



The Value of Loss Mitigation

With Defaults on the Rise, CMG MI Offers Workout Options

By Wes Motschman, Manager, Claims & Customer Service, CMG Mortgage Insurance Company

Most analysts agree that the American housing market has softened significantly over the last year. The real-estate boom that transformed our economy over the last several years is now feeling the effects of market saturation, rising interest rates and slowing home-price appreciation.

For credit unions whose loan portfolios include high loan-to-value (LTV), adjustable-rate mortgages (ARMs), “piggyback” loans with adjustable-rate seconds or home loan equity lines of credit (HELOCs), or interest-only loans, there now exists a greater risk of default.

Given the changes we’re seeing in the market, credit unions need to assess the state of their own portfolios and develop a plan of action.

Insure Your Portfolio

One way to avoid the worst is to insure your portfolio now. Your mortgage insurance (MI) provider can work with you to reduce your risk exposure on high-LTV loans held in portfolio.

Sell Insured Loans on the Secondary Market

Once your loans are insured, you have the option of selling them to investors through a secondary market outlet. Again, your MI provider can offer guidance on best execution and outline the various choices available.

These strategies have the advantage of protecting your credit union while replenishing your credit union’s funds, which you can then make available in the form of more loans to your Members.



Wes Motschman is Manager-Claims & Customer Service at CMG Mortgage Insurance Company (CMG MI), which exclusively serves credit unions. With seven years of experience in the mortgage insurance industry, Mr. Motschman also has considerable knowledge of the credit union industry. Prior to joining CMG MI in September 2003, Mr. Motschman served as Senior Investigator at PMI Mortgage Insurance Co., where he was responsible for conducting mortgage fraud investigations.

Intervene Early

Since mortgages are among the highest-dollar loans that credit unions make, it’s critical to keep loans performing. If you decide to keep loans in portfolio that are in risk of default, whether insured or uninsured, it’s best to start working with your Members as early as possible to bring their payments current. If there’s a delinquency issue with a homeowner, be proactive — call immediately and find out what the problem is.

Assure your Members that there are options available and that your primary goal is to keep them in the house. By intervening early, you can reduce the risk of foreclosure, which could result in serious losses for a credit union. And make

sure your credit union has a procedure in place should a Member call to let you know that they’re facing a financial challenge, such as a layoff or reduced hours.

Many good tools for handling underperforming loans are already in the hands of credit unions. For example, for Members with Fannie Mae® MyCommunityMortgage™ loans, credit unions can arrange for them to automatically receive counseling from Consumer Credit Counseling Services (CCCS). Even if it is not that type of mortgage, the credit union may approach the Member directly and recommend he or she enroll in CCCS counseling.

Work with Your MI Provider

With insured loans, you can also look for help from your MI provider. MI was created to protect lenders and credit unions against default. Because it’s in our interest as well as yours to keep Members in homes, we can work with you and your Members to bring them current with their payments.

For mortgage loans insured by CMG Mortgage Insurance Company (CMG MI), you should communicate and update the delinquency status beginning at the 60-day delinquency date. If you’ve called your Member and are wondering what your next steps should be, call us to discuss your ideas or CMG MI’s recommendations. Our loss mitigation tools can help you substantially reduce the size of your potential losses.

Depending on the circumstances, we can work with you to develop a “custom” solution that is most appropriate for you and your Member. Contact CMG MI’s Claims

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Department at 800.909.4264 to learn more about the following workout options available on loans in default that are insured by CMG MI:

Forbearance

CMG MI allows the credit union or servicer to “forbear” (refrain from enforcing payment of debt) any payments that are due – either the entire mortgage payment or the principal only. As a rule, forbearance lasts no longer than 6 months. If you have a Member whose record is good but who has encountered an unexpected situation – a medical emergency, sudden job loss – forbearance may be the most suitable option.

Loan Modification

The loan note is reamortized, with the delinquent payments either moved to the end of the term or amortized into the existing period. CMG MI recommends the first option, as keeping payments level or below the original amount is usually a more viable option for many delinquent borrowers.

Third-Party Assumptions

CMG MI permits the delinquent loan to be assumed by a third party, as an alternative to foreclosure. For more information and assistance on the assumption process, CMG MI requests you provide the new loan application for the assumptor, a Verification of Employment for all employers, and a Verification of Deposit for each checking/savings account.

Repayment Plan

CMG MI encourages credit unions and/or servicers and members to negotiate a repayment plan where possible. In this scenario, the member agrees to make the delinquent payments over a period of time. So long as the loan is not more than six months delinquent, CMG MI’s approval is automatic.

The repayment option should be used sparingly and only with Members who have a good credit history and whose failure to make their payments is a rare occurrence. For loans that are more than six months delinquent, please contact the CMG MI Claims department.

Saving Homeownership and Repayment Program (SHARP)

The SHARP program is designed for defaulting borrowers who clearly have the ability to maintain payments, but unfortunate circumstances have forced them into default. Eligibility is determined by consultation between the credit union and CMG MI. Typical default situations with which the SHARP program may assist include:

- Members have suffered a temporary loss of income, but have the ability to make future payments, especially if those payments would be lowered as a result of lower interest rates.
- Properties have depreciated in value, particularly in cases where the purchase was financed with a negatively amortizing loan.
- An ARM loan has adjusted, especially as the result of an interest rate greater than current market rates.

SHARP Program workout solutions may take the form of:

Assumption with Claim Advance

If the sale of the property is the only viable alternative, CMG MI may assist in the assumption of the loan by a new owner-occupant buyer by advancing a portion of the delinquent mortgage loan payments. The assumptor is required to qualify under CMG MI’s current underwriting guidelines.

Loan Modification with Claim Advance

In this scenario, where a loan modification will enable the Member to maintain their future schedule of payments, CMG MI may advance a portion of the delinquent mortgage loan payments.

Under both options, CMG MI may require the delinquent Member to execute an interest-free note endorsed and

transferred by the servicer or investor to CMG MI to repay the funds advanced by CMG MI.

Prearranged Sale

If the previous options are not viable for a particular situation, CMG MI can assist in the negotiation of the sale of the property by the delinquent borrower, in lieu of a foreclosure. CMG MI will work with the credit union involved to arrive at a conclusion that benefits all parties.

Deed in Lieu

In exceptional circumstances, CMG MI permits the property to be deeded back to the credit union, who may then list it as a Real Estate Owned property. This option eliminates foreclosure fees. However, it is available only for cases of severe hardship, such as permanent disability, terminal illness or death.

The Time to Introduce Best Practices is Now

Carefully choose loan products for your members that are appropriate for them. Analyze each loan option against the borrower’s repayment capacity – your Member’s ability to repay by final maturity and the fully indexed rate. Remember, too, that potential payment shock and the cost of reduced documentation may not be well understood by many Members.

The result will be a healthy portfolio that can stand up to market stressors, including interest rate increases, recessions and home-price depreciation. Your Members will also benefit – and know they can look to you for reliable recommendations on loan products.

Always remember that CMG MI is here to help your credit union manage delinquencies and foreclosure events. Our experience and expertise can make the difference for both you and your Member, so don’t hesitate to call us if you have questions or concerns about delinquencies.

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



CMG Mortgage Insurance Company

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