FOR IMMEDIATE RELEASE

Milliman analysis: Default risk for government-backed mortgages decreases in 2019 Q2 as low interest rates spur borrowers to refinance

SEATTLE – OCTOBER 30, 2019 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the second 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. The goal of the MMDI is to provide a benchmark to understand trends in U.S. mortgage risk.

As of July 1, 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 1.99%, down from 2.01% in Q1. This means that for the average Freddie or Fannie mortgage that originated in Q2 2019, there is a 1.99% probability the loan will become 180 days delinquent or worse. To put that in context, equivalent research from Freddie Mac shows the actual to-date default rate of GSE mortgages originated in 2007 (shortly before the financial crisis) was 13.8%.

“Low interest rates in Q2 spurred more borrowers to refinance, which typically reduces credit risk for underlying mortgages,” says Jonathan Glowacki, principal and consulting actuary at Milliman and co-author of the MMDI. “But while the default rate dipped slightly in the second quarter of this year, we’re also starting to see increased economic risk from slower home price growth, which may elevate mortgage default risk in the future.”

For Ginnie Mae loans, the Q2 2019 MMDI rate increased from 8.09% in Q1 to 8.15% in Q2. This uptick is consistent with the overall trend for these loans, as default risk for Ginnie Mae acquisitions has been rising since 2014. Default risk is driven by various factors including the risk of a borrower taking on too much debt, underwriting risk such as certain mortgage features, and economic risk such as a recession, which can put pressure on home prices.

For more information on the MMDI go to http://www.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.

####