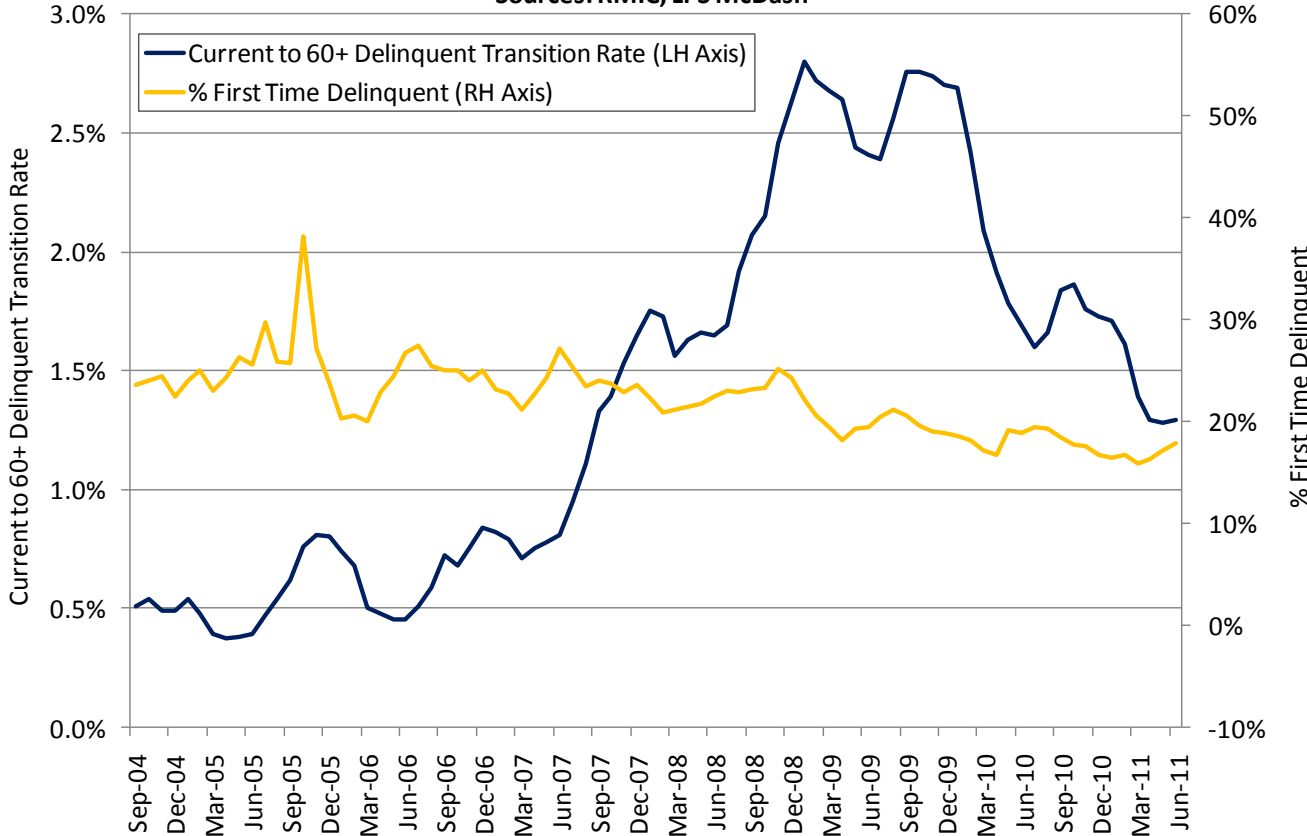


Tighter Underwriting Guidelines Reduce New Delinquencies

- ▶ 1.3% of loans that were current 6 months ago are now 60+ days delinquent (Current to 60+ Delinquent Transition Rate)
- ▶ The Current to 60+ Delinquent Transition Rate is now less than half the 2.8% peak rate observed in January 2009
- ▶ This improvement is due to stricter underwriting guidelines, improved credit quality, and termination of the weakest mortgage transactions through foreclosure and short sale
- ▶ 17.8% of new delinquencies are delinquent for the first time. This rate has been declining for 4 years, driven in part by a growing number of re-defaulting modifications.
- ▶ It will take a considerable amount of time to work through the large backlog of foreclosures and seriously delinquent loans, but the long-range future looks brighter with fewer new delinquencies

Current to 60+ Delinquent Transition Rate and Proportion Delinquent for the First Time

Sources: RMIC, LPS McDash



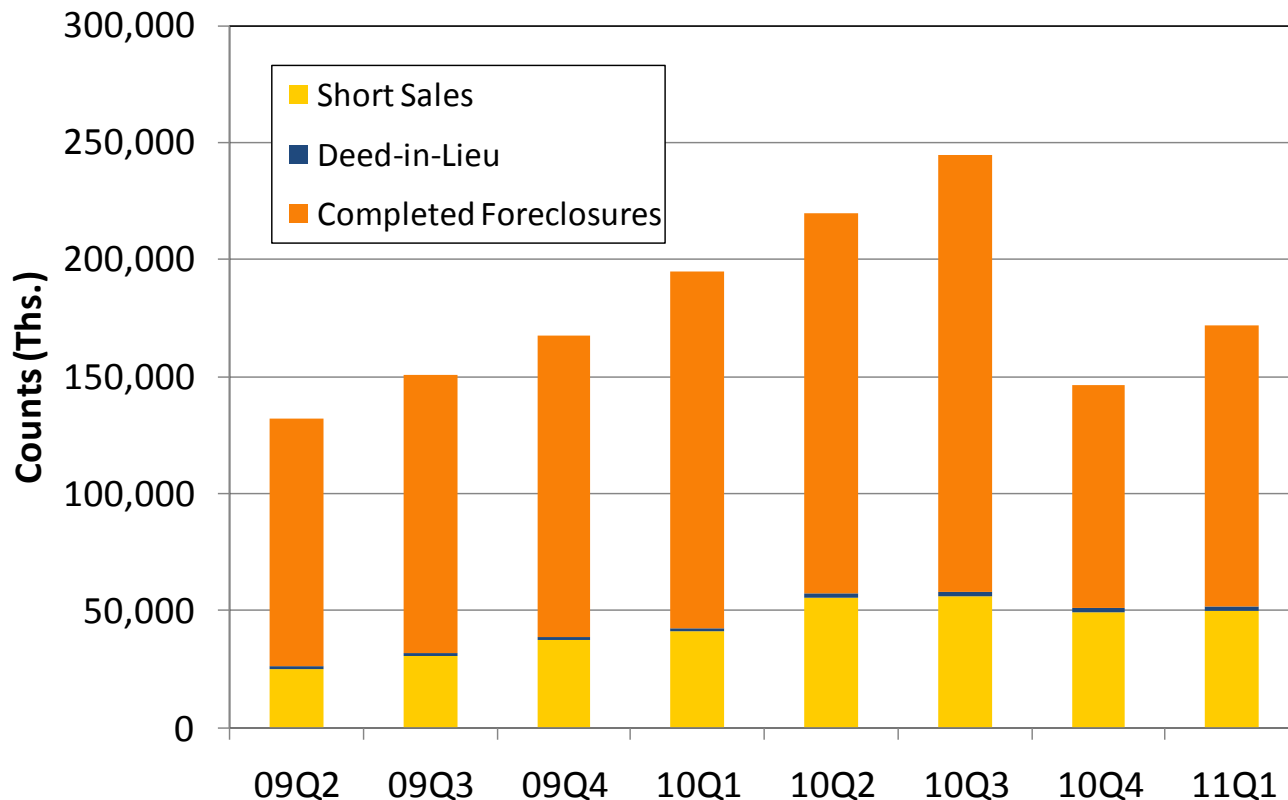


Foreclosure Activity Increased Slightly in 1Q 2011

- ▶ Following a huge decline in foreclosure sales during 4Q 2010, 1Q 2011 saw a 26% increase in completed foreclosures
- ▶ This increase reflects a small bounce back from the very low level in 4Q 2010
- ▶ The last two quarters have seen little reduction in short sale activity, which now represents 30% of all home forfeiture actions
- ▶ Despite concerns over the potential for fraud in short sale transactions, CoreLogic expects short sales to rise by 25% during 2011

Home Forfeiture Actions

Sources: OCC and OTS Mortgage Metrics Report, 1Q 2011



Note: The OCC/OTS report cited here covers 63% of all mortgages, so the numbers in this chart understate total home forfeiture activity.

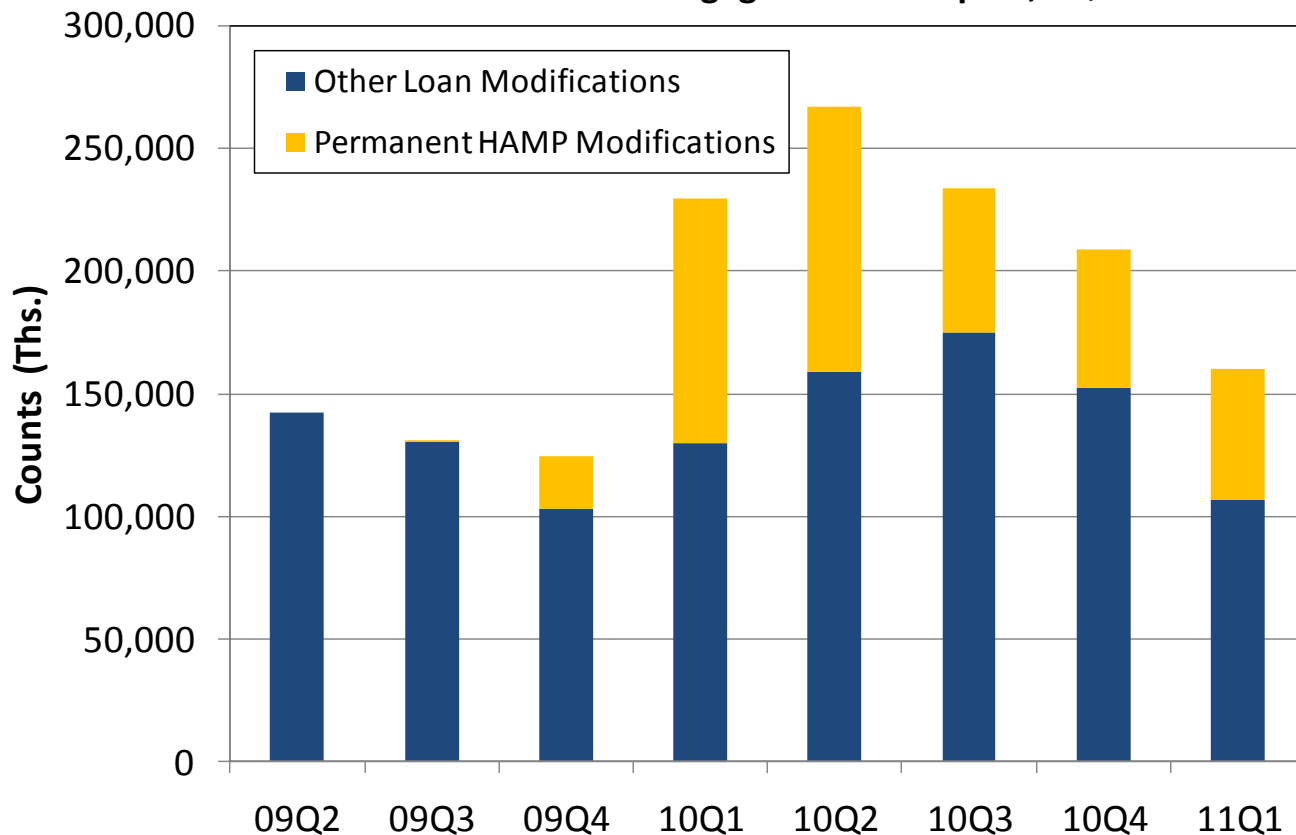


Loan Modification Volume Continues to Fall

- ▶ Completed modifications fell by 23% in 1Q 2011, driven by 30% fewer modifications outside of HAMP
- ▶ HAMP modification volume peaked in early 2010, with 100,000 permanent modifications per quarter
- ▶ The last 3 quarters have seen steady HAMP volume, but at a level only half of the peak rate
- ▶ Through end 1Q 2011, 62% of modifications that reduced payments by 10% or more were performing, compared with only 38% for modifications that reduced payments by less than 10%

Home Retention Actions

Sources: OCC and OTS Mortgage Metrics Report, 1Q 2011

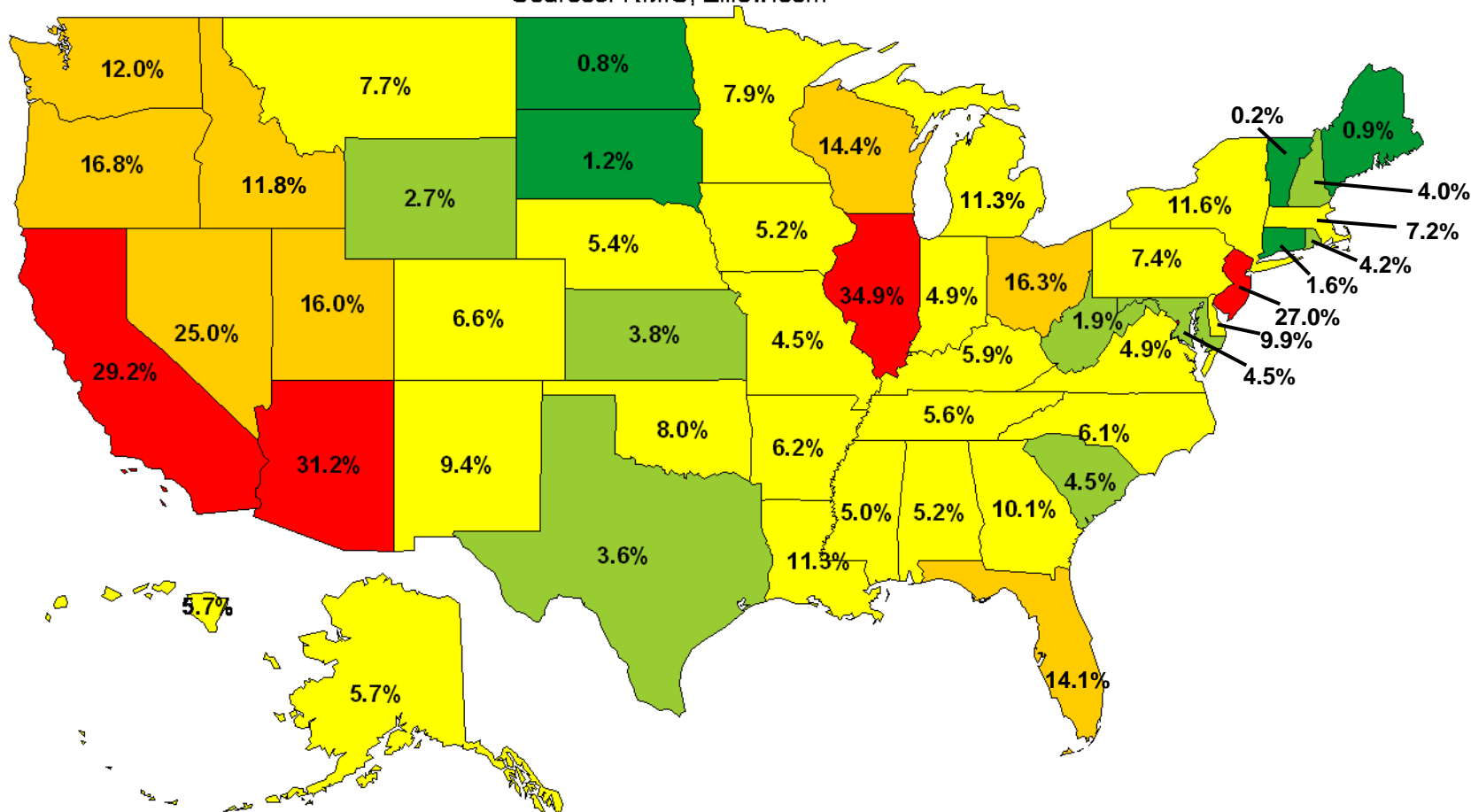


Note: The OCC/OTS report cited here covers 63% of all mortgages, so the numbers in this chart understate total modification activity.

More than 1 in 4 Properties For Sale Are in Foreclosure in IL, AZ, CA, and NJ

Proportion of For Sale Properties Currently In Foreclosure
(Foreclosure For Sale / Total For Sale)

Sources: RMIC, Zillow.com



- ▶ Fewer foreclosures are up for sale compared to December 2010
- ▶ Nevada, Ohio, Utah, Wisconsin, Florida, and the Pacific Northwest also show a high share of for sale inventory under foreclosure



Distressed Sales Will Limit Home Price Growth in Sand States, MS, NJ, IL, GA, OH

(Distressed Now) In Foreclosure and For Sale		(Distressed Soon) In Foreclosure and Not For Sale		(Distressed Later) 60+ Days Delinquent or In Bankruptcy		(Total Distressed) In Foreclosure, Delinquent (60+), or In Bankruptcy	
Illinois	2.6%	Florida	11.4%	Nevada	10.6%	Florida	19.0%
Arizona	2.2%	Nevada	5.1%	Mississippi	9.4%	Nevada	17.5%
New Jersey	2.0%	New Jersey	4.6%	Georgia	8.0%	Mississippi	12.3%
Nevada	1.8%	Maine	4.4%	Alabama	7.8%	New Jersey	11.9%
Wisconsin	1.4%	Hawaii	3.8%	Tennessee	7.7%	Illinois	11.3%
Florida	1.2%	New York	3.8%	California	6.9%	Georgia	10.8%
California	1.1%	Indiana	3.7%	Louisiana	6.7%	Ohio	10.5%
Ohio	1.0%	Rhode Island	3.7%	Indiana	6.5%	Indiana	10.5%
Oregon	0.9%	Connecticut	3.6%	Arkansas	6.5%	Rhode Island	10.0%
Idaho	0.8%	Illinois	3.2%	Ohio	6.5%	Tennessee	9.7%
New York	0.8%	Ohio	3.1%	Florida	6.4%	California	9.7%
Utah	0.7%	South Carolina	3.0%	Arizona	6.4%	Louisiana	9.6%
Michigan	0.7%	Delaware	3.0%	Maryland	6.3%	Arizona	9.6%
Georgia	0.7%	Vermont	2.9%	Michigan	6.3%	New York	9.6%
Delaware	0.7%	New Mexico	2.8%	Rhode Island	6.0%	Alabama	9.4%
United States	0.8%	United States	2.9%	United States	5.7%	United States	9.4%

- ▶ All percentages are based upon total mortgages outstanding
- ▶ 2011: Sand States, IL, NJ, and WI see distressed sales dominate the market
- ▶ 2012: Sand States, Northeast will see many foreclosures added to for sale listings
- ▶ 2013: Sand States, Southeast may see more distressed sales unless improving job markets increase cure rates



Acronyms Used

- ▶ Bil.: Billions
- ▶ BLS: Bureau of Labor Statistics
- ▶ BOC: Bureau of Census
- ▶ CBSA: Core Based Statistical Area
- ▶ FFIEC: Federal Financial Institutions Examination Council
- ▶ FHLMC: Federal Home Loan Mortgage Corporation
- ▶ FNMA: Federal National Mortgage Association
- ▶ FRM: Fixed Rate Mortgage
- ▶ HAMP: Home Affordable Modification Program
- ▶ HARP: Home Affordable Refinance Program
- ▶ HMDA: Home Mortgage Disclosure Act
- ▶ HUD: U.S. Dept. of Housing and Urban Development
- ▶ ISM: Institute for Supply Management
- ▶ JOLTS: Job Openings and Labor Turnover Survey
- ▶ LH Axis: Left Hand Axis
- ▶ MA: Moving Average
- ▶ MBA: Mortgage Bankers Association
- ▶ MHA: Making Home Affordable
- ▶ NAR: National Association of Realtors
- ▶ NFIB: National Federation of Independent Business
- ▶ NSA: Not Seasonally Adjusted
- ▶ OCC: Office of the Comptroller of the Currency
- ▶ OTS: Office of Thrift Supervision
- ▶ REO: Real Estate Owned
- ▶ RH Axis: Right Hand Axis
- ▶ SA: Seasonally Adjusted
- ▶ SAAR: Seasonally Adjusted Annualized Rate
- ▶ Ths.: Thousands
- ▶ Y/Y: Year/Year



Data Sources

- ▶ Bureau of the Census (Housing Vacancies, Median Asking Rent, Rental Vacancy Rate, Household Income)
- ▶ Bureau of Labor Statistics (Consumer Price Index (CPI), Non-Farm Employment, Job Openings and Labor Turnover Survey (JOLTS))
- ▶ Census (Tax Incentive Impacts)
- ▶ CoreLogic (Home Price Index, Negative Equity report)
- ▶ Fannie Mae Economics & Mortgage Market Analysis (Mortgage Originations & Projections)
- ▶ Federal Financial Institutions Examination Council (Mortgage Originations & Projections)
- ▶ Federal Reserve Bank (Total Residential Mortgages)
- ▶ Freddie Mac Economic & Housing Research (Mortgage Originations & Projections; Refinance Transitions Report)
- ▶ Home Mortgage Disclosure Act (Mortgage Originations)
- ▶ Institute for Supply Management (ISM Employment Index)
- ▶ LPS McDash Online (Delinquency, Foreclosure Rates)
- ▶ LPS Mortgage Monitor Report (Delinquencies)
- ▶ Manpower Employment Outlook Survey (Employment Outlook)
- ▶ Mortgage Bankers Association (Purchase Applications, Foreclosure Starts, Delinquency Rates, Loans Serviced, Mortgage Originations & Projections)
- ▶ Making Home Affordable Servicer Performance Report
- ▶ Moody's Analytics
- ▶ National Association of Realtors (Existing/New Homes for Sale, Housing Affordability, Median Sales Price)
- ▶ National Federation of Independent Business (Small Business Optimism Index)
- ▶ Office of the Comptroller of the Currency (OCC) / Office of Thrift Supervision (OTS) (Mortgage Metrics Report)
- ▶ Reuters/University of Michigan (Michigan Consumer Sentiment Index)
- ▶ U.S. Department of Housing and Urban Development (Fair Market Rent Estimates)
- ▶ Zillow.com (For Sale Inventory, Foreclosures For Sale)