

# EUROPEAN Forum

Mortgage Market

Issue 2



## Are government schemes the key?

How public/private partnerships could ensure the long-term success of homeowner protection programmes

### Adapt and survive

In the current climate insurance providers must radically rethink how risk and reward are shared

### The expert's view

Why Professor Stefan Kofner believes that mortgage insurance is an integral part of a healthy market



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Financial

# Welcome

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Welcome to the latest issue of Genworth Financial's *European Forum*.

There's no doubt that the current state of the global economy is still giving us much to talk about. They say that a week is a long time in politics – and it seems six months is a very long time in finance in the present climate. Stock markets continue to be volatile, the future of many banks is still uncertain, and matters pertaining to housing and mortgages are far from settled.

As the financial crisis continues, many homeowners across Europe are struggling to meet their mortgage obligations and many may well end up relying on support from government schemes. In our special report on page 3, we examine exactly what support is available in the UK, Ireland, Spain and Italy.

If the ongoing state of flux has brought one thing into sharp focus, it is the importance of risk management. Decisions that organisations make in the here and now will shape their futures and could make the difference between success and failure in the long term. On page 8, Robin Webster, Genworth Financial Europe's Chief Risk Officer, looks at how the ability to adapt to a constantly shifting environment is vital to achieving responsible growth in a challenging environment.

Also in this issue, we are delighted to feature an exclusive interview with Dr Stefan Kofner, Professor of Housing and Real Estate Economics and author of *Die Hypotheken- und Finanzmarktkrise*. He gives us his insights into how the housing markets are going to play out and what needs to be done to get them back on track.

Whilst writing, I would like to introduce Tonia McAllister as Country Manager for the UK. Tonia will be leading commercial activities for Mortgage Insurance in the UK, in addition to her responsibilities for the Irish platform. I won't be going far and will keep a strong interest in the UK in my wider pan-European role.

I hope you find that our second issue offers an interesting read and further food for thought,

#### **Tammy Richardson**

Managing Director, Commercial  
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Like a very large stone in a very dark pond, the global economic crisis has sent ripples around the world. As much as the bank failures were the first stage of the 'credit crunch', what is beginning to be felt now is the impact upon the general public as jobs are lost, credit lines are withdrawn and people find themselves struggling to make ends meet.

Governments, as a result, have been put under pressure to help provide financial assistance to those that could lose their homes. In Europe, the response varies significantly from country to country, with some rushing through brand new policy and modifying existing programmes. So just what is the current state of play and are borrowers really going to be protected? Here we focus on the UK, Ireland, Spain and Italy.

#### [View from the UK](#)

Figures from the Financial Services Authority show that repossessions in the UK for 2008 were up 68% on 2007 – from 27,900 to 46,750. And at the end of 2008, a total of 377,000 mortgage accounts were in arrears. With some organisations estimating 75,000 repossessions

# Staving off repossession

As the financial crisis continues to bite, governments are taking action to protect homeowners struggling to meet mortgage payments, but are they doing enough and what role is there for Genworth?



in 2009, the road ahead is going to be tough.

The Homeowner Mortgage Support Scheme (HMSS) was announced by the government in December 2008 and is due to be introduced by the time we go to print, with the intention of helping those who have suffered a temporary loss of income to stay in their homes.

The scheme will allow lenders to reduce a borrower's monthly mortgage payment, with the deferred payments rolled up, added to the principal, and paid at a later date when the borrower's financial circumstances have improved. The following rules apply:

- The mortgage must be for less than £400,000
- The household savings must be less than £16,000
- Monthly repayments can only be cut to 30% of the original
- The rest of the payment can be deferred for up to two years.

Of course, there are many more qualifying criteria, but HMSS is the third scheme in the UK to offer help with mortgages – alongside the Mortgage Rescue Scheme (MRS) and Support for Mortgage Interest (SMI). HMSS has, however, been heavily criticised and, at the time of writing, it is unclear how many mortgage providers are actually going to sign up to the scheme.

Peter Williams, Executive Director of the Intermediary Mortgage Lenders Association (IMLA), says: "Eighty per cent of the shortfall will be covered by government and 20% by lenders, but lenders are also bearing a huge admin cost – the cost of no capital repayments and full house price risk. So it is understandable that, currently, only 70% of lenders have agreed to sign up."

HMSS is designed to complement the other two schemes and pick up where SMI leaves off. But even with three schemes in place, Williams is concerned about how many people will be supported. He estimates 3,000 may be covered by MRS, with SMI and HMSS helping perhaps 6,000 and 10,000 respectively. Compare this with the number of repossessions and there is some disparity.

"The most pressing issue is that all of these schemes cost money and there is going to be a fairly horrendous round of public expenditure cuts over the next two to five years," says Williams. "In practice, we are not going to be able to hold on to what we might have arrived at."

#### **The Irish perspective**

In stark contrast to the UK, the latest figures from the Irish Banking Federation indicate that the total number of houses repossessed by all mainstream mortgage lenders in 2008 was an astonishingly low 96. This equates to one in 10,000 mortgages, as opposed to one in 35 mortgages in the UK.





It is perhaps unsurprising then, that the Irish government has not felt it necessary to introduce new policy and has merely brought on to the statute books the existing industry Code of Conduct on Mortgage Arrears. As Tonia McAllister, Genworth's Country Manager for Ireland and the UK explains: "The Code has been around for some time, and was well adhered to by the industry. It emphasises the need for lenders and borrowers to try all possible options for reaching a solution before a repossession order is applied for."

In February this year, the Financial Regulator added in a new clause stipulating that the lender can't apply for a repossession order under the courts within the first six months. McAllister feels this will have no significant effect. "The reality is that the average time it takes for a mortgage arrears to end up in the courts for repossession in Ireland is three years. So by bringing this six-month period into law, it's not really doing anything in practice."

McAllister draws attention to the Mortgage Interest Supplement scheme, which has been operating for some time and aims to provide short-term income support to eligible people who are unable to meet their mortgage interest repayments. In the 12 months to January 2009, the number of people claiming this assistance rose from 4,100 to 8,500. As McAllister points out: "The number claiming on this scheme has increased and could cause a problem for the government from a public expenditure perspective. Put simply, when the legislation was introduced, it didn't expect to be providing help to this number of people."

#### What's happening in Spain?

The number of borrowers in arrears in Spain has seen a rapid increase. From 0.75% of total volumes at the end of 2007, figures rose to 2.38%

by the end of 2008. This equates to roughly 95,000 mortgages out of nearly four million.

In December last year, the Spanish government introduced a package of measures to help homeowners in difficulty. The most relevant initiative allows unemployed borrowers to delay up to 50% of their monthly mortgage payment for two years. The government has indicated that it believes the scheme will help around 500,000 mortgage holders. This scheme has the following characteristics:

- Mortgages must be less than €170,000
- The mortgage loan must be current at the point of applying for the deferral
- The duration of the deferral is two years
- The 50% payable must equate to no more than €500 per month
- The Spanish Credit Institute (ICO), an arm of the Spanish Treasury, will guarantee up to 12% (€720m) of the total amount allocated for the scheme (€6bn) if the consumer ultimately defaults.

Borrowers who take part will have access to a personal loan of up to €12,000 to pay the deferred amount. Once the deferral period is up, they will have to start paying the monthly mortgage and then, a year later, start paying off that personal loan (for a maximum period of 15 years).

As Tomás Poveda, Government Relations, Genworth Financial, explains: "This means that lenders are going to have to give a personal loan to an unemployed borrower. This is saddling people in trouble with even more debt, in the hope that they will sort themselves out by the time the payments restart. And with the government only guaranteeing 12% of loans, it is not surprising that lenders have been unhappy. Borrowers are afraid of taking on more debt, but in some cases feel there is no option if they want to keep their home."

### The story in Italy

Italy was the quickest country off the mark when it came to introducing new legislation to help borrowers. This is, perhaps, in light of the fact that new pignoramenti (the litigation process to obtain foreclosure) rose 17% to the end of the first quarter in 2008, taking the total to 129,300.

In July last year, Decree DL93 became law, stipulating minimum standards for banks and financial intermediaries. This legislation is by no means as radical as that in the UK and Spain. And what separates this from all the other schemes is that there are very few eligibility criteria.

As Sara Turri, Loss Mitigation Manager, Genworth Italy, explains: "DL93 stated that borrowers both current and in arrears could move to a lower instalment amount. Provided that the bank had signed up to the scheme, customers could take advantage of it."

In the simplest terms, DL93 allows borrowers to renegotiate the terms of their mortgage. This enables them to benefit from a lower interest rate and, subsequently, a lower monthly payment, which is then applied for the rest of the term of the loan.

In January 2009, DL93 was supplemented by DL185/08. Under this, the government has agreed to pay the portion of variable rate mortgages' monthly instalments that exceed 4% – so if a borrower's interest rate is 5%, the government pays 1%. What's more, variable rates from 2009 will be calculated on the more favourable ECB benchmark rate and not Euribor.

Valeria Picconi, Country Manager, Genworth Italy, says: "These may seem like relatively small measures, but it is worth noting that in Italy you refer to foreclosure rather than repossession, as lenders sell borrowers' properties to third parties in auctions. And if foreclosure does begin, the average time for the process is five years, and people stay in their home until the end of the foreclosure. It is a far more socially aware process – they don't just put people on the street."

According to the Italian Banking Association, DL93 has benefitted around 46,000 borrowers. What remains to be seen is the impact of DL185/08. As Picconi points out: "Historically, Italy has a very high public debt, so the government doesn't have the money to support the industry as in other countries. If it has to pay out many mortgages in excess of 4% interest, then there could be difficulties." However, given the recent reduction in Euribor, the impact of this decree could be relatively limited.

On 25 February, the Italian Minister of Economy and Finance, Mr Tremonti, signed the so-called Tremonti Bond Decree. The government will buy bonds issued by Italian





banks to increase Italian banks' capital in order that credit keeps flowing to households and companies.

Lenders taking part in this programme must allow borrowers to suspend the monthly mortgage instalment of their primary residence for at least twelve months, when the borrower or a member of the household is unemployed or is temporarily suspended from employment due to the current economic crisis. The suspension ends once the borrower/member of the household finds a new job or starts working again in the same company. Borrowers could benefit from this suspension until 31 December 2011.

### The Genworth angle

It is evident that each of the four countries is facing its own challenges – both in terms of the levels of mortgage arrears and repossessions, and whether the schemes in existence are sufficient or even workable.

It is also clear that while the schemes will provide a measure of support to eligible borrowers, there are people who do not fit the criteria, who may well need assistance. Both of these are areas in which private enterprise can play a role – and Genworth's expertise and experience means that it is well positioned to do so.

On the first matter of workability, Francesca Arcidiaco, Government Relations, Genworth Financial, points out that not only can Genworth help and advise in the set up of schemes, it can also help governments avoid massive potential problems further down the line.

"With something like HMSS, the government is taking on a massive liability," she explains. "They may be helping 10,000 borrowers and guaranteeing 80% of the interest deferred. But they don't know how

many they are ultimately going to have to pay out. It's not their expertise to analyse loan portfolios and look at performance data and work this out, and that's where private sector involvement can help because this is what we do every day. At a time when there is huge focus on the pressures on taxpayer's money being spent in the crisis, we can help quantify and limit the government's exposure."

Perhaps more significantly, however, is what can be achieved through 'work outs' on loans protected by Genworth. One of the biggest criticisms of the schemes in the UK, Ireland and Spain are the eligibility criteria that are imposed. By definition, this means that certain people are falling through the net and could end up losing their homes.

As Arcidiaco explains: "Genworth works very closely with its clients to come up with solutions that are, hopefully, mutually beneficial to both lender and borrower. For instance, we can help with deferred payments, the waiving of certain charges, refinancing or reducing monthly payments. There are instances where we may even clear the arrears ourselves if the cost of doing so is less than the potential cost of a claim. Ultimately, work outs should benefit all parties."

All possible work outs are based on a set of Genworth criteria, but these are far more flexible than those in government schemes. "We are a private company so we can be a lot more discretionary," says Arcidiaco. "Whereas the government schemes are rigid."

As the financial crisis continues to play out and the government schemes across Europe kick in, keeping a close eye on what is happening and being able to advise and offer solutions, could be the thin line between success and failure. ☀

# The road ahead

The current economic climate demands a predictive rather than a reactive approach to risk from insurance markets, says **Robin Webster**, Chief Risk Officer, Genworth, Europe



Being a keen motorcyclist, one of my great pleasures is to sit down in front of the television and watch the MotoGP. It never ceases to amaze me how skilful the riders are, pushing themselves and their machines to the limit in pursuit of the chequered flag and the march towards the World Championship.

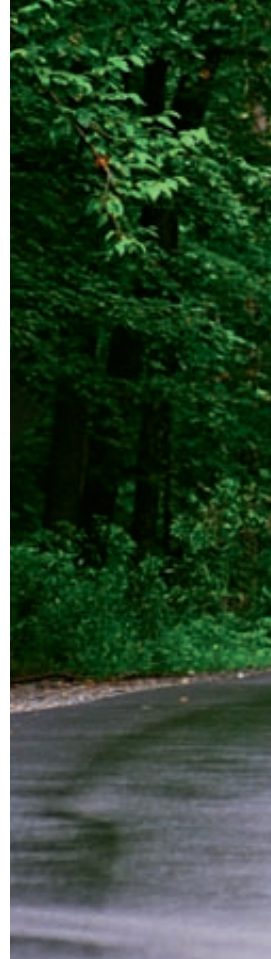
I'm always fascinated when it's raining and we have a 'wet race'. The visibility is lower, the track becomes treacherous, and danger lurks at every corner. The irony is, that although the lap times become much slower, the margin between winning and being an also-ran becomes much greater. In fact, a wet race provides a great opportunity for those with the greatest skills to outdistance their rivals and establish an unassailable lead. Valentino Rossi in motorcycling, and Michael Schumacher in Formula One are both serial winners and masters of driving in the wet.

Sitting in the drizzle on the motorway the other week, I started thinking about the current economic climate, and how insurance and

credit markets are working, and I came to the conclusion that for the next few years, steering a safe course in these markets will be like riding in the wet. Much has already been written about how the world financial markets got themselves into the present situation. Whilst this is interesting, we need to stay focused on our own road ahead. As individuals and organisations, we can only hope to influence systemic issues to a marginal extent. What we can influence, however, is which customers we do business with, and how we do that safely and better than our peers.

## Everything to play for

First of all, let's not allow ourselves to get into the mindset that the race has been cancelled. The fundamental consumer need of access to credit for house purchase remains. People still have a need for insurance against the unexpected. The value of Genworth's products is being demonstrated on a daily basis, providing mortgage lenders with an important



A photograph of a wet, winding asphalt road through a dense green forest. The road is dark and reflective, with white double lines curving through the scene. The surrounding trees and foliage are vibrant green, creating a lush, natural setting.

*“We provide lenders  
with an important  
risk mitigant and  
individuals with  
a safety net”*

risk mitigant, and individuals with a safety net when, for one reason or another, they cannot meet their obligations. Many providers have withdrawn from this market. Together with our partners, we remain committed to servicing these markets.

My second thought was: “how long will the current storm last, and how severe will it be?” One of the key concepts of economics (and insurance) is that the environment goes in cycles, and we can predict the future – with a reasonable degree of certainty – by looking at the past. As an industry, we are familiar with economic and statistical models that predict the future with 95% confidence levels, and scenario models that cater for 1-in-200-year events. My contention is that over-reliance on such models certainly was a key contributor to the banking collapse. Ironically, because these models are based on deep analysis and intellectual rigour, they became acknowledged as reality, whereas in fact they are an interpretation of a number of possible outcomes. Also, because they rely

greatly on past observations, they are vulnerable when the environment undergoes a paradigm shift.

#### **The lesson of history**

In 2007, certain parts of the UK experienced two separate 1-in-200-year events in the space of just six weeks! Floods. Possible paradigm shifts that were missed range from changing climate patterns to property development on flood plains.

In my view, a key paradigm shift between the recessions of the 70s, 80s and 90s and the current situation are the combined impacts of global trading, 24-hour news gathering, instant electronic trading, and deregulation. Result: a market change that is faster, deeper, more volatile, more exaggerated than almost anybody predicted. Ironically (and don’t hold me to this), the recovery may be faster than we predict for the same reasons.

And the key lesson? Over-reliance on models is like riding the motorbike by looking

*“The real test is sustainable, safe business that delivers benefit over the longer term”*



exclusively at the instruments. Experience, common sense, scanning the environment for changes and challenging the models is vital.

With very rare exceptions, winning drivers have learned their skills over many years. They spot the dangers ahead and know when to press ahead and when to hang back. You wouldn't hire a driver for your team merely on the basis he was fastest to the first corner, and similarly you would incentivise him to win the championship, not just the first race. Financial services need to learn from this. The real test is sustainable, safe business that delivers benefits over the longer term.

At Genworth, this concept is fundamental to us and drives our relationship with our customers. Having relationships that are mutually beneficial, with an appropriate sharing of risk and reward over the long

term is vital. Easily said, but what exactly does this mean?

#### **Understanding risk drivers**

We work with our clients to develop a very clear yet sophisticated understanding of risk drivers and how these are evolving over time. It is to our mutual benefit to understand this so that we can model how we expect our portfolio to behave, ensure that we are not subject to adverse selection, and so that we can fine-tune underwriting in the light of experience. As an example, for the UK market we have worked with a key client to develop a sophisticated scoring model, OmniScore™, which we believe has contributed to that client achieving a better than average delinquency experience (when compared to the average reported by the Council of Mortgage Lenders) by predicting



good and bad credit risk at relatively high loan-to-value bands. We also use our experience and expertise to enrich our clients' understanding. The current climate has reinforced the need for 'gold standard' underwriting; clearly worded and tightly defined master policies protect both parties and enshrine best practice. Recently, two of our partners in different European countries changed their long-standing mortgage underwriting methodology to our gold standard, even for the low LTV uninsured part of their portfolio. Experience has taught us that risk management should never have to apologise for maintaining high standards. What worked in a benign market will not necessarily work in a difficult market.

#### **Adapt and survive**

When Valentino Rossi rides in the wet, whilst the fundamental design of the bike is the same, he's on different tyres and using different engine settings, gear ratios and brake settings. He rides more cautiously, and uses less lean angle in the corners. In business, it's the same concept. Sometimes we cling on to the experience that's served us well in the past and expect it to continue to work when the environments changed, when in fact we should be adapting our riding technique. There are two dangers: denial and overreaction. The former means we will write bad business where we used to write good, and the latter means we stop writing business. As Genworth has moved into this new environment, we have worked closely with our clients to respond in terms of pricing and underwriting changes. Occasionally these discussions have been difficult, but my contention would be that these are very necessary and important discussions to ensure we continue to write business in the new environment that is profitable for both parties.

In one country recently, we have worked with a client to implement new valuation processes that are outside the market norms for the country they are operating in. Whilst the commercial justification for doing this has led to some difficult discussions, by applying rigorous analysis and creative thinking, we have come up with something that works in the interests of not only ourselves and our client, but also the ultimate purchaser.

#### **The role of corporate governance**

Finally, some commentators have cited a failure of corporate governance as the prime cause of the recent institutional failures. Whilst this may be partly true, in my view this is far too simplistic. It's like blaming the race scrutineers when you've lost the race. Effective corporate governance is of course vitally important, particularly in financial services; more important is a culture throughout the organisation that understands and champions sensible, balanced commercial decision taking based on long term, sustainable and safe growth.

This is easily said, but less easily done. It needs a clear, unambiguous alignment between recruitment, objectives setting, reward systems and recognition. It needs measurement systems that operate over longer time horizons, and it needs the ability to say 'no' when competitors are prepared to chase short-term market share at the expense of long-term sustainability.

So, as the traffic started to clear on the motorway, my musings came to an end and it was back to navigating the road ahead. As a final thought, as the new motorcycle season approaches, and as the economic outlook continues to deteriorate, who is going to prove themselves both literally and metaphorically to be the masters of riding in the wet? 🌩️

# “We need a second pair of eyes”

Author and academic **Professor Stefan Kofner** gives his view on how mortgage insurance can limit runaway risks in the future



Many commentators have written about the current crisis, but few have offered a timely and authoritative explanation in one concise work. In his latest book, *Die Hypotheken- und Finanzmarktkrise*, Stefan Kofner presents just that. Professor Kofner, who lectures in Real Estate Management at the University of Zittau/Görlitz in Germany, also touches on the future role of private mortgage insurance. Here is his perspective on where the market is heading.

## **Prof. Kofner, weren't there warning signs of how severe the current market crisis could be – and what could have been done to avert it?**

Yes: in fact, this is sometimes called “the crisis that came announced.” As early as 2003, the sub-prime market share price went through the roof. House price inflation was accelerating and improved risk transfer mechanisms led to credit expanding and multiple credit bubbles. In the US, the Federal Deposit Insurance Corporation (FDIC) and Fannie Mae sounded the alarm back in 2005. Still, even the pessimists didn't foresee how domino effects would lead to a crisis of this magnitude and severity.

## **What do you think are the key lessons from the current market turmoil for market participants?**

To start with, everyone should keep their side of the street clean. We can't have unsustainable demands on return and growth – we need to look at bonuses, risk management, attitude to risk, the culture of organisations, values and the responsibility towards the borrower at the end of the chain. We need a return to solidity and must put a stop to building castles in the air. This change needs to come from the very top – executives need to live new values and lead by example.

## **How did the crisis impact the mortgage markets in Europe?**

The mortgage markets in Europe are all different from each other, and maybe that's a good thing. In Germany, residential property is more or less financed as before; this has always been a conservative market. The commercial sector, however, suffers from a lack of funds for refinancing. Other markets such as Hungary and the Baltic states have experienced

## *“Mortgage insurance can help avoid the systemic risk that led to the current crisis”*

significant upheavals. In Eastern Europe, the extremely high proportion of foreign currency mortgages has led to instability.

### **If you could look into the future, how do you think mortgage-lending markets will look once the crisis is over?**

Very dull. We'll probably see quite conservative structures harking back to the 1950s. Banks will only finance reliable debtors and ask for minimum deposits of 20%. Capacious and liquid markets for securitised risk will be a thing of the past. At best, banks will be able to pass on part of their risk to those mortgage insurers with the highest credit ratings. Many investments in corporate real estate simply won't happen, so cityscapes will change more slowly.

### **Do you think more regulation will be necessary, or should mortgage-lending markets be free to develop more liberally as they did in the past? For instance, UK Prime Minister Gordon Brown is talking of banning 100% mortgages.**

Crude bans won't help. Nevertheless, we have seen that markets cannot regulate themselves. For example, novel financial instruments, whose systemic risk potential was completely unknown, were immediately used on a universal scale. This was an enormous gamble. So we need intelligent and global regulation that doesn't stifle innovative products, but prevents their wholesale diffusion before their risks and side effects are known.

### **What do you think about the future role of credit-risk mitigants (such as mortgage insurance) and to what extent did the current market situation change their meaning for the financial system?**

The market for mortgage-backed securities and credit default swaps has disappeared and it won't come back. In effect, the state has now relieved banks of their risks on a massive scale. As a result, conventional risk management is crowded out. As soon as the current exceptional circumstances are over, the state needs to withdraw. Only then will lenders take responsibility for the risk they commit to by managing it appropriately.

This is where private mortgage insurance should be the central plank – it is a classic instrument for risk transfer. It has a tried and tested, transparent business model, with many years' experience in the management of credit risks; it diversifies risk across regions and over time; it retains prudent reserves for loss years; it acts as a second pair of eyes when it comes to taking on risk and it does not wholly immunise lenders from the consequences of their behaviour, which means there is still a healthy respect for risk.

It is established, highly regulated and already well understood by the authorities. That's why it should play a significant role in the future.

### **Do you believe mortgage insurance can be a beneficial tool to protect banks' capital?**

Absolutely, and I also believe that mortgage insurance can help avoid the systemic risks that led to the current crisis. It can be an integral part of a working, healthy market for the transfer of mortgage risks by actually taking on risk rather than just dumping it elsewhere. Mortgage insurance companies have a natural interest in warning banks against taking on too much risk, and that role is more important than ever today. ☀

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*Die Hypotheken- und Finanzmarktkrise* is published by Fritz Knapp Verlag, Frankfurt

# Macroeconomic overview

A summary of key economic indicators across the European Union and the Eurozone

The European Economic and Monetary Union (EMU) recession continues to deepen, with Eurostat issuing a flash estimate of -4.6% year-on-year in Q1 '09 due to sharply weakening global economic activity, collapsing world trade and global financial crisis.

A massive contraction in the German economy is dragging down the EMU's GDP. Economic sentiment improved in April for the first time in 11 months, but still remains at very low levels compared with long-term norms. This is undermining prospects for investment, employment and consumer spending. Retail sales keep decreasing and the outlook for consumer spending still appears pretty bleak.

Inflation is stable at a record low in April and looks likely to fall further, while unemployment continues to be at highest historical levels. The outlook appears bleak, in line with economic activity expectations.

Consumer spending is expected to be muted over the coming months. In May 2009, the European Central Bank announced non-standard measures (purchase of covered bonds), extended repo maturities and cut rates to 1%.

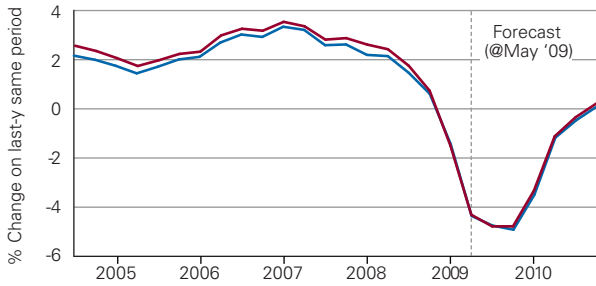
## The Eurozone

16 European Union member states currently use the single European currency: Austria, Belgium, Cyprus, Germany, Finland, France, Greece, Republic of Ireland, Italy, Luxembourg, Malta, The Netherlands, Portugal, Slovakia, Slovenia and Spain.

## Non-participating EU member states

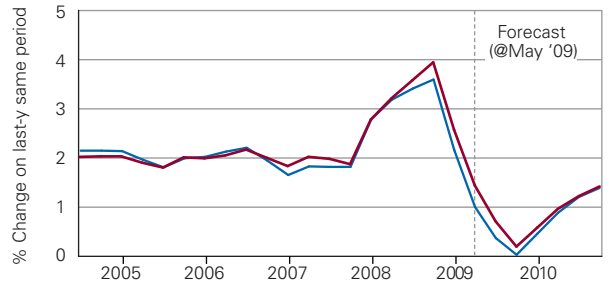
Bulgaria, Czech Republic, Denmark, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Sweden and the United Kingdom.

### GDP Growth Rate



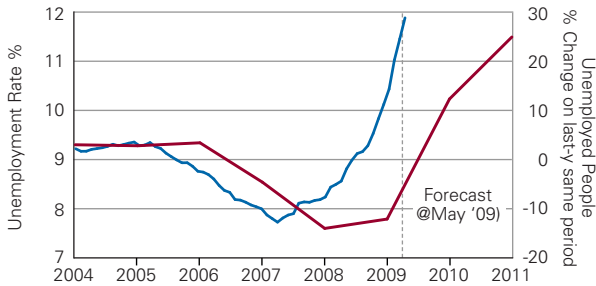
— EMU  
 — European Union -27  
 Source: IHS Global Insight

### CPI Growth Rate



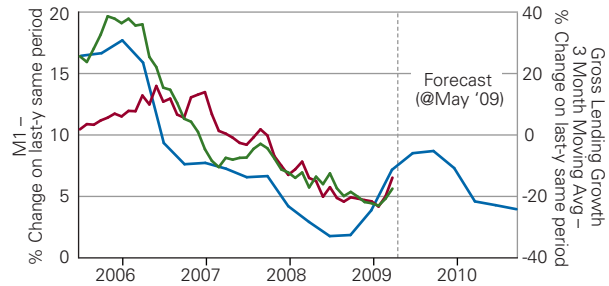
— EMU  
 — European Union -27  
 Source: IHS Global Insight

### Unemployment



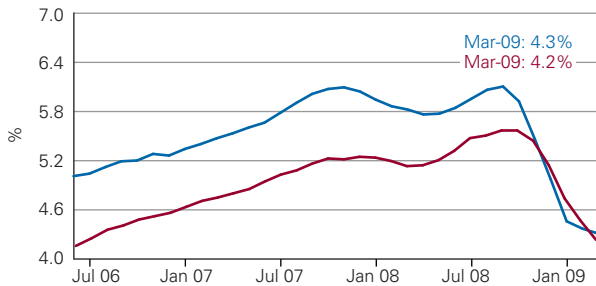
— EMU, Unemployed People (R)  
 — EMU, Unemployment Rate  
 Source: IHS Global Insight, Bloomberg, European Commission

### Money Supply & Lending



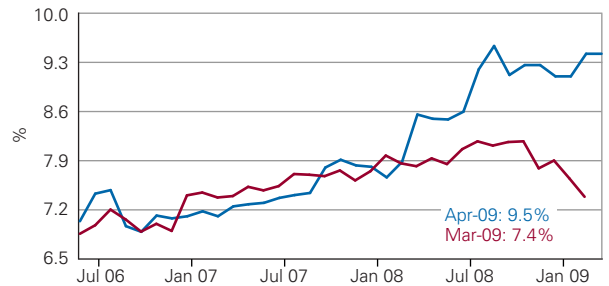
— M1 Money Supply  
 — Gross Lending for Consumption (R)  
 — Gross Lending for Home Purchase (R)  
 Sources: European Central Bank, IHS Global Insight

### New Business Interest Rates Home Purchase Lending



— CML (WA IR on new mortgages)  
 — EMU IR Lending for Home Purchase  
 Sources: European Central Bank, CML

### New Business Interest Rates Lending for Consumption



— UK IR Loans for Consumption up to 10k  
 — EMU IR Lending for Consumption  
 Sources: European Central Bank, Bank of England

Data supported by IHS Global Insight unless stated otherwise.

# Local snapshot

A closer look at key macroeconomic indicators and housing market statistics

## The bigger picture

GDP plunged by 1.9% quarter-on-quarter in Q1 2009 – the largest decline since the third quarter of 1979 and significantly deeper than had been widely expected.

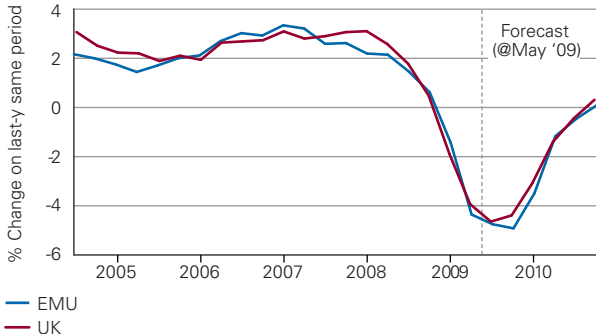
The annual Consumer Price Index (CPI) moderated to a 15-month low of 2.3% in April from 2.9% in March and a peak of 5.2% in September 2008. The rise in unemployment slowed in April, but it is expected to continue rising substantially further throughout 2009 as the economy continues to contract.

## Housing and lending:

Consumer spending contracted again in Q4 '08, and is expected to be very weak for a while. Rising unemployment is affecting spending decisions and diminishing bargaining power. The savings ratio will head up further.

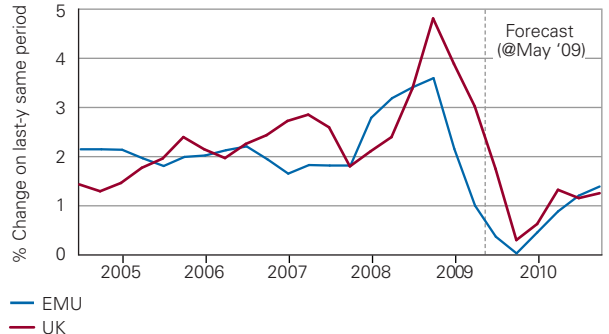
The housing market is expected to remain extremely subdued and mortgage lending will remain weak. Repayment problems will worsen. Home repossessions are up 23% quarter-on-quarter and 51% year-on-year in Q1 and seem likely to rise significantly further.

### GDP Growth Rate



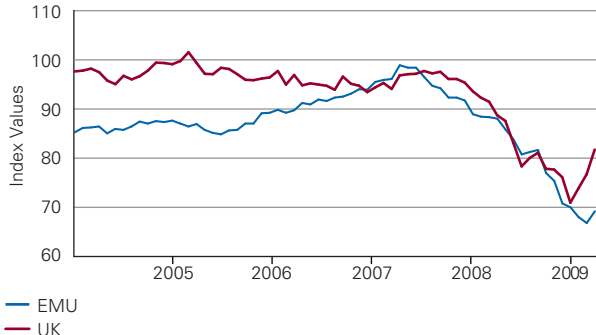
Source: IHS Global Insight

### CPI Growth Rate



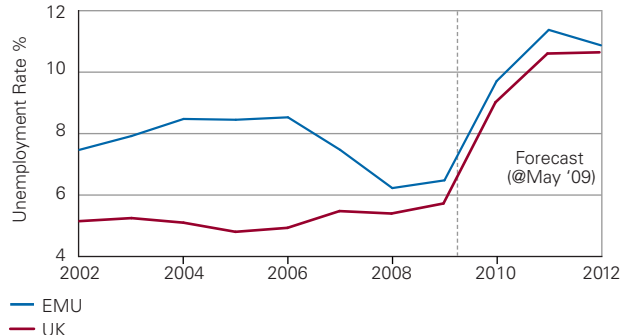
Source: IHS Global Insight

### Consumer Confidence



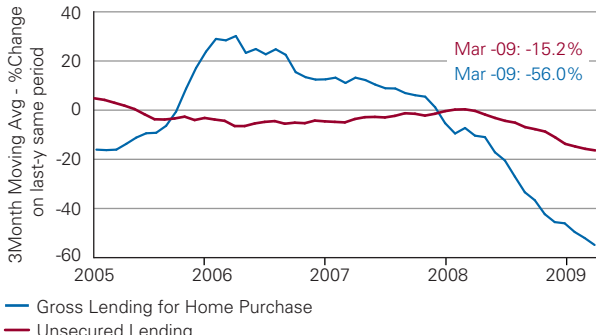
Source: IHS Global Insight

### Unemployment



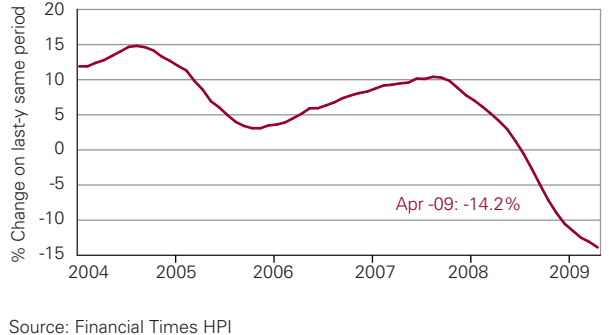
Source: IHS Global Insight, Bloomberg, European Commission

### UK New Lending Flow



Source: Bank of England CML

### HPI



Source: Financial Times HPI

# Round-up



## Putts for Charity returns in 2009

Putts For Charity, Genworth's innovative fundraising campaign, which helped raise over €179,000 for good causes last year, will benefit the SOS Children's Villages in 2009. The initiative challenges both the general public and professional golfers to make a successful 'one putt' at stops along the European Tour. For each successful one putt, the Genworth Foundation makes a donation to support a local charity.

Following two successful years as a European Tour Sponsor, Genworth Financial is also continuing as Official Sponsor of the European Tour Statistics Programme.

The Statistics Programme enables every shot played by every Tour member to be profiled throughout the season, allowing fans and the media to follow player progress and performance in detail. The results are collated into nine categories: stroke average, driving accuracy, driving distance, greens in regulation, putts per greens in regulation, putts per round, one-putts per round, sand saves and scrambles.

Genworth will also act as a local sponsor at a number of events on the 2009 European Tour, including the BMW Italian Open, Irish Open, BMW PGA Championship, Barclays Scottish Open, Mercedes-Benz Championship, Madrid Masters and the Portugal Masters.

### Reassessing HLTV risk

As part of Genworth's commitment to working with policy makers across markets, our Basel II expert, Daniel Garcia, recently co-authored research outlining our views on economic capital modelling for HLTV mortgages.

Over the last 15 years, house prices in real terms have increased significantly across developed countries. Consequently, access to homeownership has become difficult and new products have become available in the mortgage market. First-time buyers have used HLTV mortgages to access homeownership and these have gained share in the different mortgage markets.

However, Basel II rules for capital allocation were developed when HLTV mortgages were less common, therefore the impact analysis and simulations carried out on bank balance sheets and capital holdings did not adequately take into account this new asset class. In this paper, we show that HLTV loans perform very differently from low LTV loans, particularly under economic stress scenarios, and argue that some adjustments should be made to the Internal Ratings Based (IRB) formula in order to capture the significantly higher risk presented by HLTV loans. If you would like to see a copy of the report, contact [daniel.garcia@genworth.com](mailto:daniel.garcia@genworth.com)

### Skipton partnership renewed

Genworth has renewed a deal to provide mortgage insurance to Skipton Building Society, the UK's fifth largest mutual. "Genworth's expertise in risk management, particularly in the HLTV segment makes them an ideal partner," said David Harvey, Head of Credit Risk at Skipton. "We are in a challenging economic environment and are delighted to have a partnership with a specialist insurer." Tammy Richardson, Managing Director – Commercial for Genworth's European MI business, commented: "Genworth continues to help mortgage lenders find solutions for risk transfer that suit their business and satisfy the requirements of regulators. We are very happy to be renewing our relationship with Skipton."

# In perspective



There are few signs of the financial crisis easing, despite a raft of government rescue packages amounting to trillions of dollars. The consequences for homeowners are grave, with mortgage arrears and repossessions rising steeply in a number of European countries. In an effort to stem this tide, governments are now stepping in with a range of measures to help beleaguered homeowners.

In this issue of *European Forum* we have taken an in-depth look at schemes in the UK, Ireland, Spain and Italy. While Genworth applauds the fact that governments in these countries are attempting to address the problem, we would question whether they have the experience or the technical expertise to support these schemes in the long term. Genworth believes that there is a role for public/private partnership, and that although the governments are motivated to play a central role today, the early participation of private companies should allow, over time, the balance to shift to the private sector, relieving cash-strapped governments of this fiscal responsibility.

But there are many with good prospects who still aspire to home ownership yet find the way barred by the absence of HLTV mortgages. In our view, it is time for lenders to reappraise the way they operate in this segment and develop a new approach to the management of HLTV risk. As Robin Webster's feature on risk management demonstrates, Genworth is ideally placed to help lenders in this space. OmniScore™, our sophisticated application scoring model, supported by our experience and expertise, can play an important role in predicting good and bad mortgage risk.

Finally, let us consider the role of regulation. In our view, financial markets need intelligent regulation, which guards against systemic risk while allowing innovation to flourish. We in Europe have much to learn from the Canadian model whereby all mortgage loans with a LTV of 80% and over must have mortgage insurance attached. This is widely credited as bringing stability to the Canadian housing market, and has been achieved by the adoption of prudent lending criteria, standardisation of premiums across lenders and the pooling of risk across geographic locations. If adoption of the Canadian model in Europe could stimulate new lending in a prudent and sustainable way, helping first time buyers, it can only be a good thing.

A handwritten signature in dark ink, appearing to read 'Angel Mas', written over a light blue horizontal line.

**Angel Mas**

President, Mortgage Insurance Europe, Genworth Financial

We would like to thank the following people for their contribution to this issue: Tammy Richardson, Peter Williams, Tonia McAllister, Tomás Poveda, Sara Turri, Valeria Picconi, Francesca Arcidiaco, Robin Webster, Professor Stefan Kofner, Frank Leifer, Guy Genney, Ed Lewin, Nick Kirby, Karen Heaney and Alfred Rinaldi.

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