

Genworth Recommends Ways to Manage Mortgage Stress

8 May, 2008 – Recent industry reports suggest an increasing number of Australians are suffering from so called ‘mortgage stress,’ however statistics from leading mortgage insurer Genworth Financial (Genworth) show it is not as widespread as has been suggested.

Releasing Issue 5 of Genworth’s Spotlight Series, “Managing Mortgage Stress,” Genworth’s Country Executive, Peter Hall, said the causes of mortgage stress were more complex than just rising interest rates.

“There is no doubt that rising mortgage repayments, increases in living expenses, on top of high levels of consumer indebtedness puts pressure on the family income. However, this, combined with a significant lifestyle event, often acts as a trigger for the borrower’s inability to meet their total debt obligations.”

While there are many ways to define mortgage stress, Genworth monitors delinquencies over 90 days in arrears. With over one million policies in force as at March 2008, less than 5,000 borrowers were more than three months behind in their mortgage repayments, often considered a sign of significant mortgage stress.

Genworth has moved to meet the problem head on, partnering with lenders and rethinking their approach to tackling borrower hardship when it comes to repayments. It established a dedicated Hardship Solutions team in November 2006. The team works closely with lenders and borrowers to identify cases of borrowers who are unable to meet their debt obligations due to a significant lifestyle event. They then seek to identify and implement a solution that is acceptable to all parties, to help the borrower stay in their home.

In Genworth’s experience, hardship can be as a result of circumstances such as illness or injury, unemployment, decreased income, maternity leave and relationship breakdown, as well as over commitment.

The main causes of hardship identified by Genworth, from over 1000 applications, are:

- Illness or injury 38%
- Unemployment 15%
- Decreased income or earning capacity 15%
- Maternity leave 11%
- Relationship breakdown 4%
- Over-commitment to mortgage 2%

Mr Hall called on lenders to do more to manage mortgage stress by coming up with solutions to help keep people in their homes. He also urged borrowers to put their hand up early if they are in trouble, to ensure that solutions are effective.

“The important point for borrowers feeling the strain of mortgage repayments is that they don’t need to wait for threatening arrears notices to make a phone call to their lender,” says Mr Hall.

He said that with pressure on borrowers mounting due to increasing interest rates and cost of living, borrowers had to take control of their financial commitments, understand how debts accumulate interest, and how to set a realistic household budget. The Spotlight provides a range of helpful tips on how to do this.

Highlights of the Spotlight include:

- Only 2% of applications for hardship assistance are due to rising interest rates alone;
- Early term delinquencies (within 12 months) by First Home Buyers down by 40% between January 2007 and March 2008;
- A strong correlation has emerged between rates of delinquency, housing price appreciation and levels of unemployment, which have seen stress in particular pockets of NSW.
- It is the total level of consumer debt which makes borrowers vulnerable to small changes in interest rates, which impact credit cards, personal loans and other forms of credit, on top of mortgage repayments.
- Genworth has recently seen a rise in hardship applications, although application numbers are not abnormal. The current spike in applications for Hardship Solutions is typical for this time of the year when the full brunt of Christmas is realised.
- Contrary to the belief of a large portion of Australian borrowers, the last thing a lender wants is to throw them out of their homes.

About Genworth Financial

Genworth Financial, Inc. (NYSE:GNW) is a leading public Fortune 500 global financial security company. Genworth has \$114 billion in assets and employs approximately 7,000 people in 25 countries. Its products and services help meet the investment, protection, retirement and lifestyle needs of over 15 million customers.

About Lenders Mortgage Insurance (LMI)

LMI is one of the most popular ways to achieve the dream of home ownership sooner for borrowers that do not have a large deposit. Many Banks and Lending institutions require borrowers to contribute a 20-30% deposit before they will agree to provide a loan. LMI protects lenders against a loss should a borrower default on their home loan. If the security property is required to be sold as a result of the default, the net proceeds of the sale may not always cover the full balance outstanding on the loan. By using LMI, lenders are able to pass on this risk to a mortgage insurer such as Genworth Financial, which in turn, enables them to offer the same loan amount but require less deposit.

For further information, call Emma Rumble, Marketing Leader on 02 8248 2227, or visit www.genworth.com.au.