



Changing Times Are Challenging the Mortgage Industry

Mortgage Insurance Offers a Simple, Safe, Smart Solution

By Mark Berkowitz, Vice President-Underwriting & Operations, CMG Mortgage Insurance Company

The old hit song that goes, “The times, they are a-changing ...” perfectly sums up the current state of the mortgage industry. Over the past several weeks, we’ve seen existing home sales drop to a 2-year low, down 22% from last year, and median home prices slip in many parts of the country.

In view of these developments, and following 17 consecutive increases in the Federal Funds rate by the Federal Reserve, it’s time for credit unions to step back and reevaluate their mortgage lending programs. In these changing times, they can benefit from focusing on how they can best serve their members while at the same time protecting their mortgage portfolios.

End of the Piggyback Era

During the past several years, the pressures of increasing demand for affordable, low- and no-down-payment mortgage financing encouraged many cash-strapped credit union members to choose “piggyback” (80-10-10, 80-15-5, or 80-20) mortgage loans, or new and more exotic loan products. Piggybacks, typically consisting of a closed-end first mortgage and a second loan that is often a home equity credit line (HELOC), became popular because rock-bottom interest rates and sky-rocketing home-price appreciation created a unique housing environment in the early years of this century.

Members pursuing the American Dream of homeownership also signed up for interest-only (IO) mortgages or adjustable-rate “payment option”



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mortgages (option ARMs), which have enjoyed popularity with both credit unions and their members, in spite of payment structures that could result in significant increases in the future.

Now, facing higher mortgage rates and a slowdown in home prices, credit unions can better serve their members by taking another look at private mortgage insurance (MI).

MI Offers Protection in Changing Times

MI protects credit unions against default by members who have less than the traditional 20% down payment. With

MI, credit unions can originate mortgage loans for their members with little or no down payment. Across the United States, the average first-time homebuyer has a household income between \$50,000 and \$60,000 and makes a down payment of just 3%. MI has been a staple of the mortgage market for decades, long before piggybacks, IO loans and option ARMs were invented. In fact, loans with MI through CMG MI have helped more than 200,000 credit union members become homeowners since 1994.

In today’s higher mortgage rate environment, piggybacks have lost their edge to MI and may no longer be a better deal for members when compared to CMG MI single-premium MI. For those members who have a small down payment and are considering a piggyback, credit unions should run a comparison of how single-premium MI stacks up. By financing the MI premium into the mortgage, the total mortgage payment for the member may be less than it would be with a piggyback loan.

Here’s how the two options line up for a member who has just 5% (\$12,500) of the down payment on a \$250,000 house. In this case, the piggyback option is compared to a CMG MI single-premium financed product.*

With the piggyback loan, the member takes out a 30-year first mortgage of \$200,000 (80% of the purchase price) at 6.50% and a home equity line of credit of \$37,500 (15% of the purchase price)

* This example is for illustrative purposes only.

at 9.75% for 15 years. The monthly principal and interest payment for the first-lien mortgage would be \$1,264.14 while the monthly principal and interest payment on the second-lien HELOC would be \$397.26, for a total monthly mortgage payment of \$1,661.40.

Compare that to financing the MI premium into the loan amount and here's how it looks: With 5% as the down payment, the member takes out a 95% loan of \$237,500 at 6.5% for 30 years. The recommended MI coverage is 30%, which means the insurance premium is 2.55%, or \$6,056.25. By adding the MI premium to the loan amount, the new loan amount is \$243,556.25, which means the total monthly payment is now \$1,539.44.

Thus, in this example, by financing the MI premium into the loan amount, the member could save nearly \$122 a month, or more than \$1,463 a year. The benefit for the credit union is that it has a happy member and a loan insured against credit default—a much better option in this environment of higher mortgage rates and slowing home-price appreciation than a piggyback loan with no credit default protection. Another benefit to the member (and the credit union) with financed MI is that there's no worry that the monthly payment will increase. Most piggybacks contain an adjustable-rate second-lien HELOC that is vulnerable to this rising interest-rate environment and could result in an increasing monthly loan payment for the member. With products such as IOs and option ARMs, members will most likely face higher payments in the future as well. Furthermore, for up to nearly 12 years, the financed MI premium is refundable should the member sell the home or refinance the loan.

What's Best for Your Member is Also Best for Your Credit Union

Credit unions should ensure that members are matched with the mortgage loan products that are right for them. To

	PIGGYBACK LOAN	SINGLE-PREMIUM MI
Down Payment	\$12,500	\$12,500
Loan Amount	N/A	\$237,500
80% First Mortgage	\$200,000	N/A
2nd Mortgage	\$37,500	N/A
MI Premium	N/A	\$6,056.25
Loan Amount with MI Premium	N/A	\$243,556.25
Piggyback Term	15 years	N/A
Single-Premium MI Loan Term	N/A	30 years
MI Payment at Closing	N/A	0
P&I		
1st P&I	\$1,264.14	N/A
2nd P&I	\$397.26	N/A
P&I with MI	N/A	\$1,539.44
TOTAL MONTHLY P&I	\$1,661.40	\$1,539.44

Assumptions: Interest Rate 6.5% HELOC Interest Rate 9.75% MI Coverage 30%

choose the right product for your member, consider the individual's personal financial situation, including his or her tolerance for risk and expectations for future income growth.

Key considerations for your members should include: **How long do they plan to be in the home? and How confident are they that their incomes will increase?** They also need to take external factors into account, like the probable rate of home-price appreciation in their neighborhood and the impact that rising interest rates could make on their ultimate choice.

Many members, especially first-time homebuyers, lack the expertise to assess how complex loan products will perform

in multiple interest-rate scenarios. Since your credit union has that expertise – and because, ultimately, it affects your business – you can best serve your members by helping them to understand the full spectrum of possible outcomes as they prepare to make what will likely be the biggest financial decision of their lives.

Loans that can transfer payment risk to your member are not the only or the best way to serve homebuyers seeking high LTV mortgage loans. The best loan choice is the one that your member has the financial resources to manage over the entire period that he or she owns the home. In today's climate of rising interest rates and decelerating home-price appreciation, an insured, fixed-rate loan could be the best economic choice for your member – giving them a lower payment as well as a good night's sleep.

CMG Mortgage Insurance Company (CMG MI) supports the mission to expand homeownership across America – through products and services that enable lenders to make low-down-payment loans with confidence. What are the challenges to homeownership in your community – and how can we help? Let us know what you think and what we can do for you by contacting your CMG MI Account Executive or sending an e-mail to CMGMortgage.InsuranceCo@cmgmi.com



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