PMI
Making Risk Rewarding

THE HOUSING & MORTGAGE MARKET REVIEW

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

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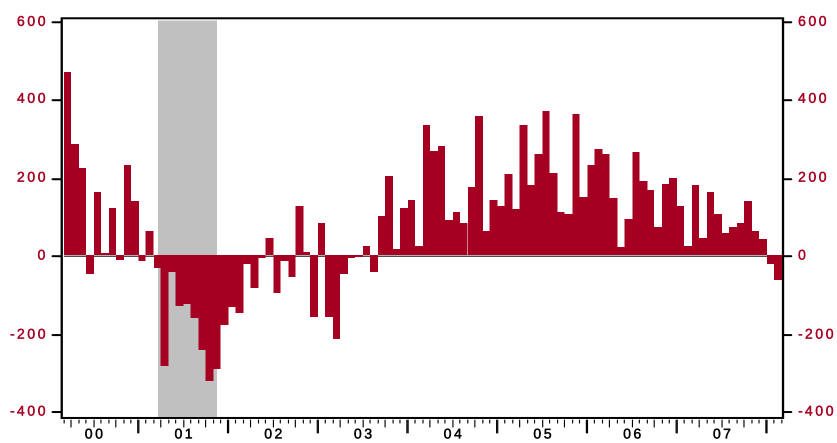
The Outlook

By David W. Berson, Ph.D., Chief Economist and Strategist

The U.S. economy, housing activity, and financial markets all deteriorated over the past month, increasing the likelihood that the economy is in recession. While we expect the downturn to be relatively short and mild, the odds of a more serious slump are rising.

Most of the economic and financial data over the past month have been negative, and when combined with previous weak data it strongly suggests that the U.S. economy is in recession. When the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) ultimately decides on the start of this downturn, we think they will choose either December 2007 or January 2008. The commonly used description of a recession as two-or-more consecutive quarters of declining real GDP growth is just a handy rule of thumb. (*continued on page 2)*

JOB GROWTH HAS TURNED NEGATIVE
(THOUSANDS OF NON FARM PAYROLL JOBS)



Source: Federal Reserve Board/Haver Analytics

Special Topic: House Price Declines Have Been Bigger for Lower Priced Homes

By LaVaughn M. Henry, Ph.D., Director, U.S. Economic Analysis

On a national average basis, home values were lower at the end of 2007 than they were a year earlier, but there was substantial variation around the average decline. According to the Office of Federal Housing Enterprise Oversight (OFHEO), only 17 states (plus the District of Columbia) had four-quarter price declines in the fourth quarter of 2007.
(continued on page 11)

The Outlook (continued from page 1)

While most recessions do coincide with this definition, they don't have to, and the 2001 recession didn't meet this criterion. Instead, usually long after a recession has begun, a group of eminent macroeconomists at NBER looks at a broad set of data (including real income, employment, industrial production, and wholesale/retail trade) to determine if there has been a significant decline in the U.S. economy lasting for more than a few months.

While the housing market has been in serious decline for a while, a downturn in the job market suggests that the weakness has spread broadly throughout the economy. In addition, further disarray in financial markets has the kept the economy from gaining traction in response to monetary easing by the Federal Reserve.

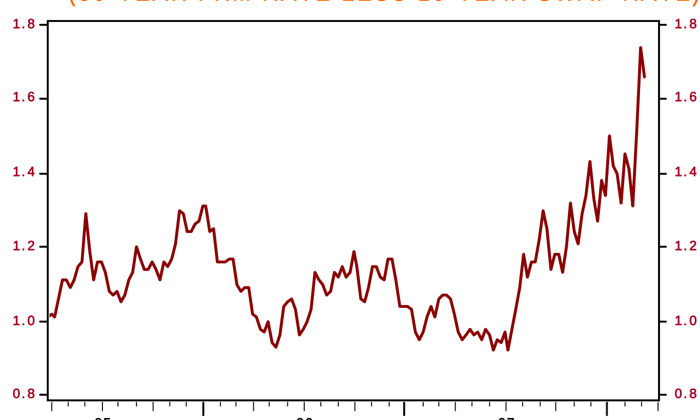
Nonfarm payrolls fell for a second consecutive month in February, down by 63 thousand. While the declines over the past two months have been extremely modest for a recession, two consecutive months of job losses have historically always been associated with the start of recessions. Even though the Fed has eased aggressively since the end of last summer, providing substantial liquidity, credit conditions in financial markets continue to tighten. Spreads between even relatively safe assets (such as Fannie Mae or Freddie Mac mortgage-backed securities) and Treasury notes have widened to historically wide levels, indicating that investors fear holding any assets other than the very safest ones. And spreads for less safe assets (such as junk bonds) have exploded. This has reduced the value of financial assets, causing margin calls and reducing mark-to-market levels of assets for financial firms. As a result, less lending is occurring, which leads to even further declines in financial asset prices – and this process runs the risk of turning what should be a short and mild recession into something more serious.

For 2008, we still expect that Fed easing and the fiscal stimulus package will boost the economy in the second half of the year, resulting in a short and modest downturn. Further problems in financial markets, however, could swamp the positive effects of fiscal and monetary policy – increasing the odds of a deeper recession than we currently expect.

Housing: Both new and total existing (including condominiums) home sales fell again in January (by 2.8 and 0.4 percent, respectively). New home sales are down by nearly 34 percent from a year-ago levels, while existing sales are down by more than 23 percent. Single-family housing starts dropped again in January as well, but that is good news given the large number of homes for sale. In fact, the biggest problem facing the housing market is unsold inventories. The inventory-sales ratio (or months' supply at current sales pace) for new homes was 9.9 months in January, the highest level since 1981. For existing single-family homes, this measure rose to 10.1 months – nearly the highest level since 1988. This imbalance between housing demand and supply is putting downward pressure on house prices.

The Office of Federal Housing Enterprise Oversight (OFHEO) reported that its purchase-only price index fell by a modest 0.3 percent in the fourth quarter of 2007 from year-earlier levels – but this is the first decline in this series since it began in 1992. The broader S&P/Case-Shiller home price index (which includes houses using jumbo, Alt-A, and subprime financing – which the homes in the OFHEO index either don't use or use to a lesser degree) fell by 8.9 percent over the same period, showing the additional distress in the parts of the market not served by Fannie Mae and Freddie Mac. *(continued on page 3)*

CREDIT SPREADS ARE JUMPING EVEN FOR SAFE ASSETS
(30-YEAR FRM RATE LESS 10-YEAR SWAP RATE)



Source: Haver Analytics

The Outlook (continued from page 2)

For 2008, we expect a further decline in home sales and starts, although probably less than last year's drop if stronger economic growth in the second half of the year allows sales to plateau. While some areas will experience modest increases, national home prices are projected to fall again this year because of significant regional declines in other areas.

Interest Rates and Financial Markets: The Fed has cut the federal funds rate aggressively since the end of last summer, bringing it down by 225 basis points to 3.00 percent. Moreover, financial market participants strongly expect the Fed to cut rates again by 50 or 75 basis points when the Federal Open Market Committee (FOMC, the Fed's policy making arm) meets again later this month. While this has added substantially to liquidity, especially when combined with the Fed's new Term Auction Facility (TAF), credit concerns in financial markets continue to boost spreads significantly on even relatively safe assets. As noted above, this has resulted in a number of negative effects on financial markets that have, to a large extent, negated the Fed's easing. In response to the additional disarray in financial markets, the Fed has expanded its TAF auctions and created a new Term Securities Lending Facility (TSLF) which allowed additional collateral (most importantly, agency debt and MBS) to be used. Additional easing by the Fed and other innovative policies are likely in coming months.

For 2008, we project the federal funds rate will fall to 1.5-2.0 percent by mid-year. It may go below that, however, if the problems in financial markets persist or worsen. We expect credit spreads on safer assets to finally begin to fall to more normal levels in response to the Fed's actions. There is a growing risk, however, that financial market problems could expand and that, even with additional Fed easing, the economy could suffer a more significant downturn.

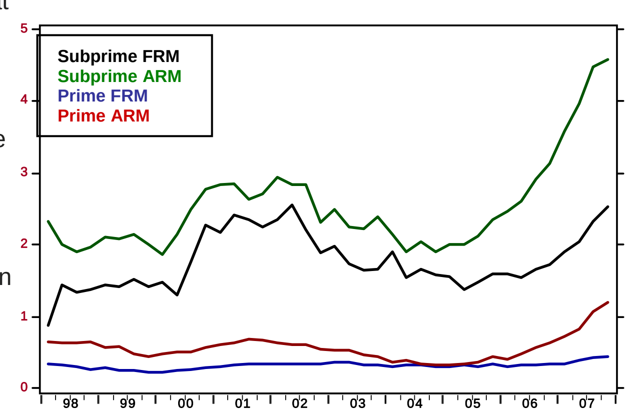
Mortgage Markets: One of the consequences of the lack of demand for safer assets has been that yields on prime conventional conforming 30-year fixed-rate mortgages (FRMs) have risen over the past month. According to Freddie Mac, those rates are now a bit over 6.0 percent, up from about 5.5 percent at the end of January – despite Fed easing and the slower economy. This has made it more difficult to refinance into these loans, and so refinance applications in the Mortgage Bankers Association's weekly survey have declined in recent weeks. Spreads between FRM and adjustable-rate mortgages (ARMs) have also increased recently, as the demand for longer-dated securities has fallen relative to shorter-dated ones (in keeping with the recent steepening of the yield curve). In turn, this has pushed up the ARM share of applications modestly in the MBA survey. The decline in ARM rates has also meant that upward ARM adjustments won't be as onerous as feared a few months ago.

For 2008, we expect that total mortgage originations will fall to a bit less than $1.9 trillion – with the refinance share moving up to about 53-55 percent. The ARM share should average only 10-15 percent in 2008. A deeper downturn in the economy would result in a bigger drop in purchase originations than we currently expect, but probably also a larger jump in refinance activity in response to lower mortgage rates.

Credit Conditions: The MBA recently released its 2007Q4 National Delinquency Survey, and the results showed deteriorating credit conditions in most parts of the mortgage market. Keeping with the recent trend, delinquencies and defaults worsened more for ARMs than for FRMs, and more for subprime than for prime. One bit of positive news in the MBA data was a small drop in 30-day delinquencies for the entire mortgage market, coming from a decline in the prime portion of the mortgage market. Before longer-term delinquency and default rates can decline, it is necessary for shorter-term delinquency rates to fall. As the stock of new 30-day delinquent mortgages falls, there will eventually be a decline in long-term delinquencies and defaults.

For 2008, even with the recent small improvement in 30-day delinquencies, we expect that overall mortgage delinquencies and defaults will rise throughout the year. Conditions will likely continue to worsen more significantly in the subprime portion of the market than they will in the prime market, with fewer refinance opportunities for subprime borrowers.

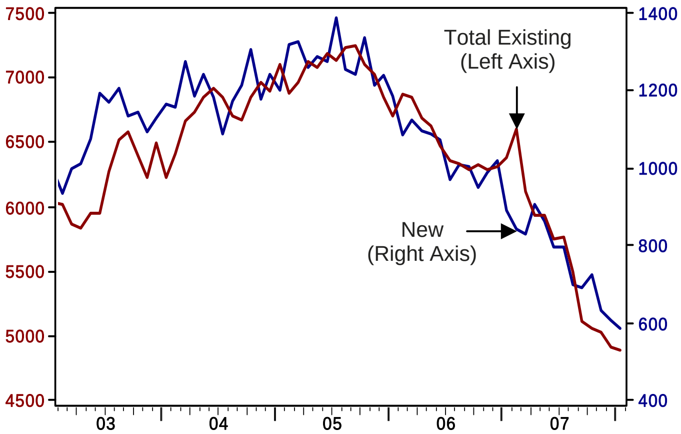
PERCENT OF CONVENTIONAL MORTGAGES PAST DUE
(60 DAYS OR GREATER)



Source: Mortgage Bankers Association/Haver Analytics

Housing Market Indicators

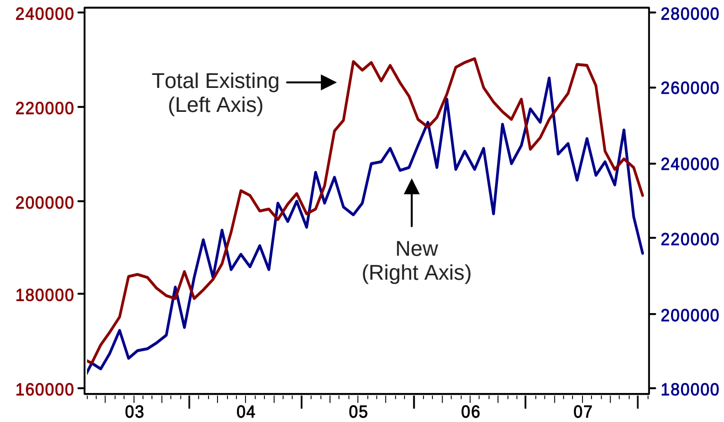
HOME SALES
(THOUSANDS OF UNITS)



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

% Change	Existing	New
Jan-07 to Jan-08	-23.4	-33.9
Dec-07 to Jan-08	-0.4	-2.8

MEDIAN HOME PRICES
($)



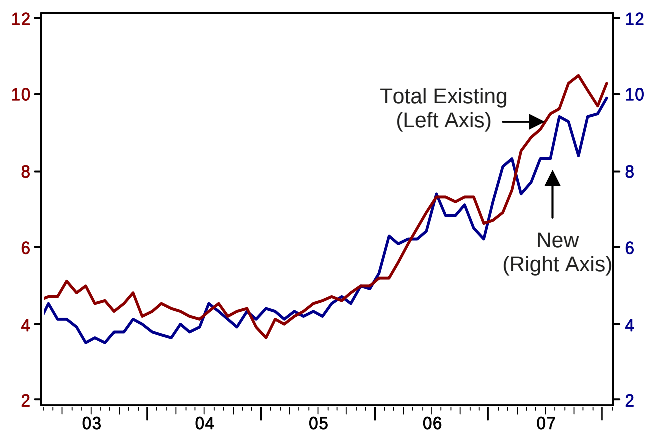
Source: National Association of Realtors, Census Bureau /Haver Analytics

% Change	Existing	New
Jan-07 to Jan-08	-4.6	-15.1
Dec-07 to Jan-08	-2.9	-4.3

NOTES:

- Home sales, single family housing starts, and home prices continue to decline.
- Unsold home inventories continue to grow. The months' supply of new homes has not been this large since October 1981.
- Until this excess inventory is substantially eliminated, downward pressure on home prices will continue.

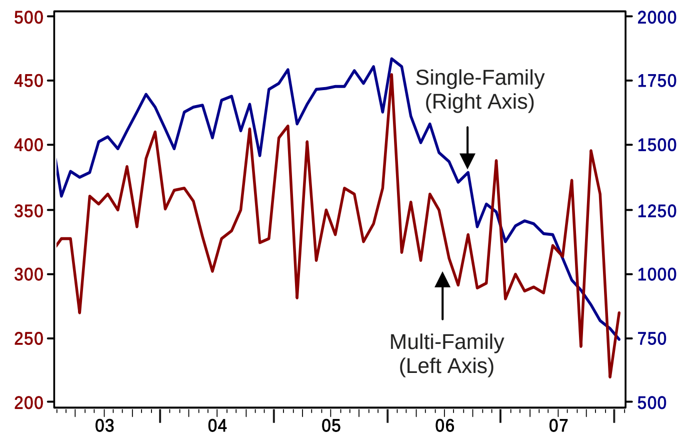
MONTHS' SUPPLY OF HOMES



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

	Existing	New
January 2007	6.7	7.2
January 2008	10.3	9.9

HOUSING STARTS
(THOUSANDS OF UNITS)

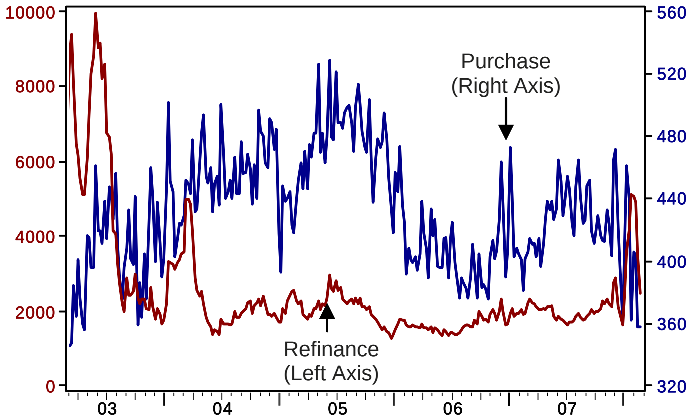


Source: U.S. Census Bureau/Haver Analytics

% Change	Single Family	Multi Family
Jan-07 to Jan-08	-33.8	-3.9
Dec-07 to Jan-08	-5.2	22.3

Mortgage Market Indicators

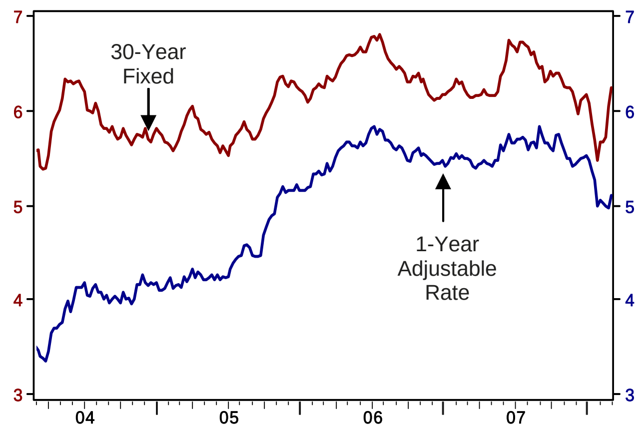
MORTGAGE APPLICATIONS
(INDEX: MARCH 16, 1990 = 100)



Source: Mortgage Bankers Association /Haver Analytics

% Change	Purchase	Refinance
Feb-07 to Feb-08	-4.9	89.0
Jan-08 to Feb-08	-9.9	-3.5

MORTGAGE RATES
(%)



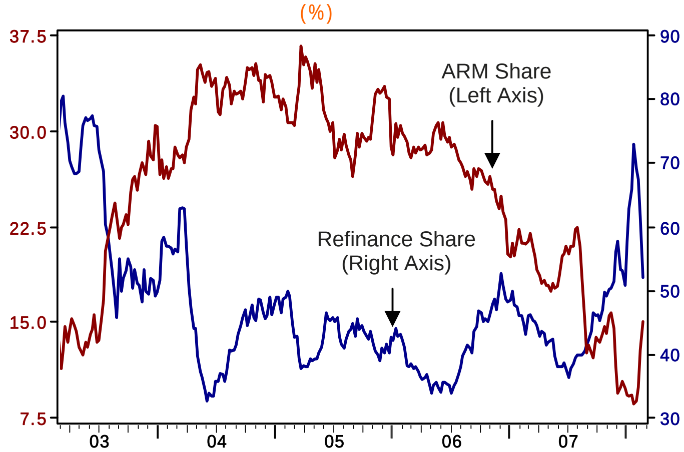
Source: Federal Home Loan Mortgage Corporation /Haver Analytics

	30-Year Fixed	1-Year Adjustable
February 2007	6.29	5.51
February 2008	5.87	5.03

NOTES:

- Purchase applications have drifted down recently, but refinance applications have surged.
- The ARM share is low because of interest rate risk concerns, but it has risen lately as FRM rates have climbed.
- While foreclosure rates continue to increase, 30-day delinquency rates fell a tad in 2007 Q4.

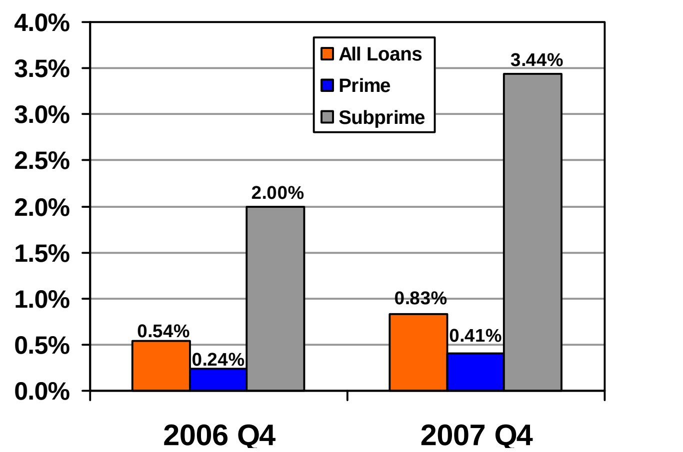
REFI/ARM SHARES
(%)



Source: Mortgage Bankers Association /Haver Analytics

	Refinance	ARM
February 2007	45.08	21.45
February 2008	60.54	12.76

PERCENT OF MORTGAGES: FORECLOSURES STARTED

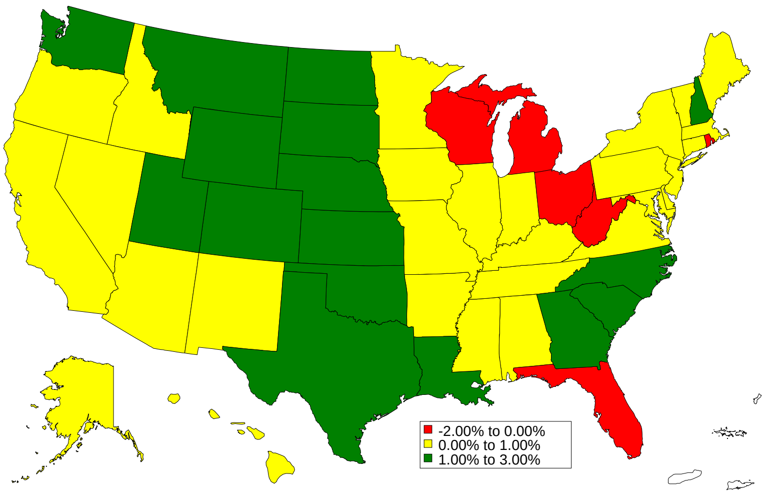


Source: Mortgage Bankers Association /Haver Analytics

THE HOUSING & MORTGAGE MARKET REVIEW

Regional Roundup

CHANGE IN PAYROLL EMPLOYMENT
JAN. 08 VS. JAN. 07



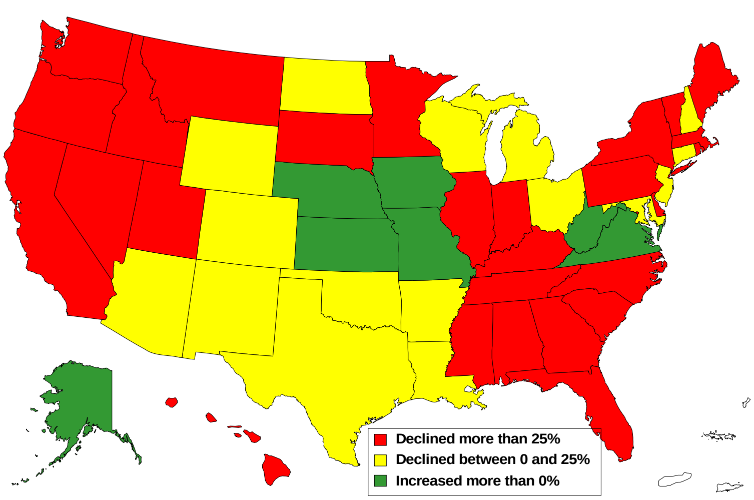
Source: Bureau of Labor Statistics / Haver Analytics

Wyoming	2.99%	Idaho	0.63%
Utah	2.71%	United States	0.63%
Texas	2.71%	Minnesota	0.62%
Louisiana	2.37%	Virginia	0.58%
Washington	2.29%	Iowa	0.57%
Colorado	2.03%	Alaska	0.54%
North Dakota	2.02%	Massachusetts	0.52%
North Carolina	1.97%	Arkansas	0.52%
South Dakota	1.86%	Illinois	0.50%
Oklahoma	1.84%	Mississippi	0.47%
Montana	1.63%	Pennsylvania	0.45%
South Carolina	1.61%	Indiana	0.42%
Nebraska	1.60%	Nevada	0.33%
New Hampshire	1.36%	Tennessee	0.32%
Kansas	1.29%	Delaware	0.21%
District of Columbia	1.29%	Maine	0.19%
Georgia	1.12%	Arizona	0.18%
Oregon	1.00%	California	0.10%
Alabama	0.98%	Vermont	0.07%
Kentucky	0.97%	New Jersey	0.03%
New York	0.97%	Ohio	-0.07%
Maryland	0.83%	Florida	-0.09%
Hawaii	0.80%	West Virginia	-0.13%
Connecticut	0.77%	Wisconsin	-0.22%
Missouri	0.72%	Michigan	-1.34%
New Mexico	0.68%	Rhode Island	-1.45%

NOTES:

- The job market is weakening across much of the U.S., and significantly in many states.
- Housing starts are down sharply in most states (although up surprisingly in the Great Plains and the Virginias).
- There continues to be a strong correlation between states with worsening job markets and below average price appreciation

HOUSING STARTS – JAN. 08 VS. JAN. 07

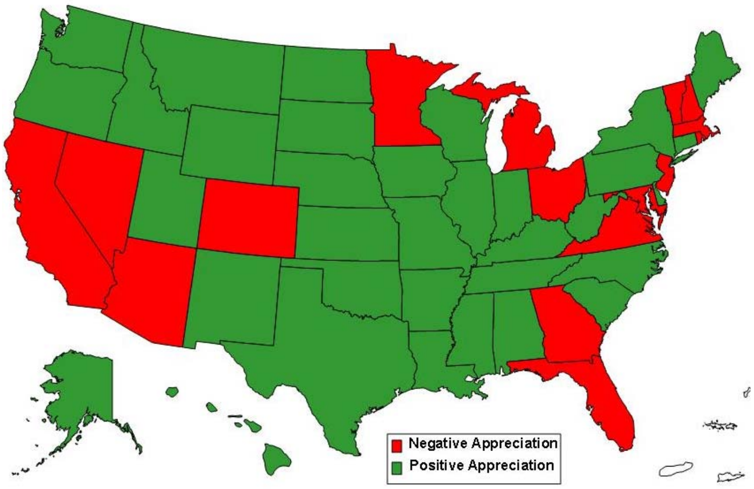


Source: U.S. Census Bureau / Haver Analytics

District Of Columbia	-83.2%	Vermont	-25.8%
Massachusetts	-70.3%	Mississippi	-25.5%
Nevada	-65.8%	Florida	-25.4%
Oregon	-63.4%	Wisconsin	-23.4%
Hawaii	-57.5%	New Jersey	-22.5%
Rhode Island	-56.3%	New Mexico	-21.4%
Georgia	-49.2%	Michigan	-19.8%
Idaho	-47.1%	Wyoming	-18.5%
Washington	-46.0%	Ohio	-18.4%
Tennessee	-46.0%	North Dakota	-17.3%
Utah	-44.4%	Arizona	-16.9%
South Dakota	-42.9%	New Hampshire	-13.4%
Montana	-42.3%	Louisiana	-13.3%
Minnesota	-42.2%	Colorado	-12.1%
Kentucky	-41.3%	Arkansas	-10.4%
California	-41.0%	Texas	-9.8%
Illinois	-36.2%	Maryland	-5.6%
Maine	-36.1%	Oklahoma	-3.2%
United States	-33.8%	Connecticut	-0.9%
Delaware	-33.6%	Virginia	4.6%
Pennsylvania	-33.5%	Alaska	10.6%
Indiana	-30.0%	Missouri	12.8%
North Carolina	-28.7%	Iowa	24.8%
South Carolina	-27.7%	Kansas	45.2%
Alabama	-27.3%	West Virginia	52.2%
New York	-25.8%	Nebraska	149.4%

Regional Roundup

CHANGE IN PURCHASE-ONLY HOUSE VALUES
4TH QTR 07 VS. 4TH QTR 06



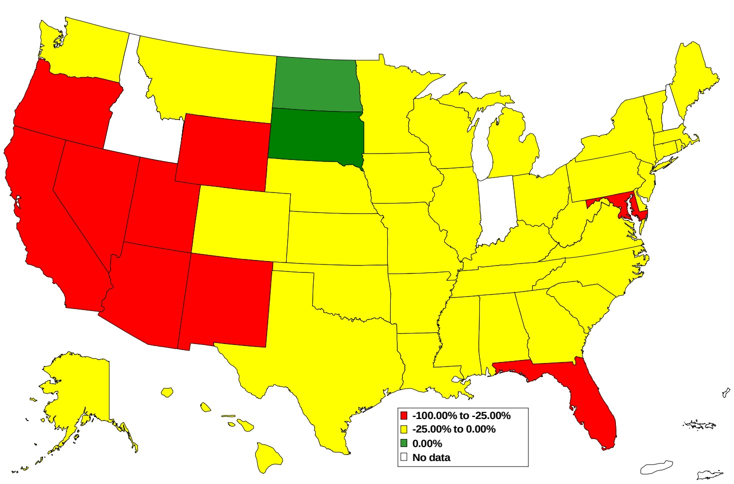
California	-11.49	New York	1.47
Nevada	-9.35	Arkansas	1.50
Michigan	-8.82	Kentucky	1.75
Florida	-8.51	South Carolina	1.94
Arizona	-6.52	Iowa	1.99
Rhode Island	-3.63	Maine	1.99
District of Columbia	-2.85	Pennsylvania	2.14
New Hampshire	-2.71	Kansas	2.30
Minnesota	-2.26	Alabama	2.44
Ohio	-2.26	Hawaii	2.65
Massachusetts	-1.93	Louisiana	2.77
Virginia	-1.68	New Mexico	2.89
Colorado	-1.13	Tennessee	3.20
Maryland	-0.68	North Carolina	3.29
New Jersey	-0.44	Idaho	3.44
Vermont	-0.38	Texas	3.50
United States	-0.32	Alaska	3.55
Georgia	-0.10	Oregon	3.61
Indiana	0.01	Washington	3.62
Delaware	0.08	South Dakota	3.78
Wisconsin	0.22	North Dakota	4.07
Missouri	0.37	West Virginia	4.41
Connecticut	0.88	Wyoming	5.01
Illinois	0.92	Montana	5.07
Nebraska	0.93	Oklahoma	5.97
Mississippi	1.21	Utah	6.06

Source: OFHEO / Haver Analytics

NOTES:

- Home values continue to be above year-ago levels in most states.
- But there have been sharp declines in states with significant investor activity, previous large price gains, or declining economic activity.
- In most MSAs, lower-priced homes have fallen in value more than higher-priced homes -- perhaps because of problems in the subprime mortgage market.

12 MONTH CHANGE IN EXISTING HOME SALES
DEC. 07 VS. DEC. 06



Nevada	-44.16%	Montana	-14.52%
Wyoming	-42.42%	Tennessee	-14.46%
New Mexico	-38.69%	Alabama	-14.43%
Oregon	-38.39%	Kentucky	-14.17%
Arizona	-37.46%	South Carolina	-14.06%
Utah	-33.85%	Vermont	-13.51%
Maryland	-33.46%	Pennsylvania	-13.46%
California	-29.81%	Massachusetts	-10.26%
Florida	-29.03%	Texas	-10.20%
Georgia	-23.81%	Ohio	-10.14%
Louisiana	-23.00%	Kansas	-9.24%
Connecticut	-21.82%	New Jersey	-9.13%
United States	-20.85%	New York	-8.74%
Illinois	-20.54%	Mississippi	-8.23%
Virginia	-20.06%	Alaska	-7.35%
Delaware	-19.51%	West Virginia	-6.85%
North Carolina	-17.73%	Oklahoma	-6.20%
Maine	-17.65%	Arkansas	-5.47%
Nebraska	-17.58%	District Of Columbia	-4.76%
Rhode Island	-17.50%	Colorado	-2.85%
Iowa	-16.95%	Michigan	-2.67%
Missouri	-16.40%	North Dakota	0.00%
Wisconsin	-16.14%	South Dakota	8.89%
Washington	-16.03%	Idaho	No Data
Minnesota	-15.77%	Indiana	No Data
Hawaii	-14.71%	New Hampshire	No Data

Source: National Association of Realtors/ Haver Analytics

Region in Focus: The Southeast

REGION IN FOCUS

The majority of the MSAs in PMI's southeastern region* continue to experience positive, albeit slower, rates of house price appreciation.

But, the region is also experiencing some of the worst appreciation in the nation in the previously high-flying state of Florida.

The following is a brief survey of the current economic conditions in three of the states in the southeastern region - Florida, Ohio, and North Carolina.

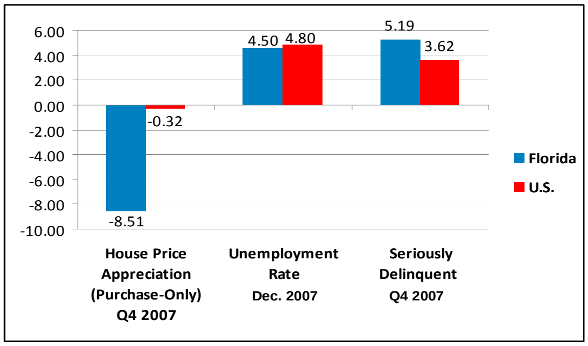
Each state's housing and general economy has performed extremely differently in response to the economic downturn.

*PMI's southeastern region includes AL, AR, DC, FL, GA, MD, MS, NC, OH, Western PA, SC, TN, VA, WV.

**All unemployment rates are not seasonally adjusted.

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

FLORIDA'S HOUSING/ECONOMIC CONDITIONS



Florida's housing market is in a deep recession that has affected most of the state's MSAs. This housing downturn is also having a negative impact on the state's general economy, as signs of strain are beginning to appear in a variety of sectors.

The state's unemployment rate rose to 4.5 percent in December, still a bit below the national average of 4.8 percent in that month.** More importantly, the unemployment rate in Florida has jumped by 1.0 percentage points over the past year, more than double the national increase. The job market is weakening throughout the state, but the weakness is most pronounced in the southern and central regions of the state.

The biggest increases in the unemployment rate have been along both coasts. The unemployment rates in Cape Coral-Fort Myers (5.7 percent), Punta Gorda (6.2 percent), and Sebastian-Vero Beach (6.0 percent), have all increased by more than 2 percentage points between December 2006 and December 2007. The unemployment rate in the state's largest MSA, Miami-Fort Lauderdale-Pompano Beach, rose a full point to 4.1 percent over the same period. All of the remaining MSAs in Florida had unemployment rate increases of nearly a percentage point or more over the past year.

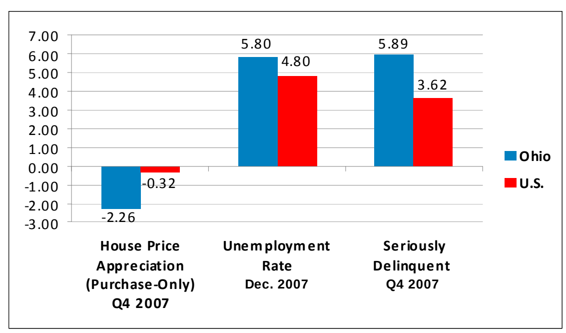
According to the Florida Association of Realtors, existing home sales in the state dropped by 28.1 percent for the twelve months ending in January 2008. There was significant variation in sales across the state, with the larger southern MSAs seeing the greatest decline in activity. Miami had a 47.9 percent decline in existing home sales and West Palm Beach dropped by 25.7 percent.

Data from the Office of Federal Housing Enterprise Oversight (OFHEO) show that 7 of the 20 worst performing MSAs in the entire country, judged in terms of price appreciation, were in Florida. Of the 18 MSAs in Florida tracked by OFHEO, 17 had price declines between the third and fourth quarters of 2007. Only the state capital of Tallahassee appreciated (1.0 percent). (Note that the MSA level house price data from OFHEO include refinance activity, which could bias the price figures upward).

While much of the national housing downturn can be traced to the fallout from the subprime mortgage market, Florida's problem has been exacerbated by a sharp buildup and subsequent collapse of investor purchases across the state. Builders responded to the high level of investor activity by increasing new construction to unsustainable rates. The falloff in investor demand and the increase in new units have resulted in a massive buildup of unsold housing units throughout Florida. The inventory of unsold homes (new and existing) in Florida is three to six times higher than normal levels, according to estimates from Moody's Economy.com.

Credit quality in Florida also continues to deteriorate at an alarming rate. According the Mortgage Bankers Association, 1.46 percent of all mortgage loans entered the foreclosure process during the fourth quarter of 2007. The national average was 0.9 percent. The share of mortgages entering foreclosure in Florida was only 0.22 percent when price growth peaked in the second quarter of 2005. As in the nation as a whole, the worst performing part of the mortgage market in Florida is subprime. At the end of the fourth quarter of 2007, 6.14 percent of all subprime loans were 90 days or more past due, while 11.36 percent were in foreclosure. This compares with national averages of 5.79 and 8.65 percent, respectively.

OHIO'S HOUSING/ECONOMIC CONDITIONS



Unlike the national economy, there is not an official definition of recession for state level economies, but, if there were Ohio would qualify. The unemployment rate in the state climbed to 5.8 percent in December 2007, significantly above the national average of 4.8 percent. Moreover, the unemployment rate rose over the past year in 11 of the 12 MSAs in Ohio (it was unchanged in Lima). The manufacturing sector in particular continues to weaken, particularly in the automotive sector, with job losses in each of the past nine years. From its peak in 1998, the manufacturing sector has lost nearly 263 thousand jobs. The relatively lower-paying service sector continued to grow in 2007, but even that has weakened and declined in December.

(continued on page 9)

Region in Focus: The Southeast

Additionally, demographics have been unfavorable, with population growth barely above zero in each of the past three years. The collective impact of these economic and demographic trends has been decidedly negative for Ohio's housing markets.

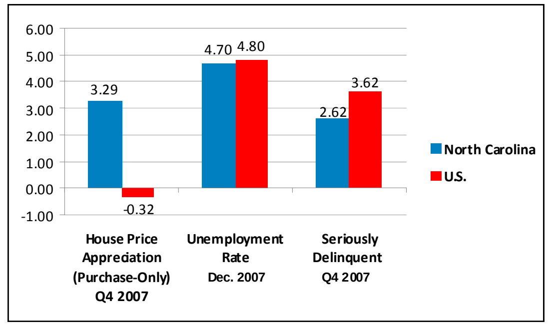
Of Ohio's 12 metropolitan areas, only 3 had unemployment rates below the state average of 5.8 percent in December. They were Akron (5.6 percent), Cincinnati (5.0 percent), and Columbus (4.9 percent). The economies in the latter two are in-line with the nation, but the remaining MSAs are performing considerably worse. The highest unemployment rates are in Springfield (7.3 percent), Sandusky (7.3 percent), Mansfield (6.8 percent), Lima (6.5 percent), and Youngstown-Warren-Boardman (6.5 percent). The state's largest MSA, Cleveland, had an unemployment rate of 6.1 percent in December. Despite its proximity to the relatively healthier Columbus economy, the city of Springfield had a 1.6 percentage point increase in its unemployment rate over the year. Not only is this the biggest increase in the state, it also exceeds the state average of 0.4 percentage points significantly.

According to data from OFHEO, house values slipped from the end of 2006 to the end of 2007 – down by 2.26 percent. Consistent with the weak performance of state home prices, half of Ohio's MSAs had price declines over the same period. Especially notable was the 7.48 percent drop in Sandusky. (As noted above in our discussion of Florida, the MSA level house price data from OFHEO include refinance activity, which could bias the price figures upward).

Consistent with Ohio's high unemployment rates, credit problems in the mortgage market are rising sharply. According to the MBA, 1.15 percent of all mortgage loans in Ohio entered the foreclosure process during the fourth quarter of 2007, compared with the national average of 0.83 percent. This is a 35 basis point increase for the state since prices peaked in the second quarter of 2006. Moreover, there may be more bad news yet to come, as the delinquency rate on loans 90 days or more past due leaped to 2.01 percent at the end of 2007. This is the highest figure recorded since the MBA began tracking the data in 1979. The deterioration in Ohio's subprime market has been especially pronounced, which is consistent with the rest of the nation. The serious delinquency rate (90 days or more past due plus loans in foreclosure) for this segment has skyrocketed, climbing to more than 20 percent at the end of December – compared with 14.4 percent for the U.S. and 15.8 percent in Ohio a year earlier.

N. CAROLINA'S HOUSING/ECONOMIC CONDITIONS

Unlike the nation as a whole, and many of the individual states, North Carolina's economy



continues to expand. The state has an increasingly diverse economy, and has been anchored by relatively strong financial and technology-related industries. This has offset weakness in the traditional Carolina industries of textiles, tobacco, and furniture. In December, the state's unemployment rate was 4.7 percent, which is unchanged from a year earlier and lower than the national average of 4.8 percent.

Only four of the state's MSAs had an increase in unemployment over the year, while six declined and four were unchanged. At the MSA level only Wilmington had a change of more than 0.2 percentage points (rising from 4.0 to 4.3 percent).

According to data from OFHEO, house values in North Carolina rose by 3.29 percent over the year ending in the fourth quarter of 2007, compared with a 0.32 percent national decline. Moreover, all 14 of its MSAs had price gains over that four-quarter period. Even in the weaker fourth quarter, only one MSA (Fayetteville) had price declines. MSAs with especially strong price gains over the year included Asheville (7.9 percent), Goldsboro (7.5 percent), and Rocky Mount (7.3 percent). The state's largest MSAs also had strong home price growth over the course of 2007, with Durham up by 4.7 percent, Charlotte climbing by 6.1 percent, and Raleigh rising by 6.0 percent. (As noted previously, however, the MSA level house price data from OFHEO include refinance activity, which could bias the price figures upward).

Outside of the subprime segment, North Carolina's mortgage credit markets are also strong. According to the MBA, 0.61 percent of all mortgage loans entered the foreclosure process during the fourth quarter of 2007. This compared with a national average of 0.88 percent, and is only a 5 basis point increase over the year (nationally it rose by 31 basis points). Deterioration in the subprime market is occurring in North Carolina but the rate of decline is well below the national average. During the fourth quarter, the serious delinquency rate for subprime mortgages rose to 10.1 percent in North Carolina, up from 8.0 percent at the end of 2006. But, for the U.S., these figures were 14.4 percent at the end of 2007 and 7.8 percent at the end of 2006.

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

State	MSA	Unemployment Rate*		House Price Appreciation Annualized Quarterly Rate**		Housing Vacancy Rate	
		Dec-07	Nov-07	4th Qtr 07	3rd Qtr 07	4th Qtr 07	3rd Qtr 07
Alabama		3.80	3.50	4.38	3.23	2.30	2.40
Arkansas		5.60	5.00	2.38	1.63	1.70	1.80
District of Columbia		5.80	5.70	-6.51	9.52	2.60	2.80
	Washington-Arlington-Alexandria	3.20	3.10	-7.41	-1.83	2.10	3.20
Florida		4.50	4.30	-6.68	-8.21	4.80	5.00
	Fort Lauderdale-Pompano Beach-Deerfield Beach	4.00	3.90	-10.16	-11.56		
	Orlando-Kissimmee	4.30	4.00	-8.21	-6.59	7.60	6.40
	Tampa-St. Petersburg-Clearwater	4.70	4.40	-4.05	-10.59	5.60	3.80
	West Palm Beach-Boca Raton-Boynton Beach	4.60	4.50	-15.24	-11.11		
	Miami-Miami Beach- Kendall	3.90	3.70	-6.03	-1.14	3.20	3.60
	Jacksonville	4.30	4.00	-5.56	-3.06	2.90	6.60
Georgia		4.60	4.20	3.07	0.07	4.10	4.40
	Atlanta-Sandy Springs-Marietta	4.50	4.00	2.72	-2.05	5.50	5.50
Maryland		3.50	3.40	-0.72	-1.38	2.70	2.90
	Baltimore-Towson	3.60	3.60	0.57	-0.20	3.20	2.40
Mississippi		6.30	5.70	2.24	6.08	1.10	1.50
North Carolina		4.70	4.60	3.49	3.75	2.60	1.90
	Charlotte-Gastonia-Concord	4.80	4.70	0.22	6.99	3.00	1.70
Ohio		5.80	5.30	1.60	-3.95	3.80	2.80
	Cleveland-Elyria-Mentor	6.10	5.40	0.00	-6.85	5.10	3.70
	Columbus	4.90	4.50	1.32	-2.47	2.80	3.50
	Cincinnati-Middletown	5.00	4.60	1.18	-2.85	3.90	3.80
Pennsylvania		4.30	4.10	1.64	1.78	2.40	1.90
	Philadelphia	4.10	3.90	0.90	0.64	2.00	2.00
	Pittsburgh	4.40	3.90	2.20	3.07	2.00	2.80
South Carolina		6.40	5.80	6.52	0.37	2.40	3.60
Tennessee		5.00	4.90	2.25	3.08	2.80	1.90
	Nashville-Davidson-Murfreesboro-Franklin	4.20	4.20	0.75	6.54	2.80	4.00
Virginia		3.20	3.00	-2.28	0.32	1.70	2.50
	Virginia Beach-Norfolk-Newport News	3.50	3.20	1.77	2.82	0.70	0.60
West Virginia		4.50	4.10	1.34	5.70	1.50	1.50
	U.S. Average	**4.80**	**4.50**	**-5.16**	**-1.36**	**2.80**	**2.70**

Source: Bureau of Labor Statistics/Office of Federal Housing Enterprise/U.S. Census Bureau/Haver Analytics

*Unemployment rates are not seasonally adjusted.

**State data from Purchase-Only Index; MSA data from Total Index

Special Topic (continued from page 1)

The broader S&P/Case-Shiller house price indices showed that 17 of the 20 MSAs it covers also fell from December 2006 to December 2007. Most of the declining MSAs in the Case-Shiller indices were in the same states that OFHEO indicated had falling prices. But, even in the MSAs with falling prices, the Case-Shiller data show that there were substantial differences in the price behavior of more- and less-expensive homes (those in the top and bottom thirds of the home price distribution, respectively). The data strongly suggest that less-expensive homes have seen larger price declines than more-expensive homes.

The chart below shows that 12 of the 17 MSAs where Case-Shiller provides price tier information had larger declines in the values of lower-priced homes than higher-priced homes. The 12 MSAs were Atlanta, Boston, Cleveland, Denver, Los Angeles, Minneapolis, New York, San Diego, San Francisco, Seattle, Tampa, and Washington. Two MSAs (Chicago and Phoenix) had virtually identical declines in both price categories, and two MSAs (Las Vegas and Miami) had larger declines for more expensive homes than less expensive homes. Portland had increases in all three price tiers. Of the 16 MSAs with price declines for both low- and high-priced homes, 75 percent had larger declines for the bottom-priced tier.

Subprime mortgage loans are still used predominantly by lower-income households, so it is likely that houses in the lowest-price tier use subprime financing to a greater extent than houses in the highest-price tier. According to the Mortgage Bankers Association (MBA), serious delinquency rates (those 90 days or more past due plus those in foreclosure) for subprime mortgages climbed to 6.4 percent in the fourth quarter of 2007, compared with 0.8 percent for prime mortgages. It may be that the greater use of subprime lending in the bottom price tier of homes, coupled with the poor credit performance of those loans, are the primary reasons why house prices are falling more rapidly for homes in this price segment.

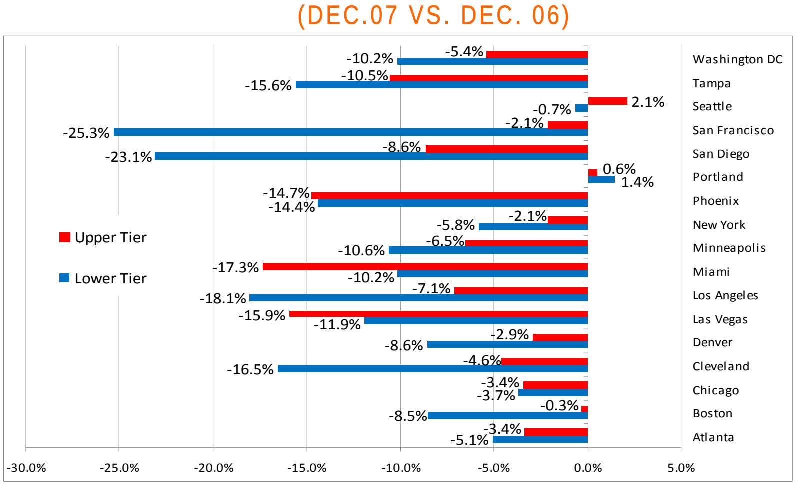
Given the conclusion that a larger share of subprime lending has resulted in greater price declines in lower-priced houses, why did more expensive houses in Miami and Las Vegas lose their value more rapidly? The likely answer is that the extraordinarily high percentage of investor loans in Miami and Las Vegas caused those reversals. According to estimates from First American/Loan Performance, investors accounted for more than 25 percent of all prime conventional conforming mortgage loans originated in Miami during the peak of its price growth in the second quarter of 2006. Las Vegas followed closely with about a 20 percent investor share.

These investor shares were much higher than the national average and, given the significant increase in new housing units in 2005-06 (especially for condominiums), investor purchases may have been concentrated in these newer units. It's also likely that these new units had higher prices than the average of the existing housing stock.

The falloff in investor activity over the past 18-24 months may have contributed significantly to a larger drop in more expensive homes in these two cities. This is especially true if the construction of relatively high priced units continued due to an expectation that investor demand would remain strong. In spite of this, the price declines in the bottom-priced tiers for both cities were still substantial and showed that the subprime problems have hit most major cities.

At this point there is not enough data to state, conclusively, that the greater decline in lower-priced home prices resulted from the increases in subprime lending that have taken place in recent years. These data, however, strongly support this hypothesis.

12 MONTH CHANGE IN THE CASE-SHILLER HOUSE PRICE INDEX (DEC.07 VS. DEC. 06)



Source: S&P/Case Shiller /Haver Analytics

The PMI Forecast

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 expectation with respect to the economy and the housing 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, national or regional recessions, credit market disruptions, and regulatory and legislative developments. Other risks and uncertainties are discussed in our SEC filings, including our Annual Report Form 10-K for the year ended December 31, 2007 (in Item 1A). We undertake no obligation to update forward-looking statements.

		Housing Market		
Year	Quarter	Existing Sales (Thousands of Units)	New Sales (Thousands of Units)	Median Existing Home Price Change (%)
2008	1st Quarter	4750	580	-3.5
	2nd Quarter	4700	590	-0.5
	3rd Quarter	4650	610	0.5
	4th Quarter	4700	620	-1.5
	Annual	4700	600	-7.3
2009	1st Quarter	4900	640	-1.5
	2nd Quarter	5000	665	0.5
	3rd Quarter	5200	680	1.1
	4th Quarter	5300	690	0.5
	Annual	5100	670	-1.3

		Mortgage Market		
Year	Quarter	Single Family Originations (Billions of $)	Refinancing Share	ARM Share
2008	1st Quarter	440	60.5	11.1
	2nd Quarter	510	56.1	13.5
	3rd Quarter	480	51.1	14.1
	4th Quarter	445	50.5	14.5
	Annual	1875	54.5	13.3
2009	1st Quarter	435	50.5	14.5
	2nd Quarter	470	47.1	15.1
	3rd Quarter	470	46.1	15.1
	4th Quarter	450	44.5	15.5
	Annual	1825	47.0	15.1

		Interest Rates		
Year	Quarter	30-year Fixed Rate Mortgage (%)	10-year Treasury Note (%)	1-year Adjustable Rate Mortgage (%)
2008	1st Quarter	5.91	3.69	5.01
	2nd Quarter	5.75	3.51	4.55
	3rd Quarter	5.85	3.75	4.55
	4th Quarter	6.05	4.11	4.60
	Annual	5.89	3.76	4.68
2009	1st Quarter	6.11	4.21	4.71
	2nd Quarter	6.21	4.41	4.95
	3rd Quarter	6.36	4.55	5.11
	4th Quarter	6.44	4.71	5.21
	Annual	6.28	4.46	4.99

		Economic Outlook		
Year	Quarter	Real GDP Growth	Consumer Price Inflation	Civilian Unemployment Rate
2008	1st Quarter	-1.5	3.1	4.9
	2nd Quarter	-1.1	2.5	5.2
	3rd Quarter	1.5	1.9	5.5
	4th Quarter	2.5	2.1	5.7
	Annual	0.7	2.8	5.3
2009	1st Quarter	2.1	1.9	6.1
	2nd Quarter	2.5	2.1	5.9
	3rd Quarter	2.7	2.1	5.8
	4th Quarter	2.7	2.1	5.6
	Annual	2.4	2.1	5.8