



# PrivateMI

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## P E R S P E C T I V E

### PrivateMI Gives Renter A Home of Her Own

For Desirea Hughes, last-minute Thanksgiving preparations were more complicated than running out of rolls. But she didn't mind; she was hosting Thanksgiving dinner for family and friends less than a week after moving into her townhouse, thanks to a low down payment made possible by private mortgage insurance (PrivateMI).

Desirea, a 31-year-old IT recruiting specialist, purchased the three-bedroom townhouse in Germantown, Maryland several weeks earlier. She had been renting since she moved to the Washington, DC area three years ago. After receiving a promotion and salary increase, she decided the time was right to buy. Though her previous apartment was close to work, it did not have a yard, dishwasher or even air conditioning.

"I moved for more space, better schools and a better neighborhood," Desirea said. "I wanted to invest in something that was mine, as opposed to paying rent and giving my money away."

She had not attempted to purchase a home previously because she didn't

know how she would be able to afford it. Desirea qualified for a Montgomery County-based program for first-time home buyers that helped with part of the down payment. The program also taught her how to get a home and how to budget for homeownership. Working with a real estate agent who told her about a loan with a lower down payment using PrivateMI, Desirea began her search.

After looking at about 10 homes, she chose a townhouse located near a tranquil lake. It had an open floor plan, a contemporary look and feel, nice woodwork and ample space. She was so impressed with the design of the stairway the first time she saw the home that she didn't remember that it was brick, which was something she was looking for.

When Desirea first looked at the townhouse in early July, renters lived there. Not wanting to disrupt their lease, the previous owner did not want to settle until the fall. This was acceptable to Desirea, who had more time to plan redecoration and save additional money for closing.

With a lower down payment and PrivateMI, Desirea found that she could do more with her new home, such as replacing the carpet, installing a tile floor in the kitchen and painting the interior. Not wanting to have guests and no furniture, Desirea also purchased a sofa, chairs, a new guest bedroom set and even a new washer and dryer.

Moving in the Friday before Thanksgiving was hectic. Three sets of contractors – the carpet and tile installers and the painters – were working in the new house and none of the work was completed on time. In fact, the carpet contractors were in her home until 10:00 p.m. the night



Desirea Hughes in her townhouse.

### PrivateMI Industry Projects Growth in Homeownership

The outlook for homeownership is solid, with growth projected in homeownership rates and forecasts of home prices remaining sound over the next two years, according to PrivateMI companies.

For example, a top executive at Mortgage Guaranty Insurance Corp. (MGIC) predicted that homeownership, now at 68 percent, could reach 71 percent of U.S. households this decade, with projections of as many as 15 million new homeowners this decade.

Much of that growth is expected to come from immigrants and minorities, two fast-growing groups that are significantly below the average homeownership rate – at about 48 percent, said J. Michael Lauer, Executive Vice President and Chief Financial Officer of the Milwaukee-based company.

Many of these buyers will have less than a 20 percent down payment and will require PrivateMI, which helps

people get into a home with a down payment of 3 percent or less. Lauer predicted in a speech at a financial services conference that homeowners will generate between \$1 trillion and \$2 trillion in mortgage originations this decade, and nearly one in five loans will require PrivateMI.

Meanwhile, data compiled by PMI Mortgage Insurance Co., headquartered in San Francisco, foresees single-family home prices remaining solid over the next two years. Based on its analysis and experience, PMI said it believes the housing markets will remain stable because of improvements in industrial production, mortgage interest rates, a continued high level of single-family real estate transactions and a relatively

low supply of inventory of homes for sale.

The PMI Risk Index, issued quarterly, is a statistical model based on certain measures of economic activity and conditions that PMI believes is predictive of the relative likelihood of home price declines exceeding 10 percent over the next two years.

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## PrivateMI is the Sensible Choice for Home Buyers

For the typical home buyer, a single mortgage with cancelable private mortgage insurance (PrivateMI) costs less over the life of the loan and makes more sense than so-called “piggyback” loans being marketed by some loan originators.

The Mortgage Insurance Companies of America (MICA) notes that some loan originators have been promoting loan structures such as 80-10-10 loans without mentioning the downsides of this option for some families.

In an 80-10-10 loan, the home buyer puts 10 percent down, borrows

“When comparing costs between a single mortgage loan with PrivateMI and a first and second trust in an 80-10-10 structure, the loan with PrivateMI is, in most cases, less costly to the borrower over the life of the loan,” said Suzanne C. Hutchinson, MICA Executive Vice President.

**“When comparing costs between a single mortgage loan with PrivateMI and a first and second trust in an 80-10-10 structure, the loan with PrivateMI is, in most cases, less costly to the borrower over the life of the loan.”**

— *Suzanne C. Hutchinson, MICA Executive Vice President*

another 10 percent through a second mortgage (with a higher interest rate) and finances 80 percent through a conventional mortgage. Alternatively, PrivateMI enables home buyers to put down as little as 3 percent and even less for qualified borrowers. Once enough equity is achieved along with a good payment history, PrivateMI premiums can be cancelled.

A MICA comparison between 80-10-10 loans and PrivateMI showed:

**80-10-10 loans are not cancelable.** Payments on the second mortgage do not stop until the loan is paid in full, while PrivateMI payments can be cancelled when enough equity is accrued. Borrowers also may receive a refund of PrivateMI premiums,

depending on the payment plan selected at origination.

**Home equity grows faster with PrivateMI.** Equity accrues faster using a loan with PrivateMI than with an 80-10-10 since more of each monthly payment goes toward reducing the principal balance (due to lower interest costs). In addition, 80-10-10s create a second lien at origination, meaning that borrowers will find it more difficult to tap their home equity for other things such as college tuition, furniture or home improvements.

**PrivateMI generally costs less over the life of the loan.** When comparing costs between a single mortgage loan with PrivateMI versus an 80-10-10, the loan with PrivateMI typically results in lower monthly payments and lower life-of-loan costs. When cancellation is factored in, the savings are even greater.

**80-10-10 loans often have balloon payments which cloud the financial horizon.** While originators of 80-10-10s typically amortize the second “10” over 30 years to minimize

monthly costs, they “call” the mortgage after 5, 10 or 15 years. This results in a balloon payment that most borrowers will have to pay either by tapping their home equity or by obtaining a new loan, often at less favorable terms.

**A single mortgage loan with PrivateMI is more predictable than a piggyback loan with an adjustable rate.** Many 80-10-10 structures use introductory adjustable interest rates to keep down costs. However, when interest rates rise, homeowners find that their total monthly mortgage payment increases as well. In contrast, a single mortgage loan with PrivateMI represents a fixed cost.

“Prospective homeowners should investigate all their financing options, and they will usually find that a single loan with PrivateMI is a better deal for them than an 80-10-10,” Hutchinson said. “Online calculators on [www.PrivateMI.com](http://www.PrivateMI.com) can show people how PrivateMI can help them get into a home sooner and for less money down.” 🏠

## PrivateMI Online Kit Helps Homeowners Seeking Cancellation Information

More than 22,000 Internet users have accessed a free online PrivateMI cancellation kit in the year since it was first introduced by the Mortgage Insurance Companies of America (MICA).

The cancellation kit is located on MICA's consumer Web site – [www.PrivateMI.com](http://www.PrivateMI.com) – and is designed to help borrowers determine whether they are eligible to cancel PrivateMI. The kit, which can be downloaded, includes a step-by-step guide to cancellation, frequently asked questions about cancellation, sample letters to loan servicers, background on cancellation laws and a glossary.

MICA began offering the online cancellation kit in May, 2001 because of the industry's long-standing position that borrowers should not pay PrivateMI premiums any longer than necessary.

“We're glad that so many consumers have accessed the Online

Cancellation Kit,” said MICA Executive Vice President Suzanne C. Hutchinson. “The lower down payment required with PrivateMI means that families can buy a home sooner and for less money down. As borrowers acquire sufficient equity in their home, MICA's free online information package provides useful tools to help them with PrivateMI cancellation.”

A cancellation calculator found on the Web site helps consumers determine when they will be eligible to cancel their PrivateMI. This feature is the most popular calculator on [www.PrivateMI.com](http://www.PrivateMI.com).

“Cancellation of PrivateMI should not be difficult or costly,” Hutchinson said. “This totally free kit has proved

to be popular with consumers who are looking for alternatives to the fees that other services charge for helping people who want to cancel PrivateMI.”

PrivateMI enables families to buy a home with a low down payment of 3 percent or less for qualified borrowers.

There are two general ways to cancel PrivateMI:

- Under a federal law called the Homeowners Protection Act of 1998, servicers are required to automatically terminate PrivateMI coverage on most loans originated after July 29, 1999 when the loan is paid down to 78 percent loan-to-value, which means that con-



Online Cancellation Kit.

sumers have 22 percent equity in their home.

- Cancellation requirements are different for loans originated before the Homeowners Protection Act went into effect and may vary by state. The homeowner's loan servicer can explain requirements for cancelling PrivateMI on individual loans. In general, homeowners can request PrivateMI cancellation once they have an 80 percent loan-to-value – meaning they have 20 percent equity in their home. 🏠

## PrivateMI Issue Focus

What is your company doing in the technology arena to help improve the home-buying experience?

### United Guaranty Corp.

"United Guaranty is firmly committed to providing Internet-based and other electronic technology that speeds the mortgage loan process for both consumers and lenders. Our underlying philosophy is that faster mortgage insurance processes mean improved lender efficiency and lower costs for the consumer.

"In 2000, United Guaranty's e-Business group launched MI Guide<sup>SM</sup> – the most comprehensive Internet portal in the industry. Today, 19 Web-based products take only seconds to provide MI services that used to require from 30 minutes to overnight.

"Through this unique portal, lenders can receive the mortgage insurance commitment in seconds and the GSE automated underwriting recommendation in minutes, dramatically trimming both time and cost from the loan processing function. Ultimately, this translates into a shorter loan turnaround for the lender, fewer costly delays in processing, and a smoother transaction for the consumer."

– *Tripp Waddell, UGC Senior Vice President and Chief Information Officer*

### PMI Mortgage Insurance Co.

"PMI has a long history as an innovative user of technology. Our core competencies in the risk management area, coupled with our ability to build highly predictive risk models, have enabled PMI to customize our product lines and expand homeownership opportunities.

"Recently our technology initiatives have been focused on connectivity and ease of use, as evidenced by all the new enhancements and access points to our e-PMI Internet facilities. Our ability to deliver and service MI and underwriting products and services effectively and efficiently to our lender customers is critical to their capacity to improve the home-buying experience.

"The originators and lenders are closest to the borrower. Our technology now delivers the right products and services where they need them, when they need them, and as fast as they need them."

– *Steve Smith, PMI President and Chief Operating Officer*

### Mortgage Guaranty Insurance Corp.

"Our technologies work behind the scenes to help lenders serve consumers more promptly. We have a

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subsidiary, eMagic.com, which is a neutral electronic hub in which mortgage service providers and investors compete on a level playing field. Approximately 10,000 loan officers use eMagic.com to electronically order services such as title insurance, PrivateMI, flood certifications, property valuations, and underwriting. They log loans into the Web site, order services, track the progress of their loans, and select an investor or wholesale lender from a growing list of participating companies that now numbers roughly 200. Lenders who use eMagic.com to manage their workflow are able to give consumers answers and status updates more promptly.

"We also produce a PC-based program that helps lenders underwrite loans to self-employed borrowers. Our program is widely used throughout the mortgage industry and has given lenders the confidence to venture into low down payment lending to people who are self-employed and have to use non-traditional documentation to verify their income, assets, and liabilities.

"Another product of ours is Defender, an interactive-voice response (IVR) system that large lenders, representing over \$1.3 trillion in outstanding mortgage debt, use to manage incoming call volumes and maintain stellar customer service. The system has what is called a 'SmartQueue' feature in which consumers who are most likely to have an immediate loan need, such as a refinance or home equity loan, are routed immediately to a loan agent. Other callers are presented with a menu of options, which includes listening to the latest interest rates and loan product offerings. At any time, callers can hit '0' to speak with a customer service rep-

resentative. Defender has greatly improved customer service by reducing call-waiting times and giving borrowers the ability to get prompt answers to whatever questions they

may have. Moreover, it has more than doubled servicers' application-to-call ratio and is significantly improving servicers' customer retention rates."

– *Curt Culver, MGIC President and Chief Executive Officer*

### Radian Guaranty Inc.

"By combining traditional mortgage insurance with RadianExpress' technology, Radian Guaranty has developed a fast and cost-effective method of streamlining the entire mortgage process. Our technology

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### GE Mortgage Insurance

"Our focus is on making our lender customers more productive and more profitable, and there's no question that technology is at the core of our success. We've digitized our business, creating a comprehensive on-

line platform, [www.gemortgageinsurance.com](http://www.gemortgageinsurance.com), that provides instant access to unique products and online tools that help lenders make more loans and service them better. Named the industry's "Web site of the Year," it's changing the game in mortgage insurance.

"That's because it combines the speed of the Internet and the proven advantages of Six Sigma methodology to Web-enable our customer relationships. Digitizing our business allows us to provide online access to a broad selection of Product & Capital Solutions designed to help lenders expand their market and increase profitability; Speed & Productivity Tools that reduce expenses and accelerate response to borrowers; and Consumer & Channel Pull Solutions to increase retail and wholesale mortgage originations through the GE network of products and services.

"We're also using technology to help educate consumers about what to expect, what to look for, and how best to work with lenders and others. Our [www.GEhomebuyerresources.com](http://www.GEhomebuyerresources.com)

Web site, now available in both English and Spanish, provides information on everything from house hunting to a step-by-step tour of the mortgage process. Using the web is clearly the most effective way to make this information available to the widest possible audience. It's another way to help our lender customers succeed and to help people buy the homes of their dreams."

– *Tom Mann, GE Mortgage Insurance, President and Chief Executive Officer*

## ...A Home of Her Own

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before Thanksgiving. It was important to Desirea that the house be ready for her dinner guests on Thanksgiving.

Looking back on the experience, she can laugh now and realize that she put too much pressure on herself.

**"I wanted to invest in something that was mine, as opposed to paying rent and giving my money away."**

– Desirea Hughes

Seeing the fruits of her labor, all that she saved up for and dreamed about, gives her a real sense of accomplishment.

"My new home and neighborhood are wonderful," Desirea said. "My neighbors offer really good advice and help me take care of my lawn. It's quiet, except for the sound of the geese. I live near a lake, which I can view from my front door. It's definitely more peaceful than my apartment."

Having always lived in an urban setting, Desirea enjoys her new neigh-

borhood. The area is friendly, neighborhood-oriented, and diverse, with good schools and a low crime rate.

Though her previous apartment was so close

that it could be seen from her office window, she does not mind the 30-minute commute she faces every day on a busy road.

"I look forward to going back home every night," she said. "I can honestly appreciate paying my mortgage each month. I have my own space and freedom to do what I want to do. I enjoy little things, like turning on air conditioning and having the entire house cool or going in the basement and curling up with a good book by the fireplace."



Desirea Hughes and Duke.

Her dog Duke, a 6-year-old chocolate Labrador that she adopted from a rescue group two days after moving in to her new home, shares the townhouse with her and loves the nearby lake where they take walks daily.

"This is really Duke's house," laughed Desirea. "I just pay the mortgage." 🏠

## ...Growth in Homeownership

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This index assesses the risk of significant declines in home prices in the top 50 metropolitan statistical areas (MSAs) in the country. Norfolk-Virginia Beach, Virginia had the lowest score among MSAs rated by PMI, earning it the distinction of the MSA least likely to experience significant home price declines.

In addition, PMI assigned relative "risk grades" from 1 to 1,000 to each MSA as part of its risk management practices – the higher the number, the greater the risk for a price decline. The risk grades are assigned after considering the PMI Risk Index and other measures of economic conditions. These include trends in local home prices, local industry diversification and unusual events such as the September 11 terrorist attacks.

The New England and Mid Atlantic regions had the lowest average PMI Risk scores, while higher risk scores went to areas in the Pacific regions. Generally, areas that were graded "higher risk" were those that may have previously had strong home price appreciation and are heavily dependant upon manufacturing, particularly high-tech manufacturing, according to PMI. 🏠

## NEWS IN BRIEF

**United Guaranty Corp.** – United Guaranty Corporation has prepared a Chinese-language version of its online homebuyer education program, The Road to Home Ownership®. The Web-based course was designed to give borrowers an online alternative to attending classes or participating in telephone interviews with the lender.

The addition of the Chinese-language version of United Guaranty's homebuying course is part of the company's overall commitment to expanding homeownership opportunities for immigrant and minority populations. The Road to Home Ownership® is now available in three languages: English-language materials were released in 1993, and a Spanish-language version was published in 1994. All versions are available online.

"Offering the pre-purchase course in different languages not only enhances our educational program, but it expands the means through which first-time home buyers can complete this course," said Charles Palmer, Emerging Markets Manager. "With this additional version, Chinese-speaking borrowers now have the option to complete the home buyer course online."

**Mortgage Guaranty Insurance Corp.** – A \$1 million flexible mortgage pilot program has been launched for a landmark Milwaukee condominium complex by Mortgage Guaranty Insurance Corp. (MGIC) and several other partners.

Renters occupy most of the Woodlands complex, which has been confronted with security problems in recent years. Recognizing the relationship between homeownership and community stability, the Milwaukee Neighborhood Improvement Development Corporation (NIDC) purchased and renovated 42 units at the complex to be resold at affordable prices.

Under the pilot, these units are offered for \$30,000 and include 15-year fixed rate conventional mortgages. In order to help borrowers build equity, a 10 percent down payment is required. MGIC will provide PrivateMI on loans with low down payments, thereby making loans possible by reducing investors' exposure to default losses.

"We are particularly pleased to be able to take part in such an important

program for Milwaukee," said Geoffrey Cooper, Director–Public Policy and Corporate Relations at MGIC. "A successful turnaround of the Woodlands can have significant positive implications for the neighborhood."

**PMI Group, Inc.** – The PMI Group has announced that it will contribute \$1 million over the next five years to the National Council of La Raza (NCLR) to help create a permanent endowment fund. NCLR, a private, nonprofit, nonpartisan organization, seeks to address and meet the needs of the Hispanic American community.

"Helping Hispanic Americans attain the American dream of owning their home is a critical aspect of the National Council of La Raza's program work. I am deeply grateful for Roger Haughton and the PMI Group's vision in supporting NCLR and its housing initiatives through our 'Empowering An American Community Campaign' – a campaign to build a permanent program endowment fund," said Raul Yzaguirre, NCLR President. "In addition, Jose Villarreal, NCLR's board chair, and I enthusiastically welcome Mr. Haughton as a new member of

NCLR board of directors. He will bring an extraordinary breadth of experience and true compassion to NCLR's work."

"The National Council of La Raza is an outstanding organization that PMI is proud to be associated with," said Haughton, Chairman and CEO of the PMI Group, Inc. "Having recently been elected to the NCLR board, I look forward to working with NCLR to expand opportunities within the Hispanic community, particularly homeownership opportunities, an effort that is especially important to PMI." 🏠



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