

What Homebuyers Pay, What Everyone Should Know

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Q4 2007: Charting a Path Out of the Mortgage Meltdown

	Mortgage Insurance Loans		80-15 Combination Loans			
	30-Year Fixed w/ Monthly MI	30-Year Fixed w/ Single Financed Premium MI	30-Year Fixed 1st; HELOC 2nd	30-Year Fixed 1st; Closed-End 2nd	10/1 Interest Only ARM 1st; HELOC 2nd	Pay Option ARM 1st; HELOC 2nd
Month 1	\$1,350	\$1,255	\$1,288	\$1,287	\$1,188	\$667
Month 61	\$1,220	\$1,255	\$1,396	\$1,287	\$1,295	\$1,705
Payment Difference	↓9.6%	No change	↑8.4%	No change	↑9%	↑155.6%

Assumptions: \$200,000 loan amount with 5% down payment. 30-yr fixed-rate mortgage with either monthly or single financed premium MI is 6.16%. Assumes 2.1% annual appreciation and MI cancelled after 5 years. Combo rate on 1st loan (80%) features a 6.16% interest rate. 10/1 IO ARM is 6.60% for first 10 years. Adjustable HELOC 2nd with combination loan options starts at 9.93% and adjusts to 14% after 5 years. Option ARM has a one-month teaser rate of 1.25%, then adjusts to estimated market rate of 7.412%. Annual payment adjustment capped at 7.5%, and after 5 years, switches to fully indexed rate for remaining 300 months. Option ARM Index Value of 4.66%* and margin of 2.75%. Future interest rate stays unchanged for life of mortgage.

*Index value based on December rate of 1-month LIBOR rate, Source: 12/1/07 www.bankrate.com/brm/ratewatch/other-indices.asp

Payment comparisons above based on rate survey data from December 2007

AFFORDABLE MORTGAGE PAYMENTS—TODAY AND TOMORROW

Traditional home financing such as a long-term fixed-rate mortgage (FRM) remains affordable today and tomorrow, with the possibility of monthly payments dropping as much as 9.6 percent in five years.

By contrast, adjustable-rate (ARMs) and combination mortgages can

not only become more expensive over time, they are difficult to obtain in today's market for anyone with less than stellar credit. ARMs and combination loans also increase risk on the lender side, which explains the current tightened underwriting standards on these mortgages.

Today's Mortgage Market Woes Help Shape a Better Tomorrow

At the outset of 2008, those of us who study the real estate market closely are taking stock of what caused the "mortgage meltdown," what is to come and how we can help solve the crisis.

The immediate impact of the mortgage meltdown has been a lack of access to credit for borrowers with low FICO scores and small down payments, and those seeking exotic loans that ultimately turned out to be very risky. This is good news from a societal perspective, but the lack of credit availability for these potential borrowers may have long-term ramifications on the market. Now that we have learned the lessons of risky subprime and exotic mortgages, we must address responsible ways to bring these borrowers back into the market. Affordable home financing options still accessible to these borrowers include loans secured with private mortgage insurance or through the Federal Housing Administration (FHA).

As we consider reforms for the future, we also must address the lessons of the past few years. Many people are still in trouble as a result of risky mortgages, and the worst is yet to come. Estimates show 1.8 million loans are scheduled for rate resets this year and next. Piggyback and exotic mortgages are largely responsible for so many households becoming delinquent and nearing foreclosure. To help navigate the crisis, the lending industry must now focus on homeowner assistance. In cases of financial hardship, homeowner assistance representatives work with homeowners and lenders to find alternative solutions to keep people in their homes, and many private and public sector programs are available today. Remember that responsible home financing includes forethought – from all parties – about a homeowner's continued ability to make their monthly payment in tough times.

2007 Mortgage Market Analysis:

Risky, adjustable products fell out of favor with consumers, lenders and investors over the past year.

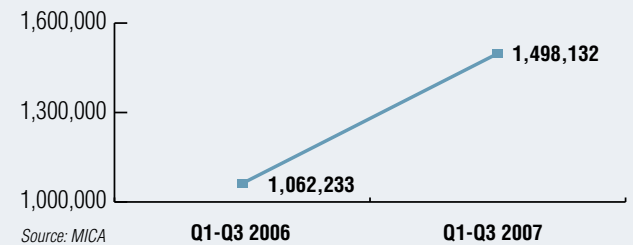
- Both applications and originations of adjustable-rate mortgages (ARMs) are down significantly. As of January 11, 2008, ARM applications were 39.6 percent lower than the previous year, while fixed-rate mortgage (FRM) applications rose 60.1 percent in that same period. Actual ARM originations fell 38.7 percent in the first nine months of 2007 compared to 2006.

Consumers flocked to safer and more secure loans, a trend that is expected to continue through 2008.

- Borrowers with adjustable-rate products refinanced into fixed-rate loans in large numbers last year. In Q3 2007, 85 percent of those who held a one-year ARM switched to a FRM, and 82 percent of hybrid ARM borrowers did the same.

- Mortgage insurance certificates and policies were up 41 percent in the first nine months of 2007 over that period in 2006. MI has helped nearly two million families finance homes in the past year.

Private Mortgage Insurance Certificates & Policies in Q1-Q3 2007 Rose 41% over Q1-Q3 2006



- The renewal of mortgage insurance tax deductibility for three more years is also weighing heavily in the decision to pursue fixed-rate, insured mortgages. About 2.6 million homeowners will be able to claim the deduction on their 2007 taxes.

Lessons and Tips for...

BORROWERS	<ul style="list-style-type: none"> Always look at how your monthly payment will fluctuate over the long-term. If you can't afford a reset, look for a different loan, such as an insured, fixed-rate loan.
LENDERS/BROKERS	<ul style="list-style-type: none"> Identify and measure all of your borrower's characteristics before you recommend a mortgage product – do what's right for them.
REAL ESTATE PROFESSIONALS	<ul style="list-style-type: none"> Closely consider if your clients can comfortably afford the houses they are considering. Don't show them a dream that can turn into a nightmare.

Dr. Wachter's Bottom Line:

- My analysis of monthly payments on combination loans and mortgage insurance-backed loans shows MI loan payments can decrease upon cancellation – most often within five years. New regulations, industry efforts and tightened underwriting are making traditional home financing the most prudent option.
- The unprecedented financial hardships experienced by borrowers and lenders are making homeowner assistance programs critical to helping borrowers turn their situations around.
- Mortgage insurance use was up significantly in 2007. I expect that trend to continue through 2008, as more high loan-to-value borrowers look for safe and secure financing.

Sources available at www.genworth.com/mortgageinfo