



PrivateMI

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P E R S P E C T I V E

PrivateMI Helps Woman Go from Browser to Buyer

Growing up in Northern Virginia, Lisa Stouffer and her family would go on an occasional special weekend excursion. "My parents used to stick us in the back of the car and drag us around to new developments and we'd look at houses," Lisa recalls.

In 2001, with the help of private mortgage insurance (PrivateMI), she finally put an end to years of browsing and renting and began her new life in a garden-style condo in Arlington, Virginia.

Lisa, 36, is a graphic designer for ICF Consulting – a management, policy and consulting firm based in Fairfax, Virginia. Her thoughts on PrivateMI are quite simple.

"[Without PrivateMI] it's really possible that I would not have a place right now," she said, explaining that with the money she had saved she could not have bought anything in the area without a very low down payment.

"I probably would have given in and moved out to Loudoun County and

that means that I would have either had to switch jobs or have a tougher commute," Lisa added. "It allowed me to achieve what I wanted to achieve."

Her two-bedroom, one bathroom condo in The Commons of Arlington, located just minutes outside of Washington D.C., has all the features Lisa categorized as "must-haves" including: the garden style as opposed to being a mid-or high-rise complex; a deck; two bedrooms (for improved re-sale value); proximity to the D.C. Metro system; and a colonial brick-style architecture that gives the place "a lot of charm."

In addition to her list of must-haves, Lisa enjoys the pride that comes with owning a home – part of which is demonstrated by being able to



Lisa Stouffer in front of her condo in Arlington, Virginia.

decorate her own place. When she moved in, Lisa re-painted the walls, installed brand new carpeting and bought new furniture. Still, she admits that there are some decorating ideas that she has yet to implement, including installing crown molding.

Lisa points out, however, that perhaps the best part about buying the condo

was the financial benefit of no longer paying rent as well as the appreciating value of the property. When she bought in 2001, the rental market was so tough and costs were so high that she could not have rented a place as nice as the one she was able to buy for the same price per month.

"I would have had to pay more to

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Mortgage Insurance Fairness Act Reintroduced In 109th Congress

Legislation Would Provide Tax Relief to Millions of Homeowners

A measure to make mortgage insurance premiums tax deductible for households with incomes below \$100,000 was reintroduced in January by Senators Gordon Smith (R-OR) and Blanche Lincoln (D-AK).

When originally introduced in the 108th Congress, the bill received strong bipartisan support, gaining final approval in the Senate and attracting 220 bipartisan co-sponsors in the House.

Approximately 12 million Americans pay government or private mortgage insurance premiums. Mortgage insurance is a credit enhancement that protects lenders against loss if a borrower defaults on a mortgage loan. It is required when borrowers do not make the traditional 20

percent down payment necessary for the purchase of a home.

Traditionally, insured low down payment mortgages have helped low and moderate-income families, most of them first-time home buyers, get into homes sooner, for less money down.

"This legislation enjoyed tremendous support on both sides of the aisle and in both houses of Congress when it was originally introduced," said William V. Nutt, Jr., President and Chief Executive Officer of AIG United Guaranty and President of the Mortgage Insurance Companies of America (MICA). "We are hopeful that the new Congress will take a closer look at this piece of legislation and do what's right for homeowners

nationwide. We look forward to working with Members to rally additional support and pass the bill in this Congress."

A study released in 2003 by the Consumer Federation of America (CFA) and several housing groups, concluded that homeownership is the main path to wealth for lower income and minority Americans.

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Real Estate Professional Notes Benefits of PrivateMI

by Stephanie Singer

PrivateMI Perspective Guest Column

As a real estate professional, my goal is to help people achieve their dreams of homeownership, whether they are moving into their first home or moving up to their dream home. In recent years, however, many would-be homeowners have been priced out of the market because of annual double-digit home appreciation in many areas.

In this environment, real estate agents must help their clients think strategically about financing options and market timing, and for many home buyers, private mortgage insurance can be the key to success.

The traditional 20 percent down payment is getting more and more difficult for people, especially first-time home buyers, to achieve. According to the National Association of Realtors®, the national median sales price for existing single-family homes in the last quarter of 2004 was \$187,500. Twenty percent of this amount would be \$37,500. For my clients in the Washington, DC metropolitan area, the median sales price at the end of 2004 was \$370,800, which would require a substantial \$74,160 down!

That's where private mortgage insurance comes in. By protecting

the lender in case of default, private mortgage insurance allows lenders to offer mortgages to home buyers who otherwise might not qualify for a loan, because a buyer with less money for a down payment is a higher risk to the lender than a buyer with more cash on hand.

Buyers can purchase a house with as little as three percent down with the help of private mortgage insurance. Getting into a home sooner means that home buyers can benefit from market appreciation. When compared to saving over several years for a larger down payment, it's hard to find an investment vehicle that can compete with the steep home appreciation in some areas of the country over the past few years. For example, in the Washington, DC region last year, existing single-family homes posted a median increase of 26.9 percent.

Private mortgage insurance is also an option for home buyers who have the cash, but don't want to tie all of it up in a down payment. They may want to invest it elsewhere, or use some of their savings for home improvements after they've moved in.

In recent years, many home buyers have turned to piggyback loans as



Stephanie Singer is a real estate professional in the Washington, D.C. metropolitan area.

an alternative to private mortgage insurance to help finance their home purchase. These are second mortgages that come with higher interest rates. The second loan makes up the difference between the home buyer's low down payment and the first mortgage, which is typically no more than 80 percent of the home's appraised value.

In some cases, piggyback loans make sense, but they are not for everyone. Some buyers can't qualify for these second mortgages, with their higher interest rates, on top of a first mortgage. In addition, a single loan with private mortgage insurance may

actually cost less than a combination loan with a second mortgage, depending on the situation.

Of course, every client is unique. Just as the perfect home is different for everyone, financing options should be tailored for each individual. A low down payment mortgage with private mortgage insurance is a very viable choice to consider in the array of financing tools available to today's home buyer.

The views expressed here are her own. You can contact Ms. Singer at ssinger@MovingInOnOrUp.com or by visiting www.MovingInOnOrUp.com.

Buyer Beware: The Pitfalls of "Piggyback" Loans

In response to the continuing growth in the residential market, a wide array of housing finance products are available to potential homeowners. According to the 2004 Profile of Home Buyers conducted by the National Association of Realtors, 25 percent of all home buyers financed 100 percent of their home's purchase price, and 42 percent of first-time home buyers bought with no money down.

The range of housing finance options can be overwhelming. Most people are unaware of the options available, or the potential pitfalls that can accompany their choices. Buyers should carefully research all of their financing options to understand what would work best for their individual situation. One of the options currently being promoted by some loan originators carries a significant downside. It's a split structure loan known as a "piggyback," or 80-10-10 loan.

In this type of mortgage structure, a home buyer makes a down payment of 10 percent, obtains a conventional

mortgage for 80 percent and obtains a second mortgage for the remaining 10 percent of the purchase price. Although many consumers choose the 80-10-10 loan as an alternative to paying a 20 percent down payment, most are unaware of the risks.

First, 80-10-10 loans are not cancelable. Payments on a homeowner's second mortgage do not stop until the loan is paid in full. In contrast, a single mortgage with cancelable PrivateMI affords a measure of financial stability in a rising interest rate environment.

That's because 80-10-10 loans usually carry a variable rate of interest on the second loan, which translates into fluctuating payments. As a result, when rates rise, homeowners often fall behind on their mortgage obligations. So, in a piggyback structure, those once attractive variable rates can jump up and bite you.

Furthermore, since less of each monthly payment of an 80-10-10 goes toward reducing their home's

principal balance, a homeowner with this type of loan builds equity much slower than they would with a single loan using PrivateMI. Piggyback loans crowd the borrower's equity, requiring the borrower to carry a higher debt load. This makes it more difficult for consumers to tap their home equity for expenses such as home improvements or college tuition.

Finally, while originators of 80-10-10 loans generally amortize the second "10 percent" loan over 30 years to minimize monthly costs for borrowers, these products are frequently tied to a balloon payment which is due in full after five, 10, or 15 years. This usually results in saddling homeowners with another new loan, which is used to pay off the expiring second lien.

Bottom line: Before rushing into a decision, prospective homeowners should investigate all of their housing finance options, and understand what each one means for their financial future and peace of mind.

"Piggyback" Loans	VS.	Loans with PrivateMI
Consumers carry more debt		Consumers carry less debt
Home equity grows slower		Home equity grows faster
Not cancelable		Cancelable
Usually costs more over life of loan		Usually costs less over life of loan
Variable cost		Fixed cost
Two mortgage payments		One mortgage payment

PrivateMI Issue Focus

“Is there really a housing bubble?”



PMI Mortgage Insurance Co.

From 1950 to 1995, the price of homes nationwide increased at approximately the same rate as the price of other goods and services. Since 1995, in contrast, home prices nationwide have risen by more than 44 percent, after adjusting for inflation. In nominal terms, home prices have risen nearly 85 percent compared to 27 percent for consumer prices (all items), which represents nearly three times the rate. This appreciation in home prices has not been evenly spread across the nation. Home sales prices in the Northeast and on the West coast have increased by 74 percent, after adjusting for inflation. In contrast, inflation-adjusted prices rose by 15 percent in the West South Central states and 19 percent in the East South Central states.

PMI Mortgage Insurance Co. compiles a quarterly Risk Index, which represents PMI's view on geographic house-price risk and the probability of a regional home-price decline over the next two years. Based on PMI's Risk Index model, as of January 2005, the average risk value of the 50 largest Metropolitan Statistical Areas (MSAs) was 161. This implies that on average, there exists a 16.1 percent probability of an overall house price decline, as measured within the next two years and across the 50 largest housing markets.

More significantly, according to PMI's Risk Index, the nine riskiest MSAs are all on the West coast or in the Northeast. Their composite average risk value is 420 – indicating a 42 percent probability of a house price decline within the next two years. These coastal MSAs crowd the top of PMI's Risk Index because they have maintained a trend of lower affordability and heightened house-price risk. Because they're expensive, these markets also tend to be highly leveraged, with a lot of interest-only and high LTV loans, many with adjustable rates. If property appreciation rates decline, those investors who need to sell may not be able get the prices they're counting on, which may lead to an increase in defaults.

— Marco Van Akkeren, *Director, Economist*



AIG United Guaranty

In 2004, the U.S. homeownership rate reached 69.0 percent, and although it's impossible to predict how high it will go, a look at the demographics of owning one's own home gives a clear picture that housing appreciation may slow down, but should not “crash” over the next few years.

Homeownership rates vary greatly by age group, and understandably, the lowest rate is for households where the head is not yet 25 years old. This group had a rate of 25.2 percent in 2004. There is a sharp increase in the 25- to 29-year-old group to 40.2 percent and a further sharp increase to 57.4 percent in the 30- to 34-year-old group. The rate peaks in the 70- to 74-year-old group at 83.4 percent in 2004 followed closely by the 83.2 percent in the 65 to 69 age group. With the baby boomers making up about 77 million of our population of over 290 million, the homeownership rate should continue to edge up for many more years.

In some cases on the East and West coasts, home prices may have escalated beyond the reach of many potential borrowers. These areas may see the lowest appreciation rates and possibly some corrections over the next few years. But the underlying favorable demographics and continued economic growth will tend to mitigate the downside.

Supporting the view that demographic trends will sustain growth are home mortgage rates that should stay near where they are now for the foreseeable future — with the usual ups and downs around a stable trend. Combined with continued demand for housing, this would indicate strong mortgage activity in 2005. Furthermore, healthy housing demand and mortgage activity should continue through 2008.

So, with demand high and interest rates remaining affordable, a bubble seems unlikely, particularly given that there is no excess supply of houses (in fact housing

inventories have been at low levels for over five years), and delinquencies and foreclosures are extremely low, especially for conventional loans. With the 46–64 age group continuing to grow for many years, and an immigration boom that has lasted for 15 years and shows no signs of slowing down, we should see an increase in demand, not a decline in volume or home prices.

— Dan Walker, *Senior Vice President and Chief Risk Officer*



Mortgage Guaranty Insurance Corporation

In 2004, U.S. home values increased 11 percent on average according to the most recent Office of Federal housing Enterprise Oversight (OFHEO) data. OFHEO also reports that nationally over the last five years, home values have increased 49 percent.

This acceleration in home prices has led the media to draw parallels to a stock market bubble with above-average gains followed by a subsequent steep decline. So the question everyone is asking is, “When will the housing bubble burst?”

We believe the question is flawed because the comparison is flawed. The housing market is not the stock market. It is easy to sell a stock to either capture recent gains or prevent losses, but selling your home requires considerable time and expense. In addition, it is important to recognize that national home price numbers reflect the aggregation of all the individual local markets, not some large, national marketplace for residential real estate. As a result, overpricing is a local, not national, phenomenon.

With these distinctions in mind, today's home prices are mostly justified by historically low mortgage interest rates and current supply and demand conditions. It is true that home prices have increased at a greater rate than income in many markets. In areas such as southern California, however, those

increases have only recently brought home prices back from the low levels created by extended price declines in the 1990s. Many of these markets are just now beginning to see housing affordability that is below what can be considered “average.” Continued rapid appreciation in coastal markets could certainly create conditions that would be ripe for significant price declines, however, it is quite probable that those markets will simply experience a period of relatively slower growth as incomes catch up and return the markets to more balanced levels.

Moreover, any reasonable rise in mortgage rates is likely to slow house price appreciation, but not stop it. The fundamental element most “bubble” advocates espouse as the reason for a susceptible change in prices is rising interest rates. Yet, the direction of interest rates tends to follow growth in the economy. Most economists agree economic growth is expected to continue its recent strong pattern, which will solidify the demand for housing through increased employment and income gains. This dynamic provides some offset to the consequences of an eventual rise in mortgage rates.

While home prices in some local economies are vulnerable, appreciation rates do not tend to change too abruptly. Consumer behavior in housing is very different than it is in the stock market. For one thing, homeowners are less likely to sell below expected current market prices. As a result, fewer homes are placed on the market, in effect, reducing supply pressures and helping to prop-up prices.

Consequently, we expect that, unless there are significant downturns in regional economies, housing prices in most markets will not go from boom-to-bust, but rather are more likely to experience slowly deflating rates of appreciation as mortgage rates rise to reflect an improvement in economic conditions.

— Ted Durant, *Vice President, Analytic Services*

...from Browser to Buyer

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rent a comparable living arrangement, so avoiding that was better than anything," she said.

A major advantage for Lisa during the difficult process of searching for a home was her strong real estate background. In addition to the weekend trips through new neighborhoods as a child, Lisa's understanding of the housing market was bolstered by the fact that her parents were both – for a period – part-time real estate agents.

Even with her strong base of knowledge, however, Lisa had to educate herself on ways to finance her mortgage. "I took a real estate course after college, but back then it was still 'if you don't have 20 percent down then forget it,'" Lisa said. By 1997, when she began shopping around for a house, Lisa had learned about FHA loans –

offered by the U.S. Department of Housing and Urban Development – which could help her get a low down payment. The process to qualify, however, seemed complicated.

co-owned a property in Reston, Virginia that was financed by PrivateMI.

"I probably could have investigated

[PrivateMI] would help me without having the cash up front," she added. "PrivateMI gave me that extra credibility to creditors."

Lisa was also well aware of her limits on the type of place she could afford. "I didn't want to overextend myself," she said. "I wanted to make sure I still had some cash on hand." This forced her to look almost exclusively at apartment-style condos in the area. As a result, Lisa admits that her current home will not be her final destination. "Eventually, I want to move into a single-family home, but I think the next step up would be a townhouse-like condo," she said.

Currently, Lisa is grappling with whether she should start looking into that type of place now or stay in her current home a while longer and continue to build its value. Perhaps she'll start taking the occasional weekend excursion again. 🏠

"I knew that I wasn't going to be able to get 20 percent down, and I knew that [PrivateMI] would help me without having the cash up front. PrivateMI gave me that extra credibility to creditors."

— Lisa Stouffer

Instead, Lisa heeded the advice of her mortgage broker who recommended PrivateMI. In addition, she knew that her father and brother

FHA loans but PrivateMI seemed like an easy way to go," Lisa said. "I knew that I wasn't going to be able to get 20 percent down, and I knew that

...Fairness Act Reintroduced

(continued from page 1)

Nationwide, mortgage insurance covers more than half of the home loans made to African-American and Hispanic borrowers. Similarly, 54 percent of loans made to borrowers with incomes below the median for their area were covered by mortgage insurance.

Currently, buyers are not allowed to deduct the cost of mortgage insurance premiums from their Federal taxes – keeping homeownership out of reach of many low and middle-income Americans. Mortgage insurance tax deductibility would help to lower the cost burden of homeownership for many families.

"We certainly believe in this bill and feel that – especially in light of President Bush's goal of achieving 5.5 million new homeowners by 2010 – this is one of the best ways to add many hardworking and well-deserving Americans to the ranks of homeownership," said MICA Executive Vice President Suzanne C. Hutchinson.

"Mortgage insurance tax deductibility would help to lower the cost burden of homeownership for many families."

— William V. Nutt, Jr., President of MICA

A number of groups including CFA, the Fraternal Order of Police, the United Brotherhood of Carpenters & Joiners of America, Citizens Against Government Waste, the Urban

League and the National League of Cities, among others, have already announced their support of the initiative.

"This bill really is a win-win for everyone involved," said Nutt. "The overwhelming bipartisan support it has received thus far, as well as the diverse group of organizations that have openly supported the bill, speaks to this. We hope that this will be the year this legislation becomes the law of the land." 🏠

National Groups Supporting Tax Deduction Initiative

African American Republican Leadership Council

American Federation of Teachers
Americans for Tax Reform

American Homeowners Grassroots Alliance

Bakery, Confectionery, Tobacco Workers & Grain Millers

Citizens Against Government Waste
Consumer Federation of America

Cuban American National Council
CUNA Mutual Group

Financial Services Roundtable

Fraternal Order of Police

Frontiers of Freedom

Hispanic Alliance for Progress

Hispanic War Veterans of America

International Brotherhood of Teamsters

Indian American Republican Council
The Latino Coalition

League of United Latin American Citizens

Manufactured Housing Institute

Mortgage Bankers Association

Mortgage Insurance Companies of America

National Association of Hispanic Real Estate Professionals

National Association of Mortgage Brokers

National Association of Real Estate Brokers

National Community Reinvestment Coalition

National Conference of Black Mayors

National Consumers League

National Council of La Raza

National Education Association
National League of Cities

National Organization of African Americans in Housing

National Puerto Rican Coalition

National Taxpayers Union

National Training and Information Center

National Urban League

Real Estate Services Providers Council

Service Employees International Union

United Brotherhood of Carpenters & Joiners of America

U.S. Hispanic Chamber of Commerce

United States – Mexico Cultural and Educational Foundation



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