PMI
Making Risk Rewarding℠

ECONOMIC & REAL ESTATE TRENDS℠

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Accelerating House Price Declines

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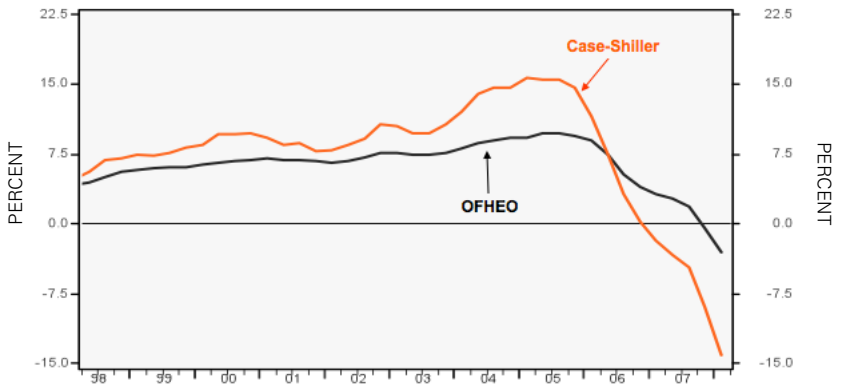
The most recent data from the widely used repeat transaction house price indices show that the decline in national house prices accelerated in the first quarter of 2008. According to the Office of Federal Housing Enterprise Oversight (OFHEO), house prices (using the seasonally adjusted purchase-only index) fell by 3.1 percent in the first quarter of 2008 from year earlier levels. But the one-quarter annualized decline was even worse—down by 6.7 percent. This was the third consecutive quarterly decline and the biggest fall in the history of the series. The S&P/Case-Shiller price index paints an even worse picture, with the four-quarter change down by a record 14.1 percent and by an unprecedented 24.2 percent annualized decline in the first quarter. This was the seventh consecutive quarterly decline in the Case-Shiller index. How long will it be until the price declines come to an end, or at least stop intensifying?

The sharp drop in house prices is clear evidence of excess housing supply: too many homes for sale relative to the number of buyers. This is borne out in the numbers. For new homes, the seasonally adjusted inventory-sales ratio (the months' supply at current sales pace) was 10.6 months in April. While this was down from 11.1

(continued on page 2)

National Home Prices are Falling



Source: Haver Analytics, OFHEO, S&P
Percent Change, Year-to-Year

Accelerating House Price Decline

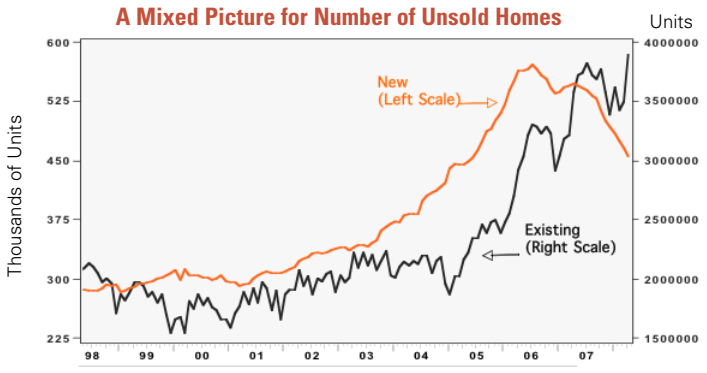
(continued from page 1)

months in March, it's still at levels not seen since 1981. A year earlier, it was only 7.4 months—and it is that increase from year-ago levels, combined with the current reading, that is putting so much downward pressure on prices.

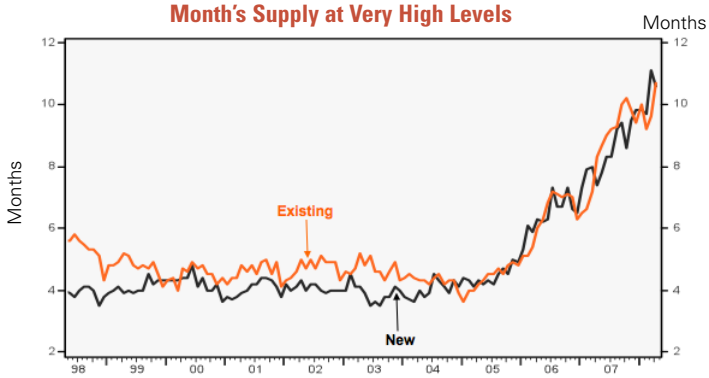
For existing sales, only non-seasonally adjusted (NSA) inventory data is available. The problem with NSA inventory data is that there is always a big increase in inventories in the spring as many households prefer to move in the summer when schools are not in session. So, April's jump to a 10.7-month inventory-sales ratio for single-family existing homes is comprised both of a seasonal component that isn't worrisome and a real component that is. But compared with a year earlier, which eliminates the seasonality in the data, the ratio was only 8.3 months—so there has been a significant increase in the number of existing single-family homes for sale relative to the number of buyers, even beyond the normal increase in the spring home sales season. April's ratio is the highest since 1985.

The inventory-sales ratio is only one way to look at the excess supply for homes. Another is to look at the actual inventory of unsold homes (without regard to sales). Here the news is mixed. For new homes, seasonally adjusted unsold inventories generally have been falling since mid-2006, and were down by 16.9 percent from a year ago in April and by 20.3 percent from their peak. Still, the 456,000 units for sale in April were well above the long-term average of about 330,000 units.

For existing sales, only NSA data is available for inventories, so part of the increase to 390,000 unsold units comes from the usual spring seasonal increase. But unlike new inventories, which were down substantially from a year earlier in April, existing single-family home inventories were up by 8.9 percent from a year earlier. Part of the additional (non-seasonal) increase of existing units for sale probably stems from the rise in mortgage defaults over the past couple of years. According to the Mortgage Bankers Association's (MBA) National Delinquency Survey, the inventory of foreclosed homes rose from 0.98 percent of all mortgages in the first quarter of 2006 to 2.47 percent of all mortgages in the first quarter of 2008—an increase of 712,000 foreclosed units. Some of these units are now for sale and have pushed up the unsold inventory.



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



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

There are four implications of the unsold inventories on home prices:

1. The large number of unsold units is putting significant downward pressure on home prices.
2. Even though builders have cut back significantly on new production, housing demand is falling sharply as well. So unless sales pick up again soon, builders will need to further reduce starts.
3. The growing number of unsold existing units is also putting downward pressure on home prices, exacerbated by the increase in foreclosed units.
4. Because new and existing homes compete with each other for sales to some extent, increasing existing inventories will continue to pressure new home prices, even as builders cut back on new production and new inventories fall.

Given the magnitude of the inventory overhang, we expect national home price declines to continue into at least 2009. ◆

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 the nation's MSAs further diverged along two distinctly different paths during the first quarter of 2008, continuing a trend that began in the fourth quarter of 2007. In general, risk continued to intensify in many of the MSAs where home price growth had significantly exceeded historical norms (e.g., key MSAs in Florida, California, Arizona, and Nevada), but continued to decline in many other areas across the country.

In the first quarter of 2008, the risk of lower prices in two years declined in 35 of the nation's 50 largest MSAs. This is a slight increase from the previous quarter, when 32 of the 50 declined. Among all 381 MSAs, 326 (86 percent) of all MSAs experienced a decline in risk, up from 62 percent in the previous quarter. Of the 55 MSAs that experienced an increase in the risk of home price declines, 50 (90 percent) were in California, Florida, Nevada, and Arizona.

Trends in Risk

Among the nation's 50 largest MSAs, 16 ranked in the two highest risk categories (with the risk of lower prices in two years higher than 40 percent). Among those MSAs, 15 were in California, Florida, Nevada, and Arizona. Risk of lower prices in two years is greater than 50 percent in all of these MSAs. The average increase in risk among all California MSAs was 4.9 percentage points. Twenty-five of the state's 28 MSAs saw risk increase. The average increase in risk among all Florida MSAs was 6.2 percentage points. Twenty-one of the state's 22 MSAs saw risk increase. The unweighted average increase in risk among the Nevada MSAs was -0.4 percentage points. Risk in Las Vegas actually fell by 4.7 percentage points, however, while the much smaller MSAs of Carson City and Reno-Sparks rose by 3.2 and 0.2 percentage points, respectively. Regardless, absolute risk levels in the state remain high, averaging 86.7 percent. Despite two of its six MSAs increasing in risk, average risk among all Arizona MSAs declined by 2.1 percentage points.

The primary driver of the rise in risk scores is the continued increase in foreclosure rates. According to the Mortgage Bankers Association's (MBA) first quarter National Delinquency Survey, California, Florida, Arizona and Nevada together represented 84 percent of the increase in prime ARM foreclosures. These four states were also responsible for 93 percent of the increase in subprime ARM foreclosures, 29 percent of prime FRM foreclosures, and 25 percent of subprime FRM foreclosures. About 20 states had declines in the number of foreclosures started, including Michigan, Ohio, and Indiana, where problems have been the most severe for the last several years.

The greatest increase in risk occurred in Florida. Within the state, risk increased fastest in northern Florida. Tallahassee, Pensacola, Gainesville, and Panama City led the increase with risk scores rising by 25-30 percentage points. Despite having resisted a significant increase in risk for the previous few quarters, the Miami-Miami Beach-Kendall MSA experienced a significant increase in risk during the first quarter. The MSA's probability of experiencing lower prices by the end of the first quarter of 2010 increased by 14.4 percentage points to 84.8 percent during the first quarter. The Florida Association of Realtors reported that seasonally adjusted sales of existing homes in Miami dropped by 11.6 percent between the fourth quarter of 2007 and the first quarter of 2008.

California also experienced an increased risk of future price declines during the first quarter. Eighty-nine percent, or 25 of the state's 28 MSAs, experienced an increase in their risk score. Risk increased fastest in the northern part of the state, with Chico leading the way with a 14.4 percentage point increase to 72.1 percent. Although risk is increasing fastest in the northern part of the state, risk scores remain the highest in the southern and Central Valley regions. The average risk score in the southern MSAs is 85.9 percent; the Central Valley region average is 78.2 percent; while the northern MSAs average is 68.0 percent. The highest risk of future price declines remained in the Riverside-San Bernardino-Ontario MSA; risk in this MSA increased by 1.5 percentage points to 95.5 percent during the first quarter.

Although risk is still rising in the state, excess housing supply is beginning to show signs of declining in selected MSAs across the state. For example, according to the California Association of Realtors, after peaking in the fourth quarter of 2007, the month's supply of unsold inventory in Orange County declined from 29.0 to 20.3 months. Los Angeles also had supply fall from 18.7 to 17.9 months; Sacramento supply declined from 12.1 to 10.1 months; and Stockton supply declined from 16.2 to 14.0 months. Despite this positive news, declining inventory was not a universal trend across the state. For example, San Francisco's supply rose from 7.4 to 9.7 months, and Santa Barbara rose from 7.0 to 7.8 months.

Trends in Home Price Appreciation

Similar to the diverging trend occurring in risk scores, home price growth is also moving differentially across the nation's MSAs. Across all 381 MSAs, 58 percent experienced positive rates of house price appreciation during the first quarter. This was below the 65 percent that experienced positive appreciation during the fourth quarter of 2007 and suggests that overall price performance is deteriorating. But the picture of home price performance changes significantly if the 59 MSAs located in California, Florida, Nevada, and Arizona are removed from the total. Among the remaining group of 322 MSAs, 67.7 percent experienced positive price appreciation during the first quarter, averaging a 2.14 percent annualized growth rate. For the 59 California, Florida, Nevada, and Arizona MSAs, 96.6 percent experienced price declines. The average decline in price among this group was 14.3 percent annualized growth. This was almost twice the rate of decline occurring in the fourth quarter of 2007, when prices declined by an 8.73 percent annualized rate. On a statewide basis, California prices declined at a 16.57 percent annualized rate; Florida declined at a 12.46 annualized rate; Nevada declined at an 18.52 percent annualized rate; Arizona declined at a 10.69 percent annualized rate. (Broader measures of house prices, such as the S&P/Case-Shiller index, have shown larger national declines in house prices than the OFHEO index because of coverage differences.)

(continued on page 6)

PMI | UNITED STATES MARKET RISK INDEX℠

1ST QUARTER

MSA	RISK RANK	PMI U.S. MARKET RISK INDEX[1]		PRICE APPRECIATION[3]			
		1Q '08	4Q '07[2]	Volatility[4]	1Q '08	1Q '07	Difference
Riverside-San Bernadino-Ontario, CA	1	95.5	94.0	18.04	-13.82	3.83	-17.65
Fort Lauderdale-Pompano Bch-Deerfld Bch, FL	1	92.2	88.5	16.07	-10.89	2.76	-13.65
W Palm Beach-Boca Raton-Boynton Bch, FL	1	91.9	84.4	18.47	-11.85	-0.99	-10.86
Orlando-Kissimmee, FL	1	91.1	89.3	16.91	-7.64	7.64	-15.28
Las Vegas-Paradise, NV	1	88.1	92.9	22.12	-12.06	1.61	-13.67
Tampa-St Petersburg-Clearwater, FL	1	86.6	83.6	13.11	-8.46	5.01	-13.47
Santa Ana-Anaheim-Irvine, CA	1	85.8	82.6	16.46	-11.16	0.39	-11.55
Los Angeles-Long Beach-Glendale, CA	1	85.7	79.7	15.15	-8.31	4.87	-13.19
Miami-Miami Beach-Kendall, FL	1	84.8	70.4	11.67	-5.39	12.11	-17.50
Sacramento-Arden-Arcade-Roseville, CA	1	82.2	77.7	19.59	-13.23	-4.89	-8.34
Phoenix-Mesa-Scottdale, AZ	1	79.6	82.3	21.96	-6.68	4.15	-10.82
San Diego-Carlsbad-San Marcos, CA	1	78.0	74.6	18.74	-10.02	-2.44	-7.58
Jacksonville, FL	1	73.2	65.6	9.19	-2.32	7.85	-10.17
Oakland-Fremont-Hayward, CA	1	72.8	63.1	15.08	-9.87	-1.51	-8.36
San Jose-Sunnyvale-Santa Clara, CA	2	51.3	50.2	13.79	-3.60	1.35	-4.95
Providence-New Bedford-Fall River-Warwick, RI	2	43.4	54.5	12.72	-3.01	0.12	-3.13
San Francisco-San Mateo-Redwd Cty, CA	3	35.7	34.0	11.41	-3.25	0.85	-4.10
Washington-Arlington-Alexandria, DC	3	21.4	29.1	13.92	-5.12	3.42	-8.54
Nassau-Suffolk, NY	3	21.2	28.5	9.53	-1.83	2.18	-4.01
Edison-New Brunswick, NJ	4	16.2	19.4	9.49	-2.20	2.00	-4.20
Virginia Beach-Norfolk-Newport News, VA-NC	4	13.8	17.2	13.04	1.49	7.62	-6.14
Boston-Quincyision, MA	4	11.8	21.1	10.57	-1.80	-2.09	0.29
Detroit-Livonia-Dearborn, MI	4	11.1	27.0	5.92	-6.10	-4.44	-1.66
Minneapolis-St Paul-Bloomington, MN	5	8.2	15.2	6.46	-1.89	1.26	-3.14
Portland-Vancouver-Beaverton, OR-WA	5	8.2	14.4	11.18	2.47	10.75	-8.28
Newark-Unionision, NJ	5	6.5	5.5	7.44	-0.67	3.57	-4.24
New York-Wayne-White Plains, NY	5	6.0	7.4	7.62	-0.55	4.31	-4.86
Baltimore-Towson, MD	5	5.5	9.3	10.36	0.23	6.54	-6.31
Warren-Troy-Farmington Hills, MI	5	5.3	12.8	5.53	-6.07	-2.91	-3.16
Cambridge-Newton-Framingham, MA	5	4.3	9.0	8.18	-1.24	-1.08	-0.16
Atlanta-Sandy Springs-Marietta, GA	5	2.0	3.0	1.15	1.37	3.83	-2.46
Seattle-Bellevue-Everett, WA	5	1.7	3.3	9.97	2.82	12.59	-9.77
Chicago-Naperville-Joliet, IL	5	1.5	2.0	4.21	0.23	4.62	-4.39
Philadelphia, PA	5	1.4	2.1	6.87	1.51	5.42	-3.91
Nashville-Davidson-Murfreesboro, TN	5	1.3	2.5	4.78	3.94	8.42	-4.47
St. Louis, MO-IL	5	1.0	1.8	2.90	1.71	3.78	-2.07
Milwaukee-Waukesha-West Allis, WI	5	<1	1.7	4.88	1.66	2.94	-1.28
Cleveland-Elyria-Mentor OH	5	<1	1.3	3.31	-1.67	-0.24	-1.43
Austin-Round Rock, TX	5	<1	<1	7.12	7.73	11.32	-3.59
Denver-Aurora, CO	5	<1	1.0	2.37	0.90	0.83	0.07
Charlotte-Gastonia-Concord, NC-SC	5	<1	<1	4.32	6.16	8.53	-2.37
Kansas City, MO-KS	5	<1	<1	1.98	0.98	2.47	-1.49
Columbus, OH	5	<1	<1	2.58	1.05	0.78	0.27
Cincinnati-Middletown, OH-KY-IN	5	<1	<1	1.87	0.67	1.83	-1.15
Indianapolis-Carmel, IN	5	<1	<1	1.13	1.68	2.21	-0.53
San Antonio, TX	5	<1	<1	4.18	3.47	10.37	-6.90
Houston-Baytown-Sugar Land, TX	5	<1	<1	1.78	4.38	6.43	-2.05
Pittsburgh, PA	5	<1	<1	1.37	3.61	3.60	0.01
Dallas-Plano-Irving, TX	5	<1	<1	1.01	3.76	3.40	0.37
Fort Worth-Arlington, TX	5	<1	<1	0.90	2.59	4.30	-1.71
Weighted Average Values by Risk Rank:	1	85.0	81.0	16.7	-9.3	3.2	-12.6
	2	47.6	52.2	13.3	-3.3	0.8	-4.1
	3	24.2	29.9	12.0	-3.7	2.5	-6.2
	4	13.3	21.3	9.6	-2.3	0.6	-2.9
	5	2.5	3.9	4.7	1.2	4.4	-3.2
Top 50 Weighted Averages:	All	29.5	30.0	9.10	-2.45	3.68	-6.13

2008

AFFORDABILITY INDEX[6]			UNEMPLOYMENT RATE		
			Rate[7]	Demeaned[8]	
1Q '08	4Q '07	Difference	1Q '08	1Q '08	4Q '07
73.26	67.97	5.28	6.87	0.99	0.74
74.65	70.82	3.83	4.13	-0.61	-0.84
83.95	81.33	2.62	4.83	-0.18	-0.48
82.02	78.84	3.18	4.47	-0.15	-0.41
94.58	87.82	6.75	5.57	0.44	0.18
82.28	78.78	3.51	4.97	0.21	0.00
77.82	73.30	4.52	4.47	0.08	0.04
71.35	67.49	3.85	5.73	-0.66	-0.95
68.41	65.60	2.82	3.87	-1.65	-1.93
92.90	88.39	4.51	6.37	0.74	0.64
77.22	74.71	2.51	3.67	-1.17	-0.99
91.29	86.92	4.37	5.17	0.35	0.31
85.22	84.08	1.13	4.53	-0.01	-0.30
83.29	79.91	3.38	5.33	-0.46	-0.49
80.13	77.55	2.58	5.33	-1.69	-1.57
90.96	89.72	1.24	6.92	0.67	0.17
88.42	85.80	2.61	4.27	-1.15	-1.02
84.44	81.86	2.58	3.60	-0.30	-0.50
79.92	78.84	1.08	4.53	-0.20	-0.42
84.48	83.15	1.33	4.77	-0.25	-0.70
90.70	89.82	0.88	4.10	0.01	-0.40
92.57	92.01	0.56	4.64	-0.57	-0.63
112.47	111.14	1.33	8.90	0.95	1.53
95.08	94.68	0.40	4.70	0.06	0.21
89.86	88.92	0.93	4.58	0.46	0.30
94.04	92.35	1.69	5.20	-0.31	-0.81
82.81	81.49	1.32	5.00	-1.63	-1.45
91.78	90.56	1.21	3.87	-0.84	-0.68
119.72	118.88	0.84	7.37	0.99	1.43
99.92	98.91	1.01	3.84	-0.82	-0.83
103.66	103.15	0.52	5.03	0.37	-0.15
88.88	87.64	1.24	3.77	-1.91	-1.98
101.89	100.59	1.30	5.60	-0.99	-1.45
101.70	101.50	0.20	5.20	-0.34	-0.66
106.20	106.76	-0.56	4.63	0.03	-0.12
110.16	109.12	1.04	6.33	0.54	0.21
109.99	109.63	0.36	5.40	-0.34	-0.24
136.67	136.34	0.32	6.33	0.37	0.58
110.11	111.36	-1.25	3.73	-1.48	-1.38
112.38	112.37	0.01	4.77	-1.01	-1.11
114.22	114.62	-0.40	5.37	-0.41	-0.72
116.98	116.54	0.44	5.40	-0.33	-0.35
129.66	129.68	-0.02	4.93	-0.16	0.07
131.12	130.64	0.47	5.27	-0.09	0.01
136.62	136.95	-0.33	4.53	-0.32	-0.36
128.66	126.21	2.45	4.10	-1.40	-1.24
133.62	133.96	-0.34	4.27	-1.70	-1.51
137.02	137.97	-0.95	5.43	-0.61	-0.91
131.40	131.74	-0.34	4.40	-1.69	-1.46
139.37	138.11	1.26	4.27	-1.44	-1.21
78.8	75.0	3.8	5.2	-0.2	-0.4
85.2	83.3	2.0	6.1	-0.6	-0.8
83.8	81.7	2.1	4.0	-0.4	-0.6
94.8	93.7	1.1	5.6	0.0	-0.1
109.1	108.5	0.6	5.0	-0.7	-0.8
97.40	95.71	1.69	5.04	-0.53	-0.62

EXPLANATORY NOTES

1. The U.S. Market Risk Index℠ 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 OFHEO All Transactions House Price Index for that MSA will be lower two years from the date of the data.

2. Historical risk scores may change as updated/revised source data become available.

3. 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.

4. 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.

5. Using previous and current year appreciation, acceleration measures the change in the rate of house price appreciation. For example, consider a metropolitan area where the property value of a typical house was $100,000 at the end of 2000, $110,000 in 2001, and $111,100 in 2002. House price appreciation for this area is 10 percent for the year 2001 and 1 percent for the year 2002. Because the appreciation rate dropped by 9 percentage points from the year 2000 to the year 2001, house price acceleration is -9 percentage points at the end of 2002.

6. Using per capita income, OFHEO 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 Index℠ 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.

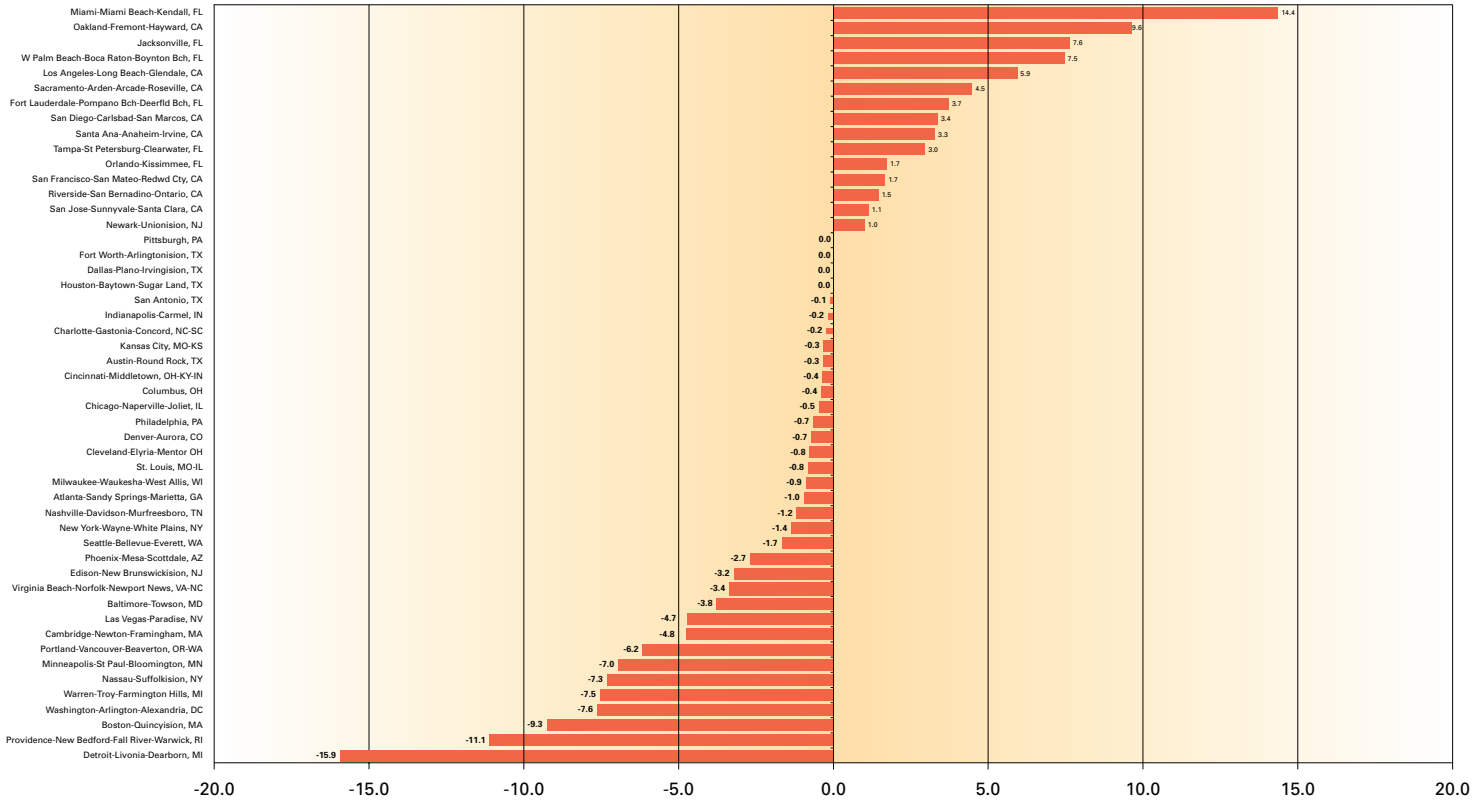
7. The local unemployment rate is calculated with Bureau of Labor Statistics MSA-wide quarterly averages, not seasonally adjusted.

8. 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.

9. All averages are population weighted.

Change in Risk Index Scores

1st Quarter 2008 vs. 4th Quarter 2007



Trends in the Nation's MSAs *(continued from page 3)*

Trends in Housing Affordability

Housing affordability continued to improve during the first quarter. PMI's proprietary Affordability Index measures how affordable homes are today in a given MSA relative to a baseline level in 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 weighted average Affordability Index reading was 112.39 in the first quarter, compared with the fourth quarter reading of 111.37. Across the nation, 69.3 percent of the nation's 381 MSAs showed increased affordability, while 30.7 percent of all MSAs experienced declines in affordability. Affordability remains challenged in the 16 MSAs with risk scores in the two highest risk ranks. Affordability among this group averaged 81.8, marginally improved from 78.3 in the fourth quarter—but affordability within this group is still poor relative to historical averages and the rest of the country. Home prices in these areas will need to fall further in order to move back in line with incomes before we can expect to see meaningful reductions in risk scores.

Trends in Employment

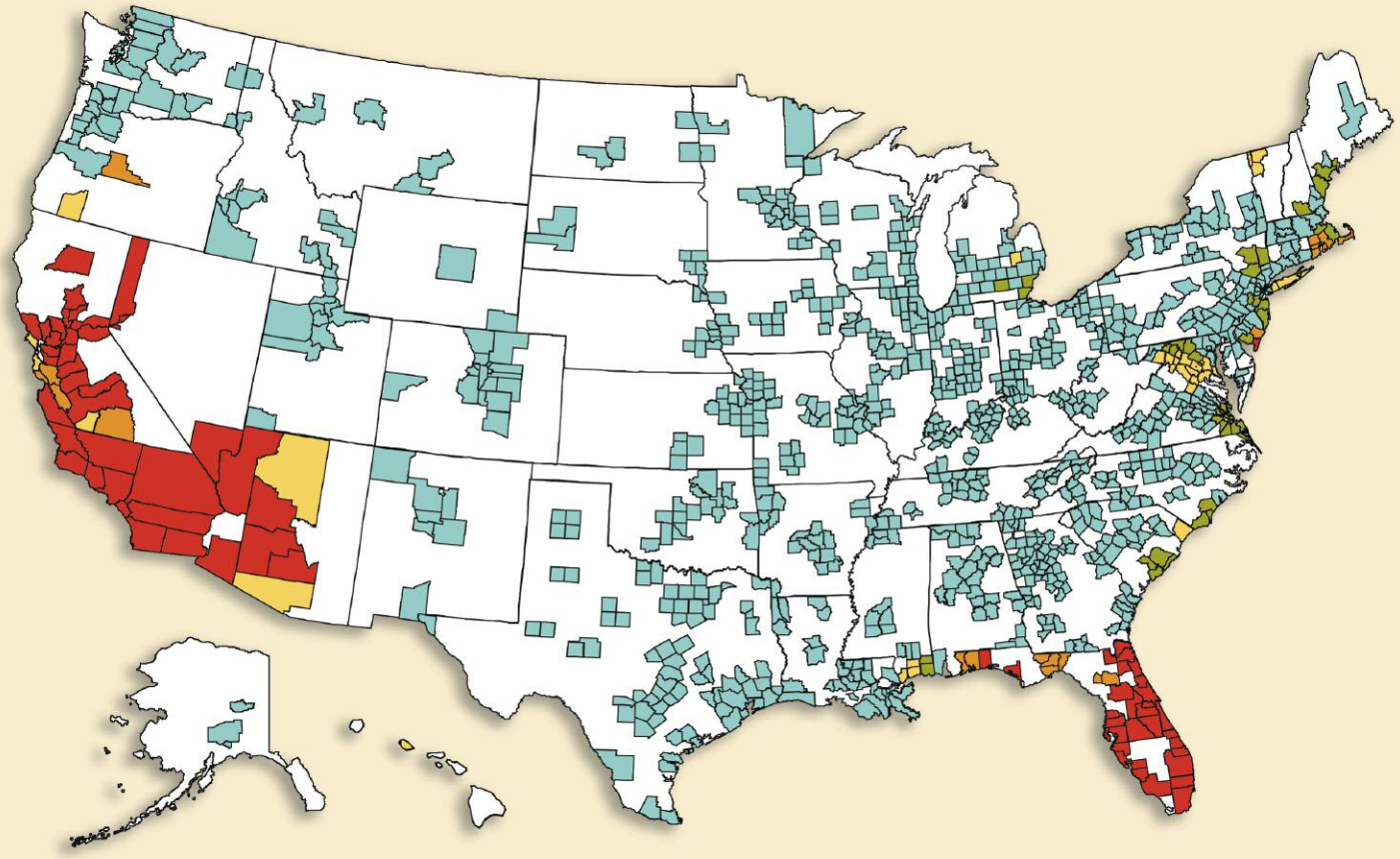
Unemployment is generally increasing across the nation. Across all 381 MSAs, the unemployment rate averaged 5.37 percent during the first quarter. This was significantly above the fourth quarter average of 4.56 percent. Unemployment rates rose in 315 of the nation's 381 MSAs.

Among the nation's 50 largest MSAs, unemployment rates rose in 48 of them. Unemployment rates rose fastest along the East Coast. Among the 10 MSAs experiencing the largest increases in unemployment, eight were in this region of the country. The Providence-Fall River-New Bedford MSA experienced the largest increase in unemployment, increasing by 2.04 percentage points. This increase was followed within the region by Pittsburgh at 1.00 percent; Newark-Union, NJ-PA at 1.27 percent; Edison-New Brunswick at 1.17 percent; and Philadelphia at 1.00 percent.

Among the states where risk scores rose the most (e.g., California, Florida, Nevada, and Arizona), unemployment increased in all of the 15 MSAs represented. This reflects, in part, the impact that the housing downturn is having directly on housing construction employment, and its spillover effects on the retail trade and financial services sectors within those markets.

In summary, the first quarter of 2008 exhibited a continuing divergence in the housing market performance for many of the nation's most troubled MSAs from the remainder of the nation. We see marginally increasing risk, as measured by the potential for further declines in price, primarily in those states already most affected by the downturn in housing. We also see marginal degrees of stabilization in a growing number of MSAs. What will dictate the point at which the MSAs begin to converge on a similar path of positive price appreciation is continued declines in excess housing supply and increases in housing affordability, especially in the most troubled markets. ◆

Geographic Distribution of HOUSE PRICE RISK



The above map depicts in color 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 95.5 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.pmigroup.com.

LEGEND

- 0.0% to 10.0%
- 10.0% to 20.0%
- 20.0% to 40.0%
- 40.0% to 60.0%
- 60.0% to 100.0%

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, but are not limited to, PMI's U.S. Market Risk Index and PMI Affordability Index and any related discussion, and statements relating to future economic and housing market conditions. Forward-looking statements are subject to a number of risks and uncertainties including, but not limited to, the following factors: changes in economic conditions, economic recession or slowdowns, adverse changes in consumer confidence, declining housing values, higher unemployment, deteriorating borrower credit, changes in interest rates, the effects of natural disasters, or a combination of these factors. Readers are cautioned that any statements with respect to future economic and housing market conditions are based upon current economic conditions and, therefore, are inherently uncertain and highly subject to changes in the factors enumerated above. Other risk and uncertainties are discussed in the Company's filings with the Securities and Exchange Commission, including our report on Form 10-K for the year ended December 31, 2007 and Form 10-Q for the quarter ended March 31, 2008.

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.

Home prices are measured with a Repeat Sales Index provided by the Office of Federal Housing Enterprise Oversight (OFHEO). This method follows homes that are sold repeatedly over the observation period and uses the change in the purchase prices to construct a price index. The index is based on data from Fannie Mae and Freddie Mac and covers only homes financed with loans securitized by these two companies. Consequently, this index does not apply to high-end properties requiring jumbo loans.

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.

Please contact your PMI representative for more information or printed versions.

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