Milliman analysis: Default risk remained low through 2019 Q4, but economic volatility from COVID-19 will put pressure on mortgage performance

SEATTLE – MAY 1, 2020 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the fourth 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 2019 Q4, 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 1.82%, down from 1.88% in Q3. This means that the average lifetime probability of default for all Freddie or Fannie mortgages originated in Q4 2019 was 1.82%. For Ginnie Mae loans, the MMDI rate increased from 8.26% in Q3 to 8.75% in Q4. While default risk remained low in 2019 Q4 thanks to the low interest-rate environment, economic uncertainty from the COVID-19 pandemic has put pressure on mortgage performance.

“Given the number of Americans that have filed for unemployment benefits as a result of the COVID-19 pandemic, we anticipate a likely increase in mortgage delinquency rates in the first half of 2020,” says Jonathan Glowacki, principal and consulting actuary at Milliman and co-author of the MMDI. “And while the economic and housing market slowdown resulting from the pandemic could impact long-term mortgage performance, the robust home price growth from the past several years may help ease the default risk somewhat.”

The models used in Milliman’s MMDI analysis rely on home prices to forecast default rates, and do not rely on unemployment rates, nor do they have specific adjustments for special legislative actions or programs such as the CARES Act.

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

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