



Contact: Jonathan Glowacki
Milliman, Inc.
Tel: +262 641 3560
Jonathan.Glowacki@milliman.com

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Press Release

Milliman analysis: Despite economic pressure on home price growth, low interest rates keep mortgage default risk low in 2019 Q3

SEATTLE – FEBRUARY 4, 2020 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the third quarter 2019 results of the Milliman Mortgage Default Index (MMDI), which shows the latest monthly estimate of the lifetime default risk of U.S.-backed mortgages. Default risk is driven by various factors including the risk of a borrower taking on too much debt, underwriting risk (such as loan term, loan purpose, and other influential mortgage features), and economic risk as measured by historical and forecast home prices. The goal of the MMDI is to provide a benchmark to understand trends in U.S. mortgage credit risk.

During the third quarter of 2019, the MMDI for government-sponsored enterprise (GSE) acquisitions (purchased and refinanced loans backed by Freddie Mac and Fannie Mae) decreased to an estimated average default rate of 1.81%, down from 1.96% in Q2. This means that the average lifetime probability of default for all Freddie or Fannie mortgages originated in Q3 2019 was 1.81%. Default risk for the quarter is down thanks to low interest rates that continue to drive activity in the refinance market, which tends to have borrowers with higher credit quality as measured by the original loan-to-value ratio and debt-to-income ratio.

For Ginnie Mae loans, the MMDI rate increased from 7.84% in Q2 to 8.00% in Q3. This uptick is consistent with the overall trend for these loans since 2014, as higher credit quality originations shift toward GSE loans and away from Ginnie Mae loans.

“From 2014 through 2019, home price appreciation has been strong, reducing the credit risk for borrowers who purchased or refinanced over the past five years,” says Jonathan Glowacki, principal and consulting actuary at Milliman and co-author of the MMDI. “However more recently we’re beginning to see slower home price growth – and negative growth in some areas – which may elevate mortgage default risk in the future.”

For more information on the MMDI go to <http://us.milliman.com/mmdi/>.

About Milliman

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit milliman.com.

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