Risk of Home Price Declines Increases Slightly, According to PMI Mortgage Insurance Co.'s Fall Market Risk Index; New Valuation Index Shows Home Prices are Overvalued by 10% or More in Half of Large MSAs

WALNUT CREEK, Calif.--(BUSINESS WIRE)--Oct. 18, 2005--A number of the nation's largest housing markets remain at risk of price declines, according to the PMI U.S. Market Risk Index, issued today, and prices in many markets are overvalued. The median Risk Index value increased 11.6 percent, from 120 to 134. Topping the Risk Index list with a greater than 50 percent chance of experiencing price declines are Boston, MA, San Diego, CA, Long Island (Nassau-Suffolk), NY, Santa Ana, CA, and Oakland, CA. Nationwide, there exists a 21.8 percent probability of an overall house price decline, as measured within the next two years and across the 50 largest housing markets, up slightly from 21.3 percent last quarter. At the top of the valuation index, a new feature this quarter, were Los Angeles, where home prices are estimated to be overvalued by 33.7%, Sacramento, by 31.3%, and Riverside, by 30.7%. The Fall report is based on second quarter data, so excludes the impact of Hurricanes Katrina and Rita.

"House prices are sticky, so moving to another phase in the real estate cycle can be a slow process," explained Mark Milner, chief risk officer with PMI Mortgage Insurance Co. "But we believe that over the medium to long term, prices will move into better alignment with local economic factors, in particular income." Marco van Akkeren, an economist with PMI Mortgage Insurance Co., explained, "In the riskier markets affordability has weakened over the past several quarters as house price appreciation diverged from economic fundamentals. With this quarter's report we are seeing a continuation of that trend."

The PMI US Market Risk Index is published quarterly by PMI Mortgage Insurance Co., a subsidiary of The PMI Group, Inc. (NYSE:PMI) as part of its Economic and Real Estate Trends (ERET) report. The Risk Index indicates the probability that home prices will decline in two years. The new Valuation Index indicates whether prices are over- or undervalued compared to their long-term trend, and by how much.

The Valuation Index found that half of the nation's 50 largest housing markets are overvalued by 10 percent or more. Three are overvalued by 30 percent or more and another eleven are overvalued by 20 percent or more. Eleven markets are undervalued. Van Akkeren explained, "This is another way of looking at the markets, and the results reveal a strong association between PMI's Market Risk Index values and deviations from long-term home-price trends, shown in the Valuation Index. Taking a historical view, we also see that markets are more overvalued today than they were in the past."

PMI US Market Risk Index and PMI Valuation Index, by MSA

MSA	Risk Index	Valuation Index
Boston-Quincy, MA	551	8.8%

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San Diego-Carlsbad-San Marcos, CA	536	22.2%
Nassau-Suffolk, NY	532	20.4%
Santa Ana-Anaheim-Irvine, CA	522	25.5%
Oakland-Fremont-Hayward, CA	502	26.5%
San Jose-Sunnyvale-Santa Clara, CA	472	26.5%
Riverside-San Bernardino-Ontario, CA	466	30.7%
Providence-New Bedford-Fall River, RI-MA	464	19.1%
Los Angeles-Long Beach-Glendale, CA	460	33.7%
Sacramento-Arden-Arcade-Roseville, CA	456	31.3%
Cambridge-Newton-Framingham, MA	451	8.5%
San Francisco-San Mateo-Redwood, CA	440	19.5%
Edison, NJ	362	27.4%
New York-Wayne-White Plains, NY-NJ	332	16.3%
Detroit-Livonia-Dearborn, MI	328	-10.3%
Fort Lauderdale-Pompano Beach-Deerfield Beach, FL	288	19.6%
Washington-Arlington-Alexandria, DC-MD-VA-WV	236	18.2%
Minneapolis-St Paul-Bloomington, MN-WI	233	4.5%
Newark-Union, NJ-PA	232	25.6%
Average	218	
Miami-Miami Beach-Kendall, FL	206	20.5%
Tampa-St Petersburg-Clearwater, FL	201	23.2%
Las Vegas-Paradise, NV	197	25.5%
Warren-Farmington Hills-Troy, MI	165	-2.3%
Denver-Aurora, CO	150	-4.2%
Baltimore-Towson, MD	135	18.2%
Virginia Beach-Norfolk-Newport News, VA-NC	133	18.5%
Orlando, FL	111	19.6%
Chicago-Naperville-Joliet, IL	104	8.6%
Atlanta-Sandy Springs-Marietta, GA	102	5.6%
Portland-Vancouver-Beaverton, OR-WA	96	8.6%
Phoenix-Mesa-Scottsdale, AZ	93	22.0%
Austin-Round Rock, TX	91	7.4%
Kansas City, MO-KS	88	0.9%
St Louis, MO-IL	85	5.2%
Seattle-Bellevue-Everett, WA	84	10.6%
Dallas-Plano-Irving, TX	81	10.5%
Charlotte-Gastonia-Concord, NC-SC	77	-1.0%
Houston-Baytown-Sugarland, TX	77	7.5%
Philadelphia, PA	74	15.6%
Milwaukee-Waukesha-West Allis, WI	70	0.9%
Fort Worth-Arlington, TX	69	6.5%
New Orleans-Metairie-Kenner, LA	67	-0.6%
Cleveland-Elyria-Mentor, OH	64	-6.9%
Nashville-Davidson-Murfreesboro, TN	63	-1.4%
San Antonio, TX	62	6.0%
Columbus, OH	61	-3.2%
Cincinnati-Middletown, OH-KY-IN	58	-3.4%
Memphis, TN-MS-AR	58	-1.7%
Indianapolis, IN	55	-1.9%
Pittsburgh, PA	54	0.2%

Market Risk Index trends include:

-- Boston, MA, San Diego, CA, and Long Island (Nassau-Suffolk), NY continue to top the Market Risk Index with scores of 551, 536, and 532, respectively, although San Diego has jumped over Long Island to second place.

-- The MSAs that experienced the biggest change in Market Risk Index score since last quarter are Fort Lauderdale, FL and Las Vegas, NV. Fort Lauderdale's score increased 69 points to 288, moving it from the 18th spot to the 16th; Las Vegas also moved up two spots, from 24th to 22nd, as its score increased 67 points to 201.

-- Other big gainers were in California and Florida. In Florida, Miami added 40 points for a score of 206, while Tampa gained 35 points, taking it to 201. In California, Riverside increased 44 points to 466, Los Angeles was up 39 points to 460, and Sacramento gained 37 points for a score of 456. San Jose, CA, made the biggest move in the other direction, dropping 41 points to 472, below the 50% mark and out of the top five.

-- The five least risky areas are Columbus, OH, Cincinnati, OH, Memphis, TN, Indianapolis, IN, with Pittsburgh, PA last on the list with a score of 54, down a point from last quarter.

Findings of PMI's new Valuation index include:

-- Of the 14 markets overvalued by 20% or more, seven are in California (Los Angeles, Sacramento, Riverside, San Diego, Santa Ana, Oakland, and San Jose), three are in the Northeast (Edison, NJ, Newark, NJ, and Nassau-Suffolk, NY), and two are in Florida (Tampa and Miami). The other two are Las Vegas, NV and Phoenix, AZ.

-- Detroit, MI leads the list of undervalued markets at -10.3%, followed by three Ohio markets: Cleveland (-6.9%), Cincinnati (-3.4%), and Columbus (-3.2%).

About The PMI Economic & Real Estate Trends (ERET) Report and US Market Risk Index

The PMI Economic and Real Estate Trends (ERET) Report containing the US Market Risk Index is published quarterly by PMI Mortgage Insurance Co., a subsidiary of The PMI Group, Inc. (NYSE:PMI). The Risk Index is a proprietary statistical model that measures geographic house-price risk by predicting the probability of a regional decline in home prices in the nation's 50 largest metropolitan statistical areas (MSAs) and metropolitan statistical area divisions (MSADs) over the next two years. The PMI US Market Risk Index is based on the House Price Index from the Office of Federal Housing Enterprise Oversight (OFHEO), labor market statistics from the Bureau of Labor Statistics, and the PMI affordability index, which uses local median household income, home price appreciation, and the price of a conventional mortgage to calculate the local share of mortgage payment to income relative to its baseline year of 1995.

The PMI US Market Risk Index scale ranges from one to 1,000 and translates to a percentage. For example, a score of 100 indicates a 10% chance of a decline in home prices over the next two years. A higher score indicates a higher likelihood of future home price declines. The PMI Risk Index scale is linear. In other words, an increase in risk index score of 100% (for example, from 100 to 200) indicates that the risk of home price decline has doubled. Conversely, a decline in risk index score by 50% (from 100 to 50) indicates that the risk of home price decline has declined by 50%. The Affordability Index score is linear against a baseline of 100 in 1995. For example, an AI score of 85 means that the median home in that area is 15 percent less affordable than it was in 1995.

The PMI Valuation Index is also based on the OFHEO House Price Index. In addition it incorporates data on regional and U.S. median household income obtained from the Bureau of Economic Analysis (BEA) and the U.S. Census, the benchmark 30-year fixed rate mortgage, and regional household densities estimated by PMI using census data. The Valuation Index compares price growth as shown by the OFHEO HPI over the past 10 years and compares that to the price growth that would have been expected for area over that same period based on that MSA's long-term trend.

A complete copy of the latest PMI Economic and Real Estate Trends report is available at http://www.pmigroup.com/newsroom/publications.html. An appendix that provides Market Risk Index data for all US MSAs is also available.

About PMI Mortgage Insurance Co.

PMI Mortgage Insurance Co., a subsidiary of The PMI Group, Inc. (NYSE:PMI), is a leading U.S. residential mortgage insurer, licensed in all 50 states, the District of Columbia, and Puerto Rico. Private mortgage insurance expands home ownership opportunities by enabling borrowers to buy homes with down payments of less than 20% and facilitates the sale of low down payment mortgages in the mortgage capital markets. PMI is incorporated in Arizona and headquartered in Walnut Creek, CA. For more information: www.pmigroup.com.

Cautionary Statement: Statements in this press release 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 Risk Index and Valuation 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 Hurricanes Katrina and Rita, or a combination of these factors. 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, 2004.

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