

THE BENEFITS OF MORTGAGE DEFAULT INSURANCE

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Insurance Products in Mortgage Finance

- Property (Hazard) Insurance
 - Title Insurance
 - Mortgage Life Insurance
- Mortgage Default Insurance:
the topic of our discussion

What is Mortgage Default Insurance (MI)?

- MI provides coverage for default on a residential mortgage loan
- MI fully covers - or reduces - the lender's loss when borrower default occurs
- Benefit to borrowers: many more persons are able to borrow via lower downpayment
- Benefit to lenders: lenders share credit risk with the insurer & thus can take more risk

How Does MI Work?

Generally used on loans with LTV > .70

Insurance contract between lender & insurer

Borrower pays the premium to the bank (*it may be financed with the loan)

If the borrower defaults & if sale at foreclosure does not cover the outstanding balance, delinquent interest & associated costs, the insurer pays up to the insured amount

Types of MI Worldwide

- Public and Private:
 - Public MI was developed in the U.S. & Canada
 - MI is now becoming important worldwide
 - More countries now turning to private MI
- Insurance Coverage: whole loan or the “top slice”
 - “Top Slice” now becoming dominant via growth of private mortgage insurance

Mortgage Insurance has become a World-wide Product

Private MI

Australia
New Zealand
Ireland
South Korea
Belgium
Israel
South Africa
United Kingdom

Private & Public MI

U.S.
Canada
France
Belgium

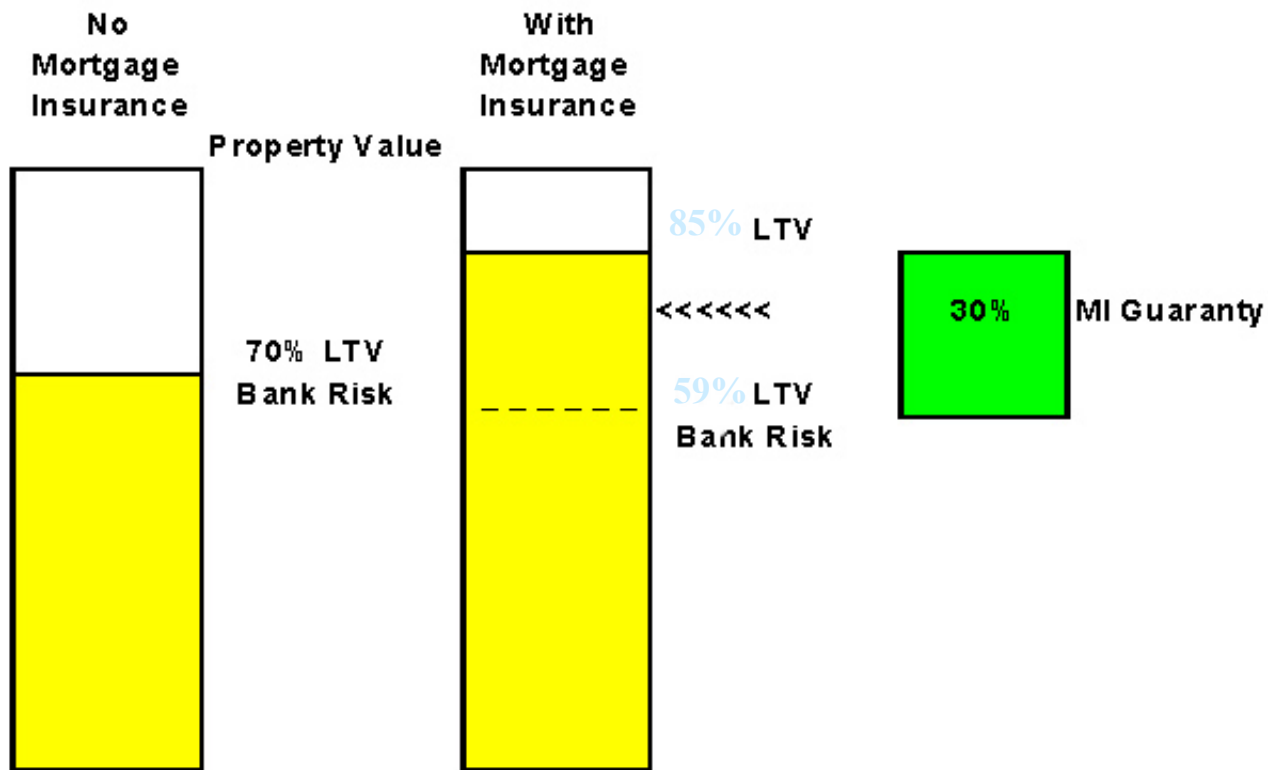
Public MI

Lithuania
Sweden
Hong Kong

Mortgage Insurance is Under Development in:

- India
- Kazakhstan
- Thailand
 - Poland
 - Estonia
 - Latvia
 - Slovenia

Mortgage Insurance 30% Coverage Example



Calculation of MI Claim

MI Claim Includes:

- outstanding principal
- delinquent interest

MI Claim may also include

- legal costs
- property taxes
- unpaid property insurance through foreclosure
- property maintenance (reasonable/customary)

MI Premiums & Terms

Insurer should be self-supporting

Premiums are set to be actuarially sound: set to cover all claims & operating costs

Participating banks may be required to insure all loans with LTV above a specified ratio (exact rules must be determined)

Regulators likely to grant lower risk weights for insured loans

MI Provides Major Benefits

Risk Sharing for Lenders
Affordability for Borrowers
Standardization & Risk Management
for Financial Sector Development
Stimulates the Economy via
increased Housing Construction

MI Benefits to Lenders

- Provides coverage for default on a residential mortgage loan
- MI fully covers - or reduces - the lender's loss when default occurs
- MI allows lenders to share risk with the insurer
- MI allows lower risk weights on insured loans
- MI allows banks to decrease their spread (the risk premium component of the spread)

LTV RISK PROFILE

Insurer/LTV	Relative Risk: 80% LTV = 1.0			
	80% LTV	85% LTV	90% LTV	95% LTV
U.S. Mortgage Information Corp.	1.0	2.53	2.3	4.38
Canada: GE Mortgage Insurance	1.0	n.a.	4.08	10.63
Australia: GE Mortgage Insurance	1.0	1.92	2.34	10.63
UK: GE Mortgage Insurance	1.0	1.30	2.02	10.07
Canada: Mortgage Insurance Corp	1.0	1.99	3.45	7.69

MI Benefits to Borrowers

- Households can get loans with a lower downpayment
- Extends mortgage finance to those with lower income and/or wealth
- Allows those who would eventually save a larger downpayment to receive a loan faster

MI Market Segment

Not for the rich

a ceiling amount for loan eligibility would be set

Not for the poor

they cannot afford mortgage loans; MI is not a subsidy mechanism

MI focuses on moderate & middle income groups: formally employed, professional groups, self-employed with steady income

MI Benefits for Financial Sector Development

Improves efficiency & standardization

Promotes better risk management, underwriting and delinquency management

Standardizes underwriting & documentation

Supports better delinquency management and loan “workouts

Encourages streamlined foreclosure practices

Promotes credit bureau development

Encourages improved property appraisal

MI Benefits for the Economy

Higher effective demand for housing
Increased housing construction has an important “multiplier” impact on economy
Increase in middle income borrowers
Increased housing turnover improves labor mobility which fosters economic growth
Encourages lower interest rates

Recommendations for Transition Nations

- Promote Private MI if possible
- If not possible, develop a structure that operates like private MI & plan for privatization
- Insure only the “top slice”: risk sharing is important & banks should not rely on Government in place of better risk management