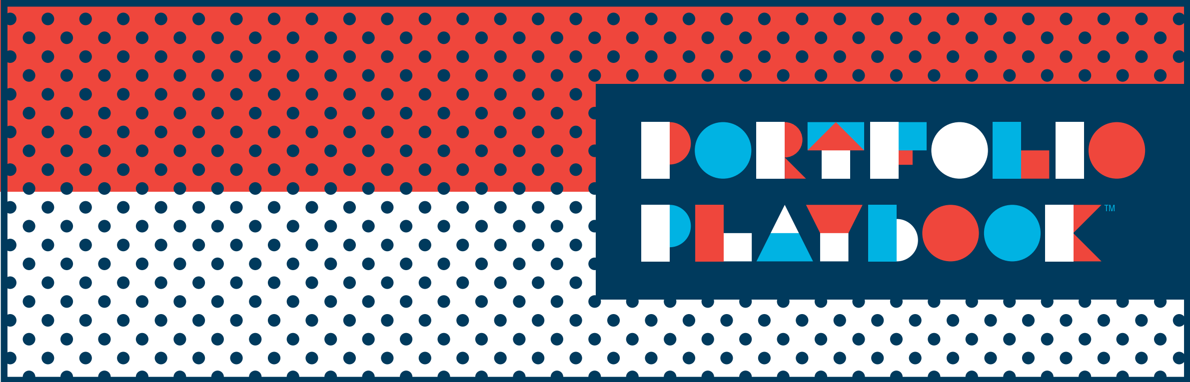
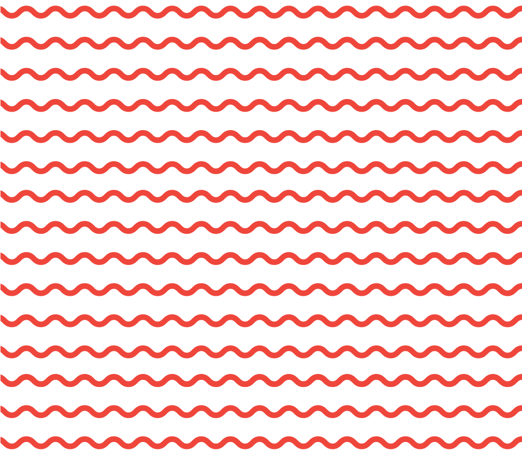
The best defense:

How MI protects you from credit losses





Look to private mortgage insurance from MGIC for help reducing credit risk so you can focus on managing your interest spread, tightening your operational execution and assuring regulatory compliance.

Depending on market conditions, private MI can help reduce or even eliminate losses arising from mortgage defaults.

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Example 1

Stable Market		
	With MI	Without MI
Original Value	$200,000	$200,000
Original LTV	95%	95%
Original Loan Amount	$190,000	$190,000
UPB	$186,654	$186,654
Other Claimable Expenses*	$27,998	$27,998
Claimable Amount/Lender Exposure	$214,652	$214,652
35% Coverage Claim Payment	($75,128)	n/a
REO Expense	$20,532	$20,532
Sale Proceeds	($160,000)	($160,000)
Lender Net Loss	$56	$75,184

*Claimable expenses include delinquent interest, accrued-but-unpaid property taxes, attorney fees, hazard insurance premiums, property maintenance costs and other routine default servicing expenses.

The Anatomy of a Loss

Here's an example using a single loan to depict a typical loss scenario with and without MI.

Assumptions:

- Borrowers stopped paying after 13 payments were made
- Claimable expenses* in this example amount to 15% of the Unpaid Principal Balance (UPB)
- Claimable Amount/Lender Exposure assumes no expenses beyond those that are claimable
- 35% coverage applies in the "With MI" scenario
- Costs to dispose of the REO (preservation/maintenance, sales commission, etc.) amount to 11% of the UPB
- The sale of the property ultimately nets 80% of the original value in a stable market and 60% in a distressed market

Under the "With MI" scenario, the lender's loss is negligible. Without MI, the lender suffers a loss of more than $75,000.

Example 2

Stable Market		
	With MI	Without MI
Loan Count	500	500
$ Volume	$95,000,000	$95,000,000
Incidence %	2%	2%
UPB at Claim	$1,866,540	$1,866,540
Claimable Amount/Lender Exposure	$2,146,521	$2,146,521
Claim Payments	($751,282)	n/a
REO Expense	$205,319	$205,319
Sale Proceeds	($1,600,000)	($1,600,000)
Lender Net Loss	$558	$751,840

Distressed Market		
	With MI	Without MI
Loan Count	500	500
$ Volume	$95,000,000	$95,000,000
Incidence %	14%	14%
UPB at Claim	$13,065,780	$13,065,780
Claimable Amount/Lender Exposure	$15,025,647	$15,025,647
Claim Payments	($5,258,976)	n/a
REO Expense	$1,437,236	$1,437,236
Sale Proceeds	($8,400,000)	($8,400,000)
Lender Net Loss	$2,803,906	$8,062,883

A Tale of Two Markets

Few asset classes are as prone to cyclical economic forces as residential real estate. Economic troughs can result in dramatically higher loss incidence and severity.

Foreclosure incidence during recent economic recessions soared as high as 20%.[i] Loss severity during economic recessions averaged as high as 64% in some years.[ii]

Applying assumptions from Example 1, Example 2 illustrates how portfolio performance can vary dramatically with and without MI in different economic scenarios.

In a stable market under a "With MI" scenario, the lender's loss is negligible, compared with the "Without MI" scenario. In a distressed market under a "With MI" scenario, the lender's loss isn't as severe as the potentially catastrophic loss under a "Without MI" scenario. Recession-level incidence and severity plus higher REO expense/re-marketing costs contribute to the poor performance.

As a portfolio lender, you are your own investor and adhere to your own sound underwriting practices and high standards of service and customer care. MI can provide you peace of mind and added protection from credit losses that arise when economic conditions worsen and unpredictable real estate markets soften.

i The Office of Federal Housing Enterprise Oversight (OFHEO), the safety and soundness regulator of Fannie Mae and Freddie Mac prior to The Great Recession, established a Benchmark Loss Estimate (BLE) that applied a 17.7% default rate for stress-testing the Agency's capital position that was based on actual loss severity experienced in the Oil Patch states in the mid-to-late 1980s. More recently, in a paper titled "Loss Severity on Residential Mortgages" published February 2015, The Urban Institute reported that credit events on loans originated from 2005-2007 with LTVs > 80% ranged from 14.2% to 20.4%.

ii OFHEO's BLE applied a 64% severity rate for stress-testing the Agency's capital position that was based on actual loss severity experienced in the Oil Patch states in the mid-to-late 1980s. More recently, The Urban Institute reported that loss severity, after deducting MI coverage, averaged 26% to 29% on loans originated 2005-2007. After accounting for losses absorbed by MI, total loss severity on 90%-97% LTVs ranged from 51% to 64%.

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