

GE Mortgage Insurance

Benefits of a Mortgage Insurance System in Transition Economies

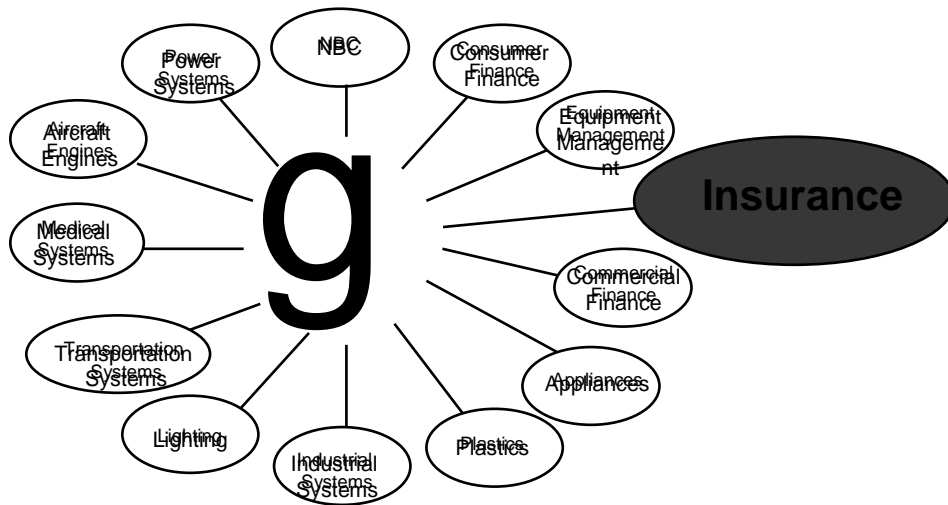
Sacha Polverini

Head of European Regulatory Affairs

***GE Mortgage Insurance Is Pleased To Discuss How
Mortgage Insurance Might Be Used In Europe's Transition Economies***

- *Introduction to General Electric Company*
- *Potential Value of Mortgage Insurance*
- *What is Mortgage Insurance*
- *The Importance of Capital Incentives*
- *Basel II and Mortgage Credit Related Issues*
- *The Public/Private Partnership Approach*
- *High LTV Mortgage Covered Bonds*

GE Businesses, Customer Focused Leaders In Their Sectors, Global In Reach



GE Insurance

- €181 Bn In Assets
- >30 Mn Customers Worldwide
- >20,000 Employees
- Consists Of 4 Businesses:
 - ① Employer's Reinsurance
 - ② Financial Guaranty Insurance
 - ③ Financial Insurance/Assurance
 - ④ Mortgage Insurance

GE Company Key Figures

- Industrial, Services And Financing Activities
- €131 Bn Revenues, €14.7 Bn Earnings
- 313,000 Employees (70,000 In Europe)
- >100 Countries
- AAA rated since 1954

**AA rated GE Mortgage Insurance (GEMI)
Part Of Global AAA Company**

- ✓ **World's Most Respected Company (FT 1998, 1999, 2000, 2001)**
- ✓ **Global Most Admired Company (Fortune 1998, 1999, 2000, 2001)**
- ✓ **Only Remaining Member of Original Dow Jones Index**

GEMI, A Subsidiary Of GE Insurance, Specializes In Insuring Mortgages

Canada 

- ✓ Purchased MICC 1995
- ✓ €17.6 Bn Mortgages Insured
- ✓ OmniScore™
- ❖ Interested in Caribbean Opportunities

Ireland 


- ✓ Licensed 1999
- ✓ €1.6 Bn Mortgages Insured

United Kingdom 

- ✓ Licensed 1993
- ✓ €22.4 Bn Mortgages Insured
- ✓ OmniScore™
- ✓ AA rated

Sweden 

- ✓ Local Resource In Place 2002

The Netherlands 

- ✓ Hired Branch Manager 2002
- ✓ Established Branch 2002

United States 

- ✓ €108.8 Bn Mortgages Insured
- ✓ OmniScore™
- ✓ AAA rated

Spain 

- ✓ Hired Branch Manager 2001
- ✓ Established Branch 2002

Italy 

- ✓ Hired Branch Manager 2001
- ✓ Established Branch 2002

Japan 

- ✓ Hired Branch Manager 2002

Next Steps:

- Scandinavia/Baltics – Local Resource Identified
- Germany – Hiring Branch Manager
- France – Leveraging GE Resources
- Portugal – Local Resource Identified
- Taiwan – Leveraging GE Resources
- Korea – Leveraging GE Resources

Australia & New Zealand 

- ✓ Purchased HLIC From Government 1997
- ✓ €14.4 Bn Mortgages Insured
- ✓ OmniScore™
- ✓ AAA rated

Bringing the Benefits Of Global Risk Diversification To National Markets

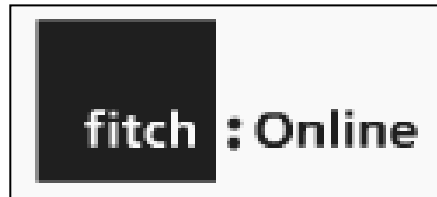
Favorably Viewed by All Three International Rating Agencies

Rating AA (VERY STRONG)



'The rating reflects GEMIs strategic importance to the group, very strong capitalization, very strong operating performance, and business potential in Continental Europe'

Insurer Financial Strength AA



'Reflects the company's excellent capitalization, disciplined underwriting and expertise gained in the UK market since 1995'

Financial Strength Rating Aa2



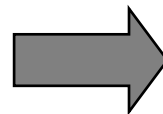
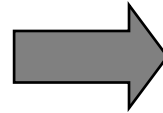
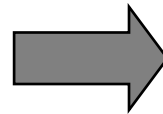
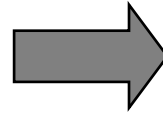
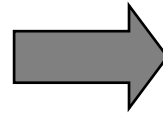
'Based on strong formal and informal support provided by GE Capital (rated Aaa for its senior obligations) and its major US based mortgage insurance operations'

GEMI's AA Rating Reflects Its Commitment And Scale In Europe

Why is Mortgage Insurance Worth Discussing?

Housing Market Issues

- **Creating Economic Stability.** Once macroeconomic stability achieved, declining interest rates can be expected, especially in candidate countries as they prepare for EMU. With declining interest rates, downpayment size will matter more than debt service as a barrier to homeownership
- **Access To A Decent House On Top Of Political Agenda Despite The High Level Of Homeownership.** Consistent access to low-cost mortgage finance allows individual wealth accumulation, strengthens communities and reinforces popular support for private property rights
- **Funding And Regulatory System Still Developing.** With limited resources, lenders and regulators need to work toward “global” standards to access the foreign investor base and ensure financial stability



Mortgage Insurance Reduces Non-Price Credit Rationing By:

- **Improving Risk Selection,** by encouraging data collection/use and applying risk-decisioning technologies
- **Improving Mortgage Process Management,** by putting private capital at risk to ensure effective property valuation and credit information and delinquency management systems
- **Providing Highly Rated Specialist Risk Protection To Lenders,** through long-term commitment of risk capital as part of a global mortgage insurance franchise
- **Acting As A Risk Transformer To Normalize Risk For Mortgage Investors,** through acting as the “investor’s eyes” and providing a source of credit enhancement for MBS and Mortgage bonds.

Mortgage Insurance Encourages Development Of A Data-Driven And Risk-Sensitive Housing Market

Mortgage Insurance Protects Lenders & Investors In The Event Of Homeowner Default

What is MI?

- *Protects lenders/investors from borrower default on residential mortgages*
- *MI makes home ownership possible with a low down payment, replacing personal guarantees*
- *Generally used when loan-to-value > 75-80%*

What is it not?

- *Is NOT mortgage life insurance ... a form of life insurance that pays off the loan amount in the event of the borrower's death*
- *Is NOT payment protection insurance ... a form of credit insurance that provides directed income support in the event of a borrower's involuntary unemployment or disability*

Recognized and used in many countries...
Key component of home ownership equation

Public Facilities

Belgium
Canada
Hong Kong
United States
Netherlands
Sweden

Lithuania
Estonia
Latvia
France
Slovenia

Private Facilities

Australia
Canada
Ireland
New Zealand
US
South Korea

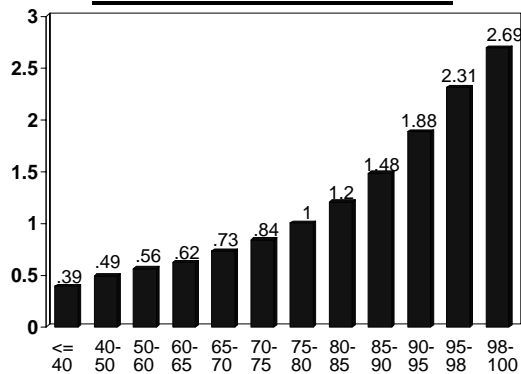
Belgium
France
Israel
Poland
South Africa
United Kingdom

MI Is Trusted By Lenders And Regulators As A Reliable Partner For High LTV Lending Activities

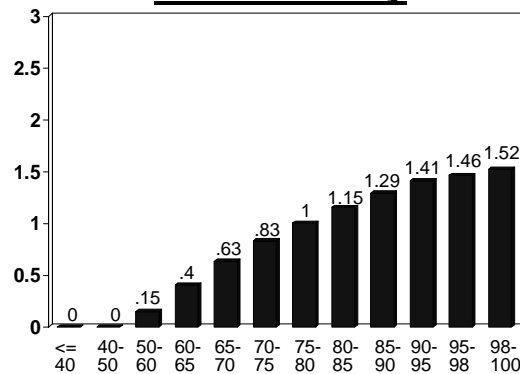
Rating Agency Criteria and GE Data Demonstrate Higher Risk Nature of High LTV Lending...

- Especially As LTVs Increase
- Suggests Value Of An Active Approach To Managing High LTV Risk
- Increasing Capital Requirements For Banks May Not Be Enough

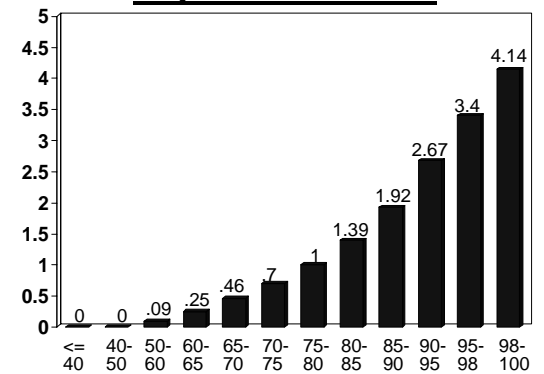
Default Probabilities



Loss Severity



Expected Losses

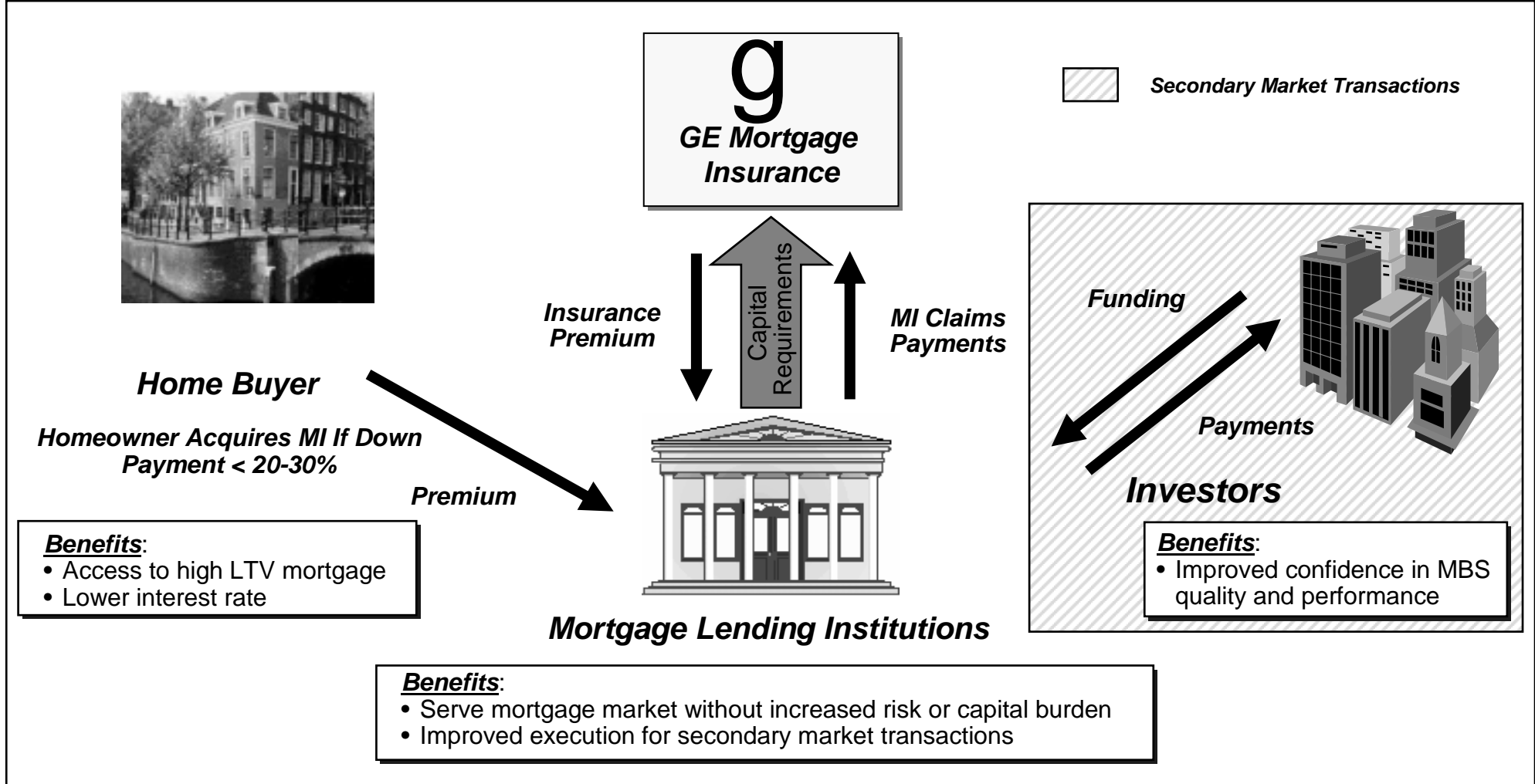


Source: Fitch IBCA

GE Datasets	Origination Years Used	# Loans	Risk Measure	Relative Risk (80% LTV=1.0)			
				80% LTV	85% LTV	90% LTV	95% LTV
Australia-GE Mortgage Insurance	1990-1998	466,461	Claim Rate	1.00	1.92	2.34	3.55
Canada-GE Mortgage Insurance	1995-1998	48,294	Claim Rate	1.00		4.08	10.63
Canada-Mortgage Insurance Corp of Canada	1983-1993	246,511	Claim Rate	1.00	1.99	3.45	7.69
UK-GE Mortgage Insurance	1995-1998	97,669	Claim Rate	1.00	1.30	2.02	10.07
US-Mortgage Information Corporation (MIC)	1990-1998	14mm	Foreclosure Rate	1.00	2.53	2.30	4.38
Equal Weighted Average				1.00	1.93	2.84	7.26

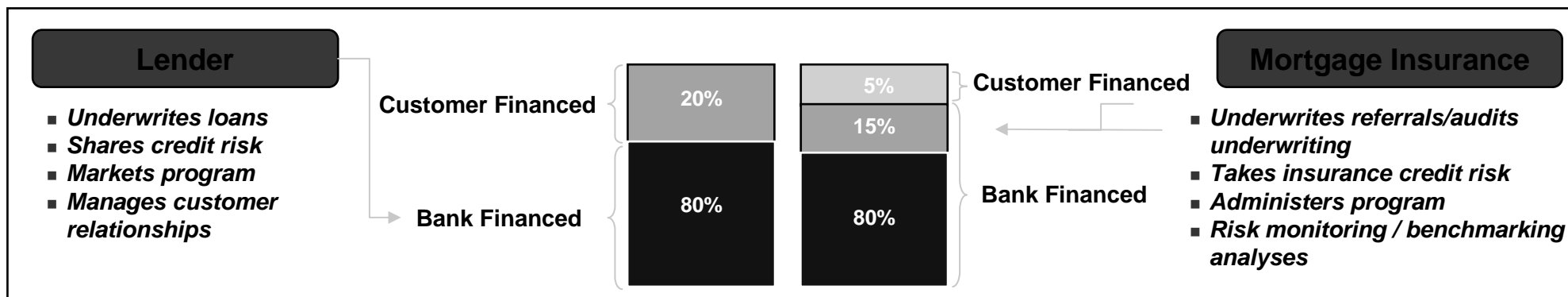
Mortgage Insurance Helps Lenders Manage High LTV Lending Rather Than Simply Absorbing Losses

Mortgage Insurance Works at Many Levels in the Mortgage Chain



MI is a Tool to Encourage Lenders to Fulfill Housing Policy...Without Increasing Risk in Financial System

Although Mortgage Insurance Can Provide 100% Protection To Lenders, Generally It Covers Only The “Top-Slice” Portion Most Vulnerable To Loss, Replacing A Large Portion Of The Borrower’s Downpayment ...



Proposed

Property Valuation	€ 100 K
Agreed Loan	€ 95 K
Borrower Equity	€ 5 K

Borrower	€ 100 K
{ € 5K	
{ € 95 K	
Loan	€ 95 K Loan (€ 15 K Insured)

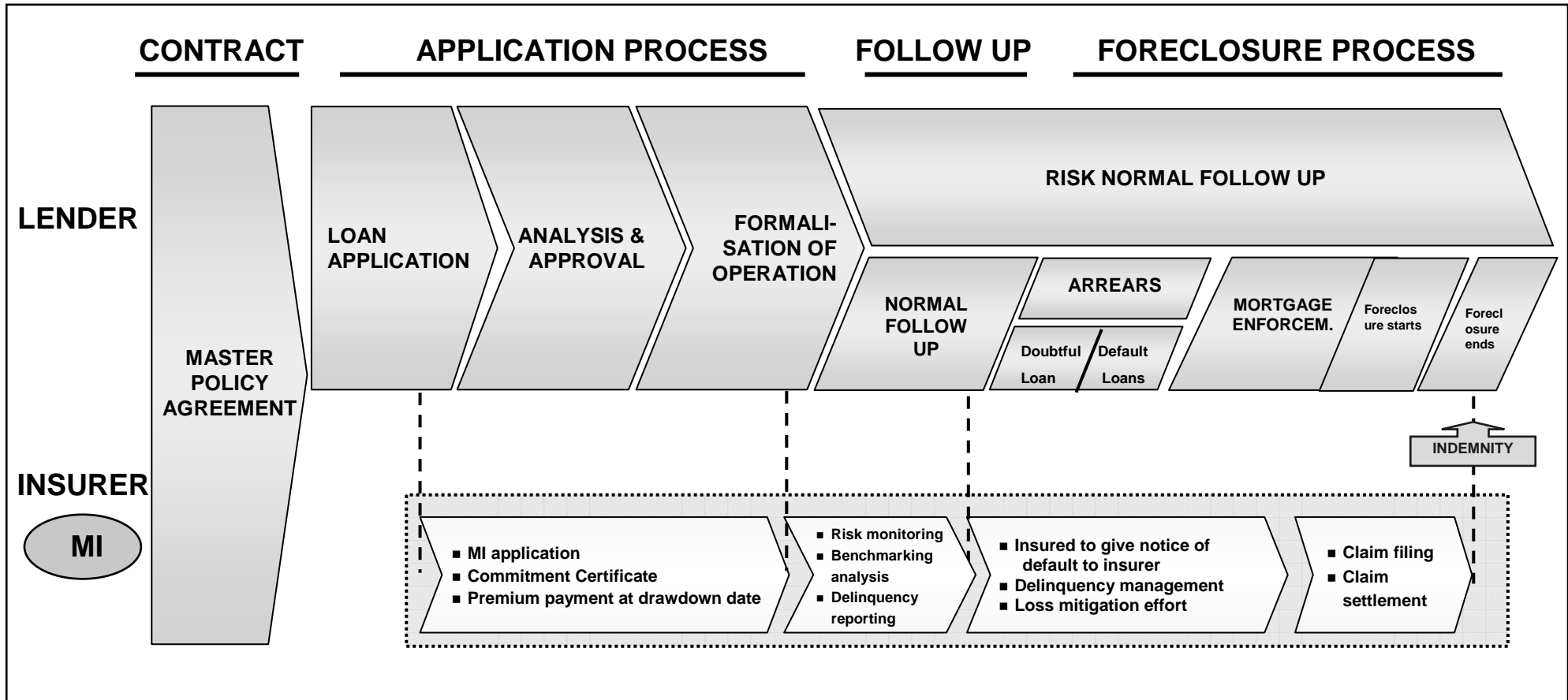
Four scenarios in case of inability of the borrower to pay* (for example after 5 years)

Balance of Mortgage	€ 80,0 K	€ 80,0 K	€ 80,0 K	€ 80,0 K
Property Sold/Valued	60,0 K	65,0 K	75,0 K	90,0 K
Gross Gain (Loss)	(20,0 K)	(15,0 K)	(5,0 K)	1,7 K
Payment by GE	15,0 K	15,0 K	5,0 K	No Insurance Claim
Net Gain (Loss) To Bank	€ (5,0 K)	€ 0,0	€ 0,0	€ 10.0 K

* Irrespective Of The Reason For The Inability To Pay

Coverage Levels Can Be Adjusted To Eliminate Any Bank Losses, Simplifying Provisioning

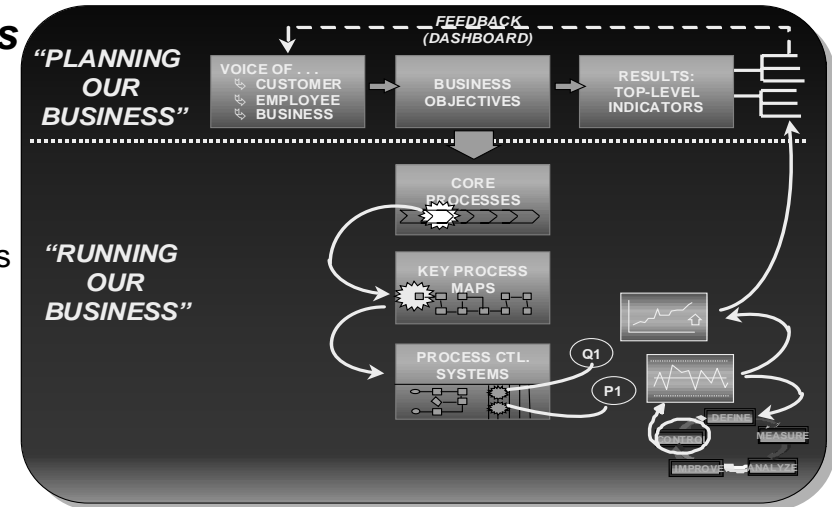
**Mortgage Insurance Is Integrated Into Existing Loan Processes ...
Overall Strengthening Of Risk Management**



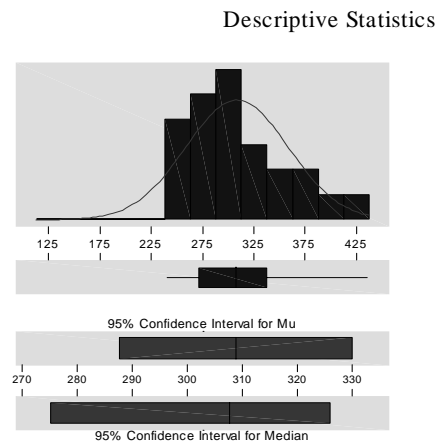
Improved, Streamlined Process... Loans are Covered Individually

Six Sigma Partnering With Lenders And Regulators Brings efficiency and risk management benefits

- GE Mortgage Insurance has used an integrated quality and process management system based on Six Sigma, GE's world-wide quality programme since 1994
- Six Sigma - rigorous statistically based improvement methodology, GE acknowledged as the **World Leader** in its application within financial services
- Six Sigma is successfully used by blue chip companies:
 - J P Morgan Chase ⇒ Bank of America
 - ⇒ Merrill Lynch ⇒ Nokia
- System focused on **Customer Defined** requirements to ensure customer satisfaction
- GE combines Six Sigma with digitisation and low cost processing platforms to provide increasing value to customers



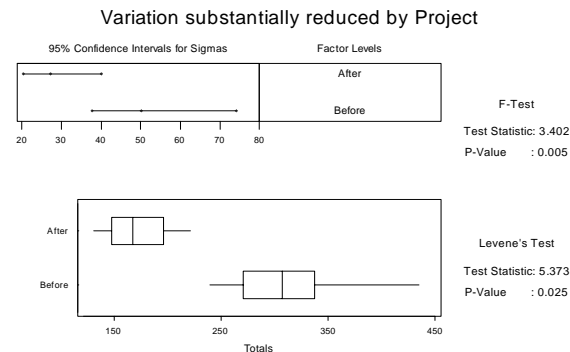
- Regular review of all processes by the business leadership team driving **consistent performance**
- Automated process monitoring** allow identification of issues and rapid resolution
- Data driven decisions allow **continuous improvement** on a day to day basis or **focused improvement projects**
- Joint customer / GE working parties** are common to develop solutions to joint issues



Variable: Totals
Group: Before

Anderson-Darling Normality Test

A-Squared:	0.415
P-Value:	0.308
Mean	308.750
StDev	50.136
Variance	2513.59
Skewness	0.848571
Kurtosis	0.448768
N	24
Minimum	240.000
1st Quartile	271.250
Median	307.500
3rd Quartile	337.500
Maximum	435.000
95% Confidence Interval for Mu	287.580 329.920
95% Confidence Interval for Sigma	38.966 70.328
95% Confidence Interval for Median	275.000 325.866



GE's Six Sigma Methodology Can Help Lenders Reduce Operational Risk

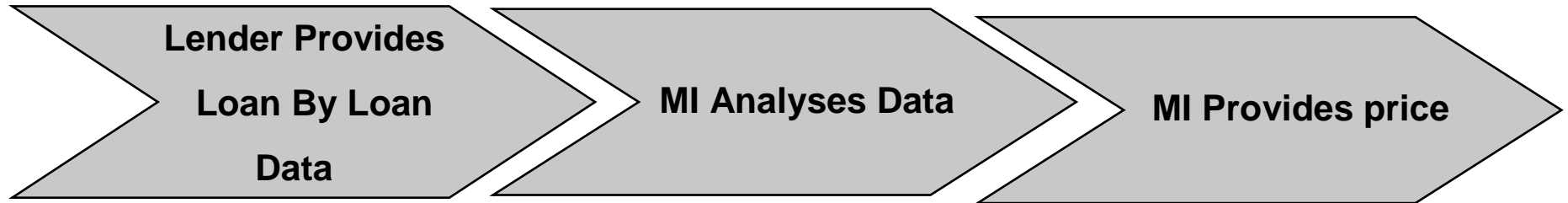
Mortgage Insurance Works Through a “Master Policy”

- ***The lender and insurer agree on general terms and conditions***
- ***Each loan is covered individually***

Master policy highlights include ...

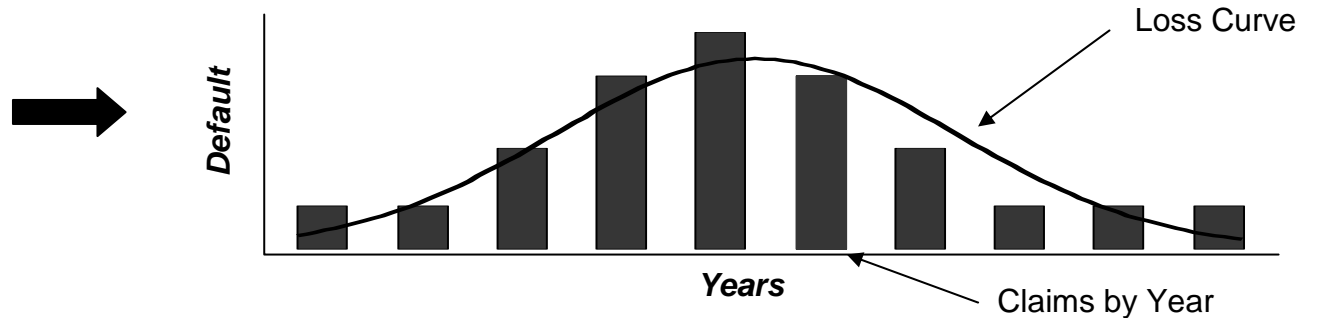
- **Delegated underwriting** – MI underwriting criteria usually based on lender’s existing credit criteria, and coverage attaches automatically
- **Life of loan coverage** – credit protection for entire duration of loan
- **Coverage scope** – reimburses lender for losses on difference in mortgage amount outstanding and value of property at claim trigger date, plus related costs and expenses, up to mutually agreed maximum claim amount
- **Claim trigger** – completion of foreclosure process before claim payment
- **Timely claim payment** – made within 15 days of valid claim
- **Coordination with lender** – joint action to avoid actual default and minimize ultimate net loss to lender
- **Limited coverage exclusions** – exclusions are agreed to before policy is signed, and only include risks that cannot be priced commercially (war/nuclear risk), are covered already by other insurance required by lender (property damage), or involve misconduct (fraud)

MI Administered Through Simple Master Policy... Tailored For Lender Needs



Loss Assumptions

- Historic Portfolio Performance
- Economic Cycles
- Geographic Dispersion
- Lending Criteria
- Lender & Legal Process
- Depth of Coverage
- LTV



Lender Specific Price

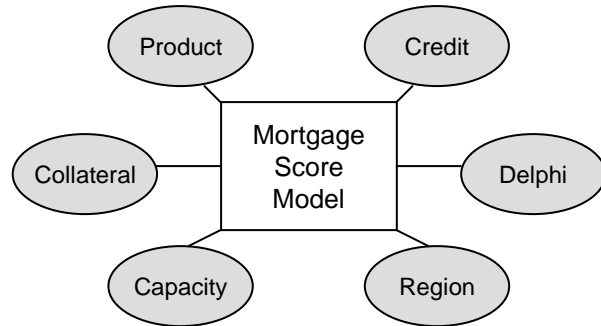
MI premiums generally are expressed in terms of basis points

- The base rate is determined by the LTV ratio, supplemented by other factors like ...
- Where the base rate is multiplied by the original principal amount of the loan

	<u>Less Risk</u>	<u>More Risk</u>
Mortgage Type	Fixed-Rate	Adjustable
Occupancy Status	Owner-Occupied	Investor
Employment Status	Employee	Self-Employed
Mortgage Size	Average Size	Jumbo
Property Type	Single-Family Detached	Condominium
Mortgage Documentation	Standard	Limited
Credit Scoring	High	Low
Loan Purpose	Purchase	"Cash Out Refi"

MI Is Priced To Reflect Lender Specific Mortgage Performance History

OmniScore™ = Mortgage Score



- Driven By Many Factors Critical to the Mortgage Industry
- Predicts Potential for Mortgage Going to Default

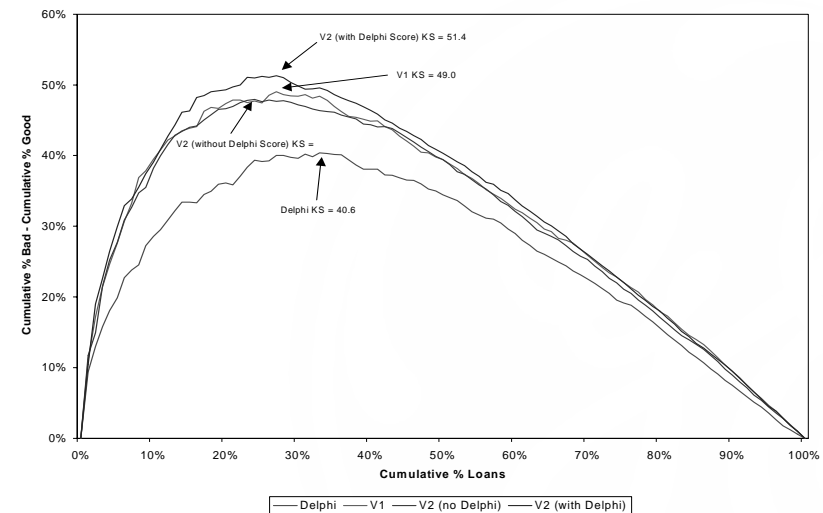
Development Data And Methodology

- ✓ Analyzed Over 200 Variables
- ✓ Reviewed Over 100,000 Loans
- ✓ Considered Multiple Books Between the Years 1992 and 1999 During Differing Economic Conditions
- ✓ Utilized Advanced Scoring Methodology
 - ✓ Proportional Hazards
 - ✓ Leveraged Experience Gained in UK, US, and Canada

Variables Selected (V2)

- | | |
|-------------------------------|----------------------------|
| ✓ County Court Judgments | ✓ Property Type |
| ✓ Settled Account Information | ✓ Loan Purpose |
| ✓ Active Account Information | ✓ Region |
| ✓ Prior Arrears | ✓ LTV |
| ✓ Previous Inquiries | ✓ Capacity |
| ✓ Delphi Retail Score | ✓ Broker |
| ✓ Existing Customer | ✓ Borrower Characteristics |
| | ✓ Product Type |

How Does OmniScore™ Perform?



Powerful Tools To Help Lenders Mitigate Risk On Their Mortgage Portfolio

Private Mortgage Insurers Could Play An Important Role In Housing Markets In Transition Economies

- **Bring Private Capital To Housing Market**
- **Take Credit Default Risk Out Of Financial Sector**
- **Discipline Lender Underwriting And Risk Taking**
- **Rebuild Market Confidence**

An Expert Recently Noted That

“Thirty Years Of International Experience With Residential Mortgage Insurance Shows There To Be Two Proven Mechanisms Which ... Establish A Rational Incentive For Lenders To Use Mortgage Insurance...And For Mortgage Insurers To Enter New Markets:

- 1) **Mandate The Use Of Mortgage Insurance By Regulated Lenders On All Loans That Exceed Some Defined Risk Parameter ... Like A LTV Ratio (The Canada Model)**
- 2) **Reduce The Amount Of Regulatory Capital That A Lender Or Investor Must Hold If The Loans Carry Mortgage Insurance.”**

Regulatory Recognition Of The Significant Increased Risk On The Banking Sector From High LTV Lending

Shift Capital From Lender To Private MI... Consistent With Risk Transfer

*Roger Blood, “Mortgage Default Insurance: Credit Enhancement For Homeownership,” Housing Finance Int’l (Vol. XXI, No. 1-Sept. 2001)

**Establishing A Regulatory Incentive Would Be Beneficial To Consumers,
Lenders, Investors and Regulators**

Mortgage Insurance Provides Numerous Supervisory Benefits By...

- **Acting** as an early warning system on the riskiest portion of residential mortgages ... since unreasonably risky credits will be refused insurance
- **Maintaining** the integrity of the property valuation process ... since misstated property values affect loan-to-value ratios, a key underwriting consideration
- **Reducing** operational risks associated with mortgage lending ... through process focus and error tracking and measurement
- **Stimulating** demand for high quality credit reporting ... to extend credit more appropriately on an objective basis
- **Introducing** new methods of delinquency management ... since mortgage insurers have first-loss exposure
- **Transferring** credit risk outside banking system to highly solvent, well-regulated third parties ... distributing losses more widely if an economic downturn occurs
- **Bringing** global experience and private sector rigor to transitional countries ... by using the same service standards and products offered successfully in other markets
- **Coordinating** efforts to adapt to Basel II regulatory capital revisions ... through joint modeling and best practices exercises

MI Encourages More Responsible Lending Without Requiring Additional Supervisory Resources

As Well As Supervisory Benefits, Mortgage Insurance Works for All Participants In The Mortgage Lending Industry...

- **Mortgage lenders:**
 - ✓ Transfers high LTV risk outside banking system to a highly-rated, monoline specialist
 - ✓ Expands high LTV lending market ... a prudent growth opportunity
 - ✓ Improvement of RAROC figures ... reduces volatility of return
 - ✓ Insurance and mortgage loan processing are integrated within the same process
 - ✓ Leading edge product improves loyalty; Increases customer satisfaction

- **Consumers:**
 - ✓ Gets borrowers into their homes more quickly ... with lower downpayments
 - ✓ Attractive to young client base with more competitive pricing

- **Capital markets:**
 - ✓ Increases the efficiency and profitability of securitization
 - ✓ Facilitate liquidity & lower sale execution cost

- **Housing policy:**
 - ✓ Improves housing affordability without government subsidies
 - ✓ Facilitates macro economic goal of increasing home ownership

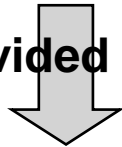
MI Meets the Needs of All Constituents

Basel II Marks A Definitive Break With Treating All Mortgage Risk Alike

Standardized Approach

Lending Fully Secured By Mortgages On Residential Property Will Be Risk Weighted at 40% (3.2% capital charge)

Provided that



The Risk Weight Is Applied In Accordance With Strict Prudential Criteria, Such As “The Existence Of Substantial Margin Of Additional Security Over The Amount Of The Loan Based On Strict Valuation Rules” (Which We Interpret As Introducing A LTV-Based Risk Weighting Approach Subject To National Supervisory Discretion)

Which May Be Reduced On A Proportional Basis By Highly Rated (>A-) Third Party Guarantees Like Mortgage Insurance

Advanced Internal Ratings Based Approach

Residential Mortgage Have No “Foundation IRB” Treatment, So Lenders Will Provide Estimates For PD, LGD and EL

Defensible Risk Segmentation Needed – e.g., By LTV, Credit Score, Debt-To-Income Or Geographic Region – So Banks Given Flexibility In Developing Rating Methodology – But Concerns Increasing That Advanced IRB Approach Does Not Reflect Full Cycle Performance Data

Lenders Given Equal Flexibility In Use Of Credit Risk Mitigation Tools, And Mortgage Insurance Has Proven Record In Reducing LGD – Hence Capital Requirements

Basel II Is A Good Start, But Implementation Is Key

Since Basel II Is Likely To Recommend Distinctions Between Low And High LTV Residential Mortgage Loans, And Also Allow The Use Of Mortgage Insurance For Solvency Ratio Purposes, We Suggest the Following...

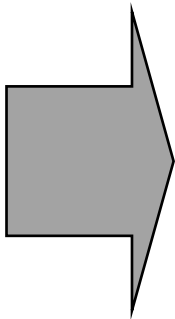
Proposal A

Reduce 100% Risk Weighting on >70-80% LTV Loans to 50% if Mortgage Insurance is Obtained, like Italy, the US, Australia and Israel

Proposal B

Require Mortgage Insurance for all Loans >75% LTV, like Canada

- Provided That:
- ✓ The Insurer is Validly Licensed
 - ✓ Not Affiliated with the Lender
 - ✓ AA or Better Financial Strength Rating



Benefits

- Encourages lenders to transfer risk to reduce systemic risk
- Encourages smaller banks to obtain risk protection against geographic concentration
- Encourages all banks to have their underwriting criteria and servicing examined by a specialist with capital at risk of first loss
- Promotes more efficient securitizations
- Frees Up capital for additional lending
- Provides Credit Enhancement to allow high LTV loans to be included in Mortgage Bonds
- Supplements or Replaces Housing Subsidy Programs with emphasis on managing credit risk

Transitional Economies Should Adopt Tough But Flexible Standards

More Generally, Basel II Provides An Ideal Opportunity For Lenders To Upgrade General Approaches To Risk Management And Receive Immediate Benefits Like ...

- ✓ **More Accurate Measurement Of Credit Risk**
GEMI can work with lenders to validate PD, LGD and EL for their regulators, which improves economic capital allocation and risk-adjusted returns on capital.
- ✓ **More Control Of Operational Risk**
GEMI's Six Sigma approach to understanding and measuring 'customer repeatable processes' provides historical and real-time data on process monitoring that should reduce regulatory capital charges assigned to operational errors.
- ✓ **Favourable Supervisory Treatment**
Like the rating agencies, regulators have emphasized the value of well-known, highly-rated monoline credit risk counter parties with global franchises and risk diversification, particularly for lenders new to high LTV mortgage lending in smaller markets.
- ✓ **Improved Investor Disclosure**
For lenders interested in public funding, GE's brand, service guarantees, and experience as a global provider of mortgage default loss protection make disclosures regarding how high LTV mortgage risk is managed easy for investors to understand.



Mortgage Insurers Are An Indispensable Partner On Basel II Mortgage Matters For Large And Small Lenders

Mortgage Insurers Can Help Make A Lender's Mortgage Book "As Safe As Houses"

Transition Economies Are Using Interest Subsidies, Tax Incentives And Even MI To Advance Housing Policy

But...

Partnering with Rated Private Mortgage Insurers Offers Powerful Possibilities For Reach While Limiting Additional Risks

An approach to managing credit risk that combines the best attributes of the public and private sectors:

Public Sector Strengths

Favorable Risk Weighting

A government guarantee allows banks to carry 0% risk weighted assets for regulatory capital purposes

Standardization

The government can specify standards and ensure uniformity, which creates necessary precondition for easier loan origination/sale and greater liquidity

Private Sector Strengths

Risk Appetite and Expertise

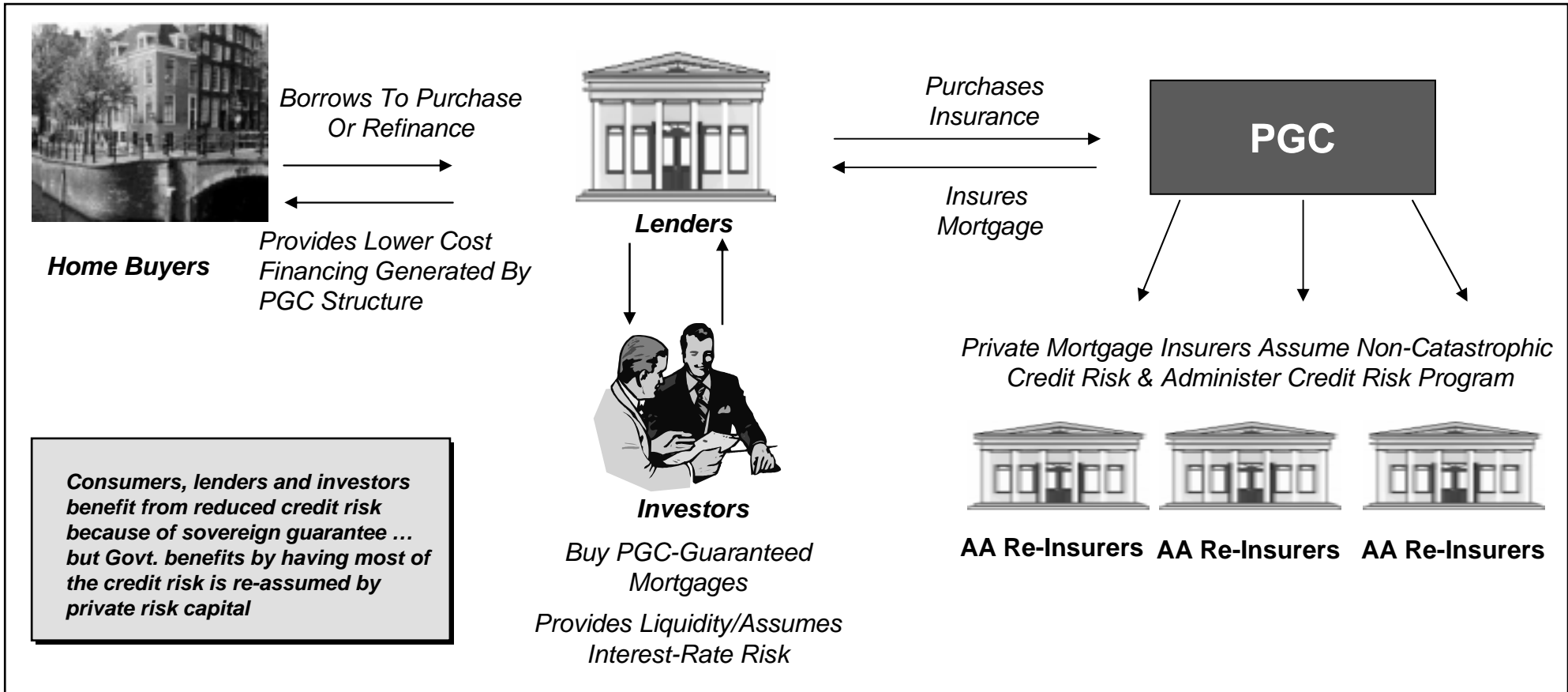
Mortgage credit risk specialists like GE want to offer their services developed in other markets on a long-term basis

Innovation and Efficiency

Customers expect new products and services, and shareholders expect increasing returns, so companies like GE are under constant pressure to improve

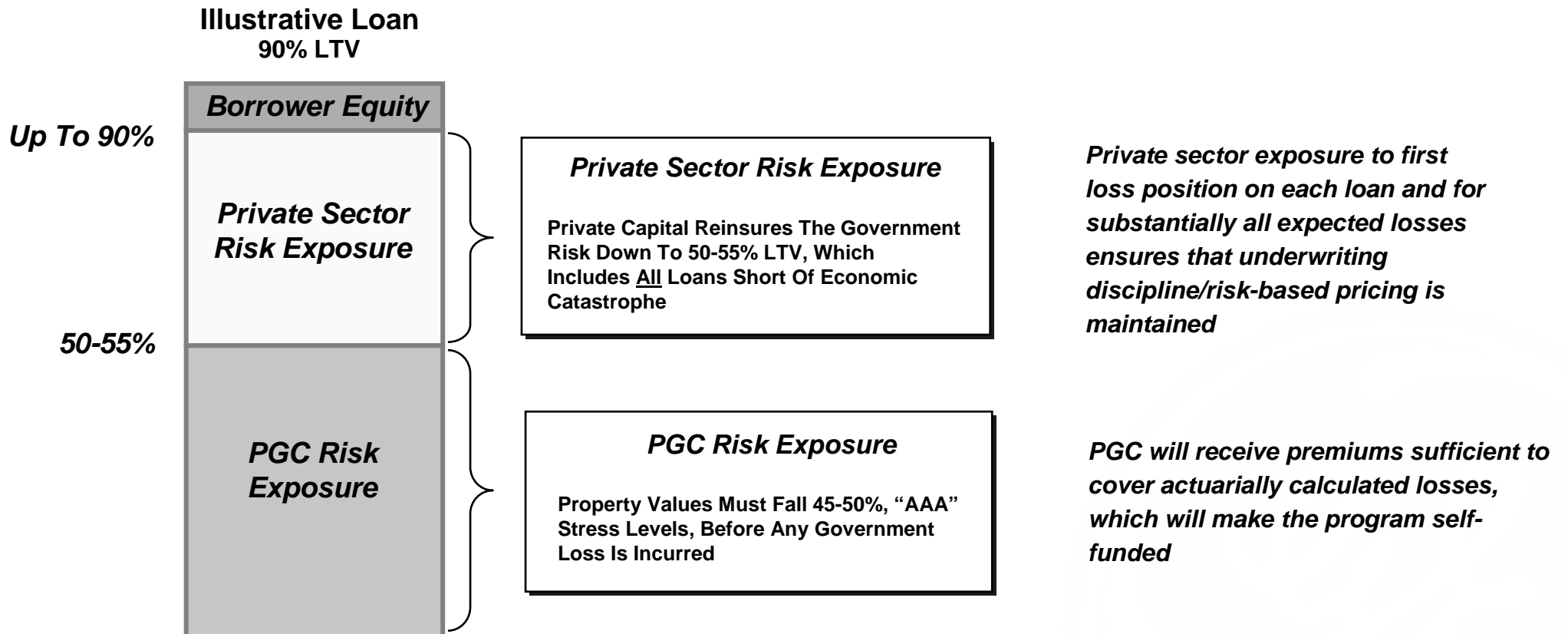
PPP Could be Used to Encourage Low Downpayment Mortgage Lending on a Cost-Effective Basis

PPP Could Work Either as an Insurance or Securitization Program, with Flexibility and Benefits to all Participants



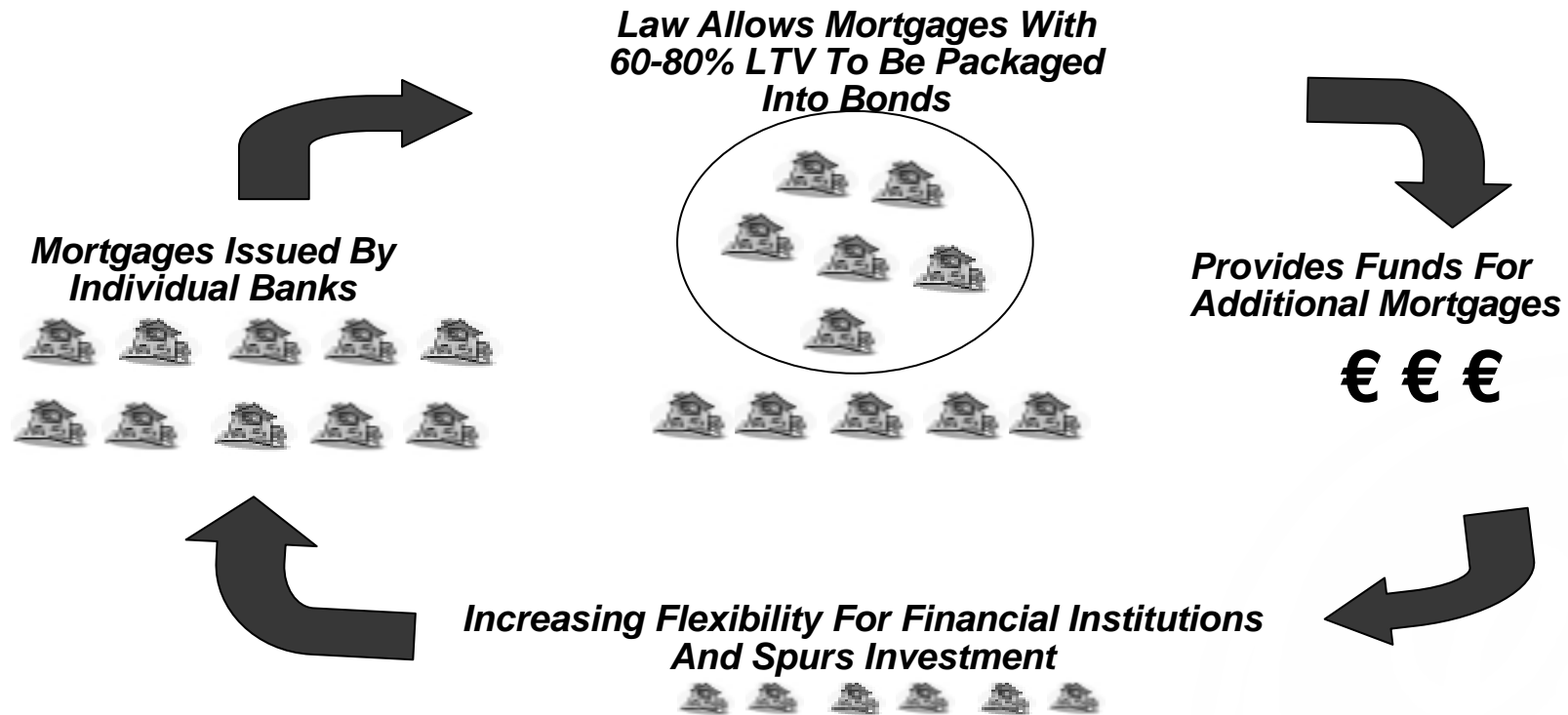
Lower Credit Cost For Consumers, Capital Relief and Liquidity for Banks, Economic Growth and Risk Transfer For Government, and Deeper, More Liquid Asset Pool For Investors

PPP Stimulates the Flow of Funds into Low Downpayment Mortgage Lending at a Minimal Cost to the Government With More Flexibility than Any Other Alternative



PPP Reduces Risk Exposure To The Government To AAA Levels, With Private Sector Capital Incented to Manage Loans Rigorously

Finally, Mortgage Covered Bonds (MCBs) Have Provided Funding For European Residential Mortgage Lending For Over 100 Years, And Are Simple To Explain As A Funding Concept



Lenders In Transition Economies Have Made Limited Use Of This Funding Technique For A Variety of Reasons

MCBs Provide Low Cost of Funds for Low LTV First Mortgages, But Require Second Loan In Order To Meet High LTV Loan Demand By Consumers ... Creating A More Expensive Loan Than Necessary And A Complicated Regulatory Framework

▪ **Demand for “Jumbos”**

MCBs did not become prominent with global investors until 1995, when the “jumbo” Pfandbriefe was created. With a minimum issue size of 500M, investors value its liquidity highly, which has resulted in favorable funding costs. “Jumbos” are easier to create by pooling public sector loans than mortgages, though, and the amount of public sector debt has been restricted sharply by the Maastricht Treaty establishing the preconditions to European monetary union – which creates an opportunity for MCBs to fill the supply gap

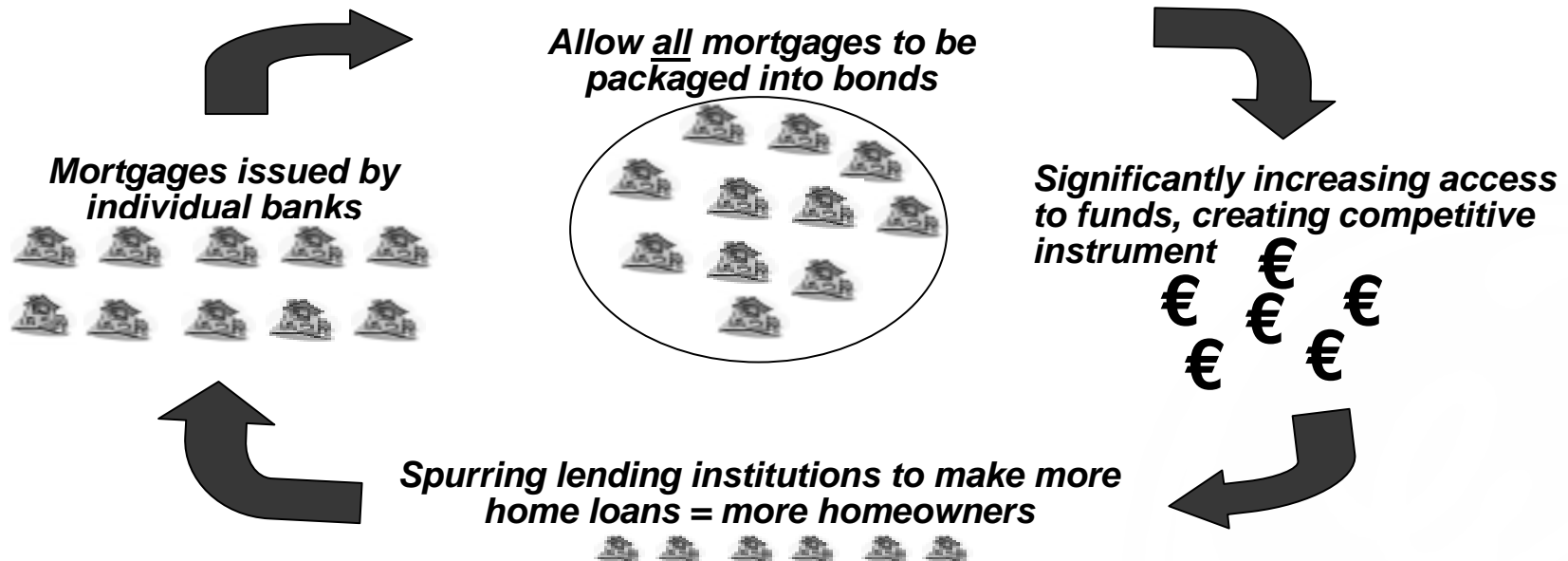
▪ **Introduction of “Structured Bonds”**

The importation of US-originated structured finance techniques and methods have sensitized lenders, investors and regulators to the inflexibility of MCBs in their classic form – a limited ability to manage interest rate and foreign exchange risks, and credit risk “managed” by limits on issuer activity, mandatory over-collateralization, and severe restrictions on valuation and LTV

Increasing Demand, But Limited Ability To Supply

Substantial Efforts Have Been Undertaken To Reduce Interest Rate, Forex And Other Risks, But Ensuring A Consistent Supply of Mortgages for Jumbo Issuance Has Been Encouraged By Increasing The Geographic Scope of Coverage Or Including More Commercial Real Estate.

Our proposal would include high LTV mortgages as eligible assets and include mortgage insurance to mitigate increased risk



Simpler, Safer ... With More Borrowing Capacity For Funding and Lending



Our Approach is Well-Tested and Conservative, and the Timing is Good ...

- Low interest rate climate encourages search for replacements for deposit funding, which is chasing higher yields elsewhere
- At least 7 other European countries are planning to introduce or revise mortgage bond laws – each law is benchmarked against the best version then current
- Even Germany has changed its conservative MCB law to meet the shifting demands of the capital markets
- An increasing number of countries include more than 60% LTV loans in their mortgage bonds, and other risk mitigants are commonly used in mortgage bonds (e.g. foreign exchange/interest rate swaps)
- Mortgage insurance component will reassure investors by managing risk using objective standards and loan-level scrutiny
- Rating agencies have well-established methodologies for evaluating risk and necessary credit enhancement for “structured mortgage bonds”
- Most successful new bond law is in France, which allows 100% LTV mortgages, and its flexible structure has made it appealing to financial markets and competitive with other instruments

Competition Between MBS And MCBs Will Drive Down Mortgage Rates

In Summary, We Would Like To Restate The Potential Benefits of Private Mortgage Insurance To Transition Economies In Europe

- **Deconcentration of Credit Risk** – Several transition economies already have embraced mortgage insurance as an instrument, but within small open economies characterized by highly concentrated banking, insurance and asset management sectors. Credit risk transfer outside the financial system to better diversified credit risk counterparties reduces systemic risk.
- **Risk Management** – In the absence of meaningful time series data, the effectiveness of lenders' underwriting criteria and their ability to service loans in a sour market remains unproved. Mortgage insurers can facilitate movement toward advanced risk management techniques from the perspective of 40+ years of managing mortgage credit risk.
- **Credit Enhancement** – Banks need additional capital to fund loan growth, and flexibility in balance sheet management. Mortgage insurers can help with capital markets solutions.
- **Liquidity** – Bank reliance on deposits and inter- bank borrowing introduces unwanted volatility into loan funding, especially with long-dated assets like mortgages. Mortgage insurers can suggest how mortgage bonds could be modified to create mortgage funding for an efficient low downpayment lending program.
- **Homeownership Opportunity** – Reducing downpayment restrictions remains critically important, especially to leverage the benefits of declining interest rates. Mortgage insurers can suggest how a public/private partnership might create a prudent and long-term alternative to interest rate subsidy programs.

These Benefits Could be Accelerated by Thoughtful Official Action

For Further Information

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