

**Draft Directive on Mortgage Credit – The Role of MI
Kangaroo Group, European Parliament
3 May 2011**

- Check against delivery -

Ladies and gentlemen,
dear fellow members of the Kangaroo Group

I think we are all in agreement that responsible borrowing and lending needs to be promoted in Europe and across the globe in order to prevent another financial crisis of the magnitude that we have just experienced. While national mortgage markets are diverse, I do nevertheless feel that we would be missing a trick if we did not put in place some basic rules for the single market that will complement the regulatory framework that already exists for consumer credit.

Today I would like to talk to you about one instrument in the policy toolbox that is not mentioned in the Directive, but has contributed to stable housing markets globally while enabling first-time buyers with good credit histories gain access to mortgage credit in a prudent manner. This instrument is called mortgage insurance, sometimes also referred to as mortgage indemnity insurance and not to be confused with mortgage payment protection insurance, which Genworth Financial also sells.

We are a specialist insurer with operations in 25 countries around the world, our European Headquarters is in London. Genworth Financial has existed as a separate company for six years. We were previously part of General Electric, a company that you may be more familiar with.

Before I refer to the European Commission proposal let me say a few words about how our products work: The more commonly known mortgage payment protection insurance covers borrowers against the risk of default in the case of accident, sickness or involuntary unemployment. In other words, MPPI – as it is called – keeps the borrower in his/her home during times of financial stress. To give you an exact figure, in 2010 we helped over 100 000 households in Europe each quarter to maintain regular payments on their financial commitments. A lot of these were mortgage payments that people could temporarily not afford anymore

because of unforeseen circumstances in their life – accident, sickness and involuntary unemployment. It won't surprise you to hear that during the financial crisis, in some European countries the claims frequency on our policies doubled, and in some cases even tripled. Yet we proved to be a reliable partner and honoured our commitments.

The second main product that we sell is mortgage indemnity insurance, which protects the lender against borrower default in the case of high-loan-to value mortgages, typically above 75% loan-to-value. Together with strict underwriting standards, this ensures prudent lending and does not encourage sub-prime lending. On the contrary, mortgage insurers – who are in a first-loss position – act as a second pair of eyes because it is also in our interest to prevent over-indebtedness. In that sense we can help avoid excessive lending by banks that compete simply on volume.

The value of this product has also been recognised at international level by the Joint Forum of the G-20 and, more recently, by the Financial Stability Board and the International Monetary Fund. In separate recommendations, these bodies urge national supervisory authorities to promote mortgage insurance as a credit risk mitigant. The Joint Forum goes even further by saying that supervisors – quote – “should take steps to require adequate mortgage insurance in instances of high LTV lending, e.g. greater than 80% loan-to-value”.

So it comes with the blessing of three international bodies, and I think the EU and its Member States could do worse than heed these recommendations. Indeed there is a manifesto commitment on the part of the new Irish coalition government to introduce mandatory mortgage indemnity insurance.

You will probably ask yourself what's in it for the consumer here, if this product is sold to lenders. The benefits of mortgage indemnity insurance to the consumer are:

- First-time buyers with good credit histories, such as young families who just don't have a large enough deposit, get earlier access to homeownership than they otherwise would. Not everybody can rely on the Bank of Mum and Dad!

- In Canada, where mortgage insurance is compulsory for all high-loan-to-value loans above 80%, this prudent and sustainable access to homeownership works throughout the economic cycle. In that country, mortgage credit has remained open during the crisis, showing average growth rates of around 7% during the last two years
- Let's look at Italy: Italy has a stable, prudent and sustainable housing market, and mortgage lending is recovering to pre-crisis levels with a positive impact on the economy and housing accessibility. Due to prudence at the point of origination, the delinquency rates remain minimal. Italy incentivises the use of mortgage insurance in a way that high-loan-to-value loans with MI become de facto low-loan-to-value mortgages in terms of capital requirements.
- Finally, Genworth brokers solutions between borrowers in difficulty and lenders to keep people in their homes. In 2010 we helped over 3000 households in Europe to avoid foreclosure in that way.

We also know that mortgage loans with a loan-to-value of >80% and no mortgage insurance have on average about six times more losses in any given pool of mortgages than those with MI.

What does this mean for the European Commission proposal for a Directive on Credit Agreements Relating to Residential Property? I probably speak with enlightened self-interest here when I suggest that the contribution to responsible borrowing and lending of both mortgage indemnity insurance and mortgage payment protection insurance should be referenced in the recitals of the Directive so that Member States will incentivise their use further.

Let me finally say a few words about the choice that the consumer has when these products are sold together with the main credit product. First of all it should be noted that when mortgage payment protection insurance is widely taken up by borrowers (even in the absence of compulsion), this generally reduces premium levels for consumers because of the increased pooling of risk. Conversely, when levels of take-up are low, those that take the product are mainly consumers who know in advance that they will most likely need it. This drives up the cost of the insurance cover.

The price level charged to the consumer can be reduced further if the mortgage product is underwritten in the appropriate manner as the prime loan. Overall this can lower the cost to the end-consumer of an MPPI product by between 20% and 40%.

Secondly, it should be noted that in most EU Member States the joint sale of a mortgage and an insurance product is allowed (in some countries it can even be compulsory), provided it is not anti-competitive. In this context we support the proposed Art. 8.3 in the Commission proposal, which says that when an ancillary product such as insurance is sold together with the mortgage and this is compulsory, it needs to be transparent to the borrower upfront and be reflected in the Annual Percentage Rate of Charge. This is consistent with an equivalent provision in the Consumer Credit Directive.

To conclude, ladies and gentlemen, it has not escaped my attention walking into this room that we all have these nice badges with a kangaroo on our jackets. Australia, it has to be said, is another country with a stable housing and mortgage market – at least in part thanks to the widespread use of mortgage insurance.

Of course the Kangaroo Group in the European Parliament was founded with the objective of removing the remaining obstacles to the single market. Today the Kangaroos are still jumping over these hurdles step-by-step, and I hope that when the parliamentary debates on the Mortgage Credit Directive get underway, you will remember that mortgage borrowers and lenders should avail themselves of protection products that can really make a difference.

Thank you for your attention!