

ECONOMIC REAL ESTATE TRENDSSM

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PMI MORTGAGE INSURANCE CO.



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Risk Rises Across U.S. as Unemployment and Foreclosure Rates Continue to Increase

Thus far, the worst of the current downturn hit the economy in the fourth quarter of 2008 and the first quarter of 2009. Rapidly rising foreclosure and unemployment rates, continuing declines in house prices, and weakening consumer demand all worked to increase risk in the general economy, as well as the housing market specifically, ever higher.

Because of these developments, the risk of house price declines across many of the nation's MSAs rose significantly during the first quarter (the last period for which we have full data). While the highest scores have largely gone to those states suffering the greatest fallout from the bursting of the housing bubble (e.g., California, Florida, Arizona, and Nevada), the increased risk of future house price declines is now largely being driven by rising unemployment and fore-

closure rates (the latter adding to the unsold supply of homes). Probabilities of lower house prices in two years have risen significantly in MSAs as diverse as Kennewick, Washington and Kokomo, Indiana. This quarter's edition of the Economic and Real Estate Trends (ERET) Report seeks to explain why we have seen such significant increases in risk across the nation's regions, especially in MSAs that had previously shown relatively low risk.¹

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¹ Sections of this text draw upon work originally written by Moody's Economy.com and can be found in their Précis series.

Risk Rises Across U.S.

(continued from page 1)

Midwest Region

The **Midwest** economy continues to weaken in step with the nation. The **Great Lakes states** are enduring the most challenging conditions, while the **Plains states**, although more stable, are also feeling the effects of the continuing recession. Economic activity in the Midwest, as described in the Federal Reserve's Beige Book, mirrors national trends, with plummeting manufacturing production, declining shipping volumes, rapidly deteriorating labor markets, weakening retail spending, and continuing declines in residential and commercial construction and home sales.

The unemployment rate is pressing higher even as more people leave the labor force or region. During the fourth quarter, the unemployment rate in the region averaged a seasonally adjusted rate of 6.7 percent. During the first quarter that rate rose to 8.6 percent, slightly above the national average of 8.1 percent. In addition, incomes in the region continue to decline as employers cut back on hours and compensation.

Indiana has been especially hard hit throughout the recession. Despite the strength of its agricultural sector, it has lost significant numbers of jobs as its manufacturing sector has contracted substantially due to the continuing rash of plant closures as demand has declined. In this quarter's estimate of the U.S. Market Risk Index, three of the ten largest increases in risk scores across the nation's 381 MSAs occurred in **Indiana**. Six of the ten largest increases occurred in the **Midwest**.

Indiana's job losses accelerated dramatically during the first quarter. Manufacturing is contracting at a particularly rapid pace; although most of the state's other industries are also experiencing significant rates of decline. In December, the state's seasonally adjusted unemployment rate stood at 7.8 percent. By April it had risen to 9.9 percent. During this same period the state lost 63,000 jobs, approximately 2 percent of its labor force.

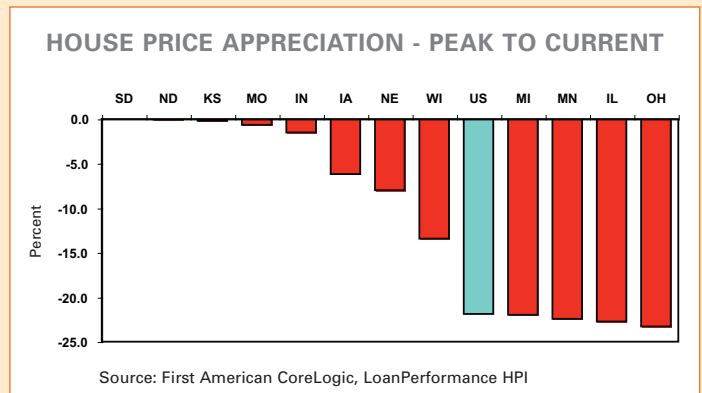
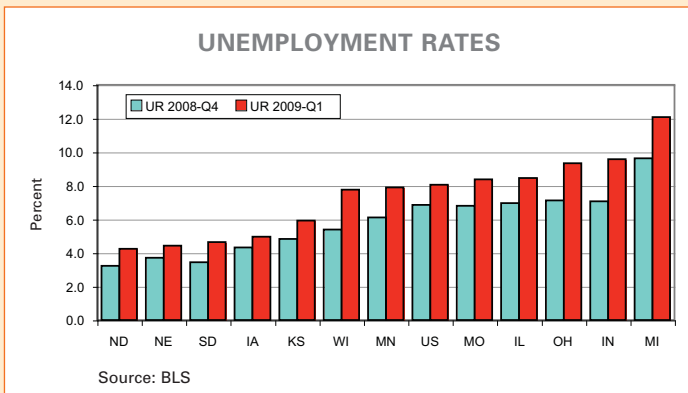
The significant job decline and the closure of so many manufacturing facilities have had a significantly negative affect on Indiana's credit conditions. According to the Mortgage Bankers Association's (MBA) National Delinquency Survey, during the first quarter the home mortgage foreclosure rate in the state rose to 1.34 percent from 1.16 percent in the fourth quarter of 2008. This compares with a national move from 1.08 to 1.37.

One of the few bright spots in the **Indiana** economy, similar to many of the other states across the Midwest, is that house price declines have been much less than in other regions and states. According to the LoanPerformance House Price Index (LPHPI), house prices rose during the first quarter at an annualized rate of 0.62 percent. This did follow two quarters of decline, however, resulting in prices being 1.40 percent below year-earlier levels.

Among the **Indiana MSAs** that accounted for some of the most dramatic increases in risk scores, there have been significant reductions in the economic health of local markets. The following table highlights some of those developments.

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MIDWEST



MSA	2008Q4 RISK SCORE	2009Q1 RISK SCORE	MARKET CHANGES
Kokomo	27.0	89.3	<ul style="list-style-type: none"> Massive layoffs at local Chrysler Plant Unemployment rate increased from 8.7% in 4th qtr to 14.9% in 1st qtr
Anderson	29.6	76.0	<ul style="list-style-type: none"> Large number of retirees heavily dependent on the auto industry Unemployment rate increased from 7.8% in 4th qtr to 11.1% in 1st qtr
Michigan City	26.9	61.9	<ul style="list-style-type: none"> Manufacturing employment in rapid decline as national recession takes hold. Unemployment rate increased from 7.6% in 4th qtr to 11.6% in 1st qtr
Muncie	51.4	82.2	<ul style="list-style-type: none"> Considerable exposure to the automotive industry, with 30% of all manufacturing jobs related to vehicle production. Unemployment rate increased from 7.4% in 4th qtr to 10.1% in 1st qtr
South Bend	71.4	93.7	<ul style="list-style-type: none"> Lost significant numbers of jobs in manufacturing, as well as other industries Unemployment rate increased from 8.2% in 4th qtr to 11.0% in 1st qtr

Economic Trends in the Nation's MSAs

PMI's U.S. Market Risk Index measures the likelihood of home price declines in two years for each of the nation's 381 metropolitan statistical areas and divisions (MSAs). The Risk Index uses economic, housing, and mortgage market factors (including home price appreciation, employment, affordability, excess housing supply, interest rates, and foreclosure activity) to determine these probabilities.

According to PMI's Risk Index, risk in most of the nation's MSAs continued to increase during the first quarter of 2009. Increasing unemployment and foreclosure rates – coupled with continued high excess housing supply, and pressure from the severe recession – continue to place downward pressure on house price appreciation. Those factors are leading to still further increases in the risk of house prices being lower in two years. MSAs in **Florida, California, Arizona, and Nevada** continue to lead the nation in risk, but many others are experiencing significant increases in their probabilities of future price declines.

During the first quarter of 2009, risk increased in 45 of the nation's 50 most populated (Top-50) MSAs. Among all 381 MSAs, risk scores in only 57 (14.7%) decreased, compared with

324 (85.3%) with rising risk scores. The weighted average risk score rose from 56.1 to 65.5 between the fourth quarter 2008 and first quarter 2009.

Trends in Risk

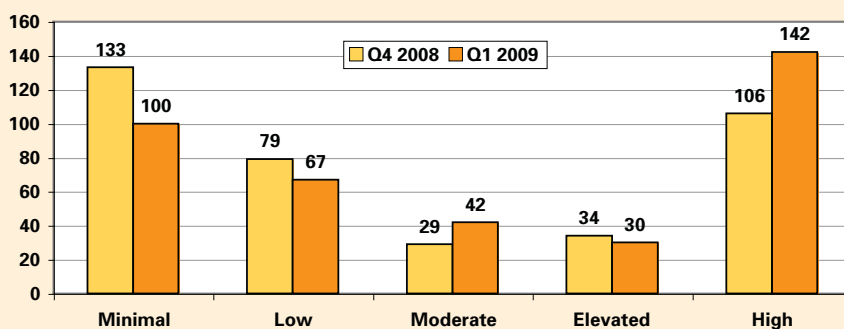
Among the nation's Top-50 MSAs, 28 of them had a risk score exceeding 70, placing them in the highest risk category; two had risk scores between 50 and 70, designating them as having elevated risk; five had moderate risk scores between 30 and 50; eight were deemed low risk with scores between 10 and 30; and eight had minimal risk with scores between 0 and 10. Overall, 60 percent of the nation's Top-50 MSAs have a greater than 50 percent chance of seeing lower house prices by the end of the first quarter of 2011. Note, however, that the Risk Index does not measure magnitudes, so these potential declines might not be big.

Across all of the nation's 381 MSAs, 46.7 percent (178) ranked in the elevated and high risk of decline categories. Not far behind, 43.8 percent (167) of the nation's MSAs still had a minimal-to-low risk of lower prices in two years. There has been an increase in risk, however, across more regions of the nation over the past couple of quarters. While the MSAs in **California, Nevada, Florida, and Arizona** consistently rank as the highest risk areas across the nation, increased risk is also appearing in MSAs with fast rising foreclosure and unemployment rates.

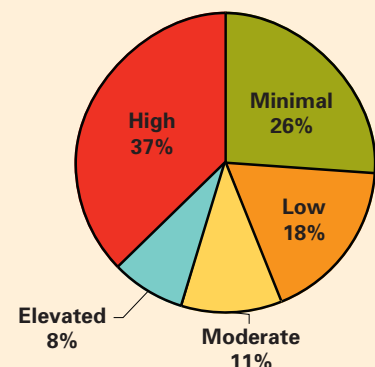
One of the two primary drivers of the increased risk scores in the latest quarter is the continued high level of foreclosure rates,

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RISK SCORES ARE INCREASING



RISK SCORE DISTRIBUTION



Risk Rises Across U.S.

(continued from page 2)

Northeast Region

Despite its high concentration of financial services firms, the **Northeast** is still experiencing a milder recession than other parts of the country. The region continues to suffer from job losses, mainly accruing to the downturn in the financial services and housing sectors, but began to see some moderation of that decline during the first quarter – with the seasonally adjusted unemployment rate at 7.6 percent, compared with 6.2 percent during the fourth quarter.

Across the four Census regions, the **Northeast** region has experienced the least severe decline in the housing market. The median single-family house price has fallen by 12 percent from its peak in the Northeast – the smallest decline in the nation. It also had the lowest share of subprime mortgage originations of any region between 2005 and 2007, and a lower than average share of investor or second-home buyers during those years, as well. Collectively, these factors have helped to moderate the severity of the current recession.

Massachusetts is typical of the average state in the Northeast with respect to how its housing and employment markets have evolved during the recession. The state is seeing job losses across most industries because of the problems in financial markets, reduced demand for investment goods, falling consumer spending, and a contraction in construction. Employment growth

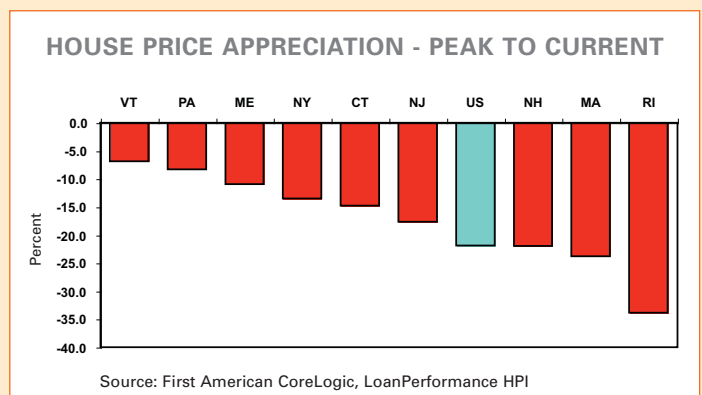
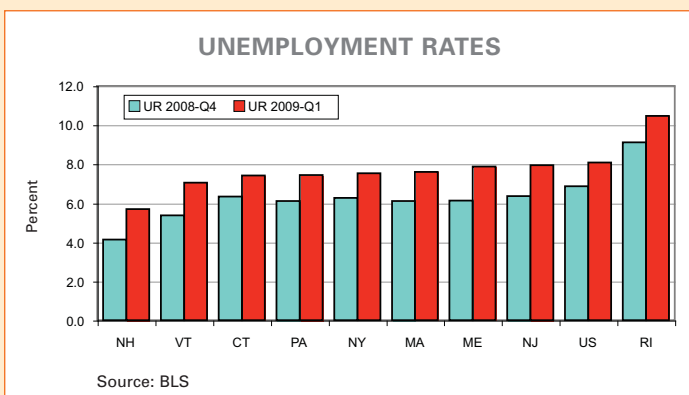
in education/health services, a key state industry, has slowed to a trickle this year. There are some signs of stabilization in the housing market, with residential permits flat, but there has been no letup in the pace of price declines. In December, the state's seasonally adjusted unemployment rate stood at 6.4 percent. By April it had risen to 8.0 percent. During this same period the state lost 47,000 jobs, approximately 1.4 percent of its labor force.

Among the **Massachusetts MSAs** that accounted for some of the most dramatic increases in risk scores, there have been significant declines in their economic health. The following table highlights some of those developments.

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NORTHEAST



MSA	2008Q4 RISK SCORE	2009Q1 RISK SCORE	MARKET CHANGES
Worcester	61.4	88.8	<ul style="list-style-type: none"> House prices are down 13.0 percent over the last twelve months Unemployment rate increased from 6.8% in 4th qtr to 8.3% in 1st qtr Major area employer, KB Toys, filed bankruptcy and released entire workforce Unemployment rate increased from 6.5% in 4th qtr to 8.0% in 1st qtr Two of the area's largest manufacturers, Callaway Golf and toymaker Hasbro, are expecting sales declines and have responded by cutting their workforces Unemployment rate increased from 7.1% in 4th qtr to 8.2% in 1st qtr Although the financial services industry is stabilizing, job losses continue. Since the recession began, the number of employed in the MSA has declined by approximately 89,000. Unemployment rate increased from 5.8% in 4th qtr to 7.2% in 1st qtr
Pittsfield	42.3	68.5	
Springfield	60.4	85.3	
Boston	56.6	79.5	

Risk Rises Across U.S.

(continued from page 4)

South Region

Job losses have accelerated sharply in the **South** over the past several months, and the region now has the biggest decline of any region in the country. Almost every state in the South has been in recession for a while. The major holdout was **Texas**, but even that may not last, as the volatile oil market may result in a reduction in exploration and the decline in overseas demand hits the petrochemical, electronics and machinery industries. In **Tennessee, Kentucky** and **Georgia**, auto parts suppliers are feeling the most pain. **Florida** still has no respite from declining house prices, and revised data show that even employment levels for temporary workers were far worse than previously reported. **North Carolina's** most pressing concern is sharp reductions in nonresidential and government construction because of the freeze in credit markets.

The South's seasonally adjusted unemployment rate stood at 6.3 percent in the fourth quarter of 2008, and 8.0 percent in the first quarter of 2009. During the same period, the national unemployment rate increased from 6.9 to 8.1 percent.

South Carolina, a state typical of the South region, has been especially hard hit throughout the recession. Despite the strength of its agricultural sector, it has lost significant numbers

of jobs as its manufacturing and tourism sectors have contracted significantly due to the recession in the national economy.

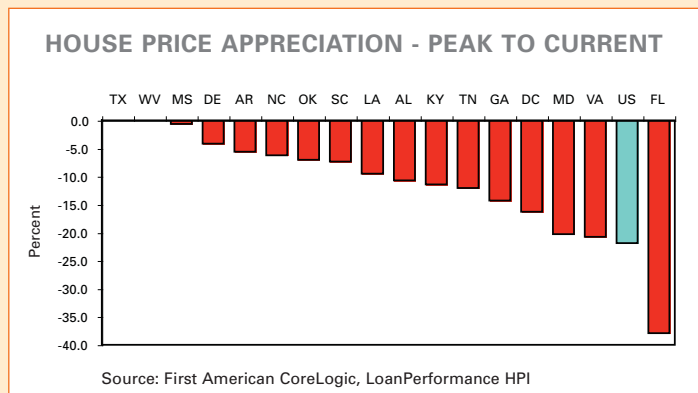
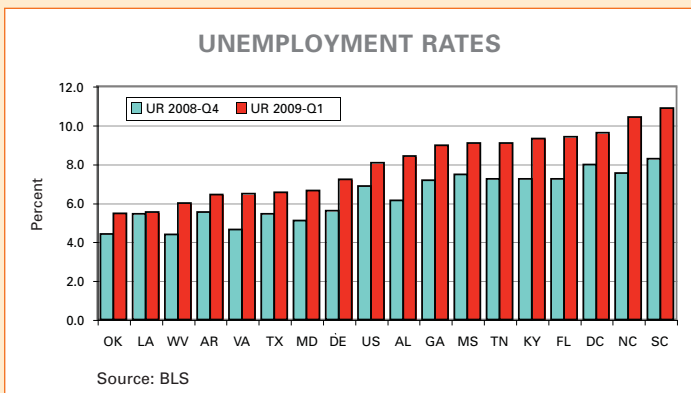
South Carolina is in the midst of one of the most severe recessions nationwide. The state's troubles are most visible in manufacturing. Estimated industrial production is declining rapidly as weak domestic demand couples with slowing export volume, and manufacturing payroll declines have accelerated to a record pace. South Carolina's unemployment rate is the second highest in the nation, putting further downward pressure on income growth.

After significant construction cutbacks, the state's excess supply of homes has reached a decade low. Even so, home sales are extremely weak despite the continuing decline in house prices. According to the LPHPI, prices in the state declined by 5.6 percent between the first quarters of 2008 and 2009. Because of the troubled labor market, many residents remain reluctant or unable to purchase a home, thus adding further downward pressure on prices.

Among the **South Carolina MSAs** that accounted for some of the most dramatic increases in risk scores, there have been significant declines in their economic health. The following table highlights some of those developments.

(continued on page 8)

SOUTH



MSA	2008Q4 RISK SCORE	2009Q1 RISK SCORE	MARKET CHANGES
Spartanburg	27.4	61.5	<ul style="list-style-type: none"> The recession underway in Spartanburg is rapidly intensifying. Industrial production is down strongly because of fading demand for autos and weak business investment, and manufacturing layoffs are increasing. Unemployment rate increased from 8.4% in 4th qtr to 11.2% in 1st qtr
Florence	6.0	34.0	<ul style="list-style-type: none"> Smurfit-Stone, one of Florence's largest employers, has filed for bankruptcy, and put 550 local jobs at risk. It is considering the closure of local plants to consolidate operations. Unemployment rate increased from 9.2% in 4th qtr to 11.6% in 1st qtr
Greenville	14.9	42.3	<ul style="list-style-type: none"> Demand for manufactured products and back-office services is falling strongly, resulting in layoffs in manufacturing and professional services. Unemployment rate increased from 7.2% in 4th qtr to 9.5% in 1st qtr
Myrtle Beach	89.7	97.6	<ul style="list-style-type: none"> Myrtle Beach is one of the worst performing economies in the nation. Over the past six months, the employment decline ranks second fastest among all metro areas. Unemployment rate increased from 10.1% in 4th qtr to 13.8% in 1st qtr



MSA

MSA	STATE	RISK RANK	PMI U.S. MARKET RISK INDEX ¹		PRICE APPRECIATION ³			
			1Q '09	4Q '08 ²	Volatility ⁴	1Q '09	1Q '08	Difference
Riverside-San Bernardino-Ontario CA	CA	High	99.9	99.9	35.0	-29.21	-15.10	-14.11
Miami-Miami Beach-Kendall FL	FL	High	99.9	99.9	28.1	-27.92	-3.49	-24.42
Los Angeles-Long Beach-Glendale CA	CA	High	99.9	99.9	29.0	-27.99	-8.79	-19.20
Fort Lauderdale-Pompano Beach-Deerfield Beach FL	FL	High	99.9	99.9	27.8	-23.23	-9.52	-13.71
Las Vegas-Paradise NV	NV	High	99.9	99.8	32.7	-27.08	-11.76	-15.32
West Palm Beach-Boca Raton-Boynton Beach FL	FL	High	99.9	99.8	31.4	-19.29	-13.56	-5.73
Orlando-Kissimmee FL	FL	High	99.9	99.6	26.0	-20.04	-9.82	-10.22
Tampa-St. Petersburg-Clearwater FL	FL	High	99.9	99.7	22.0	-16.52	-9.40	-7.12
Santa Ana-Anaheim-Irvine CA	CA	High	99.9	99.0	26.8	-21.37	-8.38	-12.99
Phoenix-Mesa-Scottsdale AZ	AZ	High	99.9	98.8	28.6	-24.18	-9.69	-14.49
Jacksonville FL	FL	High	99.9	98.9	13.9	-8.30	-3.18	-5.12
Sacramento--Arden-Arcade--Roseville CA	CA	High	99.9	97.9	31.9	-28.31	-14.34	-13.97
San Diego-Carlsbad-San Marcos CA	CA	High	99.8	97.2	30.2	-24.52	-12.21	-12.31
Providence-New Bedford-Fall River RI-MA	RI	High	99.3	98.3	23.0	-13.54	-4.91	-8.62
Detroit-Livonia-Dearborn MI	MI	High	98.8	86.3	6.9	-7.18	-2.87	-4.31
Edison-New Brunswick NJ	NJ	High	96.7	89.4	17.2	-5.95	-4.52	-1.43
Oakland-Fremont-Hayward CA	CA	High	96.4	80.7	24.2	-29.57	-10.38	-19.19
Newark-Union NJ-PA	NJ	High	96.0	84.1	13.8	-7.21	-2.83	-4.38
Nassau-Suffolk NY	NY	High	91.9	78.3	16.2	-8.09	-3.99	-4.10
Washington-Arlington-Alexandria DC-VA-MD-WV	DC	High	91.7	88.2	23.2	-14.45	-6.19	-8.27
Portland-Vancouver-Beaverton OR-WA	OR	High	89.8	66.4	12.0	-8.32	2.36	-10.68
Baltimore-Towson MD	MD	High	89.6	83.8	16.6	-5.76	-0.33	-5.43
Virginia Beach-Norfolk-Newport News VA-NC	VA	High	89.0	77.6	15.7	-4.76	-0.46	-4.29
New York-White Plains-Wayne NY-NJ	NY	High	87.8	67.6	14.4	-6.00	-2.13	-3.88
Atlanta-Sandy Springs-Marietta GA	GA	High	80.7	55.8	4.5	-5.56	-1.56	-4.00
Boston-Quincy MA	MA	High	79.5	56.6	16.0	-6.80	-5.93	-0.87
San Jose-Sunnyvale-Santa Clara CA	CA	High	78.4	51.4	18.7	-22.79	-4.43	-18.36
Minneapolis-St. Paul-Bloomington MN-WI	MN	High	74.5	58.5	10.9	-11.39	-3.18	-8.21
San Francisco-San Mateo-Redwood City CA	CA	Elevated	66.2	31.6	15.4	-17.02	0.17	-17.19
Warren-Troy-Farmington Hills MI	MI	Elevated	57.9	23.6	8.4	-8.33	-6.10	-2.22
Seattle-Bellevue-Everett WA	WA	Moderate	46.0	30.3	10.3	-9.88	3.88	-13.76
Milwaukee-Waukesha-West Allis WI	WI	Moderate	44.6	27.5	8.7	-3.66	-0.47	-3.20
Cambridge-Newton-Framingham MA	MA	Moderate	40.6	27.3	11.9	-3.74	-2.27	-1.47
Chicago-Naperville-Joliet IL	IL	Moderate	36.2	13.7	9.0	-10.35	-1.43	-8.93
Philadelphia PA	PA	Moderate	30.3	27.5	11.0	-3.30	0.86	-4.15
Indianapolis-Carmel IN	IN	Low	28.8	9.6	1.2	1.05	1.84	-0.79
Austin-Round Rock TX	TX	Low	28.1	17.4	7.1	5.81	9.88	-4.06
Cincinnati-Middletown OH-KY-IN	OH	Low	27.4	12.1	2.6	-0.81	0.93	-1.75
Kansas City MO-KS	MO	Low	26.2	11.2	2.5	-2.88	2.17	-5.05
Denver-Aurora CO	CO	Low	21.2	14.2	4.8	-3.09	-2.21	-0.88
Nashville-Davidson--Murfreesboro--Franklin TN	TN	Low	16.6	12.0	3.8	-2.56	2.98	-5.54
Charlotte-Gastonia-Concord NC-SC	NC	Low	15.0	5.7	2.0	-3.23	4.54	-7.77
St. Louis MO-IL	MO	Low	12.9	13.8	5.9	-4.32	0.37	-4.69
Fort Worth-Arlington TX	TX	Minimal	5.8	2.5	1.2	1.44	4.11	-2.67
Dallas-Plano-Irving TX	TX	Minimal	3.8	2.5	1.0	2.95	3.44	-0.49
Houston-Sugar Land-Baytown TX	TX	Minimal	3.7	2.7	1.7	5.07	4.55	0.52
San Antonio TX	TX	Minimal	2.8	3.8	3.6	2.16	8.13	-5.98
Columbus OH	OH	Minimal	2.1	2.4	5.0	-2.84	0.46	-3.31
Pittsburgh PA	PA	Minimal	1.5	1.7	3.3	4.49	2.24	2.25
Cleveland-Elyria-Mentor OH	OH	Minimal	1.5	2.3	8.8	-6.41	-8.30	1.90

Weighted Average Values by Risk Rank:⁵

High	93.6	84.7	21.1	-16.3	-6.3	-10.1
Elevated	61.3	26.9	11.3	-11.9	-3.5	-8.4
Moderate	37.4	21.6	9.8	-7.6	-0.1	-7.4
Low	21.6	12.2	3.9	-1.6	2.1	-3.7
Minimal	3.2	2.5	2.9	2.0	2.7	-0.7
All	65.5	56.1	15.04	-10.98	-3.29	-7.70

Top 50 Weighted Averages:

AFFORDABILITY INDEX ⁵		
1Q '09	4Q '08	Difference
114.95	100.20	14.75
115.90	100.79	15.11
113.65	98.62	15.03
122.03	103.77	18.26
160.34	138.02	22.32
134.18	113.84	20.34
127.06	111.05	16.01
126.57	108.91	17.67
114.12	98.59	15.53
134.59	116.85	17.74
121.18	105.56	15.62
135.48	121.07	14.41
131.22	116.55	14.67
123.14	107.38	15.76
134.39	118.74	15.65
102.26	90.78	11.47
138.92	120.85	18.07
119.32	102.94	16.37
91.74	85.30	6.44
126.37	108.68	17.69
106.70	97.38	9.32
124.45	108.25	16.20
114.00	100.32	13.69
97.19	85.60	11.59
141.15	122.40	18.75
113.02	102.20	10.82
132.34	112.75	19.58
125.53	111.59	13.94
129.85	118.38	11.47
142.13	132.13	10.00
117.77	105.41	12.36
135.35	117.26	18.09
125.89	109.53	16.37
148.61	128.90	19.71
128.94	114.21	14.73
145.15	135.85	9.30
117.77	109.97	7.80
145.39	133.12	12.26
129.63	121.44	8.19
135.27	121.55	13.72
135.47	121.97	13.50
143.11	133.47	9.64
146.90	128.96	17.95
142.93	135.09	7.84
141.54	131.27	10.27
146.83	133.63	13.20
135.92	122.68	13.25
178.41	155.65	22.76
155.54	139.96	15.58
204.18	175.93	28.25

119.8	104.7	15.1
137.1	126.5	10.6
136.6	119.5	17.1
138.1	126.0	12.1
153.9	139.2	14.7
129.06	114.26	14.80

UNEMPLOYMENT RATE		
Rate ⁶	Demeaned ⁷	
1Q '09	1Q '09	4Q '08
12.4	6.6	4.11
7.4	2.3	0.77
11.0	4.8	2.87
8.2	3.7	2.02
10.2	5.1	3.30
9.6	4.8	2.66
9.7	5.2	2.84
10.2	5.4	3.34
8.0	3.6	2.09
6.9	2.3	1.14
9.1	4.7	2.66
10.8	5.1	3.11
9.0	4.1	2.46
11.4	5.0	3.56
14.5	6.0	2.74
8.0	2.8	1.19
9.7	3.8	1.85
8.1	2.5	1.03
7.2	2.4	1.14
6.1	2.1	0.97
10.7	3.3	0.55
7.3	2.6	1.21
6.9	2.7	1.05
7.9	1.4	0.03
9.0	4.0	2.37
7.7	2.1	0.71
10.2	3.2	0.67
8.1	3.4	1.82
8.0	2.6	0.70
12.8	6.2	2.94
7.9	2.1	0.16
8.1	2.2	0.34
6.5	1.6	0.31
8.8	2.3	0.76
7.6	2.0	1.01
8.3	3.2	1.51
6.3	1.0	-0.03
8.8	3.1	1.28
8.3	2.3	0.67
7.8	1.9	0.49
8.3	3.6	1.67
11.2	5.3	2.56
9.2	3.2	2.00
6.8	1.1	0.05
7.1	0.9	-0.01
6.5	0.5	-0.26
6.1	0.5	0.05
7.9	2.5	1.14
7.5	1.4	0.40
8.6	2.2	1.59

9.0	3.6	1.8
10.8	4.7	2.0
8.2	2.1	0.7
8.6	2.9	1.3
7.1	1.1	0.2
8.66	3.00	1.40

EXPLANATORY NOTES

- The **U.S. Market Risk IndexSM score** translates to a percentage that predicts the probability that house prices will be lower in two years. For example, a Risk Index score of 100 means there is a 100 percent chance that the Loan Performance All Transactions House Price Index for that MSA will be lower two years from the date of the data.
- Historical risk scores may change as updated/revised source data become available.
- Past **price appreciation** is a key predictor of future price appreciation potential. In general, rapid and continued increases in the rate of price appreciation lead to increases in the risk of future price declines.
- Price volatility** is calculated as the standard deviation of quarterly two-year house price appreciation rates for the previous five years. In general, higher price volatility indicates a greater risk of future home price declines.
- Using per capita income, Loan Performance house price appreciation rates, and a blended interest rate based on the mix of 30-year fixed rate and 1-year adjustable rate mortgages (as reported by the Mortgage Bankers Association), PMI's proprietary **Affordability IndexSM** measures how affordable homes are today relative to a baseline of 1995. An Affordability Index score exceeding 100 indicates that homes have become more affordable; a score below 100 means they are less affordable. The value of this index is generally inversely related to the value of the Risk Index – as affordability increases, the Risk Index score declines. By using a blended rate, the index factors in the use of adjustable rate mortgage products, which can increase affordability.
- The **local unemployment rate** is calculated with Bureau of Labor Statistics MSA-wide quarterly averages, not seasonally adjusted.
- The **demeaned unemployment rate** is the current unemployment rate minus the five-year average unemployment rate. A negative number means that the current unemployment rate is lower than the five-year average, indicating that labor markets are strong by the area's historical standards. High employment levels are generally associated with strong housing demand.
- All averages are population weighted.

Risk Rises Across U.S.

(continued from page 5)

West Region

The “Great Recession” continues to rock the West, most severely in California and Nevada, where the housing downturn has hit hardest. Unemployment rates are in double-digits in both of these states, having risen by more than six percentage points from their 2006 troughs. Economic performance varies widely elsewhere across the region. Military and defense spending has kept Arizona’s labor markets in better shape than many others, although its house price declines remain among the nation’s most severe. The tech decline has hurt manufacturing-centered industries in Idaho and parts of Colorado. The rapid fall in energy prices into the spring has placed previously expanding energy-rich Alaska and Wyoming at risk, although recent oil price gains (if sustained) should help to offset some of this risk.

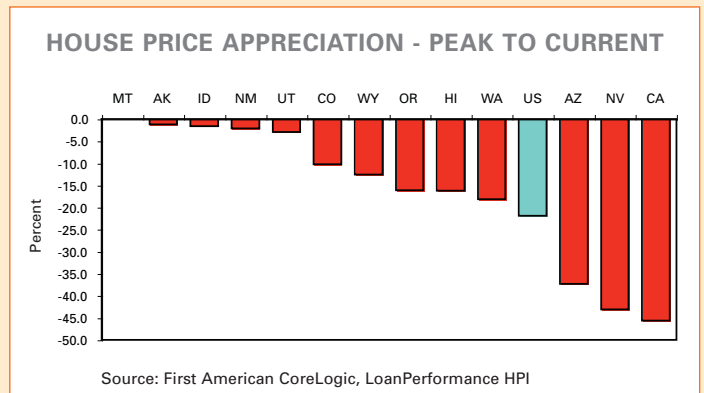
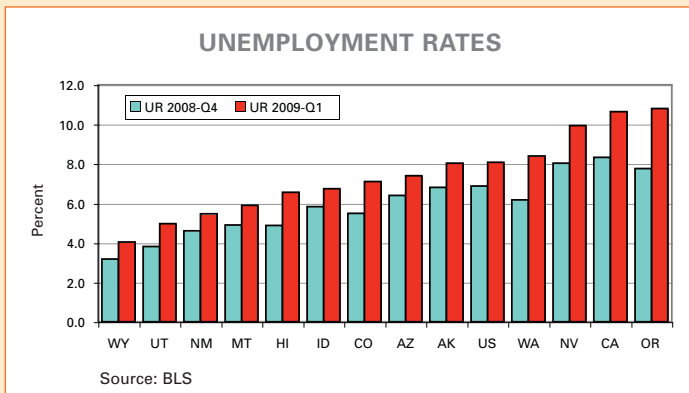
The West’s housing slump remains concentrated in California, Nevada, and Arizona, although prices have continued to decline in the other western states as well – especially Oregon and Washington. The West region continues to lead the country in house price declines, but has recently shown some strength in home sales as distressed market sales have become an increasing common part of the market, especially in California.

Washington is typical of the broad range of economic outcomes in the West region. The state is among the more globally connected in the nation, with its large commercial aircraft manufacturing presence. Until recently, job gains advanced unabated, but they are now showing signs of strain. Software publishing, a key industry, has also begun to falter. Previously, troubles had been primarily isolated to Washington’s noncore sectors, namely construction, professional/business services, retail and non-aerospace manufacturing. Rising joblessness, combined with sturdy labor force growth, has led the unemployment rate to quickly surpass the national average. At 9.1 percent in April, the state’s jobless rate is at its highest since the early 1980s.

Earlier this year, Microsoft – Washington’s third-largest private employer – announced that it would lay off up to 5,000 employees over the next 18 months. Layoffs are uncommon for the industry giant, and the broader software publishing industry had continued to show steady job expansion even into this year. Job losses in the industry are expected to continue.

Among the Washington MSAs that accounted for some of the most dramatic increases in risk scores, there have been significant declines in their economic health. The following table highlights some of those developments. ♦

WEST



MSA	2008Q4 RISK SCORE	2009Q1 RISK SCORE	MARKET CHANGES
Wenatchee	44.5	79.3	<ul style="list-style-type: none"> Manufacturing, construction and natural resources and mining have suffered the greatest losses, but the weakening labor market has also filtered through to the local trade and transportation industries. Unemployment rate increased from 5.7% in 4th qtr to 9.4% in 1st qtr Housing market appears to be stabilizing as price declines have moderated and excess supply has fallen. Unemployment rate increased from 5.5% in 4th qtr to 7.7% in 1st qtr Tacoma’s recession shows no signs of slowing amid the housing and global downturns. The biggest contributor to job loss has been construction; since August, nearly a third of the employment decline was attributable to this sector. Unemployment rate increased from 5.7% in 4th qtr to 8.2% in 1st qtr The largest job losses in numbers have been in retail trade, though construction has lost the largest proportion since mid-2008. Unemployment rate increased from 6.6% in 4th qtr to 9.8% in 1st qtr
Bremerton	50.3	79.4	
Tacoma	35.9	62.4	
Mount Vernon	19.2	40.7	



Trends in the Nation's MSAs

(continued from page 3)

and significantly rising level of delinquency rates. The delinquency rate for mortgage loans on one-to-four-family residential properties rose to 9.12 percent of all loans outstanding as of the end of the first quarter of 2009 (up by 124 basis points from the fourth quarter of 2008, and by 277 basis points from a year earlier) according to the Mortgage Bankers Association's (MBA) National Delinquency Survey. This most recent delinquency rate broke the record set in each of the previous four consecutive quarters, and the quarter-to-quarter jump is also the largest (based on MBA data back to 1972).

The percentage of loans in foreclosure at the end of the first quarter was 3.83 percent, an increase of 55 basis points from the fourth quarter of 2008 and 138 basis points from a year earlier. The percentage of loans in serious delinquency (mortgage payments 90 days and over past due plus the inventory of mortgages in foreclosure) was 7.4 percent, an increase of 1.3 percentage points and the highest ever recorded in the MBA delinquency survey. After dropping for two consecutive quarters, mortgage foreclosures rose in the first quarter of 2009 – climbing to 1.34 percent in the first quarter, compared with 1.01 percent in the fourth quarter of 2008. **California** increased the most, by 79 basis points to 2.15 percent, while **New York** suffered the greatest rate of change, increasing by a steep 88.1 percent to 0.79 percent. The rise in mortgage foreclosures played a large role in the increasing risk scores. The sharp pace of the increase in foreclosures started can be attributed mostly to the end of many temporary foreclosure moratoria instituted by a number of states.

Florida, California, Nevada, and **Arizona MSAs** continued to have most of the highest risk scores in the nation during the first quarter. The 36 most risky MSAs are all located in those four states. In **Florida**, risk increased in all of its MSAs and now for the first time all the MSAs have risk scores exceeding 90 percent.

California also had increasing risk scores in every MSA, with the majority of the scores over 90 percent. Only **San Francisco** (with a score of 66.2 percent) and **San Jose** (at 78.4 percent) remain under 90 percent. Both **Arizona** and **Nevada** also suffered increased risk scores, with only Flagstaff remaining below 90 percent with a score of 89.9 percent.

Trends in Home Price Appreciation

Home prices continued their decline in the first quarter of 2009. According to First American CoreLogic's LoanPerformance House Price Index (LPHPI), national home prices declined by 11.7 percent between the first quarter of 2008 and 2009. There continues to be an increase in the percentage of MSAs with year-ago price declines. Across all 381 MSAs, 90.6 percent of them had lower prices in the first quarter of 2009 than a year earlier.

As with the risk scores, house price appreciation remained weakest in the "sand states" of **California, Florida, Nevada, Arizona,** plus **Rhode Island**, all of which have had house price declines over 20 percent in the last year. **California** averaged a 23.8 percent annualized decline in the first quarter. California has also suffered prolonged declining house prices which are now down by 45.7 percent from the peak in the second quarter of 2006, the largest decline of any state. **Florida's** home price declines continued their acceleration during the quarter – at a 29.2 percent annualized rate in the first quarter, and have dropped by 37.9 percent since its peak in the third quarter of 2006. **Nevada** averaged a 26.3 percent decline in the first quarter, slightly less than its fourth quarter decline of 29.5 percent. Second to California, Nevada's home prices have declined by 43.1 percent since the second quarter of 2006. **Arizona** averaged a 22.8 percent annualized decline in the first quarter. While Arizona's rate of decline is still large it has been relatively flat for

(continued on page 10)



Trends in the Nation's MSAs

(continued from page 9)

three consecutive quarters. Arizona's home prices have decreased by 37.4 percent from the second quarter of 2006. House prices in **Rhode Island** have continued to decline and dropped at an annualized 28.5 percent in the first quarter. Among this group of the worst performers, only **Florida's** home prices are currently declining at a faster rate. While **Rhode Island's** home price declines are picking up steam, it has the lowest home price decline from its peak in the third quarter of 2005 of the five states at 33.9 percent

Trends in Housing Affordability

Housing affordability continued to increase significantly during the first quarter as prices plummeted and mortgage rates fell. PMI's proprietary Affordability Index measures how affordable homes are today in a given MSA relative to a baseline of 1995. An Affordability Index score exceeding 100 indicates that homes have become more affordable; a score below 100 means they are less affordable.

For all 381 MSAs, the average Affordability Index reading was 133.3 in the first quarter, compared with the fourth quarter reading of 120.6. Across the nation, 98.4 percent of the nation's 381 MSAs showed higher affordability. Only five MSAs suffered a decrease in affordability, including: **Elkhart, IN, Idaho Falls, ID, Peoria, IL, Rome, GA, Montgomery, AL, and Florence, SC.** This was due largely to declines in income levels exceeding the declines, and in some cases, small increases in their respective rates of house price appreciation. Affordability among MSAs with risk classified as high continued to increase at a faster rate than the rest of the MSAs, although the level of affordability in those MSAs tends to be much lower. High risk-ranked MSAs had an average affordability of 120.9 – 29.3 points lower than those MSAs classified as minimal risk.

Trends in Employment

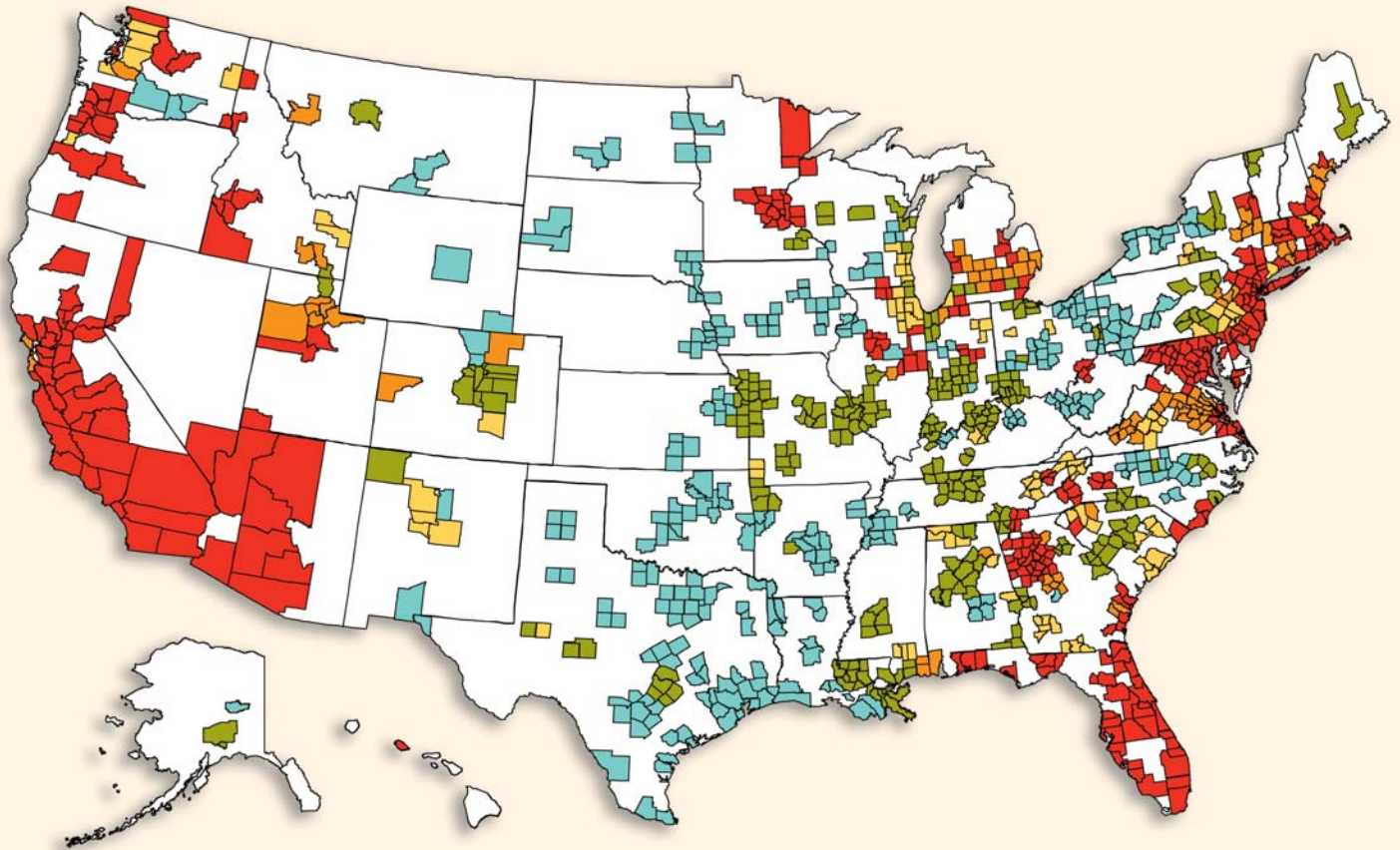
The second primary driver of increased risk scores is unemployment rates, which continue to increase dramatically throughout the United States. Across the 381 MSAs, unemployment rates averaged 8.8 percent during the first quarter 2009, a substantial increase from the 6.5 percent during the fourth quarter 2008.

While unemployment rates are climbing almost everywhere, rates vary throughout the nation. Unemployment rates tend to be greater than average in the high risk MSAs. The average unemployment rate in the high risk MSAs was 10.6 percent, compared with only 6.9 percent in the low risk MSAs. Of the top 50 MSAs, **Detroit** has the highest unemployment rate at 14.5 percent along with a high risk score of 98.8 percent, while the lowest rate is **San Antonio** at 6.1 percent with a minimal risk score of 2.8 percent.

Conclusion

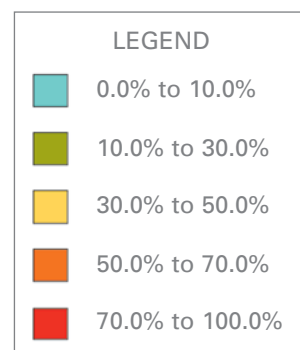
Risk in the 381 MSAs continued to increase during the first quarter of 2009. **California, Florida, Arizona, and Nevada** were the riskiest markets once again and we expect that trend to continue. Affordability increased further because of lower home prices and mortgage rates. The average unemployment rate rose to 8.8 percent putting additional downward pressure on house prices. With unemployment and foreclosure rates both on the rise, we expect additional increases in risk across the nation's MSAs. ♦

Geographic Distribution of HOUSE PRICE RISK



The above map depicts the geographic distribution of house price risk for all 381 MSAs and the District of Columbia. Each MSA is assigned a risk rank and corresponding color. Among the 50 largest MSAs, **Riverside-San Bernardino-Ontario, CA** ranks the highest on the index, with a 99.9 percent chance that home prices will be lower in two years. At the other end of the risk spectrum lies a group of MSAs, largely located in the central and southern part of the nation, whose risk scores are moderate to low.

The Risk Index scores for all 381 MSAs are provided in an appendix, available on the publications page of the media center at www.pmi-us.com.



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METROPOLITAN AREA ECONOMIC INDICATORS STATISTICAL MODEL OVERVIEW

The U.S. Market Risk Index is based on the results of applying a statistical model to data on local economic conditions, income, and interest rates, as well as judgmental adjustments in order to reflect information that goes beyond the Risk Index’s quantitative scope. For each Metropolitan Statistical Area (MSA) or Metropolitan Statistical Area Division (MSAD), the statistical model estimates the probability that an index of metropolitan-area-wide home prices will be lower in two years, with an index value of 100 implying a 100 percent probability that house prices will be lower in two years.

House price data are provided by LoanPerformance, a First American CoreLogic company. The LoanPerformance house price index (HPI) is a repeat-sales index that tracks changes in sales prices for the same homes over time, thereby providing a more accurate “constant-quality” view of house price trends than transaction-based measures. The index incorporates more than 30 years worth of repeat sales transactions, representing more than 45 million observations sourced from First American CoreLogic’s industry leading property information database. The LoanPerformance HPI provides a multi-tier market evaluation based on price, time between sales, property type and loan type (conforming vs. nonconforming).

Periodically, we may re-estimate our model to update the statistical parameters with the latest available data. We also may make adjustments from time to time to account for general macroeconomic developments that are not captured by our model.

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