TODAY. NOT SOMEDAY.

PrivateMI

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PERSPECTIVE

Starting a New Life in America, with the Help of PrivateMI

Wearing a Polo T-shirt, jeans and a pair of loafers, 53-year-old Alejandro Cabal stands in the living room of his condominium in Hallandale, Florida looking out of his favorite window.

Out there, he sees a beautiful park just minutes away from white sand and clear water that stretches out beyond the horizon toward another world, a different world, a world that he and his wife, Maria, left just four and a half years ago to begin a new life in the United States.

Alejandro is an architect. He works for Remos Building and Development Corp., a commercial developer headquartered in western Broward County.

Other than dealing with the sometimes-tricky U.S. building restrictions, Alejandro seems to have this "American Dream" thing down. He lives by the beach with his wife of 30 years, he pays a low monthly mortgage on a condo that has more than doubled in value since he purchased it two and a half years ago, and he's put his kids through college.

Alejandro grew up in the Colombian town of Buga, located in the department (equivalent to a U.S. state) of Valle Del Cauca, an agricultural region known for its sugar and coffee crops. Alejandro studied architecture at the Universidad Javeriana, in Bogotá, the capital of Colombia. During that time, he met Maria and the two were married before graduating. After college, Alejandro started Cabal & Solanilla, a design firm in Cali, the capital of Valle Del Cauca.

"In Colombia," says Alejandro, "I designed everything, including hotels, hospitals and individual upper-class homes." One such home designed by Alejandro was named one of Latin America's most beautiful homes by the Columbian magazine, *Escala*. Despite his success, Alejandro felt that there were too many security issues and financial limitations in Colombia. "Colombia has its problems

Alejandro Cabal stands in the living room of his Florida condominium in front of a painting by Columbian artist Dolcey Vergara.

and we wanted to start a new life," he says. In 2001, the Cabals, having raised two children — Alejandro Jr. and Patricia,— felt it was the right time to make the biggest change of their lives.

"I love the windows," says Alejandro about his third-floor condo in the De Soto Park South complex. The place has two bedrooms and one and a half bathrooms — just enough for the couple and frequent visits from the kids. "The living room window is my favorite. It's 20 feet long and eight feet tall and it looks out on the beautiful trees and the park," he says. Alejandro also loves the area. "Eight years ago, Hallandale was just a little town with mostly retired people," he explains. "Now, there are a lot of new people, young professionals and businesses. The area is growing. Plus,

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How to Ride the Real Estate Roller Coaster

by Peter G. Miller

Americans now own personal real estate worth more than $10 trillion, but a growing number of homeowners are getting less than their share. New and innovative forms of mortgage financing make it easy to buy a home, but not without additional risk and higher costs — gambles which in some cases can leave owners house poor, deeply in debt and even bankrupt.

The past few years have seen unprecedented real estate price increases. According to the National Association of Realtors, home values nationwide rose 7 percent in 2002, 7.5 percent in 2003 and 8.3 percent in 2004. These broad general figures — as high as they are — hide an important reality: They're understated.

If you bought a typical home in 2001, you probably paid $147,800 according to NAR. If the value increased 7 percent, the home was suddenly worth $158,100 at the end of 2002. That 7 percent increase in value is based on the price paid to buy the property, but how many people pay cash for their homes? Instead, many people buy with 10 percent down, 5 percent down or less. If you put down 5 percent in 2001, you paid $7,390 plus closing costs to acquire a home while the value increased $10,300. You more than doubled your downpayment cash investment in a year. Where could you do better?

Powered by low interest rates, financing with little down, limited new construction and rising populations in most metro areas, real estate values have soared in the past few years. A home which cost $148,000 in 2001 likely was worth $208,000 in the middle of 2005.

But fast-rising home values — especially in major metro areas — also have a major downside: They make homes unaffordable for many potential buyers.

To get around the affordability issue lenders began to popularize obscure forms of financing. It wasn't that these loan formats were new, and it wasn't that they were not appropriate for some buyers. The problem is that such loans were never designed for large numbers of borrowers, borrowers with less tolerance for marketplace risks.

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What's Inside

PrivateMI Companies Dedicated to Financial Literacy Initiatives

In response to the continuing growth of the residential housing market and the resulting proliferation of increasingly complex housing finance products, private mortgage insurance (PrivateMI) companies are offering a variety of financial literacy tools to help consumers understand the responsible use of credit and navigate the financial aspects of buying a home.

The Mortgage Insurance Companies of America (MICA), the trade association representing the private mortgage industry, says its members are dedicated to putting people into homes sooner, for less money down, and to ensure that they are able to stay in those homes.

"Our member companies are committed to helping as many people as possible achieve homeownership. That is the main path to wealth for most people, including lower income and minority Americans," said MICA Executive Vice President Suzanne C. Hutchinson. "Providing financial literacy materials, resources and tools is a critical part of that commitment."

AIG United Guaranty recently launched an initiative to help high school students understand the importance of using credit responsibly. The company is providing its credit score-teaching game for free. Titled

"The Big Score®," the game covers the history of credit scoring, the components of a consumer's credit score, ways to improve a low credit score and the implications of credit score ranges.

The game will be offered through a partnership with the National Association of Mortgage Brokers and Distributive Education Clubs of America Incorporated (DECA), a student organization that supports the development of marketing and management skills. It has been sent to 2,000 DECA clubs to be used as a component of credit scoring classes. For an overview of The Big Score®, go to http://www.ugcorp.com/trainingopportunitiesgames.html.

"Our goal is for students to understand how their individual behaviors can impact their financial futures," said Christine Hagan, assistant Vice President of Mortgage Industry Training at AIG United Guaranty. Meanwhile, as part of its commitment to financial literacy education, Republic Mortgage Insurance Company (RMIC) has donated copies of a textbook on financial planning and money management to high schools in 12 states: Mississippi, California, North Carolina, Louisiana, Colorado, Florida, Virginia, Texas, Arizona, Pennsylvania, Georgia and Oklahoma. The textbook donations are made in partnership with groups such as Consumer Credit Counseling Services, which publishes the book.

The textbook, "How Chuck Taylor Got What He Wanted (And How You Can, Too!)," chronicles the financial adventures — and misadventures — of fictional teenager Chuck Taylor, his family and his friends. The textbook uses Chuck's story as a narrative as it explores money management fundamentals. Topics include setting up and using a checking account, understanding the difference between necessities and luxuries, and setting realistic financial goals. Buying and financing major purchases such as a home or car, using credit cards, and learning the value and importance of insurance are also covered.

"As part of the mortgage finance industry, we at RMIC realize financial education is the foundation for success of individuals, companies and society," said William A. Simpson, RMIC Chairman. "This foundation must be developed at a young age, not just when customers fill out their first loan application. Today's students are tomorrow's home buyers, and young people need sound credit education and experience when they buy a home."

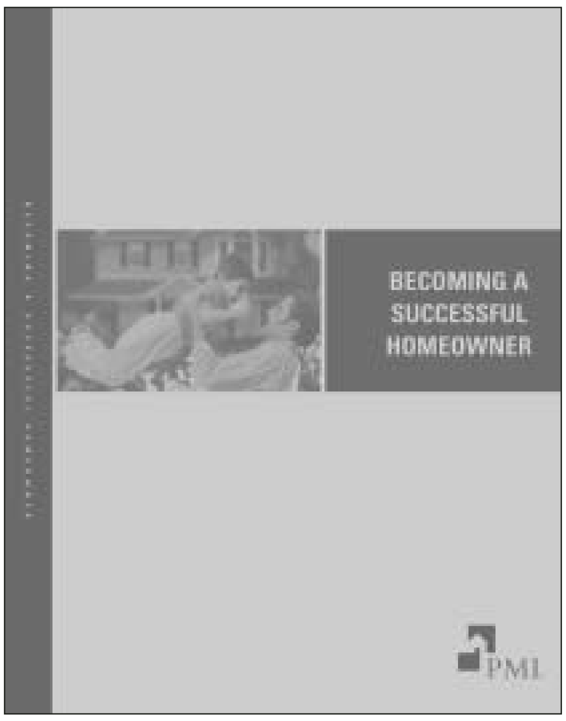
PMI Mortgage Insurance Co. provides an online resource for first-time home buyers seeking information on an array of innovative programs and initiatives at http://www.pmigroup.com/emerging_markets/homebuyered.html.

In addition, PMI offers a detailed counseling course in home buyer education — now available in both English and Spanish — to low- and moderate-income home buyers. Consumers may take the course via telephone or through an interactive online session. Course participants are provided with a step-by-step guide, "Becoming a Successful Homeowner," along with corresponding activity worksheets.

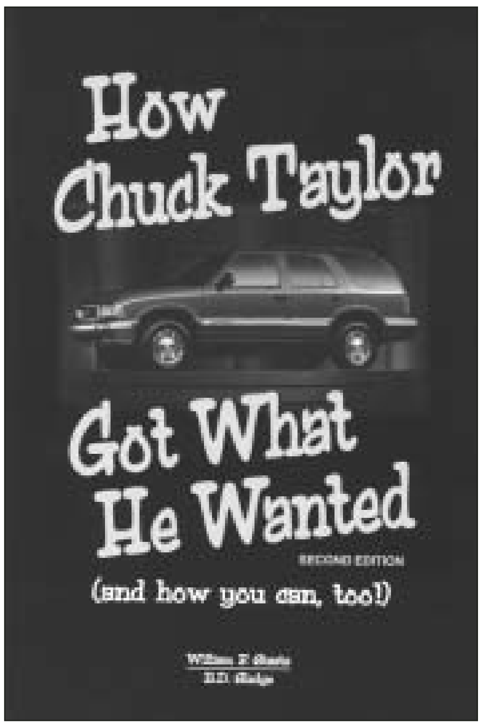
Similarly, Mortgage Guaranty Insurance Corporation (MGIC) places a premium on education and training. MGIC's Tele-Education program prepares people for homeownership by building an understanding of the various components of the home buying process. This includes managing finances, selecting a home, working with real estate professionals, and the responsibilities of owning and maintaining a home.

MGIC also offers a brochure titled "Credit: An Operator's Manual," which provides an overview of when it makes sense to use credit, such as building equity and qualifying for certain tax deductions, among other good reasons. The brochure points out ways to obtain credit, how to read a credit report, the dangers of becoming overextended on credit and how to establish a good credit history. Both MGIC's Tele-Education program and brochure are available in English and Spanish.

Meanwhile, Genworth Mortgage Insurance Corporation is working with Hispanic real estate agents to help increase the number of Hispanic homeowners throughout the United States. The company announced its expanded initiative at the 2005 National Association of Hispanic Real Estate Professionals (NAHREP) Marketing Convention and Expo last October.



Genworth gave all convention attendees, and NAHREP members, a new bilingual kit designed to help real estate agents and lenders better serve their Hispanic customers. The kit contains information



on using mortgage insurance to make mortgage loans possible for buyers who cannot make the traditional 20 percent down payment. The kit also includes information on "Tu Casa Ahora (Your Home Now)," Genworth's Spanish language Web site that provides information about the home buying process.

"We believe that giving real estate professionals insights into the latest industry trends and tools will make their jobs easier," said Jorge Caceres, Director of Emerging Markets for Genworth's mortgage insurance business. "We want to help them serve more Latino customers and increase homeownership among the nation's largest minority group."

PrivateMI Issue Focus

To what extent will the natural disasters in the Gulf region impact the national economy in general and housing in particular?

PMI Mortgage Insurance Co.

Hurricanes Katrina and Rita were more devastating than any other natural disaster in U.S. history. With an estimated $200 billion in damage, the road to cleanup is a long and arduous one. But Americans are known for picking up the pieces and creating stronger, more resilient communities. And, nowhere is this more evident than in the Gulf region.

Nationwide, citizens, corporations, and volunteer groups have come together to help the more than 1 million displaced residents of the region rebuild their lives. Hundreds of companies across the country have stepped up to aid in relief efforts. Corporate donations alone have topped $1 billion, with 245 companies pledging at least $1 million in cash or in-kind donations. PMI contributed a $2 million relief package composed of approximately $1 million in donated single-family homes, as well as donations to Habitat for Humanity, the American Red Cross, the Salvation Army and the Humane Society.

Countless volunteers have descended on the Gulf states to assist in reconstructing the affected homes and neighborhoods and already displaced residents have returned to the area in search of new homes. We can expect a surge in construction activity as new homes are built, damaged homes are renovated and infrastructure is repaired. Although the destruction is extensive, there is no doubt these regions will be rebuilt into thriving communities yet again. As a testament to this, the first commercial ship entered the Port of New Orleans just two weeks after Hurricane Katrina submerged the city in flood waters.

— W. Roger Haughton, *Chairman and Chief Executive Officer, The PMI Group, Inc.*

AIG United Guaranty

In the short term, the nation will primarily feel the effects of the hurricanes in the form of higher energy prices, which will force many consumers to tighten their belts this winter. Overall, the storms' effects will be temporary and focused primarily on the Gulf region. There is likely to be some increase in national building materials costs as reconstruction ramps up in the region. Though many businesses were damaged or destroyed, within a few months the rebuilding effort will grow to provide many new employment opportunities and a spurt in housing.

Despite Hurricanes Katrina and Rita, the U.S. economy had a strong third quarter. Gross domestic product increased, marking the 15th-straight quarter of positive economic growth and the ninth-straight quarter of a GDP growth rate of 3 percent or more, the longest such stretch since the mid-1980s. Jobless claims are falling, and long-term interest rates are only moderately higher than the low rates reached in late spring. Consumer spending is strong, and government spending has increased significantly due to relief funds being directed to the Gulf Coast. Proceeds from insurance policies will further boost spending in the Gulf region and benefit the overall US economy in 2006.

Nevertheless, energy prices are still high and consumers cannot ignore them. Increased government deficits due to the Iraq conflict and disaster relief efforts are going to put pressure on the Federal Reserve to continue interest rate increases in order to combat inflation. The large number of consumers with revolving debt, including credit cards and home equity loans, will feel these increases in their monthly payments. Piggyback mortgages are already becoming less effective in lowering payments and as a result, bank balances of second mortgages are likely to slow as consumers adjust to the higher payments. Increased mortgage costs will drive down affordability in many metro areas and we are likely to see a significant increase in homes for-sale inventories over the winter because home prices will not adjust rapidly to the reduced demand. Home prices should stay at current levels in many markets, unless inventories continue to build into the summer months, at which time we will see the beginnings of aggressive discounting in some markets.

— Dan Walker, *Senior Vice President*

Mortgage Guaranty Insurance Corporation

In addition to the devastating loss of life and property, Katrina leaves in its wake a number of questions regarding its short- and long-term economic impact. How much will the storm damage affect already escalating energy costs? Can some good come from the storm by way of job growth? Will evacuees return home?

Some questions are already being answered. Charitable funds, Federal aid money, and insurance payments have begun flowing into affected areas. This is giving the regional economy a healthy shot in the arm as recovery efforts get underway.

Also on the bright side, after an initial knee-jerk reaction, oil prices have receded, helping to diminish some of the mounting strain on consumers' wallets. However, damage to the energy infrastructure has taken its toll. Economists expect a significant spike in heating costs for the coming winter months. It is also likely that home construction costs will rise across the country while rebuilding efforts increase the demand for lumber and other building materials.

The rebuilding boom is likely to spawn new jobs. This growth in the construction sector may give a lackluster Southern economy the boost it has needed, though only time will tell what the overall impact on permanent employment will be.

High pre-storm unemployment rates, combined with low homeownership in the hardest hit regions could push some evacuees to resettle in other areas. If this occurs, these cities could get a boost from the new demand for housing and office space. At the same time, however, it will also weaken the labor pools in New Orleans and the Gulfport/Biloxi areas.

While many questions will remain for months to come, one thing remains certain: in today's global economy, natural disasters like Hurricane Katrina impact far more than just the region they hit directly.

— Neil Siegel, *Senior Market Analyst*

Legislative Update: Mortgage Insurance Tax Deductibility

Congress is expected to consider the issue of mortgage insurance tax deductibility early this year as part of the budget reconciliation package still pending in the House of Representatives. The Senate, for the third time in three years, has approved the measure which would permit new homeowners with incomes under $100,000 to deduct private and government mortgage insurance premiums from their federal tax payment for 2007.

The initiative has strong bipartisan support and the backing of a wide array of national groups ranging from Americans for Tax Reform, the Fraternal Order of Police and Citizens Against Government Waste to the Consumer Federation of American, La Raza and the National Urban League."This proposal would help low- and moderate-income families trying to buy their first home," said Steve Smith, President of Mortgage Insurance Companies of America (MICA) and Chief Executive Officer of PMI Mortgage Insurance Co. "For those unable to come up with the traditional twenty percent down payment, getting an insured mortgage loan can put them in a home sooner and with less money down. Making mortgage insurance tax deductible would increase the potential for homeownership."

The latest version of the Mortgage Insurance Fairness Act will cover only new loan originations made in tax year 2007 and it will assist many low- to moderate-income and minority home buyers, especially in a rising interest rate environment.

"Homeownership is one of the main roads to acquiring wealth for most Americans," said Suzanne C. Hutchinson, MICA Executive Vice President. "We are hopeful that Congress will approve this important piece of legislation and support what is in the best interest of aspiring homeowners."

...Starting a New Life in America

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you can walk to the beach in about 10 minutes, and I think the beaches in Hallandale are better than Miami's."

The Cabals moved into their condo two and a half years ago when it cost $125,000. Since then, Alejandro estimates the value has appreciated to as much as $260,000, giving the Cabals increased personal wealth and financial security.

Before buying their condo, the Cabals lived in a nearby rental community in Miami called North Bay Village. Though it was a little closer to his work, Alejandro says the area was not as nice and there wasn't as much to do. When they began looking for a condo, they were advised by Seventhe Real Estate — now Brickell Village Real Estate — to look into a low down payment loan with private mortgage insurance (PrivateMI). The Cabals found their condo in the spring of 2003 and closed that July using mortgage insurance provided by Genworth Mortgage Insurance Corporation.

"We plan on being here for a long time," says Alejandro. "The low mortgage allows me to help my children as they begin their careers. Without the PrivateMI, it would have been impossible to have this home."

Despite Colombia's dangers and financial challenges, there are things the Cabals miss about the country, namely family, the delicious food, the beautiful surroundings and the sometimes "less stressful" way of life. Now, however, Alejandro is a U.S. citizen, Maria has a second college degree, and the Cabals are closer to Maria's brothers and sisters, who also live in the United States. Most important, "we are happy," Alejandro says.

Alejandro looks out of his big living room window and knows that in the distance there are fond memories of a different world. But, the architect has designed and built a new life for his family, a more secure life full of potential and financial stability. From where he's standing, it's a beautiful view.

...Real Estate Roller Coaster

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Forms of Financing Where Caution is Advised

- **Stated income** — Borrowers caught inflating incomes may face claims of mortgage fraud.
- **Option loans** — Only allow low payments for the first few years of the loan term. After that, if the borrowers do not have the income to make such payments the property must be sold.
- **Adjustable-rate Mortgages (ARMs)** — For recent ARM borrowers with high loan balances, rising interest rates could substantially impact homeowner budgets, making once-attractive ARMs suddenly unaffordable.

One way to reduce monthly costs is not to repay the loan — at least at first. That's the theory behind interest-only financing. For instance, if you borrow $300,000 at 6 percent, the monthly cost for principal and interest over 30 years is $1,798.65.

But what if $1,800 is too much for your budget. You could also borrow $300,000 on an interest-only basis. With such financing the monthly cost for the first five or 10 years of the loan would be just $1,500 a month.

What about the balance of the loan term? Imagine that no interest was paid for the first five years. That would leave 25 years to repay $300,000. At 6 percent the monthly cost for principal and interest would be $1,932.90 — $432 more than the original interest-only payment and enough to ruin many household budgets.

The new and higher payment is not a problem if your income increases or you can sell the home for a profit. But neither incomes nor home prices always go up.

According to *The New York Times*, incomes nationwide actually fell 4 percent when adjusted for inflation, according to IRS figures.

But what about home prices? Aren't interest-only loans a good gamble given soaring real estate values?

Real estate has traditionally been a long-term investment, something you held for years if not decades. And it is a fact that a number of people have made substantial profits buying real estate in the past few years and quickly re-selling. But that strategy is not for everyone. Even in the midst of one of the strongest national markets seen in years, prices have actually fallen in some areas. An NAR study shows that in mid-2005 existing home prices rose in 142 metro areas — and shrank in seven. There is no guarantee that real estate prices will always rise.

What happens if real estate demand falls? What happens if prices stabilize or, in some markets, actually fall? For those with traditional fixed-rate, conventional loans the problem is minimal because the mortgage cost to remain in the property is stable. But for those with loans where monthly expenses can soar, it may be that the house is both too expensive to afford and not valuable enough to sell and cover the mortgage debt.

It's not just interest-only loans that should concern borrowers and lenders. There are other forms of financing where caution is advised:

- **Stated income** financing allows borrowers to qualify for financing by telling lenders how much they earn. Lenders in the usual case do not verify such claims with stated income loans, but stated income mortgages are reviewed if a borrower defaults and sometimes they're audited when such loans are sold to other lenders. The problem? Borrowers caught inflating incomes may face claims of mortgage fraud.

- **Option loans** give borrowers several payment choices in the first few years of the loan — higher-cost payments so the loan can be repaid in 15 or 30 years, interest-only payments, or 1 percent payments — payments, which produce "negative amortization." With negative amortization the monthly payment is not large enough to even pay interest. The interest not paid is added to the loan amount, increasing the borrower's debt. Option loans, however, only allow low payments for the first few years of the loan term — after that, borrowers must begin to pay off the mortgage with full-sized monthly payments. Of course, if the borrowers do not have the income to make such payments the property must be sold — whether the market is up or down.

- **Adjustable-rate mortgages (ARMs)** have been tremendously valuable to borrowers because interest rates have generally drifted down between 1989 and 2004. Even today's rates, though somewhat higher than 2004, are still low when compared with past decades. For ARM borrowers the potential problem is that rates may again rise and with higher rates come higher monthly costs. For recent ARM borrowers with high loan balances, rising rates could substantially impact homeowner budgets, making once-attractive ARMs suddenly unaffordable.

What to do? Homeownership has been a successful investment and lifestyle choice for most Americans, but real estate is a commodity. Values can change and interest rates can rise. Even years of rising values and falling rates cannot change the reality that all commodities inherently have some level of risk.

Real estate should be bought because it provides shelter and, in most cases, a growing storehouse of value. But real estate should be bought carefully: Don't buy a home that's too large or too costly. Avoid loans where future payments may be much larger — and perhaps unaffordable. Don't assume that incomes can never fall or that demand will never slacken. Always set aside savings for both slow times and opportunities. With such cautions you may not double your wealth overnight, but you will at least sleep well.

Peter G. Miller is the author of the Common-Sense Mortgage, a regular columnist with RealtyTimes.com, and is syndicated nationwide.

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