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FOR IMMEDIATE RELEASE **Press Release**

Milliman analysis: Increased economic risk from COVID-19 puts pressure on mortgage performance in 2020 Q1, but losses not expected to rise to global financial crisis level

GSEs see 40% quarterly increase in MMDI economic risk; Ginnie Mae quarterly economic risk grows by 33%

SEATTLE – AUGUST 4, 2020 – Milliman, Inc., a premier global consulting and actuarial firm, today announced the first quarter 2020 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 2020 Q1, the economic component of default risk for government-sponsored enterprise (GSE) acquisitions (purchased and refinanced loans backed by Freddie Mac and Fannie Mae) climbed 20 basis points – a 40% increase – as a result of housing pressure from COVID-19. For Ginnie Mae loans, which have a higher level of borrower risk relative to GSEs, economic risk jumped 80 basis points – an increase of 33%.

Despite the increased economic risk in Q1, the MMDI for GSE loans decreased to an estimated average default rate of 2.02%, down from 2.06% in 2019 Q4. This means that the average lifetime probability of default for all Freddie or Fannie mortgages originated in 2020 Q1 was 2.02%. The lower quarterly default risk in the face of economic pressure is because, as interest rates continued to decline, less risky refinance loans offset an increase in default risk for purchase loans. For Ginnie Mae acquisitions, however, the MMDI rate increased from 10.29% in 2019 Q4 to 10.48% in 2020 Q1. Beginning in 2014, Ginnie Mae has experienced a credit score drift relative to GSE and increased economic risk from COVID-19.

"While we anticipate that the large number of unemployment claims will translate to an increase in mortgage delinquency rates, default rates (i.e. the number of borrowers that lose their homes) will likely not be as severe as during the global financial crisis thanks to the robust home price growth we saw over the past several years," says Jonathan Glowacki, co-author of the MMDI.

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/.

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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