

U.S. Structured Finance Newsletter

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Michael Nelson
Managing Director,
U.S. Structured Finance
+1 212 806 3251
mnelson@dbrs.com

Toronto
DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
+1 416 593 5577

New York
140 Broadway, 35th Floor
New York, NY 10005
+1 212 806 3277

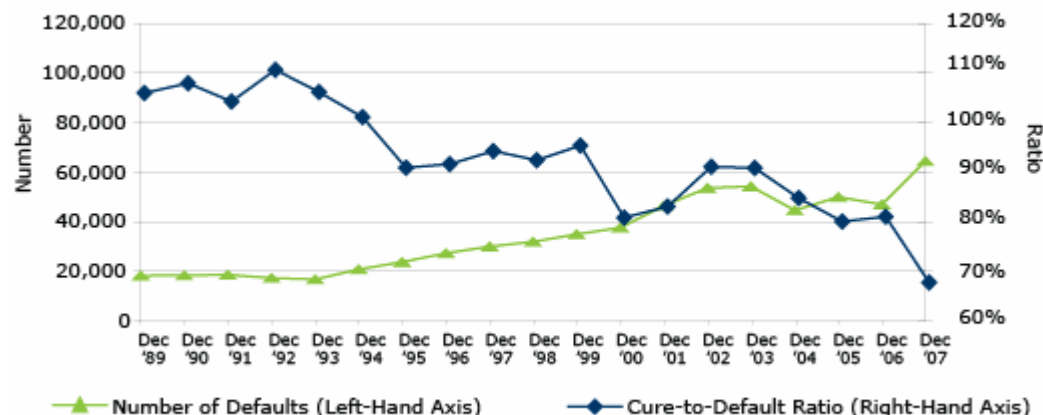
Chicago
101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

GAUGING U.S. MORTGAGOR HEALTH THROUGH MORTGAGE INSURANCE STATISTICS

Each month, Mortgage Insurance Companies of America (MICA), the trade association of private mortgage insurers, publishes several measures of industry health and performance.¹ Among these are the number of mortgagors who became delinquent 60 days or more on their mortgage payments during the month (defined as “defaults”) and the number who were seriously delinquent but were able to become current or only 30 days delinquent (defined as “cures”). A default is counted when the borrower first becomes 60 days delinquent. If the borrower then brings those loan payments current or pays off the mortgage in full or if the mortgage obligation is satisfied without a mortgage insurance claim, it is counted as a cure. MICA does not record defaulted mortgages that are resolved at a loss (via a short sale, liquidation of the property by the servicer or deed-in-lieu) and against which a mortgage insurance claim is filed.

The number of new defaults and cures, then, represents new activity for the month and is a general indicator of the immediate financial health of mortgagors. A cure-to-default ratio above 100%, for example, means that more borrowers cured their mortgage delinquencies during the month than became seriously delinquent. This can occur under economically benign or improving conditions and in housing markets where home prices are increasing, affording borrowers the opportunity to sell or refinance their way out of delinquency. A ratio below 100%, on the other hand, indicates that a larger number of borrowers became seriously delinquent for the first time and were not able to bring their mortgage payments current. This can occur during periods of economic stress, such as in labor markets experiencing job losses and in tight credit markets, where the ability to refinance a distressed mortgage is significantly curtailed.

Mortgage Cures and Defaults as Reported by MICA



Source: Mortgage Insurance Companies of America (MICA).

During the past 18 months, the total number of defaults has generally increased, but the ratio of cures to defaults has generally decreased (see the graph above). In December 2007, the most recent month reported, the total number of defaulting mortgagors was a record high at 64,384 and the cure-to-default ratio was at a record low of 54%. Any change in the total number of defaults and in the cure-to-default ratio may be partially explained by changes in the volume of mortgage insurance in force, the types of mortgages insured, the mix of loan ages within an insurer’s portfolio and the aging of the mortgage loans themselves. However, taken together, the increase in defaults and the decrease in the cure-to-default ratio suggest economic conditions are deteriorating, with previously current borrowers unable (or unwilling) to make their monthly mortgage payments, unable to refinance out of their financial difficulties and unable to sell their homes at values high enough to satisfy the mortgage obligation.

For questions and comments, contact Susan Kulakowski at skulakowski@dbrs.com.

1. MICA figures are available at <http://www.privatemi.com/news/statistics/index.cfm>.